

CROSS-BORDER TRADE WITHIN THE CENTRAL ASIA REGIONAL ECONOMIC COOPERATION

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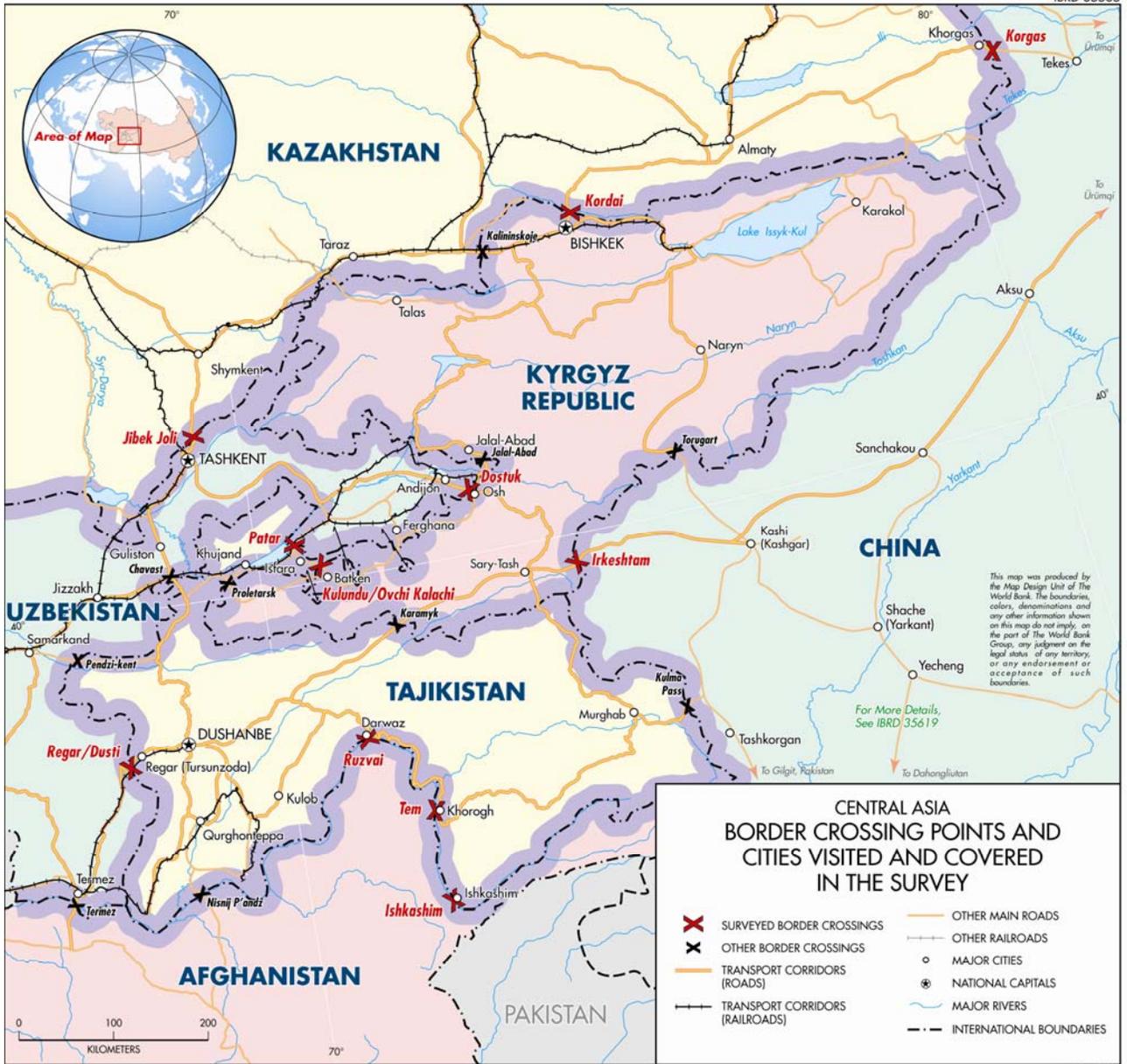
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SUMMARY

Cross-border trade -- defined as the flow of goods and services across international land borders within a reach of up to thirty kilometers -- plays an important role in supporting the livelihood of border communities and, thereby, buttressing prosperity in central Asia. Furthermore, by strengthening commercial ties, promoting cultural understanding, and deepening community relationships, cross-border trade helps to nurture amicable relations between neighbours. This report, based on surveys of cross-border trading conditions, profiles the key features of cross-border trade and its employment and income effects. The focus of the report lies in its analysis of the impact of government interventions that facilitate or impede cross-border trade by *inter alia* affecting the movement of local people, vehicles, and goods between the countries of the Central Asia Regional Economic Cooperation (Carec).

Characteristics of cross-border trade

Cross-border trade is defined as the flow of goods and services across international land borders within a reach of up to 30 kilometers. The unique feature of cross-border trade lies in geographical proximity rendering transportation costs almost irrelevant, thereby allowing traders to take advantage of differences in the supply, demand, and prices of various goods and services available on either side of the border.

Most cross-border trade activities are not reported in foreign trade statistics. Surveys carried out for this report show that cross-border trading is carried out by individuals/small traders and their families, who often are producers of traded goods. Quantities traded are small, usually less one hundred kilograms and less than a few hundred US dollars in value. Agricultural products and consumer goods are the main kinds of traded goods. Small traders trade their goods on foot, using a bicycle, taking a minibus or a car to the other side of the border.

Cross-border trade is highly sensitive to the treatment meted out to traders by conditions imposed by national governments. Its success depends critically on the ability of individuals to routinely cross the border without paying a large unofficial payment or prohibitive tariff duties and border charges, and to cross the border with their own passenger vehicles or with light vehicles from bordering regions.

Benefits of cross-border trade

Cross-border trade benefits traders' lives and incomes but also strengthens local production, and fosters service provision (such as storage facilities, transportation, and ancillary services in local bazaars). Such trade generates income for people working in bazaars as well as for activities associated with bazaars and trade. Since cross-border trade is also a significant driver of employment, income is generated for households that otherwise would live in poverty. In remote regions, where employment is scarce and salaries low, cross-border trade, when eased, generates income for a whole household and is more profitable than most other economic activities available.

Moreover, cross-border trade lowers import prices of goods available to consumers in bordering areas (in the absence of cross-border flows, prices and price differentials would be higher) and enables exporters to benefit from higher value-added. Finally, cross-border trade has a gender dimension: women are more actively involved in border-trading activities, such as selling goods in bazaars, as well as moving goods through border crossing points. Many heads of traders associations involved in cross-border activities are women.

Barriers to cross-border trade

This report reveals that cross-border trade is vulnerable to government policies. On occasion governments have intervened to facilitate cross-border trade. Such arrangements, generally involving easing of visa requirements for border residents and duty-free status being accorded to cargo within certain weight and value limits, have typically been highly effective in stimulating local economies.

However, in other cases government intervention has proven to be a serious barrier to cross-border trade. Such government-imposed obstacles relate to visa and passport stamping requirements that are onerous for border communities, unduly strict restrictions on vehicular movements, and regulations on opening hours for border crossings. Moreover, actions taken on occasion to unilaterally close border crossing points (BCP), particularly those with a large potential for trade, have dampened trade and inflicted welfare losses on poor populations. Similarly, the forcible closing or relocation of bazaars supporting cross-border trade has tended to encourage smuggling. Highly restrictive limits on exemptions from border charges and taxes and curbs on the movement of vehicles are also factors that significantly impede cross-border trade.

Security is often cited as a factor for imposing controls as is the discouragement of contraband trade. But such government-imposed obstacles are usually a blunt and expensive instrument to attain such public policy aims, with damaging impact on the income and welfare of the poor. Instead, BCPs and bazaars could be opened but made subject to strict and effective policing and risk-based surveillance or search of vehicles could be instituted in place of an outright ban. Moreover, one may find that the security benefits of stronger community ties across borders may be considerable; after all, in conditions of growing trade that contributes visibly to the prosperity of a border community, all parties would have a stake in suppressing criminal behaviour and in promoting public order. Visa and passport stamping policies could be flexibly applied to fit the needs of small border communities.

As the effectiveness of government-imposed obstacles can be weak (restrictions often are countered by smuggling or unofficial payments), the ultimate public policy aim of prosperity and security is perhaps best achieved through a combination of highly liberal cross-border trading conditions accompanied by intelligent policing and customs practices.

Policy recommendations

- ***To the Government of Afghanistan.*** Consideration should be given to the removal of two barriers to cross-border trade related to the movement of individuals and of light vehicles. The first would be addressed by the implementation of the Korgas model for Tajik residents of bordering areas, with visa-free entry permitted for up to two days. The second would involve opening BCPs to light vehicular traffic (mini-buses and vans) for residents of bordering districts.

- ***To the Government of China.*** Consideration should be given to changing customs regulations to keep the Kulma BCP with Tajikistan open for the whole month, to open the Korgas crossing-point during weekends, and to open BCPs to light vehicle traffic (mini-buses and vans) for residents of bordering regions. Finally, as an expansion of the Korgas model, Chinese authorities should consider granting visa-free entry for a period of at least one day, but preferably two days, for residents living in administrative districts of Kyrgyz and Tajik areas in which a BCP is located.

- ***To the Government of Kazakhstan.*** It would be advisable to carry out joint work with the Kyrgyz authorities and with donors on Kordai BCP infrastructure modernization. The government should demonstrate to other Carec countries the benefits and the replicability of the Korgas model, and together with the Chinese authorities could provide assistance to other Carec members interested in replicating Korgas.

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

- ***To the Government of Tajikistan.*** Consideration should be given to opening BCPs to light vehicle traffic (mini-buses and vans) for residents of a bordering region and to make local ID sufficient to cross the border for residents of contiguous regions. Measures should be taken to address the rent-seeking behavior of the road police towards vehicles registered in bordering areas. The government should consider raising the limit on the weight of agricultural products exempt from border charges from 50 kilogram to 100 kilograms, to introducing a duty-free regime for local residents within certain limits of value and weight based on the “Kazakh-type” simplified customs procedure, and to expanding the list of products exempted from border payments. Finally, it would be advisable to extend bazaar opening hours at the border with Afghanistan and implement a Korgas model to resident of adjacent areas of Afghanistan.

