Borderless Bazaars and Regional Integration in Central Asia

Emerging Patterns of Trade and Cross-Border Cooperation

Bartlomiej Kaminski and Saumya Mitra

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Preface

The origins of this book lie in the growing realization by the governments of countries in Central Asia and their neighbors that constitute the Central Asia Regional Economic Cooperation (CAREC),¹ and by their international development partners, that there was considerable untapped potential for the expansion of border trade, defined as trade conducted by communities residing roughly within 30 kilometers of international frontiers. Expanding border trade would enhance welfare within communities, fight poverty, stimulate growth, and foster good-will. These goals build on the age-old tradition of internal trade among these communities long before these areas became independent countries two decades ago.

The ministers of CAREC countries, meeting in Urumqi, China, in October 2006, asked the World Bank to study border trade among their members. In response, the World Bank produced several reports between 2007 and 2009 based on data from surveys that were conducted around border areas during that period. Trade data have since become available for the survey years, so the authors have updated and examined foreign trade statistics, deriving from them estimates of trade flows through non-standard channels over 2005–10. The analyses and findings of those three reports, now updated and expanded, have been synthesized into this book.
In December 2006, the World Bank team designed surveys and built up national teams in Afghanistan, Kazakhstan, the Kyrgyz Republic, and Tajikistan. The surveys were conducted in April–June 2007 in most of the border-crossing points (BCPs) and in 2008 between Afghanistan and Tajikistan and Uzbekistan. Uzbekistan chose not to participate in this project, thus surveys were conducted only on its neighbors’ border areas. The following BCPs between pairs of Central Asian countries were surveyed: Afghanistan–Tajikistan (three BCPs in Ishkashim, Tem, and Ruzvai on the Tajik side, and Sher Khan Bandar on the Afghan side); Afghanistan–Uzbekistan (BCP at Hairatan on the Afghan side); China–Kazakhstan (Korgos); China–the Kyrgyz Republic (Irkeshtam); Kazakhstan–the Kyrgyz Republic (Kordoi); Kazakhstan–Uzbekistan (Jibek Joli); the Kyrgyz Republic–Tajikistan (Kulundu and Ovchi-Kalachi); and Tajikistan–Uzbekistan (Dusti and Patar).

The first set of findings, presented to CAREC ministers in Manila in 2007, sparked great interest among participants (World Bank 2007). Ministers then asked the team to conduct further analysis of the role played by bazaars in intermediating border trade in Central Asia. Surveys of bazaars were conducted in 2008 and a report was submitted later that year (World Bank 2009a).

While the economic weight of the bazaar networks was well known, the results from the surveys showed unexpectedly enormous flows of goods, both produced locally and imported, going through this “non-standard trade channel,” with a strong beneficial impact on the economic welfare of local communities. Servicing these flows created income and employment opportunities; they also made otherwise unavailable goods available to consumers across the border or provided them at lower prices. In the absence of border trade, prices would be higher and price differentials greater. This trade also enabled exporters to benefit from obtaining imported goods, including intermediate items, at low cost; thus, adding value to imported goods became a profitable activity. Moreover, women were actively involved in border-trading activities, such as selling goods in bazaars and moving goods across borders; many heads of traders’ associations supporting border activities were women.

The reports on bazaars were followed by a request by CAREC ministers for research on the institutional aspects of “border cooperation.” Central Asian policy makers were particularly interested in the experience of European integration (so-called “Euroregions”) exploiting the synergy between integration efforts conducted at the national governmental level and those conducted at the more local, border level around
the border areas. This resulted in a report on “Asiaregions” in 2009 (World Bank 2009b).

These three reports taken together offer useful insights into a previously unexplored dimension of trade and economic activity in Central Asia, and thus a synthesis report was prepared in mid-2010. This book contains much additional work undertaken in 2010–11 that deepens knowledge on border trade and its key transmission channels.

The core team is grateful to members of our national teams, Bank staff working on these countries in the Central Asia region, and a large number of people from the governments of these countries, as well as representatives of civil society in CAREC countries and representatives of international organizations, including the Asian Development Bank and the World Bank. It is highly indebted to the Swiss government, which generously funded large portions of this multiyear project.

Note
1. Members of CAREC are Afghanistan, Azerbaijan, China, Kazakhstan, the Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan.

References
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Bartłomiej Kaminski has served as an international trade and development expert for the World Bank for more than two decades. He has advised governments on economic reform in Central and Southern Europe, Northern and Sub-Saharan Africa, Transcaucasia, and Central and South Asia. He is the author of 11 books, more than 100 peer-reviewed articles, and approximately 30 World Bank studies and reports dealing with the transition away from central planning and toward competitive markets. Professor Kaminski is on the faculties of the University of Maryland at College Park, United States, and the University of Information Technology and Management in Rzeszów, Poland.

Saumya Mitra specializes in macroeconomics; reforms to promote economic efficiency and growth, trade, and transition to market economies; and the formulation of development strategies. He is an expert on post-Soviet countries and advises countries in Asia and Europe on stability and growth policies. He has worked extensively in promoting recovery in post-conflict economies in the Balkans, Central Asia, Iraq, and the South Caucasus. He has been on the staff of the International Monetary Fund, the Bank of England, and the World Bank, and is now an economic consultant. He was educated at Oxford University.
Abbreviations

ADB  Asian Development Bank
BCP  border-crossing point
CAREC Central Asia Regional Economic Cooperation
C.I.F. cost, insurance, and freight
CIS  Commonwealth of Independent States
EC   European Commission
EU   European Union
EurAsEC Eurasian Economic Community
FOB  free on board
GDP  gross domestic product
HS   Harmonized System
ISI  Import Specialization Index
LSG  least squares growth
RCA  revealed comparative advantage
ROW  rest of world
SITC Standard International Trade Classification
VAT  value-added tax

Note: All dollar amounts are U.S. dollars unless otherwise indicated.
CHAPTER 1

Overview

As throughout the world, goods typically flow across the state borders of countries in Central Asia through an official “standard” channel in which data on the type of good, its origin, quantity, and price are recorded by the border authorities. These statistics are generally available except when a government declines to report foreign trade data to the United Nations statistical office. In Central Asia, only Kazakhstan and the Kyrgyz Republic adequately report their trade data.

Goods also flow by a “non-standard” channel through which trade is fed by bazaars. Border authorities are often unaware of such transactions and hence no formal statistics exist. Products flowing through the non-standard channel may be (1) produced domestically or (2) imported for onward sale across borders to foreign residents, referred to as “re-exports.” The value of non-standard trade is often comparable to that of standard trade in Central Asia.

Border trade—the flow of goods and services across international land borders to destinations within 30 kilometers of the border—usually passes through the non-standard channel and is dependent on bazaars. This trade is particularly important in supporting the livelihood of border communities, buttressing their prosperity. Furthermore, by strengthening commercial ties, promoting cultural understanding, and deepening community
relationships, border trade promotes amicable relations between neighboring countries. Surveys of border trading conducted for this book show its high importance for employment and income. The surveys also reveal the critical impact for good or ill of government interventions that can facilitate or impede border trade by affecting the movement of local people, vehicles, and goods between Central Asia Regional Economic Cooperation (CAREC) countries.

**Characteristics of Trade Flows**

Products traded through the standard channel tend to be of large quantities, generally transported by railway, truck, or ship, and captured in official statistics. In contrast, even though trade turnover can be very large in the aggregate, individual shipments through the non-standard channel are typically small and often carried out by shuttle traders. Trade through the non-standard channel (also referred to as “bazaar” channel because most of its transactions take place at or through bazaars) is generally not recorded in official trade statistics of the exporting nation and only occasionally recorded in those of the importing nation. Consumer products dominate non-standard trade, but surveys of bazaars conducted for this book indicate that construction materials, automotive parts, and other inputs are also significant. Imports from outside the Commonwealth of Independent States (CIS) are exclusively consumer goods—fabrics, luggage, leather apparel, other apparel and clothing accessories, footwear, clocks and watches, toys, games, and electronic equipment—and China is the dominant supplier.

Border trade is unique: the geographical proximity of traders makes transport costs almost irrelevant. Thus, border trade is driven by differences in the supply, demand, and prices of goods and services available on either side of the border. Surveys carried out for this book show that border trade is conducted by individuals or small traders and their families who often produce the goods they trade. Quantities taken across borders at any one time are small, usually less than 100 kilograms in weight and a few hundred dollars in value. Agricultural products and consumer goods are the main kinds of traded goods. Small traders transport their goods across a border on foot, by bicycle, or by light vehicle (minibus, van, or car).

Two other two types of non-standard trade are re-exports and transshipments (see figure 1.1). While re-exports are intermediated by bazaars, a trans-shipment occurs when goods invoiced as going to a country are simply reloaded in that country to continue to delivery in another country.
These trans-shipments do not create any value-added, or very little, in the country they pass through. Because they are not intermediated by bazaars, they are only briefly mentioned here.

Some types of trade overlap; for example, “border trade” is identified only by distance from a national border; thus border-traded goods may also flow through the standard channel and may be both domestic and imported products, that is, re-exports. The portion of products for which no exports are recorded can be assumed to go through the bazaar channel simply because the absence of records suggests a bazaar purchase.

The data in table 1.1 of flows of goods from the Kyrgyz Republic indicate the relative significance of trade flows through various channels. Exports through the bazaar channel were consistently larger than Kyrgyz standard-channel exports in 2005–06. Re-exports accounted for between 61 percent (2005) and 80 percent (2008–09) of outflows through the bazaar channel. In addition, the amounts involved were huge: the value of flows through the bazaar channel averaged $3.5 billion in 2007–10, or 77 percent of the Kyrgyz Republic’s gross domestic product (GDP). These figures also reflect the fact that the Kyrgyz Republic has the largest network of bazaars that export foreign and domestically produced goods to former Soviet republics in Central Asia.
Table 1.1 The Kyrgyz Republic Trade Flows through Standard and Non-Standard Channels, 2005–10

<table>
<thead>
<tr>
<th>Value of goods through different channels</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
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<tr>
<td>Total imports through non-standard channel</td>
<td>731</td>
<td>1,765</td>
<td>3,042</td>
<td>8,309</td>
<td>4,465</td>
<td>3,518</td>
</tr>
<tr>
<td>Portion of which are transshipments</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>4,579</td>
<td>759</td>
<td>0</td>
</tr>
<tr>
<td>Bazaar channel</td>
<td>731</td>
<td>1,765</td>
<td>3,042</td>
<td>3,730</td>
<td>3,706</td>
<td>3,518</td>
</tr>
<tr>
<td>Portion of which are re-exports</td>
<td>449</td>
<td>1,445</td>
<td>2,575</td>
<td>2,970</td>
<td>2,970</td>
<td>2,591</td>
</tr>
<tr>
<td>Portion of which are clothing produced in the Kyrgyz Republic</td>
<td>282</td>
<td>290</td>
<td>398</td>
<td>569</td>
<td>649</td>
<td>837</td>
</tr>
<tr>
<td>Portion of which are Kyrgyz fruits and vegetables</td>
<td>0</td>
<td>30</td>
<td>69</td>
<td>191</td>
<td>87</td>
<td>90</td>
</tr>
<tr>
<td>Total exports through standard channel</td>
<td>672</td>
<td>794</td>
<td>904</td>
<td>1,618</td>
<td>1,178</td>
<td>1,298</td>
</tr>
<tr>
<td>Total outflows through both channels</td>
<td>1,403</td>
<td>2,559</td>
<td>3,946</td>
<td>9,927</td>
<td>5,643</td>
<td>4,816</td>
</tr>
<tr>
<td>Share of bazaar channel in total (%)</td>
<td>52</td>
<td>69</td>
<td>77</td>
<td>38</td>
<td>66</td>
<td>73</td>
</tr>
</tbody>
</table>

Source: Authors' calculations based on foreign trade data from the UN COMTRADE database and authors' estimates discussed in box 5.1 and the main text.
The Kyrgyz Republic stands out as a major re-exporter of consumer goods, with such goods entering other Central Asian countries as unrecorded imports. The magnitude can be inferred only for Kazakhstan and the Kyrgyz Republic, the two countries that disclose detailed foreign trade data. The value of such imports into Kazakhstan, mostly distributed through bazaars, was $5 billion in 2010. Given the income gap between Kazakhstan and the Kyrgyz Republic, it is not surprising that Kazakhstan was the larger importer of consumer goods. China accounts for more than 90 percent of these imports into Kazakhstan and the Kyrgyz Republic (figure 1.2).

**Barriers to and Benefits of Trade through the Bazaar Channel**

Trade through the bazaar channel is highly sensitive to conditions imposed on traders by national governments. Traders’ success depends critically on their ability to routinely cross the border (1) without incurring the time-consuming and expensive fees that arise from having to maintain a valid passport with sufficient blank pages, (2) without paying a large unofficial payment or prohibitive tariff duties and border charges, and (3) with their own means of transport. These conditions are referred to as the **three Rs**: regularity, reliability, and responsibility.

**Figure 1.2 Aggregate Consumer Goods Imports Not Reported in Trade Statistics of Kazakhstan and the Kyrgyz Republic; China’s Share of These Imports, 2005–10**

![Bar chart showing aggregate consumer goods imports and China's share]  
*Source:* Estimated from the difference between data reported by Kazakhstan’s and the Kyrgyz Republic’s trading partners to the UN COMTRADE database and those reported by Kazakhstan and the Kyrgyz Republic to the United Nations.
to here as the “three freedoms” and they are essential to robust border trade through the non-standard channel. Sufficient border-crossing infrastructure is also an important factor. Such infrastructure enables a quick crossing and is ideally in operation most hours of the day throughout the year as weather permits.

Because of its limited profit margins resulting from the small quantities an individual, even with the help of family and motorized vehicles, can carry across a border, border trade is sensitive to government policies. That is, too many costs or time demands render border trade unprofitable. Governments facilitate border trade by easing visa requirements for border residents or according duty-free status to cargo within certain weight and value limits. Such arrangements have typically been highly effective in stimulating local economies.

Conversely, governments deter border trade with requirements for visa and passport stamping that are onerous for border community members in both time and costs, by imposing fees of various kinds, by restricting movement of vehicles and by limiting operating hours of border-crossing facilities. Incomplete exemptions from border charges and taxes also significantly impede border trade. Moreover, occasional and unpredictable unilateral closing of border-crossing points (BCPs), particularly those with a large potential for trade, have dampened trade and inflicted welfare losses on poor populations (both sellers and consumers). Similarly, the forcible closing or relocation of bazaars supporting border trade discourages legitimate trade and encourages smuggling.

One BCP, Korgos in Kazakhstan on the border with China, illustrates border cooperation at its best. Korgos’s arrangements encourage border trade and support benefits that accrue to residents of contiguous regions in both countries. The arrangements have two provisions of interest. First, residents of Kazakhstan’s Panfilov district who live near the Chinese border can enter China without a visa if they stay no longer than one day. Waiving the visa requirement is important because obtaining a visa can be time-consuming and expensive. Second, small amounts of cargo—no heavier than 50 kilograms and valued at no more than $1,000—brought into Kazakhstan from China are duty free. The regime for larger amounts provides that up to 10 tons of agricultural products and up to 2 tons of industrial products that have a value not exceeding $10,000 are subject to a simplified customs procedure with a flat rate of 17 percent (14 percent VAT and 3 percent ad valorem customs fee).

Thanks to these government measures, border trade has become the most important source of employment in Jarkent, the largest city in the Panfilov district. Conservative estimates indicate that 3,250 people work
directly in border trade activities. Traders estimate that each kiosk or shop generates employment for an additional one to two persons: one seller in the market and one person for warehousing or local transport. Border trade in Jarkent involves almost 20 percent of the active population, compared to 10 percent for agro-processing, 7 percent for industry, and 7 percent for agriculture. Combined with official data for transport (mainly minibuses and taxis serving Korgos), almost 30 percent of Jarkent’s active population depends on border trade. Factoring in Kazakhstan’s total dependency ratio, one inhabitant out of six in Jarkent directly depends on income generated by border trade activities.

In terms of income generation, border trade is as profitable as any other economic activity, even though traders work only two-thirds of the year. Traders report a 25–30 percent gross margin on any transaction, which this study calculated as signifying yearly margins for local traders of $3.31 million, or over $1,650 for two-thirds of the year (comparable to a yearly salary of $2,100).

Security and contraband trade are often cited by governments as reasons for imposing controls, but such controls are usually blunt and expensive instruments and have damaging effects on the incomes and welfare of the poor. Instead, BCPs and bazaars could be made subject to effective policing and risk-based surveillance, and vehicle searches could replace outright bans. Moreover, it may be that the security benefits of stronger community ties across borders reduces security risks; after all, in conditions of growing trade that contributes appreciably to the border community’s prosperity, all parties have a stake in suppressing criminal behavior and promoting public order. Visa and passport-stamping policies could be flexibly applied to fit the needs of small border communities. Since the effectiveness of controls can be weak, as restrictions are often countered by smuggling or unofficial payments, the ultimate public policy aim of prosperity and security is best achieved through a combination of liberal border trading conditions and intelligent policing and customs practices.

**Role of Bazaars in Economic Development and Integration**

In Central Asia, bazaars are a crucial support to non-standard trade. The World Bank study on bazaars, which was based on survey work and trade statistics, was the first detailed examination of the economic and trade effects of bazaars in Central Asia (World Bank 2009). It reports the critical income-generating activities of bazaars and seeks to uncover the vital role bazaars play in supporting economic growth.
The “Bazaars” study divided bazaars into three groups: international bazaars that sell goods not only to end-users but also to intermediary wholesalers, national and regional bazaars that serve national or sub-national retail and wholesale markets, and local/city bazaars that sell mostly to end-users.

Both international and regional hub bazaars—bazaars that serve an entire region, reach across national frontiers, and are fed by direct supplies (such as imports) and by smaller bazaars—as well as national bazaars—which typically serve only one country (or part of one)—are generally large business associations with infrastructure that facilitates domestic and international trade. Such bazaars are equivalent to industrialized countries’ shopping malls (that house a large variety of retail shops), but they also have warehousing capacity that serves regional and international clients.

The rapid expansion of regional hub and national bazaars over the last decade in Central Asia can be attributed to strong advantages enjoyed by bazaars. A bazaar is much cheaper to build than a mall but it offers the same opportunity to bring together large, widely varied groups of buyers and sellers. In addition, the concentration of traders and intermediation of bazaar administration make relations with state authorities more predictable and counters these authorities’ predatory impulses by their strength in numbers and stronger bargaining position. Another advantage is tradition: bazaars in Central Asia date back hundreds of years, demonstrating a sophisticated logistics infrastructure exemplifying the highly developed entrepreneurial skills of Central Asian people.

Bazaars in Central Asia play a major role in regional and national chains of production and distribution, with national networks strongly integrated and overlapping across at least three Central Asian countries—Kazakhstan, the Kyrgyz Republic, and Tajikistan. Bazaars provide a trade channel parallel to the standard channel; that is, on one hand, products imported from outside these three countries and Uzbekistan are distributed through it and, on the other hand, products produced locally in these four economies are traded. Standard trade relies on railways and bazaar trade on trucks. Compared to other countries, the value of goods transported through bazaars is a very large portion of these countries’ GDPs (see table 1.1).

Furthermore, bazaars contribute to the expansion of economic ties among CAREC countries, for example, by serving as platforms for re-exports. Kyrgyz bazaars are the major actors in re-exports with other Central Asian countries and the Russian Federation as final destinations.
In addition, bazaar networks are a main conduit for Chinese exports to Central Asia. “Bazaar-type” products—typically construction materials, agricultural products, chemicals, clothing, and miscellaneous other manufactures—totaled $10.5 billion in 2010, at least one-fifth of total imports to the four Central Asian countries. Thanks to geography and better logistics performance than in neighboring countries, the Kyrgyz Republic has become a major re-exporter of bazaar-type products, mainly to Kazakhstan and Uzbekistan. The Kyrgyz Republic’s edge over other Central Asian economies comes from two sources: a special, “almost duty-free regime” on bazaar imports and regulations governing bazaar trading that are more liberal than those of formal Central Asian economies.

While bazaar trade surveys point to considerable trade in goods produced in these four economies, it is difficult to estimate the full value of this trade. It appears that around 25 percent of goods traded in surveyed bazaars were either domestic or made in other Central Asian economies, which would put this amount well above $2 billion a year (World Bank 2009).

Bazaars—like border trade—alleviate poverty by offering products at lower prices and by creating employment opportunities, not only at bazaars themselves but well beyond them. Employment effects extend to a wide array of services that are needed to transport products and people in and out of bazaars. Large bazaars are the main source of employment in some communities. Bazaars also create significant employment opportunities for women who otherwise would likely be unemployed: between 70 and 80 percent of vendors in surveyed bazaars were women. Women are also highly visible in shuttle trading, accounting for about half of shuttle traders in surveyed bazaars. A conservative estimate from the study puts the aggregate annual value of wages ($500 million), taxes and other government fees (around $350 million), and leases (around $700 million including lease-equivalents [that is, income that an owner of a stall would have had he or she leased a stall to another trader]) across surveyed bazaars at around $1.5 billion in 2008 (World Bank 2009).

Bazaars are a source of significant positive externalities. First, they create opportunities for development of logistic and marketing skills easily transferable to activities in modern networks of production and distribution. Second, they give domestic producers a way to introduce their products to potential domestic and foreign customers without incurring travel costs. The role of bazaars in creating marketing opportunities for producers who seek to go beyond local and domestic markets is of particular importance, as the cost of marketing abroad is high. Potential buyers
come to producers instead of the reverse. The presence of Kyrgyz clothing across surveyed bazaars illustrates this point and shows that “almost duty-free” competition from Chinese clothing has not destroyed Kyrgyz apparel industries but rather led to their impressive expansion in a highly competitive international environment. According to an estimate (Kaminski and Mironova 2011), the value of exports of clothing, not reported in Kyrgyz official statistics and mostly intermediated by bazaars, increased from $204 million in 2005 to $797 million in 2010. The value of clothing exports going through standard channels was $23 million in 2005 and $125 million in 2010.

In a nutshell, bazaars are not an icon of the past. The present surveys show that larger ones appear to meet five key requisites of effective markets (McMillan 2002): trusting most of the people most of the time, being secure from having your property expropriated, smooth flow of information about what is available where and at what quality, curtailment of side effects on third parties, and competition at work. Trust in protecting property rights and among trading partners rests more on the informal device of reputation and special connections than on the formal application of the rule of law through public institutions. Bazaars reflect a high degree of competition and serve as efficient logistics channels.

These findings have important public policy implications (World Bank 2009). First, considering significant welfare gains, the governments should resist any temptation to impose regulatory and fiscal burdens on bazaars beyond the minimal necessary for health or public order. For many who earn a living through bazaar-related activities, the only alternative is unemployment. Regulation of security and consumer protection is necessary but must be carefully designed and enforcement closely monitored to ensure that such regulation neither constrains legitimate bazaar activities nor becomes a source for ill governance. These are highly relevant dangers in the current Central Asian context.

Second, considering positive externalities associated with bazaars, that is, opportunities to market locally developed products, priority should be assigned to removing factors that constrain the supply response to these opportunities. Permits for operating bazaars should be easily gained, consistent with the law. Connections with utility services and the provision of infrastructure services, such as roads, would be worthwhile investments and would typically yield high rates of return.

Third, authorities should seek to improve the business climate and reduce the cost of doing business in order to build on the positive externalities of bazaars. Such climate relates to inspections, harassment of
traders, and rules governing the movement of individuals and vehicles. These measures should complement other measures aimed at deepening border cooperation.

Deepening Border Development Cooperation

CAREC aims to deepen cooperation between its members across the entire range of development activities. The previous discussion addressed the policies necessary to foster cooperation in Central Asia in border trade and to support key institutions that underpin such trade. However, the potential of and greatest rewards for cooperation in border areas go far deeper than trade alone. Economic development activities related to border trade—such as tourism, retail, business, and trade facilitation; cooperation in public services (such as shared health facilities, small-scale irrigation, and other infrastructure services); and optimal use of the environment and cultural and sports activities—often will not take place unless arrangements supporting them are in place. Border arrangements that support such activities and realize economies of scale in the provision of services can yield high dividends: the key public policy question is how to make such arrangements flourish.

The experience of European countries since the Second World War in designing and implementing wide-ranging border arrangements called “Euroregions” offers guidance on how to organize regional cooperation. Euroregions have offered opportunities to pilot-test various instruments of integration and to trigger “bottom-up” movements toward deeper development cooperation extending across regions and countries. Furthermore, Euroregions have proven to be an important agent for economic growth, engendering in the process further border cooperation addressing border externalities both positive and negative. As a consequence, they have been established not only among contiguous regions within the European Union (EU) but also at EU borders with countries outside the EU, all with the aim of fostering integration.

Although cultural and ethnic affinities, common historical background, and existing functional interdependencies among former Soviet Central Asian republics continue to provide a strong, spontaneous impulse for border cooperation on the part of economic agents, significant differences exist in policy approaches to economic development and the role of foreign trade. These differences contribute to the persistence of barriers to cooperation and border trading. Many local markets appear to be fragmented, despite free-trade agreements under the umbrella
provided by the CIS and the Eurasian Economic Community, and the generally unfettered movement of people is impossible. For example, price differentials unrelated to transport cost are significant between bordering marketplaces—even for agricultural produce. Therefore, establishing an equivalent of the Euroregion tailored to specific circumstances of Central Asia should be considered. The aim of such “Asiaregions” would be to encourage deeper integration among contiguous areas that could contribute not only to greater integration but also to stronger competition and more efficient production.

Despite the high level of movement of people and goods among Kazakhstan, the Kyrgyz Republic, Tajikistan, and Uzbekistan, laws governing border movements neither accord preferential treatment to residents of bordering regions nor provide institutional structures that would foster cross-border cooperation. In fact, such laws constitute barriers to deepening border cooperation. Moreover, decisions concerning border movements of people, goods, and services are controlled by central governments: local governments cannot act on their own to cooperate with foreign entities. Consequently, and given the various degrees of decentralization in decision making, local trans-border initiatives face serious administrative barriers.

Furthermore, the absence of institutional structures linking contiguous borders also stems in large part from a deeply held conviction among central government officials that the existing levels of trans-border cooperation among adjacent regions are broadly satisfactory. This view ignores the great potential for growth that lies untapped because of the obstacles to border development activities. The establishment of Asiaregions cannot take place spontaneously at the level of contiguous communities, despite their demand for greater border activities, but requires a regional framework involving some deconcentration of central powers. Such deconcentration would mean granting local governments well-defined and limited authority, such as the authority to relax arrangements governing the movement of people, goods, and services across the borders specifically for inhabitants of bordering regions.

The European experience shows that a key element of border arrangements is their comprehensive nature: Euroregions seek to establish structures for cooperation in areas ranging from commerce to culture, environment, tourism, and education. Similar Asiaregion arrangements would need to reflect the nature of demand in specific border regions and their economic characteristics. The Euroregion experience also shows that the establishment of legal structures fostering cooperation does not
require significant economic resources: the only investment needed is the political will to see them implemented. The rest depends on local initiative and the desire of local actors to identify and take advantage of new opportunities associated with a cooperative framework.

The likely considerable benefits of Asiaregion-type arrangements include the following:

1. Powerful reasons related to geography favor border cooperation. CAREC members share extensive borders. The Kyrgyz Republic and Tajikistan border only other CAREC countries. Central Asian members are landlocked, with their gateways to the sea passing mostly through other CAREC countries. Borders with other CAREC countries account for 13 percent of China’s land borders, 26 percent of Afghanistan’s, 40 percent of Kazakhstan’s, and 74 percent of Uzbekistan’s. While the percentage is much smaller for China, its relevance significantly increases if Mongolia is included. Furthermore, CAREC members (excluding Mongolia) border just one Chinese province, Xinjiang Uygur Autonomous Region, a major driver of China’s CAREC-directed trade expansion over the last decade.

2. Cultural and ethnic affinities, common historical background, and existing functional interdependencies among former Soviet Central Asian republics incentivize border cooperation. As for other CAREC countries, the development of functional interdependencies would be a point of departure for border cooperation.

3. Standard trade and bazaar trade, including border trade with immediate neighbors, has recently mushroomed. Intra-CAREC trade, excluding Azerbaijan, has grown on average almost 40 percent a year since 2002, as has the importance of trade with immediate CAREC neighbors, except for Uzbekistan. The value of intra-CAREC trade in 2006 ($28 billion) was five-fold its 2002 value. Similarly, the share of Afghanistan’s trade with immediate member states in total trade was nearly 26 percent higher in 2006 than in 2002. Except for Uzbekistan, whose CAREC trade was growing at rates well below those of other countries, intra-CAREC trade increased more than 50 percent in 2006 over 2002. The area within 25 kilometers of the border accounts for a large percentage of the land area of three CAREC countries—the Kyrgyz Republic (42 percent), Tajikistan (64 percent), and Uzbekistan (27 percent)—so small-scale trade among bordering
regions is widespread (World Bank 2007). Thousands of people, mostly residents of contiguous border areas, cross BCPs every day to exploit differences in prices, wages, and regulatory practices, illegally if necessary. For many small agricultural producers, sales at a marketplace across the border are often the only opportunity to purchase goods. For others intermediating and supplying services to traders is their only source of income. Furthermore, for remote communities lacking the advantages of a well-developed road network, contacts with similar nearby but border communities may be the only way to move beyond subsistence farming and gain access to desired goods and services that are not available reasonably nearby in their own country.

Indications are that local demand for deeper cooperation across a range of activities is strong. The minutes of negotiations between the businesses of Uzbekistan’s Tashkent oblast and Kazakhstan’s South-Kazakhstan oblast call for legal arrangements that would facilitate the creation of Asiaregions. Participants argued for investment and trade links between the oblasts through joint exhibitions and fairs, facilitating the establishment of joint ventures, attracting investments in agro-processing, joint projects to develop roads, cooperation to increase tourism, cultural exchanges, and exchange of knowledge. The participants agreed on the need to conduct joint seminars, conferences, and working meetings covering issues of joint interest and to encourage the exchange of scientific and technical information. Participants also showed awareness of the need for a permanent mechanism by agreeing to hold regular meetings at the oblast head level and would include private businesses from both oblasts.

Because local authorities and businesses have the best available knowledge about local conditions, they can use this knowledge to substantially improve the quality of inter-governmental development programs. In addition, local officials and non-governmental organizations involved in Asia region arrangements would emerge as advocates for deeper intra-CAREC, policy-induced integration that would yield mutual benefits.

Asiaregions would also facilitate the development of a labor cadre linking producers across borders based on stable foundations. The Asiaregion framework outlined here not only would remove uncertainty associated with conditions affecting the movement of goods and people across borders but also would encourage entrepreneurship through information exchange and local employment initiatives.
Finally, the implementation of an Asiaregion framework might enhance the attractiveness of the region through economy of scale effects to investors, foreign and domestic alike, and to tourism. As for the latter, there are many attractive tourist areas on both sides of the border: special visa arrangements might bring in foreign tourists from countries whose citizens need entry visas. For instance, if visas are required for crossing a border, residents of an Asiaregion could enjoy a short-term, visa-free entry into territories of bordering regions. A good candidate for this type of arrangement might be the area between Uzbekistan’s Samarqand oblast and Tajikistan’s Sugd oblast (Panjakent), located on the route from Samarqand to Tajikistan’s mountainous region, which has seven lakes, the most notable being Alexander the Great Lake (Iskanderkul). Convenient and accessible BCPs together with appropriate tourist infrastructure on both sides of borders would foster tourism.

The major lessons learned from Euroregions of particular relevance for CAREC members are:

1. Asiaregions would need an ally at the CAREC level. This might involve setting up a CAREC inter-regional committee charged with overall responsibility for:
   a. devising a legal framework allowing for regional initiatives to be easily implemented;
   b. encouraging the development of operational spatial development strategies on a transnational scale that would promote cooperation among bordering cities and between urban and rural areas in the context of sustainable development;
   c. identifying border areas where cooperation would be particularly beneficial in the context of longer term infrastructure projects, including environment, tourism, transport, information and communication networks and services, water and energy systems, and so on; and
   d. establishing a CAREC-wide fund, possibly with participation of international donors, that would support border cooperation among bordering regions.

2. Central governments should seek and welcome local initiatives of border cooperation and encourage them to form “twin associations,” even though a formal base may be lacking and the enforcement of their agreements would be based on good will.

3. A bottom-up integration movement driven by cooperation between contiguous regions usually starts with liberalization of the movement of individuals, goods, and vehicles.
Without substantial organizational effort and assistance from the central government, assisted by external donors such as CAREC and without delegating powers to local regional bodies, border cooperation across multiple-issue areas would be hard to accomplish. The benefits of border cooperation—including, among others, local entrepreneurship, local employment initiatives, and eco-friendly development—do not occur immediately: they take time to materialize but their benefits last.

**Notes**

1. For an in-depth discussion of the Kyrgyz Republic’s standard and non-standard trade flows, see Kaminski, Mironova, and Vashakmadze (2011).
2. This estimate includes the difference between mirror exports (imports reported by the Kyrgyz Republic’s trading partners) and the Kyrgyz Republic’s officially reported exports of clothing. These ranged from zero in 2007, to $91 million in 2009, and $61 million in 2010.
3. The share of Uzbekistan’s neighbors in its total trade was 10 percent lower over the same period, perhaps due to policy-induced barriers. An Asian Development Bank study indicates that Uzbekistan’s foreign trade regime is the most protectionist among CAREC economies (ADB 2006, 25–28).

**References**


Border trade differs from standard trade (bulk products such as oil, gas, metals, equipment, and machinery) in several respects. First, the small quantities that constitute border trade are not usually captured in statistics, both because customs regulations often allow certain quantities to be duty-free and, by the same token, because there is little reason to keep track of them. However, even with the small quantities and quantifying problems, CAREC’s total border trade is certainly sizeable. Second, bazaars provide a very important, if not a dominant, conduit for border trade. Without them, exchanges would be limited to transactions among people who know each other and strangers would be excluded. Finally, in contrast to standard trade flow, the geographic reach of border trade is by definition limited, typically performed only by people who live near a border-crossing point (BCP). Consequently, transport costs are low and proximity allows traders to respond quickly to even very low price differentials. Traders can monitor differences in prices on two sides of a border to take advantage of higher prices on one side by bringing the lower priced equivalent across the border to sell. Price differentials vary among pairs of CAREC countries. Margins are narrow, so government interventions imposing financial or time demands on traders may easily undermine this form of trade.\(^1\)
Other aspects of border trade are less mercantile but do generate positive externalities and a welfare effect. Border trade fosters amicable relations between neighbors separated by borders. It usually comprises produce and consumer goods but often also involves industrial products. It can support and engage entire families, and its income effects are more significant in rural border regions where bazaars for border trade tend to be modest in both size and support services (for example, bazaar administration and warehousing). And these income effects extend far beyond traders to reach providers of support services, such as taxi drivers and owners of warehousing facilities. Interestingly, some income effects of border trade are especially favorable to women, who in Kazakhstan and the Kyrgyz Republic account for a significant share of traders and those providing auxiliary services, such as catering, in bazaars.

To provide an in-depth understanding of border trade, this chapter describes Central Asia’s vast networks of bazaars, including estimates of the monetary size and scope of border trade, and shows how these networks would more quickly develop by making border crossings faster and easier. The chapter defines border trade and demonstrates its potential in Central Asia, then takes a closer look at the people involved in this trade and the products traded. An empirical illustration of price gaps across borders is presented, followed by a discussion of income effects of border trade and the sensitivity of this trade to government interventions, concluding with a summary of effective government strategies to support this trade.

**Definition of Border Trade**

Border trade is the flow of goods and services across international land borders that reach up to 30 kilometers on either side, as distinct from standard trade, which has a longer reach. This distance limit renders the transportation costs of goods to be traded almost negligible, allowing border traders to take advantage of differences in the supply, demand, and prices of various goods and services available on either side of the border. Profit margins are narrow, so border trade is highly sensitive to the treatment of traders by border-crossing conditions imposed by national governments.

Features of border trade also include the following:

- It is carried out by small traders mostly comprising individuals and their families who are often the producers of the goods they trade. Rarely do traders become large shuttle traders and move to large or capital cities to trade.
• Small traders transport their goods across the border on foot or by bicycle or light vehicle (minibus, van, or car). They do not need trucks because the quantities are small and the distances short.

• Agricultural products and consumer goods are the main kinds of traded goods. When price differentials are large, border trading may include a wide array of industrial products, including cement, coal, and petroleum products, which are locally produced and imported. The latter are often re-exported or smuggled into other countries.

• Border trading mainly depends on price differentials, which, in the case of China and Uzbekistan, appear to be significant.

• The quantities involved are small, usually less than 100 kilograms and a few hundred dollars in value, due not only to regulatory limits on cargo size not subject to official payments, but also to limits in local demand and supply. It is not uncommon to see a person crossing a BCP carrying a single piece of furniture, a cart with a couple of rugs, or a bicycle with one or two 50-kilogram bags of potatoes.

• Any estimate of border trade in the whole CAREC region would constitute only an informed guess, since most border trade activities are not reported in foreign trade statistics. For instance, neither Chinese nor Kazakhstani customs officials register items exported or imported by shuttle traders carrying goods in luggage. The same is true for Tajik and Kyrgyz customs regimes as long as the luggage does not exceed a prescribed volume and size.

Price gaps across a border matter simply because they foster trade, providing an indication of how some countries are faring in facilitating border trade. The persistence of large gaps points to fragmentation of markets due to policy-induced barriers to this trade. Furthermore, as noted earlier, with the low transportation costs, these price gaps can easily trigger trade flows unless policy-induced barriers—that is, various government measures restricting movement of people and goods—have been erected.

Indeed, geography alone favors cross-border exchanges. The border length between two countries points to the potential for border trade. It ranges among CAREC members from 13 percent of the nation’s total border with China, to 100 percent for the Kyrgyz Republic and Tajikistan (see table 2.1).

In economic terms, the most important interaction of China with Central Asia is through Xinjiang Uygur Autonomous Region, which borders Kazakhstan, the Kyrgyz Republic, and Tajikistan. Xinjiang accounts
Table 2.1  Border Lengths (km) between CAREC Countries and Land Area within 30 km of a Border

<table>
<thead>
<tr>
<th></th>
<th>Afghanistan</th>
<th>China</th>
<th>Kazakhstan</th>
<th>Kyrgyz Republic</th>
<th>Tajikistan</th>
<th>Uzbekistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>n.a.</td>
<td>76</td>
<td>n.a.</td>
<td>n.a.</td>
<td>1,206</td>
<td>137</td>
</tr>
<tr>
<td>China (Xinjiang)*</td>
<td>76</td>
<td>n.a.</td>
<td>1,533</td>
<td>858</td>
<td>414</td>
<td>n.a.</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>n.a.</td>
<td>1,533</td>
<td>n.a.</td>
<td>1,051</td>
<td>n.a.</td>
<td>2,203</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>n.a.</td>
<td>858</td>
<td>1,051</td>
<td>n.a.</td>
<td>870</td>
<td>1,099</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>1,206</td>
<td>414</td>
<td>n.a.</td>
<td>870</td>
<td>n.a.</td>
<td>1,161</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>137</td>
<td>n.a.</td>
<td>2,203</td>
<td>1,099</td>
<td>1,161</td>
<td>n.a.</td>
</tr>
<tr>
<td>Total length of borders</td>
<td>5,529</td>
<td>22,117</td>
<td>12,012</td>
<td>3,878</td>
<td>3,651</td>
<td>6,221</td>
</tr>
</tbody>
</table>

**Memorandum:** Percent of border shared with other CAREC countries
- Afghanistan: 26%
- China: 13% (80)*
- Kazakhstan: 40%
- Kyrgyz Republic: 100%
- Tajikistan: 100%
- Uzbekistan: 72%

**Source:** Authors.

**Note:** km = kilometer; n.a. = not applicable.

*a.* Xinjiang is used as the reference point for China because its other regions are too remote and have limited economic interaction with other CAREC countries.
for most of the trade with CAREC countries. Its recent strong industrial growth is driven by a combination of central government investments and emerging trade opportunities in Central Asia (Raballand and Kaminski 2007). Xinjiang, rather than China as a whole, is used as the reference point in the context of this report because other parts of China are too remote and have limited economic interaction with other CAREC countries. As for Kazakhstan, its relatively high gross national income per capita, around five to six times higher than that of other CAREC economies, derives mainly from oil exports. In the China–Kazakhstan border regions the income gap is much less pronounced despite Kazakhstan’s considerably higher standard of living.

**Border Traders and Products Traded**

This discussion will expand on two features of border trade mentioned earlier. First, border trade is carried out entirely by local people, often entire families, traveling together to maximize the amounts that can be taken across the border: cargo limits are per person, so traveling with family members significantly expands the amount a trader can take across the border with the least official payment. Second, bazaars are the main vehicle for the conduct of border trading.

Border trading varies in dominant flow direction across Central Asia. In regions bordering China, it is largely unidirectional, consisting mostly of Chinese exports. Trading between any two other CAREC countries occurs in both directions and involves a range of agricultural and industrial products. As illustrated by border trade near the Korgos BCP between China and Kazakhstan, exports from Kazakhstan into China are very small, while imports are significant and include products ranging from bananas and tomatoes to apparel and household appliances. Most traders at Korgos surveyed in the summer of 2007 for the report on cross-border trade (World Bank 2007) were bringing agricultural products, with apples and tomatoes topping the list, from China into Kazakhstan.

Agricultural products appear to account for a considerable share of CAREC trade, and BCP bazaars provide a venue for selling local surpluses. Agricultural products moving both ways through BCPs linking Kazakhstan with the Kyrgyz Republic, and Uzbekistan and Tajikistan with Afghanistan, suggest that the Kyrgyz Republic and Uzbekistan account for a large share of border trade, as measured by frequency of border crossings rather than value. These movements are seasonal, taking
advantage of even small variations in timing, when fruits and vegetables become ripe, as well as small differences in varieties.

Border trading by residents of adjacent regions is not limited to agricultural products. Indeed, the surveys indicate that border trade among CAREC countries is a microcosm of the commodity composition of total trade but, of course, in miniscule quantities. In some cases, it involved a large spectrum of industrial products ranging from cement and coal to detergents and toilet paper. These products are both locally produced and imported, that is, for re-export in border trading. For instance, in addition to local products (flour, sugar, macaroni, tea), Tajik traders also sell Chinese clothing, shoes, and electronic products to their Afghan counterparts. Similarly, Afghans trade in national handicrafts and fabrics as well as imported medical products. Border trade flowing both ways between the Kyrgyz Republic and Tajikistan through the Oru Kalacza BCP consists mainly of agricultural products, construction materials, furniture, carpets, miscellaneous manufactures, cigarettes, and liquor (where excise rates differ).

**Price Gaps across Borders**

Price gaps and border characteristics in the CAREC region stem from specific characteristics shared by contiguous regions as well as from regulations governing the movement of people and goods across borders. As noted, border trade relies on price differences for individual items on opposite sides of a border. Price differences across a border are generally small: 3–39 percent, with the interesting exception of the Kyrgyz–Uzbek pairing, where the range is 17–100 percent (table 2.2). These differences in both prices and price gaps are important because price differences foster trade and price gaps indicate that some countries are doing better than others in facilitating border trade. These price gaps suggest that the (small) volume of border trade is not sufficient to cause price convergence and full integration of contiguous local markets. They also mean losses in economic efficiency and in the welfare of local communities. A significant reason for the failure of the volume of trade to expand to leverage clear profit opportunities that price gaps represent could, in certain BCPs, arise from government-imposed or tolerated barriers to border trade.

