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CAREC: Proposals for Further Trade Studies and Technical Support

Introduction

This note presents proposals for follow up work to the study commissioned by members of CAREC from the World Bank on cross-border trade that was endorsed at the last meeting of CAREC ministers. Specifically, it suggests that the study be extended to cover two sets of border points earlier excluded for technical reasons (i) border points involving Afghanistan; and (ii) border points involving Mongolia. Requests were received from the governments of Afghanistan and Mongolia to this effect.

The note also presents ideas for two new studies that are intended to support the CAREC objective of expanding trade and economic cooperation between member countries. The first relates to the design of a broad cross-border cooperation program that would include trade and a range of trade-supporting activities, such as business development and tourism in border areas, as experience shows that such a program could potentially make a large contribution to stimulating growth in cross-border communities. The second proposal suggests that an analysis of trade through channels involving bazaars (which are often located in cross-border areas) could yield valuable lessons for trade and customs policy to the benefit of stimulating cross-border economies.

It should be noted that the capacity of the Bank to carry out this range of tasks is dependent on financing to be provided by interested donors. The Swiss government has been generous in funding a large portion of the work done so far; with the Bank's budget absorbing some of the costs.

Questions for the delegations

1. Do the delegations endorse the request of the Afghan and the Mongolian authorities to extend the work done thus far to include border points involving their countries?
2. Do the delegations endorse the proposal for technical assistance in the form of bilateral consultations involving specific border points? Are any delegations able to indicate at the meeting if they would wish to take advantage of this proposal?
3. The meeting would welcome a discussion by delegations of the two new proposals and the Bank staff would welcome guidance and suggestions for both the content and the

methodology for the studies. Do these two topics suitably address priorities in fostering trade and economic cooperation in border areas of CAREC member countries?

1. Cross-border trade in Central Asia Economic Cooperation (CAREC) area:

- (i) Cross-border trade between Afghanistan and Tajikistan, and Afghanistan and Uzbekistan:
- (ii) Cross-border trade between China and Mongolia

The TPCC has received specific requests from the representatives of Afghanistan and Mongolia to study border trade conditions in those countries. The project addresses an area that was not covered in the *2007 Cross-border trade amongst CAREC countries* study commissioned from the Bank by CAREC.¹ We propose to address cross border trade between the following pairs: Afghanistan—Tajikistan; Afghanistan—Uzbekistan; and, contingent upon a further investigation, China—Mongolia. Trade on the Afghanistan—Uzbekistan border will be surveyed only from the perspective of Afghanistan. Cross border trade between China and Mongolia will be examined only if we find contiguous areas with sufficiently high population density, i.e., towns with population above five thousand inhabitants within up to 20 miles from the border.

Although the study included three Tajik-Afghan border crossing points, for organizational reasons, it was not possible to recruit an Afghan national team to conduct surveys on the Afghan side of the border. This gap will now be addressed.

The methodology used and the main topics covered will be identical to the 2007 CAREC border trade study. The field work will be conducted at two border crossing points at respective borders between Afghanistan and Tajikistan, and Afghanistan and Uzbekistan in late May or early June of 2008.

2. Bilateral Consultations

The World Bank stands ready to assist countries with the further elaboration of the recommendations contained in the 2007 border trade study for specific border crossing points, with developing detailed proposals for implementation, and with assisting in the implementation. These consultations-cum-technical-assistance will take place only at the request of the country authorities. If any CAREC countries wish to take advantage of this offer, they should make their wishes known to the TPCC.

¹ At a meeting in Urumqi, China, in October 2006, ministers of the Central Asia Regional Economic Cooperation (CAREC) countries asked the World Bank to conduct a study of cross-border trade. The World Bank designed the project and hired by national teams of experts to conduct surveys of cross-border trading conditions 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.

3. Study: Deepening Integration in Border Regions within CAREC

Background: While the study *Cross-border Trade within the Central Asia Regional Economic Cooperation* focused its analysis on the impact of government interventions that facilitate or impede cross-border trade, this proposed study will address the use of an institutional innovation, transplanted from the European experience (the “Euroregions”). When a fatal episode close to the Dutch-German border in 1958 generated a push towards opening of the borders,² subsequent developments have led to the emergence of widened cooperation across cross-border regions operating under such names as “Euroregion” and “Euroregio.”