- ***To the Government of Uzbekistan.*** Consideration should be given to reopening the BCPs with Kazakhstan, Kyrgyz Republic and Tajikistan that were unilaterally closed in view of the expected significant favorable impact on local communities of the consequent stimulation of cross-border trade. Similarly, the authorities should give consideration to permitting the re-opening of bazaars located next to BCPs that have been shut by order and have, in cases, been moved to points distant from BCPs. It would be reasonable to accompany such openings of BCPs and associated bazaars with measures to address concerns (such as security) that led to their unilateral closing.

Further consideration should be given by the Uzbek government to opening BCPs to light vehicle traffic (mini-buses and vans) for residents of a bordering region and to stop stamping each entry in passport 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 towards vehicles registered in bordering areas. It would be advisable to replace current limits on goods imported for personal use by allowing US\$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 limits of value and weight based on the “Kazakh-type” simplified customs procedure for imports originating in non-CIS countries and duty-free entry for products from central Asian Carec countries.

1. INTRODUCTION

1.1 *Cross-border trade* -- defined as the flow of goods and services across international land borders within a reach of up to thirty kilometers -- plays an important role in supporting the livelihood of border communities and, thereby, buttressing prosperity in central Asia. Furthermore, by strengthening commercial ties, promoting cultural understanding, and deepening community relationships, cross-border trade helps to nurture amicable relations between neighbors. At a meeting in Urumqi, China, in October 2006, ministers of the Central Asia Regional Economic Cooperation (Carec) countries¹ asked the World Bank to conduct a study of cross-border trade. By including cross-border trade on its policy agenda, Carec joined organizations such as the Council of Europe and the European Union that view cross-border cooperation as an important area for cooperation in developing common policies amongst neighbors with the objective of strengthening regional ties and promoting prosperity.

1.2 This report is the result of that request.² It is based on surveys of cross-border trading conditions conducted by national teams of experts working on the territories of China, Kazakhstan, Kyrgyzstan and Tajikistan between February and June 2007. During this process, the Bank worked closely with Carec member countries, the International Monetary Fund (which leads the trade working group within Carec), and the Asian Development Bank.

1.3 In the absence of statistical information, as cross-border trade tends to go unreported, the project developed its own information base and collected data on border trading activities, such as the movement of people and goods and services, together with the nature of treatment given to residents of bordering regions engaging in trade. Annex I provides details on the methodology of the work. Information was collected through participatory observations, structured interviews, and questionnaires conducted at pre-selected border-crossing points (BCPs). Three national teams³ conducted surveys at BCPs of China, Kazakhstan, the Kyrgyz Republic and Tajikistan.

¹ The grouping of Carec countries consists of Afghanistan, Azerbaijan, China, Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan and Uzbekistan. Details on Carec can be found in www.adb.org/carec.

² This report was prepared by a team headed by Saumya Mitra and consisting of Bartłomiej Kaminski (principal investigator), Matin Kholmatov and Gael Raballand (economists). The team is grateful for the guidance of Annette Dixon (the Bank's country director for central Asia) and Sena Eken (IMF), and for the peer review of Henry Kerali (transport specialist) and Johannes Linn (advisor to Carec). It acknowledges with thanks comments from Loup Brefort, William Byrd, Cheryl Gray, Andrea Kucey, William Mayville, Sevara Melibaeva, Bryce Quillin, Roger Robinson, Ilyas Sarsenov, Philip Schuler, Eskender Trushin, Ekaterine Vashakmadze and Michel Zarnowiecki. An ongoing study by the World Bank on *Trade and Transport Facilitation in Central Asia* provided valuable inputs to this report. The team is grateful for discussions with the secretariat of the Eurasian Economic Community (Eursec) in Moscow and Almaty when the concept for the report was being devised. The Bank acknowledges the generous support of the Swiss government to the conduct of this study.

³ The Forum of Entrepreneurs of Kazakhstan, SOCECONIC from Kyrgyz Republic, and SRC Consulting from Tajikistan conducted surveys at Korgas (Kazakhstan with China), Kordai (Kazakhstan with Kyrgyz Republic), Jibek Joli (Kazakhstan with Uzbekistan), Dostuk (Kyrgyz Republic with Uzbekistan), Irkeshtam

1.4 The surveys did not encompass every Carec country. Two Carec members were deliberately not included in the survey: Azerbaijan, which lacks a land border with a Carec member, and Mongolia, which borders only China along a long, thinly-populated frontier. Moreover, although the study did include three Afghan-Tajik BCPs, it was not possible to recruit an Afghan team to conduct surveys on the Afghan side of the border within the tight deadlines for this report. Nevertheless, pertinent information on Afghan conditions was obtained through interviews at Afghan-Tajik BCPs. Finally, the government of Uzbekistan declined to participate in the project; nevertheless, much valuable information on the Uzbek side of the border was gathered at various BCPs that impinge on its territory. The work on China was confined to the BCP of Korgas (bordering Kazakhstan) and Irkeshtam (bordering the Kyrgyz Republic).

1.5 *Context.* Three elements pertaining to the geography and trade developments within the Carec countries under study provide the context to the report. First, borders with other Carec members are an important part of the economic landscape for all of them (see Table 1.1); border length alone points to the potential for cross-border cooperation. Border length ranges from 13 percent (China) through 72 per cent for Uzbekistan to 100 percent for Kyrgyzstan and Tajikistan.

Table 1.1: Length of Borders Among CAREC Economies (in kilometers) and Percent of Land Area Located Within 20 Kilometers of a Border

	Afghanistan	China	Kazakhstan	Kyrgyz Republic	Tajikistan	Uzbekistan
Afghanistan		76	N/C	N/C	1,206	137
China	76		1,533	858	414	N/C
of which:						
Xinjiang	76		1,533	858	414	N/C
Kazakhstan	N/C	1,533		1,051	N/C	2,203
Kyrgyz Republic	N/C	858	1,051		870	1,099
Tajikistan	1,206	414	N/C	870		1,161
Uzbekistan	137	N/C	2,203	1,099	1,161	
Total length of borders	5,529	22,117	12,012	3,878	3,651	6,221
Percent with CAREC countries covered above	26	13 (80)	40	100	100	72

1.6 Second, overall international trade between Carec member states has been growing rapidly over the past five years. In 2006, the value of intra-Carec trade reached US\$28 billion, a five-fold rise over 2002, representing an annual average growth of 40 per cent. However, Uzbekistan's trade with its Carec partners has stagnated.⁴ Details on total trade can be found in Annex II.

(Kyrgyz Republic with China), Kulundu and Ovchi-Kalachi (Kyrgyz Republic with Tajikistan), Dusti and Patar (Tajikistan and Uzbekistan), and Ishkashim, Tem and Ruzvai (Tajikistan and Afghanistan).

⁴ Policy-induced barriers may be responsible for this. According to a recent study (ADB 2006, p. 25-28), Uzbekistan's foreign trade regime is the most protectionist among Central Asian Carec economies.

1.7 Third, small-scale cross-border trade is widespread. Thousands of people, mostly residents of contiguous border areas, cross BCPs every day to exploit differences in prices, wages, and regulatory practices.⁵ For many small agricultural producers, sales at a marketplace across the border often offer the only opportunity to purchase other goods. For example, consumers can obtain fresh produce at an attractive price. For others intermediating and supplying services to traders is their only source of income, allowing many households to stay out of poverty. Furthermore, for communities in remote areas, lacking the advantages of 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 services that are not available locally.

1.8 Although cultural and ethnic affinities, common historical background, and existing functional interdependencies among central Asian republics continue to provide a strong impulse for cross-border cooperation, significant differences can be found in country policy approaches to economic development and the role of foreign trade as well as cross-border trade. There is clear evidence of barriers to cooperation and cross-border trading.

1.9 Cross-border trade, as it exists today in central Asia, hinges critically on:

- the ability of people to routinely cross the border without paying a large unofficial payment,
- the ability of people to routinely cross the border with goods without having to pay prohibitive tariffs, taxes or duties and border charges,
- the ability of people to cross the border with their own passenger vehicles or with light vehicles from bordering regions.

1.10 Unless the above conditions hold, cross-border trade would be reduced in volume, with communities suffering a large welfare cost, and may even be suppressed.

1.11 The report is structured as follows. Section 2 defines the scope of cross-border in central Asia and how possible is to identify it. Section 3 analyzes the income and employment impact of cross-border trading. Section 4 reviews government policies that encourage or hinder cross-border trade. Finally, Section 5 provides practical policy recommendations to foster cross-border trade in Carec region.

2. CHARACTERISTICS OF CROSS-BORDER TRADE

2.1 *Definition.* The unique feature of cross-border trade lies in geographical proximity rendering transportation costs almost irrelevant, thereby allowing traders who are able to cross borders regularly to take advantage of differences in the supply, demand, and prices of various goods and services available on either side of the border. Cross-

⁵ In many areas with restrictions on the movement of people and goods, borders are often crossed illegally.

border trade is highly sensitive to the treatment meted out to traders by conditions imposed by national governments.

Box 2.1: How Do we Define and Characterize Cross-Border Trade in Central Asia?

Cross-border trade may be defined as a flow of goods and services across international land borders within an easy reach of up to 30 kilometers.

Most cross-border trade activities are not reported in foreign trade statistics.⁶ Based on surveys, cross-border trade may be characterized as the following:

1. Cross-border trading is carried out by individuals/small traders and their families,⁷ who often are producers of traded goods,
2. Quantities involved are small, usually less one hundred kilograms and less than a few hundred of dollars in value.
3. Agricultural products and consumer goods are the main kinds of traded goods.⁸
4. Small traders trade their goods on foot, by using a bicycle, taking a minibus or a car, to the other side of the border. They do not need to have recourse to trucks because of small quantities traded and geographical proximity.
5. Cross-border trading mainly depends on price differentials, which, in the case of China and Uzbekistan, appear to be significant.