However, for a variety of reasons, ranging from the shared history of being a part of the former Soviet Union to membership in the Eurasian Economic Community (EurAsEC), a regional economic integration
### Table 2.2 Prices of Selected Bazaar Products at the Kyrgyz Republic–Tajikistan and the Kyrgyz Republic–Uzbekistan Borders, 2007 (Kyrgyz som)

<table>
<thead>
<tr>
<th>Product</th>
<th>Batken: Kyrgyz Republic vs. Tajikistan</th>
<th>Dostuk: Kyrgyz Republic vs. Uzbekistan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>KGZ price</td>
<td>TJK price</td>
</tr>
<tr>
<td>bread</td>
<td>6.5</td>
<td>5.5</td>
</tr>
<tr>
<td>cakes</td>
<td>7.0</td>
<td>5.5</td>
</tr>
<tr>
<td>lamb</td>
<td>150</td>
<td>145</td>
</tr>
<tr>
<td>beef</td>
<td>125</td>
<td>120</td>
</tr>
<tr>
<td>vegetable oil</td>
<td>47</td>
<td>44</td>
</tr>
<tr>
<td>macaroni</td>
<td>17</td>
<td>15</td>
</tr>
<tr>
<td>rice (local)</td>
<td>37</td>
<td>34</td>
</tr>
<tr>
<td>sugar</td>
<td>26</td>
<td>24</td>
</tr>
<tr>
<td>fresh vegetables</td>
<td>27</td>
<td>19</td>
</tr>
<tr>
<td>carpets</td>
<td>1,000</td>
<td>975</td>
</tr>
<tr>
<td>teapots</td>
<td>25</td>
<td>20</td>
</tr>
</tbody>
</table>

#### Batken: Kyrgyz Republic vs. Tajikistan

- **Products cheaper in Tajikistan**
  - TJK = 100
- **Products cheaper in Uzbekistan**
  - UZK = 100

#### Dostuk: Kyrgyz Republic vs. Uzbekistan

- **Products cheaper in Kyrgyz Republic**
  - KGZ = 100

<table>
<thead>
<tr>
<th>Product</th>
<th>KGZ price</th>
<th>TJK price</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>milk</td>
<td>8.0</td>
<td>10.0</td>
<td>125</td>
</tr>
<tr>
<td>flour</td>
<td>15</td>
<td>16</td>
<td>107</td>
</tr>
<tr>
<td>coffee</td>
<td>50</td>
<td>55</td>
<td>110</td>
</tr>
<tr>
<td>tea (100 gr)</td>
<td>19</td>
<td>21</td>
<td>111</td>
</tr>
</tbody>
</table>

**Source:** Based on interviews and observations conducted by the authors together with members of national teams in June 2007.

**Note:** Tajik and Uzbek prices converted into Kyrgyz soms using the current exchange rate. KGZ = the Kyrgyz Republic; TJK = Tajikistan; UZB = Uzbekistan.
project, greater price gaps with China might be expected as well as more price convergence among CAREC countries (excluding Afghanistan). Indeed, price differences in pairings involving the Kyrgyz Republic and Tajikistan are smaller, ranging from 3 to 39 percent, and they go both ways, creating incentives for both export and import activity across the border. Despite lower differentials between prices at border bazaars, these differences are sufficient to prompt transport of products from one country to the other depending on the price ratios.

However, the gaps are significantly larger for the Kyrgyz–Uzbek pairing. As the table indicates, some products (for example, cottage cheese) cost almost twice as much across the border. The smallest difference in price is 17 percent in the Kyrgyz Republic–Tajikistan pairing. Lacking historical data, it is impossible to know whether there has been a tendency toward price convergence or divergence. Nevertheless, since geography is not a barrier, the price differentials can be assumed to be a result of differences in taxation and other elements associated with a business environment.

Price gaps indicate the probable existence of transaction costs associated with border trading; as noted, some of these costs may arise from trade barriers. Broadly speaking, larger price gaps point to lower levels of market integration and significant barriers to border trade. Despite the short distances, transport costs may add to the difference, as moving goods through the BCP often requires offloading cargo due to restrictions on the movement of vehicles. Traders devise various strategies to tap economies of scale by consolidating shipments, for example, by mobilizing entire families. Other costs borne by traders and contributing to price gaps relate to informal payments whose size usually depends on the cost of an alternative, for example, that of official payments.

**Employment and Income Effects of Border Trade**

Border trade is critical to the welfare of people inhabiting contiguous regions. In some remote regions, it is the most important economic activity and has significant multiplier effects. The employment and income effects of border trade are more significant in rural areas in remote locations, such as at the Afghanistan–Tajikistan and Kazakhstan–China borders, than near major cities, such as the Dostuk BCP near Osh in the Kyrgyz part of the Fergana Valley.

The positive impacts of border trade in terms of employment are apparent everywhere. Most BCPs that were surveyed are not simply one
or two buildings used by customs and border guards. Rather, they are usually surrounded by one-story buildings that house small stores, bars, hairdressers, repair shops, exchange offices, and a bazaar offering its own goods and services. In BCPs where regulations ban motor vehicles from crossing the border, people offer services unloading and carrying goods across the border and reloading them onto vehicles on the other side. Though such regulations raise the transaction costs, they do generate employment. Most activities are efficiency-driven, not solely regulation-driven, which contributes to economic welfare.

Border trade not only enhances traders’ lives and incomes, but also strengthens local production and fosters service provision (such as storage facilities, transportation, and ancillary services in local bazaars). Hence, demand and supply of goods and services generate income and employment for both people working in bazaars and activities associated with bazaars and trade.

Since border trade generates employment, households that would otherwise be impoverished have an income. In remote regions, where employment is scarce and salaries low, the easing of border trade can generate income for entire households and is more profitable than most other available economic activities.

Moreover, driven by price gaps, border trade lowers import prices of goods available to consumers in bordering areas (that is, in the absence of border flows, prices would be higher and price differentials greater) and enables exporters to benefit from greater value-added. Farmers in the Kyrgyz Osh region, for example, prefer to sell their potatoes in Uzbekistan because the selling price is much higher than in the Kyrgyz Republic, whose potato supply far exceeds demand. Similarly, Uzbek tomato and cucumber producers prefer to sell their produce in the Kyrgyz Republic.

Border trade has a gender dimension: women are actively involved in border-trading activities, such as selling goods in bazaars and in some areas moving goods through BCPs. Women accounted for more than half the people crossing the border in the surveyed BCPs except those on the Afghanistan–Tajikistan border, where they accounted for nearly 10 percent. Also, many heads of traders’ associations involved in border activities are women (see chapter 3).

Korgos, at the Kazakhstan–China border, is the largest land transport port to western China. It handles 3 million passengers and 340,000 tons of merchandise annually. Trade exceeds $11 million annually (the trading season lasts eight months a year), or $1,650 in net income for each of the 1,300 traders alone. The bazaar in Korgos was said to employ in 1997
around 800 people servicing 20,000 foreign traders (Levinsson and Svanberg 2000), or 154 persons per day. The number of people crossing daily into China was around 1,300 during the World Bank survey in June 2007, or almost nine times more than reported in 1997. The 2007 estimate was that about 4,000 Kazakhstani and Chinese traders regularly crossed the border. And it was readily observable at the BCP that employment effects went beyond the bazaar itself: hundreds of taxi drivers offered their services, including trips to Urumqi, capital of Xinjiang Uygur Autonomous Region. Moreover, bars and restaurants in areas surrounding the bazaar, as well as stores all over the city appeared to be thriving. The city appeared to be prospering essentially because of border trade with Kazakhstan.

On the Kazakhstani side of the border, this trade generates huge positive welfare effects. Local residents—many of whom live in Jarkent, 30 kilometers from Korgos—in the Kazakhstani Panfilov district benefit from a special regulatory regime (see box 6.1). This regime allows residents of the Panfilov district visa-free entry into China for one day and permission to bring back a limited amount of goods duty-free. Most imports from China by local residents are fruits and vegetables (apples, tomatoes, bananas, peas) which they sell in Jarkent.\textsuperscript{2} Thanks to the new regime, border trading has become the most important source of employment in Jarkent, the largest city in the district, with a population of 35,000. Conservative estimates indicate that 3,250 people work directly in border trade activities, and it is estimated that each service they provide generates employment for an additional one to two persons: one seller in the market and one person for warehousing or local transport. Border trade involves almost 20 percent of Jarkent’s active population, as compared to 10 percent for agro-processing, 7 percent for industry, and 7 percent for agriculture. Combined with official data for transport, mainly dedicated to serve Korgos by minibuses and taxis, almost 30 percent of Jarkent’s active population depends on border trade. Factoring in Kazakhstan’s total dependency ratio, one inhabitant out of six in Jarkent directly depends on income generated by Korgos border trade activities (World Bank 2007; 2008).

In terms of income generation, border trade is as profitable as any other economic activity, despite the fact that traders work only two-thirds of the year. The 2007–08 World Bank surveys indicate that annual sales for local traders exceeded $11 million in Korgos (1,300 daily traders import and sell, on average, $35.40 per day and operate 240 days a year: a third of the year is the “dead season”).\textsuperscript{3} Traders reported a 25–30 percent gross margin on any transaction, which signifies yearly margins for
the community of local traders of $3.31 million, or over $1,650 for two-thirds of the year (equivalent to a yearly salary of $2,100). Traders are obviously better paid than sellers and those in charge of transporting goods to the bazaar, so calculations were based on two salaries.

Observations of the movement of people and goods across other BCPs corroborate the observation about the beneficial impact of border trade on poverty reduction, especially in rural areas. Observations also point to the vulnerability of this trade to government intervention.

**Impact of Government Policies on Border Trade**

Governments facilitate or hamper border trade in various ways, depending on the channel through which foreign trade flows. Aside from investments in infrastructure, some measures affect mostly standard trade while others boost or suppress border trade. Border trade also can be more sensitive to various policy-induced barriers. In a nutshell, border trade is much more vulnerable to obstacles erected by government policies. Table 2.3 summarizes in rough terms the comparative degree of sensitivity of border and standard trade to various border measures in four policy-areas: visa requirements (or, more generally, restrictions on movement of persons); unofficial payments at the border (informal charges paid to avoid meeting regulatory requirements); delays at the border caused by lengthy procedures, customs duties, and other border charges; and entry restrictions for foreign passenger vehicles. While vulnerability of standard trade varies depending on the policy area, border trade is highly sensitive to such measures across the whole spectrum.

**Table 2.3  Sensitivity of Types of Trade in Goods to Various Border Barriers to Trade**

<table>
<thead>
<tr>
<th>Type of trade</th>
<th>Visa requirements</th>
<th>Unofficial payments</th>
<th>Border delays</th>
<th>Customs duties and other border charges</th>
<th>Entry prohibition of foreign passenger vehicles</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Border trade</strong></td>
<td>High</td>
<td>High</td>
<td>Low</td>
<td>High if lacking special regimes or if unofficial payments are demanded</td>
<td>High</td>
</tr>
<tr>
<td><strong>Standard trade</strong></td>
<td>Low to moderate</td>
<td>Low</td>
<td>Moderate to high</td>
<td>High</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>

*Source:* Authors.

*Note:* Trade in services is mainly sensitive to visa requirements and unofficial payments at the border.
As with standard trade, the legal and institutional bases for border trade are provided by bilateral political and economic agreements and by multilateral arrangements that have trade provisions, such as EurAsEC and Commonwealth of Independent States (CIS) treaties. Under such arrangements, special status can be provided to traders working in border regions. EurAsEC/CIS regional integration arrangements provide for duty-free trade and the visa-free movement of people subject to restrictions governing residency rights. CAREC countries have formal agreements, either bilateral or within EurAsEC, easing the movement of local people living on either side of the borders. Given the history and social cohesion of these people, Central Asian governments are sensitive to people’s needs and try to ease movement across borders for family events, border trade, and services. A series of government-level resolutions has been adopted by nearly all CAREC countries, and district/regional governments go even further to cement these agreements by facilitating dialogue with local authorities.

However, the trade provisions governing border trade are not always implemented; for example, cases exist where goods that are supposed to enter duty-free are subjected to differential excise taxes on imports, and visa requirements are sometimes imposed on citizens of CIS countries. Specifically, Kazakhstan and Uzbekistan impose differential excise taxes on imports. Uzbekistan imposes a visa requirement on Tajikistan citizens, except for individuals residing in certain designated border areas. The movement of goods typically faces two barriers: first, border authorities are distrustful of certificates of origin issued by CIS countries, and, second, regulations specifying customs procedures and technical norms depart at times from commitments made in treaty agreements.

Provisions that enable border trade activities include: (1) soft measures to ease conditions governing the movement of residents of administrative entities (for example, oblasts) at contiguous borders and their use of motor vehicles and (2) exemptions from duties and other charges collected at the border. All these measures must be in place to enable border trade: clearly, simplified procedures and visa-free entry for individuals would do little good if BCPs are closed or the government charges exorbitant fees for the entry of goods.

The regime governing movement of goods and people across the China–Kazakhstan BCP at Korgos, Kazakhstan, provides an excellent illustration of how cooperation to develop border trade can provide benefits to residents of contiguous regions in both countries to an even greater extent than that implied by the national framework. Border trade at Korgos is robust as a result of two key measures: First, residents of the
Kazakh Panfilov district bordering China can enter China without a visa if they stay no longer than a day. Waiving the visa requirement is important, as visas can be obtained only by traveling at least to Almaty, about 300 kilometers from Jarkent, and are expensive.

Second, cargo brought into Kazakhstan from China is duty-free. Cargo weighing no more than 50 kilograms and valued at no more than $1,000 incur no border charges. For large shuttle trade, shipments of agricultural products up to 10 tons and of industrial products up to 2 tons and a value not exceeding $10,000 are subject to a simplified customs procedure with a flat rate of 17 percent (14 percent value-added tax [VAT] and 3 percent customs fee) (Kazakhstan 2005). In addition, the Korgos BCP is a modern facility that allows for a smooth flow of goods and people. Customs clearance takes place quickly and the border can be crossed in both directions in a short time.

Hence, the Korgos bazaar, often termed a “showcase of border trade,” has emerged as one of the most important trade platforms for residents of the Panfilov district to supply the population in southwestern Kazakhstan.

Three border regimes, Afghanistan–Tajikistan, Tajikistan–the Kyrgyz Republic, and Kazakhstan–the Kyrgyz Republic, illustrate other special arrangements encouraging border trade and point to the importance of infrastructure in facilitating trade flows. Free-trade arrangements, together with bilateral governmental agreements for visa-free movement of people, underpin relations in Kazakhstan–the Kyrgyz Republic and Tajikistan–the Kyrgyz Republic pairings. Citizens of the first pair only need to produce their national identity card to enter the other country and may also use motor vehicles in the country visited. In the second pair, a national passport is required. In both pairings, cargo not exceeding 50 kilograms in weight and $1,000 in value is exempt from border charges.

A border project between Afghanistan and Tajikistan represents the first stage toward wider and deeper integration based on cross-region cooperation. In 2002, Tajikistan launched a program designed to facilitate border trade with Afghanistan. The program has facilitated the opening of BCPs and bazaars within Tajik territory. Figure 2.1 shows the layouts of two regimes facilitating trade while assuring the security of both countries. The facilitating aspects are: (1) bazaars were opened at several BCPs between Tajikistan and Afghanistan, and (2) no visas are required of Afghan citizens entering the bazaar (they surrender identification or a passport and collect it when they leave).

In addition to the facilitative layouts, the program exempts 18 products exported from Tajikistan and 31 imported from Afghanistan from
taxes and other border charges (meat and food products are subject to phyto-sanitary inspections). However, more advantage for border trade would be gained if the following restrictions were eased: the bazaars are open only one day a week (usually Thursday or Saturday) between 8:00 a.m. and 5:00 p.m., no vehicles may enter the bazaar, and the list of products exempt from border payments is too restrictive.
Among border posts sampled in the study surveys, border-post infrastructure appeared not to be a significant constraint to border trade. As the data in table 2.4 summarizing conditions at surveyed BCPs clearly indicate, the infrastructure of most BCPs was rated satisfactory, with the Korgos BCP getting the highest grade. Except for the Kordai BCP between Kazakhstan and the Kyrgyz Republic and the Jibek Joli BCP at the Kazakhstan–Uzbekistan border, the BCPs surveyed appear to have adequate facilities to handle current border traffic. (Where they exist, dedicated lanes helped researchers distinguish between border and standard trade.)

Infrastructure improvements will neither boost border trade nor improve welfare of local residents if the regulations are overly costly. But infrastructure investments will foster border trade if they are accompanied by facilitative policies regulating border crossings and border trade. The Tajikistan–China trade route through the Kulma Pass, opened in 2004, starts at Khorog, capital of Gorno-Badahshan Autonomous oblast, Tajikistan’s poorest region, then crosses a high mountainous plateau and ends after 700 kilometers in Kashgar, China. With the construction and improvement of roads connecting eastern Tajikistan and China (a 122-kilometer road connects Murghab to China via the Kulma Pass) and other major highway reconstruction and rehabilitation projects, the transport cost has significantly declined for goods moving between western Tajikistan and China. But the local population cannot realize the benefits from trade as long as governments still impose obstacles to border trading.

**Government-Imposed Obstacles**

Government measures that impact border trade range from payments charged at borders, rules governing the entry of vehicles, and BCP opening hours, to outright BCP closure and regulations restricting the movement of persons. There are significant differences in government restrictions among CAREC countries, some more liberal than others. The survey research suggests that Uzbekistan imposes the harshest restrictions, but other countries resort to restrictive measures in more subtle ways.

Although citizens of CAREC countries other than Tajikistan need not have a visa to enter Uzbekistan, border traffic is limited by uncertainty associated with the implementation of rules. For instance, although an agreement for open borders between Uzbekistan and the Kyrgyz Republic was signed in 2007, it ceased to be implemented after March 2007,


<table>
<thead>
<tr>
<th>Bordering countries: BCP</th>
<th>Hours of operation</th>
<th>Number of people crossing daily</th>
<th>Time needed to cross (in minutes)</th>
<th>Infrastructure rating</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total no.</td>
<td>Women (%)</td>
<td>Border residents (%)</td>
</tr>
<tr>
<td>Afghanistan–Tajikistan: Ishkashim</td>
<td>24 hours</td>
<td>600</td>
<td>10</td>
<td>83</td>
</tr>
<tr>
<td>Afghanistan–Tajikistan: Tem</td>
<td>24 hours</td>
<td>600</td>
<td>13</td>
<td>100</td>
</tr>
<tr>
<td>Afghanistan–Tajikistan: Ruzvai</td>
<td>24 hours</td>
<td>450</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>China–Kazakhstan: Korgos</td>
<td>8:30 a.m. – 5:30 p.m. (with 3-hr break) weekdays only</td>
<td>2,625</td>
<td>46</td>
<td>25</td>
</tr>
<tr>
<td>China–Kyrgyz Republic: Irkeshtam</td>
<td>8:00 a.m. – 6:30 p.m. (with 1-hr break)</td>
<td>344</td>
<td>56</td>
<td>2</td>
</tr>
<tr>
<td>Kazakhstan–Kyrgyz Republic: Kordai</td>
<td>24 hours</td>
<td>11,703</td>
<td>71</td>
<td>10</td>
</tr>
<tr>
<td>Kazakhstan–Uzbekistan: Jibek Joli</td>
<td>8:00 a.m. - 10:00 p.m.</td>
<td>5,608</td>
<td>38</td>
<td>10</td>
</tr>
<tr>
<td>Kyrgyz Republic–Uzbekistan: Dostuk</td>
<td>24 hours</td>
<td>1,975</td>
<td>77</td>
<td>12</td>
</tr>
<tr>
<td>Kyrgyz Republic–Tajikistan: Kulundu and Ovchi-Kalachi</td>
<td>24 hours</td>
<td>450</td>
<td>70</td>
<td>78</td>
</tr>
<tr>
<td>Tajikistan–Uzbekistan: Dusti</td>
<td>24 hours</td>
<td>200</td>
<td>65</td>
<td>40</td>
</tr>
<tr>
<td>Tajikistan–Uzbekistan: Patar</td>
<td>24 hours</td>
<td>600</td>
<td>75</td>
<td>83</td>
</tr>
</tbody>
</table>

Source: Author surveys.
Note: — = not available.
compelling Kyrgyz and Uzbek nationals to obtain visas until the agreement was restored a year later. Now both countries’ nationals can travel visa-free and without passport stamps. From time to time, Uzbek authorities would stamp passports at each entry, so even if entry is visa-free, regular traders need to have their passports frequently renewed since the passport’s pages quickly fill with stamps. Obtaining a new passport is expensive. In Tajikistan passports are about $25, or more than 5 percent of per capita gross domestic product. Attempts have been made to use “lists of locals” (for example, on the Tajikistan–Uzbekistan border at Plotina), which can be used when the flow of people is routine and individuals are easily recognized. However, this practice is cumbersome for larger border areas; thus, a different approach is required (for example, local-resident cards that do not require stamps).

Border trade is highly sensitive to all forms of border payments. The cost of a visa alone can be an insurmountable barrier to such trade (see box 2.1). Visa requirements, or even visa-free entry, if combined with large stamps (sometimes covering an entire page) to mark each entry and exit in a passport, constitute a barrier to trade. Large stamps soon necessitate applying for a new passport or inserting extra pages, which requires

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**Box 2.1**

**Visa Cost Eliminates Prospect of Border Exchanges**

Restrictions on the movement of local people can preclude border trade. At Irkeshtam, the border-crossing point (BCP) at the Kyrgyz Republic–China border, fees for Chinese visas for Kyrgyz citizens reach $260. Moreover, local residents from Nura, the Kyrgyz settlement six kilometers from the border, must travel to Osh for a visa, which costs $55. Their total cost for obtaining a visa, $315, is more than 55 percent of the average yearly salary in the Kyrgyz Republic. Needless to say, only a few local residents cross the border to trade: on average, two a day in June 2007 (compared to 1,300 per day in Korgos), and border trade is nonexistent. Yet, the infrastructure and market for border trade are in place.

For a local trader in Tajikistan near the Kulma BCP with China, getting a Chinese visa is very time-consuming and costly. To do so, one has to drive 700 kilometers in the opposite direction to Dushanbe: air travel is extremely unreliable and often cancelled during inclement weather. An agreement has been reached but has not yet been implemented to open a Chinese consular department in Khorog.

*Source:* Authors.
a trip to the capital or consulate city. Doing so is both costly and time-consuming; returns from trade would have to be very high to justify such expenses.

In a similar vein, imposing low limits for duty-free entry, combined with high duty and other tax payments, discourage trade and encourage smuggling. Uzbekistan, for instance, imposes much smaller limits on exemptions from taxes and other border charges than other CAREC countries. Uzbek citizens can bring in items in quantities (usually not exceeding one) for strictly personal use, in contrast to the 50 kilogram/$1,000 limit allowed by other Central Asian countries. Quantities exceeding the limit are subject to a so-called “standard” payment, including a combined customs duty and VAT amounting to 70 percent on industrial products and 40 percent on foodstuffs (excluding flour). Traders failing to provide a certificate of origin for carried products are subject to an extra surcharge of 20 percent of the value of the product, which effectively raises the payment to 104 percent. This contrasts with a 17 percent payment on Chinese imports by Kazakh traders and no duties levied on trade among other Central Asian and EurAsEC economies.

Another rule that can undercut border trading is a ban on entry of vehicles into a country. With the notable exception of Kazakhstan—the Kyrgyz Republic, the movement of local residents’ vehicles remains a significant barrier to border trade among CAREC countries. Local people usually are not allowed to drive their own vehicles in other countries, are restricted to a few kilometers into the other country’s territory, or are burdened with unreasonable paperwork and high fees, or a combination of these restrictions. Uzbekistan imposes particularly severe restrictions on the movement of motor vehicles, with movement restrictions of a few kilometers into the country as well as heavy paperwork, high payments, and permits costing up to $40 (for Tajik cars traveling to Uzbekistan). The compulsory loading and unloading of goods is typical at some BCPs into and out of Uzbekistan.

Moreover, asymmetries are prevalent in China’s bilateral agreements favoring Chinese truck transport. For instance, Tajik traders using the Kulma Pass into China must leave their vehicles at the border and hire a Chinese taxi to go to Kashgar, but for cargo brought from China, only fully loaded, heavy trucks are allowed. The latter may be irrelevant for bazaar trade, but the requirement of being fully loaded deters border trade, because a local trader may not be able to afford to fill a whole truck. However, Chinese citizens may drive their vehicles 400 kilometers into Khorog in Tajikistan. The welfare losses for the
border Tajik population are potentially considerable, undercutting the progress achieved in reducing poverty in Gorno-Badahshan. For the last few years, the region has shown the fastest decline in extreme poverty (33 percent compared to 18 percent for the country) and the lowest inequality in the country (0.3, compared to 0.35 for the country) (Tajikistan 2006).

Opening hours of BCPs often create an irritant, if not impediment, for border trading. For instance, traders see hours of operation as the main barrier at both BCPs with China covered by the survey. The Korgos BCP between China and Kazakhstan is open only between 8:30 a.m. and 5:30 p.m. and only Monday through Friday and is closed for a three-hour break. The Irkeshtam BCP linking the Kyrgyz Republic with China is open seven days a week and for slightly longer hours (until 6:30 p.m.), but it also has at least a 1-hour lunch break. Reflecting Chinese policy, other Kazakhstan BCPs operate on a 24-hour basis—except for Jibek Joli between Kazakhstan and Uzbekistan, which is open 8:00 a.m. to 10:00 p.m. (table 2.4).

The Kulma BCP, at the Tajik border with China, is open only 15 days a month and closed from November to April. Traders incur significant costs if they do not return before the monthly closure. Asanova (2007) reports the negative impact of such restrictions. Madina Oripova, from the village of Barchid, took a bank loan of around $2,000 and set out for China on a first purchasing trip. “I bought and loaded goods, but time ran out and the border was closed. . . . My goods went unsold, and I had to go into debt to pay off the loan. If the border had been open, this definitely wouldn’t have happened.” A local businessman, Nazrisho Mironov, said, “Whenever we don’t return from China on time, our income drops drastically and we have to raise the prices of the goods we sell.”

But as long as BCPs remain accessible, even with limited opening hours, cross-border trade can take place, but it becomes impossible when BCPs are closed permanently, which also has an adverse impact on local livelihoods. Uzbekistan has unilaterally closed several BCPs with Kazakhstan, the Kyrgyz Republic, and Tajikistan in the last 15 years, especially in the Fergana Valley. In the Soviet era, more than 60 bilateral official BCPs were open between the Kyrgyz Republic and Uzbekistan; today there are fewer than 15. The Kyrgyz Republic’s Batken and Djalal-Abad oblasts also experienced several closings.

The Government of Uzbekistan also closed some bazaars located next to BCPs and forced them to move some 20 kilometers away from
the border (for example, the one near Dostuk BCP in the Fergana Valley). With restraints on movement of motor vehicles and the obstructionist attitude of road police toward vehicles with foreign registration plates, this change significantly dampened border trade and encouraged illegal trading.

Under these circumstances, it is not surprising that Uzbekistan is the only CAREC country whose value of “contiguous” (that is, bordering other CAREC countries) trade declined by more than 20 percent in the 2000s. Its share of this trade is also the lowest among Central Asian EurAsEC/CAREC economies.

These measures have curbed border trade through BCPs but have not wiped it out. The surveys for the present study identified significant shipments through BCPs of both agricultural and industrial products. However, restrictions also reportedly have led to significant smuggling between Uzbekistan and its CAREC neighbors and to illegal payments to circumvent border payments.

The surveys also showed that hundreds of people carrying goods often purchased in Karasu (the largest bazaar in the southern part of the Kyrgyz Republic, with more than 5,000 containers) illegally cross the canal separating these countries daily. Traders estimated that three-fourths of goods sold in Karasu were destined for Uzbekistan. They pointed to an estimated 200 unofficial trips occurring each day and night involving the exchange of goods through one of the busiest unofficial border-crossing points near Osh in the Kyrgyz Republic.

Intensive smuggling activities may in part explain why the officially recorded value of Uzbekistan’s imports per capita from China is extremely low compared to those of other Central Asian countries. The per capita value of Uzbek imports from China was $12 in 2006, while Kazakhstan’s was $345, the Kyrgyz Republic’s was $471, and Tajikistan’s was $52, according to data from the International Monetary Fund’s Direction of Trade Statistics database and the World Bank’s World Development Indicators database. Stores and bazaars in Uzbekistan abound with Chinese-origin consumer goods.

Conclusion

Local populations’ economic opportunities can be enhanced through special arrangements governing movement of people and goods in neighboring areas. For instance, in the Tajikistan–Uzbekistan BCPs, preferential treatment accorded to residents in contiguous regions varies from one
BCP to another, even within one borderline, restricting the distance allowed for travel into the territory of another country to the closest large city or marketplace. On Tajikistan’s northern border with Uzbekistan, local Uzbek citizens can travel up to 20 kilometers into Tajikistan (restricted to the closest city, Konibodom), and Tajik residents can travel up to 11 kilometers into Uzbekistan (to the closest market place), while in the south of Tajikistan, also on the border with Uzbekistan, the limits are 18 kilometers (to Denau in Uzbekistan) and 30 kilometers (to Regar in Tajikistan). Light vehicles are not allowed in the north but, theoretically, are allowed in the south: the matter is irrelevant due to the paperwork required. The so-called 10-day rule applies in the south (for example, once having crossed the border, one cannot cross it again for 10 days), while in the north people may cross daily.

When governments impose restrictions on the movements of individuals, vehicles, or goods or close BCPs or bazaars, they may do so on public policy grounds. Security is often cited as a factor for imposing controls, as is prevention of contraband trade. Such government-imposed obstacles are a blunt and expensive instrument to attain such public policy aims. The income and welfare costs levied on poor communities of such public policies may be disproportionate to achieve stated public policy goals. Instead, BCPs and bazaars could be opened but made subject to strict and effective policing, ideally using risk-based criteria; similarly, risk-based surveillance or vehicle searches could take the place of an outright ban. Moreover, a government may find that the security benefits of stronger community ties across borders may be considerable; after all, in conditions of growing trade that obviously contributes to the prosperity of a border community, all parties have a stake in suppressing criminal behavior and public disorder and in promoting orderly conditions that minimize the likelihood of the need for security services to intervene. Clearly, good public policy grounds exist for requiring visas from categories of foreign citizens and for stamping passports to record movement, but policy could be flexibly applied to fit the needs of small border communities that often enjoy ties of culture and ethnicity as well as the welfare benefits of trade.

A detailed treatment of visa, security policies, and the like is beyond the scope of this book, and certainly such questions are often very difficult to address. However, it is certain that the effectiveness of government-imposed obstacles can be weak (restrictions often are countered by smuggling or unofficial payments). Thus, the ultimate public policy aims of prosperity and security are perhaps best achieved through a
combination of liberal border-crossing conditions accompanied by intelligent policing and customs practices.

In summary, support for border trade is a win-win strategy for any pair of countries. Government-imposed restrictions may constrict trade and raise its cost, but they do not necessarily eliminate local trade, especially among countries with established cultural, ethnic, and economic ties, which is the case of the former Soviet republics in Central Asia. Such restrictions raise transaction costs and incentivize smuggling. They greatly reduce the beneficial impact on income and employment that can arise from border trade, leading to large welfare losses for communities. The most significant effect of growth in border trade is likely to be poverty reduction in communities in contiguous regions.

Chapter 4 provides more information from the study’s surveys and trade statistics, reporting on the first detailed study of the economic and trade effects of bazaars in Central Asia. It begins with a description of the characteristics of bazaars.

Notes

1. That governments can foster rather than hinder border trade is exemplified by the China–Kazakhstan BCP at Korgos, a model of border cooperation, discussed here.

2. Located in southeastern Almaty oblast, Panfilov district had a population of 117,500 in January 2007. Jarkent is 290 kilometers from Taldikurgan, the regional capital, and 196 kilometers from the nearest rail station.

3. Yearly value = 1,300 traders × $35.40 in daily sales × 240 trading days per year = $11.05 million. Goods value = (selling price × 50 kilograms)/120 = (85 × 50)/120 = $35.40. The market selling price for apples, the most common good imported from China by local traders, was 85 Kazakhstani tenge per kilogram in June 2007.


5. Government of Tajikistan resolution no. 347, August 2000, identifies areas along the Tajik–Uzbek border where people enjoy such preferential arrangements.

References


CHAPTER 3

Border Trade at the “Periphery”: Afghanistan’s Trade with Tajikistan and Uzbekistan

This chapter is based on World Bank surveys carried out in May 2008 (World Bank 2008) at two border-crossing points (BCPs) in Afghanistan: Hairatan, linking this country with Uzbekistan, and Sher Khan Bandar, linking it with Tajikistan. Since most Afghan trade with CAREC members other than Azerbaijan, China, and Mongolia goes through these BCPs, they provide a good vantage point to gain a better understanding of this trade and the constraints it faces. Six groups—customs officials, border guards and immigration officials, taxi and truck drivers, traders, buyers, and sellers at marketplaces—provided information through structured interviews at both BCPs.

Afghan customs and the border regime governing the movement of people, goods, and vehicles are identical at these BCPs. The differences in intensity of movement at these BCPs can be partly explained by differences in the restrictiveness of regimes in Tajikistan and Uzbekistan. The Tajik regime seems friendlier to border trade than Uzbekistan’s. The survey did not identify a single small trader at the Hairatan BCP: all traders there dealt with large-scale purchases of commodities (fuels, iron bars, and timber).

Since neither Afghanistan nor its neighbors—Tajikistan and Uzbekistan—submit trade data to the UN COMTRADE database, it is
impossible to examine their bilateral trade flows with the same level of scrutiny for other countries studied. Nonetheless, observations offer some insights into both standard trade and unrecorded trade as seen from the Afghan side. More importantly, the observations point to a significant potential for this trade, which is now suppressed by both Afghan and external trade regimes. Although Tajikistan has taken some steps toward facilitating border trade with Afghanistan, such trade has yet to become viable.

This chapter begins with general background on Afghanistan’s CAREC trade then discusses Afghan trade with other CAREC members as observed at these two BPCs. This is followed by an assessment of conditions Afghan traders face in Hairatan, then compares them with those at Sher Khan Bandar and also discusses welfare losses associated with the current regime governing flows through its respective borders. Finally, policy measures that should be taken to facilitate border trade are proposed.

**Afghanistan’s Trade with Other CAREC Members: Studies of Two BCPs**

Afghanistan shares 1,419 miles of border with three other CAREC members: China, Tajikistan, and Uzbekistan (see table 2.1). Some 1,200 kilometers (85 percent) of this border is mountainous, with undeveloped roads and no railroads, severely limiting access for trade (for example, there is no Afghan BCP with China). In addition to geographic limitations, commercial interaction is limited because of security concerns over drug trafficking; Afghanistan’s limited export products offering; and its poor infrastructure, despite recent improvements. However, northern Afghanistan is connected to the Central Asian republics through roads, bridges, and barge services.

Only 10 BCPs link Afghanistan with its CAREC neighbors: two at the border with Uzbekistan and eight with Tajikistan, of which three are open only to local traffic. BCPs that carry the bulk of both standard and border trade are Hairatan with Uzbekistan and Sher Khan Bandar with Tajikistan, which have bridges built to international seismic standards and border facilities capable of accommodating large flows of goods. Other BCPs lack the capacity to handle large commercial volumes.

Since its surge in 2003–04, Afghanistan trade with CAREC countries has been flat, with two notable exceptions: strong growth in trade with both China and Tajikistan. This increase, however, has not been large enough to offset an overall decline in the significance of CAREC trade to Afghanistan in terms of total trade (excluding Uzbekistan, since the IMF
DOTS database lacks information on this country’s direction of trade). Afghanistan’s average rate of CAREC trade growth over 2004–06 was 22 percent, significantly lower than its 31 percent growth in total trade. Consequently, CAREC countries’ share in Afghanistan’s total trade contracted from a peak of 8.3 percent in 2004, to 5.9 percent in 2005, and 6.9 percent in 2006. Two countries accounted for around 90 percent of this trade: China and Kazakhstan.

CAREC markets are more important for Afghan importers than exporters: CAREC countries’ share in Afghanistan’s total imports in 2006 was 7.3 percent, while its share in Afghan exports was 1.5 percent. The latter, a full percentage point below its peak of 2.5 percent in 2004, was 2 percent in 2005. The CAREC 7.3 percent share in total Afghan imports in 2006 was a rebound from the 6.2 percent in 2005, but still below its 2004 level of 8.9 percent.

On the import side, Afghanistan’s two major CAREC suppliers in 2006 were Kazakhstan (49 percent) and China (40 percent), with the former providing oil and the latter, manufactured goods. Despite steady and strong growth of imports from Tajikistan, its share in total Afghanistan imports contracted in 2006 (table 3.1).

Tajikistan is the major market for Afghanistan’s exports, taking in 87 percent of Tajikistan’s CAREC-oriented exports; however, overall, Tajikistan’s share of 1 percent in Afghanistan’s total foreign trade turnover is tiny. Afghanistan’s sales in Tajikistan, however, also display signs of stagnation: they more than doubled in 2004 and subsequently fizzled, as table 3.1 shows.

While disaggregated data on Afghan trade with other CAREC members are lacking, the surveys of the BCPs offer snapshots of this trade, with three sets of characteristics. First, the trade between these countries

Table 3.1  Afghanistan’s Trade with Tajikistan

<table>
<thead>
<tr>
<th>Trade type</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>LSG 2004–06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>273</td>
<td>1,455</td>
<td>3,636</td>
<td>3,091</td>
<td>3,820</td>
<td>2.5</td>
</tr>
<tr>
<td>Imports</td>
<td>6,930</td>
<td>6,380</td>
<td>8,470</td>
<td>13,310</td>
<td>16,450</td>
<td>33.2</td>
</tr>
</tbody>
</table>

Tajikistan’s share in Afghanistan total CAREC trade (%)

<table>
<thead>
<tr>
<th>Trade type</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>71.4</td>
<td>70.2</td>
<td>77.9</td>
<td>63.5</td>
<td>87.2</td>
</tr>
<tr>
<td>Imports</td>
<td>10.2</td>
<td>6.6</td>
<td>4.8</td>
<td>7.1</td>
<td>6.0</td>
</tr>
</tbody>
</table>

Source: Derived from the International Monetary Fund’s Direction of Trade database.
Note: LSG = least squares growth.
is mostly one way, with Afghanistan’s imports towering over its exports. The available aggregated data clearly corroborate this observation: although overall Afghanistan’s export coverage of imports was around 8 percent in 2004–06, it was much higher in trade with Tajikistan, where exports were around 25 percent of imports.

Second, the range of products exported from Afghanistan to Tajikistan and Uzbekistan is limited mainly to raisins. The Tajik-oriented export basket is a bit more diversified: it also includes potatoes and cement. Fuels, glass, cement, and molten-soft bars of iron are among major imports from Uzbekistan, whereas timber and fuels (liquefied petroleum gas) are the major groups of products brought from or through Tajikistan into Afghanistan.

Third, while border trading with Tajikistan and Uzbekistan is undeveloped, what trade there is takes place at the Afghanistan–Tajikistan border. About 100 people cross the Sher Khan Bandar BCP daily, more than double the number at Hairatan. Furthermore, a much larger proportion appear to be small shuttle traders. Almost everyone coming from Tajikistan goes through customs clearance, declaring transported goods exceeding the 55-kilogram threshold of items of everyday use that can be brought into Afghanistan free of border charges. At Hairatan, only about a fifth of those crossing the border from Uzbekistan declare customs. Those who do so usually represent large national joint-stock companies, known as “shirkats,” involved in standard trade and not shuttle-bazaar-type trading. On the other hand, however, large shirkats often suppress trade. Anecdotal evidence suggests they have been quite successful in establishing monopolistic positions in some markets.

In a nutshell, official bilateral trade flows between Afghanistan, on the one side, and Tajikistan and Uzbekistan, on the other, are relatively low, but the potential for this trade is significant for two reasons. First, as roads and bridges are built or rebuilt between Afghanistan and its Central Asian neighbors, these trade routes will become more accessible and attractive, making Afghanistan a hub at the center of Central and South Asia. Afghanistan will provide landlocked Central Asian countries with access to trans-Afghan transport corridors connecting to seaports in Karachi, Pakistan, and Bandar-Abbas, Iran.

In addition, cultural and ethnic bonds exist between the population of northern Afghanistan and those of Tajikistan and Uzbekistan. The Afghan population across the border is dominated by Tajiks with a significant Uzbek minority. This connection will foster border trade once friendlier border regimes are in place in these three CAREC countries.
Hairatan BCP: Untapped Potential for Cross-Border Trade

The importance of Hairatan, a BCP between Afghanistan and Uzbekistan (figure 3.1), stems from several factors. It is the only border crossing with efficient transport links with much of Central Asia and modern customs facilities. Before completion of the bridge at Sher Khan Bandar, Tajikistan, in 2007, Hairatan was the only route out of Central Asia. Because researchers for the World Bank surveys lacked access to the Uzbek side of the border, the analysis here is derived from observations made and data collected in Afghanistan. The Uzbek city of Termez, located a few kilometers from Hairatan, has railroad connections with both Dushanbe, the capital of Tajikistan, and Tashkent, the capital of Uzbekistan. The railroad is supplemented by modern border facilities. Open in 2003 and built with the assistance of the Asian Development Bank, the modern customs facility allows for close inspection of vehicles and cargo, enabling increased traffic across the border. The new customs house building at Hairatan has two ports: port 1, where boat shipments are processed, and port 2, where goods from trains are unloaded.

Hairatan is also important because it is at the intersection of two relatively well-developed, contiguous regions connected by Friendship Bridge.

**Figure 3.1 Design of Hairatan Border Facilities**

*Source*: Engr Taj Mohammad Afridi and Infra-D Consulting of Pakistan.

*Note*: Sketch is not to scale.
over the river Amu Darya. The Afghanistan–Uzbekistan bridge is the only way into Afghanistan from Uzbekistan. On the Uzbek side, the province of Surxondaryo—whose capital, Termez, has a population near 150,000—is the largest supplier in Uzbekistan of long-fiber cotton and is a site for extractive industries (petroleum, natural gas, and coal). Its agriculture is primarily livestock, cotton, and cereals, supplemented with horticulture and viticulture. It also has a well-developed transport infrastructure, with the only Central Asia river port at Termez on the Amu Darya. On the other side of the bridge is Balkh Province, with its capital, Mazar-E-Sharif, the second largest city in Afghanistan after Kabul, with about 1 million inhabitants. It is just three and half hours from Kabul, two from the Tajik border, and three from the Hairatan BCP. The local economy is dominated by agriculture, mainly wheat, rice, corn, sesame, and grass pea.

Hairatan’s location is also significant because the infrastructure that could support border trade, if the policy conditions were right for it, is already developed on the Afghan side. A bazaar about 3–4 kilometers from Hairatan on the road to Mazar-E-Sharif has about 150 stalls carrying a wide range of goods: cold drinks, biscuits, chips, gums, toffees, phone cards, soap, hand towels, fruits, vegetables, and so on. Another bazaar, the largest in the region, is Mandai in Mazar-E-Sharif, which trades mainly in consumer goods from China and Pakistan. Conspicuously absent are certain products, including agricultural produce, from across the border. Goods moving through the Hairatan BCP are mainly industrial raw materials (for example, fuels, glass, molten [soft] bars of iron), shipped to Afghanistan, and limited quantities of raisins shipped to Uzbekistan. These products are not specific to border trade, although some shipments containing rubbers, soap, and cooking oil might qualify as local trade. These were, however, rarely seen during the survey period.

Considering the relative endowments of these two neighboring, cross-river provinces, a potential for mutually advantageous economic interaction is possible. There has been very little border trading in regionally available surpluses. Relatively few people cross the border (around 60 daily both ways), and only a third do so more than once a month. Furthermore, the survey team saw none of the small shuttle traders who are usually engaged in border trade.

**Afghanistan–Tajikistan and Hairatan BCPs Compared**

The surveys found Sher Khan Bandar, located in Afghanistan’s northern Kunduz province and the main BCP linking Afghanistan with Tajikistan,
to be a lively crossing point with much more intense movement of both goods and people than Hairatan, despite the fact that Friendship Bridge was completed in July 2007, as were new customs facilities. The bridge cut the distance between Dushanbe and seaports almost in half. New hotels on either side of the border and a restaurant and gas station on the Tajik side opened even before the bridge was finished. With completion of modern border posts and customs facilities, including scanning equipment for vehicles and cargo, this BCP will have capacity to process up to 1,000 trucks a day. Border facilities were operational by the end of 2007. The bridge replaced a barge that could transport only 60 cars per day and only part of the year. Given the relatively short period between the opening of the bridge and our May 2008 survey, a significant increase in traffic across this border was expected.

Although boats remain the most favored means of crossing the border for people, accounting for about half the total crossings, the number of trucks was significantly larger than in Hairatan: 50 a day in Sher Khan Bandar as compared to two in Hairatan (table 3.2). This is still a far cry from the bridge’s capacity of 1,000 vehicles daily.

Another difference between the two BCPs is that the movement of people through Sher Khan Bandar appears to indicate more intensive border trading activities than at Hairatan. First, daily travelers number

Table 3.2 People and Vehicles through Hairatan and Sher Khan Bandar, Afghanistan

<table>
<thead>
<tr>
<th>BCP traffic</th>
<th>Hairatan</th>
<th>Sher Khan Bandar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of people crossing daily</td>
<td>60</td>
<td>100</td>
</tr>
<tr>
<td>Percentage crossing weekly</td>
<td>32</td>
<td>60</td>
</tr>
<tr>
<td>Percentage crossing monthly</td>
<td>66</td>
<td>25</td>
</tr>
<tr>
<td>Percentage crossing daily</td>
<td>2</td>
<td>15</td>
</tr>
<tr>
<td>% of people crossing the border by:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Car</td>
<td>45</td>
<td>5</td>
</tr>
<tr>
<td>Boat</td>
<td>17</td>
<td>60</td>
</tr>
<tr>
<td>Truck</td>
<td>15</td>
<td>35</td>
</tr>
<tr>
<td>Railway</td>
<td>20</td>
<td>—</td>
</tr>
<tr>
<td>On foot or bicycle</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td><strong>Daily traffic in terms of mode of transportation (no. of vehicles):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cars</td>
<td>20</td>
<td>5</td>
</tr>
<tr>
<td>Trucks</td>
<td>2</td>
<td>50</td>
</tr>
<tr>
<td>Boats</td>
<td>1–2</td>
<td>6</td>
</tr>
<tr>
<td>Railway, weekly</td>
<td>1–2</td>
<td>—</td>
</tr>
</tbody>
</table>

Source: Authors’ interviews and observations, May 2008.