The content of such a cross-border cooperation program includes trade and tourism activities as well as business and trade facilitation measures. It also hinges critically on the relatively unrestricted movement of people, capital, goods and services in the national economy as well as the level of economic development. Among many different arrangements underpinning the first Euroregion established along the Dutch-German border in 1958 was a provision to open the border for shopping on special days.

The organizational structures of Euroregions include as a rule a “steering committee” formed by regional and local authorities to promote local business and cultural initiatives, develop infrastructure, protect the environment, and facilitate movement of people and goods across borders. Starting in the 1990s, the concept was adopted by countries outside the EU as well, with the strong support of both the European Commission and the Council of Europe.³ As a result, virtually all local and regional authorities across Europe are now involved in such cross-border cooperation initiatives.

Policy relevance: An examination of the potential for devising a broad program of cooperation in trade and a range of trade-supporting activities such as tourism and business simplification in the CAREC context would yield rich policy dividends and would expand the field of cooperation between members. The experience of Euroregio can be transplanted to other regions provided there is commitment “to reinforce and foster neighborly relations between territorial communities and authorities within the jurisdiction of other Contracting parties.”⁴ The key policy relevance stems from the simple idea that going a step ‘further and deeper’ beyond the existing framework of bilateral relations between governments is beneficial to the welfare of contiguous local communities, while paving way for better relations between nations.

While no equivalent of ‘Euroregio’ has as yet emerged along the borders of contiguous CAREC members, interactions already occurring and potential benefits stemming from their expansion make it an attractive concept to explore for CAREC governments. Consider the following: borders with other CAREC members are an important fixture of the economic landscape for all of them and their border length alone points to the importance of cross-border cooperation. Two CAREC

² The death of a young Dutchman in 1958 could have been avoided if there been easy access to a nearby hospital located across the border in Germany. This is thought to have led to the emergence of the concept of cross-border cooperation. Indeed, the concept of the Euroregion was first introduced on the Dutch-German border in the area of Enschede (Holland) and Gronau (Germany) in 1958.

³ The Council of Europe has developed a framework for cross-border cooperation embodied in its 1980 decision on Framework Convention of Transfrontier Cooperation, subsequently ratified by most members (COE 1995). Several non-EU states implemented the concept. For instance, Hungary established cooperation in the border areas with Austria, Italy, and the former Yugoslavia in 1989 (Maskell and Törnqvist 1999, p. 32).

⁴ See the definition of cross-border cooperation given in the ‘Outline Convention’ of the Council of Europe.

members (Kyrgyzstan and Tajikistan) only border other CAREC countries. As they are landlocked, their gateway to the world mostly passes through other CAREC countries. Other member borders with CAREC countries, respectively, account range from 13 percent to 74 per cent.

Developments in overall trade with immediate neighbors provide an indication of differences in comparative advantage. The value of intra-CAREC trade (excluding Azerbaijan) on average has been growing at almost 40 percent a year since 2002. So has the importance of trade with immediate CAREC neighbors, except for Uzbekistan. Significantly, some of this contiguous trade is likely to take place in border areas, given that an area within 25 kilometers from the border accounts for a large part of three CAREC countries: Kyrgyzstan (42 percent), Tajikistan (64 percent), and Uzbekistan (27 percent).

Objective: The study would reshape the Euroregio model of cross-border cooperation, as it has evolved in Europe, taking account of central Asian conditions. The establishment of Asiaregios cannot take place spontaneously at the level of contiguous communities but requires a bilateral (or regional) framework granting local authorities to proceed with relaxing arrangements governing movement of people, goods and services and easing business regulation and introducing greater regulatory compatibility specifically for inhabitants of bordering regions. The study would provide the framework and the design for such a program.

Based on the results of research conducted last year and some further work already conducted, a report tentatively titled *'Asiaregi' as a Vehicle of Integration of CAREC members* could be prepared if CAREC members think it would be useful to them. While the proposed report would draw on the original study, it will add an important dimension of bottom-up integration and regional cooperation in promoting broader and deeper integration among contiguous areas than with rest of the country not only limited to trade but extending over other areas of social interaction.

Countries covered: In terms of geographical scope, the study will focus mainly on Central Asia, as the border regions of countries in central Asia offer the best potential for the creation of Asiaregios.