2.2 Traders and products. There are two important features of cross-border trading in central Asia. First, it is carried out entirely by local people, and often entire families, traveling together so as to maximize the amounts transported across the border. Second, bazaars are the main vehicle for the conduct of cross-border trading. Since limits on cargo are on a per-person basis, traveling with a spouse and children significantly expands the amount of goods that can be moved across the border without incurring extra official payments.

2.3 Cross-border trading in regions bordering China consists mostly of imports from China,⁹ but, among other Carec pairings, trade takes place in both directions, and involves

⁶ For instance, neither Chinese nor Kazakh customs officials register items exported and imported by daily shuttle traders with carry-on luggage. The same is true for Tajik and Kyrgyz customs administrations as long as luggage carried by people crossing the border does not exceed a prescribed volume and size. Consequently, any estimate of cross-border trade *in the whole Carec region* would be only an informed guess.

⁷ Some traders may become large shuttle traders and then move to large cities or capital cities to trade but it seems rather scarce.

⁸ In some cases, when price differentials is high, cross-border trading may encompass a large spectrum of industrial products ranging from cement, coal, petroleum products, which are both locally produced and imported, i.e., involve re-exports and, usually, smuggling.

⁹ In economic terms, the most important interaction of China with Central Asia is through Xinjiang Uygur Autonomous Region, which covers an area of over 1,600,000 square kilometers and borders Kazakhstan, Kyrgyz Republic, and Tajikistan. Xinjiang, has experienced strong industrial growth driven by the combination of central government investments and emerging trade opportunities in Central Asia. Xinjiang, rather than China as whole, offers a more appropriate reference point due to remoteness of other parts of China and limited economic interaction. Xinjiang already accounts for the bulk of trade with Central Asian CAREC countries. As for Kazakhstan, its relatively high GNI per capita, around five-six times higher than

a whole range of agricultural and industrial products. As illustrated by cross-border trade in the area around the Korgas border-post between China and Kazakhstan, exports are very small, whereas imports include a variety of products ranging from bananas and tomatoes to apparel and household appliances. Most traders at the time of the survey (summer) were bringing agricultural products, with apples and tomatoes topping the list, into Kazakhstan.

2.4 Agricultural products appear to account for a considerable share of this trade, as these operations provide a venue for selling local surpluses. Agricultural products moving both ways through BCPs linking Kazakhstan and Kyrgyzstan, and Uzbekistan and Tajikistan with Afghanistan, reveal that Kyrgyzstan and Uzbekistan also appear to account for a large share of cross-border trading activity, as measured by frequency 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. But cross-border trading carried out by residents of adjacent regions is not limited to agricultural products.

2.5 Indeed, the survey indicates that cross-border trade among Central Asian Carec countries is a microcosm of the commodity composition of total trade but, of course, in minuscule quantities. In some cases, it encompasses a large spectrum of industrial products ranging from cement and coal to detergents and toilet paper. They are both locally produced and imported, i.e., involve re-exports. In addition to local products (flour, sugar, macaroni, tea), Tajik traders, for instance, 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. Cross-border trade flowing both ways between Kyrgyzstan 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).

2.6 Quantities involved in cross-border trading are small. This is due not only to regulatory limitations on cargo size not subject to customs fees and other taxes, but also to limits in local demand and supply. It is not uncommon to see a person crossing the BCP carrying a piece of furniture or pushing a cart with a couple of rugs or a bicycle with one or two 50-kilogram bags of potatoes. Cross-border trade is usually critical to the welfare of people inhabiting contiguous regions. In some remote regions, it is the most important economic activity, with significant multiplier effects (see Section 3 below).

2.7 **Pricing.** Cross-border trade has failed to equalize prices for traded commodities across borders. The fact that price gaps exist suggests that the (small) volume of border trade is not sufficient to ensure price convergence and full integration of contiguous local markets. A significant part of the reason for the volume of trade not expanding to take advantage of clear profit opportunities that price gaps represent could, in certain BCPs,

that of other Central Asian Carec economies, derives mainly from its exports of oil. In bordering regions, the gap is much less pronounced, despite a considerably higher standard of living in Kazakhstan.

arise from government-imposed or tolerated barriers to border trade. The existence of price gaps means losses in economic efficiency and in the welfare of local communities.

2.8 Yet for a variety of reasons, ranging from history to membership in a regional economic integration project, the Eurasian Economic Community (Eursec), one might expect greater price gaps with China and more price convergence among central Asian Carec countries (excluding Afghanistan). Indeed, price differences in pairings involving Kyrgyzstan and Tajikistan are smaller, ranging between 3 percent and 39 percent, and work both ways, creating unexploited incentives for both export and import activity across the border (Table 2.1). Despite lower differentials between prices at border bazaars, they are sufficient to prompt transport of products from one country to the other, depending on the price ratios.

2.9 But the gaps are significantly larger for the Kyrgyzstan—Uzbekistan pairing. As the data in Table 2.1 indicate, some products (cottage cheese) cost almost twice as much across the border. The smallest difference in price amounts to 17 percent (Kyrgyzstan—Tajikistan). However, in the absence of historical data, it is impossible to assess whether there has been a tendency towards price convergence or divergence.

2.10 Price gaps are evidence of the existence of transaction costs associated with cross-border trading; as noted, some of these costs may arise from barriers to trade. Broadly speaking, larger price gaps point to lower levels of market integration and significant barriers to cross-border trade. Despite short distances, transport costs may add to the difference, as moving goods through the border often requires offloading cargo because of restrictions imposed on the movement of vehicles. Traders devise various strategies to tap economies of scale by consolidating shipments, i.e., mobilizing entire families to carry out trading operations. Other costs borne by traders and contributing to price gaps relate to informal payments, whose size usually depends on the cost of an alternative, i.e., the burden of formal payments.

Table 2.1 Prices of Selected Products in Bazaars in Bordering Areas of Kyrgyzstan and Tajikistan (Batken BCP) and Kyrgyzstan and Uzbekistan (Dostuk BCP) in June 2007 (in Kyrgyz Som and as indicated)

Batken: Kyrgyzstan vs. Tajikistan				Dostuk: Kyrgyzstan vs. Uzbekistan			
	KGZ Price	TJK price	Price		KGZ price	UZB price	Price
Products cheaper in Tajikistan			TJK=100	Products cheaper in Uzbekistan			UZK=100
Bread	6.5	5.5	118	Potatoes	15	12	125
Cakes	7.0	5.5	127	Onions	15	10	150
Lamb	150	145	103	Cottage cheese	30	15	200
Beef	125	120	104	Apples	25	20	125
Vegetable oil	47	44	106	Tomatoes	18	15	120
Macaroni	17	15	113	Cucumbers	15	12	125
Rice (local)	37	34	109	Carrots	17	13	131
Sugar	26	24	111	Products cheaper in Kyrgyzstan			
Fresh vegetables	27	19	139	Suits (men)	500	620	124
Carpets	1000	975	103	Fabrics	120	140	117
Teapots	25	20	125	Skirts	340	400	118
Products cheaper in Kyrgyzstan			KGZ=100	Shoes for kids	130	200	130
Milk	8.0	10.0	125	Shirts (men)	115	160	139
Flour	15	16	107	Leather products	1500	1900	127
Coffee	50	55	110	Apparel for kids	180	330	183
tea (100 gr)	19	21	111	Women footwear	350	415	119

Note: UZB, TJK, KGZ stand for Uzbekistan, Tajikistan and Kyrgyzstan, respectively: Tajik and Uzbek prices converted into Kyrgyz soms using the current exchange rate.

Source: Based on interviews and observations conducted in June 2007.

2.11 Price gaps and cross-border characteristics in the Carec region stem from unique factors shared by contiguous regions as well as regulations governing movement of people and goods through borders (see Section 4).

3. EMPLOYMENT AND INCOME EFFECTS

3.1 The employment and income effects of cross-border trade are more significant in rural areas in remote locations, such as at the Afghan-Tajik or Kazakh-Chinese border than near major cities, such as the Dostuk BCP near Osh in the Kyrgyz part of the Ferghana valley.

3.2 Yet, the effects are perceptible everywhere. The majority of BCPs covered in the study are not simply sites with one or two buildings used by customs and border guards. The BCPs are usually surrounded by one-storey buildings with small stores, bars, hairdressers, repair shops, exchange offices, and a bazaar offering goods and services. In BCPs where regulations ban motor vehicles from crossing the border, people offer

services to unload and carry goods across the border and reload them. Though such regulations raise the transaction costs passed on to consumers, they result in employment generation. Most activities are efficiency-driven, not solely regulation driven, thus contributing to economic welfare.

3.3 Cross-border trade not only benefits 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 generates income and employment for people working in bazaars and for activities associated with bazaars and trade.

3.4 Since cross-border trade generates employment, income is generated for households that otherwise would live in poverty. In remote regions, where employment is scarce and salaries low, cross-border trade, when eased, generates income for a whole household and is more profitable than most other economic activities available.

3.5 Moreover, driven by price gaps, cross-border trade lowers import prices of goods available to consumers in bordering areas (in the absence of cross-border flows, prices and price differentials would be higher) and enables exporters to benefit from higher value-added. Potato producers in the Osh region for example prefer to sell their produce in Uzbekistan because the selling price is much higher than in Kyrgyzstan, as Kyrgyzstan's supply of potatoes is much greater than demand. Similarly, Uzbek tomato and cucumber producers prefer to sell their products in Kyrgyzstan than in their own country.

3.6 Finally, cross-border trade has a gender dimension: women are more actively involved in border-trading activities, such as selling goods in bazaars, as well as moving goods through BCPs, although the latter varies across Central Asia.¹⁰ Many heads of traders associations involved in cross-border activities are women.

3.7 Korgas, at the Kazakh-Chinese border, illustrates the positive impact of cross-border trade on employment and income generation. A special regime has been granted to local residents from the neighboring district with China, Panfilov, who are allowed to enter China visa-free for a period of one day and pay no tariff duties when they enter with goods up to 50 kilograms. Most import flows from China by local residents consist of fruits and vegetables (apples, tomatoes, bananas, peas) and are sold in Jarkent.¹¹

3.8 To demonstrate the positive impact of cross-border trade, annual turnover of this local trade has been estimated taking account of number of traders, the average value of goods traded and number of trading days in the year. Based on national team interviews

¹⁰ Except for border trade between Afghanistan and Tajikistan, where women accounted for nearly 10 percent, at other BCPs they accounted for more than half the total number of people crossing the border (See Annex Table 1).

