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How Kyrgyzstan has seized Opportunities offered by Central Asia's Economic Recovery*

Patterns and Modalities

Background paper prepared for Kyrgyz Republic: Country Economic Memorandum 2008

Bartlomiej Kaminski

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Table of Contents

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Summary and main messages

Over the last five years Kyrgyzstan's pattern of integration into world markets has undergone a deep reorientation towards the CAR region (Central Asia and Russia). The shift has taken place in a dynamic setting: it has not been the result of contraction in links with other countries but of a much stronger expansion in trade and finance with CAR economies. CAR economies, Kazakhstan in particular, account for both most of Kyrgyzstan's foreign trade turnover and have become the major sources of FDI inflows. Thanks to these developments, "being landlocked" has ceased to be the curse: to the contrary, close location to other landlocked booming economies has become the source of considerable economic benefits.

A strong indication of a robust external performance is improvement in Kyrgyzstan's balance of payments position. Kyrgyzstan has been able not only to finance its large current account deficits but its international reserves have grown thanks to FDI inflows, net private transfers and unidentified foreign exchange inflows, i.e., identified as errors and omissions in balance of payments statistics. The latter were very high in 2006 and some part can be attributable to revenues from re-exports. Furthermore, Kyrgyzstan's external debt ratios have significantly improved.

A very large portion of Kyrgyzstan's GDP is now critically dependent on external ties especially those with CAR and Kazakhstan, in particular. CAR now takes well above 50 percent of Kyrgyz exports (excluding re-exports raising this share to more than three quarters) and is the origin of more than half of FDI, which reached 12 percent in terms of GDP. In all, FDI together with exports (including re-exports) to CAR economies were an equivalent of 86 percent of the GDP. Other countries combined had an equivalent presence in terms of the GDP of 19 percent in 2006.

While re-exports (almost exclusively to CAR) have been the major lever of an impressive external performance, exports of goods have expanded as well, with their largest surge in 2006. Kyrgyzstan has become less dependent on faltering exports of gold and the share of industrial products in total exports has significantly increased. Sectors of the Kyrgyz economy that have registered strong export growth exceeding 40 percent in 2006 are highly diversified in terms of factor content and embodied technological level. For instance, general machinery and equipment (SITC 74) and machinery specialized for particular industries (SITC 72) represent medium technology production processes: clothing (SITC 84), vegetables and fruits (SITC. 05), and dairy products (SITC. 02) represent low technology and labor intensive production processes. There are grounds to believe that exports of apparel of which significant portion is effected through bazaars and thus not fully captured in official foreign trade statistics have been much larger.

But by far the largest success story, not captured in Kyrgyzstan's foreign trade statistics but registered in its balance of payments statistics, has been the emergence of Kyrgyz bazaars as platforms of re-exports of mainly Chinese manufactures to other CAR countries as well as platforms for exports of domestically produced products. According to our estimates, the value of re-exports reached almost US$ 2 billion in 2006 accounting for 90 percent of the combined exports and re-exports. Re-exported products are usual 'bazaar suspects' ranging from fabrics, footwear, and apparel to miscellaneous manufactures. Moreover, in contrast to other products relatively reliably covered in Kyrgyz official statistics, these imports are not reported.

The fact that neither all imports nor all exports are reported should not suggest that these activities are illegal and part of a shadow economy. The gaps in customs statistics stem from regulations allowing for undeclared cross border trade; and the use of simplified declarations—as of January 2005—by individuals identifying imported items at the single digit level of Harmonized System with border charges

based on weight rendering their value irrelevant. Furthermore, some products are moved in cross-border trading operations not registered by the customs because of small quantities involved.

Hence, while one cannot exclude smuggling, a special customs regime is mainly responsible for under-reported imports rather than prevalence of corruption in Customs Administration. The finding that the degree of under-reported imports dramatically decreases for products that are not subject to re-exports activities suggests that the Customs Administration is to blame. If anything, a special regime for bazaar goods is advantageous, as re-exports should not be taxed domestically. The absence of reliable foreign trade statistics is a small price paid for welfare effects of re-exports activities.

Indeed, positive welfare-effects of re-exports intermediated through bazaars are huge for the Kyrgyz economy. It is estimated that value-added generated by these activities amounted in 2006 to more than 10 percent of the GDP. Bazaars have also created significant employment opportunities. While we do not have data for the whole country, the Dordoi bazaar direct employment accounted in 2007 for around 13 percent of the total employment in the City of Bishkek region. Last but not least, there are also other positive externalities: domestic traders gain marketing experiences in intermediating between seller and buyer; domestic producers have an easy to foreign customers; and bazaars create demand for a whole array of supporting services.

Finding an answer to a question why Kyrgyzstan has become a regional hub for re-exports of bazaar-type products has important policy implications allowing, at a minimum, identification of pitfalls to avoid**. Geography, better logistic performance than in neighboring countries, and relatively lower tariffs may be regarded as necessary though not sufficient conditions. The real edge over other Central Asian economies has come from two sources: special 'almost duty-free regime' on bazaar imports; and special regulations governing bazaar much more liberal than in other sectors of the Kyrgyz economy**.

The general policy implication is that domestic policies should focus simultaneously on *not jeopardizing* re-exports activities intermediated through bazaars and lifting internal constraints that separate bazaar regimes from the overall business environment together with establishing conditions for transitioning from bazaar-type economy to modern, market-based, economic regime with three priority areas.

- Kyrgyzstan needs to lower tariff rates on bazaar goods and streamline administrative procedures applied to foreign trade operations.
- It needs to improve the business climate addressing the most restraining areas—licenses and tax regime.
- There is a need for strengthening institutions and infrastructure supporting trade facilitation including upgrading the standards and norms for not only for legal and institutional infrastructure but also for transport infrastructure.

Bazaars are a stepping stone to a modern market economy as long as the absence of a viable framework for enforcement of property rights prevents bazaar business activities from spilling over to other spheres of the economy. Bazaars, especially the kind of large wholesale ones with international connections as they have developed in Dordoi and Karasuu, require sophisticated procurement and marketing skills usually highly rewarded in market economies. No longer all transactions are carried out in cash in these bazaars. With the growing availability of banking services, transactions based on personal contacts will be replaced by anonymous, long-term contracts relying on an effective legal framework to enforce them.

Similarly, various manufacturing operations triggered by access to bazaar will expand only in the presence of a friendly business environment for small and medium enterprises. This implies that regulations simplifying administrative procedures including taxation should not be confined to miniature businesses but gradually extended upwards.

Temptation to impose new state controls over bazaars that would raise transaction costs should be strongly resisted. Suppressing them or, ultimately, getting rid of them in the name of moving to modernity would impose huge welfare cost and would have been counterproductive. The better way is to extend conditions that have proved to be conducive to their development to other sectors of the Kyrgyz economy providing opportunities and incentives to expand commercial ties based not only on direct contacts but anonymous transactions whose expansion is the key to future economic growth.

A. Introduction

Kyrgyzstan's macroeconomic performance resembles Janus' two faces; one face is that of a highly volatile domestic growth of output and consumption, and the second one depicting a steady improvement in external performance. This overall indicates much stronger expansion in both domestic consumption and output than captured in the GDP statistics.

The GDP growth performance appears to have been completely decoupled from external performance. While GDP statistics point to stagnation 2005-06, external indicators point to a robust growth. Kyrgyzstan's GDP growth vacillated from a steep contraction of 17 percent in 2002, followed by a strong rebound in 2003-04 (the GDP in nominal terms increased 40 percent in 2003 and 38 percent in 2004), and stagnation in both 2005 and 2006. Roller coaster in GDP performance stands in stark contrast to imports performance, as imports grew at a steady rate of around 25 percent in 2003-05 and skyrocketed to 62 percent in 2006 when the GDP contracted by one percent. While exports did not display similar 'calmness' in 2003-05, they registered a strong increase of 18 percent in 2006

Rapidly expanding gap between earnings from exports of goods and services and expenditures on their imports did not result in the balance of payments crisis even in the "worst year" of 2006. To the contrary, strong improvement in country's external position coincided with the increase in the official trade deficit from 6 percent of the GDP in 2003-04 to 16 percent of the GDP in 2005 and 37 percent in 2006 (Table 1). While FDI inflows exceeded current account deficit in 2003 and 2005, they fell to 55 percent of the deficit in 2006; yet, international reserves increased 37 percent.

Remittances might have been one of major sources of financing trade balance deficits, albeit not the most important; net private transfers not related to remittances and non-identified inflows (errors and omissions) have probably been even more important in financing trade balance deficits. Estimated at around US$ 500 million in 2006, remittances accounted for 70 percent of net private transfer. Together with elsewhere unaccounted for inflows of foreign currency (errors and omissions in the balance of payments statistics), these inflows amounted to around US$ 600 million in 2006. Put differently, an equivalent of around one fifth of the GDP has been the result of transactions that are not immediately identifiable.

The fact that foreign trade within Central Asia takes place through three different channels—cross-border trading, bazaar intermediated trade, and standard trade—complicates an analysis. While in highly developed countries the bulk of foreign trade activity takes place among large industrial as well as wholesale and retail firms, this standard trade accounts for a relatively smaller portion of trade of developing countries, including Central Asia. Shuttle large-bazaar-destined trade is conducted through a network of bazaars that 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. They are

the major sources of supply for most consumer products, with aggregate turnover exceeding that of retail stores in most Central Asian countries.[1] Bazaars can be found anywhere: 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.

Table 1: Puzzling external performance in 2003-2006 (in million of US dollars and percent)

	(in million of US dollars)				Change 2006 over 2005	Index 2006 2003=100
	2003	**2004**	**2005**	**2006**		
Current account	-42	29	-29	-400	1,379	952
Trade balance (goods & services)	-135	-185	-455	-1,068	135	791
Trade balance (goods & services: mirror imports instead of official)	-1,093	-1,750	-2,606	-4,688	80	429
Net private transfers	137	291	477	704	48	514
Errors and omissions	67	-25	58	381	557	569
International reserves	319	452	488	657	35	206
Memorandum: FDI in terms of current account deficit	. 110	(in percent) n/a	176	55	-69	50
	(in terms of GDP)					
Trade balance (goods & services)	-6	-6	-16	-37	138	581
Trade balance (goods & services: mirror imports instead of official)	-52	-60	-90	-164	83	315
Net private transfers	7	10	16	25	50	378
Errors and omissions	3	-1	2	13	567	418
International reserves	15	16	17	23	37	151

Sources: Own calculations derived from the official balance of payments statistics and UN COMTRADE database.

Three channels serve as a conduit for different kinds of goods. Standard trade, organized by large or medium-sized companies, involves such products as oil and gas or metals, or trade flows in equipment goods or machinery. Bazaar intermediated trade includes mainly consumer products—clothing, footwear, and fabrics among others. Cross-border trading includes a variety of goods determined by their local production and availability including imported goods.

The extent to which foreign trade statistics capture foreign trade varies largely from an almost full coverage (standard trade) to almost nil coverage (the bulk of cross-border trading). Domestic foreign trade statistics provide information mainly about standard trade but not other channels of the Kyrgyz trade. Foreign supplies to large wholesale "hub" bazaars can be only traced in statistics of exporters, i.e., the so-called mirror statistics, whereas cross-border trading is largely beyond reach of foreign trade statistics.[2]

Mirror import statistics, i.e., the values of exports to a country, shed light on the source of some foreign currency revenues; namely, they point to re-export activities. The value of exports to Kyrgyzstan was twice as high as the value of fob (free on board) imports officially reported in Kyrgyzstan. Although foreign trade statistics are never fully reliable, the size of the positive mirror trade gap is too huge to be ignored.[3] In another words, there is no reason to doubt that actual imports were significantly

[1] 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.

[2] See Annex 2 of this report for an assessment whether partners' statistics can be trusted.

[3] The mirror trade gap is defined as the discrepancy between the value of exports to a country (mirror imports) and the value of imports reported in official statistics.

larger than reported imports. But these extra un-reported imports could not be consumed domestically as there would be no resources available to finance a trade deficit exceeding the GDP by 64 percent in 2006 (See Table 1 above). They had to be and were re-exported to neighboring countries through intermediation of quintessentially Central Asian institution—bazaars.

The sources of a robust macroeconomic performance have been multiple, albeit with a common underlying denominator; an impressive capability of exploiting opportunities offered by favorable external environment by Kyrgyz businesses and facilitated by regulators. The remainder of this paper examines them in detail and sketches policy challenges to build upon earlier accomplishments.

B. Geographic reorientation of commercial and financial links towards CAR, in general, and Kazakhstan, in particular

Kyrgyzstan's economy has demonstrated impressive capacities to take advantage of opportunities created by a strong economic growth of neighboring countries, China and Kazakhstan, and of regions in relatively closely located south-western parts of Russian Federation. Its ties with these and other countries of Central Asia (hereafter referred to as a CAR group) have intensified in terms of financial, trade and investment linkages contributing to a very strong external economic performance over the last five years. On all these counts, the CAR group has emerged as major markets for Kyrgyz exports, major source of imports as well as of foreign direct investments mainly, albeit not exclusively from Kazakhstan (Annex Table 1).

