

CROSS-BORDER TRADE AND BORDERLESS BAZAARS IN CENTRAL ASIA



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PURPOSE OF THE WORK

- In a long-standing Carec tradition of investigating the role of trade in integrating Carec economies
- Three main thrusts: (i) border trade in contrast to standard trade; (ii) the dynamism of bazaars in stimulating trade and raising welfare; and (iii) developing ideas for broadening cross-border cooperation, the “Asia-regio”.
- Complements work on trade liberalization, WTO and customs union memberships, removing trade restrictions, facilitating trade, reforms of customs.



PREVIEW OF SOME CONCLUSIONS

- Despite low volumes, the extent to which welfare of some bordering regions depend on cross-border trade is huge;
- Vulnerability of cross-border trade to government actions regarding the movement of people, goods, and vehicles;
- Pivotal role played by bazaars in regional and national chains of production and distribution with national networks strongly integrated and overlapping across Central Asian economies;
- The potential for cross-border community cooperation in a variety of activities, public services, shared infrastructure, culture that could yield rich dividends and make meaningless borders as separators of human activities.



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. Based on surveys, cross-border trade may be characterized as the following:

- ❖ Cross-border trading is carried out by individuals/small traders and their families, who often are producers of traded goods;
- ❖ Quantities involved are small, single transaction: usually less one hundred kilograms and less than a few hundred dollars in value.



- ❖ Agricultural products, construction materials and consumer goods are the main kinds of traded goods.
- ❖ 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.
- ❖ Cross-border trading mainly depends on price differentials, which, in the case of China and Uzbekistan, appear to be significant.



- Border or trans-border trade is more narrowly defined as the flow of goods and services across the international land borders between neighboring countries;
- Close geographical proximity renders transportation cost immaterial;
- It develops mini-divisions of labor helping in particular the poor;
- It allows to take advantage of differences in the supply, demand and price of various goods and services available on either side of the border.



SURVEYS WERE CONDUCTED AT BCPs BETWEEN THE FOLLOWING PAIRS OF COUNTRIES:

- Afghanistan—Tajikistan (three BCPs in Ishkashim, Tem, Ruzvai on the Tajik side and Sher Khan Bandar on the Afghan side),
- Afghanistan—Uzbekistan (BCP at Hairatan on the Afghan side)
- China—Kazakhstan (Korgas);
- China—Kyrgyzstan (Irkeshtam);
- Kazakhstan—Kyrgyz Republic (Kordai);
- Kazakhstan—Uzbekistan (Jibek Joli);
- Kyrgyz Republic—Tajikistan (two BCPs in Kulundu and Ovchi-Kalachi);
- Tajikistan--Uzbekistan (two BCPs at Dusti and Patar).

NOTE: Uzbekistan chose not to participate in the project:



CROSS-BORDER TRADE OFFERS SIGNIFICANT ECONOMIC BENEFITS

- It generates employment for households in such areas as transportation of goods across a border, sale of the goods in bazaars, other activities associated with bazaars and trade.
- Traders report a 25–30 percent gross margin on any transaction yielding yearly margins for local traders of \$3.31 million, or over \$1,650 for two-thirds of the year.
- Women are more actively involved in border-trading activities.
- It makes otherwise unavailable goods available to consumers across the border or provides them at lower prices (in the absence of cross-border flows, prices would be higher and price differentials greater).



ILLUSTRATION: PANFILOV DISTRICT IN KAZAKHSTAN

- Around 3,250 people work directly in cross-border trade activities between Kazakhstan and China.
- Traders estimate that each of them generates employment for an additional one to two persons: 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.
- Factoring in Kazakhstan's total dependency ratio, one inhabitant out of six in Jarkent directly depends on income generated by cross-border trade activities.
- As a result, ***cross-border trading is the most important source of employment in Jarkent, the largest city in Panfilov district.***



PANFILOV: BENEFICIARY OF THE KORGAS MODEL

- We termed arrangements that have made possible flourishing of cross-border trade, ***the Korgas model***
- Two provisions have bestowed economic benefits on contiguous regions in China and Kazakhstan linked by the Korgas BCP (border crossing point)
 - First, residents of Kazakhstan's Panfilov district who live near the Chinese border can enter China without a visa if they stay no longer than a day.
 - Second, small amounts of cargo – no heavier than 50 kilograms and valued at no more than \$1,000 – brought into Kazakhstan from China is duty free (the regime for larger amounts provide that up to 10 tons of agricultural products and up to 2 tons of industrial products that have a value not exceeding \$10,000 are subject to a simplified customs procedure with a flat rate of 17 percent).