¹¹ Located in the south-east part of Almaty oblast, Panfilov district was established in 1928 and covers 10,600 square kilometers. Jarkent, a city, is located 290 kilometers away from Taldikurgan, the regional capital, 196 kilometers from the nearest rail station, and 30 kilometers from the Chinese border. As of January 1, 2007, Panfilov district comprised 117,500 people, of which 35,000 live in Jarkent.

and our assessment, annual sales for local traders exceed US\$11 million in Korgas (1,300 daily traders who import and sell, on average, US\$ 35.4 per day, and operate 240 days a year --one-third of the year, is the “dead season”).¹²

3.9 Cross-border trading has become the most important source of employment generation in Jarkent. Conservative estimates indicate that 3,250 people work directly in cross-border trade activities. Traders estimate that each of them generates an additional one- to two-person employment: one seller in the market and one person for warehousing or local transport. Cross-border trade in Jarkent involves almost 20 percent of the 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 Korgas by minibuses and taxis, almost 30 percent of Jarkent’s active population depends on cross-border trade. Taking into account the total dependency ratio in Kazakhstan, one inhabitant out of six in Jarkent directly depends on income generated by cross-border trade activities. Finally, in terms of income generation, cross-border trade is as profitable as any other economic activity, despite the fact that traders work for only two-thirds of the year. Traders state a 25 to 30 percent gross margin on any transaction, which signifies yearly margins for the community of local traders of US\$3.31 million, or over US\$1,650 for two-thirds of the year.¹³ This is comparable to an average yearly salary in Jarkent of US\$2,100.

3.10 The employment and income benefits accruing to residents of Korgas, the largest land transport port in western China--capable of handling three million passengers and 340,000 tons of merchandise annually,¹⁴--also seem to be enormous. While a comprehensive assessment of the economic impact would exceed the scope of this report, two observations can be made. First, the Korgas bazaar 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 in June 2007, or almost nine times more than in 1997. Second, as can be easily observed by anyone crossing the BCP into China, employment effects go beyond the bazaar itself. There are hundreds of taxi drivers offering 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 city appear to be thriving. The city appears to be prospering essentially because of cross-border trade with Kazakhstan.

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

¹² Yearly value = 1300 * 35.4 * 240 = 11.05 million USD. Goods value = (selling price * 50 kilos)/120 = (85*50)/120 = US\$35.4 or 85 KZT is the market selling value for apples, the most common good imported from China by local traders in May/June.

¹³ Traders are obviously better paid than sellers and those in charge of transporting goods to the bazaar. In order to take this into account, calculations are made for two salaries.

¹⁴ Data from: http://french.china.org.cn/business/archives/postexj/txt/2004-12/21/content_2148589.htm, accessed on July 23, 2007.

4. IMPACT OF GOVERNMENT INTERVENTIONS

4.1 Governments facilitate or hamper cross-border trade through a variety of means at their disposal. The impact depends on the channel through which foreign trade occurs. Some measures mostly affect standard trade while others may boost or suppress cross-border trade.

Table 4.1: Sensitivity of Types of Trade in Goods¹⁵ to Various Border Barriers to Trade

	Visa requirements	Unofficial payments at the border	Delay at the border	Customs duties and other border charges	Entry prohibition of foreign passenger vehicles
Cross-border trade	High	High	Low	High, in absence of special regimes, also when unofficial payments are demanded	High
Standard trade	Low to moderate	Low	Moderate to high	High	Not applicable

Sensitivity of types of trade to various obstacles

4.2 The table above represents an attempt to compare the degree of sensitivity of standard trade and cross-border trade to various border measures: visa requirement (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 induced by lengthy procedures, customs duties and other border charges, and restriction to the entry of foreign passenger vehicles. Cross-border trade stands out as being vulnerable to government policies.

Government intervention as a facilitator of cross-border trade

4.3 As with standard trade, the legal and institutional basis for cross-border trade are provided by the bilateral political and economic agreements and by multilateral arrangements that have trade provisions such as Eurasec and the CIS treaties. Furthermore, under such arrangements special status can be provided to trade taking place in bordering regions. Eurasec/CIS regional integration arrangements provide for duty-free trade and visa-free movement of people subject to restrictions governing residency rights.¹⁶ The provisions are however not always implemented; thus, for

¹⁵ Trade in services is mainly sensitive to visa requirements and unofficial payments at the border.

¹⁶ These countries have formal agreements, either bilateral or within Eurasec, easing movement of local people living on both sides of the borders. Given the history and social cohesion of people living in border areas as well as deeply integrated family ties of people living across borders in Central Asia, all governments realize the needs of local people and try to ease movement across borders for family events

example, cases exist where goods do not enter duty free because of the imposition of differential excise taxes on imports, and visa requirements are imposed in some cases on citizens of CIS countries.¹⁷ The movement of goods typically faces two barriers: first, border services 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 under Eurasec or CIS treaty requirements.

4.4 Soft measures aim at easing conditions governing movement of residents of contiguous border administrative units, use of motor vehicles, and exempting cross-border trade from duties and other charges collected at the border, and are likely to enable cross-border trade activities. It is important to note that *all* these measures have to be in place if cross-border trade is to be facilitated. Clearly, simplified procedures and visa-free entry for individuals would do little good if BCPs remained closed or the government charged exorbitant fees for entry of goods.

4.5 Three cases offer illustrations of special arrangements to stimulate cross-border trade: the Afghan-Tajik, the Kazakh-Kyrgyz and Kazakh-Chinese borders.

The Afghan-Tajik cross-border project represents the first stage towards wider and deeper integration based on cross-region cooperation. In 2003, the Government of Tajikistan launched a program designed to facilitate cross-border trade with Afghanistan.¹⁸ The program has enabled the opening of BCPs together with bazaars located within Tajik territory (diagram below for their layout). The facilitating aspects can be summarized as follows:

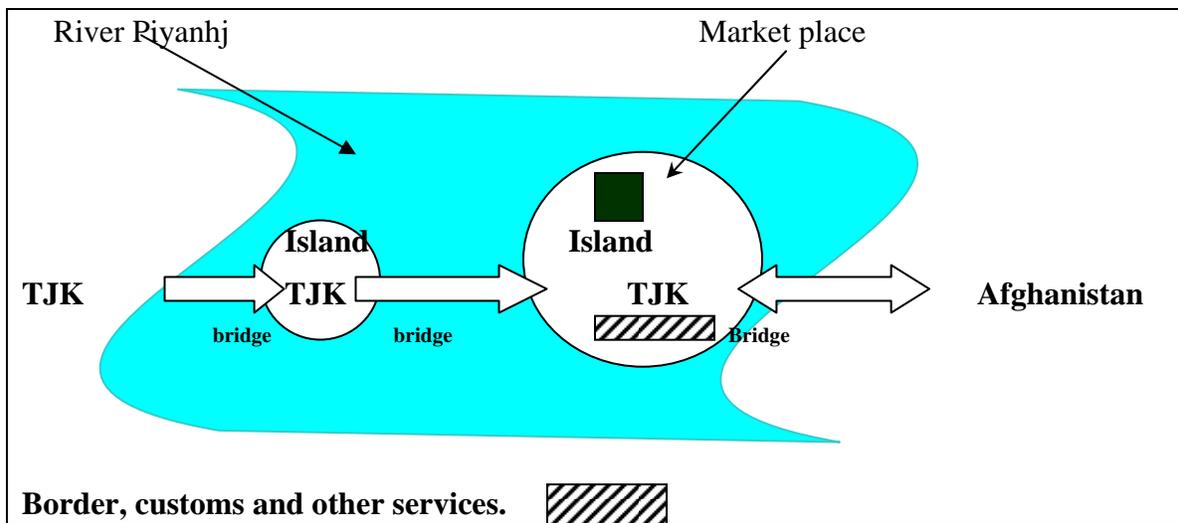
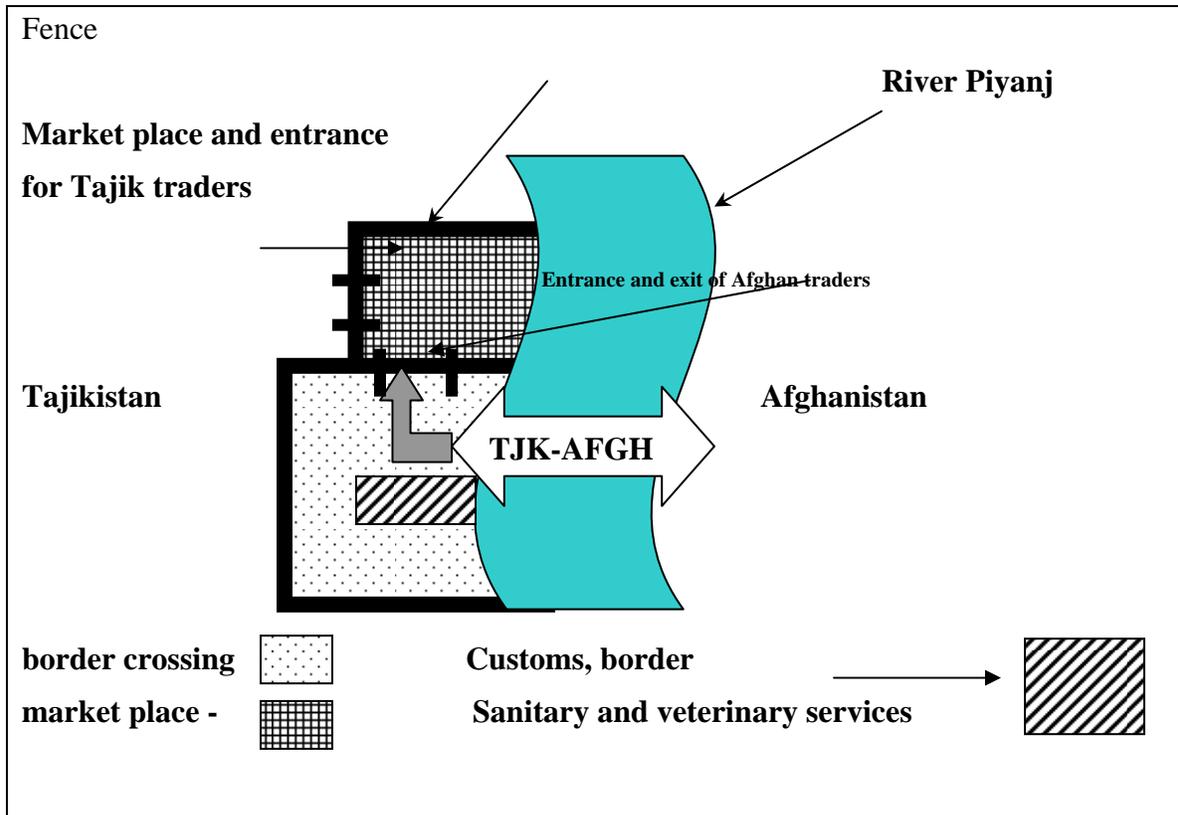
- ⇒ Bazaars opened at several BCPs between Tajikistan and Afghanistan;
- ⇒ No visas required from Afghan citizens to enter the bazaar (they surrender ID or passport and collect it when they leave the fenced bazaar);