Note: BCP = border-crossing point. A dash (—) indicates that the service is not available.
about 100 people crossing at the Khan Bandar each day, nearly twice as many as at Hairatan. These daily crossings suggest border business activities. Second, although around three-fourths of those crossing the border do not submit customs declarations, they all carry significant amounts of luggage. According to Afghan customs procedures, an individual may carry without customs clearance up to 55 kilograms of luggage (Tajikistan 2002). Of the 31 product groups from Afghanistan exempt from taxes and other border charges, only meat and food products are subject to delays, due to phyto-sanitary inspections. In addition, individuals can bring up to 50 kilograms of goods with a total value not exceeding $1,000 free of border charges.

Finally, about a third of products crossing the border are believed to come from local sources: either agricultural produce or locally available products. Many of these products are sold in a bazaar near a newly built customs house (figure 3.2). The main commodities crossing the border are timber and liquefied petroleum gas going into Afghanistan, and potatoes and cement going out.

Although both BCPs with their bridges provide a vital north-south link for Central Asia (to ports in Iran and Pakistan in the south) and Afghanistan (to Central Asia and Russia in the north), their impact on

Figure 3.2 Design of the Sher Khan Bandar Border Crossing Point

Source: Taj Mohammad Afridi.
Note: Sketch is not to scale.
border exchanges differs. The Sher Khan Bandar BCP appears to enjoy more border business activities than Hairatan despite a higher level of economic development in Uzbekistan’s contiguous region than in Tajikistan’s. While lack of efficient facilities to control goods traversing Hairatan may be partly to blame, policies on the other side of the border also influence border trade. From this perspective, the Tajik regime appears to be friendlier to trade, although it remains wanting on several counts. The Government of Tajikistan launched a program in 2003 to facilitate border trade with Afghanistan. The program has removed some restrictions on the movement of people and goods entering bazaars and enabled the opening of BCPs together with bazaars located within Tajik territory (World Bank 2007). These measures do not seem to have been applied on the Tajik side of the Sher Khan Bandar BCP.

**Welfare Cost of Barriers to Afghanistan’s Border Trade**

As noted, border trade hinges critically on three freedoms—the free movement of people, vehicles, and goods—plus the quality of infrastructure, including conditions at BCPs. All these conditions must be in place for border trade to flourish: for instance, visa-free entry will not fully unleash border business if people cannot move in their vehicles.

These conditions are not fully met in either the Afghanistan–Tajikistan or the Hairatan BCPs. The status of these freedoms in the BCPs follows.

**Free Movement of People**

Significant impediments prevent people from crossing at these BCPs. A valid passport with visa and identification card are required, and passports are stamped at every crossing. Rapidly filled pages discourage crossing, and visas are usually expensive (typically multiples of a local average monthly wage) and difficult to obtain due to distances. No facilitating regime exists for either frequent travelers or residents of border districts.

**Free Movement of Goods**

Free movement of goods is hampered by many restrictions, some due to regulations and others informal. Goods crossing the border into Afghanistan are mostly from Tajikistan and Uzbekistan and include fuel, liquefied petroleum gas, construction steel bars, timber, shoes, soap, glass sheets, and so on. Goods leaving Afghanistan are mostly part of the transit trade passing through Afghanistan and comprise cement, used clothing, and citrus fruits, among others. Afghan exports are mostly seasonal: raisins and potatoes.
Traders drive this trade with wholesalers intermediating between them and retailers.

Regulations are more restrictive in Uzbekistan than in Tajikistan and more relaxed for goods entering Afghanistan. Individuals going to Uzbekistan cannot bring more than $25 worth of goods from neighboring countries (Uzbekistan 2008). As noted, Tajikistan exempts 35 products brought from Afghanistan from customs duties and other taxes, whereas Afghanistan places a 55-kilogram limit on goods brought into the country by an individual. Prohibiting the entry of trucks registered across the border further raises the transaction cost by expenditures associated with off-loading and loading cargo.

Movement of Vehicles
Movement of vehicles is highly curtailed. Cars require special documentation, including a vehicle registration card and government permit. Trucks cannot cross these borders: their cargo must be off-loaded and then loaded onto importers’ trucks after a customs inspection. The process is both time-consuming and costly.

In summary, the regime governing movement of people and goods from Afghanistan are wanting on all three counts. The current regime prevents people from moving in their vehicles and erects significant barriers to the development of commercial ties between adjacent regions. The claims by customs officials and border guards at Hairatan and Sher Khan Bandar of smooth and easy passage for individuals and goods with virtually no waiting time, thanks to light traffic at the BCPs, are ill founded. Interviews with traders and taxi and truck drivers reveal very long waiting times exacerbated by off-loading and reloading of goods and other time-consuming border procedures. In addition, frequent adages further increase waiting time at both BCPs.

Infrastructure Quality
Despite significant improvements in infrastructure in recent years, problems related to an erratic energy supply persist (this is particularly acute at Hairatan) and cause significant delays. In the absence of back-up generators for powering electrical equipment at the BCP, especially cranes to discharge and load cargo on rail cars at Hairatan and trucks at Sher Khan Banda, frequent electricity outages lengthen border-crossing delays, sometimes for days.

Furthermore, taxi drivers complained of the lack of boarding and lodging facilities, especially needed when they must wait for days for offloading for inspection and reloading.
Prevalence of Bribes
The combination of restrictions cutting across the three freedoms and exacerbated by deficient infrastructure creates an environment conducive to bribe extraction. While some informal payments reduce the length of time and the cost to comply with regulations (for example, issuance of phyto-sanitary and other official certificates and permits), others amount to pure extortion. For instance, the police require a bribe to allow taxi drivers to sleep near the BCPs. Waiting times are long, averaging about 44 hours with huge variations (the lowest estimate was 16 hours and the highest, 84). Furthermore, truck drivers have to pay bribes that are assessed per truck; levels vary depending on the load. The highest bribes ("rishwat") are for cement ($250 per truck), followed by timber ($110), potatoes ($100), and liquefied petroleum gas ($90).

To the researchers, the customs officials and border guards denied any prevalence of unofficial payments; however, all other respondents pointed to systematic unofficial payments. Respondents also agreed on harassment by rent-seeking local police at the BCPs during the wait for goods to clear customs.

Effects on Border Trade Vitality
Although goods do flow through the border, these adverse conditions together bode ill for the emergence of livelihood opportunities that border trade can otherwise create because they are not favorable to the development of intensive, commercial links between bordering regions. Unsurprisingly, the research showed that few Afghans benefit from border trade livelihood opportunities by crossing the border daily to take out and bring back small quantities of goods.

The cost of these lost opportunities is significant. The experience in other countries amply demonstrates that border trade not only enhances traders’ lives and incomes, but also strengthens local production and fosters service provision (such as storage facilities, transportation, and ancillary services in local bazaars). The employment and income effects of border trade are more significant in rural areas in remote locations, such as at the Afghanistan–Tajikistan border (World Bank 2007). Hence, demand and supply of goods and services generates income and employment for people working in bazaars and for activities associated with bazaars and trade.

Some CAREC members (Kazakhstan, the Kyrgyz Republic, and Tajikistan) that are also members of the Eurasian Economic Community have largely removed barriers to border trade, for example, at the Korgos BCP. No similar progress has been achieved in other neighboring pairings,
including Afghanistan–Tajikistan and Afghanistan–Uzbekistan. Positive welfare effects for populations in contiguous regions appear to have been quite significant where barriers have been removed, including increased availability of cheaper imports for consumers on both sides of a border.

**Note**

1. However, the number of traders at these BCPs may not fully convey the intensity of commercial links. While traders initially cross the border to negotiate deals, once they establish confidence and trust with buyers/wholesalers, they have their goods delivered to the buyers/wholesalers in trucks driven by the taxi drivers.

**References**


CHAPTER 4

The Dynamism of Bazaars

Bazaars are popularly perceived to be an icon of the past that relies largely on anonymous transactions and has no place in a modern economy. On the contrary, bazaars in Central Asia have evolved into a critical underpinning of a market economy. A wide range of bazaars has emerged, many fully compatible with modern market-based transactions and employing new technologies ranging from banking services to Internet service provision. They have an edge over other logistics channels because of their infrastructure cost advantage and because they experience a better business climate than the general economy. Thanks to their stronger bargaining position with the state administration, they have been successful in negotiating exemptions from burdensome regulations shaping the cost of doing business. The firms are diverse, varying in size from running a single stand to owning multiple stands with different forms of ownership (state, private, and foreign). They provide the gamut of “procurement” and logistics services, and they trade in both domestic and imported products, mostly from other Central Asia Regional Economic Cooperation (CAREC) countries.

A quintessential market institution, the bazaar is not unique to Central Asia. Under different names and forms they can be found globally in economies at various development levels. Modern malls sprawling at the outskirts of major cities evolved from the bazaar and retain one defining
characteristic, that is, a large number of traders operating under one roof. Large bazaars in Central Asia have more in common with malls or regional logistics centers than with a traditional bazaar. The bazaars are run by a professional administration and supply a range of public services. Some have significant storage facilities, allowing for quick response to new orders. Larger ones engage in wholesale trade, feeding products to bazaars located not only within a country’s boundaries but beyond, serving as a conduit for foreign trade operations. They have Internet cafes, banking facilities, and money exchange offices, indicative of their international character. Marketplace activities held on certain days, for instance, in small towns across France are similar to many Central Asian bazaars. Both these extremes, large logistics centers and small marketplaces selling local produce, are present in contemporary Central Asia.

The importance of modern bazaars in trade activities predates the collapse of Soviet central planning in 1991–92. Faced by severe shortcomings in the Soviet supply chains, local authorities in Central Asia fostered the establishment of large bazaars in the late 1970s and early 1980s in order to make a better allocation between supply and demand of *kolkhoz* agricultural products. Bazaars started to flourish after the Soviet decision of 1982 allowed *kolkhoz* to sell 10 percent of their production to bazaars. The Osh Bazaar in Bishkek was created in 1983, as were bazaars in Kurgan, Suzan, Urgent, and Karasu in the Kyrgyz Fergana Valley. Bazaar trade began booming, however, in Central Asia only after the collapse of the Soviet state and central planning.

What makes the bazaars of Central Asia unique is not only their sheer numbers but also their dominance in the distribution of goods and their diversity in terms of size, specialization, and geographical reach. They range from small designated areas serving as a meeting place, often only during some seasons of the year, between producers and wholesalers, to very large stationary bazaars run by a professional administration and supplying a whole range of public services. Some of them are highly diversified, selling all kinds of consumer goods including durables. Others solely bring together sellers and buyers of construction materials or automobiles. Some engage in wholesale trade, feeding products to bazaars located not only within a country’s boundaries but beyond. They bring together local and foreign residents, serving as a conduit for foreign trade operations. Some trade almost exclusively in domestic products, others sell imported products.

Bazaars play an important role in the foreign trade of Central Asian economies, which occurs through three channels: standard trade (such as
bulk products of oil, gas, metals, equipment, and machinery), large-bazaar trade, and border trade. Except for the standard channel, bazaars are a major carrier for the remaining two channels, creating the effect of “borderless” bazaars. While these channels are seen in several developing countries, relatively large border trade and significant trade flows intermediated by bazaars appear to be unique to CAREC countries.

Measuring large-bazaar and border trade is difficult. Standard trade data are captured in foreign trade statistics, but trade flowing through the other channels often goes unreported. As the purpose of the surveys was to measure border trade, the researchers estimated bazaar income effects, which include logistics support—trucking, warehousing, leasing of sales outlets—and the imports of consumer products from outside those economies. Transport logistics rely mainly on trucks, which complement those of the standard trade channel, which in Central Asia mainly relies on railroads.

From the air, bazaars appear to comprise independent clusters of business activity, but a closer look shows a different picture. Bazaars are in fact nodes in a network selling products to both final consumers and traders. Large bazaars in particular attract two types of buyers: “end-users,” people who shop for their own use, and “shuttle traders,” people who buy goods either to transport and resell them or to refashion them to add value. Refashioning is exemplified by shuttle traders who buy fabric to have it made into garments, sometimes for resale at the same or another—perhaps distant or border—bazaar. Whether transporting and reselling or refashioning the goods they purchase, traders add value and hence profitability by availing opportunities relating to supply and demand, refashioning, or both.

This movement of goods means bazaars are not independent business centers but rather interdependent centers reaching out to each other in hundreds of thousands of efforts to avail profit opportunities. Picture a huge overlay on a map of Central Asia of dozens of hubs and hundreds of spokes, with a large international bazaar at each hub and smaller bazaars along the spokes. Some spokes end at local or city bazaars in small communities: these bazaars serve only end-users. Other spokes cross borders and continue from there. This pattern extends back hundreds of years and was revitalized during the Soviet period.

Traders share the common experience of hard work, risk, and loss, as well as, in most cases, making a decent living. As will be shown in this chapter, some of these traders are impeded at border crossings while others are not, such as those using the Korgos BCP described in chapter 2.
Many other BCPs impose onerous restrictions on traders at border crossings, often in the name of security. The theory posited here is that security is possible amid easier crossings.

**Survey Methodology: Sample and Method**

Surveys were conducted in 2008 in bazaars in three CAREC member states—Kazakhstan, the Kyrgyz Republic, and Tajikistan (Uzbekistan declined to participate).\(^2\) The objective was to better understand the bazaars’ mode of governance and the functions they perform in those economies, as well as to broadly assess the scope of trade intermediated by the bazaars. The surveys were not designed with a sole purpose of generating estimates of re-export activities intermediated by bazaars, although they offer some insights into how to achieve this goal.

Two criteria were used to identify bazaars to be covered by the surveys. First, the sample should include the largest bazaars in each Central Asian country. These bazaars act as hubs, providing products not only to the local population, but also to other bazaars often located across borders. Second, the sample should include at least one bazaar representing each of the major categories of bazaars. Since bazaars form hierarchical “hub-and-spokes,” concentric networks in terms of supply links and clientele served—with some hubs reaching throughout Central Asia and local stationary bazaars extending to mini-local communities—the survey design distinguishes three categories of bazaars: (1) big international hub-type bazaars, (2) countrywide hub bazaars, and (3) local stationary bazaars, including those in cities. Border bazaars were excluded, simply because they were examined in our earlier study (World Bank 2007), discussed in chapter 2.

Fourteen bazaars were surveyed: six in Kazakhstan, three in the Kyrgyz Republic, and five in Tajikistan. International bazaars happen to be also the largest bazaars in three respective countries (table 4.1). Two international bazaars were included in the Kyrgyz Republic because they are large and serve as re-export platforms to bazaars in neighboring Central Asian countries and southern parts of the Russian Federation. Other large bazaars in Kazakhstan and Tajikistan have only countrywide range. To better understand how the bazaars function, those specializing in agricultural products were also included in the sample.

Representatives of each bazaar’s administration (if there was one) and traders were interviewed using an interactive, semistructured format survey form. Since the sample of traders interviewed was small because of
time and funding limits, an effort was made to include representatives of different groups of traders, distinguished by type of sales outlet (stand, container, and shop) and specialization (shoes, clothing, and so on). In addition, the teams collected general information about each bazaar, including number of sales outlets and staff in each, warehousing capacities, logistics (transportation and bus terminal), kind of auxiliary services available at the bazaar, and forms of ownership and governance. Major information sought included various sales data to generate rough estimates of sales, sources of supply (local products versus imports including their origins), retail versus wholesale sales, and destination of sales, that is, local versus foreign.

Given the difficulties in obtaining direct information about sales revenues, the emphasis in the interviews was on obtaining relatively easy to check data needed for estimating the total fixed cost of running each type of a sales outlet, including fixed informal payments, if such payments occur, bazaar fees, taxes, electricity, and so on. This approach was intended to reproduce a break-even point of sales, that is, the level of sales that a trader regards as a minimum to cover fixed and variable costs. (See appendix for the method used to generate estimates of sales turnover.)³

Table 4.2 presents calculations based on information obtained for Kazakhstan’s Barakholka bazaar; similar calculations were done for all surveyed bazaars.

### Bazaar Characteristics

The survey results provide strong empirical support for depicting bazaars as operating in vast networks that form a hub-and-spokes pattern. Each bazaar within such a network contributes to the huge diversity among

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3. See appendix for the method used to generate estimates of sales turnover.

---

<table>
<thead>
<tr>
<th>Bazaar type</th>
<th>Kazakhstan</th>
<th>Kyrgyz Republic</th>
<th>Tajikistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>International</td>
<td>Barakholka (Almaty)</td>
<td>Dordoi (Bishkek)</td>
<td>Korvon (Dushanbe)</td>
</tr>
<tr>
<td></td>
<td>Karasu (Osh)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Countrywide/</td>
<td>Altyn Orda (Almaty)</td>
<td>Madina (Bishkek)</td>
<td>Istravshan (Uratube)</td>
</tr>
<tr>
<td>regional</td>
<td>Shanghai (Astana)</td>
<td></td>
<td>Sulton-Kabir (Dushanbe)</td>
</tr>
<tr>
<td>City/local</td>
<td>Artem (Astana)</td>
<td></td>
<td>Panjshanbe³ (Khujand)</td>
</tr>
<tr>
<td></td>
<td>Karkara (Almaty)</td>
<td></td>
<td>Sahovat³ (Dushanbe)</td>
</tr>
<tr>
<td></td>
<td>Sary-Arka³ (Almaty)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Bazaar trading almost exclusively in agricultural products.
Table 4.2  Barakholka, Kazakhstan, Bazaar Monthly Sales and Cost Estimates per Sales Outlet and Total ($ except as noted)

<table>
<thead>
<tr>
<th>Cost type</th>
<th>Shop</th>
<th>Container</th>
<th>Stand</th>
<th>Total or weighted average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed cost (total)</td>
<td>4,629</td>
<td>2,200</td>
<td>617</td>
<td>2,263</td>
</tr>
<tr>
<td>Rent/lease of a sales outlet</td>
<td>1,200</td>
<td>450</td>
<td>200</td>
<td>478</td>
</tr>
<tr>
<td>Market fee and other fixed charges</td>
<td>679</td>
<td>350</td>
<td>117</td>
<td>358</td>
</tr>
<tr>
<td>including taxes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other informal payments</td>
<td>2,000</td>
<td>1,000</td>
<td>100</td>
<td>1,017</td>
</tr>
<tr>
<td>Wage bill (salary multiplied by</td>
<td>750</td>
<td>400</td>
<td>200</td>
<td>410</td>
</tr>
<tr>
<td>employment)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monthly salary</td>
<td>300</td>
<td>200</td>
<td>200</td>
<td></td>
</tr>
<tr>
<td>Number employed</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Sales (20% above minimum)</td>
<td>28,724</td>
<td>13,260</td>
<td>3,401</td>
<td>45,385</td>
</tr>
<tr>
<td>Minimum value of sales to stay in</td>
<td>23,937</td>
<td>11,050</td>
<td>2,834</td>
<td>11,391</td>
</tr>
<tr>
<td>business</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total variable cost at a break-even</td>
<td>19,308</td>
<td>8,850</td>
<td>2,217</td>
<td>9,128</td>
</tr>
<tr>
<td>point</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Implied sales margin (% sales price</td>
<td>24</td>
<td>25</td>
<td>28</td>
<td>25</td>
</tr>
<tr>
<td>above purchase)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Memorandum: (total monthly)**

| Number of sales outlets | 774  | 14,103 | 573  | 15,450 |
| Total employment        | 1,935| 28,206 | 573  | 30,714 |
| Total value of sales intermediated through bazaars based on minimum sales ($ thousands) | 18,527 | 155,838 | 1,624 | 175,989 |
| Total value of sales intermediated through bazaars based on actual sales ($ thousands) | 22,233 | 187,006 | 1,949 | 211,187 |
| Total value of sales at net profit rate of 5% | 21,149 | 178,072 | 1,862 | 201,083 |
| Fixed cost in % of break-even sales | 19.3 | 19.9 | 21.8 | 19.9 |
| Actual sales over break-even sales | 0.20 | 0.20 | 0.20 | 2.98 |
| Profit rate for actual sales (%) | 13.4 | 13.3 | 13.0 | 13.4 |
| Total fixed cost ($ thousands)      | 3,583 | 31,027 | 354  | 34,963 |
| of which labor                      | 581   | 5,641   | 115  | 6,336 |
| Bazaar fees                         | 2,074 | 19,039  | 124  | 6,336 |
| of which informal payments          | 1,548 | 14,103  | 57   | 15,708 |
| Lease or lease equivalent           | 929   | 6,346   | 115  | 7,390 |

**Source:** World Bank 2008 survey results.

**Note:** Weighted average was calculated using the shares of the type of sales outlets in totals whenever appropriate.
bazaars in terms of size, geographical reach, goods traded, and governance. International and national/regional bazaars are the nodes or hubs in networks covering Central Asia. The spokes penetrate regions and extend to small communities. Bazaars’ sources of supply are diverse, including domestic products supplied directly by their producers to local bazaars and then shipped or exported to other bazaars. The latter often flow through small border bazaars fed by border trade or directly to international hub or regional bazaars, from which they are further distributed either to end-users or shuttle traders who carry them to other bazaars, including international hub bazaars.

**Bazaar Categories**

Hub functions overlap across the different bazaar categories, as the networks have no clearly delineated origin or end points in terms of products flowing through them. City bazaars are not necessarily the end of a spoke: another bazaar could be further down the spoke. The relatively high share of wholesales in the total sales of some city bazaars suggests that no hierarchy is implicit in the taxonomy of bazaars in terms of product flows; that is, the presence of wholesales indicates either the use of products for further processing or for resale at a different location. Shuttle traders purchase from wholesalers and move products to other locations, mostly smaller bazaars or shops in the same city. International hub bazaars feature both retail sales to end users and wholesale trades that will then supply bazaars in other Central Asian countries and Russia.

While other bazaars, especially those that are a conduit for border trade, supply foreign clients, international hub bazaars are much larger and have a wider geographical reach. Shuttle traders link them with a wide array of other bazaars, including other international hub bazaars. International bazaars are limited in number: the four focal countries have four, all surveyed for this study. These bazaars are mainly wholesale, with sales running easily into hundreds of millions of dollars monthly. They offer a wide range of products and often act as platforms for re-export and for exports of domestic products. They have large infrastructures, including facilities for public transport, hotels, saunas, canteens, warehouses, and bus terminals. In addition to local customers, traders from smaller bazaars located both within a state’s boundaries as well as those from abroad shop in international bazaars.

National and regional bazaars feed off the big hubs, although not exclusively (see box 4.1). They tend to be smaller than international hub bazaars, mainly targeting a large part of one country. Some of these bazaars
offer a broad range of products: automotive components, electrical equipment, sanitary equipment, construction materials, paints, household goods, clothing, and agricultural products. Others specialize in a group of products: for instance, Madina in Bishkek, the Kyrgyz Republic, specializes in fabrics and locally made clothing. While they mainly have a local reach, these bazaars also supply wholesalers and traders serving local bazaars. Some of them mainly offer direct imports from China, Iran, Turkey, and Uzbekistan, while others offer re-exported products from international sources. These bazaars have a well-developed network and infrastructure.

Bazaars in different categories vary significantly, and each category also has some variation, depending on the dimension considered. Notwithstanding individual differences, Dordoi in the Kyrgyz Republic towers above them all on all counts. It has more than twice the total number of sales outlets than the second largest international bazaar at Barakholka. Its estimated sales are 64 percent larger than those of Barakholka and 67 percent larger than those at all other surveyed bazaars combined. Its employment is almost equal to that of all the others, excluding Barakholka. Korvon is the smallest among international hub bazaars.

Bazaars belonging to non-international categories are more homogeneous except in one regard. City/local bazaars have significantly less direct employment and fewer sales outlets, with the exceptions of the

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**Box 4.1**

**Linkages between International and City Bazaars**

Sources of supplies for Karasu’s international bazaar in the Kyrgyz Republic illustrate the linkages connecting international and city bazaars. Surveyors interviewed owners of warehouses and containers there. These owners also lease sales outlets and sell goods to small-scale entrepreneurs. Their main business operation is wholesale to traders who sell at other bazaars. They said that about 10 percent of their goods are brought from Dordoi and Madina, both in Bishkek in the Kyrgyz Republic. From Dordoi come jeans, men’s suits, and women’s clothes (all produced locally or in China), children’s clothes (from China), detergents, food products, flour and flour products, dairy products, confectionery, tobacco, and other products. Supplies from Madina are textiles, although high transportation costs keep fabric supplies low. Only a small fraction of products traded in Karasu is consumed locally; around 90 percent move to Tajikistan and Uzbekistan.

*Source:* Authors.
Artem marketplace in Astana, Kazakhstan, and Panjshanbe in Khujand, Tajikistan.

**Bazaar Sizes**

Bazaars range in size from small, designated areas serving as a meeting place for producers and wholesalers to very large permanent bazaars, more accurately termed “malls,” which are run by professional administrations and supply a wide range of public services. Small bazaars are often open only during certain seasons. Large ones can be highly diversified, selling all kinds of consumer goods including durables. Others specialize, bringing together buyers and sellers solely of construction materials or automobiles or trading almost exclusively in domestic or imported products. Those that engage in wholesale trade, supplying bazaars located not only within a country but beyond, bring together local and foreign residents and serve as a conduit for foreign trade operations.

The differences in the sizes of surveyed bazaars are readily visible, with strong demarcation lines between them. Table 4.3 shows that the average values of each characteristic for each category are generally far apart, falling dramatically as one moves down the hierarchical ladder. Values are generally larger for international bazaars than for national/regional bazaars, which, in turn, are larger than those for city bazaars. For instance, the average employment of international bazaars, ranging from 14,000 to 55,000 people, is almost eight times that of regional bazaars, which is more than twice that of city/local bazaars. Similarly large differences in other characteristics separate categories of bazaars, albeit with some variation.

Overall, bazaars in Kazakhstan and the Kyrgyz Republic are larger than those in Tajikistan, even for those falling into the higher layers of the bazaar hierarchy. For instance, estimated monthly trade in the city bazaars of Madina and Shanghai, each around $24 million monthly, are 20 percent higher than that of Korvon in Dushanbe, Tajikistan, an international bazaar. These differences reflect much higher levels of gross domestic product (GDP) per capita in Kazakhstan than in the other economies. Local demand for fabrics of the buoyant, export-oriented, Kyrgyz garment industry in and around Bishkek explains high sales by the Madina bazaar, whereas both Dordoi and Karasu depend heavily on sales to foreign clients.

International hub bazaars, as well as some regional and city bazaars, are complex business operations often with significant presence of foreign capital. Their annual trade runs in millions of dollars, with the largest registering sales in the hundreds of millions. Some comprise loosely knitted
Table 4.3  Selected Income-Related Characteristics of Surveyed Bazaars, 2008

<table>
<thead>
<tr>
<th>Category and bazaar (city, oblast, or region)</th>
<th>Number of sales outlets</th>
<th>Break-even Estimated (monthly sales, $ millions)</th>
<th>Share of wholesale in total sales (%)</th>
<th>Employment (thousands)</th>
<th>Share in local employment (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>International</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Barakholka (Almaty, KAZ)</td>
<td>15,450</td>
<td>176</td>
<td>211</td>
<td>60</td>
<td>39.9</td>
</tr>
<tr>
<td>Dordoi (Bishkek, KGZ)</td>
<td>40,300</td>
<td>301</td>
<td>331</td>
<td>80</td>
<td>54.6</td>
</tr>
<tr>
<td>Karasu (Osh, KGZ)</td>
<td>10,200</td>
<td>58</td>
<td>94</td>
<td>80</td>
<td>16.3</td>
</tr>
<tr>
<td>Korvon (Dushanbe, TJK)</td>
<td>5,430</td>
<td>5</td>
<td>19</td>
<td>30</td>
<td>14.1</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>17,845</td>
<td>135</td>
<td>164</td>
<td>63</td>
<td>31.2</td>
</tr>
<tr>
<td><strong>National/regional</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alty Orda (Almaty, KAZ)</td>
<td>3,181</td>
<td>7.7</td>
<td>14.3</td>
<td>70</td>
<td>8.2</td>
</tr>
<tr>
<td>Istravshan (Uratube, TJK)</td>
<td>2,500</td>
<td>4.2</td>
<td>9.4</td>
<td>40</td>
<td>7.0</td>
</tr>
<tr>
<td>Madina (Bishkek, KGZ)</td>
<td>1,030</td>
<td>2.9</td>
<td>24.2</td>
<td>80</td>
<td>1.8</td>
</tr>
<tr>
<td>Shanghai (Astana, KAZ)</td>
<td>3,127</td>
<td>9.4</td>
<td>22.9</td>
<td>25</td>
<td>4.8</td>
</tr>
<tr>
<td>Sulton-Kabir (Dushanbe, TJK)</td>
<td>1,327</td>
<td>2.6</td>
<td>13.2</td>
<td>30</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>2,233</td>
<td>5.4</td>
<td>16.8</td>
<td>49</td>
<td>4.4</td>
</tr>
<tr>
<td><strong>City/local</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Artem (Astana, KAZ)</td>
<td>1,750</td>
<td>12.3</td>
<td>15.1</td>
<td>10</td>
<td>2.6</td>
</tr>
<tr>
<td>Karkara (Almaty, KAZ)</td>
<td>624</td>
<td>3.1</td>
<td>4.4</td>
<td>0</td>
<td>0.9</td>
</tr>
<tr>
<td>Panjshanbe a (Khujand, TJK)</td>
<td>1,300</td>
<td>1.6</td>
<td>2.6</td>
<td>80</td>
<td>2.9</td>
</tr>
<tr>
<td>Sahovat b (Dushanbe, TJK)</td>
<td>700</td>
<td>0.8</td>
<td>1.2</td>
<td>30</td>
<td>1.1</td>
</tr>
<tr>
<td>Sary-Arka a (Almaty, KAZ)</td>
<td>282</td>
<td>1.2</td>
<td>2.2</td>
<td>0</td>
<td>0.4</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>931</td>
<td>3.8</td>
<td>5.1</td>
<td>24</td>
<td>1.6</td>
</tr>
<tr>
<td><strong>Grand total</strong></td>
<td>87,201</td>
<td>585.1</td>
<td>764.3</td>
<td>69</td>
<td>154.6</td>
</tr>
</tbody>
</table>

*Source:* Authors, based on 2008 surveys.
*Note:* KAZ = Kazakhstan, KGZ = the Kyrgyz Republic, TJK = Tajikistan. n.a. = not applicable.
a. denotes agricultural bazaar.
smaller bazaars with different ownership and operating procedures. Barakholka, for instance, comprises 28 adjacent bazaars, often sharing common infrastructure and warehousing facilities in nearby areas. Karasu bazaar in the Kyrgyz Republic is a complex of two bazaars: the Turatali market, owned by the state, and privately owned Karasu bazaar. Dordoi has five autonomously and privately owned areas. Whatever the physical differences, they all have warehousing capacities that make them large distribution centers offering a wide variety of products.

Bazaars offer opportunities for marketing both imported and domestically produced goods. Imports originate not only outside Central Asia but also in neighboring Central Asian countries. The bulk of exports comprises agricultural products; miscellaneous manufactures, including Kyrgyz garments (discussed below); and construction materials and chemicals mainly from Uzbekistan. For many agricultural producers, bazaars ensure a vital link to consumers in remotely located domestic markets.

Two Kyrgyz international bazaars, Dordoi and Karasu, are the major hubs connecting networks of bazaars across Central Asia. Their aggregate share in total foreign sales was 96 percent from among surveyed bazaars. Although foreign sales account for almost half of total sales of surveyed bazaars, most of them serve domestic markets, accounting for 96 percent of total bazaar sales in both Kazakhstan and Tajikistan. Non-residents purchase a large portion at only two surveyed bazaars: Dordoi and Karasu in the Kyrgyz Republic on the border with Kazakhstan and Uzbekistan, respectively. Non-residents absorb 75 percent and 85 percent, respectively, of these bazaars’ total sales. Including Madina, around three-quarters of surveyed Kyrgyz bazaars’ total sales are to foreigners; that is, only 25 percent of goods sold in these bazaars is consumed locally compared to 96 percent of aggregate sales of surveyed bazaars in Kazakhstan, the Kyrgyz Republic, and Tajikistan. The share of foreign sales of the two other surveyed international hubs, Barakholka and Korvon, of 4 and 2 percent, respectively, is miniscule and less than the share in sales of a surveyed national bazaar, Madina in the Kyrgyz Republic, and a local one, Panjshanbe, in Khujand, Tajikistan.

Although the surveys do not provide detailed information on geographical patterns of foreign sales, they do allow identifying general directions. The Dordoi bazaar reaches bazaars across Kazakhstan, Tajikistan, Uzbekistan, and southern parts of Russia. Dordoi supplied survey respondents from other international bazaars as well as large city bazaars. In contrast, Karasu supplies mainly Uzbekistan. Its geographic profile is highly concentrated, with Uzbekistan taking around
65–75 percent of all sales. Tajikistan takes 10–15 percent, and the Kyrgyz Republic’s southern regions (Osh, Jalal-Abad, also known as Jalalabat, and Batken) take the balance.

As for other border linkages, the volumes of foreign trade are low compared to the Kyrgyz international bazaars, but they also reach other Central Asian countries and Russia. Foreign customers of the Barakholka bazaar, purchasing around $70 million worth of goods, come from Russia, Tajikistan, and Uzbekistan. Residents of the Kyrgyz Republic are reported to be major buyers in the Panjshanbe bazaar, and traders from Kazakhstan reportedly account for the bulk of foreign sales of fabrics from China and locally produced garments at the Madina bazaar.

Ownership and Leasing Practices
Forms of ownership, foreign presence, and trading practices vary across the surveyed bazaars. Some are characterized by a huge dispersion in ownership of sales outlets, almost with each outlet owned by a different individual, although signs of concentration were observed, for instance, in the Karasu bazaar. State ownership of a bazaar is quite pervasive in Tajikistan, whereas in Kazakhstan all bazaars are private, with the land owned by the state and leased to private bazaar operators for several decades. They pay a land tax at rates 10 times that for other types of activity. In the Kyrgyz Republic, most bazaars have been privatized. Among surveyed bazaars there, the only exception is a relatively small part of the Karasu complex, the Turatali market. The Karasu bazaar, built between 1984 and 1987 and expanded in 2000–05, was fully owned by a state-owned company, Turatali Bazaars, until privatization in 2000–05. The company still owns land that accounts for 28 percent of the total area of the Karasu complex.

Lease of a sales outlet was the dominant mode in the studied bazaars, whereas ownership dominates in other bazaars with no clear pattern. Chinese patrons, as well as nationals from neighboring Central Asian countries, were seen in a number of surveyed bazaars. In Tajik bazaars, most big wholesalers are Chinese citizens. Similarly, a large number of warehouses in Karasu that are owned by Kyrgyz citizens are leased to Chinese nationals (about 70 percent) and Uzbeks from Tashkent (15 percent). The remaining warehouses are run by Kyrgyz citizens (15 percent). Interestingly, those who run warehouses hire traders on a commission basis. Thus, they make arrangements for imports and assume the risk associated with their sales. Among commissioned sellers, about half have
double citizenship, Kyrgyz and Uzbek, and approximately 10 percent are citizens of China. Furthermore, the Madina bazaar in the Kyrgyz Republic, a major distributor of fabrics from China, is in fact an enterprise owned jointly by Kyrgyz and Chinese entrepreneurs.

**Employment and Income-Generating Effects of Bazaars**

Bazaars play an important role in large-bazaar and border trade, especially among Central Asian former Soviet republics, as well as China and some non-CAREC economies (Iran, Russia, and Turkey). The World Bank study *Border Trade within the Central Asia Regional Economic Cooperation* (World Bank 2007) points to bazaars as a major conduit of this trade; in fact, the forcible closing or relocation of these bazaars has tended to encourage smuggling and depress border trade. Another World Bank study shows empirically the role of Kyrgyz bazaars in redistributing imported products, mainly from China, across Central Asia and southern parts of Russia (Kaminski 2008).

This section presents information and statistics relating to bazaars’ income-generating activities and seeks to describe the role bazaars play in supporting economic growth. It provides sales estimates at bazaars and foreign trade flows intermediated by bazaars, estimates that confirm each other and that are intertwined as the results of the latter provide benchmarks for the former and vice versa.

**Employment**

Bazaars are the major source of income in a number of Central Asian communities. The share of employment by international bazaars in total employment in the respective regions exceeds 5 percent. The exception is the Karasu bazaar near Osh in the Kyrgyz Republic, although the reporting that generates Karasu’s share may be misleading, as the total employment refers to the entire Osh oblast. (If the Karasu population, around 50,000, alone is taken as the denominator, then employment in the Karasu bazaar would amount to 30 percent, or 15,000. According to the regional administration and the statistical agency, trading activities employ about 80 percent of the working-age population in Karasu city.) The share of employment is particularly high for Dordoi in Bishkek in the Kyrgyz Republic (8 percent) and Korvon in Dushanbe in Tajikistan (7 percent). As for other bazaars, Istravshan in Uratube, Tajikistan, stands out with a share of almost 9 percent. The numbers are more impressive
if totals for bazaars surveyed in a given region are taken into account: for
the Bishkek-located bazaars, it goes up to 8.1 percent; for Dushanbe
7.7 percent; for Almaty 6.6 percent; and Astana 2.7 percent.

It should be noted that bazaars create significant employment oppor-
tunities for women. Between 70 and 80 percent of vendors in surveyed
bazaars were women. Women are also highly visible in shuttle trading,
accounting for around half of shuttle traders across surveyed bazaars.
They dominate trade in vegetables, dairy products, eggs, curtains, and
kitchenware.

Since also employed or generating incomes are owners, administrative
staff, and providers of services supplied within the bazaar, employment
effects go beyond traders at a bazaar. Bazaars also induce indirect employ-
ment for freight and transportation services, which serve other bazaars and
suppliers of products traded, as well as for storage facilities outside the
bazaar boundaries. It is difficult to estimate how many make their living
through shuttle trading, producing goods marketed at bazaars, and other
activities supporting a bazaar, but the numbers appear to be quite high.

While indirect employment was not estimated in the study, that is,
employment induced by a bazaar, it is evident that the number so
employed exceed several times that of direct employment. For instance,
different Kazakhstani sources put total employment directly and indi-
rectly attributed to the Barakholka bazaar at around 250,000 people: five
times that of aggregate employment at sales outlets and bazaar adminis-
tration. Kazakhstan’s statistics agency estimates that 337,000 people in
the Almaty region are self-employed, with a large portion involved in
businesses that are in some way related to the Barakholka complex.

Another indication of significant levels of induced employment and
income effects is a relatively high level of wholesale sales in bazaar sales,
indicating resale or further processing. This share ranges for international
bazaars from 30 percent at Korvon in Dushanbe to 80 percent at Dordoi
in Bishkek and Karasu in Osh. Wholesale’s share in total sales is also high
for some bazaars in the two other categories: 70 percent of sales at Altyn
Odra bazaar in Almaty, Kazakhstan, and 80 percent in Madina bazaar in
Bishkek, the Kyrgyz Republic (both regional) and 80 percent in
Panjshanbe, a city bazaar in Khujand, Tajikistan (see table 4.3).

The surveys documented monthly sales during the summer, then the
researchers converted monthly values to annual values, estimating lower
numbers for less-prosperous months outside the summer peak. So instead
of multiplying the monthly values by 12, they used 9 for non-agricultural
bazaars and 6 for agricultural bazaars. They also adjusted the percentage
of peak sales, based on interviews with traders, to account for less-robust sales during off-peak months. For non-agricultural bazaars, they calculated for 3 peak months, 6 months of fair sales at 25 percent below the peak level, and 3 slump months at 50 percent of peak. For agricultural bazaars, they used 3 peak months and 6 months at 50 percent of the peak level.

Overall, wholesale accounts for almost 70 percent of total sales of surveyed bazaars. During peak months of bazaar activities, around $500 million worth of products was sold monthly for further processing or resale in other bazaars. Assuming that wholesale purchases generate a modest margin of 5 percent, this would amount to extra income during peak months in the summer of around $6 million for customers of surveyed bazaars in Kazakhstan, $16 million for those in the Kyrgyz Republic, and $5 million for those in Tajikistan. Job-equivalents of these earnings can be calculated using average wages of people employed in surveyed bazaars: for Kazakhstan (average monthly wage of $350 per month), $6 million is equivalent to 7,000 jobs; for the Kyrgyz Republic (average monthly wage of $190), $16 million is equivalent to 84,000 jobs; and in Tajikistan, $5 million is equivalent to around 143,000 jobs at a wage of $120 per month. Hence, one bazaar job in Kazakhstan would create a third of a job outside the bazaar; in the Kyrgyz Republic, it would add 1.2 jobs; and in Tajikistan 1.6 jobs. These estimates must be considered with caution, especially since the surveys took place in peak summer months.

It is interesting to compare these estimates with those of traders surveyed at the Korgos bazaar, located near the Kazakhstan–China border, with its trade-friendly border-crossing regime. Those traders estimated that they each supported an additional one or two persons.

Another source of employment related to bazaars is transportation services. Bus terminals, regularly seen at several international hub bazaars, contribute significantly to employment as part of bazaar trade. For instance, more than two hundred 40-seat motor coaches provide daily services to customers visiting Barakholka, the site of 28 independently run bazaars in Almaty, and 250 such buses frequent Dordoi. Sixty 40-seat buses service the Karasu bazaar complex each day. The large number of trucks loaded with goods departing daily from these locations suggests large purchases by visitors for resale in other bazaars.

Revenues

Bazaars generate significant revenues to owners of bazaars and sales outlets. Collected information enables rough estimates of the incomes of
traders and sales outlet owners and the revenues from bazaars of local governments per year. The researchers again used the peak and off-peak scheme described above for these conversions. These estimates can be derived from data collected in surveys that were used to estimate a total fixed cost of running a sales outlet. The major components of total fixed costs include all payments made to the bazaar administration and other state authorities; wages paid to vendors or, alternatively, if the outlet is run by the owner, wages earned by a vendor working in a similar business (“labor-related outlays” in table 4.4); a lease or its equivalent if an outlet is not rented or leased (“lease or equivalent”); and payments to local state authorities (“official” and “informal” bazaar fees).