CROSS-BORDER TRADE IS PARTICULARLY SENSITIVE TO GOVERNMENT POLICIES

- cross-border trade is highly sensitive to measures across the whole spectrum of “border: policies:
 - 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.
- Sensitivity to various policy-induced barriers sets cross-border from standard trade (see next slide)



WHAT PRECLUDES/RESTRAINS CROSS-BORDER TRADE?

- **Movement of people** (e.g., total cost for obtaining a Chinese visa, \$315, is more than 55 percent of the average yearly salary in the Kyrgyz Republic. Only a few local residents cross the border to trade: on average, two a day in June 2007 (compared to 1,300 in Korgas).
- **Low limits allowed for duty-free entry combined with high duty and other tax payments discourage trade** and encourage smuggling (e.g., Uzbekistan: quantities exceeding the limit of one item for strictly personal use 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).
- **Ban on entry of vehicles into a country undercuts cross-border trade** (With the notable exception of Kazakhstan—the Kyrgyz Republic, the movement of local residents’ vehicles remains a significant barrier to cross-border trade among all CAREC countries)



RESTRICTIONS ON THE MOVEMENT OF LOCAL PEOPLE CAN PRECLUDE CROSS-BORDER TRADE.

- At ***Irkeshtam, the BCP at the Kyrgyz–Chinese*** border, fees for Chinese visas for Kyrgyz citizens reach \$260. Moreover, local residents from Nura, the Kyrgyz settlement 6 kilometers from the border, must travel to Osh for a visa, which costs \$55.
- Their total cost for obtaining a visa, \$315, is more than 55 percent of the average yearly salary in the Kyrgyz Republic. Only a few local residents cross the border to trade: on average, two a day in June 2007 (compared to 1,300 in Korgas), and cross-border trade is nonexistent. Yet, the infrastructure and market for cross-border trade are in place.
- For a local ***trader in Tajikistan, near the the Kulma BCP with China***, to get a Chinese visa is very time-consuming and costly. To do so, one has to drive 700 kilometres in the opposite direction to Dushanbe: air travel is extremely unreliable and often cancelled due to weather.
- An agreement has been reached but not yet implemented to open a Chinese consular department in Khorog.



LOW LIMITS ALLOWED FOR DUTY-FREE ENTRY COMBINED WITH HIGH DUTY AND OTHER TAX PAYMENTS DISCOURAGE TRADE AND ENCOURAGE SMUGGLING.

- Uzbekistan, for instance, imposes much smaller limits on exemptions from taxes and other border charges than other Central Asian CAREC countries.
 - Quantities exceeding the limit (one item for strictly personal use) 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.
- Smuggling in and out of Uzbekistan has been massive as our survey of the Osh bazaars documents



BAN ON ENTRY OF VEHICLES INTO A COUNTRY UNDERCUTS CROSS-BORDER TRADE

- With the notable exception of Kazakhstan–the Kyrgyz Republic, the movement of local residents' vehicles remains a significant barrier to cross-border trade among all CAREC countries.
- Uzbekistan imposes particularly severe restrictions on the movement of motor vehicles.
 - Movement is either restricted to a few kilometers into the country or is burdened with heavy paperwork, high payments, and permits costing up to \$40 (for Tajik cars traveling to Uzbekistan).
 - The compulsory loading and unloading of goods is typical at some BCPs into and out of Uzbekistan.
- Asymmetries in bilateral agreements with China favoring Chinese truck transport. For instance, Tajik traders using the Kulma pass into China must leave their vehicles at the border and hire a Chinese taxi to go to Kashgar, but for cargo brought from China, only fully loaded, heavy trucks are allowed.
- In general, movement of light vehicles between Central Asian countries and China–Afghanistan is either restricted to diplomatic cars or not allowed at all.