(weddings, funerals etc) or border trade and services. A series of resolutions at the government level were adopted by nearly all countries involved and local government go even further in cementing these agreements on the district/regional level by facilitating dialogues with local authorities.

¹⁷ 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.

¹⁸ Resolution # 397 of the Government of Tajikistan, dated October 2, 2002, "On measures to facilitate and improve border trade in the Republic of Tajikistan."

Diagram 1: Layouts of two Market Places Established for Facilitating Cross-Border Trade between Afghanistan and Tajikistan



4.6 Eighteen export products from Tajikistan and 31 import products from Afghanistan are exempt from taxes and other border charges.¹⁹ However, the potential of

¹⁹ Meat and food products are subject to phytosanitary inspections.

this initiative would be maximized if steps were taken to deal with the following restrictions:

- ⇒ The bazaars are open only on one day a week (usually Thursday or Saturday) between 8 a.m. and 5 p.m.;
- ⇒ No vehicles are allowed to enter the bazaar;
- ⇒ The list of products exempted from border payments is too restrictive.

4.7 Free-trade arrangements, together with bilateral governmental agreements for visa-free movement of people, underpin relations in two pairings: **Kazakhstan-Kyrgyzstan and Kyrgyzstan-Tajikistan**. Citizens of Kazakhstan and Kyrgyzstan merely have to produce their national Identity Card to enter the other country. In the second pairing, a national passport is required. In the Kazakhstan-Kyrgyzstan pairing, the use of motor vehicles in the other's territory is allowed. In both pairings, cargo not exceeding 50 kilograms in weight and US\$1,000 in value is exempt from border charges.

4.8 **The Chinese-Kazakh Korgas BCP** is an example of advancing cross-border cooperation beyond the level implied by the national framework, arrangements encouraging development of cross-border trade, and with benefits accruing to residents of contiguous regions in both countries.

4.9 Cross-border trade benefits from two key measures:

- Residents of the Kazakh Panfilov district can enter China without any visa if they stay no longer than one day. The waiving of the visa requirement is important, as visas can be only obtained in Almaty, about 300 kilometers from Jarkent, and are expensive.
- Some cargo brought into Kazakhstan from China is duty-free. Cargo whose weight does not exceed 50 kilograms and value not exceed US\$1,000 can be brought into Kazakhstan without paying any border charges.²⁰

4.10 This set of preferential arrangements has benefited the development of cross-border trade. The Korgas bazaar, often described as a "showcase of cross-border trade," has emerged as one of the most important platforms supplying southwestern parts of Kazakhstan. For residents of Panfilov, cross-border trade is not only a source of employment but also of a wide range of consumer products that otherwise would be either unavailable or available at much higher prices. For residents of Korgas, trade with Kazakh traders also has become one of the major sources of employment and income.

²⁰ Concerning large shuttle trade, shipments of agricultural products up to 10 tons and shipments of industrial products to 2 tons and the value not exceeding US\$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. Resolution #217 of the Government of Kazakhstan, dated March, 9 2005, "On several questions concerning import of goods for individuals into Kazakhstan customs territory."

The city appears to be organized around its major role as a Chinese export conduit and gateway to central Asia.²¹

Government intervention as an obstacle to cross-border trade

4.11 **Visa requirements.** The cost of a visa alone can erect an insurmountable barrier to cross-border trade (see Box 4.1). Visa requirements or even visa-free entry if combined with large stamps (covering at times an entire page) to mark each entry and exit in the passport, constitute a barrier to engage in trading activities. Applying and obtaining a visa requires a trip to the capital or the consulate city. Moreover, large stamps quickly lead to the necessity of applying for a new passport or inserting extra pages. Both are costly and time-consuming, and returns from trade would have to be very high to justify such expenses. Cross-border trade is highly sensitive to all kinds of border payments.

Box 4.1: The cost of a Visa Alone Can Wipe Out Any Prospect of Developing Cross-Border Exchanges

Restrictions of the movement of local people may make any cross-border trade activity impossible. Irkeshtam, the BCP at the Kyrgyz-Chinese border, illustrates this case. Fees for Chinese visas for Kyrgyz citizens reach US\$260. Moreover, local residents from Nura (the Kyrgyz settlement at the border) must travel to Osh to have their visa issued, for which the fee is the equivalent of US\$55. The total cost of obtaining a visa, US\$315, is equivalent to more than 55 percent of the average yearly salary in Kyrgyzstan. Needless to say, only a few local residents cross the border to trade: on average, two local people crossed the border daily in June 2007 (compared to 1,300 in Korgas) and cross-border trade is nonexistent. Yet, the infrastructure and market for cross-border trade exists: Nura is located 6 kilometers from the border, and could be a site for cross-border bazaars, given that 20 trucks cross the border every day.

4.12 **Vehicular restrictions.** The movement of people with their vehicles also appears to be a significant barrier to cross-border trade among all Carec countries--with the notable exception of Kazakhstan and the Kyrgyz Republic. Local people usually cannot drive their own vehicles in other countries, are restricted to a few kilometers into the territory of another country, or are burdened with unreasonable paperwork and high fees. Moreover, there are asymmetries in bilateral agreements, with China favoring Chinese truck transport. For instance, Tajik traders using the Kulma pass going to China must leave their trucks or other motor vehicles at the border and hire a Chinese taxi to go to Kashgar. 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 undermines cross-border trade, as a local trader cannot afford to fill a whole truck. However, Chinese citizens are allowed to drive their cars and trucks all the way to Khorog in Tajikistan, which is over 400 kilometers away from the BCP. In general, movement of light vehicles between central Asian countries and China/Afghanistan is either restricted to diplomatic cars or not allowed at all.

²¹ It was estimated that nearly 20,000 foreign traders visited the Korgas market in the first half of 1997 (Levinsson and Svanberg 2000). This estimate pales in comparison with the current inflow of visitors at around 12,500 per week or 300,000 over six months.

4.13 **BCP opening hours.** Hours of operation are perceived as the main barrier at both BCPs with China covered by the survey. The Korgas BCP between China and Kazakhstan is open between 8:30 a.m. and 5:30 p.m. with a generous lunch break lasting two hours. Furthermore, it is closed on weekends. The Irkeshtam BCP linking Kyrgyzstan with China remains open on weekends and its hours of operation are slightly longer (until 6:30 p.m.), but is also interrupted by a generous 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 between 8:00 a.m. and 10 p.m. (see Annex Table 1).

4.14 **Impediments involving BCPs with Uzbekistan.** The survey results suggest that BCPs with Uzbekistan tend to suffer from government imposed restrictions and other practices that discourage cross-border trade in several ways.

- First, Uzbekistan has unilaterally closed several BCPs with Kazakhstan, Kyrgyzstan and Tajikistan.²² Examples are BCPs in Batken and Djalal-Abad oblasts. Evidence suggests that such closures have had an adverse impact on local livelihoods.
- Second, Uzbekistan imposes much smaller limits on exemptions from taxes and other border charges than other central Asian Carec countries. Uzbek citizens can bring items in quantities (usually not exceeding one) for strictly personal use, in contrast to a 50 kilogram/US\$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 *ad valorem*. This stands in contrast with a 17 percent *ad valorem* payment on Chinese imports by Kazakh traders and no duties levied on trade among other central Asian/Eurasec economies.
- Third, although citizens of Carec central Asia countries are not required to have a visa to enter Uzbekistan,²³ cross-border traffic is limited by uncertainty associated with the implementation of rules. Thus, the open border agreement with Kyrgyzstan, which went into effect on February 12, 2007, ceased to be implemented from March 2007, thereby compelling Kyrgyz and Uzbek nationals to obtain visas, but was subsequently restored so that both nationals can now travel visa-free and without stamps in passports. There exist cases where passports have to be stamped at each

²² Several bilateral crossing-points have been closed in the last 15 years, especially in the Ferghana valley. For instance, during Soviet times, more than 60 bilateral official crossing-points were open between Kyrgyzstan and Uzbekistan; today fewer than 15 are open.

²³ Tajik citizens require visas, except those living in certain designated border regions.

entry. As a result, even if entry is visa-free, regular traders need to have their passports frequently renewed.²⁴

- Fourth, the government of Uzbekistan closed some bazaars located next to BCPs and forced them to move 20-odd kilometers away from the border (e.g., the one near Dostuk BCP in the Ferghana valley). In view of restraints on movement of motor vehicles and the obstructionist attitude of road police towards vehicles with foreign registration plates, this has significantly dampened cross-border trade and encouraged a rise in illegal trading.
- Finally, there are significant restrictions on the movement of motor vehicles. Movement is either restricted to a few kilometers into the territory of another country or is burdened with heavy paperwork, high payments, and permits costing up to US\$40 (Tajik cars traveling to Uzbekistan). The compulsory loading and unloading of goods is typical at some BCPs into and out of Uzbekistan.