### Table 4.4 Estimates of Annualized Fixed Costs at Surveyed Bazaars, 2008 ($ millions)

<table>
<thead>
<tr>
<th></th>
<th>Total fixed cost</th>
<th>Labor-related outlays</th>
<th>Lease or equivalent</th>
<th>Official bazaar fees</th>
<th>Informal bazaar fees</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>International</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Barakholka (Almaty, KAZ)</td>
<td>314.7</td>
<td>57.0</td>
<td>66.5</td>
<td>49.8</td>
<td>141.4</td>
</tr>
<tr>
<td>Dordoi (Bishkek, KGZ)</td>
<td>855.7</td>
<td>252.6</td>
<td>540.4</td>
<td>62.7</td>
<td>0.0</td>
</tr>
<tr>
<td>Karasu (Osh, KGZ)</td>
<td>123.9</td>
<td>44.4</td>
<td>35.2</td>
<td>31.7</td>
<td>44.3</td>
</tr>
<tr>
<td>Korvon (Dushanbe, TJK)</td>
<td>20.6</td>
<td>7.3</td>
<td>3.9</td>
<td>1.9</td>
<td>7.5</td>
</tr>
<tr>
<td><strong>National/regional</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alty Orda (Almaty, KAZ)</td>
<td>29.5</td>
<td>19.3</td>
<td>5.8</td>
<td>4.4</td>
<td>0.0</td>
</tr>
<tr>
<td>Istravshan (Uratube, TJK)</td>
<td>4.0</td>
<td>2.7</td>
<td>0.3</td>
<td>1.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Madina (Bishkek, KGZ)</td>
<td>7.4</td>
<td>3.4</td>
<td>2.0</td>
<td>1.3</td>
<td>0.6</td>
</tr>
<tr>
<td>Shanghai (Astana, KAZ)</td>
<td>31.5</td>
<td>23.7</td>
<td>7.6</td>
<td>0.2</td>
<td>0.0</td>
</tr>
<tr>
<td>Sultoni-Kabir (Dushanbe, TJK)</td>
<td>5.2</td>
<td>1.8</td>
<td>0.3</td>
<td>0.9</td>
<td>2.1</td>
</tr>
<tr>
<td><strong>City/local</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Artem (Astana, KAZ)</td>
<td>54.2</td>
<td>16.8</td>
<td>21.7</td>
<td>15.8</td>
<td>0.0</td>
</tr>
<tr>
<td>Karkara (Almaty, KAZ)</td>
<td>10.1</td>
<td>4.7</td>
<td>5.4</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Panjshanbe² (Khujand, TJK)</td>
<td>3.2</td>
<td>1.7</td>
<td>1.2</td>
<td>0.3</td>
<td>0.0</td>
</tr>
<tr>
<td>Sahovata² (Dushanbe, TJK)</td>
<td>0.9</td>
<td>0.4</td>
<td>0.4</td>
<td>0.2</td>
<td>0.0</td>
</tr>
<tr>
<td>Sary-Arka³ (Almaty, KAZ)</td>
<td>2.6</td>
<td>1.4</td>
<td>0.6</td>
<td>0.6</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td>1,463</td>
<td>437</td>
<td>691</td>
<td>171</td>
<td>196</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>442</td>
<td>123</td>
<td>107</td>
<td>71</td>
<td>141</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>987</td>
<td>300</td>
<td>578</td>
<td>96</td>
<td>45</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>34</td>
<td>14</td>
<td>6</td>
<td>4</td>
<td>10</td>
</tr>
</tbody>
</table>

**Source:** Authors, based on 2008 surveys.

**Note:** KAZ = Kazakhstan, KGZ = the Kyrgyz Republic, TJK = Tajikistan.

² Denotes agricultural bazaar.
While data to estimate flows of collected tax revenues by local and central governments were lacking, tax codes appear to be complex and the rates levied on bazaars were quite high. The exception was the Kyrgyz Republic, which has the simplest bazaar tax regime. In contrast, Tajikistan had the most complex tax regime, which spurred rent seeking by tax administration. Bazaar owners in the Kyrgyz Republic pay a value-added tax (VAT) of 12 percent and an income tax of 4 percent, and pay outlet owners and leasers a fee of around $65 per month, varying by the bazaar’s location. Bazaar owners in Kazakhstan pay the following taxes: VAT (13 percent), corporate income tax (30 percent), social tax (13 percent), social security (10 percent), property tax (1 percent), land tax (rate varies by location), and environment and transport taxes. Lessors, outlet owners, and vendors pay a fee of 2 percent of estimated sales. Bazaar owners in Tajikistan pay the following taxes: VAT (20 percent), income tax (13 percent), wage bill fund tax (25 percent), profit tax (25 percent), sales tax (3 percent), road fund tax (2 percent), property tax (4 percent of minimum wage), and land use fee ($507 per square meter). Lessors and outlet owners pay a market fee of up to $27 a month.

In all, total payments associated with the fixed costs of running sales outlets in the surveyed bazaars across Central Asia amount to almost $1.5 billion a year, with two-thirds going to owners of sales outlets and the people employed there. The remainder, either through official or unofficial channels, goes to local administration. The amounts involved are quite significant when set against these countries’ GDPS, especially in the case of the Kyrgyz Republic. Total payments (fixed costs) of surveyed bazaars amounted to about 1 percent of Kazakhstan’s and Tajikistan’s GDP and a staggering 33 percent of the GDP of the Kyrgyz Republic. Labor-related income, the most relevant for poverty reduction, accounts on average for between 30 percent of total fixed costs for Kazakhstan and the Kyrgyz Republic and 41 percent for Tajikistan. Note that these estimates exclude revenues from bazaar-induced activities, which result in significant employment and, therefore, income effects.

The composition of revenue and total fixed cost varies both within and between the identified categories of bazaars. An important factor contributing to the variations are informal bazaar fees, which are not paid everywhere. Except for Dordoi, traders pay them in international bazaars but not in city/local bazaars. Informal payments are made in both state-owned bazaars—for example, Sulton-Kabir in Dushanbe and Turatali
market in the Karasu bazaar—and privately held markets. Owners of sales outlets have relatively highest revenues, exceeding 50 percent of total fixed cost at Dordoi, the Kyrgyz Republic, and Karkara, Kazakhstan.

Other Positive Externalities of Bazaars: The Untold Story of Kyrgyz Garments

The welfare effects associated with bazaars derive from two positive externalities. First, gains are associated with skills development, that is, finding a supplier and a buyer with matching needs requires various skills associated with predicting demand, marketing, learning about conditions in a country of supply, and so on. These skills are easily transferable to activities in modern networks of production and distribution and are especially valuable in entrepreneurial activities.

Second, domestic producers have opportunities to introduce their products to potential domestic and foreign customers without incurring marketing costs, which are usually very high when it comes to marketing a product abroad. Bazaars’ role in creating marketing opportunities for producers that go beyond local and domestic markets is of particular importance, as the cost of marketing abroad is so high. Bazaars facilitate marketing for producers, since buyers (who typically have more capital and the skills to find an advantageous situation) travel to producers instead of the reverse.

The surveys conducted in Tajikistan showed the role of bazaars in linking producers not only of agricultural products but also of construction materials with buyers. These surveys revealed how (1) bazaars offer producers direct links to buyers, both wholesalers (that is, traders who sell to other traders) and retailers (that is, traders who sell to end-users) and (2) agricultural products move to wholesale bazaars and then are distributed to mostly retail city bazaars. The surveys also show how price gaps are reduced in the process. A similar pattern is observed for construction materials.

Unfortunately, the surveys could not capture the amounts involved in these transactions, even though there are indications that these have been running in the hundreds of millions of dollars. Consider first the case of unreported exports of fruits and vegetables from the Kyrgyz Republic to Kazakhstan and Russia. The differences between exports of fruits and vegetables reported in Kyrgyz statistics and their imports reported by Kazakhstan and Russia amounted to $213 million in 2008 and $154 million in 2009. The unreported exports may have originated in bazaars, although this cannot be stated with full certainty. Otherwise exporters
would probably go through standard clearance procedures and have their exports registered. Since large Kyrgyz bazaars are also engaged in large wholesale operations, this is quite likely that they were the source of supply. The amounts are probably larger as import statistics of Kazakhstan or Russia do not capture shuttle trade.

The case of the Kyrgyz Republic’s garment industry, whose products are a standard feature of bazaars across Central Asia and in some parts of Russia, provides probably the most spectacular example of how the opportunities offered by international bazaars have been successfully exploited by Kyrgyz entrepreneurs. While the official data appear to significantly play down the success of clothing industries in the Kyrgyz Republic and their contribution to exports growth, the survey results, mirror trade statistics, and representatives of various business associations identified garments as a great success story. Imports of Kyrgyz clothing reported by Kyrgyz trading partners were between 13 and 107 percent larger than the officially reported exports in 2005–10 (see table 4.5). However, both statistical sources fail to capture the amounts exported, which are several times higher than the officially reported exports and imports, or so-called “mirror exports” of Kyrgyz clothing (see chapter 5).

Information about the Kyrgyz clothing industry, its size, employment, areas of specialization, and export performance, are scant at best. The estimates of the industry’s employment range between 160,000 and 400,000 people. A recent U.S. Agency for International Development study estimates this industry’s output at $1.5 billion (USAID 2010), around one-third of Kyrgyz GDP. According to the official data reported by the Statistical Office of the Kyrgyz Republic, the industry’s total output was $105 million in 2009, or around 6 percent of the nation’s manufacturing sector. Another estimate (derived from comparator data) of the cost structure of the clothing industry in countries of similar size and economic

### Table 4.5 Officially Reported Clothing Exports in the Kyrgyz Statistics and Clothing Imports from the Kyrgyz Republic in Other Countries’ Statistics

<table>
<thead>
<tr>
<th>Kyrgyz clothing exports</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Officially reported exports of clothing (FOB) ($ millions)</td>
<td>23</td>
<td>48</td>
<td>79</td>
<td>97</td>
<td>72</td>
<td>125</td>
</tr>
<tr>
<td>Reported (mirror) exports of apparel from Kyrgyz Republic (FOB) ($ millions)</td>
<td>37</td>
<td>55</td>
<td>72</td>
<td>110</td>
<td>150</td>
<td>170</td>
</tr>
<tr>
<td>Reported (mirror) exports to official exports (%)</td>
<td>158</td>
<td>115</td>
<td>92</td>
<td>113</td>
<td>207</td>
<td>136</td>
</tr>
</tbody>
</table>

*Source:* Derived from trade data reported to the UN COMTRADE database.

*Note:* FOB = free on board.
development, on the one hand, and import content of Moldova’s exports of clothing, on the other hand, gives the value of output at $1.1 billion and employment at 160,000 (Kaminski and Mironova 2011). Figure 4.1 contrasts official data with the estimates of clothing output in 2005–10.

Leaving aside the fact that the official output was several times lower than the estimate quoted above, the dynamic for 2005–10 was both similar and impressive: the value of output increased some three times for both sets of data. The least squares growth rate for this period was 32 percent for the official data and 38 percent for the unofficial data. The discrepancy emerges in 2009, with two trends pointing in different directions. In contrast to a 35 percent contraction, according to the official data, the estimates of production of clothing based on import data and comparative structures of the cost of production point to an expansion. Yet, the growth rates of 5 percent in 2009 and 12 percent in 2010 can be regarded as impressive, considering the adverse trends in the global economic environment.

The spectacular expansion of Kyrgyz clothing output was not the result of any protection afforded by government policies, but is probably attributable to opportunities created by the Kyrgyz Republic’s large bazaars. Its growth can be explained by liberalization of the customs regime on imports of consumer goods, which in turn led to the emergence of Kyrgyz bazaars as platforms for re-exports of Chinese consumer goods (Kaminski

Figure 4.1 Kyrgyz Textiles and Clothing Output: Official Statistics vs. Estimates, 2005–10

Source: Official statistics from the Statistical Office of the Kyrgyz Republic (no data available for 2010) and estimates from Kaminski and Mironova 2011.
Attracting traders from all over Central Asia and Russia, bazaars offer unique opportunities to also market domestically produced goods. Kyrgyz entrepreneurs have taken advantage: since barriers to entry into clothing are low, these activities are accessible to virtually anyone with entrepreneurial skills. This sector has emerged as the top exporter, outdistancing even export revenue from gold exports.

Information derived from intermediary sources also paints a picture of great success. Interviews with traders in Barakholka and Shanghai in Almaty and Astana (Kazakhstan) and in Korvon in Dushanbe (Tajikistan) identified Kyrgyz garments originating mainly in Dordoi, Bishkek, as among the best-selling items. In contrast to sporadically expressed opinions, Kyrgyz value-added to clothing does not boil down to the replacement of a label “Made in China” with “Made in Kyrgyz Republic” for sales in Commonwealth of Independent States’ countries on a duty-free basis. Many traders pointed to the fact that consumers look for clothing with a label “Made in Kyrgyz Republic” because they consider them of higher quality than imports from China.

Another piece of evidence pointing to the emergence of the Kyrgyz Republic as a powerhouse in clothing comes from interviews with traders at the Madina bazaar (in Bishkek), a major Kyrgyz wholesale outlet for fabrics from China. They say their customers are almost exclusively local garment producers. Madina is also a source of goods for Karasu (in Osh), mainly garments produced in facilities within the Madina bazaar, while supplies of Madina’s prime product, fabrics, to other remotely located bazaars and destinations are limited due to high transportation costs.

The Kyrgyz Republic’s successful entry into apparel manufacturing defies the typical pattern of successful exporters of garments, who go through the following phases: (1) cut-make-trim operation to product specifications and fabrics, provided by an importer usually from a developed country; (2) original equipment manufacturing with the apparel manufacturer purchasing (or producing) the textile inputs and providing all production services, finishing, and packaging for delivery to the retail outlet; (3) original design manufacturing with the apparel supplier directly involved in the design and product development process; and (4) original brand manufacturing where the garment supplier is responsible for branding and marketing the final products (Gereffi 1999). Thanks to opportunities offered by bazaars with regional reach, the Kyrgyz garment manufacturers appear to have bypassed stages 1 through 3 and have directly established themselves at the higher end of value-added activities in the value chain.
Conclusions Regarding the Importance of Bazaars

Central Asian bazaars are unique compared to similarly developed economies in terms of their dominance over other trade channels. According to data compiled by the Statistical Office of the Kyrgyz Republic, retail sales at bazaars were four times that of retail stores in 2005. Considering the rapid growth in bazaar trade, this gap might have increased since then. While their share in total trade cannot be known with available data, the World Bank surveys and estimates derived from foreign trade statistics strongly indicate that a very high percentage of people, especially those from lower income groups, shop in bazaars. In both Kazakhstan and Tajikistan annual trade in surveyed bazaars runs into billions of dollars. Estimates from the study, based on trade statistics and supported by findings from the surveys, indicate that imports mediated through bazaars account for at least a fifth of total world exports to Kazakhstan, the Kyrgyz Republic, Tajikistan, and Uzbekistan. While the other Central Asian economies’ edge over standard trade may not be as pronounced as the Kyrgyz Republic’s, it still seems to be considerable for a number of reasons.

Bazaars anywhere outside industrialized countries have a strong advantage over other trade channels. Experience shows that this edge gradually disappears at a higher level of economic development as the quality of the business climate improves and capital becomes available to establish shopping malls and modern warehousing capacities. At this higher level of development, consumers have less time to shop and are less sensitive to price differentials that favor bazaars. Although some bazaars are clearly becoming shopping malls, as shown in an earlier World Bank report (World Bank 2007), bazaars in developing and middle-income countries are still a viable alternative to shopping malls and retail small shops.

Large bazaars, combining the functions of a shopping mall and hub warehouse, have evolved from agricultural bazaars revived during the collapse of Soviet central planning. With the transition toward market economies, some bazaars have grown dramatically, expanding in size and the diversity of goods offered. Bazaars are a much cheaper option in terms of construction costs than a shopping mall; however, they offer similar services, bringing together a wide variety of buyers and sellers and providing access to nearby warehouses and services supporting commercial exchanges. The World Bank surveys fully confirmed these observations: large hub bazaars have a transportation network, Internet outlets, and exchange bureaus, and they are surrounded by warehouses run independently of traders and with their owners assuming risks of storing the
right mix of products. Such bazaars as Barakholka (Kazakhstan) and Dordoi and Karasu (the Kyrgyz Republic) have warehouses in nearby areas, and many traders have two-story containers that use the upper part for storing needed supplies.

Bazaars have a lower fixed cost of doing business than retail stores, where the prices of the same retail goods are considerably higher than those at bazaars. For instance, interviews in bazaars in Dushanbe (Tajikistan) indicated that the price gaps between retail bazaars and local shops were about 15–20 percent for non-agricultural goods and 15–50 percent for agricultural produce.

An important advantage stall owners and traders in bazaars have over individual shop owners elsewhere is that they are better shielded from predatory impulses of state administration, in part because they are a large group. Thanks to the concentration of traders and intermediation of bazaar administration, the relationship between private businesses and state administration is more stable and predictable. Bazaar administration has a large stake in assuring favorable business conditions for traders. Having resources and influence, such an administration is also better positioned to deal with local administration. Seeing the concentration of revenue flowing through the bazaar, local administration will help make the bazaar competitive since it has a stake in revenue generation. This centralization of dealings with the state administration (that is, the bazaar administration representing hundreds or thousands of bazaar traders) does not completely eliminate informal payments, but is at least better than decentralized bribe taking.

Local administration in the surveyed bazaars appears less onerous than in other sectors of the economy. Traders outside Tajikistan did not complain about unpredictable or unfair inspections or a multitude of various charges. While hard data were lacking, the surveys showed that the business climate for a Tajik bazaar merchant is better than that for most retail shop owners.

The Kyrgyz regime is by far the friendliest to bazaar traders among the surveyed countries. Its total tax burden of about 16 percent of estimated sales income is the lowest among surveyed countries; Tajikistan’s is the highest, with an almost 80 percent tax burden; Kazakhstan’s is about 60 percent. These percentages exclude fixed charges.

While readily available statistical information about Central Asian bazaars’ share in total retail trade of other countries is lacking (except for the Kyrgyz Republic), strong survey evidence indicates that most Central Asians, especially those from lower income groups, shop in bazaars.
Moreover, the researchers’ estimates based on trade statistics and supported by findings from the 2008 bazaar surveys indicate that imports mediated through bazaars account for at least a fifth of total world exports to the four focal countries.

The expansion of the bazaar trade channel over the last decade can be explained by two major “agglomeration” advantages bazaars have over other trade venues. First, bazaar development is more in line with the achieved level of economic development: building a bazaar infrastructure does not require as much large investment as its modern equivalent, the shopping mall. Establishing a bazaar is much cheaper and offers the same opportunity to bring together wide groups of buyers and sellers. Second, thanks to the concentration of traders and intermediation of bazaar administration, the relationship between private businesses and state administration is stable and predictable. A shop owner is alone in negotiating with state authorities, whereas a stand or, more precisely, container owner is part of a group that together with the bazaar administration (which has a stake in bazaar expansion) has more bargaining power and resources to resist a state administration’s predatory impulses and the caprices of local officials.

The analysis conducted in this work is of policy interest: rather than treating bazaars as unorganized and undesirable in a modern market economy, national authorities should foster the development of bazaars in view of the growth, employment-generation, and poverty-fighting characteristics of bazaars and their supporting businesses. In addition to their income-generating effects, bazaars also contribute to the welfare of end-users, as without bazaars, goods would be unavailable or more expensive.

Notes
1. Bazaar, believed to have originated in Persia, is defined as a permanent merchandising area or a marketplace where goods and services are sold. The word derives from the Persian word ُبِزار, meaning “the place of prices.” The use of the term is widespread in Central Asia and has become part of the vernacular in countries around the globe.

2. See appendix for in-depth information on the design of the surveys.

3. Total fixed cost includes the cost of owner’s labor. Based on the interviews, researchers assumed for the purpose of estimating the “wage fund” that her/his minimum income equals the average wage of an employed trader plus 50 percent.
4. Derived from export data reported by the Kyrgyz Republic and import data reported by Kazakhstan and Russia to the UN COMTRADE database. In order to account for c.i.f. included in the imports data, export estimates were increased by 3 percent, which was assumed to reflect the cost of insurance and freight.

References


CHAPTER 5

Cross-Border Trade through Bazaars

This chapter provides an estimate of the total trade intermediated by bazaars in Central Asia including re-exports. The World Bank surveys indicate that total exports intermediated by bazaars in Central Asia equaled about $2.8 billion in 2008, confirmed by mirror statistics because they cannot be confirmed by official trade statistics given the gaps in reporting practices. While goods flow abundantly through the four Central Asian countries—Kazakhstan, the Kyrgyz Republic, Tajikistan, and Uzbekistan—most originate in the Kyrgyz Republic. Kyrgyz and Kazakhstani exports, mostly outer garments and footwear, account for about a quarter of bazaar goods imported into Central Asian countries. These two countries’ customs practices are friendly to shuttle trade, resulting in largely legal but unreported trade. Despite the time lag between the last year for which foreign trade statistics were available and 2008 when the bazaar surveys were conducted, the results gave credence to each other. While the use of mirror trade statistics raises a number of difficult methodological issues, including the quality of trade reporting, they do not undermine this analysis. The trade statistics of China, a major supplier of bazaar goods, have fully met quality checks against foreign trade statistics of the European Union, Japan, and the United States, that is, mirror trade gaps were negative and in line with expected values of insurance and freight of respective
imports (Kaminski 2008). Since China is one of the most important trading partners of Central Asia Regional Economic Cooperation (CAREC) economies, overall accuracy can be deemed fully satisfactory.

Discussed first in this chapter are the survey findings concerning flows of imports intermediated by bazaars. The method developed to assess the imports likely to flow through bazaars is described and initial estimates of these flows are provided. The origins and dynamics of imports of bazaar-type goods are briefly described, and the results of this analysis are summarized.

### Sources of Bazaar Goods and Foreign Sales

The 2008 World Bank surveys offer insights as to the goods traded, their origins, and the destinations of sales intermediated by bazaars (table 5.1).

<table>
<thead>
<tr>
<th>Bazaar classification</th>
<th>Annual sales ($ millions)</th>
<th>Share of imports (%)</th>
<th>Share of foreign sales (%)</th>
<th>Foreign sales ($ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>International</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Barakholka (Almaty, KAZ)</td>
<td>1,742</td>
<td>80</td>
<td>4</td>
<td>70</td>
</tr>
<tr>
<td>Dordoi (Bishkek, KGZ)</td>
<td>2,842</td>
<td>85</td>
<td>75</td>
<td>2,131</td>
</tr>
<tr>
<td>Karasu (Osh, KGZ)</td>
<td>684</td>
<td>90</td>
<td>85</td>
<td>581</td>
</tr>
<tr>
<td>Korvon (Dushanbe, TJK)</td>
<td>106</td>
<td>93</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td><strong>National/regional</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alty Orda (Almaty, KAZ)</td>
<td>99</td>
<td>80</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Istravshan (Uratube, TJK)</td>
<td>61</td>
<td>90</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Madina (Bishkek, KGZ)</td>
<td>122</td>
<td>90</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Shanghai (Astana, KAZ)</td>
<td>146</td>
<td>80</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Sultoni-Kabir (Dushanbe, TJK)</td>
<td>71</td>
<td>90</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>City/local</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Artem (Astana, KAZ)</td>
<td>123</td>
<td>95</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Karkara (Almaty, KAZ)</td>
<td>34</td>
<td>100</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Panjshanbea (Khujand, TJK)</td>
<td>13</td>
<td>25</td>
<td>25</td>
<td>3</td>
</tr>
<tr>
<td>Sahovata (Dushanbe, TJK)</td>
<td>6</td>
<td>25</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Sary-Arkaa (Almaty, KAZ)</td>
<td>10</td>
<td>80</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Grand total</strong></td>
<td>6,058</td>
<td>47</td>
<td>2,818</td>
<td></td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>2,154</td>
<td>n.a.</td>
<td>4</td>
<td>81</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>3,647</td>
<td>n.a.</td>
<td>75</td>
<td>2,725</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>256</td>
<td>n.a.</td>
<td>4</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: Authors, based on 2008 surveys.

Note: KAZ = Kazakhstan, KGZ = the Kyrgyz Republic, TJK = Tajikistan; n.a. = not applicable.

a. denotes agricultural bazaar.
First, they showed that sources of bazaars’ supplies vary depending on a bazaar’s products: those specializing in agricultural products tend to trade mainly in domestic produce. Second, the origin of goods traded also depends on a bazaar’s geographical location. For instance, products from Iran are traded in Tajik bazaars but not in significant quantities in Kazakhstan’s or the Kyrgyz Republic’s. The surveys also identified other bazaars as sources of locally produced and imported products: Kazakhstani bazaars obtain products from Dordoi in the Kyrgyz Republic, and Tajik bazaars from Dordoi and Barakholla in Almaty, Kazakhstan. Third, the geographical direction of imports varies depending on the products involved. Agricultural products and garments often come from neighboring countries. For instance, garments sold in Kazakhstani and Tajik bazaars are often made in the Kyrgyz Republic; flour traded in the Kyrgyz Republic and Tajikistan comes from Kazakhstan; building materials in Tajik bazaars come mostly from Uzbekistan, Kazakhstan, and the Kyrgyz Republic as well as from Dubai, Russia, and China. Such goods as sugar, macaroni, and tea originate in China, Iran, and Russia. Turkey is the source for much of the leather goods sold at bazaars.

Fourth, the differences notwithstanding, the surveys unambiguously identified China as a major supplier of bazaar goods with Kyrgyz bazaars, accounting for a very significant portion of these imports. In some bazaars, especially in the Kyrgyz Republic, Chinese products account for almost all foreign goods traded. They come to Central Asia either directly to individual countries or through the Kyrgyz Republic and then move to other destinations in both Central Asia and southern Russia (see map 5.1).

Finally, sources of supply, quality, and prices of goods imported from China by traders in Dordoi and Karasu in the Kyrgyz Republic differ significantly. First, they originate in different parts of China and enter the Kyrgyz Republic through different border-crossing points (BCPs) and by two different routes (map 5.1). Chinese imports into Karasu originate mainly in Kashgar and enter the country through the Irkeshtam BCP on China’s border. They are then delivered to storage facilities in or near Karasu. Imports are mainly such consumer goods as footwear, garments and knitwear, furs, leather products, carpets, electrical appliances, bicycles, and household appliances. Second, imports intermediated through Dordoi come from southern China (Guangzhou, Shenzhen), Beijing, and Urumqi through the Torugart BCP. Imported products into Dordoi are, according to the interviews, more expensive and of higher quality than those going through Karasu. This is explained by significantly higher
standards of living in northern parts of the Kyrgyz Republic and Kazakhstan than in the Fergana Valley region in the south.

Transactions identified as sales for exports by bazaar traders accounted for slightly less than 50 percent of aggregated annual sales of surveyed bazaars. Total exports, originating mainly in bazaars in the Kyrgyz Republic, were estimated at $2.8 billion in 2007. This estimate could not be directly compared to foreign trade statistics of the other three Central Asian countries for three reasons. First, some flows were not registered by border authorities for reasons that would range from regulations allowing for duty-free movement to smuggling. Second, not all unreported imports of bazaar goods would wind up in bazaars; some of them might go directly to stores. Finally, two Central Asian states—Tajikistan and Uzbekistan—neither publish detailed foreign trade statistics nor report them to the United Nations.

Source: World Bank; routes based on interviews conducted during the 2007 and 2008 surveys.

Note: The black lines denote trade channels of goods exported from China; the gray lines denote transit through the Kyrgyz Republic, with the dashed line indicating movement of goods to Kazakhstan and re-exported through the Dordoi bazaar in the Kyrgyz Republic.
The lack of data had the following implications for this analysis. First, instead of using national statistics, researchers had to rely on export trade data from the trading partners. The term “mirror foreign trade statistics” indicates that the imports into a country are measured by examining the exporting country’s statistics; that is, lacking a country’s import data, data reported by its trading partners were examined to determine the size of that country’s imports. Data are examined at the level of double-digit HS (Harmonized System) and double-digit SITC (Standard International Trade Classification) items. Second, since (1) intra-Central Asia trade, at least in the Kazakhstan–the Kyrgyz Republic–Tajikistan triangle is duty-free, and (2) foreign trade statistics for all Central Asia economies are lacking, the focus is solely on foreign trade flows originating outside the four focal economies. Finally, unreported imports across various product categories can be identified only for Kazakhstan and the Kyrgyz Republic; because the other two countries do not disclose data, all their imports go unreported.

**Estimating Bazaar-Intermediated Imports and Re-Exports Using Mirror Statistics**

Foreign trade statistics fall well short of capturing the values and composition of goods flowing not only through bazaars but also—as one empirical study convincingly demonstrated (Rozanski and Yeats 1994)—through standard channels. They are also incomplete, as some shipments are not recorded when they cross a border, for a variety of often perfectly legal reasons, by authorities of both importing and exporting countries. Central Asian countries often do not levy customs duties on their imports, and some of them have regulations that are friendly to shuttle trading, so incentives to record imports are largely nonexistent. As a consequence, some portion of foreign trade that flows through the bazaar channel, as opposed to the standard trade channel, goes unreported in the statistics of an importing country, but they may be reported in the exports statistics of the country of origin.

Available foreign trade statistics make it possible to assess the scope of underreporting by comparing one country’s reports of its exports into a country with the second country’s reports of its imports from the first country. The value reported by the first country (on exports) minus that of the second country (on imports) is referred to as “mirror import.” The value of mirror imports exceeding the value of official imports is referred to as “a positive mirror trade gap.” The larger the positive mirror
trade gap, the larger the gap between imports reported by a country and its actual imports. This gap provides the first indication of the size of unreported imports.

Goods imported from outside the four Central Asian countries and intermediated by bazaars were mostly not reported in Kazakhstan’s and the Kyrgyz Republic’s import statistics, because they, especially the Kyrgyz Republic, had a foreign trade regime friendly to shuttle trading and, in some cases, Kyrgyz and Kazakhstani authorities also tolerated smuggling. The result is these two countries’ trading partners reported more exports into these countries than these countries reported in imports for certain products. For example, China reported that it exported more fabric into the Kyrgyz Republic than it reported importing from China. When an exporter reports a greater amount of an exported HS-identified product than the importer reports having received, the difference is referred to as a “positive mirror trade gap.” Thus, a positive trade gap exists between China’s reported fabric exports to the Kyrgyz Republic and the Kyrgyz Republic’s reported fabric imports from China. Goods with significant positive trade gaps have overlapped with goods observed in trade in surveyed bazaars.

Kazakhstan and the Kyrgyz Republic are the only countries among CAREC economies that publish foreign trade data at the level of detail that would enable a thorough analysis of trade flows. However, the other major trading partners, including China, that do report to the UN COMTRADE database provide a base to examine non-standard trade flows to and from other countries through the hub bazaar channel. It is not possible, however, to capture intra-CAREC trade flows going through that channel: even if some of them are reported in Kazakhstan’s and the Kyrgyz Republic’s foreign trade statistics, it would be impossible to distinguish between standard and non-standard bazaar trade channels and cast them against external data.

The same problem may apply to imports from outside Central Asia: many products—for example, construction materials, cement, and furniture—may go through either the bazaar or standard trade channel.

The rationale for relying on mirror trade statistics is straightforward: export statistics of trading partners provide the primary source of information about imports that have gone unreported in official import statistics. A positive mirror trade gap equals the difference between the value of exports from one country into a second (mirror imports) and that of imports reported by the second for SITC or HS product categories. Under ideal conditions, a trade gap would be negative, simply because
exports do not bear the costs of insurance and freight (c.i.f.) that accrue when a product is transported, either across a border or not. Once a product is received at its destination, the c.i.f. is part of the value of the product, and the total value is cited as free on board (FOB). Described mathematically, this adding of value would be expressed as “export value + c.i.f. = import value.” Mirror imports would equal official imports only if the cost of transport and insurance were zero. Since that is not the case, unreported imports are larger than the positive mirror trade gap by an estimated c.i.f.

The researchers developed a three-step procedure to estimate mirror bazaar imports and re-exports. The first step is to identify bazaar products, second is to identify bazaar products going through the non-standard channel, and the third step is to estimate the value and directions of re-exports of bazaar goods through the non-standard channel.

**Step 1: Bazaar Goods and Their Imports in Comparative Perspective**

Two criteria were used to identify products that meet the requirements of shuttle trading while simultaneously being observed in bazaar trading. First, consumer goods were identified on the basis of the standard classification of products by “end-use,” as designated in trade analysis, also referred to as “other consumer goods.” These are defined in the standard end-use taxonomy used in trade analysis as SITC 5, 6, 8, and 9–67–68 that can be easily converted into HS categories. Second, products were removed from the “other consumer goods” group that were not identified as items traded in surveyed bazaars. Since this group contains products that are either too difficult to transport for shuttle traders (for example, cement and chemical products) or are rarely encountered at hub bazaars (for example, TV sets), this classification was amended in two ways: only the most visible products imported from outside five Central Asian countries (mainly China) were included, and the HS classification was used to provide more detailed statistical information. Twenty-two double-digit HS products and one four-digit product meet this criterion, accounting for around 50 percent of total mirror imports of consumer goods as defined above in 2008–10, which was up from 32 percent in 2005 (table 5.2).

Imports of bazaar goods are highly concentrated, with apparel towering over other products, and they expanded dramatically in 2005–10, despite a momentous contraction in 2009. The three largest mirror imports of these products were apparel, footwear, and fabrics. At the top of a list of products most likely to be traded through bazaar channels is
Table 5.2  HS Classification of Bazaar-Traded Goods in Central Asia

<table>
<thead>
<tr>
<th>HS no.</th>
<th>Bazaar goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>50–60</td>
<td>Fabrics (11 double-digit HS items)</td>
</tr>
<tr>
<td>4203</td>
<td>Articles of leather apparel</td>
</tr>
<tr>
<td>61</td>
<td>Articles of apparel, accessories, knit or crochet</td>
</tr>
<tr>
<td>62</td>
<td>Articles of apparel, accessories, not knit or crochet</td>
</tr>
<tr>
<td>63</td>
<td>Other made textile articles, sets, worn clothing, etc.</td>
</tr>
<tr>
<td>64</td>
<td>Footwear, gaiters and the like, parts thereof</td>
</tr>
<tr>
<td>65</td>
<td>Headgear and parts thereof</td>
</tr>
<tr>
<td>66</td>
<td>Umbrellas, walking-sticks, seat-sticks, whips, etc.</td>
</tr>
<tr>
<td>67</td>
<td>Bird skin, feathers, artificial flowers, human hair</td>
</tr>
<tr>
<td>69</td>
<td>Ceramic products</td>
</tr>
<tr>
<td>70</td>
<td>Glass and glassware</td>
</tr>
<tr>
<td>91</td>
<td>Clocks and watches and parts thereof</td>
</tr>
<tr>
<td>95</td>
<td>Toys, games, sports requisites</td>
</tr>
</tbody>
</table>

Memorandum: Share of bazaar goods mirror imports in total Central Asia’s mirror imports of consumer goods:

- 2005, 32%
- 2006, 33%
- 2007, 37%
- 2008, 50%
- 2009, 45%
- 2010, 49%

Source: Share derived from export data submitted to the UN COMTRADE database.

Note: HS = Harmonized System.

The total of the four countries’ imports of these products surged in 2008 (more than doubled in terms of value), coinciding with the global financial crisis of 2008–09, fell in 2009, and slightly rebounded in 2010. They stood, however, 35 percent below their peak level in 2008. It is interesting to note that imports of fabrics appear to have withstood apparent contraction in import demand for bazaar goods: the value of these imports in 2010 was only 9 percent below their value in 2008 as compared to 32 percent and 38 percent for footwear and apparel respectively. As will be argued later, this was mainly because of the capacity of the Kyrgyz clothing sector to weather the crisis and maintain their sales.

Mirror imports of bazaar goods not only were highly concentrated in terms of composition but also displayed high geographical concentration. Kazakhstan and the Kyrgyz Republic accounted for more than 90 percent of these imports in 2005–10 and Uzbekistan accounted for 2 percent in
Table 5.3 Mirror Imports of Main Bazaar Goods by Four CAREC Economies (Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan), 2005–10

<table>
<thead>
<tr>
<th>Bazaar good/HS</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>Index 2010 (2008 = 100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apparel (61–63)</td>
<td>1,586</td>
<td>2,704</td>
<td>4,587</td>
<td>10,039</td>
<td>6,048</td>
<td>6,241</td>
<td>62</td>
</tr>
<tr>
<td>Footwear (64)</td>
<td>858</td>
<td>910</td>
<td>1,243</td>
<td>2,431</td>
<td>1,729</td>
<td>1,649</td>
<td>68</td>
</tr>
<tr>
<td>Fabrics (50–56+58–60)</td>
<td>485</td>
<td>649</td>
<td>867</td>
<td>1,549</td>
<td>1,278</td>
<td>1,407</td>
<td>91</td>
</tr>
<tr>
<td>Total imports of bazaar goods</td>
<td>3,132</td>
<td>4,498</td>
<td>7,044</td>
<td>14,785</td>
<td>9,454</td>
<td>9,663</td>
<td>65</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bazaar good/HS</th>
<th>Apparel (61–63)</th>
<th>Footwear (64)</th>
<th>Fabrics (50–56+58–60)</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of imports</td>
<td>51</td>
<td>27</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on data provided by exporting countries to the UN COMTRADE database.

Note: HS = Harmonized System.

2005–06 and one percent in 2007–10. It is interesting to note that Tajikistan’s share dramatically increased, from 3 percent in 2005–07 to 7 percent in 2008, and further to 10 percent in 2010 (table 5.4).

Finally, two Central Asian countries, the Kyrgyz Republic and Kazakhstan, have consistently displayed a large appetite for imported apparel and footwear, while Uzbekistan was consistently at the bottom of the ranking of mirror imports of apparel and footwear per capita, even below Turkmenistan. The levels of these imports per capita by Kazakhstan and the Kyrgyz Republic were several times higher than in other former Soviet republics of the Commonwealth of Independent States (CIS). Except for the Russian Federation in 2007–08 and Tajikistan in 2008–10, not a single CIS country was anywhere close. The Kyrgyz Republic, however, outperformed all: except for Kazakhstan’s imports that stood at 70 percent of the level of Kyrgyz imports of these products per capita, imports of other countries were at least 75 percent lower. Uzbekistan’s imports per capita amounted to less than one percent of Kyrgyz imports in 2010 (table 5.5).

Mirror foreign trade statistics thus confirmed the survey findings that two Kyrgyz international bazaars are major suppliers of other bazaars in the region in goods originating outside the four economies, and that Uzbekistan is one of the major consumers of these goods. Uzbek imports are well below the levels of other Central Asian economies, and this cannot be explained by Uzbekistan’s manufacturing of these products. That
Table 5.4 Countries’ Share in Total Mirror Imports of Bazaar Goods into Central Asia, 2005–10

<table>
<thead>
<tr>
<th>Country</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kazakhstan</td>
<td>79</td>
<td>64</td>
<td>60</td>
<td>42</td>
<td>54</td>
<td>67</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>16</td>
<td>32</td>
<td>36</td>
<td>56</td>
<td>43</td>
<td>30</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>7</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>56</td>
<td>69</td>
<td>123</td>
<td>112</td>
<td>69</td>
<td>86</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>37</td>
<td>44</td>
<td>43</td>
<td>59</td>
<td>37</td>
<td>69</td>
</tr>
<tr>
<td>Ukraine</td>
<td>31</td>
<td>42</td>
<td>59</td>
<td>67</td>
<td>45</td>
<td>53</td>
</tr>
<tr>
<td>Armenia</td>
<td>14</td>
<td>17</td>
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<tr>
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<td>13</td>
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</tr>
<tr>
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<td>10</td>
<td>7</td>
<td>14</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Uzbekistan</td>
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<td>2</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on data provided by exporting countries to the UN COMTRADE database.

Table 5.5 Mirror Imports of Apparel and Footwear (HS 61–65) per Capita in Select CIS Countries, 2005–10 ($)

<table>
<thead>
<tr>
<th>CIS country</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kyrgyz Republic</td>
<td>81</td>
<td>246</td>
<td>436</td>
<td>1,323</td>
<td>623</td>
<td>419</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>130</td>
<td>146</td>
<td>215</td>
<td>296</td>
<td>238</td>
<td>295</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>7</td>
<td>11</td>
<td>23</td>
<td>124</td>
<td>81</td>
<td>101</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>56</td>
<td>69</td>
<td>123</td>
<td>112</td>
<td>69</td>
<td>86</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>37</td>
<td>44</td>
<td>43</td>
<td>59</td>
<td>37</td>
<td>69</td>
</tr>
<tr>
<td>Ukraine</td>
<td>31</td>
<td>42</td>
<td>59</td>
<td>67</td>
<td>45</td>
<td>53</td>
</tr>
<tr>
<td>Armenia</td>
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<td>17</td>
<td>19</td>
<td>25</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>Georgia</td>
<td>13</td>
<td>19</td>
<td>21</td>
<td>23</td>
<td>14</td>
<td>17</td>
</tr>
<tr>
<td>Belarus</td>
<td>8</td>
<td>9</td>
<td>12</td>
<td>18</td>
<td>14</td>
<td>17</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>5</td>
<td>10</td>
<td>7</td>
<td>14</td>
<td>7</td>
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<tr>
<td>Uzbekistan</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>4</td>
</tr>
</tbody>
</table>

Index 2010
Kyrgyz Republic’s imports =100, in 2010

Source: Authors’ calculations based on data provided by exporting countries to the UN COMTRADE database.

Note: HS = Harmonized System; CIS = Commonwealth of Independent States.

is, Uzbeks have products at their bazaars that they cannot be making and thus must be importing through non-standard channels. However the bazaar surveys failed to capture possible increases of exports sales through bazaars in Tajikistan, which had been suggested by the surge in mirror imports in 2008. These would have been probably captured had surveys there been conducted a year later in 2009.

Another possible conclusion from the data in table 5.5 is that Kyrgyz consumers could not possibly purchase these amounts of apparel and footwear for their own use. Imports in 2008 were 57 percent larger than
the gross domestic product (GDP). Although they fell significantly in 2010 to around one third of their level, they still amounted to 50 percent of the GDP in 2010. This will lead to step 3, that is, an assessment of re-exports, but first an assessment of imports through the non-standard channel is required, which will be discussed in the next section.

The surge of imports of bazaar goods in 2008, which more than doubled that of the previous year, followed by their dramatic contraction in 2009, raises the question of what caused this one-time explosion of bazaar imports and whether the subsequent implosion suggests the decline in bazaar trade in the future. Note first that imports into the Kyrgyz Republic were responsible for a sudden increase, although imports of bazaar goods into Kazakhstan and Tajikistan also registered a significant increase. In fact, the most striking feature of the recent developments in bazaar imports is that the Kyrgyz share of the total imports of bazaar goods of Central Asia displayed the largest volatility: it varied between 27 percent in 2010 and a whopping 52 percent in 2008 over 2006–10, while its share in regional GDP remained stuck at around 2–3 percent during this period. While between 2006 and 2008, the aggregate value of mirror imports of bazaar goods from China increased at annual growth rates of 78 percent and 200 percent, it fell 50 percent in 2009 and 31 percent in 2010. Yet, the value of these imports in 2010 was still 4 percent above their level in 2007. The increases and contractions in absolute terms were very large, in the range of $5 billion in 2008 and minus $4 billion in 2009 (table 5.6).

Second, it appears that the surge in bazaar imports might have bypassed the bazaar channel because some portion of these products may have gone directly to other wholesale and retail sale outlets. An examination of annual flows of mirror imports of consumer goods from China together with the trade gaps (unreported imports in national statistics) of Kazakhstan, the Kyrgyz Republic, and Russia suggests that the contraction of imports into Russia going through non-standard channels might have contributed to the surge in Kyrgyz imports in 2008 and their subsequent contraction in both 2009 and 2010. Note that the positive gap in Russia’s imports fell dramatically in 2008 to $3.4 billion from $8.1 billion a year earlier, or $4.7 billion. Simultaneously, the Kyrgyz positive trade gap increased from $2.4 billion in 2007 to $7.2 billion in 2008, or by $4.8 billion. While the rough equivalence of change in opposite directions of trade gaps of the Kyrgyz Republic and Russia may be purely coincidental, a plausible explanation is that some Chinese officially Kyrgyz-bound exports were actually destined for Russia.
Another factor contributing to the fall of mirror imports in 2009 might be the decline in import demand in both Kazakhstan of 15 percent and Russia of 47 percent in 2009. Kazakhstan’s unreported imports fell 14 percent in 2009 in line with the contraction in the GDP. While some portion of the contraction of almost 50 percent in Russia’s imports of consumer goods may be explained by rerouting of these imports through the Kyrgyz Republic, Kazakhstan’s contraction was exclusively due to the recession: the value of the GDP fell 14 percent in 2009. Kazakhstan’s imports of consumer goods through the non-standard channel increased 28 percent in 2010, or $1.1 billion, whereas those into the Kyrgyz Republic fell by roughly the same amount.

Furthermore, Tajikistan might have captured some flows previously going to the Kyrgyz Republic. Chinese bazaar goods brought to Central Asia refer only to imports of bazaar goods unreported in the statistics of Kazakhstan and the Kyrgyz Republic. Therefore, they do not take into account shipments to Tajikistan (Uzbekistan is excluded because its mirror imports are low). However, mirror imports into Tajikistan more than tripled in 2008, reaching $900 million, equivalent to 18 percent of its GDP, which was up from 5 percent a year earlier. Leaving aside the unlikelihood of these imports being solely for domestic consumption,
it seems that a large portion of these imports were distributed through an extensive network of bazaars in Tajikistan.

Another feature of bazaar goods imported into Central Asia is China’s dominance in these imports. The surveys found Turkish and Iranian imports to be relatively lower than those from China, which is confirmed by the mirror statistics. In 2006 Turkey reported exports of bazaar goods worth $255 million, and Iran, $104 million. Together, they accounted for less than 5 percent of total bazaar imports in 2006; however, in Tajikistan and Uzbekistan the aggregate share was higher than in other Central Asian economies, accounting for 18 percent and 20 percent, respectively. However, by 2007–10, Chinese exporters had increasingly crowded them out.

While the share of Chinese products has been on the increase, the involvement of Kyrgyz bazaars in re-export activity appears to have been on the decline since 2008, albeit with a caveat. Unreported imports of bazaar goods fell 52 percent in 2009 and a further 32 percent in 2010. As a result, their value was 67 percent lower in 2010 than in 2008. At the same time the value of these imports into Kazakhstan increased 28 percent in 2010, 10 percent above their level in 2008. But the caveat is that Kyrgyz bazaars could not possibly intermediate in all unreported bazaar imports as the totals in 2008–09 exceeded researchers’ estimates of their total trade turnover in 2008 by factors of 3 and 1.5. There is anecdotal evidence that these imports involved transshipment through the Kyrgyz Republic to Kazakhstan and Russia.

