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Re-export Activities in Kyrgyzstan: Issues and Prospects

Roman Mogilevskii

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Abstract

The paper aims to quantitatively assess the contribution of re-exports to foreign trade, gross domestic product and revenues of the government budget of Kyrgyzstan, as well as possible economic and fiscal consequences of the changes in customs regime through which re-exports flow. The methodology of this research includes analysis of relevant legislation of the Kyrgyz Republic and existing literature on the topic, and quantitative modeling of re-export flows based on the customs regime applied to them. Estimates are based on economic and budgetary statistics of Kyrgyzstan and data of mirror statistics of imports to Kyrgyzstan.

Keywords

re-export, Kyrgyzstan, customs regime

JEL Codes: E26, F14, O53

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Acronyms

CA	Central Asian
CAREC	Central Asian Regional Economic Cooperation
CCD	Cargo Customs Declaration
CCT	Common Customs Tariff
CIF	Cost, insurance, freight
CPO	Customs Payment Order
CPO-SF	Customs Payment Order – Simplified Form
CT	Customs tariff
CTr	Central Treasury
CU	Customs Union
FOB	Free-on-board
GDP	Gross Domestic Product
GoKR	The Government of the Kyrgyz Republic
HS	Harmonized system
IMF	International Monetary Fund
KGS	Kyrgyz *som*
KR	Kyrgyz Republic
KZT	Kazakh *tenge*
MFKR	Ministry of Finance of the Kyrgyz Republic
NBKR	National Bank of the Kyrgyz Republic
nes	Not elsewhere specified
NSCKR	National Statistical Committee of the Kyrgyz Republic
PPP	Purchasing Power Parity
RK	Republic of Kazakhstan
RMB	Chinese *yuan*
RUB	Russian *ruble*
SCS	State Customs Service
UAE	United Arab Emirates
UNDP	United Nations Development Programme
VAT	Value added tax
WB	World Bank
WEO	World Economic Outlook
WTO	World Trade Organisation
UN Comtrade	United Nations Commodity Trade Statistics Database
US$	United States dollar

1. Introduction

This paper[1] aims to quantitatively assess the contribution of re-exports[2] to foreign trade, gross domestic product (GDP) and revenues of the government budget of Kyrgyzstan, as well as possible economic and fiscal consequences of the changes in customs regime through which re-export flow. The role of re-exports activities in the Kyrgyz economy has increased significantly recently. Re-exports are a source of income and employment for a broad spectrum of the country's citizens and a major sector of the national economy. This activity grew out of the importation of cheap goods from China, Turkey and other countries to sell on the domestic market. Entrepreneurs soon discovered that the resale of these goods to neighbouring states was highly profitable. This profitability was sustained due to the existence of bazaars (open markets) in Kyrgyzstan that quickly grew into large regional trade centres. In this context, entrepreneurs realised that the combination of cheap Chinese materials, inexpensive qualified labour, and established supply channels of goods for re-exports made it possible to develop an efficient textile industry. Kyrgyzstan saw an emergence of a trade and manufacturing cluster in the light industry, comprised of large bazaars in Bishkek and Osh and small textile shops and services.

The development of this sector took place predominantly due to the efforts of the private sector; it was entrepreneurs who identified and exploited existing opportunities. Government regulation also played an important role. Having created extremely preferential treatment for individuals engaged in domestic and foreign trade, the government provided Kyrgyz entrepreneurs (including those in the textile industry) with a competitive advantage in regional trade. However, the country paid a price for this because a lion's share of economic activities in Kyrgyzstan was removed from the standard mode of customs administration and taxation. This put enterprises in other industries at a relative disadvantage which could result in a shortfall of tax revenues for the government budget.

In 2009-2010, re-exports activities experienced several negative shocks. First, the re-exports industry was hit by the global economic crisis. It was further aggravated by domestic political instability and extended border closures with neighbouring countries. Finally, the implementation of provisions of the Customs Union (CU) of Belarus, Kazakhstan and Russia resulted in hindered access of goods from Kyrgyzstan to markets of CU member states. The medium- and long-term trends in regional development proved unfavorable for the continuation of re-exports activities at the scale at which they were operating. All these conditions highlighted the need to change the approach to government regulation of re-exports.