BORDER REGIMES ILLUSTRATING SPECIAL ARRANGEMENTS ENCOURAGING CROSS-BORDER TRADE

- *Free-trade arrangements*, together with *bilateral governmental agreements for visa-free movement of people*, underpin relations in two pairings: Kazakhstan–the Kyrgyz Republic and the Kyrgyz Republic–Tajikistan.
- Citizens of the first pair merely produce their national identity card to enter the other country, where they may also use motor vehicles.
- In the second pair, a national passport is required.
- In both pairings, cargo not exceeding 50 kilograms in weight and \$1,000 in value *is exempt* from border charges.



COUNTRY-SPECIFIC POLICY RECOMMENDATIONS. THE FOLLOWING MEASURES THAT COULD BE IMPLEMENTED UNILATERALLY WOULD GREATLY ASSIST WITH THE FACILITATION OF CROSS-BORDER TRADE EXPANSION:

- ***Afghanistan.*** Consideration should be given to removing two barriers to cross-border trade related to the movement of (i) individuals and (ii) light vehicles. Implementing the Korgas model for Tajik residents of bordering areas, with visa-free entry for up to two days would address the first. The second would involve opening BCPs to light-vehicle traffic for residents of bordering districts.
- ***China.*** Consideration should be given to changing customs regulations to keep the Kulma BCP with Tajikistan open for the entire month, to open the Korgas BCP on weekends, and to open BCPs to light-vehicle traffic for residents of bordering regions. Also, Chinese authorities should consider expanding the Korgas model by granting visa-free entry for a period of at least a day but preferably two for residents living in administrative districts of Kyrgyz and Tajik areas having a BCP.



- ***Kazakhstan.*** It would be advisable to work jointly with Kyrgyz authorities and with donors to modernize the Kordai BCP. The government should demonstrate to other CAREC countries the benefits and replicability of the Korgas model and together with the Chinese authorities could provide assistance to other CAREC members interested in replicating the model.
- ***The Kyrgyz Republic.*** It is important to rehabilitate the Ak-Jol BCP infrastructure. Measures should be taken to address the rent-seeking behavior of the road police toward vehicles registered in bordering areas. Authorities should give consideration to introducing a duty-free regime for local residents within certain value and weight limits based on the “Kazakh-type,” simplified customs procedure.



- **Tajikistan.** Consideration should be given to opening BCPs to light-vehicle traffic for residents of a bordering region and to make local identification sufficient for border crossings by residents of contiguous regions. Measures should be taken to address the rent-seeking behavior of road police toward vehicles registered in bordering areas. The government should consider raising the limit on the weight of agricultural products exempt from border charges from 50 kilogram to 100; to introducing a duty-free regime for local residents within certain value and weight limits 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 hours at the border with Afghanistan and to implement a Korgas model to residents of adjacent areas of Afghanistan



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



BAZAARS ARE A CRITICAL LINK FOR BORDER AND STANDARD TRADE IN CONSUMER GOODS

- Bazaars are not an icon of the past that has no central place in a modern economy based on anonymous transactions.
- As the survey shows, bazaars in Central Asia have undergone an evolution turning them into a critical underpinning of a market economy.
- There have emerged diversity of bazaars; some of them fully compatible with modern market-based transactions and employing new technologies ranging from banking services to internet.
- Large bazaars in Central Asia have more in common with malls or wholesale trading points than with a traditional bazaar.
- What makes bazaars of Central Asia unique are not only their sheer numbers but also their dominance in distribution of goods and their diversity in terms of size, specialization and geographical reach.



SURVEYED BAZAARS ARE NOT AN ICON OF THE PAST

- Our surveys show that larger ones appear to meet five key requisites of effective markets:
 1. *Trusting most of the people most of the time;*
 2. *Being secure from having your property expropriated;*
 3. *Smooth flow of information about what is available where at what quality;*
 4. *Curtailment of side effects on third parties;*
 5. *Competition at work.*
- ... although both trust in protecting property rights and among trading partners rests more on the informal device of reputation and special connections than on the rule of law;
- Bazaars are part of a highly efficient logistic channel