**Step 2: Mirror Trade Gaps and Shuttle Bazaar Trading**

The objective of this step was to distinguish between consumer goods imported through standard and non-standard channels. Since those going through standard channels were reported in import statistics, consumer goods that met the bazaar goods criteria—which were not reported in import statistics but were reported in export statistics—were those that flow through bazaars. Mirror gaps could be estimated for bazaar goods only for Kazakhstan and the Kyrgyz Republic, because import data were not available for Tajikistan and Uzbekistan. Since Kazakhstan and the Kyrgyz Republic accounted for more than 90 percent of total Central Asian mirror imports of bazaar goods in 2005–10, lack of data for Tajikistan and Uzbekistan had a negligible impact on the analysis (see table 5.4).

Mirror trade gaps, the difference between exports (as reported by trading partners of Kazakhstan and the Kyrgyz Republic) and imports
(as reported by Kazakhstan and the Kyrgyz Republic), point to significant levels of shuttle trading, that is, unreported imports into both these countries. Positive mirror trade gaps occur with regard to goods that are standard items in bazaar trading (herein referred to as “bazaar goods”) and listed in table 5.2. The largest positive mirror trade gaps, calculated jointly for Kazakhstan and the Kyrgyz Republic, were for outer garments and footwear, which together accounted for around a quarter of total mirror imports of bazaar goods into Central Asian countries.

Positive mirror trade gaps (unreported imports) are high for all consumer goods traded in bazaars. Most unreported imports apparently are intermediated through bazaars and carried out within shuttle trade-facilitating procedures in Kazakhstan and the Kyrgyz Republic. Less than 26 percent of bazaar imports into Central Asia in 2009 were reported in the foreign trade statistics of Kazakhstan and the Kyrgyz Republic. The remaining three-fourths appear to have been brought in by small traders operating out of bazaars. Interviews conducted with traders show that most of them make arrangements for their own supplies abroad, mainly in China, Turkey, Iran, and Dubai.

Imports of bazaar goods through the non-standard channel dramatically expanded until 2008, then fell precipitously in 2009 (see table 5.6). This was not the result of the flow of goods switching from non-standard to standard channels. The share of non-reported mirror imports, that is, those going through non-standard channels, in total mirror imports decreased only slightly from its peak of 90 percent in 2008 to 88 percent in 2009–10. Hence, the contraction in total imports affected both channels. Moreover, there were no signs that the contraction in these imports had any perceptible impact on shuttle trade. Anecdotal evidence suggests that some of the reported Chinese exports of bazaar goods to the Kyrgyz Republic did not go through bazaars but were simply reloaded there and shipped to Kazakhstan and Russia (Kaminski, Mironova, and Vashakmadze 2011).

Unreported shuttle trade into Kazakhstan and the Kyrgyz Republic alone (the two countries that do have data) has been quite sizable. Its value, as captured solely by the aggregate positive trade gap for bazaar goods of Kazakhstan and the Kyrgyz Republic, grew from $2.3 billion in 2004 to around $7 billion in 2009–10. Bazaar good imports going through the non-standard channel expanded faster than other imports in 2005–10. The least squares growth (LSG) rate over this period was 25 percent for non-standard bazaar goods and 20 percent for total mirror imports of the four Central Asian countries. As a consequence, the bazaar
Cross-Border Trade through Bazaars

goods share of total imports grew from 9 percent in 2005 to 14 percent in 2010. Put another way, world exports destined for Central Asia grew over the period from $24 billion to $47 billion, or two-fold, while non-standard bazaar exports grew three-fold—from $2.3 billion to $7 billion—becoming almost a seventh of total mirror imports of Central Asian economies in 2010.

But the average growth rate hides significant volatility in annual growth rates. In fact there were two different phases: one of stunning growth in 2005–08 and one of contraction in 2009–10 coinciding with the decline in world trade triggered by the global financial crisis of 2008–09. Indeed the growth in imports of bazaar goods was spectacular in 2005–08: the value of the aggregate positive trade gap increased almost five-fold in 2005–08, recording an LSG rate of 53 percent (see table 5.7). The value of these imports doubled in 2008 alone, but fell 36 percent in 2009, and fell a further 2 percent in 2010.

While the data on Tajikistan’s imports needed to measure the trade gap are lacking, the dynamics and the sheer size of these imports in relation to Tajikistan’s total imports suggest that most of them would come through the non-standard channel, in contrast to imports into Uzbekistan, which remained relatively stable and very low. While Uzbekistan’s imports of bazaar goods in relation to the GDP stayed at around 0.01 percent in 2005–10, Tajik imports grew slightly faster than the GDP in 2005–07 and exploded in 2008 (their value increased more than four-fold), reaching 18 percent of the GDP. They contracted 29 percent in 2009, which was significantly less than the contraction in the combined bazaar imports of Kazakhstan and the Kyrgyz Republic; they then rebounded in 2010, increasing 21 percent (table 5.7), while Kazakhstani and Kyrgyz imports continued their downward slide.

Positive trade gaps for bazaar goods are huge for both Kazakhstan and the Kyrgyz Republic, but especially so in their trade with China. On average in 2005–10, more than three-fourths of all imports of bazaar goods (excluding those from China into Kazakhstan) went through the standard channel; only 7 percent of imports from China were officially reported. For the Kyrgyz Republic, the ratio of standard imports of bazaar goods to total imports, excluding those from China, dramatically increased from around 25 percent in 2005–07 to 90 percent in 2010 (table 5.8). Unreported imports of bazaar goods remained very high, at more than 90 percent of their total imports on average in 2005–10. China has been the major source of bazaar goods, accounting for almost all imports of both the Kyrgyz Republic and Kazakhstan as measured by its share in positive
### Table 5.7  Dynamics of Bazaar Imports into Central Asia, 2006–10

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>Index 2008</th>
<th>Index 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Value of bazaar imports ($ millions)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aggregate positive bazaar gaps of Kazakhstan and Kyrgyz Republic</td>
<td>3,363</td>
<td>5,437</td>
<td>11,221</td>
<td>7,138</td>
<td>6,998</td>
<td>493</td>
<td>62</td>
</tr>
<tr>
<td>Mirror imports of Tajikistan</td>
<td>116</td>
<td>204</td>
<td>907</td>
<td>647</td>
<td>786</td>
<td>1,228</td>
<td>87</td>
</tr>
<tr>
<td>Total imports of bazaar goods</td>
<td>4,498</td>
<td>7,044</td>
<td>14,785</td>
<td>9,454</td>
<td>9,663</td>
<td>472</td>
<td>65</td>
</tr>
<tr>
<td><strong>Annual Growth (%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>LSG 2005–08</td>
<td>LSG 2008–10</td>
</tr>
<tr>
<td>Aggregate positive bazaar gaps of Kazakhstan and Kyrgyz Republic</td>
<td>48</td>
<td>62</td>
<td>106</td>
<td>–36</td>
<td>–2</td>
<td>53</td>
<td>–24</td>
</tr>
<tr>
<td>Mirror imports of Tajikistan</td>
<td>58</td>
<td>75</td>
<td>345</td>
<td>–29</td>
<td>21</td>
<td>81</td>
<td>–7</td>
</tr>
<tr>
<td>Total imports of bazaar goods</td>
<td>44</td>
<td>57</td>
<td>110</td>
<td>–36</td>
<td>2</td>
<td>51</td>
<td>–21</td>
</tr>
</tbody>
</table>

**Source:** Derived from partners' and Kazakhstan's and the Kyrgyz Republic's data reported to the UN COMTRADE database.

**Note:** LSG = least squares growth.
mirror trade gaps. China’s share increased from 85 percent of all bazaar goods imported through the non-standard channel by the Kyrgyz Republic in 2005 to 100 percent in 2008 and 2010. This share was slightly lower for Kazakhstan; between 92 percent and 95 percent in 2005–10 (table 5.8).

Although both countries have had positive mirror trade gaps, which indicates underreporting, bazaar goods have been almost exclusively responsible for underreporting of total imports. Excluding bazaar goods, Kazakhstan’s statistics appear to properly record imports that were also recorded by exporting countries’ statistics, whereas the gap for the Kyrgyz Republic remains negative, albeit at a very low level. This indicates that there were no systemic problems with customs allowing for smuggling of consumer goods, but rather that these goods legally entered into customs territories under a special regime for shuttle trading.

In other words, imported products intermediated through bazaars tend to be underreported in the official trade statistics of the Kyrgyz Republic and Kazakhstan for legitimate reasons. Both countries have had customs procedures friendly to shuttle trading with implications for collecting trade data. As of January 2005, in the Kyrgyz Republic, some imported items have been subject to border charges based on weight,

### Table 5.8  Kazakhstan’s and the Kyrgyz Republic’s Gaps in Bazaar Trade with China and the Rest of the World

<table>
<thead>
<tr>
<th>Country/trade gap</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Kazakhstan</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mirror gap ($ millions)</td>
<td>1,851</td>
<td>2,084</td>
<td>3,121</td>
<td>4,402</td>
<td>3,810</td>
<td>4,759</td>
</tr>
<tr>
<td>Ratio of official imports to mirror imports (China excluded) (%)</td>
<td>70</td>
<td>70</td>
<td>73</td>
<td>73</td>
<td>70</td>
<td>n.a.</td>
</tr>
<tr>
<td>Ratio of official imports to mirror imports from China (%)</td>
<td>8</td>
<td>9</td>
<td>8</td>
<td>7</td>
<td>6</td>
<td>n.a.</td>
</tr>
<tr>
<td>Share of China in mirror gap (%)</td>
<td>93</td>
<td>92</td>
<td>93</td>
<td>95</td>
<td>94</td>
<td>n.a.</td>
</tr>
<tr>
<td><strong>Kyrgyz Republic</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mirror gap ($ millions)</td>
<td>427</td>
<td>1,279</td>
<td>2,316</td>
<td>6,819</td>
<td>3,328</td>
<td>2,239</td>
</tr>
<tr>
<td>Ratio of official imports to mirror imports (China excluded) (%)</td>
<td>21</td>
<td>23</td>
<td>27</td>
<td>77</td>
<td>55</td>
<td>90</td>
</tr>
<tr>
<td>Ratio of official imports to mirror imports from China (%)</td>
<td>4</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Share of China in mirror gap (%)</td>
<td>85</td>
<td>94</td>
<td>97</td>
<td>100</td>
<td>99</td>
<td>100</td>
</tr>
<tr>
<td><strong>Memorandum</strong>: total mirror gap ($ millions)</td>
<td>2,278</td>
<td>3,363</td>
<td>5,437</td>
<td>11,221</td>
<td>7,138</td>
<td>6,998</td>
</tr>
<tr>
<td>Share of Kyrgyz Republic in total bazaar trade gaps (%)</td>
<td>19</td>
<td>38</td>
<td>43</td>
<td>61</td>
<td>47</td>
<td>32</td>
</tr>
</tbody>
</table>

*Source:* Authors’ calculations based on the world’s, Kazakhstan’s, and the Kyrgyz Republic’s reporting to the UN COMTRADE database.

*Note:* n.a. = not available.
rendering their value irrelevant from the government’s perspective. Until July 2010, Kazakhstan exempted traders with cargoes not exceeding 50 kilograms and $1,000 value of border charges and offered a simplified customs procedure for moderate levels of standard trade (Kazakhstan 2005). These shipments have been rarely properly recorded by customs. These special Kazakhstani and Kyrgyz procedures facilitating shuttle trade constitute one of the many causes of positive trade gaps. Although unreported, this trade has been largely legal.

In summary, statistical analysis shows convincingly that a very large portion of bazaar goods imported into both the Kyrgyz Republic and Kazakhstan had moved through the shuttle-trading channel and was distributed through bazaars. Evidence suggests that most of the flow into Kazakhstan was distributed nationwide domestically, with a small portion—as indicated by the Barakholka bazaar survey—going abroad; whereas the reverse was true for the Kyrgyz Republic, as will be reported in the next section. The next step will concern the amounts of re-exports of products imported from outside the four Central Asian countries.

**Step 3: Re-exports: Sources, Products, and Amounts**

The objectives of the third step are twofold: first, to identify the sources of re-exports and their likely destination, and, second, to assess the value of bazaar goods imported mainly from China that are not consumed domestically and are available for re-exports. The path to achieving the first objective is relatively straightforward. Both surveys and the size of unreported imports of bazaar goods point in one direction: large bazaars in the Kyrgyz Republic.

**Sources of re-exports in Central Asia: Sources and Import Specialization Indexes (ISIs).** The surveys report considerable amounts of bazaar sales to residents of foreign countries, as well as the engagement of local traders in moving products, both domestic and imported, to bazaars across borders. The share of foreign sales was particularly high for bazaars in the Kyrgyz Republic (see table 5.1), some of which have infrastructure developed for this purpose. For instance, Dordoi bazaar has three roofed bus terminals servicing destinations not only in the Kyrgyz Republic but also in Kazakhstan, Siberia, and Western Siberia in Russia.

Statistics on mirror imports confirm significant involvement of Kyrgyz bazaars in re-exports of mainly Chinese bazaar goods. The Kyrgyz propensity to import bazaar goods was exceptionally well above that of other Central Asian countries. Between 28 percent in 2010 and
53 percent in 2008 of all imports of bazaar goods into Central Asia went to the Kyrgyz Republic, while the Kyrgyz share in the aggregate GDP of Central Asia was around 3 percent in 2005–10. Imports of these goods per capita were the highest among Central Asian countries, exceeding even Kazakhstan’s imports per capita. As well, the value of these imports in terms of the GDP was also highest by far, reaching 53 percent in 2010, down from 76 percent in 2009, and 157 percent in an atypical 2008. The most eye-catching is the difference in imports of these goods by the Kyrgyz Republic and Uzbekistan. Tajikistan appears to have been moving in the direction of Kyrgyz levels of imports, although it still has a long way to go; these imports amounted to 14 percent of its GDP in 2010 as compared with 53 percent for the Kyrgyz Republic (table 5.9).

### Table 5.9 Features of Bazaar Imports into Central Asia, 2006

<table>
<thead>
<tr>
<th>Bazaar imports</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>Index 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Imports of bazaar goods per capita ($)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>150</td>
<td>175</td>
<td>256</td>
<td>339</td>
<td>282</td>
<td>335</td>
<td>223</td>
</tr>
<tr>
<td>Kyrgyz Rep.</td>
<td>89</td>
<td>256</td>
<td>453</td>
<td>1,345</td>
<td>656</td>
<td>450</td>
<td>505</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>11</td>
<td>18</td>
<td>30</td>
<td>133</td>
<td>93</td>
<td>111</td>
<td>983</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>215</td>
</tr>
<tr>
<td><strong>Imports of bazaar goods in terms of GDP (%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>96</td>
</tr>
<tr>
<td>Kyrgyz Rep.</td>
<td>19</td>
<td>47</td>
<td>62</td>
<td>157</td>
<td>76</td>
<td>53</td>
<td>287</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>18</td>
<td>13</td>
<td>14</td>
<td>436</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>91</td>
</tr>
<tr>
<td><strong>Memorandum:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share of Kyrgyz Rep. in Central Asia’s GDP (%)</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>74</td>
</tr>
<tr>
<td>Share of Kyrgyz Rep. in Central Asia’s bazaar imports (%)</td>
<td>16</td>
<td>31</td>
<td>35</td>
<td>53</td>
<td>40</td>
<td>28</td>
<td>175</td>
</tr>
<tr>
<td>Share of Tajikistan in Central Asia’s GDP (%)</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>97</td>
</tr>
<tr>
<td>Share of Tajikistan in Central Asia’s bazaar imports (%)</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>7</td>
<td>7</td>
<td>9</td>
<td>348</td>
</tr>
</tbody>
</table>

**Source:** Authors’ calculations based on world reporting to the UN COMTRADE database and the World Bank’s World Development Indicators database.
The exorbitant amounts of Kyrgyz mirror imports of bazaar goods cannot be explained by differences in respective productive structures, levels of GDP per capita, or consumer tastes, only by the existence of re-export activities.

Another likely source of re-export activities is bazaars in Tajikistan, which had excessively high imports of bazaar goods relative to its level of economic development that began in 2008, that is, during and after the surveys. The value of imports increased more than four-fold in 2008, to $133 million from $30 million in 2007. While the value of imports was around one-tenth of Kyrgyz imports, it still amounted to 18 percent of the GDP compared to Kazakhstan’s 4 percent.

Moreover, the involvement of Kazakhstan’s network of bazaars in some re-export activities cannot be excluded. According to the 2008 survey, bazaars in Kazakhstan and Tajikistan sell imported products mainly to domestic consumers but also serve as a conduit for further re-exports that often originate in the Kyrgyz Republic. According to the survey, total foreign sales of surveyed Kazakhstani bazaars were around $100 million and those of Tajik bazaars was around $5 million in 2007.

Another task is to estimate the amounts of re-exported products from outside the four Central Asian economies with bazaars serving as re-export platforms. Likely candidates for re-exports from one of these countries can be easily identified: these are products whose mirror imports into a Central Asian country as compared to those into other Central Asian countries reveal an unexpected proclivity to be consumed that cannot be explained by the country’s production activities, levels of national income, or consumer tastes. This can be captured by an index of revealed comparative advantage (RCA) modified in two respects: first, it is applied to imports rather than exports; second, as it seeks to capture regional rather than world specialization, it is applied to Central Asia’s mirror imports of bazaar goods rather than to their world imports. The latter makes it similar to the export specialization index, whereas the former applies it against imports rather than exports. Therefore it can be called import specialization index.

The import specialization index is the ratio of the share of a given product in a Central Asian country’s total imports to the share of that same product in Central Asia’s total imports. If a product’s ISI value is above unity, then a country has a revealed “import” comparative advantage: it specializes in imports of this product. The logic behind applying an export specialization version of RCA to imports can be summarized
as follows: relatively large imports indicate the use of a product for further processing, which points to a country’s participation in the division of labor based on product fragmentation but only insofar as these are production inputs. Otherwise, as is the case of final consumption products, firms and individuals from a country likely engage in re-export activities. This leads to a further cut in the scope of products relevant for this analysis. Table 5.10 presents imports of major bazaar goods and values of ISI for major categories of bazaar imports by Central Asian countries.

An examination of ISI values for Central Asia’s economies sheds more light on the extent of re-export activities and their directions. “Excessive” imports relative to those of other Central Asian countries, as captured by the values of the ISI exceeding unity, are abundantly present in the Kyrgyz Republic’s import basket and, to a growing extent, in Tajikistan’s import basket (table 5.10). At the other extreme is Uzbekistan, with ISI values close to zero, indicating a very low appetite for imported consumer goods.

Kazakhstan’s performance was distinctive: In 2005, its ISI exceeded unity for all product groups in table 5.10, except fabrics. They were below unity for all groups of bazaar goods in 2006–09, and they exceeded unity for imports of luggage and footwear in 2010. Although the reasons are unclear, these results may be related to changes in the customs regime for shuttle trading in Kazakhstan and the Kyrgyz Republic and their impact on non-standard imports of bazaar goods. The introduction of simplified procedures for imports of Chinese products in 2005 probably increased imports not recorded in Chinese foreign trade statistics. A similar change, friendly to shuttle trading, in the Kyrgyz customs regime in late 2004 might have led to redirecting exports to Kazakhstan through the Kyrgyz Republic with a year’s delay. Kazakhstan’s unreported bazaar imports increased 13 percent in 2006, compared with a massive increase of 200 percent in the Kyrgyz Republic’s imports. In subsequent years, the gaps in growth rates were smaller but still significant: 31 percentage points in 2007 and 153 percentage points in 2008 (based on data in table 5.8). The period 2009–10 witnessed a reversal, with annual growth rates in Kyrgyz imports of –51 percent and –33 percent, and Kazakhstan’s imports decreased 13 percent and then grew 25 percent in respective years (see table 5.8) This reversal also points to the decline in the significance of Kyrgyz bazaars as re-export platforms in 2009–10 and the increase in non-standard flows going directly to Kazakhstan’s bazaars.
### Table 5.10  ISI Values of Central Asian Economies by HS Category and Imports of Selected Groups of Bazaar Goods, 2005–10

<table>
<thead>
<tr>
<th>Country</th>
<th>Value of imports ($ millions)</th>
<th>ISIs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total mirror imports of apparel (HS 61–63)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>1,213</td>
<td>1,644</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>313</td>
<td>972</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>34</td>
<td>57</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>26</td>
<td>30</td>
</tr>
<tr>
<td>Central Asia</td>
<td>1,586</td>
<td>2,703</td>
</tr>
<tr>
<td><strong>Total mirror imports of fabrics (HS 50–56+58–60)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>163</td>
<td>185</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>240</td>
<td>332</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>17</td>
<td>34</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>65</td>
<td>98</td>
</tr>
<tr>
<td>Central Asia</td>
<td>485</td>
<td>649</td>
</tr>
<tr>
<td><strong>Total mirror imports of clothing accessories (HS 4203+4303)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>62</td>
<td>37</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>2</td>
<td>17</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Central Asia</td>
<td>65</td>
<td>56</td>
</tr>
</tbody>
</table>

(continued next page)
Table 5.10  (continued)

<table>
<thead>
<tr>
<th>Country</th>
<th>Value of imports ($ millions)</th>
<th>ISIs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total mirror imports of footwear (HS 64)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>734</td>
<td>578</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>100</td>
<td>298</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>12</td>
<td>18</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>12</td>
<td>16</td>
</tr>
<tr>
<td>Central Asia</td>
<td>858</td>
<td>910</td>
</tr>
<tr>
<td>Total mirror imports of luggage (HS 4202)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>52</td>
<td>54</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>12</td>
<td>31</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Central Asia</td>
<td>67</td>
<td>88</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on data reported in partners’ statistics to the UN COMTRADE database.

Note: HS = Harmonized System; ISI = import specialization index.
**Estimating flows of re-exports.** Having established the location of re-export platforms and products available for re-export, the next task is to estimate the values of these re-exports. First, estimates of domestic consumption of bazaar goods must be made in order to identify “surpluses,” that is, amounts that could not possibly be consumed domestically. Before calculating the estimates that can be derived from mirror foreign trade statistics, the findings from the surveys together with all the necessary qualifications that have to be made in assessing the data are presented as follows.

The Kyrgyz Republic has emerged as a major re-export platform or source of supply of bazaar goods to bazaars in other Central Asian countries (Kaminski and Raballand 2009), albeit with a caveat, which is that its import specialization also indicates a large presence of imports that may be used domestically for further processing rather than final consumption. Kyrgyz traders appear to have acquired a competitive edge over their counterparts in other Central Asian countries in their ability to procure goods from the most cost-efficient sources and to identify demand for them. Kyrgyz bazaars attract traders from all Central Asian countries. For instance, according to the study’s estimate, around $1.6–2.0 billion worth of “bazaar goods” imports brought into the Kyrgyz Republic in 2006 were either sold to foreign traders or domestic producers of clothing.10

By the same token, a large portion of imported goods sold in bazaars across Central Asia “touched” the Kyrgyz Republic. The geography of regular transportation links out of the bazaar-hub in Dordoi points to significant flows of goods to Kazakhstan and Tajikistan.11 Some of these imported products are consumed there or further “migrate” to Uzbekistan or southern Russia through bazaars.

Further caveats are as follows: (1) the survey estimates are limited only to Central Asian imports originating outside Central Asia; (2) by the same token, they do not include intra-Central Asian trade in locally produced goods that are sold at bazaars; and (3) neither do they include local trade in locally produced goods, as the inclusion of both would significantly raise their weight in Central Asian economies.

Another caveat is that products covered by an empirical analysis had to meet demanding criteria that excluded many imported products observable at bazaars. These criteria included: consumption-use; ease of transport; shuttle-trade prone, that is, positive mirror trade gaps (as revealed in Kazakhstan’s and the Kyrgyz Republic’s imports juxtaposed against world exports or mirror imports); and their observed presence in
bazaars. Consequently, some products traded in bazaars across Central Asia were not covered further, which depressed bazaars’ participation in mediating foreign trade flows.

And yet another caveat is that bazaars in Kazakhstan and Tajikistan used to sell imported products mainly to domestic consumers, but, as both World Bank surveys indicate, they also served as a conduit for further re-exports often originating in the Kyrgyz Republic. According to the 2008 survey, total foreign sales of the surveyed Kazakhstani bazaars were around $100 million and those of Tajik bazaars amounted to around $5 million. These numbers pale when cast against the estimated aggregate exports of surveyed Kyrgyz bazaars of $2.7 billion.\textsuperscript{12}

While the above estimates are derived from the bazaar survey, the following analysis derives from foreign trade and GDP statistics. In order to assess the portion of imports available for re-exports, the domestic consumption of imported products must be estimated, simply because respective national statistical agencies do not compile these statistics.\textsuperscript{13} Furthermore, these imported goods have to be brought, stored, and marketed at a bazaar. All these activities generate costs to some and revenues to others; they create employment opportunities for people directly involved not only in trading but also in induced services. Consequently, the value of mirror imports has to be increased to account for both the cost of bringing goods to the Kyrgyz border as well as then moving them through the Kyrgyz Republic to borders of neighboring countries. Box 5.1 discusses the assumptions made to generate estimates of re-exports originating in the Kyrgyz Republic.

Estimates of the value of Kyrgyz re-exports give ballpark figures that indicate the direction of change (table 5.11). They are just approximations derived from the following assumptions (discussed in box 5.1): (1) cost of freight and insurance of imported goods is equal to 5 percent ad valorem; (2) Kyrgyz domestic consumption of imported bazaar goods per capita equals that of Tajikistan, plus 25 percent, except for fabrics used as inputs by the Kyrgyz clothing sector, but not to exceed 5.5 percent of the Kyrgyz GDP; (3) the maximum aggregate value of foreign sales of bazaars is $2.7 billion, and (4) value-added of these sales is 10 percent ad valorem, with amounts exceeding this threshold referred to as transshipments generating 0.25 percent ad valorem.

Three observations can be made from the data in table 5.11: (1) the portion re-exported significantly expanded from 66 percent in 2005 to the peak of 93 percent in 2008 and fell to 86 percent and 80 percent in
Box 5.1

Estimates of the Scope of Entrepôt Activities in the Kyrgyz Republic

The question relevant to an assessment of the welfare impact of the non-standard trading channel is the size of the value-added by re-export or entrepôt activities. Value-added of re-exports activity refers to the difference between the value of imports, including the cost of insurance and freight (c.i.f.), at the point of entry into the Kyrgyz Republic and the value of this shipment at the exit of Kyrgyz customs territory. Hence, the task is fourfold: identifying goods moving through the non-standard channel; estimating the value of imports going through the non-standard channel; assessing their domestic consumption; and estimating the value-added by activities associated with logistics and sales.

Products: Imported bazaar goods from countries outside the Commonwealth of Independent States are defined as including HS 50–60—fabrics; HS 4202—luggage; HS 4203—articles of leather apparel; HS 61—articles of apparel, accessories, knit or crochet; HS 62—articles of apparel, accessories, not knit or crochet; HS 63—other made textile articles, sets, worn clothing, etc.; HS 64—footwear, gaiters and the like, parts thereof; HS 65—headgear and parts thereof; HS 66—umbrellas, walking-sticks, seat-sticks, whips, etc.; HS 67—bird skin, feathers, artificial flowers, human hair; HS 69—ceramic products; HS 70—glass and glassware; HS 91—clocks and watches and parts thereof; and HS 95—toys, games, sports requisites. Although food products are also traded in bazaars and move through non-standard channels, they are mostly produced in neighboring Central Asian countries. They are assessed separately but using the similar method depicted above.

Estimate of the value of imports: The survey used statistics of partner countries, as reported to the UN COMTRADE database, of their exports (mirror imports) of the above products to the Kyrgyz Republic and—depending on the needs—also to other Central Asian countries, as well as Russia. Since exports are usually free on board and imports are c.i.f., their values must be increased to reflect the cost of moving products from their origination to their destination. For the purpose of this analysis, the assumption was that the c.i.f. adds 5 percent to the value of exports. The value of imports through the non-standard channel thus equals the value of mirror imports (partners’ exports raised by 5 percent) minus official imports.

Domestic consumption: To assess the portion of imports available for re-export, the domestic consumption of imported products must first be estimated, because the respective national statistical agencies do not compile these statistics. There are several ways that these estimates can be made: (1) a country (continued next page)
Box 5.1 (continued)

meets two conditions: it is not involved in re-exports of “bazaar products” and it is at a similar level of gross domestic product (GDP) per capita (for example, Tajikistan is the best comparator for the Kyrgyz Republic); (2), use the relative level of GDP with regard to other regional Central Asian partners as a determinant of its domestic consumption; thus, domestic consumption is equal to the difference between a country’s mirror imports and the value of mirror imports weighted by a country’s share in total GDP of Central Asia; and (3) use the mirror imports per capita in Central Asia to obtain domestic consumption in a country. The problem with both the third and the second method is the variety in GDP per capita in Central Asia (Kazakhstan, the Kyrgyz Republic, Tajikistan, and Uzbekistan): Kazakhstan accounts for 29 percent of Central Asia’s population and 74 percent of the aggregate regional GDP and its GDP per capita is more than 10 times higher than in the Kyrgyz Republic and Tajikistan. Thus, the use of an average as a benchmark would be counterproductive: instead we used Tajikistan’s imports per capita plus 25 percent to take into account the higher GDP per capita in the Kyrgyz Republic (of roughly 25 percent) to estimate domestic consumption of bazaar goods in the Kyrgyz Republic.

Note: Given that the Kyrgyz Republic has become a successful producer of clothing and a larger share of imported fabrics is consumed domestically, researchers assumed that domestic consumption of fabrics is equal to 70 percent of the total mirror imports of fabrics from the rest of the world (see box 5.2). HS = Harmonized System.

Table 5.11 Estimates of Re-Exports of the Kyrgyz Republic in 2006–10 ($ millions)

<table>
<thead>
<tr>
<th>Re-exports by product category</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total mirror imports of bazaar goods from ROW⁴</td>
<td>433</td>
<td>1,331</td>
<td>2,417</td>
<td>7,137</td>
<td>3,472</td>
<td>2,329</td>
</tr>
<tr>
<td>Total mirror imports of fabrics from ROW</td>
<td>252</td>
<td>350</td>
<td>525</td>
<td>1,011</td>
<td>839</td>
<td>913</td>
</tr>
<tr>
<td>Total above</td>
<td>685</td>
<td>1,681</td>
<td>2,942</td>
<td>8,148</td>
<td>4,311</td>
<td>3,242</td>
</tr>
<tr>
<td>Total above per capita (US$)</td>
<td>133</td>
<td>324</td>
<td>563</td>
<td>1,544</td>
<td>796</td>
<td>592</td>
</tr>
<tr>
<td>Estimate of domestic consumption</td>
<td>277</td>
<td>367</td>
<td>601</td>
<td>906</td>
<td>877</td>
<td>909</td>
</tr>
<tr>
<td>Of which: bazaar goods</td>
<td>73</td>
<td>114</td>
<td>198</td>
<td>282</td>
<td>258</td>
<td>254</td>
</tr>
<tr>
<td>Of which: fabrics</td>
<td>204</td>
<td>253</td>
<td>403</td>
<td>624</td>
<td>620</td>
<td>655</td>
</tr>
<tr>
<td>Estimate of the value of re-exports</td>
<td>449</td>
<td>1,445</td>
<td>2,575</td>
<td>7,549</td>
<td>3,729</td>
<td>2,591</td>
</tr>
<tr>
<td>Of which: transshipment</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>4,579</td>
<td>759</td>
<td>0</td>
</tr>
<tr>
<td>Of which: bazaars</td>
<td>449</td>
<td>1,445</td>
<td>2,575</td>
<td>2,970</td>
<td>2,970</td>
<td>2,591</td>
</tr>
</tbody>
</table>

Source: Authors’ estimates.

Note: ROW = rest of the world.

a. Excluding fabrics and imports from the Commonwealth of Independent States.
2009–10; (2) not all unreported mirror imports went through bazaars: transhipments were huge in 2008–09; and (3) while domestic consumption of bazaar goods expanded, fabrics accounted on average for 70 percent of their total domestic consumption.

According to the mirror trade analysis, Tajik bazaars also seem to serve as platforms for re-exports, although for a relatively narrow group of products and on a much smaller scale than their counterparts in the Kyrgyz Republic. The values of ISI for Tajikistan, mostly negative in 2005–07, became positive in 2008–10 for a wide range of products that include apparel, fabrics, footwear, and luggage (see table 5.10). More pointedly, imports of bazaar goods skyrocketed to levels indicating re-exports. What was the value of these re-exports?

Tajikistan’s share in total Central Asia’s mirror imports of bazaar goods more than tripled between 2005 and 2010, from 3 to 10 percent, and imports of apparel and footwear per capita increased almost ten times, from $11 in 2006 to $101 in 2010 (see tables 5.4 and 5.5), indicating possible re-exports through bazaars. Given a well-developed network of bazaars and the unlikelihood of high domestic consumption of Chinese bazaar goods, it may be assumed that a large portion of these imports was intermediated through bazaars and then re-exported.

In the absence of official disaggregated foreign trade data, only back-of-the-envelope calculations are possible for illustrative purposes. Table 5.12 presents estimates of the value of re-exports based on the assumptions that domestic consumption of imported bazaar goods is around 5 percent of the GDP, which was an average for 2005–07, and that the c.i.f. amounts to 5 percent of the value of mirror imports. In contrast to the Kyrgyz Republic, re-exports from Tajikistan, after a significant contraction in 2009, rebounded in 2010, although they still stood at 77 percent of their peak re-exports in 2008.

Table 5.12 Estimates of Domestic Consumption of Bazaar Goods and Their Re-Exports from Tajikistan, 2005–10 ($ millions)

<table>
<thead>
<tr>
<th>Bazaar goods estimates</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic consumption</td>
<td>127</td>
<td>155</td>
<td>204</td>
<td>283</td>
<td>273</td>
<td>309</td>
</tr>
<tr>
<td>(5% of the GDP)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Re-exports from</td>
<td>0</td>
<td>0</td>
<td>11</td>
<td>737</td>
<td>447</td>
<td>568</td>
</tr>
<tr>
<td>Tajikistan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on partners’ foreign trade data from the UN COMTRADE database and GDP data from the World Bank’s World Development Indicators database.

Note: GDP = gross domestic product.
In all, the total re-exports of bazaar goods from the Kyrgyz Republic and Tajikistan grew explosively, from $449 million in 2005 to $8.3 billion in 2008, and then dramatically contracted. As was argued here, it remains unclear whether it is the beginning of the decline of bazaars as platforms for re-exports of Chinese consumer goods or the end of transshipment operations through the Kyrgyz Republic, which appear to have been accountable for the sudden explosion in 2008.

**Destinations of re-exports.** Except for a broad estimate that all re-exports from the Kyrgyz Republic and Tajikistan go to Kazakhstan, Uzbekistan, and Russia, the surveys could not generate more detailed information concerning the direction of re-exports. Therefore, it is possible only to speculate on the basis of mirror imports relative to a country’s size and level of economic development.

Both Kazakhstan and Uzbekistan were destinations for products originating in the bazaars of the Kyrgyz Republic. Uzbekistan displayed unusual patterns of very low imports of consumer goods in general and bazaar goods in particular relative to its other mirror imports. Kazakhstan’s “import specialization” pattern is in line with its overall import demand, albeit with some qualifications. Bazaar surveys also suggest that consumption of imported bazaar goods in Kazakhstan was larger than the levels of mirror imports would indicate.

Hence, mirror import statistics indicate that both countries were destinations for re-exports originating mainly in the Kyrgyz Republic and to a much smaller extent in Tajikistan. The Kyrgyz Republic clearly “over-imports,” as it cannot afford to consume all the bazaar goods it imports, whereas Uzbekistan “under-imports,” because its consumption of consumer goods, given its level of economic development and production output, is significantly larger than indicated in mirror foreign trade statistics, the only source of available information.

**Exports of Kyrgyz Clothing through the Bazaar Channel**

Mirror foreign trade statistics provide indirect evidence that clothing has indeed become an international specialization of the Kyrgyz Republic. The amounts of mirror imports relative to imports of other products traded in bazaars point to a surprisingly high propensity to trade clothing and fabrics at the expense of other bazaar goods, a propensity that can only be explained by the use of imported fabrics for production of garments that are in turn exported through bazaar intermediation. The ISI
value averages for 2007–10 were 4.4 for fabrics and 4.1 for clothing accessories. They indicate levels of specialization within Central Asia well above those achieved for other products (table 5.10).

As can be seen from table 5.13, the country’s share in total mirror imports of apparel was well below its share in imports of inputs to their production in 2007–10. The average for fabrics and clothing accessories was 61 percent and for apparel was 41 percent. Considering that transport costs for fabrics are higher than for garments, and border charges on imports of fabrics tend to be significantly lower than for finished products, huge levels of Kyrgyz imports can be explained by the demand of local garment industries.

While it cannot be ignored that the Kyrgyz Republic has become a logistics hub for supplying fabrics and clothing accessories to other producers in the region, it would be difficult to identify factors explaining its specialization in re-exports of garment inputs. Except for Uzbekistan, which nonetheless maintained its position as the third largest importer of fabrics, neither fabrics nor clothing accessories have been subject to particularly high levels of tariff protection, and the rates did not vary greatly across countries. In fact they ranged, on average, between 6 percent in Kazakhstan’s tariff schedule and 10.1 percent in Russia’s tariff schedule. The Kyrgyz tariff for fabrics averaged 5.9 percent.

The most likely explanation, also supported in the surveys, is the expansion of domestic production of apparel marketed mainly through large bazaars in Dordoi, Karasu, and Madina. While the official data appear to significantly play down the real success story of clothing industries in the Kyrgyz Republic and their contribution to exports growth,

| Table 5.13 Mirror Imports into the Kyrgyz Republic of Textiles and Clothing and Their Share in Total Central Asian Mirror Imports, 2007–10 |
|---------------------------------|------|------|------|------|
| **Imports/HS categories**       | 2007| 2008| 2009| 2010|
| Value of mirror imports ($ millions) |      |      |      |      |
| Fabrics and clothing accessories (HS 50–56, 58–60, 4203, 4303) | 545 | 1,019 | 847 | 887 |
| Apparel (HS 61–63) | 1,726 | 5,402 | 2,519 | 1,865 |
| Share of total Central Asian imports (%) |      |      |      |      |
| Fabrics and clothing accessories (HS 50–56, 58–60, 4203, 4303) | 57 | 62 | 63 | 61 |
| Apparel (HS 61–63) | 38 | 54 | 42 | 30 |

Source: Authors’ calculations based on world reporting to the UN COMTRADE database.
Note: HS = Harmonized System.
both the results of the surveys and the mirror trade statistics identify garments as a great success. Clothing labeled “Made in Kyrgyzstan” has been spotted in bazaars not only across Central Asia but also in Russia. Interviews with traders in Kazakhstan—Barakholka (Almaty) and Shanghai (Astana)— and in Tajikistan—Korvon (Dushanbe)—identified Kyrgyz garments, originating mainly in Dordoi (Bishkek), among major clothing items traded there.

The magnitude of exports of domestically produced clothing is difficult to establish solely on the basis of mirror imports of fabrics and accessories. Not all imports into the Kyrgyz Republic, barring domestic consumption, wind up as re-exports. Two features of this trade stand out: the scope and dynamics of imports of clothing accessories, strongly suggesting a very rapid growth of the Kyrgyz apparel and clothing sector. Consider first the size: Kyrgyz imports of fabrics per capita were by far the highest among CIS countries in 2005–09. Their edge over other countries has been astounding: for instance, Moldova, the consistent second largest per capita importer of fabrics, known to be intensively engaged in outward processing trade for EU markets, was about $100 per capita below the levels of fabrics imported by the Kyrgyz Republic of $182 and $147 in 2008 and 2009, respectively. The Kyrgyz Republic’s share in total imports of former Soviet republics increased from 6 percent in 2005–06 to 15 percent in 2009. The Kyrgyz Republic accounted for more than 60 percent of total imports of fabrics in Central Asia in 2008–09, up from around 50 percent in 2005–06.16

The expansion of both fabrics and accessories, in particular clothing accessories, cannot be explained solely by the expanding demand for these products in neighboring countries. While imports of fabrics increased impressively in 2005–09, registering the LSG rate of 35 percent, the growth in imports of clothing accessories has been astounding. Its imports grew at the LSG rate of 72 percent in 2005–09. As a result, its share in Central Asia’s imports increased from 4 percent in 2005 to 30 percent in 2006 and kept growing each year to reach 68 percent in 2009.

Moreover, a closer examination of the dynamics of major bazaar goods imports in 2006–10 reveals that the Kyrgyz mirror imports of fabrics were not affected by the great contraction of 2009–10 when Kyrgyz mirror imports of all bazaar goods fell almost 60 percent. Between 2008 and 2010, the value of total imports of bazaar goods into the Kyrgyz Republic fell $5 billion (the total across double-digit HS items for which imports were in negative territory), with apparel and clothing accounting for
68 percent of this contraction and footwear for 22 percent. Fabrics contributed only 2 percent to the total contraction. Moreover, the value of these imports increased 8 percent in 2010, with the share in Kyrgyz mirror imports of bazaar goods going up from 11 percent in 2008 to 25 percent in 2010. Imports of cotton, knitted fabrics, and manmade filaments dramatically expanded in 2010 over 2008, indicating that they were probably used for domestic production (table 5.14).

Although imports of mostly Chinese clothing and apparel into the Kyrgyz Republic were responsible on average in 2005–10 for almost two-thirds of total imports of bazaar goods, Kyrgyz producers appear to have been successful in expanding their sales. Clearly this should not suggest that the contraction of these imports reaching $3.4 billion in 2010 over 2008 was triggered by Kyrgyz products replacing Chinese imports. Whatever the reasons for this contraction, they only affected the value of re-exports of Chinese clothing and did not have much to do with domestic consumption of imported fabrics and clothing accessories. A more significant point is that Kyrgyz producers of clothing successfully withstood competition from Chinese, practically duty-free, imports.

The change in the composition of imports of fabrics in the Kyrgyz Republic also raises suspicion that evolving fashion requirements of clothing has been the force behind this change. As can be clearly seen from data in table 5.14, imports of cotton and knitted or crocheted fabrics have been steadily growing since 2006, with those of cotton doubling in value in 2010, whereas imports of special woven or tufted fabrics have been falling since 2009.

Without an in-depth sectoral study and surveys of clothing firms, only educated guesses are possible about the value of these exports based on foreign trade mirror statistics, that is, those of the Kyrgyz Republic’s trading partners. For a discussion of the method used to estimate these assumptions, see box 5.2. Table 5.15 presents the results of the estimates of Kyrgyz exports of garments through the non-standard channel.

The estimated total value of Kyrgyz apparel and clothing exported through both non-standard and standard channels showed strong growth in 2006–10. Not surprisingly, the largest estimate is based on the assumption that the share of imported inputs in gross value of output is equal to that of Vietnam in 2001, that is, 40.4 percent of the total cost. Two other estimates—one based on the assumption that the share of imported inputs amounts to 60 percent of the total cost, and another based on the average ratio of Moldova’s—a country whose clothing industry may have similar structure and scope of backward linkages as in the Kyrgyz
Table 5.14 Surge and Contraction in Kyrgyz Bazaar Imports, 2006–10

<table>
<thead>
<tr>
<th>HS</th>
<th>Item</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>Change in 2010 over 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>61–63</td>
<td>Apparel and clothing</td>
<td>940</td>
<td>1,712</td>
<td>5,510</td>
<td>2,639</td>
<td>2,069</td>
<td>–62.4</td>
</tr>
<tr>
<td>64</td>
<td>Footwear, gaiters, parts</td>
<td>292</td>
<td>530</td>
<td>1,516</td>
<td>826</td>
<td>414</td>
<td>–72.7</td>
</tr>
<tr>
<td>50–56 and 58–60</td>
<td>Fabrics, of which</td>
<td>279</td>
<td>438</td>
<td>887</td>
<td>742</td>
<td>805</td>
<td>–9.3</td>
</tr>
<tr>
<td>52</td>
<td>Cotton</td>
<td>4</td>
<td>5</td>
<td>72</td>
<td>76</td>
<td>149</td>
<td>105.7</td>
</tr>
<tr>
<td>54</td>
<td>Manmade filaments</td>
<td>62</td>
<td>102</td>
<td>131</td>
<td>161</td>
<td>221</td>
<td>68.4</td>
</tr>
<tr>
<td>58</td>
<td>Special woven or tufted</td>
<td>89</td>
<td>213</td>
<td>386</td>
<td>212</td>
<td>45</td>
<td>–88.3</td>
</tr>
<tr>
<td>60</td>
<td>Knitted or crocheted fabric</td>
<td>45</td>
<td>47</td>
<td>159</td>
<td>172</td>
<td>240</td>
<td>51.3</td>
</tr>
<tr>
<td>All bazaar goods</td>
<td></td>
<td>1,512</td>
<td>2,723</td>
<td>7,902</td>
<td>4,208</td>
<td>3,206</td>
<td>–59.4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>HS</th>
<th>Item</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>61–63</td>
<td>Apparel and clothing</td>
<td>62.2</td>
<td>62.9</td>
<td>69.7</td>
<td>62.7</td>
<td>64.5</td>
</tr>
<tr>
<td>64</td>
<td>Footwear, gaiters, parts</td>
<td>19.3</td>
<td>19.5</td>
<td>19.2</td>
<td>19.6</td>
<td>12.9</td>
</tr>
<tr>
<td>50–56 and 58–60</td>
<td>Fabrics, of which</td>
<td>18.4</td>
<td>16.1</td>
<td>11.2</td>
<td>17.6</td>
<td>25.1</td>
</tr>
<tr>
<td>52</td>
<td>Cotton</td>
<td>0.3</td>
<td>0.2</td>
<td>0.9</td>
<td>1.8</td>
<td>4.6</td>
</tr>
<tr>
<td>54</td>
<td>Manmade filaments</td>
<td>4.1</td>
<td>3.7</td>
<td>1.7</td>
<td>3.8</td>
<td>6.9</td>
</tr>
<tr>
<td>58</td>
<td>Special woven or tufted</td>
<td>5.9</td>
<td>7.8</td>
<td>4.9</td>
<td>5.0</td>
<td>1.4</td>
</tr>
<tr>
<td>60</td>
<td>Knitted or crocheted fabric</td>
<td>3.0</td>
<td>1.7</td>
<td>2.0</td>
<td>4.1</td>
<td>7.5</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on partners’ export data reported to the UN COMTRADE database.