The research methodology includes the analysis of relevant legislation of the Kyrgyz Republic and existing literature on the topic, and quantitative modeling of re-export flows based on the customs treatment applied to them. Estimates are based on economic and budgetary statistics of Kyrgyzstan and data of mirror statistics of imports to Kyrgyzstan, which describe

1 This paper was prepared at the request of the National Institute for Strategic Studies of the Kyrgyz Republic.

2 The paper only discusses those re-export activities related to the importation of consumer goods by individuals mainly from China, and other countries. The scope of the paper excludes re-exports of petroleum products that were considerable in Kyrgyzstan from 2005 to 2012. The economic logic and driving forces behind re-exports of petroleum products differed considerably from those behind re-exports of consumer goods.

imports to, and re-exports from, Kyrgyzstan, rather than just domestic imports statistics. Section 2 contains an overview of existing literature on re-exports in Kyrgyzstan, and based on the literature, a compilation of facts known about re-exports to date. Section 3 analyses re-export flows via Kyrgyzstan and assesses their absolute values and contribution to GDP. Based on the information about changes in re-exports volumes, the section also assesses their sensitivity to price changes. Trends in the external environment that impact re-exports activities in the country in the medium- and long-term are also discussed. Section 4 discusses legislation that regulates most re-export flows and has significantly facilitated the transformation of re-exports into a leading sector of the national economy. This section also assesses the contribution of re-exports activities to the government budget. Based on modeling estimates, the section includes projections of changes in re-exports volumes and government revenues if the existing customs regime is replaced with standard tax regime of imports in compliance with applicable legislation of the Kyrgyz Republic, or the Common Customs Tariff (CCT) of the CU. Section 5 includes conclusions based on the analysis, and Section 6 offers policy recommendations.

2. Review of existing literature on re-exports in Kyrgyzstan

The topic of imports and re-exports conducted by individuals has been addressed in a series of publications[3] by officers of the World Bank including Kaminski (2008),[4] Kaminski and Raballand (2009),[5] Kaminski, Kholmatov and Mitra (2009),[6] Kaminski and Mitra (2011)[7] and Vashakmadze, Kaminski and Mironova (2011).[8] **Kaminski (2008)** was prepared for the World Bank's economic memorandum for Kyrgyzstan; it already contains all the main results of World Bank analysis and describes key aspects of methodology for re-exports analysis. Based on 2003-2006 data, the publication notes that, at the macro-level, the presence of re-exports can be spotted in the nation's balance of payments. Specifically, the large and ever-growing deficit of the trade balance, in conjunction with fast-growing reserves of the National Bank of the Kyrgyz Republic (NBKR) and a large line item "Errors and Omissions," cannot be explained by anything other than high volumes of re-exports that enable the country to cover the deficit existing in official Kyrgyz trade statistics and increase international reserves.

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3 This literature review focuses on issues related to imports/re-exports conducted by individual traders, and does not address other issues addressed in the publications.

4 Bartlomiej Kaminski, *How the Kyrgyz Republic has Seized Opportunities Offered by Central Asia's Economic Recovery* (Washington DC: World Bank, 2008).

5 Bartlomiej Kaminski and Gaël Raballand, "Entrepôt for Chinese Consumer Goods in Central Asia: The Puzzle of Re-exports through Kyrgyz Bazaars," *Eurasian Geography and Economics*, vol. 50, no. 5 (2009): 581–590.

6 Bartlomiej Kaminski, Matin Kholmatov and Saumya Mitra, *Bazaars and Trade Integration in CAREC Countries* (Washington DC: World Bank, 2009).

7 Bartlomiej Kaminski and Saumya Mitra, *Skeins of Silk: Borderless Bazaars and Border Trade in Central Asia* (Washington DC: World Bank, 2011).

8 Ekaterine Vashakmadze, Bartlomiej Kaminski and Yulia Mironova, "Customs Union between Belarus, Kazakhstan and Russia: Potential Impact on Kyrgyzstan and Tajikistan," *Presentation, CAREC Senior Officials Meeting* (Baku, June 2011).

The publication argues that re-exports cover goods intended for "bazaar trade," including fabrics, clothing and footwear. They are primarily imported from China and intended for re-sale to Central Asian (CA) countries, with re-exports to Russia also being an option. To assess volumes of re-exports, the author used data of mirror statistics, i.e. data on Chinese exports to Kyrgyzstan from the United Nations Commodity Trade Statistics Database (UN Comtrade),[9] which the author argues is reasonably accurate. The data of mirror statistics implies that Kyrgyzstan imports consumer goods from China in volumes that cannot be absorbed by its own economy, and the surplus, which constitutes the majority of total imports, is re-exported to other countries. Estimates are based on an assumption that, under re-exports, value added in Kyrgyzstan totals 20% of the cost of goods imported from China, and up to three quarters of imports of "bazaar goods" are re-exported (according to Chinese statistics).[10] As a result, the author assesses re-exports in 2006 at almost US$ 2 billion (±10%), which is equivalent to 90% of consolidated Kyrgyz exports and re-exports in the same year. The methodology for estimates in this study is consciously aimed at arriving at the lower boundary of re-exports; the author stresses that it is highly likely that the volume of re-exports and their revenues are higher.