4.15 Under these circumstances, it comes as no surprise that Uzbekistan is the only Carec country whose value of contiguous trade, i.e., bordering Carec countries, declined by more than 20 percent in the 2000s. The share of this trade is also the lowest among central Asian Eurasec/Carec economies (see Annex II).

4.16 The measures described above have dampened cross-border trade through BCPs, but have not wiped it out. Surveys carried out for this report identified significant shipments of both agricultural and industrial products through BCPs. But restrictions also reportedly have led to significant smuggling between Uzbekistan and its central Asian Carec members. Survey results show that they have also led to the occurrence of illegal payments to circumvent fiscally burdensome border payments. Survey results also show that hundreds of people carrying goods purchased often in Karasu (the largest bazaar in south Kyrgyzstan with more than 5,000 containers) illegally cross the canal separating Kyrgyzstan and Uzbekistan daily. Traders interviewed estimated that three-fourth of goods sold in Karasu was ultimately destined for Uzbekistan. They pointed to an estimated 200 unofficial trips taking place each day and night, involving the exchange of goods, through one of the busiest unofficial border-crossing points near Osh in Kyrgyzstan. Intensive smuggling activities may in part explain why the officially recorded value of Uzbekistan's imports per capita from China is extremely low in comparison to those of other central Asian countries.²⁵ Stores and bazaars in Uzbekistan abound with Chinese-origin consumer goods.

²⁴ This is quite expensive. In Tajikistan the charges amount to around US\$25 dollars, or more than 5 per cent of GDP per capita. There have been attempts to use "lists of locals" (e.g., on the Tajik-Uzbek border at "Plotina") which can be used when the flow of people is routine and individuals are easy to recognize. For larger border areas, this practice becomes cumbersome and requires a different approach (e.g., local resident cards that do not require stamps).

²⁵ The value of per capita imports from China into Uzbekistan was US\$12 in 2006. It was US\$345 in Kazakhstan, US\$471 in Kyrgyzstan and US\$52 in Tajikistan (based on data from the *IMF Direction of Trade* database and *World Bank World Development Indicators* database).

4.17 **The role of infrastructure.** Among border posts sampled in the report's survey, border-post infrastructure has not appeared as a significant constraint to cross-border trade. Except for the Kordai BCP between Kazakhstan and Kyrgyzstan, the BCPs surveyed appear to have adequate facilities to handle the current increased cross-border traffic. Where they exist, dedicated lanes are extremely useful in distinguishing between local trade and formal trade.

4.18 Rehabilitated infrastructure will support border-trade only if accompanied by facilitating procedures. Improvements in infrastructure may do little to boost cross-border trade and improve welfare of local residents if regulations impose costs on cross-border trading (see Box 4.2).

Box 4.2: The Kulma BCP on the Tajik-Chinese Border: The Case of Regulations Discriminating Against Cross-border Trade

Investments in infrastructure provide maximum benefits only if accompanied by changes in policies affecting cross-border trade. The Tajik-China trade route through Kulma pass opened in 2004 and goes via Khorog, capital of Gorno-Badakhshan Autonomous Oblast (GBAO), across a high mountainous plateau and ends after 700 kilometers in Kashgar, China. With the construction and improvement of road conditions connecting eastern Tajikistan and China (122 km road connecting Murgab to China via Kulma pass), and other major highway reconstruction and/or rehabilitation projects underway or completed, the transport cost already has significantly declined for goods moving between western parts of Tajikistan and China.

The benefits, which theoretically should not be confined only to the availability of cheaper imports and new export opportunities, should also include those that might be derived from cross-border trade. But benefits will not materialize as long as bilateral transport agreements between China and Tajikistan discriminate against small local Tajik traders.

The Kulma BCP is open only 15 days a month and closed from November to April. Traders suffer significant costs if they do not return before the monthly closure. Asanova (2007) demonstrates the negative impact of such restrictions. Madina Oripova, from the village of Barchid, took out a bank loan of around US\$2,000 before setting out for China on a first purchasing trip. "I bought goods and loaded them up, but unfortunately, time ran out and the border was closed.... My goods ended up unsold, and I had to go into debt to pay off some of the bank loan. If the border had been open, this definitely wouldn't have happened." "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," said local businessman Nazrisho Mironov.

The regulations hit small local traders particularly hard. First, getting a Chinese visa for a local trader is a very time-consuming and costly endeavor. One has to drive 700 km in the opposite direction to Dushanbe to obtain Chinese visas (close to 18 hours of driving, as air connection is extremely unreliable and often cancelled due to weather conditions). An agreement has been reached to open Chinese consular department in Khorog, but is yet to be implemented.

Second, Chinese authorities allow only fully-loaded heavy trucks to pass the BCP and ban Tajik registered vehicles from entering China. The result is Tajik traders must use more expensive Chinese transport services and have a large cargo, which seriously undermines cross-border trade.

The welfare losses are potentially considerable, undercutting the progress achieved in reducing poverty in GBAO, the poorest region in Tajikistan. 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, cf. 0.35 for the country) (Data from Tajikistan Poverty Reduction Strategy Paper-2).

4.19 Pressing needs of local populations can be addressed through special arrangements governing movements 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 border point to another (even within one border line) to reflect the distance a person can go into (i) the territory of another country; (ii) closest large city, or (iii) closest market place.²⁶ On Tajikistan's northern border with Uzbekistan, local Uzbek citizens can travel up to 20 km into the territory of Tajikistan (restricted to the closest city, Konibodom) and up to 11 km into the territory in Uzbekistan (to the closest market place), while in the south of Tajikistan, also on the border with Uzbekistan, the limits are 18 km (to Denau in Uzbekistan) and 30 km (to Regar in Tajikistan). Light vehicles are not allowed in the north but theoretically allowed in the south (although this remains moot due to the paperwork required). The so-called 10-day rule applies in the south (e.g., once crossing the border, it cannot be crossed again until 10 days later), while in the north people are allowed to cross on a daily basis.

4.20 Addressing wider public policy concerns. When governments impose restrictions on the movements of individuals or goods or vehicles, 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 the discouragement of contraband trade. But such government-imposed obstacles are usually a blunt and expensive instrument to attain such public policy aims. As this report has argued, the income and welfare costs on poor communities of such public policy actions may be disproportionate. Instead, BCPs and bazaars could be opened but made subject to strict and effective policing, ideally using risk-based criteria, and similarly risk-based surveillance or search of vehicles could be instituted in place of an outright ban. Moreover, one may find that the security benefits of stronger community ties across borders may be considerable; after all, in conditions of growing trade that contributes visibly to the prosperity of a border community, all parties would have a stake in suppressing criminal behaviour and public disorder and in promoting orderly conditions so as to minimize the prospects of the security services having to intervene. Clearly, good public policy grounds exist for requiring visas from categories of foreign citizens and for stamping passports as a way of recording movement, but policy could be flexibly applied to fit the needs of small border communities that often enjoy ties of culture and ethnicity.

4.21 A detailed treatment of visa, security policies and the like is well beyond the scope of this report and it must readily be acknowledged that such questions are often very difficult. But it also has to be recognised that the effectiveness of government-imposed obstacles can be weak (restrictions often are countered by smuggling or unofficial payments), and that the ultimate public policy aim of prosperity and security is perhaps best achieved through a combination of highly liberal cross-border trading conditions accompanied by intelligent policing and customs practices.

4.22 *In summary, support for cross-border trading is a “win-win” strategy for each country.* Government-imposed restrictions may constrict trade and greatly raise the cost of trading, but do not necessarily eliminate local trade, especially among countries with established cultural, ethnic, and historic economic ties, which is the case of the former Soviet republics in Central Asia. Such restrictions bring about higher transaction costs

²⁶ See Government resolution # 347, August 2000, identifying areas along the Tajik-Uzbek border that enjoy such preferential arrangements.

and provide incentives to smuggling. They greatly reduce the beneficial impact on income and employment that can arise from cross-border trade, thereby leading to large welfare losses for communities. The most significant effect of growth in cross-border trade is likely to be reduction in poverty in communities in contiguous regions.

5. POLICY RECOMMENDATIONS

5.1 The findings of this report indicate that cross-border trade flows are significant. Despite small volumes and low value-added when compared with standard international trade, findings indicate cross-border trade contributes significantly to employment generation and poverty alleviation. Cross-border trade has experienced substantial growth over the last five years among contiguous Carec economies (except for Uzbekistan). The potential for expansion of cross-border trade is clearly large.

5.2 The study also identified the essential elements of a regional cross-border regime that is designed to facilitate cross-border movements of people and goods. Conditions affecting cross-border trade vary across examined country pairings: some are facilitating and others pose formidable restrictions. The analysis of this report suggests a number of policy measures that would boost cross-border trade in the Carec region.

5.3 Central to the recommendations is the need to strengthen cross-border cooperation aimed at facilitating movement of local residents or motor vehicles.

5.4 **Movement of individuals.** Given the small scale and shuttle nature of cross-border trade among Carec countries, cross-border trade is highly vulnerable to conditions affecting the movement of people. The movement of people in the Kyrgyz-Kazakh pairing is the most liberal, i.e., local ID suffices to cross the border (as in European Union countries not participating in the Schengen convention). However, conditions in the other pairings are far less liberal, 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 Chinese-Kazakh “Korgas “model (discussed earlier in this report). Usually visas are expensive (typically multiples of a local average monthly wage) and difficult to obtain for local residents, given that respective consulates are distantly located.

5.5 Hence, one should consider applying the Korgas model to other central Asian regions bordering Afghanistan and China, and permitting a BCP linking contiguous areas to enjoy a visa-free regime for one-day for local residents. This would remove the anti-cross-border trade bias inherent in the arrangements governing movement of people at Irkeshtam, the BCP at the Kyrgyz-Chinese border, the Kulma BCP on the Tajik-Chinese border, and BCPs linking Afghanistan with Tajikistan, especially if combined with more relaxed rules governing the movement of motor vehicles (see below).