Note: HS = Harmonized System.
Estimates of Unrecorded Exports of Apparel Produced in the Kyrgyz Republic Using Imported Fabrics

The Kyrgyz Republic reports significant amounts of apparel exports in official statistics (about $100 million per year over 2008–10). The Kyrgyz Republic’s trade partners report even higher amounts of apparel imports from the Kyrgyz Republic (about $160 million per year over 2008–2010). However, given the outstanding values of fabrics and clothing accessories imported to the Kyrgyz Republic (about $180 per capita per year over 2008–10, or 20 percent of gross domestic product per capita), it is suspected that a large share of imported fabrics is used for apparel production, both for domestic consumption and exports. As various surveys indicate, Kyrgyz apparel is successfully exported to other countries in the Commonwealth of Independent States. A significant share of these exports is neither recorded in official exports of the Kyrgyz Republic nor in trade statistics of importers.

The procedure developed to estimate output of the garment sector is as follows:

1. **Estimate the imported inputs (fabrics and clothing accessories) available domestically for further processing**

   First, identify inputs in foreign trade statistics: Imported fabrics and clothing accessories from around the world are defined as including HS50—silk; HS51—wool, animal hair, horsehair yarn, and fabric thereof; HS52—cotton; HS53—vegetable textile fibers; HS54—manmade filaments; HS55—manmade staple fibers; HS56—wadding, felt, nonwovens, yarns, twine, cordage; HS58—special woven or tufted fabric, lace, tapestry; HS59—impregnated, coated, or laminated textile fabric; HS60—knitted or crocheted fabrics; HS4203—articles of apparel, and clothing accessories, of leather or composition leather; and HS4303—articles of apparel, clothing accessories, and other articles of fur skin.

   Second, estimate the value of imports of fabrics and clothing accessories: Use the statistics of partner countries, as reported to the UN COMTRADE database, of their exports (mirror imports) of the above products to the Kyrgyz Republic and, depending on the needs, to other Central Asian countries and Russia. Because exports are usually free onboard and imports incur cost, insurance, and freight (c.i.f.), their value must be increased to reflect the cost of moving products from their origin to their destination. For the purpose of this analysis, it was assumed that c.i.f. adds 5 percent to the value of exports to obtain the value of mirror imports.
The value of total imports of fabrics and clothing accessories thus equals the value of mirror imports (partners’ exports) increased by 5 percent.

Third, estimate the value of imports available for further processing in the apparel sector: This step requires estimating re-exports of these inputs through bazaars, that is, the non-standard channel (see box 5.1). Assuming that the proclivity to re-export textiles is the same as for all consumer goods, calculate the ratio of the value of the import specialization index (ISI) for consumer goods to that for fabrics in successive years and multiply it by the value of imports to arrive at the portion domestically processed. The logic is simple: re-exports of fabrics follow the same pattern as other consumer imports that contain products not included in the list of bazaar goods; the value of ISI for this portion of imports is roughly equal to this value for all consumer goods, excluding fabrics and clothing accessories. In other words, the propensity to consume them domestically is the same as that for other consumer goods.

2. Estimate the gross value of output of the clothing sector

Essentially, to assess the share of fabrics and accessories in export prices of garments, the researchers use as the frame of reference information available on the structure of costs in the clothing industry in 2001 in the four developing countries for which the data are available: China, India, Morocco, and Vietnam. Using the average for the latter two countries, generate the shares of labor, capital, and intermediate inputs as approximating conditions in the Kyrgyz clothing sector.

3. Allocate the estimated output of the garment sector to domestic consumption and foreign sales

In the absence of any data, use the share of foreign sales of 80 percent in total turnover of Dordoi, the largest bazaar in the Kyrgyz Republic; hence, assume that 20 percent is sold domestically and 80 percent sold abroad.a

4. Estimate foreign sales through standard and non-standard channels

Exports through the non-standard channels are those that are not reported in foreign trade statistics. Because the value of exports reported in Kyrgyz statistics is only a fraction of imports of clothing reported by importing countries, researchers treated these imports, corrected for cost of insurance and freight, as standard exports. The difference between the total output of clothing available for exports and mirror exports is equal to exports of clothing through non-standard channels.

Source: Based on Kaminski, Mironova, and Vashakmadze (2011).

a. This is an extremely conservative estimate. For instance, according to Ryskul Babayeva, chairman of the textile and light industry trade union, more than 90 percent of garments are exported (quoted from http://www.yarnsandfibers.com/news/index_fullstory.php3?id=22188, accessed June 20, 2011).
Table 5.15  Kyrgyz Exports of Clothing through the Non-Standard Channel ($ millions)

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of non-reported exports of clothing: non-standard channel</td>
<td>265</td>
<td>277</td>
<td>397</td>
<td>545</td>
<td>556</td>
<td>774</td>
</tr>
<tr>
<td>Memorandum: Imports reported in foreign statistics</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mirror exports as reported by Kyrgyz Republic’s trading partners (on FOB basis), of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports as reported by Kazakhstan and Russia</td>
<td>38</td>
<td>57</td>
<td>76</td>
<td>116</td>
<td>158</td>
<td>179</td>
</tr>
<tr>
<td>Exports as reported by Kazakhstan and Russia</td>
<td>27</td>
<td>55</td>
<td>75</td>
<td>115</td>
<td>105</td>
<td>177</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on export data submitted by other countries to the UN COMTRADE database.

Note: FOB = free on board.

Republic—exports of clothing to imports of fabrics and clothing accessories in 2005–10—yield similar estimates. The average of these two estimates was used to generate the study’s final estimate of total exports, subsequently broken down to those intermediated by bazaars, or non-standard and officially recorded, probably circumventing bazaars.17

Except for reported flows of imports by trading partners, there are no other firm data on direction of trade; still, there are reasons to believe that Kazakhstan and Russia have been the major recipients of exports going through the non-standard channel. On the basis of the bazaar survey, around 80 percent of these exports went to Kazakhstan and Russia, with the balance shipped to Tajikistan and Uzbekistan. The share of Kazakhstan and Russia in total imports of Kyrgyz apparel and clothing, as reported in the world mirror statistics, in 2006–10 was above 95 percent, except in 2009 when a one-time surge in the United Kingdom’s imports lowered this share to 67 percent. Non-standard exports of clothing to Kazakhstan and Russia in 2007–10 were larger than the total value of Kyrgyz’s officially recorded exports to these countries. These are meaningful amounts with significant implications for national welfare in terms of employment generation.

Interestingly, neither non-standard nor standard exports of clothing contracted in 2009, albeit the increase of the former by 8 percent was very low by historical standards. The estimates here do not confirm the dismal predictions expressed in mid–2009 about the possibility of “a 40 percent decline in exports of the garment industry in Kyrgyzstan” (ILO 2009). Since exports account for around 75–85 percent of the total output, the contraction in domestic demand would not produce such a significant decline.
Significance of Shuttle Trade Re-Visited

The economic significance of shuttle or bazaar trade is much larger than mirror statistics or estimates derived from the survey suggest. Based on the following premises: (1) these estimates fail to include all goods traded in bazaars, (2) hub bazaars supply other bazaars with costs and profits adding to their values, and (3) bazaars sell not only products imported from outside Central Asia but also imported from other Central Asian economies and produced domestically, researchers concluded that bazaars contribute well over 5 percent to the value-added generated region-wide.

The total value of this cross-border trade is estimated to have increased from around $3 billion in 2005 to $11 billion in 2008 and 2010, with a slight contraction in 2009 to $10 billion (table 5.16). Since this refers only to unreported imports of bazaar goods in statistics of Kazakhstan and the Kyrgyz Republic, together with estimates of sales of locally produced goods, the actual amounts may be larger, especially due to unreported imports into Tajikistan. Tajikistan’s share in total Central Asia’s

Table 5.16  Estimates of Foreign and Domestic Bazaar Sales, 2005–10 ($ millions)

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate re-exports from</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kyrgyz Rep. (excluding</td>
<td>449</td>
<td>1,445</td>
<td>2,586</td>
<td>3,837</td>
<td>3,415</td>
<td>3,159</td>
</tr>
<tr>
<td>Transshippments and</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tajikistan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kyrgyz exports of clothing</td>
<td>265</td>
<td>277</td>
<td>397</td>
<td>545</td>
<td>556</td>
<td>774</td>
</tr>
<tr>
<td>through bazaars</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kazakhstan non-standard</td>
<td>1,944</td>
<td>2,188</td>
<td>3,277</td>
<td>4,622</td>
<td>4,001</td>
<td>4,997</td>
</tr>
<tr>
<td>imports (c.i.f. 5%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kyrgyz Rep. consumption of</td>
<td>277</td>
<td>367</td>
<td>601</td>
<td>906</td>
<td>878</td>
<td>909</td>
</tr>
<tr>
<td>imported goods through</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>bazaars</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bazaar sales of locally</td>
<td>377</td>
<td>558</td>
<td>905</td>
<td>1,211</td>
<td>1,128</td>
<td>1,249</td>
</tr>
<tr>
<td>produced goods</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>3,312</td>
<td>4,836</td>
<td>7,766</td>
<td>11,121</td>
<td>9,978</td>
<td>11,088</td>
</tr>
</tbody>
</table>

Memorandum:
Total above in aggregate

Central Asia GDP (%)

| 3.9 | 4.1 | 5.1 | 5.8 | 5.6 | 5.1 |

Source: Authors’ calculations based on export data submitted by other countries to the UN COMTRADE database.
Note: c.i.f. = cost, insurance, and freight; GDP = gross domestic product.
a: Estimate derived from survey results based on the estimated shares of sales of domestic products in total sales. This share was 14 percent for bazaars in the Kyrgyz Republic and Tajikistan and 19 percent in Kazakhstan. Unreported bazaar imports were substituted for total sales for estimates in 2005–10.
mirror imports of bazaar goods more than tripled between 2005 and 2010 from 3 to 10 percent and imports of apparel and footwear per capita increased almost ten times from $11 in 2006 to $101 in 2010 (see tables 5.4 and 5.5). While the analysis included an estimate of re-exports, other mirror imports, assumed to amount to 4 percent of Tajikistan’s GDP, were left out.

In terms of total GDP of the four CAREC countries, the total sales of bazaar goods amounted to around 5–6 percent of their aggregate GDP in 2006–10. But bazaar services are not free: a trader must recover not only the cost of purchase but also expenses of running a business. The interviews with traders suggested that they get their return when the difference between the cost of bringing a product to a stall and the sale price is at least 20 percent. Even assuming that all hub bazaar clients purchase imported products, this would raise the overall value of this trade to around $13 billion in 2008 and 2010. In terms of the aggregate GDP of the four Central Asian economies, the value of non-standard trade would increase 0.5 percentage points in 2010 alone.

Table 5.16 also presents back-of-the-envelope estimates of bazaar sales of locally produced products derived from the bazaar survey. Their share in sales of surveyed bazaars was 14 percent for Kyrgyz and Tajik bazaars and 19 percent for Kazakhstani bazaars. Instead of using estimates of total sales available only for 2007, it was assumed that the total sales of bazaars in Kazakhstan and the Kyrgyz Republic cover unreported mirror imports of bazaar goods plus a fixed proportion of domestic sales (these were constant in 2005–10). Their aggregate total for the Central Asian countries, excluding Uzbekistan for which data were lacking, increased each year, except in 2009 when it fell slightly. It increased from around $400 million in 2005 to some $1.2 billion in 2010 (table 5.16). However, this may be underestimated, since the share of local products in total bazaar sales might have changed between 2007 and 2010. Furthermore, these estimates do not take into account sales in hundreds of small local bazaars that were not covered by the survey.

While these numbers may not seem large, consider that a large portion of sales are locally produced foods and feeds, with inputs largely available locally; that except for Kazakhstan, other countries have GDP per capita below $1,500; and that sales revenues are spread across a narrow stratum of population living near large bazaars. As mentioned above, these are very conservative and cautious estimates.

Activities associated with the logistics of imports add value-added. Imported goods must be brought, stored, and marketed at a bazaar. All of
these activities generate costs to some and revenues to others; they also create employment opportunities for people not only directly involved in trading but also in induced services. It is necessary to distinguish between transshipments, that is, cargo destined for another country that is re-loaded on trucks in the Kyrgyz Republic, and products that are intermediated through bazaars. The former have little value-added, whereas the latter add significantly to a country’s welfare. Based on the surveys of traders, the researchers assumed conservatively that both domestic sales and re-exports of imported products for which bazaars act as platforms generate extra income to the tune of 10–15 percent of their import value (partner’s exports plus a 5 percent c.i.f. equivalent).

Without surveys of traders, it is extremely difficult to split mirror imports of bazaar goods into transshipments and bazaar sales. Yet, mirror statistics do provide some hints as to how to approach the issue. First, for reasons of geography, transshipments must originate in China. Second, the change in annual values of mirror imports by countries such as Kazakhstan and Russia, the most likely destinations of transshipments, may provide some indication of their scope. Indeed, as shown earlier (see table 5.6 and accompanying analysis), the increase of $5 billion in mirror imports in 2008, followed by the 2009 contraction of $4 billion, clearly exceeds the capacity of Kyrgyz bazaars to handle such a surge.

Thus, for the purpose of this analysis, it was assumed that a maximum of $2.7 billion worth of goods a year can be handled by bazaars, with the residual passing as de facto transits. The assumption is based on estimated foreign sales of three major bazaars in the Kyrgyz Republic—Dordoi, Karasu, and Madina—during surveys conducted in 2008. These were assumed to generate value-added of 0.25 percent ad valorem. These estimates were then used to generate estimates of value-added for Kazakhstan and the Kyrgyz Republic, as well as for Tajikistan. For the latter it was assumed that all mirror imports of bazaar goods go through the bazaar channel. The results are presented in table 5.17.

Not surprisingly, bazaars in the Kyrgyz Republic contributed the most in terms of generating value-added as a percentage of GDP. But even for Kazakhstan the amounts involved are not negligible, at around 0.5 percent of GDP over 2005–10.

Other externalities are difficult to quantify, yet have significant importance. Since the shuttle large-bazaar-destined (hub) trade is mainly intra-CAREC trade—its main supplier is China with its products distributed through a network of bazaars throughout Central Asian former Soviet republics and southern parts of Russia—the trade contributes to the
development of commercial ties among firms and individuals of CAREC countries. The resulting network of contacts is conducive to commercial interaction and new business endeavors.

**Concluding Comment**

Flows of trade through bazaars dramatically expanded in the 2000s. The contraction in world trade triggered by the 2008 global financial conflict only marginally affected these flows. They slightly contracted in 2009 and increased above the peak 2008 level in 2010. Goods traded in bazaars are not limited to imports from China, although that country crowded out many suppliers from other countries. They include goods produced locally, of which garments made in the Kyrgyz Republic are a remarkable success story, defying common wisdom that local clothing production has no chance of withstanding competition from imports unless it is protected by very high tariff rates.

**Notes**

1. Researchers derived “mirror” statistics, that is, where a country’s import statistics were lacking, by analyzing statistics derived from the export statistics of the country’s trading partners.
2. Surveys were conducted from April to June 2008. Answers referred to conditions prevailing a year earlier. By the same token, an estimate referred to 2007.

3. Since China accounts for almost 100 percent of the Kyrgyz Republic’s imports of bazaar goods, the focus is on China. Besides, for the reasons of its geographical location, the Kyrgyz Republic may serve as a conduit for imports, more from China than other countries.

4. Furthermore, these data suggest that Tajikistan might have emerged as a re-export platform competing with bazaars from the Kyrgyz Republic. We estimate the value of re-exports through Tajikistan in chapter 4.

5. The Government of Kazakhstan in July 2010 abolished a simplified customs procedure for importing consumer goods by companies and individuals. It was replaced by a general regime with imports subject to ad valorem tariff rates of 10 percent to 20 percent, but not less than €1–4 per kg, depending on the product. In comparison to a simplified procedure, the ad valorem component of a compound tariff rate doubled and the specific rate increased by at least 61 percent.

6. This may explain the absence of any significant re-export activities mentioned by traders in interviews conducted in May 2008. Traders were not fully aware of the surge in part because most shipments were transshipments not intermediated by bazaar traders.

7. Thus, the ISI is a modified version of a well-known RCA index originally introduced by Bela Balassa (1965) to identify a country’s export specializations. While the RCA is the ratio of the share of a given product in a country’s total exports to the share of that same product in world imports, the ISI is the same ratio but for imports and not to the share in world imports but the respective share in a selected market.


10. For a more detailed analysis of Kyrgyz re-exports also including reconciliation of mirror trade statistics with balance of payments data, see part V in the appendix.

11. Surveys of traders in bazaars in Dushanbe, Tajikistan, and Almaty, Kazakhstan, identify the Kyrgyz Republic as the origin of many products traded there.

12. Note that this estimate is pretty close to the value of the trade gap (unreported imports) in bazaar goods with China of $2.3 billion in 2007 (see table 5.8).
13. There are several ways that it can be done. First, select a country meeting two conditions: it is not involved in re-exports of “bazaar products” and it is at a similar level of GDP per capita. Tajikistan would be the best comparator for the Kyrgyz Republic, but only for the 2005–07 period, as subsequently the surge in imports implies involvement in re-export activities. Second, use the relative level of GDP in relation to other regional Central Asian partners as a determinant of its domestic consumption. Thus, domestic consumption is equal to the difference between the country’s mirror imports and the value of mirror imports weighted by the country’s share in the total GDP of Central Asia. Third, use the per capita mirror imports in Central Asia to obtain domestic consumption in the country. The problem with both this and the second method is the diversity in per capita GDP in Central Asia (Kazakhstan, the Kyrgyz Republic, Tajikistan, and Uzbekistan). Kazakhstan accounts for 29 percent of Central Asia’s population and 74 percent of the aggregate regional GDP, and its per capita GDP is more than 10 times higher than that of the Kyrgyz Republic and Tajikistan. Thus, Tajikistan’s imports per capita plus 25 percent are used to take into account higher per capita GDP in order to estimate domestic consumption of bazaar goods in the Kyrgyz Republic.

14. This information is not always available to a salesman at the bazaar for one reason: Goods are often moved across a border to another bazaar where they could be bought by shuttle traders from neighboring countries.

15. Uzbekistan levied a tariff rate of 30 percent on all fabrics and in addition imposed an excise tax of 20 percent levied exclusively on imports, which raised the level of protection to 56 percent ad valorem.

16. Authors’ calculations based on partners’ foreign trade data from the UN COMTRADE database.

17. Since Kyrgyz official data on exports of clothing under-report exports, partners’ statistics were used.

References


CHAPTER 6

Deepening Integration among Border Regions: The Asiaregion Institutional Model

The Central Asia Regional Economic Cooperation’s (CAREC’s) central goal is to deepen cooperation between its members across the entire range of development activities. Previous chapters focused on fostering cooperation in border trade and the key institutions, such as bazaars, that underpin it, but cooperation in border areas goes far beyond trade alone. Economic development activities related to trade, such as tourism; retail, business, and trade facilitation; cooperation in public services (such as shared health facilities) and other infrastructure services (such as small-scale irrigation); optimal use of the environment; and cultural and sports activities can have a significant border character. Border arrangements that support such activities and realize economies of scale in the provision of services can yield high dividends; the key public policy question is how to make such arrangements flourish.

This chapter examines key issues in developing the institutional underpinning of cooperation between bordering regions. It is based on discussions with officials in Kazakhstan, the Kyrgyz Republic, and Tajikistan in 2008–09 and on an examination of legal acts pertaining to border cooperation. It makes full use of the experiences of European countries since the Second World War in designing and implementing wide-ranging border arrangements under Euroregions. Past discussions among CAREC
representatives have revealed an interest in the experience of Europe’s exploitation of the synergy between integration efforts conducted at the governmental level and border cooperation among contiguous regions. Drawing on the concept of Euroregions offers opportunities to pilot test various instruments of integration and to trigger and respond to any local movement toward deeper development cooperation across national borders. Euroregions have proved to be an important agent for economic growth, engendering in the process further border cooperation that addresses border externalities both positive and negative (Kaminski, Kholmatov, Mitra, and Raballand 2010). As a consequence, they have been established not only among contiguous regions within the European Union (EU) but also at EU borders with other countries with the specific aim of fostering integration.

**Institutional Framework Needed to Support Border Cooperation**

Although strong forces promoting border cooperation already exist among Central Asian nations, policies are often not supportive of these efforts. And even though cultural and ethnic affinities, common historical background, and existing functional interdependencies among former Soviet Central Asian republics continue to provide a strong, spontaneous impulse for border cooperation by economic agents, these countries differ sharply in their policies and approaches to economic development and foreign trade. Such differences contribute to persistent barriers to cooperation and border trade. Many local markets appear fragmented, despite free-trade agreements under the umbrella of the Commonwealth of Independent States (CIS) and the Eurasian Economic Community (EurAsEC), and the unfettered movement of people is generally not possible. Fragmentation is evidenced by price differentials unrelated to transport cost, which are significant, even for agricultural produce, between bordering marketplaces. The creation of Asiaregions (analogous to Euroregions) to encourage deeper integration between contiguous areas, could contribute to greater integration, stronger competition, and more efficient production.

Clear legal arrangements and the devolution of power to local authorities are essential if border cooperation is to flourish. Despite the high density of the movement of people and goods among the four CAREC-member states that form the focus of this book—Kazakhstan, the Kyrgyz Republic, Tajikistan, and Uzbekistan—legal arrangements governing border movements neither accord preferential treatment to residents of bordering regions nor provide institutional structures that would foster
direct cooperation across countries. These arrangements constitute critical barriers to deepening border cooperation. Moreover, decisions concerning the border movements of people, goods, vehicles, and services are controlled by central governments. Local governments are not empowered to make decisions or act independently to cooperate with foreign entities. Consequently, given various degrees of decentralization in decision making, local trans-border initiatives face serious administrative barriers.

Furthermore, the absence of institutional structures linking contiguous borders stems in large part from central government officials’ conviction that the existing levels of trans-border cooperation among adjacent regions are broadly satisfactory. This view ignores the large potential for growth that lies untapped due to the cited obstacles to border activities. The establishment of Asiaregions cannot occur spontaneously at the level of contiguous communities, despite their demand for greater border activities, but requires a regional framework involving some de-concentration of central powers. Local authorities would need to be granted certain well-defined and limited rights, such as the right to proceed with relaxing arrangements governing movements of inhabitants of bordering regions and their goods, vehicles, and services across the borders. Such agreements are essential for setting up Asiaregions.

Successful border arrangements must be comprehensive in coverage. The European experience shows that a key element of border arrangements is their comprehensive nature. Euroregions seek to establish structures for cooperation in areas ranging from commerce to culture, environment, tourism, and education. Similar Asiaregion arrangements would need to reflect the nature of demand in specific border regions and the economic characteristics of those regions. The Euroregion experience also shows that the establishment of legal structures fostering cooperation does not require significant economic resources: the only investment needed is local initiative, the desire to identify and leverage new opportunities associated with border cooperation, and the political will to see these arrangements implemented.

Evidence shows a strong demand at the local level for deeper cooperation across a range of activities. Minutes of the negotiations between the businesses of Tashkent oblast in Uzbekistan and South-Kazakhstan oblast in Kazakhstan show that participants wanted to establish legal arrangements facilitating the emergence of Asiaregions. They argued for investment and trade links between the oblasts through joint exhibitions and fairs, establishment of joint ventures, attracting investments in agro-processing, joint projects to develop infrastructure (roads), cooperation to increase tourism, cultural exchanges, and the exchange of knowledge.
Listening to opinion on the ground is important for designing schemes for successful cooperation, as local authorities and business leaders have the best understanding of local conditions, understanding that can substantially improve the quality of inter-government development programs.

Existing trans-border arrangements can be the foundation for future progress. Various rudimentary Asia-region-type arrangements exist, although a legal framework for the formal establishment of Asiaregions has yet to be developed. The Kazakhstani government has taken the lead in drafting a law on border cooperation that could serve as a framework for other CAREC countries. Future work should address border areas involving more than two national jurisdictions and areas where a set of rules is needed to realize the full benefits of border cooperation. Also, these agreements would have to cover areas such as tourism, environment, labor, water, land, energy, and infrastructure, which are important for development and may result in contentious spillover effects.

The Euroregion Experience

Euroregions initially emerged as mechanisms to foster cooperation and stimulate economic growth in regions along the internal borders of western European states. Border cooperation programs, subsequently carried out under the banner of Euroregions, ranged from cultural, environmental, educational, and tourism activities, to business and trade facilitation measures. Critical to their development was largely unrestricted movement of people, capital, goods, and services. Among many different arrangements underpinning the first Euroregion, established along the Dutch-German border in 1958, was a provision to open the border for shopping on special days. With the progress in European policy-induced integration and the disappearance of internal borders, this provision lost its relevance.

In turn, the level of economic development of contiguous regions determined the type and significance of economic exchanges for the respective populations. Interactions among regions at a low level of economic development took different forms than those among highly developed economies, as the latter often entailed a more sophisticated division of labor.

Starting in the 1990s, the Euroregion concept was applied not only at external borders of the European Union (EU) but also by countries outside the EU, with the strong support of both the European Commission (EC) and the Council of Europe.1 As a result, virtually all local and regional authorities across Europe are now involved in border cooperation initiatives.
The organizational structures of Euroregions vary, but they all have one feature in common. The multiplicity of areas of mutual interest to bordering regions is reflected in the multiplicity of various organizational arrangements to manage across issue areas supported by transnational legal instruments allowing partners to link their activities. Euroregions are governed by a steering committee formed by regional and local authorities to promote local business and cultural initiatives, develop infrastructure, protect the environment, and facilitate movement of people and goods across borders.

The implementation modalities for cooperation include establishing associations of chambers of commerce from neighboring participating regions, as well as councils and working commissions focusing on joint trans-frontier projects. These might include initiatives addressing the environment; health care; cooperation between police departments, universities, and professional associations; or the establishment of trade fairs or joint ventures among firms to buy, produce, and market goods. Such border cooperation has proved to be especially beneficial to small and medium-size enterprises.

Border cooperation as embodied in the Euroregion was assisted by the overall process of European integration. The European Commission and the Council of Europe were critical in removing the major obstacle of border interactions being under the legal authority of a central body rather than local governments. During the Euroregions’ early stages in the 1960s and 1970s, bilateral and multilateral governmental commissions were established to deal with border transport issues and border spatial planning.

Subsequently, the Council of Europe fostered progress in clarifying the legal conditions and delegating responsibilities to local authorities, whereas the EC provided substantial financial support to regions under the EU regional and cohesion funds in response to demand for border cooperation driven by local or regional interests. Typically, border initiatives undertaken by local authorities would lead to the emergence of “twin associations,” municipalities and districts on both sides of a border that had adopted agreements for border cooperation of some type. The agreements had varying degrees of formality and often relied on good will (Perkmann 2003); these were often later transformed into a border agreement that established a Euroregion.

Euroregions played an increasingly important role in implementing regional development programs. The allocation of Euroregion funds is governed by steering committees involving local actors and higher level...
authorities, representing such entities as central states or regions from the participating countries. As Interreg (an EC initiative financed under the European Regional Fund that seeks to encourage interregional cooperation in the EU) is by far the most important source of funding for most Euroregion initiatives, and it must comply with the modalities set out in EU regulations and regional policy. Therefore, effectively, many Euroregions function as implementation agencies for this specific type of transnational regional policy.

Strong political willingness to establish structures for closer border cooperation among bordering regions and the allocation of resources supporting border projects by the European Commission characterize the Euroregion. Its concepts and organizational underpinning can be easily transplanted to other regions provided—to borrow from the Council of Europe’s definition of border cooperation—that there is commitment “to reinforce and foster neighborly relations between territorial communities and authorities within the jurisdiction of other contracting parties and the conclusion of any agreement and arrangement necessary for this purpose.”

Its underlying concept stems from the idea that going a step “further and deeper” beyond the existing framework of bilateral relations between governments is beneficial to contiguous local communities and paves the way for better relations between nations.

**Euroregion Development Lessons for CAREC**

The CAREC states in Central Asia should be made aware that neither economic integration nor the existence of a supranational authority is a prerequisite for the formation of Asiaregions. Rather, what is needed is recognition of the large potential for economic and social gains stemming from deep border cooperation and the political will to delegate, within predefined legal limits, powers to local authorities. A formal intergovernmental agreement or understanding to these ends would be required to support the process.

The major lessons from the Euroregion experience of particular relevance for CAREC members are as follows:

- Asiaregions need an ally at the CAREC level. This might involve setting up a CAREC interregional committee charged with overall responsibility for—
  - devising a legal framework that would allow for regional initiatives to be easily implemented;
• encouraging the development of operational spatial development strategies on a transnational scale that would promote cooperation among bordering cities and between urban and rural areas in the context of sustainable development;
• identifying border areas where cooperation would be particularly beneficial in the context of such longer term infrastructure projects as the environment, tourism, transport, information and communication networks and services, water and energy systems, among others; and
• establishing a CAREC-wide fund, possibly with the participation of international donors, that would support border cooperation among regions.

• Central governments should actively search out and welcome local initiatives seeking border cooperation and encourage them to form twin associations, even if a formal base is lacking and their enforcement is based on good will.
• Locally instigated integration driven by cooperation between contiguous regions usually starts with liberalization of the movement of people, vehicles, and goods.

Without substantive organizational effort and assistance from the central government, assisted by external donors like CAREC, and without delegating powers to local regional bodies, border cooperation across multiple issue areas would be hard to accomplish.

The benefits of border cooperation—including, among others, local entrepreneurship, local employment initiatives, and eco-friendly development—do not occur immediately. They take time to materialize but their benefits last.

Euroregions were never conceived as a one-size-fits-all solution. Instead, their organizational forms and scope of activities for border cooperation vary greatly depending on local circumstances.

**Potential Benefits of Asiaregions**

The benefits of Asiaregion-type arrangements are likely to be extensive. First, powerful reasons related to geography favor border cooperation, central being the immense length of CAREC members’ shared borders. For example, the Kyrgyz Republic and Tajikistan share borders only with other CAREC members. Central Asian members are landlocked, with access to the world mostly through other CAREC countries. Borders of other CAREC countries account for 13 percent of China’s land borders,
26 percent of Afghanistan’s, 40 percent of Kazakhstan’s, and 74 percent of Uzbekistan’s. While the percentage of shared borders is much smaller for China, its relevance significantly increases if Mongolia is included (up to 30 percent). Furthermore, CAREC members (excluding Mongolia) border just one of China’s provinces (Xinjiang Uygur Autonomous Region), one of the major drivers of China’s CAREC-directed trade expansion over the last decade.

Second, in addition to geography, cultural and ethnic affinities, common historical background, and existing functional interdependencies among former Soviet Central Asian republics continue to provide a strong impulse for border cooperation. As for other CAREC countries, the development of functional interdependencies would be a point of departure for border cooperation.

Third, standard trade and border trade with immediate neighbors has greatly expanded recently among CAREC countries. Intra-CAREC trade (excluding Azerbaijan) has been growing on average almost 40 percent a year since 2002, as has trade with immediate CAREC neighbors. The value of intra-CAREC trade in 2006 ($28 billion) was five times its 2002 value. Similarly, the share of Afghanistan’s total trade with immediate CAREC members was nearly 26 percent higher in 2006 than in 2002. Except for Uzbekistan, whose CAREC trade was growing at rates below those of other countries, intra-CAREC trade increased more than 50 percent in 2006 over 2002.3

Given that the area within 25–30 kilometers of the border accounts for a large part of the land area of three CAREC countries—the Kyrgyz Republic (42 percent), Tajikistan (64 percent), and Uzbekistan (27 percent)—small-scale trade among bordering regions is widespread (World Bank 2007). Thousands of people, mostly residents of contiguous border areas, cross border crossing-points (BCPs) daily to exploit differences in prices, wages, and regulatory practices, illegally if necessary. For many small agricultural producers, sale at a marketplace across the border often offers the only opportunity to purchase other goods. For example, consumers can obtain fresh produce not otherwise available or affordable. For others, intermediating and supplying services to traders is their only source of income, allowing many households to avoid impoverishment. Furthermore, for communities in remote areas that lack a well-developed road network, contacts with similar communities across the border may be the only opportunity to move beyond subsistence farming and gain access to desired goods and services that are not available locally.
Indications are that the local demand for such deeper cooperation across a range of activities is strong and not confined to opinions of the local authorities, that is, conceived for purely political reasons. Minutes of negotiations between the businesses of Tashkent oblast in Uzbekistan and South-Kazakhstan oblast in Kazakhstan, shown to the researchers, read like a description of Euroregions and point to the need to establish legal arrangements facilitating the emergence of Asiaregions. Participants argued for investment and trade links between the two oblasts through joint exhibitions and fairs; joint ventures; mechanisms to attract investments in agro-processing; joint projects to develop infrastructure (roads); and cooperation to increase tourism, cultural exchange, and the sharing of knowledge. The oblasts have agreed to the need to conduct joint seminars, conferences, and working meetings covering issues of mutual interest and they have encouraged the exchange of scientific and technical information. The participants also showed awareness of the need for a permanent mechanism by agreeing to hold regular meetings at the level of head of the oblasts, including private entities (businesses) from the oblasts.4

Listening to opinion on the ground is important. Local authorities and businesses have the best available knowledge about local conditions, and this knowledge can substantially improve the quality of intergovernmental development programs. In addition, local officials and non-governmental organizations involved in Asiaregion arrangements might emerge as advocacy groups fostering deeper, intra-CAREC, policy-induced integration yielding mutual benefits.

Asiaregions would also provide a stable foundation to facilitate the development of the division of labor linking producers across borders. The Asiaregion framework would not only remove the uncertainty associated with conditions affecting the movement of people and goods across borders but would also encourage entrepreneurship through information exchange and local employment initiatives.

Finally, implementation of an Asiaregion framework might enhance the attractiveness of regions through economy-of-scale effects to investors, foreign and domestic alike, and to tourism. As for the latter, there are many attractive tourist areas on both sides of the border; special visa arrangements might enhance their appeal to foreign tourists coming from countries whose citizens need entry visas,5 as would convenient and accessible BCPs together with appropriate tourist infrastructure on both sides of the border.
Improving CAREC Border Cooperative Agreements

Geography and historical legacies, coupled with government policies, have contributed to the emergence of highly diverse arrangements for regional border cooperation. Not only are there significant differences between Central Asian countries that are also members of CIS or EurAsEc, but there are also CAREC members that are within both groups. Commitments stemming from membership in EurAsEc clearly overshadow CAREC. While there are agreements among CAREC/CIS members that directly address issues of border cooperation, the researchers found only two examples of agreements between two “groups” having a regional character. These agreements were between the governments of China and Kazakhstan (see box 6.1) and between China and Tajikistan.

There are two problems related to reliance on bilateral arrangements to pursue border cooperation as conceptualized in the Euroregion

Box 6.1

The Panfilov–Korgos Arrangement

China and Kazakhstan are unique in their agreement that has established a preferential regime for the movement of local residents of the Kazakhstani neighboring district, Panfilov, with China through a border-crossing point at Korgos. In contrast to residents of other regions in Kazakhstan, Panfilov residents are allowed to enter China visa-free for a day. The waiving of the visa requirement really matters, as visas can be obtained only in Almaty, about 300 kilometers from Jarkent, the center of Panfilov region, and are expensive. This special visa arrangement—combined with Kazakhstan’s customs regulations, which were friendly toward shuttle trading—has contributed to lowering prices of imported products from China, including food and fruits, and has allowed a large number of people to find employment in trade-related activities on both sides of the border.

Cargo weighing no more than 50 kilograms and valued at not more than $1,000 can be brought into Kazakhstan without border charges. As for large shuttle trade, shipments of agricultural products up to 10 tons and shipments of industrial products up to 2 tons and having a value not exceeding $10,000 are subject to a simplified customs procedure with a flat rate of 17 percent (14 percent VAT and 3 percent customs fee) ad valorem.

framework. First, where a border involves more than two national jurisdictions, the benefits of cross-border cooperation in these areas can materialize only insofar as all governments abide by the same rules. Second, existing bilateral agreements are issue-oriented, that is, they address only a single dimension related to regional cooperation. Those that focus on trade do not address areas relevant to border cooperation between contiguous regions: tourism, environment, labor, water, land, energy, and infrastructure. As a result, the potential for synergy as well as for addressing both negative and positive externalities associated with actions in other dimensions is not tapped.

In addition, the issue of border cooperation, including preferential regimes for people in contiguous regions, has been held at the margins in most CAREC countries by other pressing policy issues at the national level, despite its vital importance to the welfare of local populations. Although there are some specific arrangements, such as that of Kushigurmon (box 6.2), applying to residents living in bordering areas of

**Box 6.2**

**The Kushigurmon Cooperation Arrangement**

Kushigurmon, on both sides of the Tajikistan–Uzbekistan border, allows the free movement of people and goods across the two borders. While according to existing intergovernmental agreements, local people living within 30 kilometers of either side of the border along the entire Tajik–Uzbek frontier may cross the border visa-free, Kushigurmon is unique in that those adjacent to Uzbekistan jamoats (Gorniy and Plotina, in the Sogd region of Tajikistan) can also cross in their cars (although only with Uzbek registration plates) and bring goods in small quantities for trade. This is a special arrangement as both jamoats were previously under the jurisdiction of Uzbekistan, and most jamoat residents hold Uzbek citizenship. Border authorities have a list of local residents who cross the border daily to work or bring fresh produce and minor commodities. This regime allows on average 300 people and 150 cars to cross the border daily. While heavy trucks may not cross the border, lightweight cars can transport up to a ton of goods. The burgeoning two-way border trade at Kushigurmon is also a good example of how relaxed administrative processes could facilitate increased border trade and improve welfare, even with the emergence of small price differentials across the border.

former Soviet Central Asian republics, they fall short of features associated with Euroregions on three major counts.

First, these arrangements are mainly interstate agreements focusing on overall conditions in the movement of people and goods across borders. They do not take into account the specific features of particular bordering regions. They can be divided into three different groups: those that are related to intra-CAREC relations; those that exist within the CIS framework; and bilateral agreements that are outside both CAREC and CIS frameworks. Since CAREC-related agreements are not as deep and comprehensive as CIS agreements, the focus here is on the latter. Furthermore, bilateral rather than regional, agreements represent legal tools for the implementation of regionwide agreements.

Although a rich legislative framework—including both CIS regionwide and bilateral agreements among CIS Central Asian countries—governs relations among CAREC members, including border cooperation, bilateral agreements are the major enforcement tools of CIS-wide agreements. Relevant international agreements are part of legal arrangements underpinning the CIS integrative agreements. Pertaining directly to transborder cooperation are: “Concept on Intraregional and Border Cooperation between CIS Member Countries,” approved by the Council of the Heads of CIS member states September 15, 2004; “Agreement on Basic Principles of Border Cooperation between Country Members,” March 1996; and the “Agreement on Deepening of Integration in Economic and Humanitarian Areas,” March 29, 1996. Together with other CIS-wide and EurAsEC agreements on movement of persons and goods among CIS countries, they jointly determine the contours of border cooperation.

While the CIS agreements and, increasingly CAREC agreements, set a broad framework, their transformation into enforceable arrangements hinges critically on interstate, bilateral agreements. These agreements not only complement but also extend beyond regionwide agreements. In fact, there is a true spaghetti bowl of bilateral agreements within both CIS and CAREC frameworks. Agreements between countries that are both CIS/EurAsEC and CAREC members with those CAREC members that are not CIS or EurAsEC members are, as expected, “shallower” regarding the depth of integration reflecting the differences in the progress in policy-induced integration within both regional blocs. They mostly focus on deepening economic and humanitarian cooperation. Kazakhstan, the Kyrgyz Republic, Tajikistan, and Uzbekistan, on the one hand, and other CAREC countries, China and Afghanistan, on the other, have signed such
agreements. While highly relevant for these countries’ bilateral relations, they do not necessarily specifically address issues related to border regional cooperation, although they often facilitate border trade.

Second, these regional agreements tend to be issue-specific, focusing almost exclusively on commercial relations, as outlined in respective bilateral agreements, rather than also addressing other areas of mutual interest in a comprehensive fashion. The governments of both the Kyrgyz Republic and Tajikistan have issued border cooperation regulations, but they cover solely cross-border trade. Rather than comprehensively address all issues potentially relevant to the welfare of the population living in bordering regions, these regulations mostly focus on cooperation between border authorities, the few exceptions still falling short of the Euroregion model. Separate bilateral agreements between the countries govern border cooperation but mainly focus on the development of incentives to increase border trade. The Kyrgyz Republic has such agreements with both Kazakhstan and Tajikistan. Other agreements, though still addressing mainly border trade, often have provisions for cooperation in other areas like tourism, agriculture, and so on. Examples include agreements between South-Kazakhstan and Tashkent oblasts, and between Tajikistan’s Sogd oblast and the Kyrgyz Republic’s Batkent oblast.

The agreement between the Kyrgyz Republic and Kazakhstan, signed on April 26, 2007, on creation of the international centers for border trade—Auhatti-KenBulun (Kordai rayon of Jambul oblast) and Aishabibi-Chonkapka (Issyk Ata rayon of Chuy oblast)—combines trade promotion with investment and trade facilitation activities. It calls for the creation of “international centers” and obliges relevant border authorities to accelerate customs clearance and phyto-sanitary inspections. That the agreement was not between bordering regions but between central governments indicates the absence of a legal framework.

Third, the existing agreements largely lack an organizational structure that would provide a permanent mechanism for supporting border cooperation, although some rudimentary forms are already in place. At present, the institutional vehicle across countries covered in the study are intergovernmental commissions, which are set to negotiate and translate into practical actions the general provisions of existing bilateral agreements.

Yet some steps have already been taken to introduce a local permanent mechanism for promoting border cooperation. The Kyrgyz Republic–Tajikistan intergovernmental commission recently approved
the opening of representation offices coordinating cooperation between the Tajikistan’s Djirgital rayon and the Kyrgyz Republic’s Osh oblast. Some agreements between CAREC countries that are beyond the scope of this study have underlying organizational structures for regions’ cooperation. For instance, agreements between Tajikistan and Afghanistan and between China and Tajikistan have operating steering committees or provisions calling for regular meetings between local authorities of neighboring regions.

The agreements fail to address areas that would maximize the welfare effects of this cooperation for the reasons discussed above, that is, their narrowness and lack of legal instruments and organizational underpinnings. The proliferation of agreements mainly addressing the commercial aspects of border cooperation and informal contacts between businesses and authorities from bordering areas in Kazakhstan, the Kyrgyz Republic, Tajikistan and, to a lesser extent, Uzbekistan show growing awareness of the benefits inherent in closer cooperation.

The challenge facing CAREC governments is to remove barriers to regional cooperation and establish mechanisms supporting it, including both legal instruments and financial assistance. This effort should attract foreign donors interested in promoting measures that enhance stability and alleviate poverty.

**Possible Asiaregion Pilot: Sary Tash–Murghab–Kashgar Triangle**

A possible Asiaregion could comprise two Central Asian EurAsEC/CAREC member states—the Kyrgyz Republic and Tajikistan—and China (see map 6.1). Geography, level of economic development, potentially large economic gains from border cooperation, together with these governments’ open attitude to border cooperation and infrastructure development, support this choice.