The publication also notes that Kyrgyzstan is the only country in Central Asia that re-exports Chinese goods. This became possible due to special simplified government regulation of imports and sale of "bazaar goods," giving individuals the opportunity to benefit from imports customs clearance and tax payments based the weight of goods, not their customs value. For goods imported by individuals on a commercial scale, this opportunity was introduced by Resolution of Government of the Kyrgyz Republic #976 dated 31 December 2004. Other important elements of the regulative mode favourable to re-exports include the simplified taxation system applied to individual traders based on tax patents, which are far more auspicious for economic agents than the treatment existing in other sectors of the Kyrgyz economy. This facilitated the transformation of the Dordoi and Karasuu bazaars into the region's largest centres of international trade. The author stresses that re-exports activities are neither illegal nor informal, and their scale cannot be explained by smuggling or corruption in customs and other government bodies. The growth of re-exports results from a dedicated public policy that the author believes is successful. However, the practice makes official imports statistics unreliable, but the author states that this is a small price to pay for the significant benefits that Kyrgyzstan gains from re-exports.

The author's estimates that in 2006, the value added in the course of re-exportation exceeded 10% of GDP. While not being able to provide a nationwide assessment, the author further states that 13% of the employed population of Bishkek was employed in the Dordoi bazaar. Re-exports and bazaar sales have additional positive externalities. First, domestic traders gain valuable experience mediating between manufacturers and end consumers. Second, domestic manufacturers of textiles and other products gain easy access to foreign buyers. Finally, bazaars create an enabling environment for the development of auxiliary services serving

9 UN COMTRADE database, http://comtrade.un.org/.

10 The 75% share of imports coming into re-exports in 2006 cannot be considered a constant share, since domestic consumption (which under this model absorbs 25% of Chinese imports) cannot fluctuate on a scale on which volumes of imports fluctuate, according to the Chinese statistics. See Section 3 for further discussion.

buyers and sellers, such as transportation services. Contrary to conventional assumptions, Kyrgyzstan's virtually duty-free treatment of garment imports did not suppress the domestic manufacture of those products but, rather facilitated the development of the manufacture and expansion of exports of clothing made in Kyrgyzstan with imported raw materials.

With regard to policy recommendations, the author stresses that it is important not to endanger the trade taking place via bazaars, and recommends the creation of similar environments for other sectors. To prevent the growth of transaction costs, restricting government control of economic activity associated with bazaars is not recommended as the fiscal gain would not outweigh the resultant decline in GDP and employment. It is important to create the conditions for a smooth transition from a "bazaar-type" economy to a contemporary market system with three main priorities, by 1) reducing the usual customs tariffs for bazaar goods and simplify the administration of external trade transactions; 2) improving the business climate, especially in the area of licensing and taxation, and make both small and large trade and manufacturing enterprises eligible for it; and 3) solidifying institutions and infrastructure in trade facilitation including transport infrastructure.

Figure 1. Channels of supply of imported bazaar goods from China to Central Asia

Source: Kaminski, Kholmatov and Mitra (2009)

Kaminski and Raballand (2009) mainly contained the same conclusions as Kaminski (2008) but was augmented with data for 2007.

Kaminski, Kholmatov and Mitra (2009) present findings of a 2008 study conducted in the bazaars of Kazakhstan, Kyrgyzstan and Tajikistan, with a focus on the four largest bazaars in Central Asia that play an important role in international trade, including Dordoi and Karasuu bazaars.[11] The authors estimated annual sales at Dordoi at US$ 2.8 billion, and at Karasuu at US$ 0.7 billion. Employment at Dordoi and Karasuu was estimated at 54.6 thousand and 16.3 thousand people, respectively. It was further found that up to 70% of all goods sold were not sold to end consumers, but to traders purchasing goods for resale in Central Asia and Russia. Wholesale trade was dominated by Chinese products arriving in Central Asian markets via Kyrgyzstan (see Figure 1). Dordoi bazaar is supplied via the Torugart border crossing post, while Karasuu is supplied primarily via the Irkeshtam border crossing post. Interviewed traders confirmed that Dordoi re-exports goods to Kazakhstan, Tajikistan, and later to Russia. In case of Karasuu, 65-75% of all re-exports go to Uzbekistan and 10-15% to Tajikistan. Re-exports also occur, to a lesser extent, from Barakholka (Almaty), Madina (Bishkek) and other regional bazaars. The authors identify Kyrgyzstan as a regional center of re-exports trade in bazaar goods.

