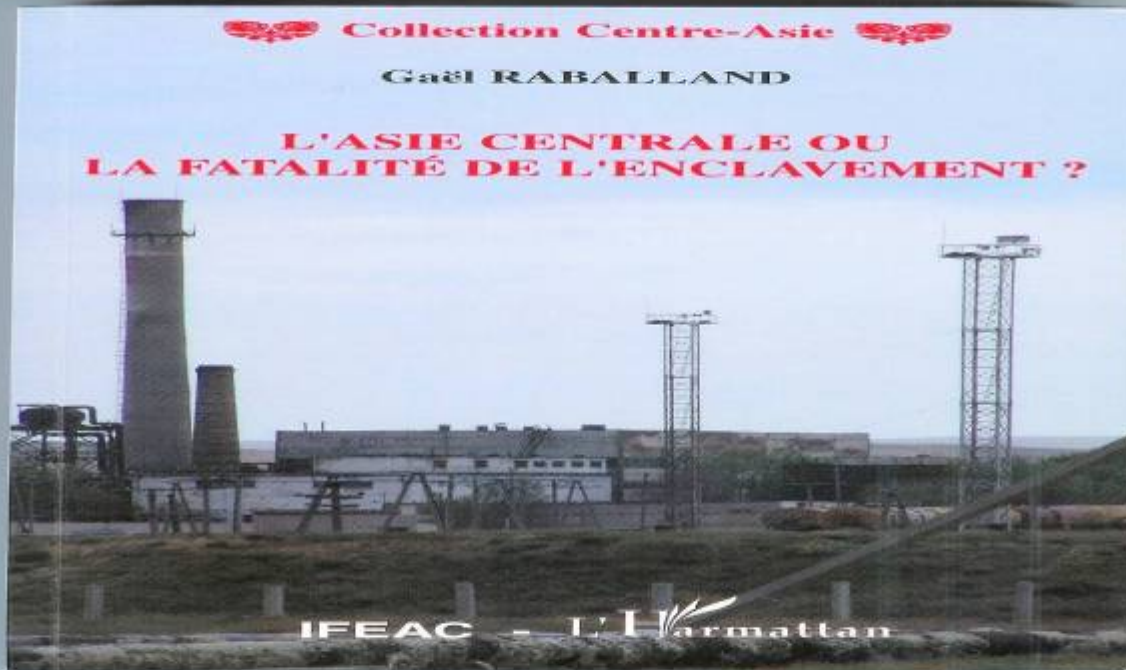


How Kyrgyzstan has seized Opportunities offered by Central Asia's Economic Recovery



At the very beginning of the century, one might ask *Central Asia or the Casualty of Land-lockedness?*



Few years later, it is clear that Kyrgyzstan is still landlocked but no longer a periphery because