The triangle’s geographical area is organized around three cities: Sary Tash in the Kyrgyz Republic, Murghab in Tajikistan, and Kashgar (Kashi) in China, which are separated by large distances (see table 6.1). The triangle covers a large territory of over 30,000 square kilometers, spanning approximately 5 percent of Tajikistan, 3 percent of the Kyrgyz Republic, and less than 2 percent of Xinjiang Uygur Autonomous Region in China. It is sparsely populated, with a total population of over 300,000, with China accounting for over 80 percent of the total, the Kyrgyz Republic, less than 10 percent, and Tajikistan, 10 percent.
Murghab, with a population of 15,000, is the most remote district in Tajikistan. Sary Tash district, with less than 10,000 people, is one of the most remote districts in the Kyrgyz Republic. In contrast, Kashgar is the largest city in South Xinjiang Uygur Autonomous Region, with a population over 200,000.

Although the triangle suffers from tough climatic conditions, long distances, and inadequate road infrastructure, the establishment of an Asiaregion could rapidly impact economic and social conditions in these remote areas, since trade is booming through Irkeshtam and Kulma. Sary Tash is 80 kilometers from Irkeshtam, 235 kilometers from Osh, and 360 kilometers from Kashgar. It is the main city of the Murghab region and the main crossroads; however, it is also one of the poorest districts in the Kyrgyz Republic, with an average monthly salary of $40 per capita.

Border cooperation, together with its institutionalization in Asiaregions, could yield significant economic benefits to contiguous regions in all three countries. Recent developments point to significant potential for economic development. These developmental prospects of such a remote region could be considerably improved by lowering government policy-induced barriers to cooperation, that is, establishment of an Asiaregion would remove and lower some of them. For instance, the lure of attracting eco-tourism would be enhanced by the prospect of the visa-free movement of foreign tourists who could move in this Asiaregion with an entry visa from just one of the three countries. All three regions might benefit. While this would call for on-site due diligence, the diversity of issues as well as the potential for reaping the benefits of economies of scale clearly point to the significant benefits of border cooperation.
Consider first the case of Kashgar, which has become the main bazaar in south Xinjiang, China. Kashgar already attracts traders from the southern areas of the Kyrgyz Republic and Badakhshan in Tajikistan. These Central Asian traders can find everything there for border trading activities: local food products, articles of daily use, and consumer goods.

Second, Tajik–Chinese bilateral trade going through Kulma increased from zero in 2003 to $400 million in 2006, and Kyrgyz–Chinese trade through Irkeshtam BCP has been booming as well. Hotels, cafés, and warehouses have sprung up in Badakhshan and are evidence of the boost to the region’s economy. Whenever the Kulma crossing is open, informal employment doubles (Asanova 2007).

Finally, an Asiaregion could help alleviate poverty in Murghab, which is cut off from Tajikistan’s major urban centers. Murghab is not only the most remote district in Tajikistan but also one of the poorest, with a poverty rate estimated at 84 percent of the district population. Formal employment is almost nonexistent.

The institutional design of the Sary Tash–Murghab–Kashgar Asiaregion would need to be developed in close cooperation, first between central authorities to set a framework for local cooperation and institutionalization of preferential border arrangements and second through a framework for cooperation and monitoring among local authorities. Areas of border cooperation also would need to be identified, which, as a rule, include the establishment of associations to address issues of potential interest to border areas, such as environment, trade, and infrastructure, as well as creating formal administrative links among local authorities. One possibility could be to establish a triangle Asiaregion council consisting of local and central government representatives who would meet regularly and have administrative and research support.

Agreement would also have to be reached on the scope of the relaxation of constraints discussed under the single policy issue framework. It follows that the constraints on the movement of people and goods of the three regions should be removed, that is, the three parties should agree on visa-free movement for residents of border areas. This would apply to the movement of persons and goods between China, on the one hand, and the Kyrgyz Republic and Tajikistan, on the other hand. As a first step, the Korgos model should be adopted for both people and vehicles on a reciprocal basis followed by a deeper integration. As a second step, the program of infrastructure development should be implemented, taking
into account the need to establish local links that are an integral part of the existing international network.

Given the strong potential for trade expansion in remote locations as well as infrastructure rehabilitation, the three regions have strong incentives to create economic synergies and develop regional economic cooperation for a win-win strategy.

**Concluding Observation**

As this chapter has shown, the growth in the level and intensity of intra-CAREC links indicates a significant potential for welfare gains from establishing frameworks for border cooperation among neighboring regions. The existing framework of bilateral agreements with provisions addressing border cooperation fall short of this goal.

First, such agreements that deal with border issues are usually trade agreements, whereas issues that might be meaningfully addressed with welfare gains to cooperating regions are covered, if at all, by other interstate agreements and government agencies. As a consequence, areas such as tourism, culture, environment, and energy cannot be easily addressed in regional border cooperation.

Second, regions that might benefit from enhanced border cooperation often involve more than two countries: they require coordination not at a bilateral but at a regional level. CAREC is uniquely placed to supply the necessary institutional and policy framework to achieve it.

Even before a common legal framework for establishing Asiaregions emerges, the CAREC member governments should put the issue of regional border cooperation high on their policy agenda. In addition to working closely with the CAREC inter-regional committee, the governments should encourage and provide organizational support to local authorities of bordering regions interested in devising strategies for local cooperation.

**Notes**

1. The Council of Europe has developed a framework for border cooperation embodied in its 1980 decision, Framework Convention of Transfrontier Cooperation, subsequently ratified by most members. Several non-EU states implemented the concept. For instance, Hungary established cooperation in its border areas with Austria, Italy, and the former Yugoslavia in 1989 (Maskell and Törnqvist 1999, 32).

3. The share of Uzbekistan’s neighbors in its total trade was 10 percent lower over the same period. Policy-induced barriers may be responsible for this. According to a 2006 study (ADB 2006, 25–28), Uzbekistan’s foreign trade regime is the most protectionist among CAREC economies.

4. Information provided by the Ministry of Trade and Industry, Kazakhstan.

5. For instance, if visas are required for crossing a border, residents of an Asiaregion may enjoy a short-term, visa-free entry into territories of bordering regions. A good candidate for this type of arrangement might be an area between Samarqand (Samarqand oblast) in Uzbekistan and Sugd oblast (Panjakent) in Tajikistan, located on the route from Samarqand to Tajikistan’s mountainous region with seven lakes, the most notable being Alexander the Great Lake (Iskanderkul).

6. For instance, although CIS-wide agreements have eliminated visa requirements for CIS citizens, Uzbekistan imposes a visa requirement on Tajikistan citizens, except for individuals residing in certain designated border areas.

7. See, for instance, the 2003 decree on the organization of border trade of Tajikistan with the Kyrgyz Republic and Uzbekistan, the 1996 decree of the Government of Tajikistan on border trade with Afghanistan, and the 2003 decree on establishing border trade points in Khatlon oblast with Afghanistan.

8. However, as described in chapter 2, if the Kulma BCP were permanent, there would be a further increase in Tajik–Chinese trade turnover and further positive impact on local economies. In Irkeshtam, visa fees deter any border trade activity.

References


CHAPTER 7

Policy Recommendations

Non-standard trade plays a huge role in trade among four Central Asian Regional Economic Cooperation (CAREC) members. It is an important source of employment and an outlet for locally produced goods and services. This chapter reviews measures that would remove existing barriers to this trade and further lower transaction costs. The focus is on one small flow through the non-standard channel, that is, trade in locally produced goods in contiguous regions. While these measures would also help boost other flows of goods in the non-standard channel, they either target inhabitants of neighboring regions or create opportunities especially easy to be tapped by them.

Policy Recommendations for Border Trade Regimes

The findings from the research and surveys indicate that border trade flows, despite small volumes and low value-added when compared with other standard and non-standard flows, contribute significantly to employment generation and poverty alleviation. Border trade has grown substantially in the last five years among contiguous CAREC economies, except Uzbekistan, and the potential for expanding border trade is clearly large.

The study found that an essential element of a border regime is design that facilitates border movements of people and goods. Conditions
affecting border trade vary across examined country pairings: some governments facilitate trade while others impede it through restrictions.

The analysis of the survey results suggests several measures that would boost border trade. Central to the recommendations is strengthening border cooperation to facilitate the movement of local residents, motor vehicles, and goods.

**Movement of Individuals**
Given the small scale and shuttle nature of border trade among CAREC countries, border trade is highly vulnerable to conditions affecting the movement of people. Such movement in the Kyrgyz–Kazakhstani pairing is the most liberal, that is, local identification suffices to cross the border (as in European Union countries not participating in the Schengen Convention, which completely removed border controls of people movement). However, conditions in the other pairings are far less facilitative, notably those involving Afghanistan and its neighbors and China and its neighbors. In all such cases, visas are required, with the important exception of the China–Kazakhstan Korgos border-crossing point (BCP). Visas are usually expensive (typically multiples of a local average monthly wage) and difficult to obtain for local residents, given the distances to respective consulates.

Governments should consider applying the Korgos model to other Central Asian regions bordering Afghanistan and China and permitting local residents to enjoy a visa-free regime, but with a stay not to exceed one day. This would remove the anti-border trade bias in the arrangements governing the movement of people in Irkeshtam on the Kyrgyz–Chinese border, at the Kulma BCP on the Tajik–Chinese border, and BCPs linking Afghanistan and Tajikistan. Reasonable rules governing the movement of motor vehicles would also foster border trade.

While the movement of people between Central Asian Eurasian Economic Community (EurAsEC)/Commonwealth of Independent States (CIS) members is in principle visa-free, the irritant hampering official border trade with Uzbekistan is its practice of stamping EurAsEC citizens’ passports. Rapidly filling pages necessitates a new and prohibitively expensive and time-consuming visa. Either separate sheets for stamps or not stamping a passport that shows evidence of residence in a bordering community would facilitate border economic transactions.

**Movement of Vehicles**
The survey findings suggest that border trade would benefit from measures facilitating light-vehicle traffic crossing the border. The ADB (2006)
recommends and commends CAREC governments for regional initiatives aimed at facilitating border traffic. Since some of these initiatives might be costly and difficult to implement at a national level, it seems reasonable to first pilot the recommendations agreed on by CAREC members on vehicle movement between contiguous border areas and then draw policy lessons relevant for the national level.

Indeed, removing the barriers that exist even in the most liberal border pairings—the Kyrgyz Republic–Kazakhstan and the Kyrgyz Republic–Tajikistan—would boost border trade. One irritant concerns the use of motor vehicles in the other country’s territory, including impediments imposed by such factors as high fees, restrictions on vehicle size, and road police singling out cars with foreign registration to extract bribes. Informal relations between the Kyrgyz and Tajik governors of bordering districts, praised by local residents, have helped resolve such impediments. However, a trade-promoting environment remains critically dependent on the state of their informal relationships. Hence, cooperation between border guard officials and motor vehicle administrations is necessary to address such issues.

Similarly, allowing minibuses and passenger vehicles registered in bordering regions to ply freely within certain geographical limits would go a long way toward relieving constraints on border trade. Various bilateral transport agreements between China and Tajikistan, Tajikistan and Uzbekistan, and Tajikistan and Afghanistan prohibit light vehicles from crossing the border.

**Movement of Goods**
The main issues emerging from the findings on the movement of goods relate to personal allowances and duty exemptions on agricultural products. First, except for Uzbekistan, customs provisions of Central Asian countries do not necessarily dampen border trade. Strict limits on the amounts of goods that can be brought into Uzbekistan for personal use limit the amounts residents can legally purchase in adjacent areas; however, some products arrive illegally, mainly because formal border trade is suppressed. The Uzbek government may consider harmonizing its customs regulations related to personal use with those in effect in other EurAsEC countries.

Second, the Kazakhstani practice of granting duty-free access for local residents as long as imported products are limited in weight should be replicated. An alternative worth exploring is to increase the amount of agricultural produce that a person can bring into the country from 50 to
100 kilograms, especially when combined with more relaxed rules allowing the use of lightweight trucks during the peak season.

**Country-Specific Policy Recommendations**

The following measures if implemented unilaterally would greatly assist with the facilitation of border trade expansion (see table 7.1 for a summary of these measures).

**Afghanistan.** Consideration should be given to removing two barriers to border trade related to the movement of (1) individuals and (2) light vehicles. Implementing the Korgos model for Tajik residents of bordering areas, with visa-free entry for up to two days, would address the first issue. The second would involve opening BCPs to light-vehicle traffic for residents of bordering districts.

**China.** Consideration should be given to changing customs regulations to keep the Kulma BCP with Tajikistan open for the entire month, to open the Korgos BCP on weekends, and to open BCPs to light-vehicle traffic for residents of bordering regions. Also, Chinese authorities should consider expanding the Korgos model by granting visa-free entry for a period of at least one day, but preferably two, for residents living in the administrative districts of Kyrgyz and Tajik in areas that have a BCP.

**Kazakhstan.** The country should work jointly with Kyrgyz authorities and with donors to the Kordai BCP infrastructure modernization. The government should demonstrate to other CAREC countries the benefits and replicability of the Korgos model and together with the Chinese authorities provide assistance to other CAREC members interested in replicating the model.

**The Kyrgyz Republic.** It is important to rehabilitate the Ak-Jol BCP infrastructure. Measures should be taken to address the rent-seeking behavior of the road police toward vehicles registered in bordering areas. Authorities should give consideration to introducing a duty-free regime for local residents within certain value and weight limits based on the “Kazakhstani-type” simplified customs procedure.

**Tajikistan.** Consideration should be given to opening BCPs to light-vehicle traffic for residents of a bordering region and to make local identification sufficient for border crossings by residents of contiguous regions. Measures should be taken to address the rent-seeking behavior of road police toward vehicles registered in bordering areas. The government should consider raising the limit on the weight of agricultural products exempt from border charges from 50 to 100 kilograms; introducing a duty-free regime for local residents within certain value and
<table>
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<tr>
<th>Recommendation</th>
<th>Country</th>
<th>Expected impact</th>
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<tbody>
<tr>
<td><strong>Recommendations on operations of border-crossing points</strong></td>
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<tr>
<td>From May to October it would be advisable to keep the Kulma BCP with Tajikistan open for the whole month rather than only 15 days a month</td>
<td>China</td>
<td>Opportunity for border trading and associated income and employment generation for residents of the poorest region in Tajikistan</td>
</tr>
<tr>
<td>Open the Korgos BCP on weekends</td>
<td>China</td>
<td>Smoother movement through BCP and higher trade turnover</td>
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<tr>
<td>An infrastructure upgrade is badly needed at the Kordai BCP, with a separate crossing point for international freight traffic</td>
<td>Kyrgyz Republic and Kazakhstan</td>
<td>Much better access for Kazakhstani citizens to services offered in Bishkek (health care, education, automotive, etc.) and increased income to their providers</td>
</tr>
<tr>
<td>Open the BCPs with Kazakhstan, the Kyrgyz Republic, and Tajikistan that were unilaterally closed</td>
<td>Uzbekistan</td>
<td>Revival of border trade flows and poverty reduction in affected communities</td>
</tr>
<tr>
<td>Permit the re-opening of bazaars close to BCPs that were forcibly shut</td>
<td>Uzbekistan</td>
<td></td>
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<tr>
<td><strong>Recommendations on movement of people living in contiguous regions</strong></td>
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<tr>
<td>Make local identification sufficient to cross the border for residents of contiguous regions</td>
<td>Tajikistan</td>
<td>Larger number of people involved in cross-border trading; increased incomes and lower prices</td>
</tr>
<tr>
<td>Do not stamp each entry in a passport or, alternatively, introduce a separate sheet registering the length of stay of residents of bordering EurAsEC countries</td>
<td>Uzbekistan</td>
<td>Lower transaction costs and more people involved in border trading activities</td>
</tr>
<tr>
<td>Provide visa-free entry for a period of at least one day but preferably two to residents living in administrative districts of Afghanistan, Kyrgyz, and Tajik areas in which a BCP is located and in areas where Chinese urban centers are remotely located</td>
<td>Afghanistan, China, Tajikistan</td>
<td>More traders and lower prices</td>
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<thead>
<tr>
<th>Recommendation</th>
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<th>Expected impact</th>
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<tbody>
<tr>
<td>Recommendations on movement of motor vehicles</td>
<td></td>
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<tr>
<td>Open BCP to light-vehicle traffic for residents of a bordering region</td>
<td>Afghanistan, China, Uzbekistan, Tajikistan</td>
<td>Lower transaction cost due to lower transport cost and eliminates need for loading/ unloading at the border</td>
</tr>
<tr>
<td>Prevent the road police from extracting bribes from vehicles registered in bordering areas</td>
<td>Kyrgyz Republic, Tajikistan, and Uzbekistan</td>
<td>Lower transport cost</td>
</tr>
<tr>
<td>Recommendations on movement of goods among contiguous regions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raise the limit on the weight of agricultural products exempt from border charges from 50 kilograms to 100 kilograms</td>
<td>Kazakhstan, Kyrgyz Republic, Tajikistan, Uzbekistan</td>
<td>More border trade in agricultural products with positive impact on incomes of the poorest segments of population</td>
</tr>
<tr>
<td>Overhaul of limits on goods imported for personal use and replacing it with the provision of $1,000 worth of goods and 50 kilograms (industrial products) and 100 kilograms (agricultural produce)</td>
<td>Uzbekistan</td>
<td>More border trade in agricultural products</td>
</tr>
<tr>
<td>Enable establishment of market places at the border instead of moving them 20 kilometres from the border</td>
<td>Uzbekistan</td>
<td>Lowering transaction costs with more border trade and more people involved in border trading activities</td>
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Source: Authors.
Note: BCP = border-crossing point.
weight limits based on the “Kazakhstani-type,” simplified customs procedure; and expanding the list of products exempt from border payments. Finally, it would be advisable to extend bazaar hours at the border with Afghanistan and to implement a Korgos model to residents of adjacent areas of Afghanistan.

**Uzbekistan.** Consideration should be given to reopening the BCPs with Kazakhstan, the Kyrgyz Republic, and Tajikistan that were unilaterally closed. The expected impact on communities would be significant and favorable due to the consequent stimulation of border trade. Similarly, authorities should consider permitting the reopening of bazaars located next to BCPs that were shut by order and in some cases have been moved farther from BCPs. It would be reasonable to accompany such BCP openings and associated bazaars with measures to address security and other concerns that led to their closing.

Further consideration should be given by the Uzbek government to opening BCPs to light-vehicle traffic for residents of a bordering region and to stop stamping each entry in passports or introduce a separate sheet registering the length of stay for residents of bordering EurAsEC countries. Measures should be taken to address the rent-seeking behavior of the road police toward vehicles registered in bordering areas. It would be advisable to replace current limits on goods imported for personal use by allowing $1,000 worth of goods and raising the weight limit to 50 kilograms for industrial products and 100 kilograms for agricultural produce. Finally, it would be advisable to introduce a duty-free regime for local residents within certain value and weight limits based on the “Kazakhstani-type,” simplified customs procedure for imports originating in countries not belonging to the CIS and duty-free entry for products from CAREC countries.

**Conclusions and Policy Implications for Bazaars**

The analysis in this chapter provides empirical support to the conclusion that bazaars are a vital, if not the most important, component of supply and distribution chains in surveyed Central Asian countries, with not only local or national but also regional and international reach. Despite the tentative nature of the estimates of annual sales in surveyed bazaars, they nonetheless indicate huge amounts of trade intermediated by bazaars. The two largest bazaars in Central Asia—Dordoi and Barakholka—are each estimated to have sales of near or above $2 billion, while each of the other six that reported foreign sales have estimated sales above
$100 million a year. Two Kyrgyz bazaars, Dordoi and Karasu—accounting for 96 percent of inter-bazaar trade, estimated at about $2.8 billion in 2008—link networks in different Central Asian countries, regions, and cities, while smaller bazaars are also linked across borders. Again, these are conservative estimates.

**Benefits of Bazaars to Country Economies and Trade**

**Bazaars generate multiple positive externalities.** Bazaars give domestic traders marketing experience in intermediating between sellers and buyers, and they give domestic producers easy access to imports and foreign customers. Bazaars create demand for a wide array of supporting services, thus generating employment and reducing poverty.

**Bazaars perform critical functions in both domestic and international dimensions,** although these dimensions are difficult to split, especially in light of the close links in the Kazakhstani–Kyrgyz–Tajik triangle. Most domestic wholesale and retail trade passes through the bazaar networks. Bazaars also play a vital role in foreign trade. Although they vary widely in terms of governance, services provided, and infrastructure, they increasingly operate on the principles that underlie modern market systems, that is, anonymous transactions with trust built on repetitive interactions.

**Bazaars offer opportunities for producers not only to market their products locally but also internationally.** These opportunities should not be underrated, as finding a customer is tough locally and much more demanding internationally. Marketing a product abroad takes time and resources. Many bazaars offer export opportunities free of high marketing costs. Kyrgyz apparel producers have seized this opportunity, and they are most likely not alone.

Bazaars are also a source of products that would be unaffordable at other venues. The price gaps between goods in city stores and bazaars are huge; many people would be denied their consumption without access to bazaars.

**Bazaars create jobs on a significant scale.** The employment effects include not only people directly employed at bazaars but also providers of services and local suppliers to whom the bazaar often offers the only venue for marketing their products. Direct employment in surveyed international bazaars contributes on average 6 percent to total employment in respective regions of their location.

The coverage in terms of products traded is huge and not limited to consumer products or imports, although the latter account for most traded goods. Bazaars supply not only consumer goods but also construction
materials and other industrial inputs used for further processing. Contrary to popular perception, imported products include those produced in other Central Asian countries.

While data limitations preclude a precise estimate of the value of CAREC trade within Central Asian countries, the results of the surveys and foreign trade analysis point to the importance of bazaars as a transport channel facilitating this trade. Large bazaars offer marketing opportunities to domestic producers that would otherwise be either unavailable or very expensive. Selling abroad usually requires investment of substantial resources, whereas foreign traders come to bazaars, giving domestic producers easy access to their markets at little cost. Bazaars intermediate significant commercial exchanges in both locally produced goods and imports. Surveys point to a large number of products produced locally, ranging from agricultural produce to various industrial and construction materials that are transported along the trade channel. Thanks to bazaars, the garment industry has become an important export sector of the Kyrgyz economy.

Policy Implications
The policy implications are straightforward. The first set recommends that bazaars be recognized as a valuable asset. The large presence of imports in bazaar trading should be seen as a sign of the growing dependence of Central Asian economies on the world economy. Products traded in bazaars reflect domestic production capabilities, which are wanting in terms of production of consumer goods and overall level of industrialization. It is not surprising that—excluding agricultural bazaars—imports from outside our four focus countries account for more than half of surveyed bazaars’ sales. Bazaars ensure relatively easy access to imports. Instead of trying to curb bazaar growth as an allegedly inferior form of market organization not worthy of a modern market economy, governments should facilitate their functioning by reducing regulatory and tax burdens levied on traders. This burden is by far the lowest in the Kyrgyz Republic and particularly demanding in Tajikistan and to a lesser extent Kazakhstan, where it also creates opportunities for corruption.

The second set of policy implications surrounds the business climate and cost of doing business in other sectors of the economy. Its point of departure should be an examination of factors hindering the supply response of local businesses to opportunities offered by bazaars. For this purpose, one should carefully examine how Kyrgyz garment producers have been able to tap these opportunities despite, or perhaps thanks to, ferocious competition from China. Can these conditions be replicated?
Last but not least, CAREC governments should pay attention to fiscal measures, including charges on foreign trade operations implemented by their neighbors. The borders are leaky, and bazaar traders can skillfully exploit any price gaps created by government policies. Uzbekistan’s heavy hand in regulating the economy and foreign trade results in smuggling and higher prices for users of imports. Kazakhstan’s border charges exceeding those levied by Kyrgyz authorities simply lead to redirection of Chinese imports. Instead of going directly to Kazakhstan, they go to the Kyrgyz Republic, where they are reloaded for destinations in Kazakhstan. Government revenue could be increased by lowering charges and thus expanding the tax base.

Conclusions and Recommendations Relative to Afghanistan Border Trade

Neither the Afghanistan–Tajikistan nor Afghanistan–Uzbekistan BCP has any arrangements explicitly supporting the development of border economic ties. Although the Tajik government plans to establish free trade zones in some areas bordering Afghanistan, no progress has been made except for setting up bazaars near some BCPs.

Existing arrangements governing the movement of goods and people out of and into Afghanistan neither facilitate standard trade nor provide any incentives to the development of border trade. Despite significant improvements in border infrastructure in Afghanistan, its exit and entry conditions have not changed. Visas are always required, which, with the practice of large stamps in passports for each border crossing, discourages border crossing. Bans on the entry of trucks, including light trucks, and special permits for passenger cars are further barriers. Although Afghanistan’s formal customs regulations are fairly liberal, allowing for the development of shuttle trading, barriers to moving in a vehicle across a border significantly hamper the expansion of such trading.

Border trade, also critically dependent on regulations across the border, does not appear to have taken off on a large scale, although some signs of more intensive activities were seen at the Afghanistan–Tajikistan BCP at Sher Khan Bandar. The potential for this trade seems to be much larger considering the level of development of bordering regions.

Adopting the Korgos model, thus providing the three freedoms of people, goods, and services to residents of contiguous regions, might be considered by governments of Afghanistan, Tajikistan, and Uzbekistan, but would necessitate bilateral negotiations in all directions. Unilaterally,
governments may remove some barriers by, for instance, stamping entry and exit on a separate sheet of paper issued by border authorities rather than in a passport, thus reducing the frequency of passport renewal. Governments should take measures to significantly cut the waiting time, improve parking facilities for vehicles awaiting customs clearance, and penalize bribe-taking. They may also remove regulations prohibiting light vehicles from crossing the border and the requirement for a government permit for the entry of passenger automobiles. However, these measures will do little to boost border exchanges if not reciprocated by the government across the border.

In summary, all governments should consider removing barriers to border trade related to the movement of first, individuals; second, goods; and third, light vehicles.

- The first would be addressed by implementing the Korgos model for residents of bordering areas, with visa-free entry permitted for up to two days.
- The second might be addressed by significantly lowering, if not eliminating, border charges on cargo not exceeding permissive limits.
- The third would involve opening BCPs to light vehicles of residents of bordering districts. Allowing minibuses and passenger vehicles registered in bordering regions to ply freely within certain geographical limits would go a long way in relieving constraints on border trading.

**Comment about Foreign Trade Intermediated by Bazaars**

Imports traveling the bazaar channel are huge. In all, the value of these imports, as reported in mirror statistics, was above $7 billion in 2006. Textile products and clothing together with footwear towered over other imported goods traded in bazaars, accounting for 60 percent of all bazaar products imported into Central Asia. Most of these imports (92 percent of the total in 2006) went through Kazakhstan and the Kyrgyz Republic, most of which were unreported, indicating a shuttle entry mode. Unreported shuttle imports into Kazakhstan and the Kyrgyz Republic alone (data were lacking for other Central Asian countries) amounted to $4.8 billion in 2006, or almost two-thirds of all bazaar goods mirror imports into Central Asia. This proportion was significantly higher for textile and clothing products and footwear; around 80 percent of their total value as imports was not reported in national statistics.
The geographical pattern of bazaar goods imports, however, differs widely from that displayed by non-bazaar goods in one important respect: it is highly skewed toward the Kyrgyz Republic and away from Uzbekistan. The Kyrgyz and Uzbek shares in non-bazaar imports into Central Asia were 6.3 percent and 14.4 percent, respectively, whereas their shares in imports of bazaar goods were 28 percent and 4.5 percent, respectively. The aggregate share of Kazakhstan and the Kyrgyz Republic in total Central Asia non-bazaar imports was 80 percent, compared to 92 percent for bazaar goods. Uzbekistan appears to be a likely destination of many bazaar goods imported originally into other bordering Central Asian economies, although not all of them. Its import patterns reveal a strong bias against bazaar goods, especially insofar as final consumer goods are concerned. It also does not seem that domestic demand for bazaar goods is fully met by domestic products, and the cost of official imports seems too high. Given the significant income gap between Kazakhstan and other Central Asian countries, Kazakhstan may be on the receiving end of imported products intermediated by bazaars in the Kyrgyz Republic and Tajikistan.

The Kyrgyz Republic has emerged as a major re-export platform or source of supply of bazaar goods to bazaars in other Central Asian countries, although its import specialization indicates a large presence of imports that may be used domestically for further processing rather than final consumption. Kyrgyz traders appear to have acquired a competitive edge over their counterparts in other Central Asian countries in their ability to procure goods from more cost-efficient sources and identify demand for them; Kyrgyz bazaars attract traders from all Central Asian countries. Trader-friendly border-crossing regimes also contribute to this success. According to estimates from the present study, around $1.6–2.0 billion in bazaar goods imported into the Kyrgyz Republic in 2006 were sold either to foreign traders or domestic clothing producers. By the same token, a very large portion of imported goods sold in bazaars across the border come from the Kyrgyz Republic. The geography of regular transportation links out of the bazaar hub in Dordoi and the surveys of traders in bazaars in Dushanbe, Tajikistan, and Almaty, Kazakhstan, identified the Kyrgyz Republic as the origin of many products traded at these bazaars. This points to significant flows of goods from the Kyrgyz Republic to Kazakhstan and Tajikistan. Some imported products are consumed in these two countries or move on to Uzbekistan or southern Russia through intermediate bazaars.
In addition, bazaars in Kazakhstan and Tajikistan sell imported products mainly to domestic consumers, but they also serve as a hub for further re-exports, often of goods that originated in the Kyrgyz Republic. According to the World Bank 2008 survey, total foreign sales of surveyed Kazakhstani bazaars were near $100 million, and those of Tajik bazaars near $5 million.

The estimates from the present study are limited to Central Asian imports originating outside Central Asia. They also exclude intra-Central Asian trade in locally produced goods sold at bazaars and trade in locally produced goods. The inclusion of both would significantly raise the estimated values in Central Asian economies.

Also, products covered by an empirical analysis had to meet demanding criteria that excluded many imported products seen in bazaars. These criteria included: consumption use; ease of transport; being shuttle-trade prone, that is, positive mirror trade gaps (as revealed in Kazakhstan’s and the Kyrgyz Republic’s imports juxtaposed against world exports); and being seen in bazaars. As a consequence, some products traded at bazaars across Central Asia were not covered, further depressing our estimates of bazaars’ participation in mediating foreign trade flows.

Despite these omissions, imports for shuttle trade destined for hub bazaars accounted on average for more than one-fifth of Central Asia’s aggregate mirror imports. While this share was at the level of the Central Asian average for Kazakhstan and Tajikistan, it stood far apart for the Kyrgyz Republic at 55 percent and Uzbekistan at 8 percent. While this clearly suggests a larger welfare contribution of bazaars to the Kyrgyz economy, it does not imply bazaars’ irrelevance in the Uzbek economy. Considering that the value of external imports of bazaar goods of $7.4 billion in 2006 excludes value-added by various service providers in supply/logistics distribution chains across Central Asia, their aggregate impact on economic welfare is appreciable. Assuming the total of 40 percent (including the cost of bringing goods to Central Asia) in markups, this would generate direct income of around $3 billion in value-added in 2006 or $56 per capita.

The estimate from the present study also understates the role of bazaars in areas that are difficult to quantify yet are of significant importance. Since the shuttle trade destined for large (hub) bazaars is mainly intra-CAREC trade—its main supplier is China with its products distributed through a network of bazaars throughout Central Asian former Soviet republics and southern parts of Russia—they contribute to the
development of commercial ties among firms and individuals of CAREC countries, often producing new business endeavors.

**Comment about Moving toward Asiaregions**

The growth in the level and intensity of intra-CAREC links shows the existence of significant potential for welfare gains from establishing frameworks for border cooperation among neighboring regions. The existing framework of bilateral agreements’ provisions addressing border cooperation falls short of this goal. First, such agreements that deal with border issues are usually trade agreements, whereas issues that might be meaningfully addressed with welfare gains to cooperating regions are covered, if they are, by other interstate agreements and government agencies. As a consequence, areas like tourism, culture, environment, and energy cannot be easily addressed in regional border cooperation. Second, regions that might benefit from enhanced border cooperation often involve more than two countries and they require coordination not at a bilateral but regional level. CAREC is uniquely placed to supply the necessary institutional and policy framework to achieve it.

With a view to promoting the formation of Asiaregions, an initial step should be the establishment of a CAREC inter-regional committee, responsible for:

- devising a common legal framework (to be adopted by CAREC member states) that would eliminate legal obstacles and facilitate regional initiatives to intensify border cooperation;
- conducting an assessment of gains from closer border cooperation spanning the issues going beyond trade in order to select candidates for implementing pilot projects; and
- coordinating and encouraging the development of operational spatial development strategies on a transnational scale based on cooperation among bordering cities and between urban and rural areas in the context of sustainable development.

Even before a common legal framework for establishing Asiaregions emerges, the CAREC member governments should put the issue of regional border cooperation high on their policy agenda. In addition to working closely with the CAREC inter-regional committee, the governments should encourage and provide organizational support to local
authorities of bordering regions interested in devising strategies for local cooperation.

Reference

APPENDIX

Methodology

I. Outline of Methodology Used to Generate Estimates of Border Trade and Identify the Role Played by Bazaars in Intermediating This Trade

In the absence of systematic data on cross-border trade, it was decided to base the investigation on surveys of traders and border authorities at border-crossing points (BCPs). A questionnaire was designed using semi-structured interviews that teams of local experts used to creatively extract information about the scope of cross-border trade, its significance for local populations, and challenges faced by traders when moving goods across borders. Surveys were conducted in the spring and summer of 2007 at the borders between China and Kazakhstan, China and the Kyrgyz Republic, Kazakhstan and the Kyrgyz Republic, the Kyrgyz Republic and Tajikistan, Kazakhstan and Uzbekistan, and Afghanistan and Tajikistan.

The surveys have convincingly shown the vital importance of border trade to the welfare of local populations. They not only have offered revealing insights into the importance of this trade and its significance to local interaction and welfare, but they also have pointed to the role of bazaars as a main venue of this trade. They have demonstrated the extreme vulnerability of border trade to government policies. Highly restrictive arrangements distort this trade, triggering illegal activities such as...
smuggling, whereas arrangements friendly toward small traders have paid off in terms of welfare gains for local populations.

During the first stage of the project, researchers relied exclusively on information from the surveys, since statistical information on border trade was unavailable. The surveys were conducted at border-crossing points (BCPs) between the following pairs of countries: Afghanistan–Tajikistan (three BCPs in Ishkashim, Tem, and Ruzvai on the Tajik side and Sher Khan Bandar on the Afghan side), China–Kazakhstan (Korgos); the China–the Kyrgyz Republic (Irkeshtam); Kazakhstan–the Kyrgyz Republic (Kordoi); Kazakhstan–Uzbekistan (Jibek Joli); the Kyrgyz Republic–Tajikistan (Kulundu and Ovchi-Kalachi); and Tajikistan–Uzbekistan (Dusti and Patar). Since it was not possible to recruit an Afghan survey team within the study’s deadlines, information on Afghan conditions was obtained through interviews at three Afghanistan–Tajikistan BCPs on the Tajik side of the border. Uzbekistan declined to participate, but information on Uzbek conditions was gathered at various BCPs on its border.

Azerbaijan and Mongolia were excluded from the study. The former lacks a land border with a CAREC member, although its Baku International Airport bazaar is a hub for Caucasian bazaar trading. The latter borders only China along a long, thinly populated frontier and its trade within CAREC is almost exclusively with China. Research on China, a major source but not an appreciable recipient of goods traded in Central Asian bazaars, was confined to the Korgos BCP, bordering Kazakhstan, and the Irkeshtam BCP, bordering the Kyrgyz Republic.

Two tasks were identified in the next stage of the project. The first called for an examination of the role played by bazaars in Central Asia’s systems of production and distribution; the second for exploring the broader issue of building institutions to provide a framework for cooperation between bordering regions. Since there were no in-depth empirical studies of the role played by bazaars in production and distribution, a methodology was developed to extract and process information relevant not only to scholars studying Central Asia but also to policy makers, providing them with practical recommendations designed to foster cooperation contributing to increased welfare of respective local populations.

Surveys combined with statistical analysis of available trade data were conducted in 2008.

From information gathered during the first stage, researchers distinguished types of bazaars, which range from large international bazaars feeding into smaller bazaars, and bazaars trading not only domestically but also to bazaars located in other Central Asian countries. Bazaars were
divided into three categories: (1) big, international hub bazaars, (2) national and regional hub bazaars, and (3) local stationary bazaars, including those in cities. Excluded were border bazaars as they had been examined in the first stage. The sample for surveys included bazaars from each of the three categories.

Furthermore, an observation from the first stage was that the foreign trade of Central Asian economies could be characterized as occurring through three channels: (1) standard trade (bulk products such as oil, gas, metals, equipment, and machinery); (2) large-bazaar trade; and (3) border trade.

Measuring large-bazaar and border trade is problematic. Standard trade data are captured in foreign trade statistics, but trade flowing through the other channels often goes unreported. A comparison of the import statistics of Kazakhstan and the Kyrgyz Republic, two Central Asian countries that report their foreign trade data to the United Nations, with exports statistics, initially with those of China, revealed huge discrepancies in data on products traded in bazaars. China’s exports of these products were significantly higher than their reported imports especially by the Kyrgyz Republic. Consequently, the researchers decided to carefully examine these flows using the respective national trade statistics, with the assumption that a large portion of these flows is intermediated through bazaars.

As for border trade, bazaar income effects were estimated, which include logistics support (trucking, warehousing, leasing of sales outlets, and so on) and the imports of consumer products from outside those economies. Transport logistics rely mainly on data from trucks, which complement those of the standard channel, which relies mainly on railroad data.

Hence, the second stage analyzed foreign trade data as they pertain to large-bazaar channels and surveys of bazaars. In all, 14 bazaars were surveyed: 6 in Kazakhstan, 3 in the Kyrgyz Republic, and 5 in Tajikistan. International bazaars happen to be the largest bazaars in these countries. Two international bazaars in the Kyrgyz Republic were surveyed because both are large and serve as a re-export platform to bazaars in neighboring Central Asian countries and southern parts of the Russian Federation. Large bazaars in Kazakhstan and Tajikistan other than those surveyed lack such international reach and only have national reach. International, national, and regional hub bazaars are complex trading and logistics centers engaging a multiplicity of private entrepreneurs linked through an elaborate division of labor.
City/local bazaars, usually located in urban areas, target the local population and are mainly retail facilities. They include larger border bazaars, which dominate this category. The items traded are foods, acquired either locally or at national hub bazaars, and consumer products. City bazaars covered by the survey included three in Kazakhstan (two in Almaty and one in Astana) and two in Tajikistan (Dushanbe and Khujand). Three of them specialize in food products, and two offer a broad range of products. Three bazaars specializing in agricultural products were included to gain a better understanding of their functioning.

In each bazaar, one or more bazaar administration representatives (if there was one) and traders were interviewed using an interactive semi-structured survey format. Since the sample of interviewed traders was small due to time and funding limits, an effort was made to include representatives of different groups of traders, depending on type of sales outlet (stand, container, or shop) and specialization (shoes, clothing, and so on). In addition, the teams collected general information, including the number of sales outlets and people working in them, warehousing capacities, logistics (transportation and bus terminal), kind of auxiliary services available, and forms of ownership and governance. Particularly sought was information that would enable rough estimates of sales, sources of supply (local products versus imports, including their origins), retail versus wholesale sales, and destination of sales, that is, local versus foreign.

Surveyed bazaars ranged in size from small, designated areas that served as a meeting place for producers and wholesalers (often during limited seasons) to very large permanent bazaars akin to shopping malls, which are run by professional administrations and supply a wide range of services. Some are highly diversified, selling all kinds of consumer goods, including durables. Others solely attract sellers and buyers of construction materials or automobiles. Some engage in wholesale trade, feeding products to bazaars located not only within a country but beyond; they bring together local and foreign residents and serve as a conduit for foreign trade operations. Some trade almost exclusively in domestic products, others in imported products, while still others specialize in agricultural products.

To enable estimates of total annual bazaar sales, the survey questionnaire sought to incorporate all questions needed to extract information on cost components independent of the value of sales. Except for informal payments, information is reliable, as traders and administrators had no incentive to distort or conceal it. Moreover, it is publicly available.
Finally, the analysis of foreign trade statistics relied on “mirror imports,” a method used to develop statistics on imports into countries that do not collect or make data on their imports available. This method provides that for any given Standard International Trade Classification (SITC) product, one country’s value of exports of that product into a second country is accepted as the second country’s value of imports of that product. The method results in approximates, in part because the value of an export excludes the cost of insurance and freight to transport the product to the place of import and the value of an import would include this cost. Other variables relate to variations in record keeping by customs officials. The method is described below with the discussion of that work to facilitate comprehension.

II. Guidelines for Semistructured Interviews at Border-Crossing Points (Phases 1 and 2)

To test the approach developed, the surveys were conducted in two phases: the exploratory phase designed to set the groundwork for conducting the survey during the second phase. The guidelines prepared for local teams responsible for conducting the interviews were as follows.

Phase 1
This section outlines information that we wanted to obtain during the first exploratory mission. Interpersonal skills of a consultant and the ability to improvise and adjust to unstructured situations are critical to the success. Information from this mission will be used to plan the final stage of the research including the physical layout for conducting the final survey.

The task facing a consultant is to perform functions that will be carried out extensively during the final phase, that is, conducting interviews with a person from each target group and observing the flow of goods and people as well as border procedures. Among other things, a consultant should provide answers to the following questions: What time should the survey operation start? At what time of day is the peak passenger traffic? Are there any days of the week that deserve special attention because of, for instance, “market” days? What group of people should be targeted in particular (information from interviews should be useful to sort out this issue)?

Furthermore, a consultant should try to find out what information is collected by customs and border guard officials, what products are traded, and what are the price differentials.
A. Custom officials/border guard officials (background questions):
1. How long has s/he worked in Customs/border guard?
2. How long has s/he been assigned to a border-crossing point in .............?
3. What are the hours of operation of the border-crossing point? Are they the same on both sides of the border?
4. What are the waiting times (range from minimum to maximum with an assessment of most likely) for
   • people?
   • passenger cars?
   • trucks?
5. When is the waiting time the longest? What are the peak hours/days and time of the year?
6. What could be done to lower the waiting time?

Note: (a) Provide information on date, length, and site of the interview as well as gender of the person interviewed; (b) Interviews will be conducted with at least one customs official, border official, taxi driver, small truck driver, and a trader; (c) Assessment of the site from the point of view of conducting surveys under Phase 2; and (d) Submit a written report by May 3, 2007.

B. The purpose of the interviews with customs is to extract the following information:
   • The number of people crossing the border on a daily basis.
   • The percentage of people crossing the border on a regular basis (daily, weekly, and monthly).
   • Documents needed to clear customs for private individuals traveling on foot, by passenger car, or by truck.
   • The percentage of the above people filing customs declarations and the kind of official fees they need to pay.
   • The types of products they bring in and take out (percentage of products produced locally).
   • The type of transportation they use: their own vehicles (including vans and trucks) or taxis (a quantitative estimate would be very useful).
   • The amount of time it takes on average for a person walking through the border to move from one side to the other; same question for a person crossing in a car or in a taxi.
   • The time of day for the peak passenger traffic.
• The number of passenger cars and trucks passing through the border-crossing daily.

C. The purpose of the interviews with border guards is to extract the following information (they overlap to some extent):
  • The number of people crossing the border on a daily basis.
  • The percentage of people crossing the border on a regular basis (daily, weekly, and monthly).
  • Documents (ID, passport) needed to cross the border, and whether each entry and exit are stamped in a passport or other ID.
  • The amount of time it takes on average for a person walking through the border to move from one side to the other; same question for a person crossing in a car or in a taxi.
  • Identification of the “regulars,” traders, job seekers, and so on.
  • The time (day/month) of day (week/year) of the peak passenger traffic.
  • The number of passenger cars and trucks passing through the border-crossing daily.

D. The purpose of the interviews with taxi drivers is to extract the following information:
  • Who uses their services and who is involved in trading.
  • The major intermediaries who are operating on both sides of the border who should be interviewed.
  • Who the regular traders are who should be interviewed.
  • What products are traded; which are the most profitable; price differences between prices of the same product on both sides of the border.
  • Kind of payments (excluding purchase of a product) a trader must have to make in order to move product across the border.
  • The major problems they encounter at the border.