Expanding external ties allowed the Kyrgyz economy to weather negative and zero GDP growth rates in 2005-06 and helped exports rebound by 18 percent in terms of value in 2006 after the six-percent contraction a year earlier. They were also crucial to a dramatic improvement in Kyrgyzstan's external position. Both international reserves and the aggregate amounts of errors and omissions (e&o) and net private transfers increased in 2005 by US$ 36 million and US$ 130 million respectively and in 2006, despite a one-percent contraction in the GDP, surged by US$ 169 million and US$ 670 million, with the e&o responsible for US$ 323 million of this increase.

Table 2: Changing regional dimension of Kyrgyzstan's external openness between 2003 and 2006 (in percent of the GDP)

	2003	2006	Index 2006 2003=100
FDI from CAR countries	2.0	6.5	335
FDI from ROW	5.0	5.2	103
Total exports (including gold)	27.7	27.8	100
Exports to CAR countries (gold excluded)	10.2	14.3	140
Exports to ROW (excluding gold)	5.1	6.3	124
Re-exports (CAR exclusively)	8.3	69.3	832
CAR in GDP	20.5	90.1	439
ROW in GDP	22.5	18.7	83

Source: Bank staff estimates based on Kyrgyzstan balance of payments statistics, trade data from the UN COMTRADE database, and FDI data from the website of the National Statistics Committee at www.stat.kg

Three factors have been responsible for an improvement in Kyrgyzstan's external position: supply response to a rapidly expanding import demand in Kazakhstan and other Central Asian economies; surge of FDI inflows into Kyrgyzstan also mainly originating in Kazakhstan; and Kyrgyzstan's emergence as a re-export platform. Integration into CAR economies has played a very important role in each of them. Exports to CAR countries increased in terms of GDP by 40 percent over 2003-06 whereas

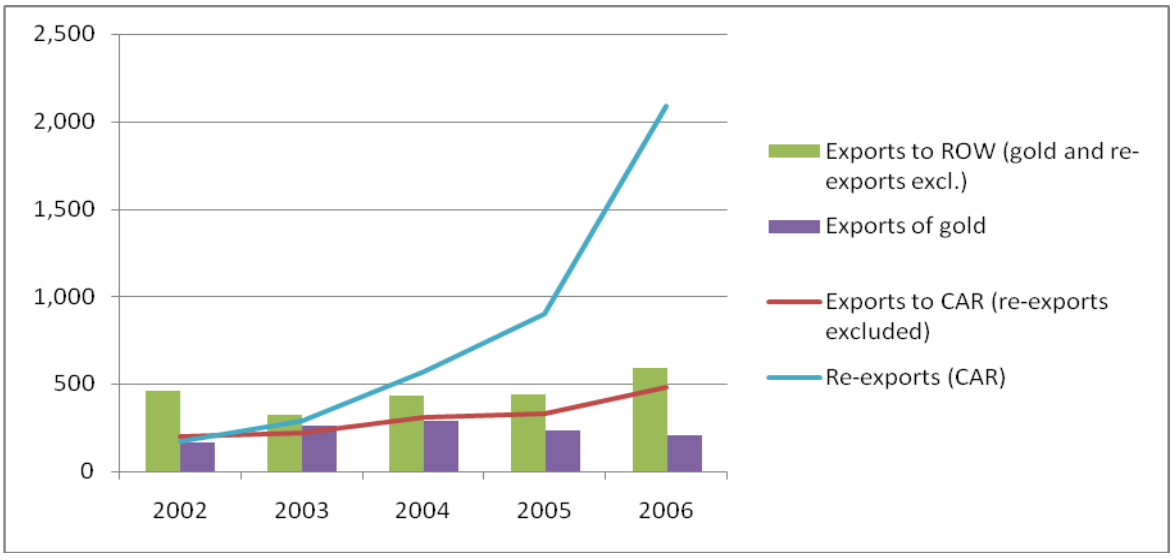
to other markets contracted 33 percent; and re-exports expanded dramatically from 8 percent in 2003 to 66 percent in 2006. In brief, while CAR was 'directly present' in 20 percent of the GDP in 2006, its 'presence' grew to 83 percent or, excluding re-exports, 14 percent and 21 percent. Simultaneously, the 'presence of others' fell from 23 percent in 2003 to 19 percent in 2006 (Table 2).

Reorientation in patterns of Kyrgyzstan's integration into external markets has been dynamic. It has not been due to the collapse of links to non-CAR markets as trade with both CAR and non-CAR expanded at double digit growth rates over 2003-06. Neither has it been the result of Kyrgyzstan's loss of attractiveness to non-CAR foreign investors, as FDI from these origins also significantly increased in 2003-06.

B.1. Dynamics of exports reorientation: Kazakhstan as emerging major destination

A dramatic shift in geography of Kyrgyzstan's foreign trade towards CAR at the expense of other CIS countries and rest of the world took place over 2003-06. While re-exports of mostly Chinese products to other CAR economies experienced the fastest growth (see below for a more detailed discussion), exports of domestically produced goods to CAR markets also increased considerably. Exports (excluding re-exports) to these markets grew at an annual LSG (least square growth) rate of 22 percent over 2003-06 and to European Economic Area (see note to Annex Table 1) at an impressive rate of 15 percent (13 percent excluding exports of gold mainly to Switzerland).CAR markets absorb now the bulk of Kyrgyzstan exports accounting for 74 percent and 61 percent (excluding re-exports) up from 36 or 38 percent in 2003, and the share of CAR economies in Kyrgyzstan's imports grew from 73 percent in 2003 to 85 percent in 2006 (see Table 2 above).

Figure 1: Exports to both CAR and ROW economies compensated for falling gold exports and re-exports skyrocketed in 2002-06 (in million of US dollars)



Source: Own calculations based on foreign trade data reported by the Kyrgyz authorities to the UN COMTRADE database.

Significant acceleration in exports of goods (re-export excluded) offset losses in foreign exchange earnings due to contracting sales of gold, whose exports appear to have peaked at US$ 287 million in 2004 and then fell in both 2005 and 2006. Both CAR- and ROW-oriented exports strongly rebounded and more than compensated for the falling exports of gold (Figure 1 above).

Geographic concentration of Kyrgyz CAR-oriented exports of goods (excluding re-exports) significantly increased mainly due to booming sales to customers in neighboring Kazakhstan. The latter grew at a LSG rate of 30 percent, twice the pace of import demand for Kyrgyz products in the second most rapidly expanding market of Uzbekistan. The share of Kazakhstan in Kyrgyz exports to CAR increased 13 percentage points from 27 percent in 2003 to 40 percent in 2006 and in total exports from 10 percent to 21 percent: excluding gold exports, Kazakhstan took 29 percent of Kyrgyzstan's total exports in 2006. The shares of other CAR countries in Kyrgyz CAR-destined exports contracted, despite double-digit LSQ rates of all exports except to Tajikistan and Turkmenistan (Table 3).

Table 3: Uneven export expansion to CAR markets in 2003 and 2006 (in percent)

	Share in total exports		Share in CAR exports		LSG rate of exports
	2003	2006	2003	2006	in 2003-06
Kazakhstan	9.8	20.5	26.6	39.8	29.9
Uzbekistan	2.8	3.5	7.6	6.8	14.4
China	4.0	4.8	10.9	9.3	13.0
Russia	16.7	19.4	45.1	37.6	12.2
Tajikistan	3.2	3.0	8.8	5.9	6.2
Turkmenistan	0.4	0.3	1.1	0.5	-2.2
Total	36.9	51.4	100	100	17.4

Source: Own calculations based on foreign trade data reported by the Kyrgyz authorities to the UN COMTRADE database.

By a broad measure of competitiveness expressed as a share of a country in total imports, one might argue that Kyrgyzstan has not been able to fully seize opportunities created by oil-fueled growth in Kazakhstan and export-led growth of China, albeit one may easily dismiss it. Kyrgyzstan's share in total imports of Kazakhstan fell from the peak level in the 2000s of 0.72 percent in 2004 to 0.59 percent in 2006 in spite of Kyrgyzstan's doubling of its exports in terms of value. The share in Chinese imports fell from 0.020 percent to 0.014 percent over the same period.

Slower growth of Kyrgyz exports than the growth of imports of China and Kazakhstan is not surprising. Neither should it lower the "grade" for Kyrgyzstan's export performance. Kyrgyzstan has neither natural resources nor technology to fully tap opportunities offered by these markets. Kazakh import demand has grown fastest for higher value added products manufactured in highly developed economies and China imports from Central Asia mainly raw materials. In contrast to Kyrgyzstan, resource-rich CAR countries—Kazakhstan and Uzbekistan—increased significantly their presence in Chinese markets, which has further underlined the emerging division of labor between China and Central Asia, with the former exchanging manufactures for raw materials.

But there are signs of industrialization and restructuring auguring well for future competitiveness. Imports of machinery (excluding automobiles and parts) almost doubled in terms of value in 2006 (Annex Table 3), with its share in total official imports increasing from 14 percent in 2005 to 18 percent in 2006. The aggregate share of other product groups suggesting industrial restructuring, i.e., industrial raw materials and automobiles and parts, increased from six percent in 2005 to eight percent in 2006. This shift was accompanied by a significant increase in the share of intermediate- and high technology imports (from 21 percent to 29 percent of total imports) as well as of exports of intermediate technology products, whose share went from 17 percent to 18 percent over 2005-06.[4] Furthermore, as discussed below, there were significant FDI inflows to Kyrgyzstan in 2003-06 with around half of them

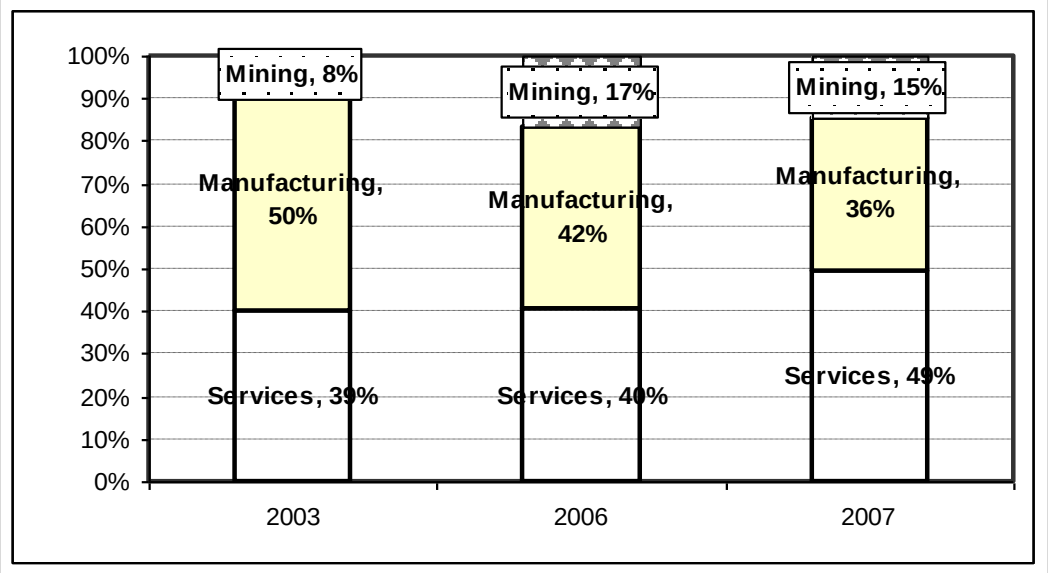
[4] The one-percentage change may strike one as not significant but consider that the value of total exports (excluding gold) increased 38 percent in 2006 over 2005 (see Annex Table 4). For a more extensive discussion, see Section E of this study.

absorbed by manufacturing sectors and one-sixth going to mining (see Figure 2 below). Considering that Kyrgyzstan has a liberal foreign trade regime, one may safely assume that industrial capacities created by these inflows will be internationally competitive. In other words, foreign investors were not lured by artificially created barriers to competition from imports and would have to compete with foreign suppliers on an almost equal footing.

B.2. Commercial ties overlap financial ties: the emergence of Kazakhstan as major foreign investor in Kyrgyzstan

Foreign direct investments (FDI) appear to have followed a similar pattern as trade in goods revealing linkages between trade and investment, albeit with two caveats: the pace was slower and China's presence was relatively limited considering its position as a major exporter into Kyrgyzstan. Kyrgyzstan has been very successful in attracting foreign investment: FDI amounted to seven percent of the GDP in 2003-05 and jumped to 12 percent in 2006. The value of total FDI doubled from US$ 147 million in 2003 to US$ 336 million in 2006 and US$ 324 million during the first nine months of 2007, while the share of FDI originating in CAR countries and Cyprus grew from 28 percent to 56 percent and 57 percent of the total over this period (Annex Table 2).[5]

Figure 2: Sectors' distribution of FDI in 2003 and 2006 (in percent)



Source: Derived from data downloaded from FDI data from the website of the National Statistics Committee at www.stat.kg and for 2007 from http://www.stat.kg/Eng/Home/Express-invest.html

Not surprisingly, given its suddenly acquired wealth thanks to soaring prices of oil, Kazakhstan has become the largest investor in Kyrgyzstan accounting in 2006 for 41 percent of the total up from 9 percent in 2006. Its share further increased during the first nine months of 2007 to 47 percent (Annex Table 3). Although Chinese investments increased three-fold during the first nine months of 2007, the

[5] The reason for including FDI originating in Cyprus in CAR FDI is straightforward: historically these have investments by shell companies registered there using capital fleeing CIS countries (mainly Russia) and re-invested often in domestic economies to take advantage of tax holidays. The share of Cyprus in total FDI grew from 1 percent in 2003 to around 7 percent in 2004-06.

amount of FDI of US$ 21 million remains minuscule compared to its importance as Kyrgyzstan's trading partner and Kyrgyzstan's significance as re-export platform for Chinese exports.