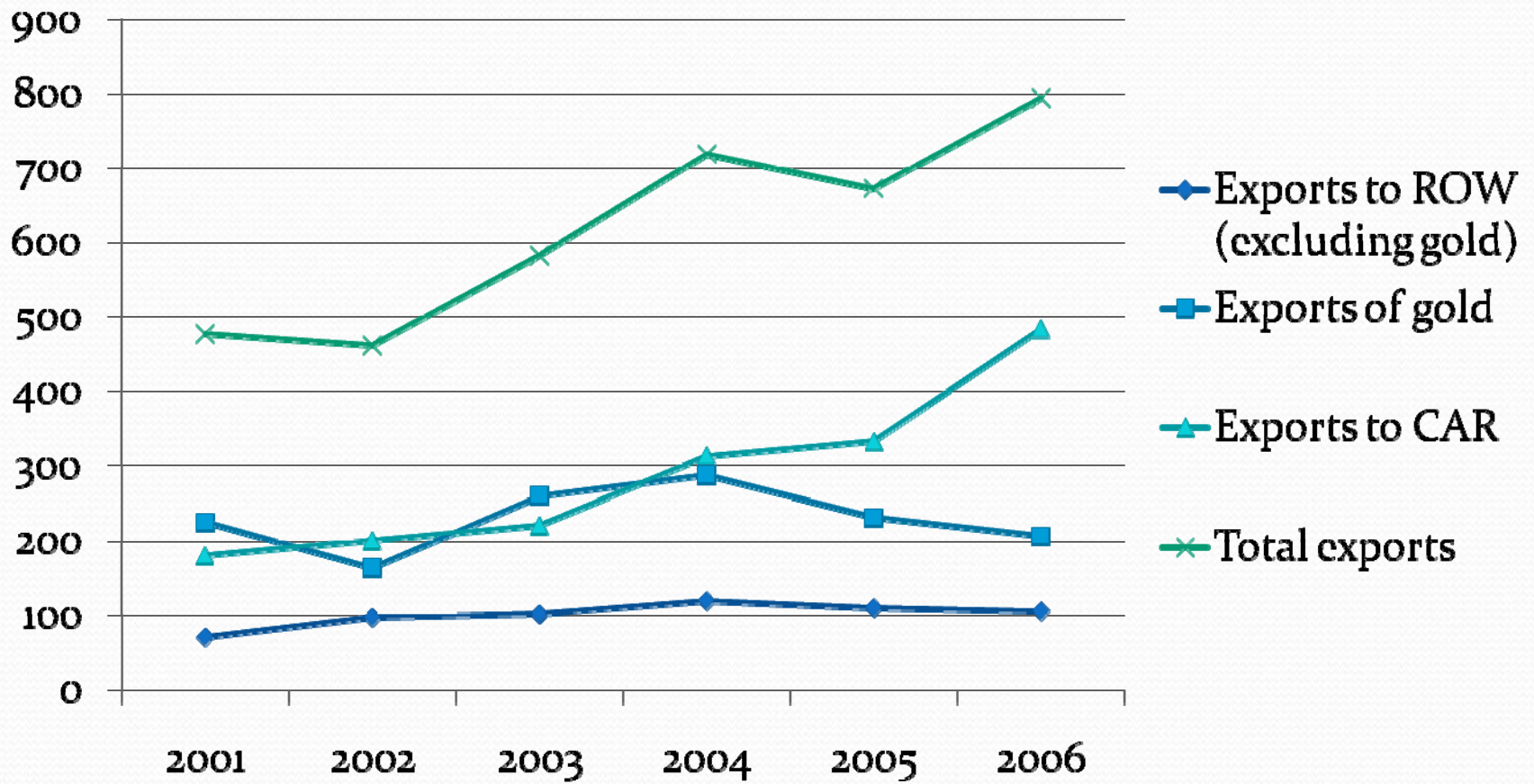
- Stagnant and badly governed countries turned into rapidly growing economies
- Transportation costs fell not only because informal payments declined but consumers are increasingly in neighboring countries
- Kyrgyzstan's government has implemented reforms infusing incentives to private sector development and attracting foreign investors



Grand reorientation towards CAR (Central Asian Region including Russia)

| | 2003 (in percent of GDP) | 2006 (in percent of GDP) | 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 |

Expansion in CAR exports compensated for falling exports of gold and stagnant exports to ROW (in million of US dollars)



The emergence of Kazakhstan as a major

- **Importer of Kyrgyz products** with its share in Kyrgyz exports doubling in 2003-06 to 21 percent of the total and replacing Russia as a major export destination;
- **Foreign investor** with its share in FDI flows to Kyrgyzstan raising from 9 percent in 2003 to 41 percent in 2006 or from US\$ 13 million to US\$ 137 million

Expanding CAR connection has been critical to two activities not captured by official statistics

- Emergence of bazaars as major platform for re-exports, which towered exports
- Expansion in exports of clothing largely going through unrecorded bazaar channels
- Both point to the importance of bazaars as a major foreign exchange earner through both re-exports and exports of domestic products

Re-exports through intermediary of bazaars 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.

Summary of estimates of re-exports of bazaar goods 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 |

Significance of re-export related activities to Kyrgyzstan's economic welfare

- They create employment both directly and indirectly .
- Bazaars attract foreign traders and therefore
 - are a venue for marketing Kyrgyz products to foreigners;
 - generate revenue from exports of auxiliary services
- They help develop a vast array of skills associated with marketing that are easily transferable to other activities

Estimate of direct welfare contribution of re-exports in 2003-06 (million of US\$)

| | 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 |

Kyrgyzstan so successful because of a special regime governing bazaars, which

- Shields traders from fiscal and regulatory burden imposed on other business activities
- Allows imports into bazaars enter either duty-free or subject to low tariffs and other charges
- Ensures that re-exporters are not harassed by border controls

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 with three priority areas:
 - lowering tariff rates on bazaar goods and streamlining foreign trade administrative procedures;
 - Improvement in business regime affecting non-bazaar activities
 - Strengthening institutions and infrastructure supporting trade facilitation
- Addressing these areas would close the gap and magnify positive externalities of bazaar trading regime

Policy implications continued

- Given huge economic benefits of re-export activities, the government should not only avoid taking any policy action that would suppress “bazaar re-exports” but take steps that would stimulate this trade:
- Zeroing tariff rates on bazaar goods and streamlining foreign trade administrative procedures is essential to sustaining re-exports operations and boosting Kyrgyz exports.

If the government stays the course, the difference between Switzerland and Kyrgyzstan may be ...

hard to tell: Which picture is from where??