4. Bazaars and Trade Integration of CAREC countries

Background: Foreign trade transmission channels in CAREC Central Asian economies are unique. Intra-CAREC trade may be characterized as three-tier (varying in amount and impact on local economies), i.e., through three distinct channels: (a) formal or standard trade, (b) shuttle large-bazaar-destined (hub) trade, and (c) cross-border trade.

Shuttle large-bazaar-destined trade is Central-Asian specific, with important consequences for the way that foreign trade activities are conducted in the region. Their network may be visualized as consisting of regional 'hubs' and local 'spokes,' the latter relying also on supplies from bigger, 'hub-bazaars,' some of which have an international reach. Dordoi in Kyrgyzstan, the largest bazaar in Central Asia, supplies products not only across Kyrgyzstan but also Kazakhstan, Tajikistan, Uzbekistan, and Russia. Bazaars vary in size from small to immense and from retail to wholesale. Some operate on a twenty-four basis and others on certain days in the week. Locally produced and imported goods are traded. They are the major sources of supply for most consumer products, with aggregate turnover exceeding that of retail stores in most Central Asian countries.⁵ Bazaars can be

⁵ For instance, according to data compiled by the Kyrgyz National Statistical Committee, the retail trade turnover in bazaars was four times larger than that of retail stores in 2005.

found anywhere—both in large and small communities and in the center and borders of a country. However, those located near a border or ‘border-bazaars’ are different from ‘spokes’ located inside a border, as they are also fed by cross-border trading. Moreover, they serve as a direct contact between suppliers and consumers across the border.

The sources of supplies to bazaars offer a glimpse of types of goods flowing in CAREC economies. ‘Hub-bazaars’ rely on purchases from both foreign and local sources, including ‘border bazaars.’ Traders from ‘spoke-bazaars’ not only sell locally produced products but also use ‘hub-bazaars’ as a source of supply. Many large bazaars are also the site of re-export activities; for instance, products purchased in Tajikistan are sold in Uzbekistan or elsewhere. ‘Spoke-bazaars’ located at a border area stand out in one important respect: they are also the sites where significant cross-border trade takes place.

Bazaars play a vital role in purchases and distribution of both local and foreign-made products. They not only generate employment for significant segments of population across Central Asia but also are a source of consumer goods and agricultural produce at low prices.

Policy relevance: An examination of the bazaar channel and its welfare effects has important policy implications. First, a good understanding of factors driving this trade will shed light on weaknesses in respective foreign trade regime (as it applies to standard trade) or more broadly in business climate. Second, there are important lessons that can be drawn from its use for necessary policy reforms that would transform these flows into regular or standard trade flows. Last but not least, an assessment of welfare impacts of these flows may tip the balance against taking measures designed to suppress this trade because of alleged foregone customs and tax revenues. One suspects that welfare gains in terms of employment and poverty reduction may be much higher than revenue losses

Objective: The proposed study will focus on the channel “b” i.e., shuttle large-bazaar-destined (hub) trade together with the identification of ‘spoke-bazaars.’ Except for a study based on mirror statistics examining re-exports activities of Kyrgyzstan, which are almost exclusively taking place in its two major wholesale bazaars in Dordoi (near Bishkek at the border with Kazakhstan) and Karasuu (near Osh at the border with Uzbekistan),⁶ there have been no serious examination of this channel through which most intra-CAREC trade appear to be moving.

Given the scope of this trade and its likely welfare impacts, another objective would be to identify policies that would not ‘destroy’ this trade but created similarly attractive conditions in formal or standard trade.

Countries covered: In terms of geographical scope, the study will focus mainly on Central Asia, albeit it will also include the major Caucasian hub-bazaar in Baku (Azerbaijan). It will cover two major wholesale bazaars in all CAREC countries except for Afghanistan, China, Mongolia, and Uzbekistan. The reasons for not including these countries vary from one country to another: China is a major source of goods traded in bazaars and Chinese official foreign trade statistics broadly capture this trade; Afghanistan and Mongolia are marginal participants because of geography; and Uzbekistan has declined to participate in the Bank’s earlier study on cross-border trading amongst CAREC economies.

⁶ Bartłomiej Kaminski. 2008. “How Kyrgyzstan seized Opportunities offered by Central Asia’s Economic Revival.” Mimeo, ECA, The World Bank, February.