The developments in foreign direct investment augur well for the economic future of Kyrgyzstan. They appear to enter sectors with the highest potential for comparative advantage and a considerable portion of them originate in OECD countries, which gives some assurance as to their high quality. The surge in FDI inflows in 2005-07 has not been accompanied by any significant change in their sector destinations. Manufacturing and mining continued attracting more than half of total investment inflows in 2003-07 (Figure 2 above). Investments from firms headquartered in highly developed OECD countries continue to account for between 30 percent and 40 percent of the total inflows depending on a year.

While the available data do not allow drawing firm conclusions as to the extent that FDI has contributed to stronger export orientation of the Kyrgyz economy, the increase in specialization of its export offer together with a very decent performance of non-gold exports suggests that foreign capital might have played a positive role. The dependence on foreign exchange earnings from gold exports has significantly fallen over the last couple of years: while these exports accounted for almost half of total exports in 2003, their contribution fell to around one-quarter in 2006. Furthermore, leaving aside gold, low technology labor intensive and resource intensive products account for more than 80 percent of the Kyrgyz export basket, although there has been some movement away towards medium-to high technology products (Annex Table 4).

B.3. Concluding observation

Although with a delay, triggered by political instabilities in 2005, Kyrgyzstan has been able to seize opportunities offered by strong economic growth performance in the CAR region. Its external performance has been surprisingly robust thanks, in large part, to rapidly expanding foreign trade and financial ties with Kazakhstan and other countries of the region. Kyrgyzstan has succeeded in improving its balance of payments position, which in turn contributed to macroeconomic stability.

C. Levers of improved export performance

Insights into forces driving Kyrgyzstan's export performance relevant from the point of view of its sustainability can be derived from a closer examination of most recent developments. Even excluding gold, the dynamics of exports of goods was pretty volatile characterized by a sudden surge followed by stagnation and another pull: they were stagnant in 2002-03; they jumped 34 percent in 2004 and slightly contracted in 2005, and then again their value rose 33 percent in 2006.

Which sectors of the economy have been responsible for the surge in the value of exports by US$ 147 million or 33 percent in 2006 over 2005? Table 4 provides an answer to this question: it contains data on exports of double-digit SITC (Standard International Trade Classification) sectors meeting two criteria: first, the value of exports in 2006 had to be either equal or above US$ 10 million; second, its annual increase had to exceed the increase in total exports of 33 percent in 2006.

Sectors of the Kyrgyz economy meeting these two criteria not only recorded at least a 40 percent increase in exports in 2006 **but also are highly diversified in terms of factor content and embodied technological level.** Two of them—general machinery and equipment (SITC 74) and machinery specialized for particular industries (SITC 72)—represent medium technology production processes: their aggregate share in total non-gold exports of around four percent was relatively low but almost twice as high as in 2003. The value of their exports increased 129 percent in 2006. Three sectors could

be characterized as low technology and labor intensive—clothing (SITC. 84), vegetables and fruits (SITC. 05), and dairy products (SITC. 02). The largest contribution in terms of the absolute increase came from a resource intensive sector—petroleum products (SITC. 3): the increase in the value of their exports accounted for 44 percent of the increase in the value of exports in 2006.

But the real export success story has been clothing; a low tech and labor intensive sector, which is much in line with Kyrgyzstan's endowments in factors of production and attained level of technological development. Exports of clothing made the second largest contribution, after oil products, of 17 percent to the surge in total exports in 2006. Its value of exports was more than eight times higher than in 2003. Kyrgyz exporters took advantage of expanding import demand in CAR economies. For instance, they have established their market presence in Russia, which took more than 90 percent of their total exports. Kyrgyz men's and women's outer garments accounted for 3 percent and 10 percent of Russia's total imports of these products in 2006.

Table 4: Two-digit SITC sectors responsible for the surge in exports in 2006 (in million of US dollars and percent)

		Exports (US$ million)		Percent Change in 2006	Share in total exports	
		2005	2006		2003	2006
74	General industrial machinery & equipment, and parts	3	11	230	0.9	1.9
33	Petroleum, petroleum products and related materials	58	123	112	14.9	21.0
84	Articles of apparel and clothing accessories	23	48	105	4.6	8.1
72	Machinery specialized for particular industries	8	14	85	1.8	2.4
05	Vegetables and fruit	20	36	84	4.5	6.2
02	Dairy products and birds' eggs	14	20	44	2.0	3.4
	Total above	126	253	100	29	43

Source: Derived from Kyrgyzstan's foreign trade statistics as reported to the UN COMTRADE database.

While it is plausible that some apparel exported into Russia have been rebranded as 'Made in Kyrgyz Republic' to take advantage of duty-free access, it seems that the majority of exports of clothing have been indeed sewn in Kyrgyzstan. There is no data to support either of these assertions, but there are some grounds to believe that the latter is closer to the reality. First, there is evidence of a very rapid expansion of clothing production. Second, the question that begs an answer why clothing shipped to Russia are rebranded as Kyrgyz and not those sent to Kazakhstan: according to both Kazakh import statistics and Kyrgyz statistics sales of apparel originating in Kyrgyzstan in Kazakhstan have been miniscule (below US$ 50 thousand). Why would "re-branding" work for Russian markets and not for Kazakhstan? Furthermore, visits to bazaars in Tajikistan and, especially, Kazakhstan confirm significant amounts of sales of "Made in Kyrgyz Republic" clothing. They are not recorded as imports because they are moved around by 'shuttle traders' in quantities that customs regulations do not require full fledged border clearance.

The official data appear to significantly play down the real success story of clothing industries in Kyrgyzstan and their contribution to exports growth. Consider the following two interrelated assertions: *First,* it seems implausible that Kyrgyzstan re-exports such massive amounts (most of them unreported in Kyrgyz official imports statistics) to other CAR countries: one suspects that some fraction has been used by domestic producers of apparel. According to world Kyrgyzstan-destined exports statistics (so-called mirror statistics), Kyrgyzstan imported textile yarns and fabrics (SITC. 65) worth US$

466 million in 2006.[6] This may not strike one as a huge amount but it is: it was an equivalent of 16 percent of Kyrgyzstan's GDP in 2006. To put this amount of imports in a regional perspective, Kyrgyzstan took up 72 percent of reported world exports of fabrics to five former Central Asian Soviet republics (Table 5 below).

While this clearly indicates that Kyrgyzstan re-exports them to other CAR countries, **this does not necessarily suggest that a significant portion of fabrics is not used as an input for exported clothing**. Since we do not have any reliable data, one can only speculate as their amounts. Assuming that 90 percent of mirror imports were re-exported in 2006, then—in addition to domestically produced fabrics— around US$ 50 million worth of fabrics could be used in domestic production of clothing. Note that this amount was around US$ 20 million more than the value of officially reported imports. Assume further that fabrics contribute 80 percent to the total cost of clothing. The value of apparel made of these fabrics would be 25 percent above the cost of fabrics, or US$ 25 million, which appears to be a very conservative estimate of value-added created by the clothing production circuit. This alone would raise the value of exports to at least US$ 73 million or 52 percent above the value of officially reported exports in 2006.

Second, **transactions taking place in a very important distribution channel, that of regional bazaars, servicing not only local but also across-the-border markets, go mostly unreported in foreign trade statistics of Kyrgyzstan and other CAR countries for a variety of reasons**. Small traders purchase Kyrgyz apparel—which is now widely recognized, for instance, in Kyrgyzstan for its high quality and attractive pricing—and sell in bazaars across Kazakhstan and other countries. In consequence, one may reasonably assume that Kyrgyz exports of apparel are at least 50 percent, if not significantly more, above the officially reported exports.[7] But bazaars in Kyrgyzstan have become not only a very important conduit for exports but also for re-exports.

D. Re-exports: what, to whom and for how much?[8]

Indeed, a detailed analysis of exports into Kyrgyzstan provides ammunition to two interrelated observations: **first, a large portion of some products imported into Kyrgyzstan are not consumed there**, i.e., they are re-exported; and, second, **the nature of these products point unequivocally to bazaars as a major platform for these re-exports**.

Considering that consumption patterns and tastes are rather similar across the region and, except for Kazakhstan and, to a lesser extent, Turkmenistan, they are at a similar level of economic development, one would expect that composition of imports of industrial goods would be roughly similar, and so would their imports on a per capita or GDP basis. These two propositions can be tested by comparing the shares of imports of various products in total Kyrgyzstan's imports with the shares of these products in aggregate imports of five Central Asian economies and calculating respective imports per capita and

[6] The value of officially reported imports of fabrics (SITC. 65) was US$ 31 million and that of exports US$ 11 million in 2006.

[7] Judging on the basis of the high quality of apparel, also in terms of design, available for sale at Dordoi bazaar, the value added created by the clothing production is probably well above 25 percent: one would not surprised if the value of exports going through the bazaar channel was well above US$ 100 million.

[8] For an outline of the method used to estimate the value of re-exports, see Annex 3.

in terms of GDP. The former is similar to revealed comparative advantage (RCA) index but calculated not for exports and world shares but for imports and shares in region's imports (Table 5).[9]

Table 5: Share of Kyrgyzstan in world exports to Central Asia of products in which Kyrgyzstan has a revealed imports specialization in 2002-06

		Share of Kyrgyzstan in Central Asia's mirror imports (in percent)					"Import" RCA indices				
		2002	2003	2004	2005	2006	2002	2003	2004	2005	2006
65	Textile yarn, fabrics, made-up art, related products	50	46	71	53	74	7.5	6.7	10	6.7	6.4
83	Travel goods, handbags and similar containers	9	9	23	23	55	1.3	1.3	3.2	2.9	4.7
84	Articles of apparel and clothing accessories	15	10	22	24	55	2.2	1.5	3	3	4.8
85	Footwear	11	7	12	13	48	1.7	1.1	1.7	1.7	4.2
89	Miscellaneous manufactured articles, n.e.s.	9	9	9	14	17	1.3	1.4	1.3	1.8	1.5
	Total mirror imports	7	7	7	8	12	1.0	1.0	1.0	1.0	1.0

Source: Own calculations from world exports to Central Asia as reported to the UN COMTRADE database.

Kyrgyzstan **specializes in imports of** five double-digit SITC groups listed in Table 6, i.e., the values of "import" RCA indices for these products are above unity. The shares of Kyrgyzstan in imports of these products were above the share of Kyrgyzstan in total imports of Central Asia. The values of "import" RCA indices were particularly high for **fabrics** (SITC 65), **clothing** (SITC. 84), and **travel goods** (SITC 83), with the shares of these Kyrgyz imports above 50 percent of total imports of these products into Central Asia. For anybody who has ever visited any large bazaar in Central Asia, these are products that are traded there. They are easy to transport through borders and evade customs controls.

Table 6: Imports of bazaar-type products into Central Asian countries in terms of GDP and per capita in 2006 (in percent and US dollars)

		Imports in terms of GDP (percent)					Imports per capita (US dollars)				
		KAZ	KGZ	TJK	TKM	UZB	KAZ	KGZ	TJK	TKM	UZB
65	Textile yarn, fabrics, made-up articles, related products	0.75	16.3	2.33	0.67	0.59	28	90	8.9	7.5	3.6
83	Travel goods, handbags and similar containers	0.09	1.1	0.04	0.01	0.01	4	6	0.2	0.1	0.1
84	Articles of apparel and clothing accessories	2.54	30.3	1.96	0.49	0.16	96	168	7.5	5.5	1.0
85	Footwear	0.98	10.4	0.66	0.22	0.09	37	58	2.5	2.5	0.6
89	Miscellaneous manufactured articles, not elsewhere specified.	1.43	5.9	2.04	0.81	0.38	54	33	7.8	9.1	2.3
	Total above	5.79	64.1	7.02	2.20	1.24	220	355	27.0	24.6	7.5

Source: Own calculations from world exports to Central Asia as reported to the UN COMTRADE database.

[9] An "import" revealed comparative advantage (RCA) is defined as the ratio of a share of a country in imports of a product j into Central Asia to its share in total imports of Central Asia. If the ratio for a product j is above unity, than a country has a revealed "import" comparative advantage in this particular product. More appropriately, it could be called "import specialization index" in contrast to an often-used in trade analyses "export specialization" index.

Moreover, **their imports are undoubtedly for re-exports as Kyrgyzstan's population lacks the purchasing power to consume all of these imports.** The total value of bazaar-type goods imported into Kyrgyzstan in 2006 amounted to 64 percent of its GDP as compared to Tajikistan's seven percent or Kazakhstan's six percent (Table 6 above). Neither these nor similar discrepancies in imports per capita can be explained by idiosyncrasies of tastes of Kyrgyz consumers.

Hence, a large portion of these products merely pass through Kyrgyz bazaars on their way to other destinations, presumably, in CAR countries.