5.6 While the movement of people between central Asian Eurasec/CIS members is in principle visa-free, the irritant hampering official cross-border trade with Uzbekistan

relates to Uzbekistan's practice of stamping passports of Eurasec citizens. This leads to a rapid filling up of blank pages, necessitating a new and prohibitively expensive visa in both time and money. The use of either separate sheets for stamps, or not stamping a passport that shows evidence of residence in a bordering community, would facilitate cross-border economic transactions.

5.7 Movement of vehicles. The findings of this report suggest that cross-border trade would benefit from measures facilitating cross-border light vehicle traffic.²⁷ Indeed, even in the most liberal cross-border pairings, such as Kyrgyzstan-Kazakhstan and Kyrgyzstan-Tajikistan, barriers exist, the removal of which would boost cross-border trade activities. One of the irritants concerns the use of motor vehicles in 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 Kyrgyz and Tajik governors of bordering districts, praised by local residents, have helped to deal with such impediments. However, a trade promoting environment remains critically dependent on the state of their personal relations. Hence, cooperation between border guard officials and respective motor vehicles administrations is necessary to address such issues.

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

5.9 Movement of goods. The main issues emerging from the findings of the report relate to personal allowance and duty exemptions on agricultural products. First, except for Uzbekistan, customs provisions of central Asian countries do not necessarily dampen cross-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. Some products arrive illegally or through illegal payments, mainly because the overall level of formal cross-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.

5.10 Second, the Kazakh experience, 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 country from 50 kilograms to 100 kilograms, especially when combined with more relaxed rules allowing the use of light-weight trucks because during the high season.

²⁷ The ADB 2006 recommends and commends Carec governments for regional initiatives aimed at removing transport deficiencies and facilitating transit and cross-border traffic. Since some of them might be costly and difficult to implement at a national level, it seems reasonable to first implement the recommendations agreed on by Carec member countries on vehicle movement between contiguous border areas as a pilot and then draw policy lessons relevant for the national level.

5.11 The following country-specific policy recommendations, if implemented, would greatly assist with the facilitation of cross-border trade expansion:

- ***To the Government of Afghanistan.*** Consideration should be given to the removal of two barriers to cross-border trade related to the movement of individuals and of light vehicles. The first would be addressed by the implementation of the Korgas model for Tajik residents of bordering areas, with visa-free entry permitted for up to two days. The second would involve opening BCPs to light vehicular traffic (mini-buses and vans) for residents of bordering districts.

- ***To the Government of China.*** Consideration should be given to changing customs regulations to keep the Kulma BCP with Tajikistan open for the whole month, to open the Korgas crossing-point during weekends, and to open BCPs to light vehicle traffic (mini-buses and vans) for residents of bordering regions. Finally, as an expansion of the Korgas model, Chinese authorities should consider granting visa-free entry for a period of at least one day, but preferably two days, for residents living in administrative districts of Kyrgyz and Tajik areas in which a BCP is located.

- ***To the Government of Kazakhstan.*** It would be advisable to carry out joint work with the Kyrgyz authorities and with donors on Kordai BCP infrastructure modernization. The government should demonstrate to other Carec countries the benefits and the replicability of the Korgas model, and together with the Chinese authorities could provide assistance to other Carec members interested in replicating Korgas.

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

- ***To the Government of Tajikistan.*** Consideration should be given to opening BCPs to light vehicle traffic (mini-buses and vans) for residents of a bordering region and to make local ID sufficient to cross the border for residents of contiguous regions. Measures should be taken to address the rent-seeking behavior of the road police towards vehicles registered in bordering areas. The government should consider raising the limit on the weight of agricultural products exempt from border charges from 50 kilogram to 100 kilograms, to introducing a duty-free regime for local residents within certain limits of value and weight based on the “Kazakh-type” simplified customs procedure, and to expanding the list of products exempted from border payments. Finally, it would be advisable to extend bazaar opening hours at the border with Afghanistan and implement a Korgas model to resident of adjacent areas of Afghanistan.

- ***To the Government of Uzbekistan.*** Consideration should be given to reopening the BCPs with Kazakhstan, Kyrgyz Republic and Tajikistan that were unilaterally closed in view of the expected significant favorable impact on local communities of the consequent stimulation of cross-border trade. Similarly, the authorities should give consideration to permitting the re-opening of bazaars located next to BCPs that have been shut by order and have, in some cases, been moved to points distant from BCPs. It would

be reasonable to accompany such openings of BCPs and associated bazaars with measures to address concerns (such as security) that led to their unilateral closing.

Further consideration should be given by the Uzbek government to opening BCPs to light vehicle traffic (mini-buses and vans) for residents of a bordering region and to stop stamping each entry in passport 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 towards vehicles registered in bordering areas. It would be advisable to replace current limits on goods imported for personal use by allowing US\$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 limits of value and weight based on the “Kazakh-type” simplified customs procedure for imports originating in non-CIS countries and duty-free entry for products from central Asian Carec countries.

Table 5.1: Summary of Recommendations

Recommendation	Country	Expected impact
<i>A. Recommendations on operations of border-crossing points</i>		
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	China	Opportunity for cross-border trading and associated income and employment generation for residents of the poorest region in Tajikistan
Open the Korgas crossing-point during the weekends	China	Smoother movement through BCP and higher trade turnover
Kordai BCP: in order to address current bottlenecks, an infrastructure upgrade is badly needed with a separate crossing point for international freight traffic	Kyrgyz Republic and Kazakhstan with assistance from international donor community	Much better access for Kazakh citizens to services offered in Bishkek (health care, education, automotive, etc.) and increased income to their providers
Open the BCPs with Kazakhstan, Kyrgyz Republic and Tajikistan that were unilaterally closed.	Uzbekistan	Revival of border trade flows and poverty reduction in affected communities.
Permit the re-opening of bazaars close to BCPs that were forcibly shut.	Uzbekistan	
<i>B. Recommendations on movement of motor vehicles</i>		
Open BCP to light vehicle traffic (mini-buses and vans) for residents of a bordering region	Afghanistan, China, Uzbekistan, Tajikistan	Lowering of transaction cost thanks to lower transport cost and no need for loading/unloading at the border
Crack down on the road police extracting bribes from vehicles registered in bordering areas	Kazakhstan, Kyrgyz Republic, Tajikistan and Uzbekistan	Lowering of transport cost

C. Recommendations on movement of people living in contiguous regions

Make local ID sufficient to cross the border for residents of contiguous regions	Kyrgyz Republic and Tajikistan	Larger number of people involved in cross border trading: increased incomes and lower prices
Do not stamp each entry in passport or introduce a separate sheet registering the length of stay of residents of bordering EURASEC countries	Uzbekistan on inflows from neighboring EURASEC countries	Lowering transaction costs and increasing the number of people involved in cross-border trading activities
Visa-free entry for residents living in administrative districts of Afghanistan, Kyrgyz and Tajik areas in which a BCP is located for a period of at least one day but preferably two days and in areas where Chinese urban centers are remotely located	Afghanistan, China, Tajikistan	Major beneficiaries would be residents, larger number of traders visiting marketplaces there and lower prices for consumers in adjacent regions

D. Recommendations on movement of goods among contiguous regions

Raising the limit on the weight of agricultural products exempt from border charges from 50 kilograms to 100 kilograms	Kazakhstan, Kyrgyz Republic, Tajikistan	Boost cross-border trade in agricultural products with positive impact on incomes of the poorest segments of population
Overhaul of limits on goods imported for personal use and replacing it with the provision of US\$1,000 worth of goods and 50 kilograms (industrial products) and 100 kilograms (agricultural produce)	Uzbekistan	Boost cross-border trade in agricultural products
Enable establishment of market places at the border instead of moving them 20 kilometers from the border	Uzbekistan	Lowering transaction cost would boost cross-border trade and increase the number of people involved in cross-border trading activities

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ANNEX I: PROJECT METHODOLOGY

1 While information about the rules governing movement of goods and peoples across borders can be obtained from authorities, other types of information could be only collected onsite, i.e., at BCPs. Information about who participates in cross-border trading activities, how extensive activities are, and what challenges confront people from contiguous areas when crossing the border could only be collected through surveys, semi-structured interviews, and brief questionnaires.

2 Given time and budget constraints, it was not feasible to examine all 87 BCPs arrayed along more than 10,000 kilometers of CAREC mutually contiguous borders (Annex Table I.1). For reasons of geographical contiguity, cross-border trade among CAREC members—Afghanistan, China, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan—is limited to 10 pairings²⁸ with two countries, namely, Kyrgyzstan and Tajikistan. They merit special attention because their borders are solely with CAREC member states. We selected the following BCPs: *two with China* (Korgas in Kazakhstan and Irkeshtam with Kyrgyzstan); *two with Kazakhstan* (Kordai with Kyrgyzstan and Jibek Joli with Uzbekistan); and *five with Tajikistan* (Kulundu and Ovchi-Kalachi with Kyrgyzstan, Dusti and Patar with Uzbekistan, and Ishkashim, Tem and Ruzvai with Afghanistan). No BCP between Afghanistan and Uzbekistan was included because (i) the Government of Uzbekistan chose not to participate in the study and (ii) we were unable to find a local team in Afghanistan, despite the government’s assistance. Some BCPs in these countries were examined from a bordering country, but only indirectly. Thus, we rely on ‘mirror’ information, i.e., obtained from officials and participants in cross-border trading activities on the opposite side of the border (see Map 1 for BCPs covered in the survey).

3 Overall, however, border-crossing points selected for this analysis provide an adequate representation of developments across other geographical areas for the following reasons: They are highly varied, with a daily movement of persons varying between 450 and 11,000 persons (Annex Table I.1); they cover major population centers located close to the border as well as rural areas; they are both international and bilateral (open to movement of people of bordering countries); some are very easy to access, while others are located in remote areas cut off from the world during heavy rains or snow; and the sample encompasses all pairings of bordering countries surveyed from both sides of their borders (except Afghanistan and Uzbekistan, as noted). The BCPs surveyed process nearly 30,000 people daily.