E. The purpose of the interviews with traders is to extract the following information:
  • How often they cross the border.
  • The products they carry; whether there are any patterns in terms of time of the year; what quantities of products they carry.
  • How much money it takes to take a product from a wholesaler/producer to a “market stand”.
  • Payments, official and unofficial, one must make in order to move a product across the border.
Phase 2

Major recommendations from Phase 1 based on reports from the Kazakhstani and Tajik survey teams and follow-up discussions boil down to the following:

- **Extension of target groups:** In addition to groups identified earlier (border guards; customs; taxi drivers; and traders), three other groups should be included in our sample: (i) employees of local governments in charge of local markets; (ii) employees of auxiliary border services (phyto-sanitary and veterinary inspections); and (iii) buyers interviewed at a marketplace.

- **Increase the number of traders interviewed to 30:** The purpose is to have inputs for quantitative assessments based on answers to a questionnaire.

- **Visits to marketplaces:** while interviews with traders at a marketplace were mentioned in the Terms of References, information gathered during Phase 1 has corroborated their importance.

What kind of information do we want to obtain from the extension of target groups?

A. **Employees of local government:** The choice depends on the department managing local marketplaces. It would seem that interviewing one person from the right department should provide all needed information.

   **Information needed:** (i) taxes and all other fees paid by traders in a given market; (ii) breakdown of local and central taxes, if applicable; (iii) taxes and fees levied on traders in a market; (iv) appropriate legal act setting fees and taxes levied on traders operating in a market; and (v) information about the share of total local government revenues derived from border trade–related activities.

   **Important note:** Both main and supporting teams should collect this information.

B. **Employees of auxiliary border services:** These are representatives of various ministries responsible for safety of food, transport, etc.

   **Information needed:** (i) products subject to inspection; (ii) do procedures applied to large shipments also apply to shuttle traders (for example, does a local farmer bringing produce to a market have to go through the same procedures); (iii) how long are lines to obtain certificates; (iv) how many certificates are issued on a market day and on a “normal” weekday.
C. Buyers: The sample should not exceed five people, depending on the kind of information one gets from a semistructured interview (if you feel more people are needed, please do not hesitate to interview more). People should be interviewed at a marketplace.

**Information needed:** (i) how often they come to a marketplace; (ii) motives for coming: (a) products not available elsewhere; (b) goods cheaper than at local stores; if so, by roughly how much; (c) type of products they buy as a rule; and (iii) how satisfied they are with the current arrangements: Should markets be twice a week rather than once a week? Is there anything wrong about the market (difficult access, lack of sanitary facilities, other)?

D. Traders/sellers at a marketplace: The sample should be as large as feasible, since it involves only two questions aimed at assessing the share of locals among the sellers and the percentage of those who have brought products from abroad by themselves (objective: to examine the scope of intermediation).

Question 1: Are you a local resident?
Question 2: Have you brought your products yourself?

The visits to a marketplace should provide information about the kind of products traded as well as price differentials. As for the latter, the prices for selected groups of products most frequently traded should be identified. Furthermore, it would be important to obtain the prices for the same goods at markets or stores across the border: the main team conducting research should contact a person from another team across the border to instruct him or her as to prices of which products should be identified.

Based on the reports, the list of products for price comparisons (make sure to define kind and size) might include potatoes, onions, vegetable oil, tomatoes, cucumbers, rice, flour, tangerines (Afghanistan/Tajikistan). But these are merely examples; the choice should be based on “popularity,” that is, frequency of trading of an item.

The Tajik report provides information about daily earnings of Tajik and Afghan traders on a market day. Similar information should be extracted from interviews in other places, if feasible.

- Rough assessment of how many traders (with a breakdown of locals and non-locals) have come to a market together with an approximate number of buyers.
- Rough assessment of the number of foreign consumer electronics and garments traded at a marketplace.
Any information on the value of traded goods and the usual selling unit would be most welcome.

While we should continue seeking answers to the questions prepared for the preliminary stage, there are some issues that need to be addressed in a quantitative manner for the surveyed border-crossing points:

- Yearly (monthly, weekly—whatever is available) number of customs declarations processed at a BCP.
- Number of staff in the following breakdown: border guards, customs, and phyto-sanitary and veterinary services.
- Trade volume yearly (monthly, weekly): shipments “in” and “out.” Any “uneducated” guesses about the value of unreported trade would be most welcome.
- Number of people crossing the border daily. We already have information for most BCPs, but it has to be standardized along the following lines: maximum, minimum, average, and average on a market day with the breakdown; going there (out), coming here (in), and going through (transit).
- Characteristics of people crossing the BCP on a regular basis. The Kazakhstani team suggested the following breakdown: traders, residents, job seekers, and tourists. Let us stick to this taxonomy and get the same data for all BCPs.
- Number of passenger cars and trucks passing daily through the BCP.
- Average border-crossing time on each side of the border (pedestrian, crossing by car, taxi, truck, train) broken down by waiting time for border controls, time needed for processing, waiting time for phyto-sanitary and veterinary certificates, time needed for processing, waiting time for customs clearance, and time needed for customs clearance and other (please specify).

Additional tasks for surveying border guards: Information on the movement of people that have been reported should be supplemented with directives to border guards along with the current agreements between bordering states on the movement of people. Also we have to find out if there are any special agreements between bordering regions.

Hence, we are interested in answers to three questions:

1. What are the current government (ministry, state agency) directives on movement of people with passports from bordering states?
2. What are the directives/regulations, if any, on movement of residents of bordering regions (rayons)?
3. What’s new? What regulations/directives changed since January 1, 2006?

Additional tasks for obtaining information from customs officers: We have scattered information from reports on the movement of goods. We need systematic information on official agreements together with specific directives/regulations to guide customs officers at the border. We need answers to the following six questions:

1. What are the current government (ministry, customs committee) directives on the movement of goods from bordering states?
2. What are the directives/regulations, if any, on the movement of goods carried out by residents of bordering regions? Are there any special lists of goods exempt from taxes and other border charges?
3. What’s new? What regulations/directives changed since January 1, 2006?
4. What fees and charges do Customs collect from:
   a. Residents of non-CIS states carrying goods with non-CIS certificates of origin.
   b. Residents of non-CIS states carrying goods with CIS certificates of origin.
   c. Residents of CIS state carrying goods with CIS certificates of origin.
   d. Residents of a bordering rayon carrying goods with local certificate of origin.
5. What are the fines and how frequently are they imposed?
6. What customs rules apply to passenger/local inhabitants:
   a. What are the allowances (amount and frequency allowed)
   b. What procedures are applied (simplified, commercial)

III. Guidelines for Collecting Information to Estimate Trade Turnover and Size of Re-Exports

The objectives of the project can be summarized as follows:

- Identification of the “map” of “bazaar” trading activities in terms of sources of supply and direction of flows between regional hubs and local spokes
• Estimate of the scope and composition of foreign trade flows intermediated by regional hub-bazaars
• Estimate of the welfare effects of bazaars
• Identification of policy implications and developing recommendations

Shuttle trade, destined to large-bazaars, taking place in regional “hubs” with international reach and local “spokes” is important for two reasons:

• It is the major source of supply for most consumer products, with aggregate turnover exceeding that of retail stores in most Central Asian countries
• It is also an important source of employment and livelihood for large numbers of traders and producers alike

Yet, so far there has been no serious attempt to assess the scope of activities related to foreign trade intermediated by hub-bazaars. Given the nature of this trade, foreign trade statistics of importing countries do not cover import and re-export activities through bazaars. Neither do they provide any information about re-export activities taking place through hub-bazaars.

We seek to accomplish objectives of this project through the combination of examination of mirror trade statistics and surveys of major hub-bazaars.

The task of the local team is to survey hub-bazaars with an aim of gathering information that might be used as an input to an assessment of the role of bazaars in regional trade and domestic economies. The task can be visualized as having two components: First, we need to collect information about a bazaar’s legal underpinnings and administration. This can be accomplished by interviewing administrators of bazaars and traders as well as representatives of local governments.

Second, other sources of information that we would like to tap are traders and buyers at hub-bazaars. As for traders, we need all information pertinent to an assessment of their break-even points, that is, the turnover needed to cover their costs including a satisfactory income as well as other information that would allow us an appraisal of the impact of a bazaar on the welfare of the local population. Interviews with buyers should shed light on the scope and directions of their re-exporting activities.
A. Bazaar as a Legal Entity and Its Mode of Operation

In order to know how bazaars operate, one would need to talk to people from the bazaar administration and possibly local government and/or tax administration. Despite possible difficulties involved, both should be approached.

Ideally, we would like to learn about their ownership (individual or partnership); legal and tax status (How and where are they registered, if at all? What taxes do they pay? When did they start operating?); the size of administration (How many people are employed by the bazaar administration and what do they do?); fee structure (How are fees differentiated, that is, the size of a stall and location within the bazaar? What do they cover? How frequently are they paid?); services provided by the administration; and investments, past, current, and planned (What kinds of investments were made to establish a bazaar? What kinds of investments have been made since a bazaar was established?).

It might be a good idea to supplement information from official interviews with that derived from inquiries about setting up a stall in the bazaar. What kinds of documents are needed? What obligations does a trader have to assume? Can a stall be bought or leased? Who pays the taxes?

B. Interviews

Mode of Interview:
The sample is small and we will not be able to codify and process responses to questions. Therefore, it should be a semistructured interview and not a structured one. The implication is that you should not only be flexible and responsive but also fully aware of the kind of information that is sought.

Objectives:
The objectives are twofold: First, we would like to arrive at best estimates as to what products are traded; from where they come; and where they go, that is, which portion is consumed domestically and which portion is re-exported and where.

Second, we would like to get a good understanding of how the bazaar functions. The point to keep in mind is that the Baku bazaar is very well run with competitive and low transaction costs. Considering a rapid expansion in trade turnover, it appears to be a “commerce” equivalent of a very well organized special economic zone.
METHODS OF ESTIMATING THE VALUE OF SALES AND THE SCOPE OF RE-EXPORTING:

**Break-even method:** Its essence is to estimate how much money a stall has to generate in order to cover the cost of keeping it. This includes the cost of maintaining a stall and covering business expenses associated with purchasing products.

**Surveys of traders:** It is based on a questionnaire conducted on a randomly selected sample covering at least 1.5 percent of traders/owners or lessees of stalls. No time or resources are available to design a proper survey. Therefore, we have to use a break-even method.

GENERAL INFORMATION:

**About the bazaar:** How many stalls are there now? How many were there in 2005 and 2006? Do stalls differ in terms of size and number of people running them? If yes, we would need to know an estimate of their distribution? What is the bazaar fee? Do they differ depending where a stall is located, or other considerations? Does a fee cover all tax obligations of a person running a stall? What are the main products traded? Is it mostly a wholesale bazaar or a retail one?

**About getting there:** Is there a bus terminal near or at the bazaar? If yes, get the schedule of buses to find out about destinations serviced and their frequency. We would also need to know the passenger average per bus. Since this may vary depending on the season, it would be important to identify busy and slow seasons. Otherwise annual estimates may be off-mark. Furthermore, as far as the destination is concerned, it would be important to find out whether some of these connections feed passengers to other destinations. Is there a railroad station nearby? If yes, what are the major connections? Is it used by traders?

**Wholesale versus retail:** Is the bulk of sales to retail stores and traders from smaller, local bazaars? Or to wholesalers?

QUESTIONS TO VENDORS:
The data that we need to obtain are as follows: all fees paid to run a stall (bazaar fee, lease, utilities, fee for protecting property if a bazaar fee does not cover it); are the fees changed often (every year, every two years?); products traded and their origins (estimate of the proportion of goods in terms of value coming from China, Turkey, and elsewhere); an estimate of trade turnover needed to keep the stall in business; venues of supply
(does the trader do it on his own? does he “outsource” it?) and their mode of delivery (air, rail, or truck—together with respective fees and their coverage, that is, whether the payment includes customs’ charges, and appropriate taxes); and whether the bulk of their revenue comes from wholesale or retail sales.

Questions to estimate break-even cost:

1. How many stalls do you own?
2. What is the bazaar fee?
   a. What does it cover?
      i. All taxes including VAT, excise, and other payments collected by central and local governments?
      ii. Does it cover provision of order and security?
      iii. Does it cover utilities (water, electricity, garbage)?
3. What taxes do you have to pay and how much on a monthly basis?
   Do you have to make contributions to social security?
4. What is the fee for assuring security and who provides it?
5. If you lease a stall, what is the monthly payment?
   a. Are you planning to buy a stall?
   b. If not, why not?
6. If you own a stall,
   a. When did you buy it? Or, how long have you owned it?
   b. For how much could you sell it today?
   c. Can you use your stall as collateral to get a loan?
      i. If yes, what is the amount of a loan that you can get?
      ii. Does a bank usually want collateral equal to the value of a loan? If not, what is the usual ratio of a loan to the value of collateral?
7. How much money per month do you have to make to stay in business?
8. How many people do you need to run a stall?
9. What would you consider good monthly sales and bad monthly sales?
10. Roughly, what are your monthly sales?
11. How many people do you employ?
12. What is their monthly wage, approximately?
13. Or, are they paid on a commission basis?
   a. If yes, what is the commission in percent of sales?
Questions to estimate goods traded, their origin, and cost of delivery from origin to a stall:

1. What products do you sell?
2. Where do you get your products from?
   a. Directly from local suppliers?
   b. Directly from foreign suppliers? If yes, from which countries?
3. How do you get your supplies? If you get them by yourself
   a. How much time do you spend abroad and where?
   b. Do you buy at bazaars abroad? If yes,
   c. Do you bring products yourself? If yes,
      i. Do you bring them by truck, by air, or by train?
      ii. Are you exempt from paying duties?
      iii. What payments do you have to make in order to get products from abroad to your stall?
4. Do you bring products yourself? If no,
   a. What firm(s) do you use? Is it (are they) state-owned or privately owned?
   b. Does the payment for a shipment include door-to-door delivery? (you bring products to a firms’ pick-up point and you get it delivered to your stall)
   c. Do you have to make any other payments such as local taxes, VAT, or excise?
   d. Do you make any payments to Customs?
   e. Which mode of transport do you usually use?
   f. What are the differences in terms of time and money between various modes of transport used?
   g. Could you give an estimate of total cost of delivery from your major supplying markets in terms of dollars per kilogram or ton for different modes of transport?
5. What products do you sell?
6. What products account for most of your sales in terms of monthly revenue?
7. Does most of your revenue come from retail sales?

Questions to estimate whether this is a retail or wholesale operation:

1. What portion of your revenue comes from retail sales and what portion comes from wholesale sales?
2. If it comes from wholesale (that is, purchases for resale), where do your clients come from?
Questions to buyers:
1. Where do you come from?
2. Do you have your own stall or store in your place of origin?
3. How do you get to the bazaar?
4. How long does it take to get to the bazaar?
5. How much does it cost to get to the bazaar?
6. How much money do you have to spend here to make your trip profitable?
7. What products do you usually buy?
8. How frequently do you come to the bazaar? (once a week, once a month, twice a month, etc.)
9. How much money do you plan to spend?

IV. Methodology to Estimate Sales Turnover at Bazaars

Three critical tasks are needed to determine the quality of estimates of sales intermediated through bazaars: (1) identify all components constituting the total average fixed cost of a sales outlet; (2) obtain an estimate of minimum sales covering basic expenditures; and (3) divide the sample of surveyed traders into homogeneous subsamples in terms of size and product specialization.

One set of estimates of the total value of sales at a bazaar is based on answers to a question about the minimum value of revenue meeting all expenditures, that is, assuring survival of an enterprise without generating profits. Total minimum sales can be obtained by multiplying the number of sales outlets by respective estimates of a minimum income. This set of estimates may be regarded as a lower bound of total bazaar sales.

The minimum or break-even value of sales indispensable to stay in business means an income generated to meet the fixed cost of running a stall, that is, independent of the value of sales, and variable costs. The major components of total fixed costs include all payments made to the bazaar administration and other state fiscal authorities, wages paid to vendors or, alternatively, if an outlet is run by an owner, the wage earned by a vendor working in a similar business, a lease (or its equivalent if an outlet is not rented or leased), and informal payments. The survey’s
questionnaire sought to incorporate all questions needed to extract information on cost components independent of the value of sales.

The formula to calculate the break-even value of sales (Smin) assumes that total revenue is equal to total cost, including both total variable (VCb) and fixed costs (FC) or Smin = FC + VCb. It follows that the total variable cost for sales equals the difference between the break-even value of sales and the total fixed cost, or VCb = Smin – FC. (While there are clearly some variable costs associated with transportation and storage of purchased products, the main variable cost of running a commercial operation is the price paid for traded products.) We can calculate the unit variable cost by dividing both sides of the above identity by minimum sales, which equals 1 – FC/Smin. The unit variable cost captures the contribution margin of fixed costs to profit, hereafter denoted as “cm,” determined by the difference between revenue (the difference between revenue from sales and cost of purchase of these products) and fixed costs.

Knowing minimum or break-even sales and total fixed cost, we can also determine the level of a sales margin, that is, the difference between the price of purchase and sold goods. Assuming that the cost of purchase, including delivery to a sales outlet, is the only variable cost incurred by a trader, the sales margin equals the ratio of total variable costs to minimum or break-even sales. Since we know total fixed costs and minimum sales, the value of purchased goods, that is, total variable costs, can be easily calculated: it is equal to the difference between minimum sales and total fixed cost. The ratio of total variable costs to minimum sales is the sales margin. The validity of this result can be tested indirectly by tracing price gaps between wholesale and retail.

The break-even revenue from sales indicates that a sales outlet will not make any profit until it generates revenue covering total fixed costs. The increase in sales over this level will generate marginal profit equal to the contribution margin of fixed costs, that is, 1 – FC/Smin, where FC stands for fixed cost and Smin for the minimum value of sales.

Hence, to estimate an actual value of sales, an average rate of profit, that is, the ratio of revenue to total fixed and variable costs, must be known. The profit rate can be calculated from the following formula:

\[ p = \frac{(r \times cm)}{(1 + r)} \]  \hfill (1)

where: \( p \) = profit rate; \( r \) = difference in percent between actual sales and the break-even value of sales; and \( cm \) = contribution margin of total fixed cost equal to \( 1 – FC/Smin \).
But the problem is that we have one equation with two unknowns. The solution is to calculate rates of profit for various values of the increase in sales over minimum sales.

The procedure can be reversed, treating profit as an independent variable and calculating corresponding levels of sales using equation 2 below, derived by solving equation 1 for $p$, which yields the following

$$r = -\frac{p}{(p - cm)} \quad (2)$$

Since “$p$” has to be lower than “$cm$,” simply because fixed costs have to be covered no matter the level of sales, the value of $r$ is positive insofar as “$p$” is positive.

V. Reconciling Mirror Foreign Trade Data with Balance of Payments Statistics: The Case of the Kyrgyz Republic

This methodology can be used to: (1) identify products whose imports are unreported; (2) pick up those products that are likely to be re-exported rather than consumed domestically; and (3) reconcile estimates with data in the balance of payments statistics.

Two important caveats are noteworthy: First, estimates of re-exports do not have a high degree of precision. But foreign trade statistics are not reliable in general, as a study examining trade statistics across the world has convincingly shown (Rozanski and Yeats 1994). Yet, knowing the approximate size of economic activity associated with imports and re-exports is critical to making informed and sound economic policy decisions. Considering the significant increase in employment and poverty reducing effects of bazaar trading in the Kyrgyz Republic, this is an important point.

Second, government officials may be tempted to curb imports of bazaar goods, claiming that they result in significant losses of customs revenue. However, initial estimates suggest that most imports were re-exported, creating in the process significant demand for services provided domestically and also creating employment opportunities. For these reasons, developed countries facilitate re-exports and do not impose any border charges on their flows.

Products that are likely candidates for re-exports can be identified as simultaneously meeting two conditions: (1) their imports into the Kyrgyz Republic as compared to those into other Central Asian economies reveal the Kyrgyz Republic’s unusual proclivity for consumption that cannot be explained by their production activities or special distinct tastes, and
they are characterized by positive trade gaps, that is, the value of mirror imports are higher than the value of officially reported imports. The choice of criteria can be explained by the unusually high imports and their underreporting, which suggest that these products move through shuttle trading rather than standard or formal channels of foreign trade.

Regarding the first condition, specialization in imports can be captured by a modified index of revealed comparative advantage (RCA). The study alters the RCA index in two respects: first, it is applied to imports rather than exports; second, as it seeks to capture regional rather than world specialization, it is applied to Central Asia’s imports. Because of the latter, it is reminiscent of the export specialization index. In this analysis, the import specialization index (ISI) is the ratio of the share of a given product in Kyrgyz total imports to the share of that same product in Central Asia’s total imports. If the value of ISI for a product is above unity, than a country has a revealed “import” comparative advantage, or specializes in imports of this particular product.

The logic behind applying an export specialization version of RCA to imports can be summarized as follows: relatively large imports indicate either the use of a product for further processing pointing to a country’s participation in the division of labor based on product fragmentation, but only insofar as these are production inputs. Otherwise, in the case of final consumption of products, firms and individuals from a country likely engage in re-export activities. This leads to a further cut in the scope of products relevant for this analysis.

Indeed, not only do the values of ISI for products that are likely candidates for re-exports have to exceed unity but these products should also be consumption goods, that is, not raw materials or components used for further processing. A classification of products by “end-use,” used in standard trade analysis, offers a good point of departure to identify consumer goods: in this classification, they are referred to as “other consumer goods.” Since this group contains products that are either too difficult to transport for shuttle traders (for example, cement, chemical products) or are rarely encountered at hub-bazaars, we amend this classification in two ways: by excluding all chemical products (SITC 5) and including electronic products, such as television receivers, sound recorders, radio receivers, and DVD equipment. This reduces the group of candidates to 12 two-digit SITC product groups meeting this condition, Of which those with ISI values above unity and positive trade gaps will qualify as re-exportables through shuttle-bazaar trading channels. (Note that this analysis may be further refined
by moving down the level of product aggregation to, say, four-digit SITC product groups.)

The second criterion is the existence of the positive discrepancy (mirror trade gap) between the values of exports to the Kyrgyz Republic as reported by its trading partners (mirror imports) and the values reported in Kyrgyz import statistics. The positive mirror trade gaps are usually used in analysis of the scope of customs duties and tax evasion and, more generally, corruption of customs administration and importers. But these are not the reasons for selecting this criterion. Nor are there any reasons to suspect the Kyrgyz Republic of having systemic problems with its customs administration.

Leaving aside smuggling or other illegal activities, the crux of the matter is that Kyrgyz customs regulations have been very friendly to shuttle-trading. Exemptions from border charges on products brought by small traders have been generous. Furthermore, thanks to a regulation that came into force in January 2005, some imports are subject to tariff duties based on weight. This in turn makes both their value and composition impossible to trace for statistical purposes. By the same token, the positive trade gaps provide information on developments in imports going through the shuttle-trading channel. This channel, which exists in parallel with the standard or formal trade channel, supplies products to bazaars through which some of them often go to other countries, that is, they are re-exported.

Interestingly, a dramatic increase in the size of unreported imports preceded the enforcement of customs rules in 2005, significantly easing conditions of access to Kyrgyz markets for bazaar goods, although their overall impact has been powerful. The value of unreported imports in 2006 was almost five times higher than in 2004. According to Regulation 976 of the Government of the Kyrgyz Republic of December 31, 2004, goods carried by natural persons (suitcase traders) have become subject to a low, uniform rate per kilogram. This has made both the value of shipments and classification of items irrelevant from the viewpoint of customs operations. Hence, it should come as no surprise that detailed data on the value and composition of these imports are not available, which contributes to positive trade gaps.

Hence, these positive trade gaps neither indicate systemic problems related to massive smuggling or misclassification of imported products nor do they imply that customs are not corrupt. Note, first, that the only “problem” country is China: unreported imports or mirror trade gaps with China accounted for 97 percent of the total mirror trade gap in 2006, while imports from China amounted to 58 percent of total mirror imports and 14 percent of official imports of the Kyrgyz Republic.3 The
point to remember is that imports of bazaar goods from China amounted to 90 percent of total imports of bazaar goods. But, as will be shown, bazaar goods do not explain the total trade gap.

Second, although trade gaps for non-bazaar goods (which also include goods with ISI values below unity in 2005–06), were in a positive territory in 2005–06, the value of the total mirror trade gap for non-bazaar goods was relatively low and the share of bazaar goods mirror gaps in the total mirror trade gap was high, amounting to 96 percent in 2006. The mirror gap for non-bazaar trade was $73 million in 2006, up from $27 million a year earlier. The ratio of the value of mirror imports to official imports of non-bazaar goods increased from 0.92 in 2004 to 1.03 in 2005 and 1.05 in 2006. Assuming that the cost, insurance, and freight (c.i.f) adds 20 percent to the value of imports entering the customs territory of the Kyrgyz Republic, the value of unreported imports was around 25 percent higher than the value of official imports of non-bazaar goods, or $365 million. Hence, the total mirror trade gap might indicate that customs borders are leaky, albeit not on a massive scale.

The following two-digit SITC product groups, hereafter referred to as “bazaar re-exportables,” meet the two above criteria of ISI values above unity and positive trade gaps: SITC 65—textile yarn, fabrics, made-up articles, and related products; SITC 83—travel goods, handbags, and similar containers; SITC 84—articles of apparel and clothing accessories; SITC 85—footwear; and SITC 89—miscellaneous manufactured articles, not elsewhere specified (see table A.1). For “bazaar-goers,” they come across as the usual suspects ranging from apparel to miscellaneous manufactured goods.

Imports of bazaar products into the Kyrgyz Republic in terms of their share in Central Asia’s imports recorded two surges, in 2004 and 2006. In both years, the respective shares of Kyrgyz imports in total Central Asian imports of these products almost doubled for all product groups, except for miscellaneous products, with textile yarn and fabrics reaching an astounding value of 74 percent and 55 percent for both travel goods and articles of clothing in 2006. Another point worth noting from eyeballing data in table A.1 is a significant increase in the Kyrgyz Republic’s share in Central Asia’s imports in each group of bazaar products in 2006, which are also reflected in the ISI values.

Bazaar-exportables have accounted for the bulk of the total positive trade gap, in which their share increased from 63 percent in 2005 to 77 percent in 2006, while their share in total mirror imports grew from 40 percent to 49 percent in this period (table A.2). Unreported imports
Table A.1  The Kyrgyz Republic’s Share of World Exports to Central Asia of Products in Which It Had a Revealed Import Specialization, 2002–06

<table>
<thead>
<tr>
<th>SITC</th>
<th>Kyrgyz Rep. share in mirror imports (%)</th>
<th>ISI values</th>
</tr>
</thead>
<tbody>
<tr>
<td>65 Textile yarn, fabrics, made-up articles, and related products</td>
<td>50</td>
<td>46</td>
</tr>
<tr>
<td>83 Travel goods, handbags, and similar containers</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>84 Articles of apparel and clothing accessories</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>85 Footwear</td>
<td>11</td>
<td>7</td>
</tr>
<tr>
<td>89 Miscellaneous manufactured articles, n.e.s.</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Total mirror imports</td>
<td>7</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations from world exports to Central Asia as reported to the UN COMTRADE database.
Note: n.e.s. = not elsewhere specified.

Table A.2  Positive Mirror Trade Gaps for Bazaar Re-Exportables, 2003–06 ($ millions)

<table>
<thead>
<tr>
<th>SITC</th>
<th>Items</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>65</td>
<td>Textile yarn, fabrics, made-up articles, and related products</td>
<td>32</td>
<td>49</td>
<td>94</td>
<td>218</td>
</tr>
<tr>
<td>83</td>
<td>Travel goods, handbags, and similar containers</td>
<td>2</td>
<td>5</td>
<td>12</td>
<td>31</td>
</tr>
<tr>
<td>84</td>
<td>Articles of apparel and clothing accessories</td>
<td>48</td>
<td>208</td>
<td>264</td>
<td>851</td>
</tr>
<tr>
<td>85</td>
<td>Footwear</td>
<td>24</td>
<td>38</td>
<td>95</td>
<td>290</td>
</tr>
<tr>
<td>89</td>
<td>Miscellaneous manufactured articles, n.e.s.</td>
<td>14</td>
<td>15</td>
<td>65</td>
<td>97</td>
</tr>
<tr>
<td>Total above</td>
<td></td>
<td>119</td>
<td>316</td>
<td>530</td>
<td>1,487</td>
</tr>
<tr>
<td>Share in total gap (%)</td>
<td></td>
<td>60</td>
<td>70</td>
<td>63</td>
<td>77</td>
</tr>
<tr>
<td>Share in total mirror imports (%)</td>
<td></td>
<td>29</td>
<td>38</td>
<td>40</td>
<td>49</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations from world exports to the Kyrgyz Republic as reported to the UN COMTRADE database.
Note: n.e.s. = not elsewhere specified.

or positive trade gaps were expanding rather dramatically each year in 2003–06, growing more than tenfold over that period.

Re-export activities are difficult to capture in foreign trade statistics not only in developing countries but also in highly developed economies for a variety of reasons. For instance, imports may not be registered simply because temporary admission of a shipment can be designated as “not
entry” into a customs territory, although they are likely to be registered as exports to this particular country. But, in order to assess their scope, it does not matter whether national statistics provide fairly accurate import data. Reliable mirror statistics are crucial in this exercise. As mentioned earlier, foreign trade statistics are not accurate, but some national sources can be trusted more than others. Partners’ statistics relevant for estimating Kyrgyz imports, albeit not the re-exports, belong to the former category.

Notwithstanding these technical difficulties, it is beyond doubt that a very significant fraction of imports is re-exported through intermediary bazaars with some portion of them used as production inputs (fabrics). Imports of bazaar-re-exportables amounted to 50 percent of the Kyrgyz Republic’s gross national income in 2006. Except for Kazakhstan, albeit only in terms of their imports per capita, no other country comes anywhere close to it. The Kyrgyz Republic could not possibly afford such an eye-catching consumption of these goods, considering the other urgent needs of its population.

In order to estimate the value of re-exports, proceed as follows: first, calculate approximate levels of domestic consumption of re-exportable bazaar goods based on comparative regional data; second, calculate value-added of re-export activities ($\beta$), official trade balance and foreign currency revenue; and last, estimate the percent of mirror trade gap re-exported ($\alpha$) and the corresponding value of re-exports.

Considering that consumption patterns and tastes are rather similar across the region and, except for Kazakhstan and to a lesser extent Turkmenistan, they are at a similar level of economic development, there is no reason to expect a large variation in the consumption of these products from imports. Uzbekistan’s dependence on external sources to meet the demand for these products may be lower owing to domestic production of some of them. But it may safely be assumed that mirror imports of “re-exportables” per capita and in terms of gross domestic product (GDP) should not diverge significantly.

As a first step, per capita imports of bazaar goods and their share in the GDP are used to generate expected values of Kyrgyz consumption of imported bazaar goods. The difference between mirror imports and expected domestic consumption denotes the potential supply of products imported into the Kyrgyz Republic available for re-exports. This is shown in two cases:

- Case (A) is based on the assumption that Kyrgyz domestic consumption is equal to annual total imports per capita of these products into Central Asia, excluding the Kyrgyz Republic, in 2002–06; and
• Case (B) is based on the assumption that Kyrgyz domestic consumption of imported bazaar products is determined by the share of its GDP in total regional GDP of Central Asia in 2006.

In the estimates of mirror imports available for re-exports, we used a simple average of bazaar products available for re-exports under Case A and Case B. Both cases offer strikingly similar estimates of the mirror imports “surpluses” available for re-export (table A.3). It seems that they are pretty close to values of real flows increased by an average difference between prices of imports and prices of re-export. But this issue can be only addressed in the domestic rather than regional context.

Note that even when the value of mirror imports available for re-export is known, how much they are going to be sold for is not known. In other words, since there is no information about unit values of imports entering and leaving the customs territory of the Kyrgyz Republic, we have to find ways of deriving them from the balance of payments statistics.

Value-added of re-exports activity is not the same as a profit margin obtained by a trader in a transaction. It refers to costs incurred in moving products from one customs border to another through the intermediary of a bazaar or the difference between the value of imports, including the c.i.f., at the point of entry into the Kyrgyz Republic and the value at the exit of the Kyrgyz customs territory. A practical implication is that the value of mirror imports, which denotes the value at the point of origin of

Table A.3 Estimates of Bazaar Products Available for Re-Exports in 2002–06 ($ millions and percent)

<table>
<thead>
<tr>
<th>Bazaar products</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports of bazaar goods ($ million)</td>
<td>184</td>
<td>267</td>
<td>542</td>
<td>803</td>
<td>1,830</td>
</tr>
<tr>
<td>A. Domestic consumption ($ million)</td>
<td>41</td>
<td>58</td>
<td>80</td>
<td>108</td>
<td>168</td>
</tr>
<tr>
<td>B. Domestic consumption ($ million)</td>
<td>37</td>
<td>67</td>
<td>94</td>
<td>138</td>
<td>191</td>
</tr>
<tr>
<td>A. Available for re-exports ($ million)</td>
<td>143</td>
<td>209</td>
<td>462</td>
<td>695</td>
<td>1,662</td>
</tr>
<tr>
<td>B. Available for re-exports ($ million)</td>
<td>147</td>
<td>200</td>
<td>448</td>
<td>665</td>
<td>1,640</td>
</tr>
<tr>
<td>A. Re-export as % of imports</td>
<td>78</td>
<td>78</td>
<td>85</td>
<td>87</td>
<td>91</td>
</tr>
<tr>
<td>B. Re-export as % of imports</td>
<td>80</td>
<td>75</td>
<td>83</td>
<td>83</td>
<td>90</td>
</tr>
<tr>
<td>A. Imports consumed domestically per capita (%)</td>
<td>8</td>
<td>11</td>
<td>16</td>
<td>21</td>
<td>33</td>
</tr>
<tr>
<td>B. Imports consumed domestically per capita (%)</td>
<td>7</td>
<td>13</td>
<td>18</td>
<td>27</td>
<td>37</td>
</tr>
<tr>
<td>A. Imports consumed domestically, % of 2006 GDP</td>
<td>1.4</td>
<td>2.0</td>
<td>2.8</td>
<td>3.8</td>
<td>5.9</td>
</tr>
<tr>
<td>B. Imports consumed domestically, % of 2006 GDP</td>
<td>1.3</td>
<td>2.4</td>
<td>3.3</td>
<td>4.8</td>
<td>6.7</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations from world exports to Central Asia as reported to the UN COMTRADE database and population and GDP data from the World Bank database.

Note: (A) weighted average imports per capita into Central Asia, and (B) share of Central Asia’s imports equal to the Kyrgyz share in Central Asia’s regional GDP in 2006. GDP = gross domestic product.
a shipment (sale price), should increase by an equivalent of the c.i.f. In subsequent estimates, we assume that c.i.f. for bazaar products amounts to 3 percent ad valorem.

Let us assume that the mirror trade balance (exports increased by the value of re-exports and official imports by the mirror trade gap) and official trade balance are equal; in other words, re-exports pay fully for the mirror trade gap (the difference between mirror imports and official imports) and their trade balance remains balanced. We can then show that the rate of value-added, $\beta$, expressed as a percent of the value of mirror imports is linked to the share of imports re-exported, $\alpha$, and vice versa. Then, from two trade balance identities,

$$TB = X_o - M_o$$

and

$$TB = X_o + \alpha (M_m - M_o) (1 + \beta) - M_m$$

one may derive the following:

$$\beta = \frac{(1 - \alpha)}{\alpha} \quad \text{and/or} \quad \alpha = \frac{1}{(\beta + 1)} \quad (3)$$

Where: $X_o =$ officially reported exports; $M_o =$ officially reported imports; $M_m =$ mirror imports; $(M_m - M_o) =$ mirror trade gap; $\alpha =$ share of goods re-exported in the mirror trade gap; $\beta =$ difference between import entry and re-export exit value (or value-added in the customs territory of the Kyrgyz Republic).

Hence, the level of re-exports needed to maintain an unchanged position in the trade balance depends on the values of $\beta$ as well as the portion of the trade gap re-exported. The problem is that we have a single equation with two unknowns, $\alpha$ and $\beta$, however, they are tied together by the assumption that bazaar trade does not change an overall balance of trade as reported in official statistics. Under these conditions, if we know the value of one, the value of the other can be derived. For instance, assuming the value of $\alpha = 0.85$ (that is, 85 percent of the trade gap) is re-exported, the difference between the cost at the entry to the Kyrgyz Republic and the price at the exit, or value-added, would have to be $\beta = 18$ percent in order to keep the overall trade balance unchanged, that is, expenditures on imports exceeding official imports of bazaar goods would be covered by revenues from re-exports. This would generate the estimates of the value of re-exports in millions of U.S. dollars from the Kyrgyz Republic as tabulated in table A.4.

Another consideration that must be taken into account is that value-added created by re-export activities is a source of foreign currency
earnings. Indeed, the Kyrgyz balance-of-payment statistics unequivocally suggest that revenues from re-exports not only cover their imports but also bring foreign currency into the Kyrgyz Republic. Two balance of payments items are of particular relevance for this analysis: errors and omissions and net private transfers. Both contain remittances from Kyrgyz labor employed abroad and other transactions, including commercial ones related to re-export activities. Based on estimates of remittances from workers employed abroad in terms of GDP and the share of smaller transactions in the total amount of remittances via money transfer operators, we assume that 40 percent of the aggregate value of errors and omissions and net private transfers are for re-export-related activities.

Hence, we obtain a modified value for value-added generated within the Kyrgyz customs territory of $\beta'$:

$$\beta' = 1 + \frac{(0.4*E'T)}{[\alpha*(M'_m - M_o)]}$$  \hspace{1cm} (4)

where: E'T = aggregate value of net private transfers and errors and omissions as reported in the balance of payments statistics; $\alpha$ = the share of re-exported imports; $M'_m$ = mirror imports, including c.i.f. (the value of mirror imports multiplied by 1.03); and $M_o$ = official imports.

Note, however, that $\beta' > \beta$, simply because re-exports do not change the official trade balance (revenues and costs appear in the balance of payments under different headings), and, therefore, if $\beta' < \beta$, then we use $\beta$ to estimate the value of re-exports.

The remaining step is to estimate the percent of mirror trade gap re-exported ($\alpha$) and the value of re-exports. In order to estimate the value of $\alpha$, we first use regional data (see above) to estimate domestic consumption of bazaar goods, which we assume to be equal to a simple average of two estimates: one based on the share of the Kyrgyz Republic in Central Asia’s GDP and the other based on the assumption that Kyrgyz consumption is equal to the average of imports of bazaar goods per capita in Central Asia (excluding the Kyrgyz Republic). The difference between mirror imports of these products and their domestic consumption is the amount of mirror imports available for re-export (RM). The ratio of RM to the mirror trade gap of bazaar goods ($M_m - M_o$) is equal to $\alpha$.

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>142</td>
<td>235</td>
<td>661</td>
<td>1,045</td>
<td>1,828</td>
</tr>
</tbody>
</table>

Note: Calculation assuming that 85 percent of the mirror trade gap is re-exported.
Thus, we can calculate the value of modified value-added, $\beta'$, from equation 4 above, and use its value to estimate the value of re-exports. This value is equal to the value of mirror imports available for re-export (RM), increased by the value-added equal to $\beta'$, or

$$\text{Re-exports} = \text{RM} \times (1 + \beta')$$  \hspace{1cm} (5)

Table A.5 presents the results of estimates together with the values of parameters used for this purpose. The values of value-added parameters derived from the balance of payment statistics ($\beta'$) were higher than the “equilibrating” values of $\beta$, so the values of $\beta'$ were used to calculate the values of re-exports. Note that $\alpha$ refers to the fraction of the mirror trade gap, that is, the difference between mirror imports and official imports. It does not refer to the fraction of total mirror imports of bazaar goods re-exported from the Kyrgyz Republic.

How good are these estimates? They certainly are back-of-the-envelope calculations. Their precision is not in a fraction of a single percentage point. But it seems that they are not more than 10 percent off the mark. We have also run two estimates of the value of re-exports: the first was based on an assertion made in a study on bazaars in the Kyrgyz Republic that three-fourths of Chinese imports into the Kyrgyz Republic wind up in other Central Asian countries. The second was derived from conversations with traders at the Dordoi bazaar near the Kyrgyz capital Bishkek who claimed that around 75–80 percent of products sold at the

Table A.5  Values of Parameters and Estimates of Re-Exports of Bazaar Re-Exportables, 2003–06

<table>
<thead>
<tr>
<th>Variables in re-exports</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\beta$ (value-added derived from data on foreign exchange inflows)</td>
<td>0.43</td>
<td>0.25</td>
<td>0.33</td>
<td>0.27</td>
</tr>
<tr>
<td>$\beta$ (value-added needed to balance trade in bazaar goods)</td>
<td>0.01</td>
<td>0.06</td>
<td>0.10</td>
<td>0.06</td>
</tr>
<tr>
<td>$\alpha$ (portion of mirror trade gap re-exported)</td>
<td>0.99</td>
<td>0.94</td>
<td>0.91</td>
<td>0.95</td>
</tr>
<tr>
<td>Net private transfers and errors and omissions (ET in $ millions)</td>
<td>221</td>
<td>290</td>
<td>558</td>
<td>1,097</td>
</tr>
<tr>
<td>Value of re-exports ($ millions)</td>
<td>293</td>
<td>571</td>
<td>903</td>
<td>2,090</td>
</tr>
<tr>
<td>Domestic consumption of bazaar imports ($ millions)</td>
<td>63</td>
<td>87</td>
<td>123</td>
<td>179</td>
</tr>
<tr>
<td>Revenue from re-exports ($ millions)</td>
<td>88</td>
<td>116</td>
<td>223</td>
<td>439</td>
</tr>
<tr>
<td>% of imports re-exported</td>
<td>69</td>
<td>63</td>
<td>62</td>
<td>86</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations.

Note: ET = aggregate value of net private transfers and errors and omissions as reported in the balance of payments statistics.
bazaar were actually re-exported to Uzbekistan, Russia, and Kazakhstan.\textsuperscript{6} The estimated values of re-exports for these two assumptions were within 10 percent of our estimate.

Total revenues from re-export activities might be even higher than our estimate suggests, simply because mirror statistics of Kyrgyz trading partners do not necessarily capture all the trade flows intermediated by shuttle traders. Their purchases abroad are often too small in value to draw the attention of customs officers or prompt sellers to report them to local government agencies as exports. Thus it would seem that our estimates of both the scope of re-exports and revenues are rather conservative.

The estimates are based on a number of assumptions that call for a closer examination of information that can be derived either from more detailed balance of payments statistics or from surveys of large bazaars examining the extent and directions of re-export activities. Similarly, the methods used to derive estimates can be further developed and refined through their applications using more detailed data.

\textbf{Notes}

1. “Other Consumer Goods,” as defined in a standard end-use taxonomy used in trade analysis, include SITC: $5 + 6 + 8 + 9 - 68$.

2. As will be shown below, those with the values of ISI above unity and positive trade gaps will qualify as re-exportables through the shuttle-bazaar trading channel.

3. Total Chinese exports to the Kyrgyz Republic were $2.1$ billion in 2006 and the Kyrgyz Republic’s reported imports from China were $247$ million (data reported by the respective countries to the UN COMTRADE database). For more details on Chinese-Central Asian trade, see Raballand and Kaminski (2007).

4. These include the following two-digit SITC goods: non-metallic mineral manufactures (66); furniture and parts (82); photographic apparatus, optical goods, watches, and clocks (88); and manufactures of metals (69). They are traded at bazaars but apparently not re-exported.

5. Since there is no information available on re-exports, the difference in unit values cannot be used as a point of departure to assess the gain in value between the entry and the exit of products from the Kyrgyz Republic.

6. This is an estimate given during the interviews of traders in the summer of 2007 conducted for the World Bank’s CAREC project; it is also based on the computation of trade flows based on buses leaving Dordoi compared to the number of trucks/travelers going to Dordoi.
References


Trade that straddles borders in Central Asia plays a vital role in the livelihoods of border communities and buttresses prosperity in poor regions. By strengthening commercial ties and deepening cultural understanding and community relationships, border trade nurtures amicable relations between neighboring countries.

This book examines the characteristics of trade intermediated by a network of bazaars in Central Asia and its significance for local economies. It uncovers the dynamic phenomenon of bazaars in driving trade. Bazaars were invented in central Asia centuries ago. In their modern form—as highly flexible and low-cost centers for trade endowed with modern, sophisticated logistics—bazaars provide a channel parallel to that of formal trade. They play major roles in regional and national chains of production and distribution, with national networks strongly integrated and overlapping across Central Asian economies. Bazaars are the major agents for border trade, which fights poverty by cheapening products and by creating employment opportunities, especially for women.

This volume also examines the public policy implications of bazaar, or “non-standard,” trade and considers actions that could be taken to foster such trade.

But this book goes beyond trade. It considers the potential for border community cooperation in a variety of activities, public services, and shared infrastructure, a culture that could yield rich dividends and make the idea of borders as separators of human activities meaningless. It examines the example of border cooperation in Europe through Euroregions as a model for Central Asia, and it provides a series of recommendations for public authorities intended to deepen border trade and cooperation.