How much of bazaar products are consumed in Kyrgyzstan? How much of them wind up in other countries? Without systematic surveys of trading activities taking place in at least two wholesale "international" bazaars, Dordoi and Karasuu, the only way to estimate the fraction of imports destined for re-exports is to derive them from comparative assessments of imports of neighboring countries relative to population and GDP and cast them against developments in Kyrgyzstan's balance of payments position.[10] Table 7 tabulates the results: these are merely estimates as probably all transactions in bazaar trade are cash-based and a large portion of shipments crossing borders simply goes unregistered.

Table 7: Summary of estimates of re-exports of bazaar goods, their domestic consumption and foreign currency revenue from re-exports activities in 2002-06

	2003	2004	2005	2006
Re-exports (million of US dollars)	293	571	903	2,090
Percent of mirror imports re-exported	83	84	84	90
Domestic consumption of imported goods (million of US dollars)	63	87	123	179

Source: World Bank staff estimates.

Re-exports through intermediary of wholesale bazaars in Dordoi and Karasuu have emerged as one of the major levers of Kyrgyzstan integration into regional markets. Their estimated value increased eightfold over 2003-06, and their share in total exports increased from 29 percent to 69 percent over this time. Thus, the value of estimated re-exports now exceeds the value of exports of goods by a very large margin.

While one knows from exports statistics of Kyrgyzstan's trading partners that China has emerged as a major supplier of bazaar products, **no solid data are available as to their final destinations**. Chinese exports of bazaar products to Kyrgyzstan increased more than tenfold between 2003 and 2006 and now account for 90 percent of the total (Table 8). The share of the next two suppliers—South Korea and Turkey—in imports from ROW (rest of world) was more than 50 percent in 2006.

It can be also easily inferred that re-exported bazaar goods wind up in other CAR countries for one major reason: Kyrgyzstan has the most liberal, transparent and stable trading regime in the region.[11]

[10] For details of applied procedure, see *Annex 3: Estimating Kyrgyzstan's Re-exports*.

[11] For a comparative assessment of trade barriers in Central Asia, see *Central Asia: Increasing Gains from Trade through Regional Cooperation in Trade Policy, Transport, and Customs Transit*, Asian Development Bank, 2006.

In contrast to Uzbekistan or Kazakhstan, applied tariff rates are low and transparent;[12] Kyrgyzstan's tariff schedule does not change frequently and unpredictably; and Kyrgyzstan does not levy implicit tariffs in the form of higher taxes levied on imported than domestic products as some neighbors do.

Table 8: China's supply of bazaar goods to Kyrgyzstan against mirror imports from ROW (rest of world) in 2002-06 (in million of US dollars and percent)

	2002	2003	2004	2005	2006
Imports of bazaar goods from ROW	85	118	156	167	191
Bazaar goods imports from China	99	149	386	636	1,640
Share of China in bazaar goods imports	54%	56%	71%	79%	90%
Total imports of bazaar goods	184	267	542	803	1,830

Source: Own calculations based on China's and other countries' reported foreign trade data to the UN COMTRADE database.

Central Asian countries with the largest barriers to trade and the resulting price gaps for bazaar products are probably the most likely destinations of re-exports. While this is a common sense assertion, it does not help much in figuring out precisely the shares of individual CAR countries in total re-exports originating in Kyrgyzstan. One may only try to assess the potential "unmet" import demand implied by mirror imports of bazaar products into Central Asia measured against expected levels of their consumption per capita or in terms of the GDP (see Table 6 above), which strikes one as potentially huge. The largest gap vis-à-vis the average 'regional' consumption of imported products (in both per capita and in relation to the GDP), i.e., the largest "unmet" import demand for these goods, appears to be in Uzbekistan. One also suspects that considering its much higher GDP per capita than the region's average, there is also some unmet import demand in Kazakhstan. Anecdotal evidence seems to indicate that the Dordoi bazaar serves as a platform for re-exports destined mainly for Kazakhstan, while the major destination of products purchased in Karasuu is probably nearby Uzbekistan.

But these two countries are not the only consumers of bazaar products brought via Kyrgyzstan. Given its proximity, **Russia** with an average consumption of bazaar goods of US$ 136 per capita or 2.4 of the GDP **is also a likely candidate** for consuming. Indeed, the Asian Development Bank report on remittances notes a very significant increase in transfers exceeding US$ 50,000: although their number is relatively small, but "… their shares in the total amount of transactions are very large and growing."[13] They argue that "… these transfers represent revenues from and loans for the trade operations of the Kyrgyz wholesale shuttle and retail traders in markets of Russian cities."[14] It is quite likely that these "trade operations" involve also foreign made bazaar goods, although we cannot precisely estimate it.

[12] The Regulation #976 of the Government of the Kyrgyz Republic of December 31, 2004 further eased conditions of access to Kyrgyz markets for bazaar goods. According to this regulation, goods carried by natural persons (suitcase traders) are subject to a low, uniform rate per kilogram.

[13] *Asian Development Bank: Country Report on Remittances of International Migrants and the Financial Sector in the Kyrgyz Republic*, Draft for Discussion at the Country Seminar, Bishkek, Kyrgyz Republic 22 November 2007

[14] Ibidem.

E. Re-exports: what it means to Kyrgyz economic welfare

But one may try to estimate the value that is added by total re-export activities. Re-exports amount to intermediating between foreign producers and foreign consumers: this takes both time and resources. In consequence, the difference between the purchase price and sale price, that is, re-export earning, has to cover all costs associated with finding, transporting, storing, handling, paying bazaar fees, etc. Based on estimates of domestic consumption of imported bazaar goods and assuming that transfers related to re-export activities account for 30 percent of the aggregate amount of net private transfers and errors and omissions of the balance of payments assumptions concerning "traceability" of foreign payments for purchases of goods at Kyrgyz bazaars by foreign residents.'[15]

Re-exports earnings, measured as the difference between the value of goods exiting the customs territory of Kyrgyzstan and entering it, has dramatically expanded. So have their significance for welfare of Kyrgyzstan. They increased in terms of value fivefold and of the GDP almost fourfold over this period (Table 9). But the questions arises about how realistic are these estimates?

Table 9: Direct welfare contribution of re-export activities in 2003-06 (in million of US dollars and percent)

	2003	2004	2005	2006
"Value added" in percent of imports for re-exports	32	19	25	20
Re-export earnings (in million of US dollars)	66	87	167	329
Re-export earnings in percent of GDP	3.2	3.0	5.8	11.5

Source: Own estimates based on foreign trade data reported to the UN COMTRADE database and official balance of payments statistics.

A quick look at the results of a survey of the Dordoi bazaar suggests that value added created by re-exports activities may be understated.[16] Consider the following. First, traders estimate that in order to break even a single stall has to generate an annual income of around US$ 24 thousand in 2007. This income covers the cost of maintaining a stall (bazaar fees) and covering business expenses associated with purchasing products. Since the Dordoi bazaar has around 20 thousand stalls, the aggregate annual income necessary to survive would amount to US$ 480 million. In order to make this estimate comparable with the estimate for 2006 in Table 9, we would have to deduct the equivalent sold to Kyrgyz residents, that is, ten percent or US$ 48 million. The amount of US$ 432 million is still above the estimate of re-export earnings of US$ 329 million in 2006. Furthermore, the Dordoi bazaar is not the only outlet for re-exports. Hence, total re-exports earnings might be even higher.

Second, **another insight can be obtained from looking at the employment data and a corresponding "wage fund."** The Dordoi bazaar is a very large business operation giving employment to around 50 thousand people. This estimate can be derived from an estimate of an average number of people needed to run a single stall and information on the number of people employed in various sustaining the operation of the Dordoi bazaar. Using an average of two persons running a stall, it adds up to around 40

[15] From the broader perspective, the difference in unit values of imports and re-exports may be viewed a proxy for this financial 'trace.' Since there is no information available on re-exports, the difference in unit values cannot be used as a point of departure to assess the gain in value between the entry and the exit of products from Kyrgyzstan.

[16] All information obtained from a survey conducted for the CAREC project on cross-border trade by the World Bank in May 2007.

thousand traders. In addition, around six thousand people find employment in various supporting activities such as catering, fast food, foreign exchange stands, handling, hotels, bazaar administration, security, etc. Adjacent to the bazaar, there is also a bus terminal with around 45 buses leaving daily to various destinations mainly in Kazakhstan. In total, functioning of the Dordoi bazaar as a regional hub supplying smaller bazaars and stores abroad demands an employment of roughly 50 thousand people. Assuming an average annual income of US$ 1,440, the total "wage fund" alone would amount to around US$ 65 million or around one-fifth of estimated re-export earnings in 2006.

Positive welfare-effects of re-export activities through bazaar are huge for the Kyrgyz economy. The Dordoi bazaar's direct employment, which alone accounts for around 13 percent of total employment of around 375thousand in the city of Bishkek, within which administrative boundaries the bazaar is located, is not the only effect. Consider also that domestic products are sold to traders coming from other countries: these include not only purchases of Kyrgyz clothing but also consumption of agricultural produce and other local goods and services during their stay in Dordoi. Furthermore, some Kyrgyz residents purchase goods at the Dordoi bazaar and sell them at bazaars across Central Asia: for some, this is an important source of revenue keeping them out of poverty.

Last but not least, consider **also two other positive externalities**: First, domestic producers have a chance to introduce their products to potential foreign customers without incurring usually very significant costs of marketing abroad. Potential buyers come to producers instead of them going abroad. Second, there are also gains associated with skills development: finding a supplier and then a buyer requires a vast array of various skills associated with predicting demand and marketing, obtaining intimate knowledge of conditions in a country of supply, etc. These are easily transferable skills to activities in modern circuits of production and distribution.

Are these welfare effects offset by the losses in government revenues implied by the absence of customs records on a huge portion of Kyrgyz imports? The answer is unambiguously negative, even though these losses may appear significant. Positive discrepancy between reported exports or mirror imports and officially released imports, i.e., the so-called mirror imports gap, usually indicates smuggling and/or collusion between importers and customs officials to rob the public of the tax revenue.[17] Although the mirror imports gap is huge for Kyrgyzstan's total imports, mirror imports were more than twice as high as the official imports in 2006; it does not necessarily suggest widespread corruption of Kyrgyz customs together with massive tax evasion. Neither does it suggest the use of under-invoicing as a method of tariff evasion, simply because the Kyrgyz mirror import gap is too large. It has been rather caused by not reporting shipments entering Kyrgyzstan.

Yet, the losses in customs revenue neither appear to be considerable nor are they due to the inherent weaknesses in the customs administration, although on the surface some indicators might point in this direction. First, the mirror gap is confined to one group of products and not across all imports. The main source of the total mirror trade gap is bazaar goods: the mirror import gap for trade excluding these goods moved from negative, i.e., as it should be, in 2002-04, to a positive one in 2005-06. The discrepancy was, however, relatively low indicating underreporting and duty evasion, albeit on a small scale (Table 10). Considering that applied MFN tariffs and other taxes collected at border are low, and that tariff dispersion is also small, one would not expect a large prevalence of tariff and tax evasion. On

[17] Since the cost of transport always exceeds zero and the value of imports includes the cost of insurance and freight, while that of exports does not, the positive import gap suggests customs duties and tax evasion and, more generally, corruption of customs administration.

the other hand, however, the mirror import gap for bazaar goods was already high in 2002-03, with only around one quarter imports of bazaar goods reported, and went through the roof in 2004-06. The ratio of mirror to official imports of 21 indicates that less than five percent of goods entering the customs territory of Kyrgyzstan are registered: the remaining 95 percent or more flow through borders unrecorded. If the customs administration were as corrupt as revealed by the mirror imports gap, then why collusion to rob the public between customs and traders does not extend to other products. After all, there are no separate customs units dealing with bazaar and non-bazaar goods within the Kyrgyz customs administration. One might thus conclude that there is something special about rules applied to clearance of bazaar products.

Table 10: Mirror imports in terms of official imports (total with bazaar goods excluded and of bazaar goods) in 2002-06

	2002	2003	2004	2005	2006
Mirror to official imports (bazaar goods excluded)	0.79	0.88	0.94	1.06	1.02
Mirror to official imports of bazaar goods	3.78	4.40	9.02	14.04	20.72
Memorandum: official imports in percent of					
Imports of bazaar goods domestically consumed	126	97	69	46	49

Source: Derived from Kyrgyzstan's foreign trade statistics and world exports to Kyrgyzstan as reported to the UN COMTRADE database.

Indeed, the way that bazaar products move across the border differ from other goods in two important respects: shuttle traders are involved in transporting them and their 'luggage' is too small to meet the 'commercial intent' criterion; and a larger shipments are subject to charges based on weight in line with the 2004 Government Regulation #976.

Second and more importantly, the bulk of bazaar imports are not consumed in Kyrgyzstan but in other countries. Therefore, **since these are re-exports**, ***they should not be subject to duties and other taxes applied in Kyrgyzstan to domestically consumed goods***. They should enter and leave the customs territory of Kyrgyzstan without incurring any payments with the exception of fees associated with transit and storage. In highly developed countries, re-exports are subject to tax and duty rebates (or other regime allowing for temporary suspension of duties). The administrative capacity in most developing countries is too weak even to handle efficiently VAT rebates. Hence, the 'bazaar regime' in Kyrgyzstan strikes one as the second best solution not suppressing re-exports activities.