The authors note that Kyrgyzstan's specialization in imports is characterized by a large share of intermediate (non-capital) goods intended for further processing, such as fabrics. These goods are widely used in the Kyrgyz textile industry that developed into a regional exporter due to the availability of relatively cheap materials and labor and export opportunities made possible by large bazaars in Kyrgyzstan.

Their policy recommendations mirror those in Kaminski (2008). They also add a recommendation to CA governments that measures of fiscal regulation of external trade consider the tax treatment established in neighbouring countries. Borders within the region are rather porous and local traders masterfully exploit price differences on both sides of the borders that emerge from the fiscal policy restrictions in neighbouring states.

Kaminski and Mitra (2011) present a systematic compilation of analysis of trade flows in Central Asia conducted by World Bank specialists. This includes a discussion of cross-border trade and regional trade via bazaars, as well as a detailed analysis of bazaar operations. The publication also contains findings discussed above, related to the assessment of trade flows from China via Kyrgyzstan to other countries and the role of bazaars in re-exports.

Vashakmadze, Kaminski and Mironova (2011),[12] analyzes the impact of the CU of Belarus, Kazakhstan and Russia on the economic development of Kyrgyzstan and Tajikistan. The authors observe that both countries find themselves outside the boundaries of the CU and that they will retain the existing mode of free trade with the CU. As a result of changes in the regime of crossing Kazakh borders and Kazakhstan's repeal of the provision on a simplified mode of customs clearance for individuals, the authors predict that re-exports of Chinese goods via Kyrgyzstan will decline significantly but not altogether disappear. This could result

11 The other two bazaars are Barakholka (Almaty) and Korvon (Dushanbe).
12 Currently only available as a presentation.

in a major loss for the Kyrgyz economy in the short term; estimated at 6% of GDP. At the same time, the authors do not expect decreases in exports of apparel from Kyrgyzstan. Quite the opposite; Kazakhstan's adoption of the CCT of the CU (import duties on light industry goods increase)[13] while retaining the free trade regime with Kyrgyzstan enhances competitiveness of goods from Kyrgyzstan not levied by import duties and could facilitate the growth of exports of the Kyrgyz textile industry to Kazakhstan.

The authors also analyse re-export flows from 2008 to2010, noting their decline in 2009 due to the global economic crisis, and a subsequent reduction in 2010. The latter, in the authors' opinion, is not as related to the implementation of the CU (although that likely played a role), as it is to political instability in Kyrgyzstan and the accompanying border closures by Uzbekistan and Kazakhstan impacting road transportation. For estimates of volumes of re-exports and exports of textile goods from Kyrgyzstan via "non-standard" channels (individual traders taking advantage of the simplified procedure for customs clearance), see Table 1.

Table 1. Assessment of exports from Kyrgyzstan via non-standard channels, million US$

	2008	2009	2010
Re-exports of bazaar goods	8 127	4 189	3 091
Exports of the Kyrgyz garment industry	632	461	487
Total exports via non-standard channels	8 759	4 650	3 579
Exports via non-standard channels going to Kazakhstan and Russia	7 221	3 873	2 958

Source: Vashakmadze, Kaminski and Mironova, 2011

Policy recommendations include the argument that when re-exports via Kyrgyzstan to Kazakhstan and Russia became more complicated and expensive, the Government of the Kyrgyz Republic should not further hinder re-exports by increasing costs, by actions such as levying value-added tax (VAT) at the Kyrgyz-Chinese border. The authors also suggest more favourable treatment for re-exports and negotiations to institute a 60 kilometre (km) special zone for cross-border trade (30 km on each side of the border) between Kyrgyzstan and Kazakhstan.

The International Monetary Fund (IMF) **(IMF, 2011a)**[14] addresses the impact of a possible accession by Kyrgyzstan to the CU on re-export flows. The IMF assessment of re-exports volumes in 2008 – (US$ 267 million) is lower than the World Bank assessment. This estimate does not allow to explain the size of "Errors and Omissions" line item in the Kyrgyz balance of payments, which World Bank specialists focused on.