LARGER ONES OPERATE AS SHOPPING MALLS AND REGIONAL LOGISTICS CENTERS

- They are 'malls,' run by professional administration and supplying a whole range of public services;
- Some of them have significant storage facilities allowing quick response to new orders
- They engage in wholesale trade feeding products to bazaars located not only within a country's boundaries but beyond serving as a conduit for foreign trade operations
- Their edge over other logistics channels
 - stems from infrastructure cost advantage
 - and better business climate than in general economy thanks to stronger bargaining position
- They display diversity in terms of size of firms involved in bazaar activities (from firms owning single to multiple stands and provide a whole gamut of 'procurement' and logistics services) and forms of ownership (state, private, and foreign)
- They trade in both domestic and imported products mostly from CAREC



SURVEYED BAZAARS ARE A HIGHLY DIVERSIFIED GROUP

- Some are universal, i.e., offer a large variety of consumer and industrial products, and other specialize, e.g., food and agriculture
- Average employment for international bazaars of between 14 and 55 thousand people is almost eight times higher than for regional bazaars, which in turn is more than two times larger on average than an average employment in city/local bazaars.
- Annual trade turnover varies from billions of US dollars for international bazaars to low single-digit millions for city bazaars



FLOWS OF BAZAAR INTERMEDIATED IMPORTS ARE LARGE

- Bazaar-goods account for around one fifth of total imports of four Central Asian CAREC economies (three surveyed plus Uzbekistan)
- Imports of bazaar goods not reported in national statistics of Kazakhstan and Kyrgyzstan amounted to US\$4.5 billion in 2006 and US\$6.8 billion in 2007.
- This amounted to two thirds of total (mirror) imports of Central Asia of bazaar goods
- Unreported imports of these goods as share of mirror imports into Kazakhstan is around 62 percent and into Kyrgyzstan around 95 percent
- While it is not clear whether all these imports are intermediated through bazaars, most of them do



EMPLOYMENT EFFECTS OF BAZAARS

- Source of employment in communities across Central Asia **in particular for women accounting for 70-80%** of all vendors in surveyed bazaars
- Examples from Dordoi, the largest bazaar:
 - direct employment of 55,000
 - and indirect employment of around 100,000-150,000
- Indirect employment (auxiliary services and outside trade) may be even larger:
- Kazakh statistics put total employment created directly and indirectly by Barakholka activities at around 250,000 people or five-times more than aggregate employment at sales outlets and bazaar administration



INCOME EFFECTS OF BAZAARS

- Source of income in communities across Central Asia
- Examples from Dordoi, the largest bazaar:
 - direct labor expenditure (wages and incomes of traders) is estimated at US\$253 million,
 - total lease or lease-equivalent income (owners or leases) from sale outlets at US\$540 million
- While we have no information from tax authorities, total expenditures (labor, lease or lease equivalent, bazaar fess, and informal payments) of all surveyed bazaars was US\$1.5 billion



INDIRECT WELFARE EFFECTS: IMPORTANT EXTERNALITIES

- Gains associated with **skills development** easily transferable to activities in modern networks of production and distribution (logistics, marketing, business planning, etc.)
- Bazaars offer producers a chance to introduce their products to potential domestic and foreign customers without incurring costs of **marketing** as potential buyers come to producers instead of them going abroad
- Bazaars' role in creating marketing opportunities for producers going beyond local and domestic markets is of particular importance as the cost of marketing abroad are particularly high (*success of Kyrgyz clothing sector is a glaring positive example*)



RECOMMENDATIONS

- The governments should **facilitate their functioning** through reducing regulatory and tax burden levied on traders. Surveyed bazaars are not an icon of the past (*see next slide*).
- Take measures to **improve business climate and lower the cost of doing business** in other sectors of the economy as they may hinder the **supply response of local businesses** to opportunities offered by bazaars
- Governments should **pay closer attention to fiscal measures implemented by their neighbors** as bazaars have created channels for exploitation of distortions and price gaps created by government policies.



PREFERENTIAL BORDER FRAMEWORK: NEED FOR ASIAREGIONS MODELED AFTER EUROREGIONS

- Helps in fostering bonds between people, communities and regions on both sides;
- Sets ground for cooperation towards more integrated structures in economic and social development;
- Fosters closer integration and cooperation at the national level.
- Euroregion, as a step beyond arrangements governing bilateral inter-state relations, can provide institutional framework for close cooperation.