Third, the official imports of bazaar goods—that is, those that went through customs clearance and were recorded as such in official statistics—as percent of imported bazaar goods consumed domestically fell from almost 100 percent in 2003 to around half in 2006. The amounts not reported in customs statistics went up from US$ 27 million in 2004 to US$ 66 million in 2005 and US$ 91 million in 2006. It might be tempting to multiply these amounts by a weighted tariff rate for bazaar products and add VAT, excise and other border charges. Moreover, customs regulation allow for bringing small amounts of imported products duty- and tax-free: thus, the dutiable amount might be considerably less than US$ 91 million.

But even if the lost revenue from border charges amounted to 20 percent ad valorem, i.e., around US$ 20 million, this loss pales in comparison with the total benefits accruing to the Kyrgyz economy.

Third, since owners and leases of stalls at bazaar pay bazaar fees including taxes and other charges passed on to customers, the loss of customs revenue is to some extent offset.

Thus, **one might conclude that losses in customs revenue are more than paid off by gains due to lower prices of goods and re-export earnings spilling over across vast segments of the population. In all, economic benefits from bazaars seem to be well above any possible losses reportedly due to the fact that the government does not collect in full various border charges on imported products**.

Thus, any attempt to fully enforce collection of customs duties, VAY and excise taxes, if they apply, would jeopardize bazaar trading.

F. Kyrgyz re-exports: sources of bazaars' success

The roots of Kyrgyzstan's success are in a special regime governing foreign trade intermediated by bazaars and a special business regime governing operations of the bazaars. Tariff and other barriers in access to Kyrgyz markets do not provide sufficient edge over conditions elsewhere in Central Asia to make Kyrgyz bazaars attractive for foreign purchases. Neither do overall conditions in doing business in Kyrgyzstan, which do not diverge from those in other Central Asian economies. In a nutshell, had bazaars been subject to the same regulations as other sectors of the economy, Kyrgyzstan would not have emerged as a regional hub for re-exports. Furthermore, it goes without saying that re-exports activities can continue only insofar as governments of neighboring countries do not impose strict controls on movement of goods and people. In this sense, they will remain susceptible not only to domestic policy decisions but also to other governments' policies.

Re-exports through intermediation of bazaars is a remarkable success story begging an explanation. It is clearly a testimony to brilliant entrepreneurial skills of Kyrgyz traders finding ways to connect mostly Chinese producers, albeit not solely, with customers across Central Asia. But even the best entrepreneurial skills would not be enough if there were no opportunities to be seized. The question thus boils down to what conditions have created these unique opportunities. Specific conditions may relate to differences in location (closeness to China) and regulatory arrangements governing foreign trade in Central Asia.

Yet, leaving aside geography, the answer to this question cannot be easily found in regulatory arrangements, as they do not differ widely from these in neighboring countries, which remain main targets of re-exports intermediated by Kyrgyz bazaars. At a first glance, regulatory arrangements do not seem to offer an explanation of the Kyrgyz success, simply because Kyrgyz traders, like their counterparts in the region, face huge barriers to imports—policy- and geography-induced with the former making probably larger 'negative' contribution**.** In the World Bank's *The Cost of Doing Business in 2008* survey of the ease of trading in 178 countries, Kyrgyzstan together with two of its neighbors—Kazakhstan and Tajikistan—was among three worse performers, i.e., with the least friendly conditions to foreign trade operations, in the world.[18] Only Kazakhstan had least friendly administrative arrangements: It was ranked 178th, Kyrgyzstan was 177th, and Tajikistan was 176th. Uzbekistan, which shared with Kyrgyzstan the lowest ranking a year earlier,[19] was 165th.

But a closer examination of administrative regimes for imports as well as its logistics profile (see below) reveals some differences that appear to set Kyrgyzstan apart. Kyrgyzstan's administrative arrangements come across as much friendlier than an overall ranking of the ease of foreign trading

[18] See Annex 4 for a detailed examination of administrative hurdles to export and import operation together with suggestions for changes.

[19] See *Doing Business in 2008.* World Bank and International Finance Publication, Washington D.C. 2007.

implies**.** In fact, bureaucratic hassle, as captured by time and resourced needed to complete import operation, is the lowest in Kyrgyzstan in Central Asia. Total duration is longer everywhere with the lowest differential of 1 percent for Kazakhstan and the highest one of 39 percent for Uzbekistan, while the cost is the lowest: traders in Kazakhstan pay 13 percent more, in Tajikistan 84 percent more and, in Uzbekistan 65 percent more (Table 11).

Table 11: Administrative arrangements governing trading across borders in regional comparative context in 2008

	Kyrgyzstan		Kazakhstan		Tajikistan		Uzbekistan	
Imports	Duration (days)	US$ Cost	Duration (in % of KGZ)	Cost (in percent of KGZ)	Duration (in % of KGZ)	Cost (in percent of KGZ)	Duration (in % of KGZ)	Cost (in percent of KGZ)
Documents preparation	26	100	127	100	**77**	800	192	150
Customs clearance and technical control	13	250	123	**80**	**31**	**48**	**85**	**80**
Ports and terminal handling	3	100	133	380	**67**	80	367	200
Inland transportation and handling	33	2,000	**70**	105	173	175	**97**	175
Totals:	75	2,450	101	113	111	184	139	165
Memorandum: Exports								
Documents preparation	24	200	121	100	83	400	133	**75**
Customs clearance and technical control	3	200	767	100	**67**	**60**	133	100
Ports and terminal handling	3	100	367	380	67	80	267	200
Inland transportation and handling	34	2,000	**76**	**98**	171	100	106	100
Totals:	64	2,500	139	109	128	120	125	102

Note: areas where conditions are better in other countries than in Kyrgyzstan are marked in **bold**.
Source: derived from data in Cost of Doing Business 2008, World Bank, Washington, D.C. 2007 available at the website http://www.doingbusiness.org/

However, the differences in import transaction costs in favor of Kyrgyzstan appear to be too small to **explain a huge scope of re-export activities that reached around US$ 2 billion in 2006**. It is not clear why a trader from, say, Kazakhstan would be willing to incur extra transportation costs of getting her supplies from Kazakhstan rather than importing directly from, for instance, China. After all, the price of re-exported goods would include import transaction cost incurred by a Kyrgyz seller. On the other hand, although for Tajik or Uzbek traders, incentives to evade the cost of direct importing may be stronger but probably on average not sufficiently strong to engage in purchases on such a large scale.

Similarly, Kyrgyzstan's edge over its neighbors in terms of logistics friendliness and overall performance is not sufficiently large to explain its emergence as a region's hub for re-exports. Kyrgyzstan has received the highest grade among Central Asian for its overall logistics performance. The value of LPI (Logistics Performance Indicator),[20] consisting of both perception of logistics climate and objective measures shaping logistics friendliness for 150 countries, for Kyrgyzstan is both above the average for CIS (Commonwealth of Independent States) and well above the values assessed for other countries in Central Asia (Table 12).

[20] It measures performance along the logistics supply chain within a country and has three parts: perceptions of the logistics environment of trading partner countries; efficiency and effectiveness of customs and other border procedures; and quality of transport and IT infrastructure for logistics.

Table 12: Logistics profile of Kazakhstan against other Central Asian countries and CIS in 2008

	LPI	Customs	Infra-structure	Int'l shipments	Logistics competence	Tracking & tracing	Domestic logistics costs	Time-liness
Kyrgyz Republic	**42%**	**40%**	**32%**	**44%**	**42%**	**42%**	**67%**	**50%**
Uzbekistan	36%	31%	30%	35%	35%	33%	72%	49%
Kazakhstan	35%	30%	26%	36%	32%	37%	68%	47%
Tajikistan	29%	30%	30%	33%	28%	21%	50%	31%
Average CIS	40%	38%	33%	41%	36%	39%	71%	50%

Note: Its value here has been normalized with 100 for the best performer in each area and zero for the best performer. Its value thus normalized indicates the gap vis-à-vis the best performer in each area.
Source: derived from data available at http://web.worldbank.org/wbsite/external/topics/exttransport/exttlf

Kyrgyzstan scores higher than any other neighboring country in each area determining the quality of logistics profile except for domestic logistics costs. While the affordability of arrangements with the local logistics industry (e.g., transport operators, customs brokers) is higher: efficiency and effectiveness of customs as well as timeliness of shipments in reaching destination is better; and local transportation, terminal handling, warehousing, and direct freight costs are lower; Kyrgyzstan's weak spot is infrastructure. So is—not surprisingly given their interconnectedness—its score on domestic logistics costs.

Except for Uzbekistan (see Table 13), the differences in applied tariff rates on imports of bazaar goods also appear to be too small to make Kyrgyzstan an attractive location for their purchases by residents of other Central Asian countries. Bazaar products enjoy relatively high level of tariff protection in all CAR countries. While Kyrgyzstan has a relatively liberal tariff regime, duty rates of 10 percent or more are levied on most bazaar goods. Duty rates on these products tend to be slightly lower in Tajikistan and higher in Kazakhstan, although the latter uses many specific tariff rates that are difficult to convert into rates *ad valorem*. If Kyrgyz traders had to pay duties on bazaar imports, Kyrgyz bazaars might be an attractive place for purchases only for residents of Uzbekistan, and not anybody else.

Table 13: Summary information about tariff rates applied on imports of bazaar goods in Kyrgyzstan and Uzbekistan in 2006

SITC		HS Equivalents	Applied MFN rates in Kyrgyzstan	Applied tariff rates in Uzbekistan
65	Textile yarn, fabrics, made-up art, related products	Ch. 50 through 60	50—5% most of tariff lines 60 all 10% Others between 0% and 10%	All 30% subject to excise levied only on imports of 20% (compound rate of 56%)
83	Travel goods, handbags and similar containers	Ch. 42	Most 10%	As above
84	Articles of apparel and clothing accessories	Ch. 61 through 63	Most 10% or 12%	As above
85	Footwear	Ch. 64	10% with few at 0%	Specific rates
89	Miscellaneous manufactured articles, n.e.s.	Ch. 96	All 10%	All 30% but no excise levied on imports

Source: Customs Tariff Schedule of Kyrgyz Republic, Regulation #81, March 29, 2006 and Uzbekistan's MFN tariff schedule as published on the website http://www.bisnis (accessed on 02/20/2007) and posted in December 2006.

Taking all these aspects into consideration, foreign trade regime alone, even though it is liberal by regional standards, would not lead to Kyrgyzstan's emergence as a re-export platform for bazaar goods. Bazaar goods are subject to a different, much more liberal, if not duty-free, trade regime. The fact that most of these imports go unreported suggests several possibilities: some are not reported because the existing regulations allow 'shuttle traders' to bring them in small quantities; some may be smuggled with or without tacit knowledge of customs authorities; and others may be subject to Customs

charges levied on the basis of the weight, as introduced by the Government Resolution #976 of December 31, 2004, although it is not clear why they are reported in customs statistics. Whatever the explanation might be, the bottom line is that had these imports been subjected to all charges and procedures stipulated by the regulation, re-exports transactions would have not been profitable.

Neither would Kyrgyzstan's business regime create conditions favorable to re-exports activities. Kyrgyz business climate does not set it apart from other Central Asian economies in terms of friendliness, although—on paper—it is significantly better than in Tajikistan and Uzbekistan but not in Kazakhstan.[21] Despite a better score in *Cost of Doing Business in 2008* for ease of doing business than in the former two countries, the problem is in areas that present the most serious constraint to conducting business activities: these are licenses and taxes. Kyrgyzstan ranks close to the bottom of the list covering 178 countries: 152nd in both areas. Leaving aside difficulties involved in obtaining a license, which is a one-time endeavor and, therefore, less of a problem, the ease or rather difficulty of paying taxes is a recurrent problem. Consider that an average business has to make 75 tax payments in a year; has to devote 25.3 working eight-hour days to deal with tax administration and comply with tax regulations; and, despite a low profit tax of three percent, has to pay in total taxes an equivalent of 61 percent of net income, which is at least 50 percent more than in other Central Asian economies (Annex Table 5).

But the point is that traders are partly shielded from Kyrgyzstan's regulatory environment. Owners of stalls pay bazaar fees (around US$ 100 in Dordoi), which cover their tax obligations as well as payments for facilities. In contrast to other businesses, traders may concentrate their efforts on their business instead of spending time and resources on dealing with various state agencies.

Hence, the explanation of Kyrgyz success lies **neither in its trade regime as it applies to all products but in its trade regime as it applies exclusively to bazaar products nor in business regulatory environment as it applies to businesses in most sectors of the economy but is a special regime as it applies to bazaars**. The challenge facing policy makers is to gradually converge in terms of policies towards liberal arrangements that govern 'bazaar-related' activities.

G. Policy implications

Domestic policies should focus simultaneously on *not jeopardizing* re-exports activities intermediated through bazaars and lifting internal constraints that separate bazaar regimes from the overall business environment together with establishing conditions for transitioning from bazaar-type economy to modern, market-based, economic regime with three priority areas. First, Kyrgyzstan needs to lower tariff rates on bazaar goods and streamline administrative procedures applied to foreign trade operations. Second, it needs to improve the business climate addressing the most restraining areas—licenses and tax regime. Third, there is a need for strengthening institutions and infrastructure supporting trade facilitation including upgrading the standards and norms for not only for legal and institutional infrastructure but also for transport infrastructure.