4 The task facing national teams from Kazakhstan, Kyrgyzstan, and Tajikistan was to collect and process information that would allow identifying reasons for regular border-crossing, gender of traders, products traded and their prices on both sides of the border, mode of transportation, procedures enforced by border authorities relating to

²⁸ These are: Afghanistan—Tajikistan; Afghanistan—Uzbekistan; China—Kazakhstan; China—Kyrgyz Republic; Kazakhstan—Kyrgyzstan; Kazakhstan—Uzbekistan; Kyrgyz Republic—Tajikistan; Kyrgyz Republic—Uzbekistan; and Tajikistan—Uzbekistan.

movement of persons and goods, time needed to comply with them, and conditions at a BCP in terms of infrastructure as revealed by waiting times, independent of procedural compliance requirements. In essence, their task was to reconstruct a typical day at a BCP; problems faced by its regular “users;” focusing on frequency, products, and people crossing the border.

5 Information about participants, scope, and conditions shaping cross-border trade conditions was obtained by a combination of systematic on-site BCP monitoring by national teams (who spent on average of eight days at each BCP surveyed), semi-structured interviews conducted with target groups (people crossing the border; customs officers; border guards; wholesalers and intermediaries; and taxi and truck drivers), collecting price information directly at marketplaces and through traders, and structured, brief survey questionnaires (four to five questions). In addition, each team compiled information on socio-economic characteristics of bordering regions. As a result, we have obtained a series of simultaneous snapshots of developments pertinent to assessing cross-border trading from 11 BCPs, linking respective pairings, including Afghanistan, China, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan.

Annex Table I. 1: Border-crossing points among CAREC member states in June 2007

	China	Afghanistan	Kazakhstan	Kyrgyz Republic	Tajikistan	Uzbekistan
China	X	0	7 (2)	2	1	N/C
Afghanistan	0	X	N/C	N/C	8 (3)	2
Kazakhstan	7 (2)	N/C	X	11 (6)	N/C	24 (18) “A”
Kyrgyz Republic	2	N/C	11 (6)	X	5 (2)	11 (5)
Tajikistan	1	8 (3)	N/C	5 (2)	X	16 (7)
Uzbekistan	N/C	2	24 (18)A	11 (5)	16 (7)	X
Total with CAREC members	10	10	42	29	30	53
of which covered by research	2	3	3	4	6	4

Notes: (1) in parentheses are the number of bilateral crossing points, i.e., open to local traffic between a particular pairing of countries; (2) N/C stands for the absence of a common border; (3) “A” two of which currently remain closed

Annex Table I. 2: Capacity of surveyed Border-crossing points (June 2007)

Bordering countries	BCP	Hours of operation	Number of people crossing daily			Total time needed to cross the border (in minutes)		Infrastructure
			Total	women	border residents	minimum	maximum	
China	Korgas	08:30-17:30 (11:00-14:00 – break) only weekdays	2,625	46%	25%	30	60	Superior
Kazakhstan								
China	Irkeshtam	08:00-22:00 13-14 break	344	56%	2%			Adequate
Kyrgyz R.								
Kazakhstan	Kordai	24 hours	11,703	71%	10%	30	120	Inadequate
Kyrgyz R.								
Kazakhstan	Jibek Joli	08:00-22:00	5,608	38%	10%	30	240	Inadequate
Uzbekistan								
Kyrgyz R.	Dostuk	24 hours	1,975	77%	12%	30	60	Adequate
Uzbekistan								
Kyrgyz R.	Kulundu/Ovchi-Kalachi	24 hours	450	70%	78%	10	40	Adequate
Tajikistan								
Tajikistan	Dusti	24 hours	200	65%	40%	40	60	Adequate
Uzbekistan								
Tajikistan	Patar	24 hours	600	75%	83%	15	20	Adequate
Uzbekistan								
Tajikistan	Ishkashim	24 hours	600	10%	83%	10	30	Adequate
Afghanistan								
Tajikistan	Tem	24 hours	600	13%	100%	10	30	Adequate
Afghanistan								
Tajikistan	Ruzvai	24 hours	450	10%	100%	10	30	Adequate
Afghanistan								

ANNEX II: DEVELOPMENTS IN OVERALL TRADE

1. Total trade turnover of CAREC countries rose almost threefold (2.85) over the recent period, while that with other CAREC countries increased fivefold (5.16). This indicates a growing significance of intra-CAREC exchanges in total trade of CAREC members (see Annex Table II.1). But its significance varies for individual countries. It appears insignificant for China, with an important caveat (the role of Xinjiang Uygur Autonomous Region in intra-CAREC trade, discussed above), and very important for Central Asian CAREC countries, with shares ranging between 17 percent (Kazakhstan) and 61 percent (Kyrgyzstan) of total trade turnover.²⁹

Annex Table II. 1: Growth of Bilateral Trade Turnover (Index 2006 for 2002=100 above diagonal) and the Value of Trade Turnover in 2006 (in million of US dollars) Below Diagonal

	Afghanistan	China	Kazakhstan	Kyrgyzstan	Tajikistan	Uzbekistan	Index 2006 2002=100
Afghanistan	.	504	393	222	281	...	358
China	111		427	1103	2613	738	284
Kazakhstan	135	8,359		315	443	323	350
Kyrgyzstan	11	2,226	442		201	116	462
Tajikistan	20	324	216	27		132	195
Uzbekistan	...	972	606	102	271		253
Intra-CAREC trade	276	11,981	9,893	3,011	905	1,928	516
In total trade	7%	1%	17%	61%	32%	21%	
Total trade	4,014	1,761,077	56,894	4,959	2,837	9,191	285

Note: numbers in shaded areas refer to bordering CAREC economies; above the diagonal values of trade turnover in 2006 relative to a base year 2002=100, and values of trade turnover between pairs of countries in 2006 in USD million are below the diagonal. Intra-CAREC trade does not include trade turnovers with Azerbaijan and Mongolia.

Source: Own calculations based on the IMF DOT Statistics.

2. Foreign trade statistics may offer some indication as to the direction of change in cross-border trade. Intra-CAREC trade has been growing at double-digit rates since 2001, when it fell in value. Subsequent years, however, witnessed annual export growth rates ranging between a low 32 percent in 2002 and a high of 70 percent in 2003: the average annual growth rate for 2002-06 was 46 percent a year. While the average annual growth rate was the same for imports, the variation in rates was larger, ranging between 22

²⁹ Another caveat concerns Kyrgyzstan: its IMF DOT statistics do not account for very large re-export operations through regional bazaars. By the same token, the share of this trade is smaller for Kyrgyzstan and higher for countries that are the final destination of these imports.

percent in 2002 and 82 percent in 2005. In value terms, intra-CAREC exports and imports rose fivefold to US\$15 billion and US\$16 billion, respectively.³⁰

3. Pairings of contiguous CAREC countries (shaded areas in Table II.1) show a dramatic expansion of mutual trade.³¹ Trade turnover for pairings with bordering countries generally increased faster in 2002-06 than total trade turnover. The exceptions were Afghanistan (with Kyrgyzstan and Tajikistan), Kazakhstan (with Kyrgyzstan and Uzbekistan, but both grew more than threefold between 2002 and 2006), Kyrgyzstan (with both Uzbekistan and Tajikistan, despite impressive increases), and Uzbekistan (with Kyrgyzstan and Tajikistan).

4. In fact, the share of contiguous countries in total trade turnover significantly increased in 2002-06, with the exception of Uzbekistan (Annex Table II.2). Kyrgyzstan and China recorded the largest expansion relative to total trade turnover, closely followed by Kazakhstan. The share of intra-CAREC trade in Kyrgyzstan's total trade turnover is surprisingly high--even allowing for the fact that a country solely borders CAREC member-states. At the other extreme is Uzbekistan, with a very low share of this trade in total trade turnover.

Annex Table II. 2: Share of Contiguous CAREC Countries in Total Trade Turnover

	2000	2001	2002	2003	2004	2005	2006	Index 2006 2002=100
Afghanistan	3.9	3.5	2.6	2.1	3.6	2.3	3.3	126
China	0.4	0.4	0.4	0.5	0.5	0.6	0.7	174
Kazakhstan	7.5	7.6	10.2	12.3	10.5	17.8	16.8	164
Kyrgyzstan	32.6	33.1	33.8	31.0	41.2	51.7	60.5	179
Tajikistan	21.4	19.0	15.8	15.9	15.7	15.9	23.7	150
Uzbekistan	15.4	13.4	13.1	10.8	12.4	11.2	10.5	80

Source: Own calculations based on the IMF DOT Statistics.

5. The portion of cross-border trade in total trade categorized as “standard” may be considerable, given that for some countries border areas account for either a significant portion of their respective territory and/or major population or industrial centers are located close to borders,. Even if this is not so in some cases, this clearly points to its potential scale. For the Kyrgyz Republic and Tajikistan, such areas within 20 kilometers of the border account for more than 20 percent of their total territories (Annex Table II.3). Moreover, in some border areas there may be important centers of business activity. For instance, more than 20 percent of Kyrgyzstan's population lives in two cities located near borders: Bishkek with Kazakhstan and Osh with Uzbekistan. For other countries, these areas are not marginal, including China. Its Uygur Autonomous Region, Xinjiang, bordering with Afghanistan, Kazakhstan, Kyrgyz Republic and Tajikistan, accounted for

³⁰ Own calculations based on data from the IMF Direction of Trade database.

³¹ This corroborates one of the findings of economic integration theory that “trade with neighboring countries is of capital importance ... unleashing a strong trade creation effect.” (Raballand 2005, p. 137).

73 percent and 77 percent, respectively, of China's trade with Kazakhstan and Kyrgyzstan in 2004. ³²

6. Striking similarities of culture and recent history also stimulate contiguous trade. With the exception of China and Afghanistan, Carec central Asian economies were recently part of the same unitary state and still use the Russian language (as well as their own) to facilitate communication. Language is also not a barrier to people living in contiguous regions of Afghanistan and Tajikistan.

7. While demographic and economic data currently available do not allow estimating how many people live within 30 kilometers of a BCP, or the level of economic development, the potential reach of cross-border trade and induced effects may be considerable. Consider that except for China other CAREC members are landlocked, and one, Kyrgyzstan, borders only CAREC countries.

³² Foreign trade data for Xinjiang from the Statistical Office of Xinjiang Uygur Autonomous Region, as quoted in Raballand and Andrésy (2007).