THE CONCEPT OF ASIAREGION PRESENTED IN THE BOOK

- draws heavily on discussions with officials in Kazakhstan, Kyrgyzstan and Tajikistan in 2008-2009;
- builds on an examination of legal acts pertaining to cross-border cooperation in this region.
- makes full use of the experience of European countries over the entire post-Second World War period in designing and implementing such wide-ranging cross-border arrangements – the Euroregion.
- one of the main lesson from Euroregions is that economic integration is not a pre-requisite for the formation of Asiaregios, nor is the existence of a supranational authority a precondition.
- Rather, there has to be a political willingness to recognize the large potential for economic and social gains stemming from deep cross-border cooperation together with the willingness to delegate, within predefined legal limits, powers to local authorities.



WHAT IS EUROREGION AND WHAT IS ITS PURPOSE

- An arrangement about **special cooperation covering multiplicity of issues** affecting welfare of people of contiguous regions.
- **It establishes a legal framework for cooperation** in areas ranging from commerce to culture, environment, tourism and education. The choice of areas reflects the nature of needs in specific border regions and their economic characteristics as well as the achieved level of integration at the level of states
- **It serves to remove barriers to cross-border cooperation:** It creates new economic opportunities going beyond commercial exchanges related , for instance, to the provision of services (often including health care), launching ventures exploiting economies of scale.



CONDITIONS ARE RIPE FOR ASIAREGION AS AN INSTITUTIONAL VEHICLE OF CROSS-BORDER COOPERATION

- There is nothing “Euro” about “region” as long as conditions are ripe for cross-border cooperation, and it seems that they are ...
- There are indications that the local demand for such deeper cooperation across a range of activities is strong.
 - Minutes of the negotiations between the businesses of Tashkent oblast in Uzbekistan and South-Kazakhstan oblast in Kazakhstan read like a description of Euroregion pointing to the need to establish legal arrangements facilitating the emergence of Asiaregions.
- Trade and border trade with immediate neighbors have expanded greatly in the recent past but the potential remains large.
- Asiaregion framework would not only remove uncertainty associated with conditions affecting the movement of goods and people across borders between adjacent regions but would also encourage entrepreneurship through information exchange and local employment initiatives.
- Asiaregion framework might enhance attractiveness of regions through economy of scale effects to investors, foreign and domestic alike, and to tourism.
- One should not dismiss powerful reasons related to history and geography that favor cross-border cooperation in Central Asia.



THE KHUSTIGORMON COOPERATION ARRANGEMENT HAS SOME FEATURES OF THE ASIAREGION MODEL

- Kushigurmon, located on the Tajik-Uzbek border enjoys the benefits of free movement of people and goods across the two borders.
- Kushtigurmon is unique in a sense that both adjacent to Uzbekistan jamoats (Gorniy and Plotina jamoats of the Sogd region of Tajikistan) can also cross with their cars (albeit with Uzbek car plates only) and bring goods in small quantities for trade.
- This is a special arrangement for both jamoats (located in Tajikistan) that used to be under jurisdiction on Uzbekistan and are mainly holders of Uzbek citizenship. Border authorities have a complete list of local dwellers that cross border daily both for work and bring fresh produce and petty commodities.
- On these regime allows an average 300 people and 150 cars cross border daily. Heavy trucks are not allowed to cross the border: only lightweight cars carrying up to one ton of goods can move freely.
- Although the Kushtigurmon arrangement provides a very good example how relaxed administrative processes could facilitate increased border trade and improve welfare, it falls short on two major counts:
 - it lacks an organizational structure that would provide a permanent mechanism for supporting cross-border cooperation;
 - It is limited to the movement of people, goods and vehicles



RECOMMENDATIONS

- Taking stock of local initiatives of cross-border cooperation and encourage them to form 'twin associations' even though formal base may be lacking and their enforcement based on good will.
- Establishment a CAREC-wide fund, possibly with participation of international donors that would support cross border cooperation among bordering regions.
- Establishment of the CAREC Inter-regional Committee to promote Asiaregions.