Given huge economic benefits of re-export activities, the government should not only avoid taking any policy action that would suppress them but take steps that would stimulate trade: both exports and re-exports. In broad terms, this would involve strengthening domestic competition through the removal of barriers to foreign trade, the improvements in the business regulatory environment as well as in infrastructure to lower domestic logistics costs.

[21] In *Cost of Doing Business in 2008* rankings, Kyrgyzstan was 94th, Kazakhstan 71st, Tajikistan 153rd, and Uzbekistan 138th.

Zeroing tariff rates on bazaar goods and streamlining administrative procedures is essential to sustaining re-exports operations and boosting Kyrgyz exports. As shown in Section F, tariff rates on bazaar products reach in most cases maximum rates of the Kyrgyz tariff schedule. Since domestic producers have to compete with bazaar imports entering Kyrgyzstan mostly duty-free, as customs do not collect duties on most of these imports, maintaining relatively high tariff rates encourages duty evasion and corruption in the customs administration. For instance, apparel production has developed not in spite of competition from cheap imports but thanks to it. The removal of tariffs on apparel and fabrics would encourage the shift from small workshops to larger clothing manufacturing and, prospectively, to 'factoryless' firms organizing entire systems of clothing production with a Central Asian reach. Reductions in tariff rates would be particularly helpful on final products and main intermediate goods as a way of avoiding tariff escalation or any other anti-export bias. In a nutshell, Kyrgyzstan would benefit most from reducing even further its already relatively low tariff rates.

Streamlining administrative procedures might begin with eliminating redundant paperwork required for export and import operations. Except for bill of lading, collection order, customs import declaration, and commercial invoice, no other documents should be required for imports.[22] In special cases, that is, if an importer seeks preferential tariff treatment, then it is her business to present certificate of origin; and if a product is subject to phyto-sanitary regulations, then it will not enter without a respective certificate. The same should apply to exports: the basic set of documents should be limited to bill of landing, commercial invoice, and customs export declaration with no other caveats. Exporter's responsibility is to have documents needed for entry of products to another country: this should be of no concern to Kyrgyz border authorities.

While much remains to be done to improve the business climate, simplification of the tax regime strikes one as the most binding constraint on business activities. At stake is not only the total tax burden, which is extremely high by regional standards, but also a very high cost of complying with tax regulations and dealing with the tax administration. Simplification of the tax code together with the reduction in the number of required payments would go a long way towards improving business climate. Without significant change in these areas, firms that potentially might mushroom from bazaars and begin operating on a larger scale will be constrained in their expansion preventing Kyrgyz businesses to move from individual-type of transactions, characteristic of bazaars, to anonymous transactions, characteristic of modern economies that enforce property rights and have legal foundations for long term contractual commitments.

Strengthening institutions and physical infrastructure supporting trade facilitation will help ensure successful development of both exports and re-exports. Zeroing tariff rates on bazaar products together with streamlining administrative foreign trade procedures should clear the way for collecting fees at the border indispensable to maintain and develop transportation network.

[22] See ***Annex 4: Red tape in foreign trade transactions*** for a detailed discussion.

Annexes

Annex 1: Tables

Annex Table 1: Direction and growth of trade in 2003-06 (in percent and million of US dollars)

				.	Index 2006	Share in total exports	
Exports	2003	2004	2005	2006	2003=100	2003	2006
Central Asia and Russia	330	614	951	2,141	649	40	78
European Economic Area	142	130	96	247	174	17	9
Other regions	358	474	453	353	99	43	13
Total exports	831	1,218	1,500	2,742	330	100	100
Imports	308	585	895	2,031	660	37	74
Central Asia and Russia	605	1,027	1,531	3,017	499	73	85
European Economic Area	141	163	193	311	221	17	9
Other	86	103	140	223	258	10	6
Total imports	832	1,293	1,864	3,551	427	100	100
Memorandum: Exports excluding re-exports							
Central Asia and Russia	221	313	332	483	219	38	61
European Economic Area	142	130	96	247	174	24	31
Other regions	218	275	244	63	29	38	8
Total exports	582	719	672	794	137	100	100

Notes: Central Asia includes China, Kazakhstan, Tajikistan, Turkmenistan, and Uzbekistan. European Economic Area includes, in addition to 27 member states of the European Union, the following countries: Iceland, Norway, Switzerland, and Turkey.
Source: Own calculation based on World Bank staff estimates derived from data in the UN COMTRADE database.

Annex Table 2: Geographical composition of FDI flows in 2002-2006 (in million of US dollars)

	2002	2003	2004	2005	2006	Index 2006
	(in million of US dollars)					2003=100
CAR countries: of which	34	39	34	53	164	417
China	9	15	7	5	7	50
Kazakhstan	6	13	16	40	137	1033
Russia	17	11	12	8	20	178
Cyprus	1	2	12	11	23	1256
Total CAR plus Cyprus	35	41	46	64	187	454
Other	81	106	130	147	149	141
Grand Total	116	147	176	210	336	228
	(in percent)					
CAR countries: of which	29	27	20	25	49	182
China	7	10	4	2	2	22
Kazakhstan	5	9	9	19	41	452
Russia	15	8	7	4	6	78
Cyprus	1	1	7	5	7	550
Total CAR plus Cyprus	30	28	26	30	56	199
Other	70	72	74	70	44	62
Memorandum:						
in percent of GDP	7.7	7.0	6.1	7.3	11.7	168

Source: Derived from data downloaded from FDI data from the website of the National Statistics Committee at www.stat.kg

Annex Table 3: Dynamics and composition of Kyrgyzstan's trade in terms of end-use with the world and Kazakhstan in 2005-2006 and 2003-06 (in million of US dollars and percent)

	Total (in million of US$)			of which: Kazakhstan		
Exports	2005	2006	LSG rate 2003-06	2005	2006	LSG rate 2003-06
Agricultural Foods and Feeds	131	148	8	29	41	33
Industrial Raw Materials	25	29	13	0	0	-9
Machinery	34	57	17	10	22	37
Automobiles and Parts	17	17	7	5	2	8
Textiles and Clothing	33	58	25	3	6	16
Other consumer goods	59	98	27	55	66	24
Fuels	79	149	22	13	25	53
TOTAL (excluding gold)	378	556	17	116	163	30
Memorandum: Exports of gold	231	206	-6	0	0	0
Imports	2005	2006	LSG rate 2003-06	2005	2006	LSG rate 2003-06
Agricultural Foods and Feeds	186	268	27	66	93	26
Industrial Raw Materials	24	32	11	14	22	16
Machinery	160	307	32	4	5	0
Automobiles and Parts	40	103	26	0	0	-8
Textiles and Clothing	32	46	2	0	0	-22
Other consumer goods	346	458	19	20	26	21
Fuels	321	504	29	75	54	-15
TOTAL	1108	1718	24	180	200	4
Exports (in terms of percent)	2005	2006	Index 2006 2003=100	2005	2006	Index 2006 2003=100
Agricultural Foods and Feeds	35%	27%	74	25%	25%	109
Industrial Raw Materials	7%	5%	86	0%	0%	24
Machinery	9%	10%	101	9%	14%	123
Automobiles and Parts	4%	3%	70	4%	1%	47
Textiles and Clothing	9%	10%	129	3%	3%	64
Other consumer goods	16%	18%	140	47%	41%	84
Fuels	21%	27%	118	11%	15%	193
TOTAL (excluding gold)	100%	100%	100	100%	100%	100

Note: End-Use categories are defined as Agricultural Food & Feeds (SITC 0+1+2+4-27-28), Industrial Raw Materials (SITC 27+28+68), Machinery, excluding auto (SITC 7-78), Automobiles & Parts (SITC 78), Textiles & Clothing (SITC 65+84), other Consumer Goods (SITC 5+6+8+9-65-68-84), Fuels (SITC 3) and All Goods (SITC 0 to 9).
Source: Kyrgyzstan's trade data as reported to the UN COMTRADE database.

Annex Table 4: *Labor, technology and resource content of Kyrgyz foreign trade in 2003-06 (in million of US dollars and percent)*

	2003	2004	2005	2006	Change 2006	LSG rate
		(in million of US dollars			Over 2005	2003-06
Low-technology labor-intensive	89	127	126	174	38%	18
Resource-intensive	177	235	222	304	37%	14
Medium- to high-tech	52	69	72	103	43%	19
Total above	318	431	420	580	38%	16
Memo: Gold Exports	260	287	231	206	-11%	-6
	2003	**2004**	**2005**	**2006**	**.**	**Index 2006**
		(in terms of percent)				2003=100
Low-technology labor-intensive	28	30	30	30	0%	107
Resource-intensive	56	55	53	52	-1%	94
Medium- to high-tech	16	16	17	18	3%	108
Exports in percent of imports						
Low-technology labor-intensive products	55	61	49	47	-5%	86
Resource-intensive	41	40	32	31	-4%	76
Medium- to high-tech	30	31	29	21	-26%	70
Total above	82	81	62	45	-24%	55

Source: Kyrgyzstan's trade data as reported to the UN COMTRADE database.

Annex Table 5: Salient features of tax regimes in Central Asia, EU-10 and OECD in 2007

	Payments (number)	Time (hours)	Profit tax (%)	Labor tax and contributions (%)	Other taxes (%)	Total tax rate (% profit)
Kazakhstan	9	271	16.1	17.8	2.9	36.7
Kyrgyzstan	75	202	3.0	23.7	34.7	61.4
Tajikistan	50	1120	12.1	23.4	1.1	36.6
Uzbekistan	38	952	13.8	24.8	2.3	40.9
EU-10	28	358	8.7	32.5	3.3	44.6
OECD	15	183	20.0	22.8	3.4	46.2

Note: EU-10 new EU members: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, and Slovenia.
Source*:* the World Bank's website http://rru.worldbank.org/besnapshots/ accessed on October 22, 2007.

Annex 2: Can Export Statistics be trusted? China and CIS Economies

Can mirror statistics rather than the official ones be trusted? The answer is positive with two caveats.[23] First, if the values of officially reported imports are above the values of mirror imports, then the former are a much more reliable source of information for one reason: Exports are reported fob (free on board), while imports include the cost of freight and insurance (cif). So unless cif is negative, official imports should exceed exports into a country by the cost of transportation. Second, if major sources of imports are developing countries, then mirror statistics are often of low quality as well.

These caveats can be dismissed in the case of countries with official imports well below corresponding exports into a country. With a few notable exceptions (Armenia and, most recently, Georgia) other CIS countries under-report imports for various reasons usually related to evasion of customs duties and other taxes collected by customs. Their official imports are well below exports to Kyrgyzstan reported by its trading partners (hereafter referred to as mirror imports), although this should be the other way around. Except for Azerbaijan and Kyrgyzstan, other CIS countries have significantly reduced the gap between the values of mirror imports and official imports since 2003 (Table 1).[24]

Table 2- 1: ***Mirror imports as percent of total official imports of selected CIS economies in 2002-06***

	2002	2003	2004	2005	2006
Armenia	74	80	86	78	75
Azerbaijan	117	114	122	111	127
Georgia	117	132	115	101	97
Kazakhstan	99	103	106	103	102
Kyrgyzstan	**112**	**128**	**148**	**175**	**210**
Russian Fed	123	130	134	129	116
Memorandum: share of China in the difference between mirror and reported imports					
Kyrgyzstan	125	85	92	92	99

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

Yet, Kyrgyzstan still stands out among CIS countries in terms of mirror versus official statistics in three important respects: First, its official imports are a small fraction of exports to Kyrgyzstan reported by its trading partners. Except in 2003 when mirror imports as percent of official imports of Georgia were higher than in Kyrgyzstan, Kyrgyzstan has had the highest values of the trade gap among comparator CIS economies since 2004. In 2006, the value of mirror imports was more than twice as high as that of official imports.

Second, trade with China has been almost solely responsible for virtually all of non-reported imports into Kyrgyzstan. Their share in unreported imports was 99 percent in 2006 (see Table 1). The ratio of mirror imports to official imports in trade with China was a whopping 856 percent in 2006: put

[23] For a detailed analysis of mirror trade statistics, see G. Zarubin and B. Kaminski, "The Limits of Mirror Statistics of Foreign Trade" in M. Belkindas and O. Ivanova, eds., *Foreign Trade Statistics in the USSR and Successor States*, *Studies of Economies in Transition 18*, The World Bank, Washington DC, 1995.

[24] The gap is even higher for Kyrgyzstan than the data in Table 1 might indicate for one reason: official import data come from the balance of payments statistics and do not include cost of insurance and freight (cif), as is the dominant convention in reporting foreign trade data. Since they are free on board (fob), the value of official imports should be very close to the mirror ones, which are also fob.

differently, the value of official imports amounted to 12 percent of Chinese exports into Kyrgyzstan recorded by Chinese border services.

Table 2-2: *Total mirror imports in 2002-06 in million of US dollars and percent of GDP*

	2002	2003	2004	2005	2006
Mirror imports	713	958	1,565	2,151	3,620
in percent of GDP	48	46	54	74	127
Memorandum: difference between mirror and official imports					
	142	235	661	1,045	1,828

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

Second, total mirror imports could not be consumed domestically, simply because of their sheer size. The difference between mirror and total imports amounted in 2006 to almost US$ 2 billion or 64 percent of the GDP in 2006, while the total mirror imports exceeded the GDP by 27 percent (Table 2). Without huge external support and inflows of, for instance, remittances exceeding significantly the GDP, these levels of imports would not be possible to sustain.

Since Chinese exports into Kyrgyzstan have been almost exclusively responsible for Kyrgyzstan's trade gap, an important question is whether the Chinese data can be trusted? An answer to this question can be found by juxtaposing Chinese foreign trade statistics against those of selected highly developed trading partners. Based on an empirical observation tabulated in Table 3, the answer is unambiguously positive. As can be seen from these data, in contrast to CIS economies (except for Armenia and Georgia—see Table 1 above), the respective differences in foreign trade statistics of China's trade with Japan, EU-25 and USA can be explained by the cost of insurance and freight. The values of official imports are above the values of exports reported by China. This suggests that China's recording of exports is fairly accurate: if anything, they may be under-reported rather than over-reported.

Table 2-3: *Mirror imports from China in terms of official imports in selected highly developed economies in 2001-06*

	2001	2002	2003	2004	2005	2006
Japan	78	78	79	78	77	77
EU-25	58	59	62	62	64	67
USA	50	52	57	59	67	67

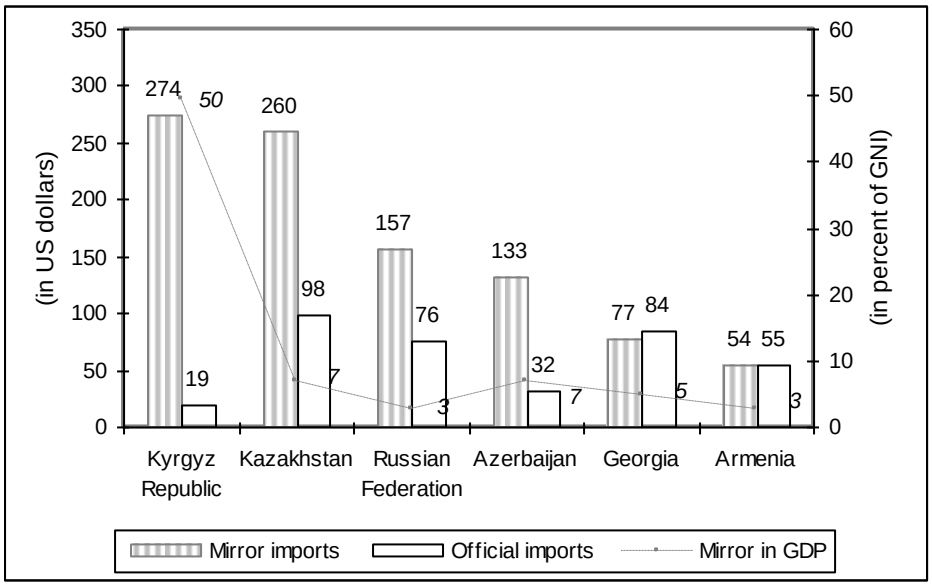
Source: Derived from trade statistics reported to the UN COMTRADE database.

Thus, the fault lies not with the Chinese border services. To the contrary, the problem is with Kyrgyzstan's and other CIS countries' customs services, although—as argued earlier—it does not necessarily imply any wrong doing on the part of customs. The crux of the matter is that we can actually take 'Chinese word' for the reliability of their trade statistics even when it comes to exports, which—for fiscal, national security and public health reasons—are always subject to less scrutiny than imports.

Annex 3: Estimating Kyrgyzstan's Re-exports: Outline of a Method

While it may be difficult to come with a solid estimate, one thing is beyond any doubt: a very significant fraction of imports is re-exported to neighboring countries and some of them are used as production inputs (fabrics) with some portion of final products exported through intermediary of bazaars. First, Kyrgyzstan specializes in imports of 'bazaar-type' products: their value in 2006 amounted to 50 percent of the GNI. Except for Kazakhstan, albeit only in terms of their imports per capita, no other country comes anywhere close to it (Figure 3-1). Kyrgyzstan could not possible afford such an eye-catching consumption of these goods considering other needs of its population.

Figure 3-1: *Mirror imports and official imports of miscellaneous manufactured goods per capita and mirror imports of these product in GDP in selected CIS economies in 2006 (in US dollars and percent)*



Source: Own calculations from partners' data in UN COMTRADE database and World Bank WDI database.

Second, as mentioned earlier, it is rather unlikely that a mirror trade deficit amounting to 98 percent of the GDP and current account deficit of 78 percent of the GDP in 2006 could be financed by external sources (see Table 3-1). Neither was it financed nor did Kyrgyzstan's import consumption extravaganza produce the balance of payments crisis. Huge unreported imports have not eroded the external position of Kyrgyzstan (Table 3-1).

To the contrary, its external position has significantly improved over the last three years. International reserves have kept growing since 2002 irrespective of a soaring gap between mirror imports and official imports. Note that their value almost doubled in 2006 (Table 3-1). So did the errors and omissions together with net private transfers to Kyrgyzstan. This increase cannot be explained by a similar increase in the size of remittances. There was no massive exodus of people from Kyrgyzstan seeking work abroad.

Thus, unreported imports are not a financial burden to the Kyrgyz economy but a very important source of foreign currency earnings. Indeed, the international reserves, errors and omissions and private net transfers have 'behaved' as though unreported imported were exports. Otherwise, it would be very difficult to explain their movements in 2002-06 in the same direction. As can be seen from Table 7, they all grew each year over this period. This suggests that (a) some portion of these extra imports was

financed from remittances usually recorded in the errors and omissions entry of the balance of payments statistics and/or net transfers; and (b) some of these imports into Kyrgyzstan have generated extra hard currency earnings, which led to the increase in international reserves and probably were also reflected in the errors and omissions item of the balance of payments statistics.

Table 3-1: *Balance of payments implications of the absence of re-exports in 2006 (in million of US dollars)*

	Official data	No re-exports
Exports	811	811
Imports	1,792	3,620
Trade balance	-981	-2,809
Current account balance	-399	-2,227
in terms of GDP	-14%	-78%
Capital and financial account	157	157
Errors and omission	381	381
Overall Balance	**139**	**-1,689**
in terms of GDP	5%	-59%

Source: Derived from trade statistics reported to the UN COMTRADE database and Kyrgyzstan's official balance-of-payments statistics.

Re-export activities are difficult to capture in foreign trade statistics not only in developing countries but also in highly developed economies for a variety of reasons. For instance, imports may not be registered simply because temporary admission of a shipment can be designated as "not entry" into a customs territory, although they are likely to be registered as exports to this particular country in a country of origin.

But, in order to assess their scope, it does not matter whether national statistics provide fairly accurate imports data. Reliable mirror statistics are crucial in this exercise. As discussed in Annex 2, export statistics of Kyrgyzstan's major trading partners can be trusted, albeit with a caveat. Foreign trade statistics are not reliable in general, as a study examining trade statistics across the world has convincingly shown.[25] But some can be trusted more, some can be trusted less: partners relevant for estimating Kyrgyz re-exports belong to the former.

Step 1: Identification of re-exported products

Products, which are candidates for re-exports from the Kyrgyz Republic, can be identified as those in which Kyrgyzstan has a revealed "import" comparative advantage or, more exactly, a revealed import specialization index (ISI) in Central Asia's (confined here to five former Soviet republics) markets. It is similar to Export Specialization Index with one difference: it applies to a country's imports.

ISI is defined as the ratio of a share of a country in imports of a product j into Central Asia to its share in total imports of Central Asia. If the ratio for a product j is above unity, than a country has a revealed "import" comparative advantage, or specializes in imports of this particular product. The point of reference are not total imports but imports of products that can be easily moved and are not used as inputs and parts in the production of other goods. Two single digit SITC product groups meet

[25] See Rozanski, Jerzy and Yeats, Alexander. 1994. "On the (in) accuracy of economic observations: An assessment of trends in the reliability of international trade statistics," *Journal of Development Economics*, Elsevier, vol. 44(1), pages 103-130, June.

simultaneously these criteria: industrial goods classified by material (SITC 6) and miscellaneous manufactured goods (SITC 8).

In order to identify which products at a lower lever of disaggregation are among candidates for re-exports, we examine total mirror imports of these products at a two-digit SITC level to Central Asia and calculate the values of ISI.

The products with the values of ISI above unity are as follows: SITC 65—textile yarn, fabrics, made-up art, and related products; SITC 83—travel goods, handbags and similar containers; SITC 84—articles of apparel, and clothing accessories; SITC 85—footwear; and SITC 89—miscellaneous manufactured articles, not elsewhere specified. We shall call them bazaar goods or 're-exportables.' For 'bazaar-goers,' they come across as usual suspects ranging from apparel to miscellaneous manufactured goods. These are Kyrgyzstan's potential 're-exportables' or a portion of mirror imports available for re-exports.

Step 2: Estimating domestic consumption of re-exportable bazaar goods based on comparative regional data

Considering that consumption patterns and tastes are rather similar across the region and, except for Kazakhstan and, to a lesser extent, Turkmenistan, they are at a similar level of economic development, there are no reasons to expect large variation in the consumption of these products from imports. Uzbekistan's dependence on external sources to meet the demand for these products may be lower due to domestic production of some of them. But one may safely assume that mirror imports of 're-exportables' per capita and in terms of GDP should not diverge significantly.

How much of bazaar goods (mirror) imported into Kyrgyzstan are consumed domestically? Per capita imports of bazaar goods and their shares in the GDP are used to generate expected values of Kyrgyzstan's consumption of imported bazaar goods. The answer to this question will give annual amounts of 'excessive imports,' or the potential supply of products imported into Kyrgyzstan available for re-exports. We examine two cases (Table 3-2):

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

How good are the estimates of re-exports from Kyrgyzstan? It seems that they provide a good basis for estimating re-exports, as they delineate the area within which Kyrgyzstan's domestic consumption patterns do not deviate significantly from those in other Central Asian economies. Both cases offer strikingly similar estimates of the mirror imports 'surpluses' available for re-exports. It seems that they are pretty close to values of real flows increased by an average difference between prices of imports and prices of re-exports. But this issue can be only addressed in domestic rather than regional context.

In the estimates of mirror imports available for re-exports, we used a simple average of bazaar products available for re-exports under *Case A* and *Case B*.

Note that even we know the value of mirror imports available for re-exports, we do not know for how much they are going to be sold. In other words, since we do not have information about unit values of imports entering and leaving the customs territory of Kyrgyzstan, we have to find ways of deriving them from the balance of payments statistics.

Table 3-2: Estimates of bazaar products available for re-exports in 2002-06 (in million of US dollars and percent)

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

Note: (A) weighted average imports per capita into Central Asia and (B) share of imports in Central Asia's imports equal to Kyrgyzstan's share in Central Asia's regional GDP in 2006.
Source: Own calculations from world exports to Central Asia as reported to the UN COMTRADE database and population and GDP data from the World Bank database.

Step 3: Value added of re-export activities (β), official trade balance and foreign currency revenue

Value added of re-exports activity is not the same as a profit margin obtained by a trader in a transaction. It refers to costs incurred in moving products from one to another customs border through intermediary of a bazaar or the difference between the value of imports, including the cost of freight and insurance (cif), at the point of entry into Kyrgyzstan and the value at the exit of Kyrgyzstan's customs territory.[26] A practical implication is that the value of mirror imports, which denotes the value at the point of origin of a shipment (sale price), should increased by an equivalent of cif. In subsequent estimates, we assume that **cif for bazaar products amounts to *three percent ad valorem***.

Value added pays for re-exported imports. Let us assume that the mirror trade balance (exports increased by the value of re-exports and official imports by the mirror trade gap) and official trade balance are equal. In other words, re-exports pay fully for the mirror trade gap (the difference between mirror imports and official imports) and their trade balance remains balanced. We can then show that the rate of value added, β, expressed as percent of the value of mirror imports is linked to the share of imports re-exported, α, and vice versa. From two trade balance identities,

$TB = X_o - M_o$ and $TB = X_o + \alpha*(M_m - M_o)*(1 + \beta) - M_m$
one may derive the following:
$\beta = (1 - \alpha)/\alpha$ and/or $\alpha = 1/(\beta + 1)$ …… 1

Where: X_o – officially reported exports; M_o – officially reported imports; M_m – mirror imports; $(M_m - M_o)$—mirror trade gap; α – share of goods re-exported in the mirror trade gap; β - difference between import entry and re-export exit value (or value added in the customs territory of Kyrgyzstan).

Hence, the level of re-exports needed to maintain unchanged position in trade balance depends on the values of β as well as the portion of the trade gap re-exported. The problem is, however, that we have a single equation with two unknowns: α, and β, which are, however, tied together by the assumption that

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

bazaar trade does not change an overall balance of trade. Under these conditions, if we know the value of one, the value of another can be derived. For instance, assuming the value of α = 0.85, i.e., 85 percent of the trade gap is re-exported, the difference between the cost at the entry to Kyrgyzstan and price fetched at the exit or value added would have to be β = 18 percent in order to keep the overall trade balance unchanged, i.e., expenditures on imports exceeding official imports of bazaar goods would be covered by revenues from re-exports. This would generate the estimates of the value of re-exports from Kyrgyzstan as below

	2002	2003	2004	2005	2006
85 of the mirror trade gap re-exported	142	235	661	1,045	1,828

Value added generates net foreign currency earnings: Kyrgyzstan's balance of payment statistics unequivocally suggests that revenues from re-exports not only cover their imports but also bring foreign currency into Kyrgyzstan. Two items are of particular relevance: errors and omissions and net private transfers. Both of them contain remittances from Kyrgyz labor employed abroad and other transaction including commercial ones related to re-export activities. Based on estimates of remittances from workers employed abroad in terms of GDP and the share of smaller transactions in the total amount of remittances via money transfer operators, we assume that 40 percent of the aggregate value of errors and omissions and net private transfers are for re-exports-related activities. Hence, we obtain a modified value for value added within Kyrgyzstan's customs territory of β':

$$\beta' = 1 + (0.4*ET)/[\alpha*(M'_m - M_o)] \quad \text{..... 2}$$

Note: subject to condition that β' > β, as re-exports do not change the official trade balance (revenues and cost appear in the balance of payments under different headings), and, therefore, if β' < β, then we use β to estimate the value of re-exports:

where: ET—aggregate value of net private transfers and errors and omissions as reported in the balance of payments statistics; α—the share of re-exported imports; M'_m—mirror imports including cif (the value of mirror imports multiplied by 1.03); M_o—official imports

Step 4: Percent of mirror trade gap re-exported (α) and estimate of the value of re-exports

The last step is to estimate the value of α. We first use regional data (see **Step 2** above) to estimate domestic consumption of bazaar goods, which we assume to be equal to a simple average of two estimates: one based on the share of Kyrgyzstan in Central Asia's GDP; and another one based on the assumption that Kyrgyzstan's consumption is equal to the average of imports of bazaar goods per capita in Central Asia (excluding Kyrgyzstan). The difference between mirror imports of these products and their domestic consumption is the amount of mirror imports available for re-exports (RM). The ratio of RM to the mirror trade gap of bazaar goods ($M_m - M_o$) is equal to α.

Thus, we can calculate the value of modified value added, β', from the identity 2 above.

The value of re-exports is equal to the value of mirror imports available for re-exports (RM) increased by the value added equal to β' or

$$\text{Re-exports} = RM * (1 + \beta') \quad \text{..... 3}$$

Table 3-3 presents the results of estimates together with the values of parameters used for this purpose. The values of value added parameters derived from the balance of payment statistics (β') were higher than the 'equilibrating' values of β: so β' were used to calculate the values of re-exports. Note that α refers to the fraction of the mirror trade gap, i.e., the difference between mirror imports and official imports. It does not refer to the fraction of total mirror imports of bazaar goods re-exported from Kyrgyzstan.

Table 3-3: Values of parameters and estimates of re-exports of bazaar products in 2003-06

	2003	2004	2005	2006
β' (value added derived from foreign exchange inflows)	0.43	0.25	0.33	0.27
β (value added needed to balance trade in bazaar goods)	0.01	0.06	0.10	0.06
ET (in million of US dollars)	221	290	558	1,097
α (portion of mirror trade gap re-exported)	0.99	0.94	0.91	0.95
Value of re-exports (in million of US dollars)	293	571	903	2,090
Domestic consumption of bazaar imports (in million of US dollars)	63	87	123	179
Revenue from re-exports (in million of US dollars)	88	116	223	439
Percent of imports re-exported	69	63	62	86

How good are these estimates? For sure, these are back-of-envelop estimates. Their precision is not in fraction of a single percentage point. But it seems that they are not more than 10 percent off the mark. We run estimates based on assertions that; three-fourths of Chinese imports into Kyrgyzstan wind up in other Central Asian countries;[27]and three-thirds of products sold at the Dordoi bazaar are re-exported.[28] The estimated re-exports were within 10 percent of our estimate.

One may, thus, conclude that the estimates are relatively close to the mark, albeit with one qualification. Re-exports also include unregistered exports of apparel, which, as it was argued earlier, may be quite significant of up to US$ 100 million in 2006 or around 5 percent of total value of re-exports.

[27] Quoted in "Les bazars au Kirgizstan, ou la collusion entre économie et politique." *Central Asia and Caspian Intelligence*, No. 23, December 20, 2007, p. 3.

[28] Estimate given at interviews of traders in summer of 2007 conducted for the World Bank's CAREC project.

Annex 4: Red tape in foreign trade transactions

Kyrgyz traders face huge barriers to foreign trading—policy- and geography-induced with the former making probably a larger 'negative' contribution**.** In the World Bank's *The Cost of Doing Business* survey of the ease of cross-border trading in 178 countries Kyrgyzstan together with Kazakhstan and Tajikistan is among three worth performers, i.e., with the least friendly conditions to foreign trade operations. Some portion of it is the result of geography: landlocked countries depend on conditions created by transit countries and the quality of physical infrastructure. But policy-induced barriers appear to be much more important: note significantly better regulatory regimes in some other landlocked countries such as Armenia, Georgia, and Moldova (Table 4-1).

Table 4-1: *Administrative burden and cost of trading across borders in CIS economies in 2008*

	Rank in 2007	Documents for export (number)	Time for export (days)	Cost to export (US$ per container)	Documents for import (number)	Time for import (days)	Cost to import (US$ per container)
Armenia	118	7	30	1,165	8	24	1,335
Azerbaijan	173	9	56	2,715	14	56	2,945
Belarus	137	8	24	1,672	8	29	1,672
Georgia	64	8	12	1,105	7	14	1,105
Kazakhstan	178	12	89	2,730	14	76	2,780
Kyrgyz Republic	177	13	64	2,500	13	75	2,450
Moldova	122	10	58	1,807	10	59	3,197
Russia	155	9	47	2,975	9	69	4,970
Tajikistan	176	5	24	1,212	7	30	1,425
Ukraine	120	7	13	462	8	13	462
Uzbekistan	165	7	26	1,815	9	30	2,225
Median CIS	155	8	30	1,807	9	30	2,225
Average CIS (landlocked)	158	9	50	1,992	11	50	2,337
Kyrgyzstan in terms of the average landlocked Central Asia)	102%	163%	138%	130%	130%	165%	114%

Notes: Landlocked CIS economies include Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, and Uzbekistan.
Source: Derived from the World Bank database Doing Business in 2008 at http://www.doingbusiness.org/

Kyrgyzstan performs worse than respective averages for various dimensions of the ease of cross border trading not only in all CIS landlocked countries but also among Central Asian CIS economies. By far the weakest aspect of Kyrgyzstan's trading regime relates to administrative requirements: they are 63 percent above the average for Central Asia for exports and 65 percent for imports.

Administrative requirements together with their timeliness and costs can be usefully analyzed in terms of the breakdown of the process of exporting and importing as it is shown in *The Cost of Doing Business*. The process has four components: (1) the preparation of pre-arrival documents necessary for the cargo to be loaded on the truck, ship or train; (2) procedures necessary for port and terminal arrival and handling; (3) customs clearance and technical inspection; and (4) inspection, and inland transport.[29] For ach component, we have information about time in days and cost.

[29] For landlocked countries the latter includes transit , see Box 9.1., p. 54 in *Doing Business in 2006*, The World Bank, Washington DC, 2006

Administrative requirements (components 1 and 3) significantly contribute to the time needed to complete import and export transactions. Documents preparation together with customs clearance and technical control contribute 43 percent to the total time needed to complete an export operation and 52 percent for imports. Their contribution to total cost is lower: 16 percent and 14 percent of the total cost, respectively (Table 4-1).

Table 4-2: *Distribution in terms of time and cost associated with export and import operations in 2007*

	Time to export	Exports cost	Imports time	Time to Import
Documents preparation	38	8	35	4
Customs clearance and technical control	5	8	17	10
Ports and terminal handling	5	4	4	4
Inland transportation and handling	53	80	44	82
Total	100	100	100	100

Source: Derived from the World Bank database Doing Business in 2008 at http://www.doingbusiness.org/

Indeed, a detailed analysis of documents needed for exports and imports clearly indicates that most of them serve no purpose and should be get rid of as quickly as possible. The list of documents required for exports is the longest in Kyrgyzstan, as contrasted with requirements in Georgia, Kazakhstan and Estonia. It is the second longest for import transactions after Kazakhstan (see Table 4-3). Georgia requires eight export documents and four import documents of which at least four appear to be redundant. There is no need to request a certificate of origin—importer will need only if this would entail preferential duty treatment. An exporter may need it for similar reasons to present it at a country of destination. Neither of these should be subject to border inspection except for preferential treatment sought in Kyrgyzstan. The same qualification applies to sanitary and technical standards certificates for exports: if Kyrgyz standard conformity assessments are not accepted in a country of destination, this is a problem for an exporter not for the Kyrgyz border authorities. Similarly, no useful information can be gathered from such documents as a packing list or terminal handling receipts.

The list of required documents that are redundant is, of course, much longer for Kyrgyzstan than for Georgia ranked 64th in the world in an overall ease of trading across borders. Some of them date back when there were limitations on current account convertibility of Som.

The bottom line is that only Estonia requires documents that are not redundant. Any deviation from the Estonian list for exports and imports, except for phyto-sanitary or technical standards certificate, is an exercise in bureaucratic futility.

While adopting Estonian bureaucratic standards may be regarded as too revolutionary a change, one might consider removing all documents that are not required in both Kazakhstan and Georgia. In other words, only documents that are used in both countries might be retained while all other eliminated. These documents, marked as shaded areas in Table 4-3, are for foreign trade operations as follows: bill of lading; commercial invoice; customs declaration (for exports and imports respectively); commercial invoice; license for either export or imports; and phyto-sanitary and technical standards certificates on relevant imported products.[30] The number of documents needed then for export or import operations would be the same, that is, six documents down from the current thirteen documents needed for

[30] The Decree of the Government of the Kyrgyz Republic "Procedures for Importing for Circulation within the Territory of the Kyrgyz Republic of Products Subject to Mandatory Conformity Assessment in the Form of Mandatory Certification, and Recognition of Mandatory Product Conformity Assessment Results Obtained outside the Kyrgyz Republic" (No.8, 11 of January, 2006) repealed the right of the customs authorities to request the compliance certificates for products exported from the Kyrgyz Republic.

exports and imports. This would be quite significant reduction, although leaving lots of room for bringing administrative requirements in line with the best international practice as exemplified by Estonia.

Table 4-3: Export and import documentation required in Georgia, Kyrgyzstan, Kazakhstan and Estonia in 2007

GEORGIA		KYRGYZ REPUBLIC		KAZAKHSTAN		ESTONIA	
Export documents	**Import documents**	**Export documents**	**Import documents**	**Export documents**	**Import documents**	**Export documents**	**Import documents**
Bill of lading	Bill of lading	Bill of lading	Bill of lading	Bill of lading	Bill of lading	Bill of lading	Bill of lading
Certificate of origin	Certificate of origin	Cargo release order	Cargo release order	Certificate of confirmation	Cargo release order	Commercial invoice	Collection order
Commercial invoice	Commercial invoice	Certificate of origin	Certificate of origin	Certificate of origin	Certificate of confirmation	Customs export declaration	Commercial invoice
Customs export declaration	Customs import declaration	Commercial invoice	Commercial invoice	Commercial invoice	Certificate of origin		Customs import declaration
Export license	Import license	Consular invoice	Consular invoice	Customs export declaration	Commercial invoice		
		Customs export declaration	Customs import declaration		Customs import declaration		
Packing list	Packing list			Export license			
Technical standard/ health certificate	Terminal handling receipts	Export license	Foreign exchange authorization	Export transaction passport	Foreign exchange authorization		
Terminal handling receipts		Foreign exchange authorization	Import license	Foreign exchange authorization	Import transaction passport		
		Inspection report	Inspection report	Inspection report	Inspection report		
		Packing list	Packing list	Packing list	Packing list		
		Tax certificate	Tax certificate	Tax certificate	Tax certificate		
		Technical standard/ health certificate	Technical standard/ health certificate	Terminal handling receipts	Technical standard/ health certificate		
		Terminal handling receipts	Terminal handling receipts		Terminal handling receipts		
					Transit document		

Note: Shaded areas denote documents that may be regarded as sufficient to assure all objectives associated with government's obligation to protect safety and promote business interest abroad.
Source: Derived from the World Bank database Doing Business in 2008 at http://www.doingbusiness.org/

The fact that assembling and processing of foreign trade documentation as the major constraint that can be easily addressed has been recognized by the government. In pursuance of the Presidential Decree "Development of Foreign Trade State Policy and Measures to Improve Export-Import Procedures," the government set up two working groups to simplify and streamline administrative procedures for foreign trade in close cooperation with the private sector in September 2007.

The results of their work so far have been rather limited, as the issue of required documentation is yet to be addressed. The major accomplishments include the recommendation of introducing the Single Window and Customs Clearance Center, operating as the Single Window, with the customs performing all functions related to clearance of goods on behalf of other government agencies; and sponsoring the development of IT-based procedures to speed up border control procedures.