As in other publications, the report predicts that should Kyrgyzstan join the CU, volumes of re-exports will decline significantly. The authors anticipate positive consequences for the textile industry of Kyrgyzstan due to weakening competitiveness of Chinese goods in CU

13 At the same time, import duties in Belarus and Russia do not change significantly.

14 International Monetary Fund (IMF), "Kyrgyz Republic: 2011 Article IV Consultation and Request for a Three-Year Arrangement Under the Extended Credit Facility—Staff Report; Supplement; Staff Statement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Kyrgyz Republic," *IMF Country Report No. 11/155*, (Washington DC: IMF, 2011a).

markets. The impact of higher prices for Chinese fabrics and materials on the cost of Kyrgyz textiles and competitiveness of Kyrgyz products is not discussed.

The publication also notes the difficulties in assessing the fiscal impact of Kyrgyzstan joining the CU, since the principles guiding customs charges among CU members are still unclear. The authors believe that Kyrgyzstan's negotiating position on this issue should be stronger if the value of customs duties in Kyrgyzstan increases before it joins the Union.

The NBKR conducted a study in 2009 and 2010 **(NBKR, 2010)**[15] to assess unaccounted volumes of foreign trade in Kyrgyz bazaars in the following goods: livestock, meat, vegetable, fruit, garments and footwear.[16] The study was conducted by observing and interviewing traders in fruits and vegetables and other stakeholders at Dordoi and Karasuu bazaars, and at Dyikan market (Bishkek) and Central market (Osh), as well as traders at the livestock bazaar in Tokmok. Quantitative assessments of trade turnover and re-exports were made by estimating average daily volumes of trade by multiplying the number of vehicles passing through the border/bazaar each day by their average load in kilograms (kg) and by the value of 1 kg of goods. Imports of consumer goods from China were assessed at US$ 4.8 million per day in 2009 and US$ 5.2 million per day in 2010. Volumes of re-exports[17] were assessed at US$ 10.4 million per day in 2009 and US$ 11.4 million per day in 2010. If annualised,[18] imports totaled US$ 1.2 billion in 2009 and US$ 1.3 billion in 2010. Assessment of volumes of imports was 2-3 times less than the World Bank values based on mirror statistics. Assessments of volumes of re-exports, however, were comparable, due to the low added value rate adopted in the World Bank studies and the high added value rate adopted in this study.[19]
The study found the number of traders employed at Dordoi to be 50,000, which reflects World Bank estimates. The study further found that the number of people employed in auxiliary services to traders, including catering, consumer services, municipal and inter-city transport and currency exchange offices, was another 50,000, making total employment at Dordoi and its environs to be about 100,000 thousand people. Total employment at Karasuu bazaar was assessed at 20,000 people, which is also comparable to World Bank estimates.

The study also assessed volumes of exports (and, possibly, re-exports) of fruit, vegetables, livestock and meat from Kyrgyzstan to Kazakhstan and Uzbekistan at around US$ 125 million in 2010. While the absolute value of this figure is significant, it only accounts for several percentage points of estimated volumes of re-exports from Kyrgyzstan of garments, footwear and fabrics, and does not transcend the margins of calculations error.

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15 National Bank of Kyrgyz Republic, *A survey of cross-border trade and re-export of goods not covered by official statistics*, Bishkek: NBKR, 2010.

16 Fabrics (along with garments and footwear) make up the majority imports from China but were not included in this study.

17 Which include goods from Dordoi and Karasuu bazaars that were re-exported to other countries and to other markets within Kyrgyzstan.

18 The methodology for calculating average annual volumes from average daily volumes of trade is not explained in the publication.

19 The value assed by traders at Dordoi bazaar was 50-200% of the cost ofimported goods.

Shinn, Beshimov and Usubaliev (2010)[20] provide an assessment of budgetary consequences of the application by Kyrgyzstan of the CCT of the CU in its trade with China. The assessment only applies to the collection customs duties from those imports volumes that are registered in the Kyrgyz customs statistics. The assessment excludes changes in VAT receipts from imports and the potential expansion of the taxable base from goods currently subject to the simplified procedure for customs clearance with the payment of customs duties and taxes at the single rate. The authors argue that given the response of imports volumes to the increase in duties in the case of transition to the CCT of the CU,[21] the increase in budgetary receipts (based on 2008 data) may total about US$ 55 million at the 2008 currency exchange rate. Policy recommendations include maximum tariff increases on ready-made garments based on obligations assumed in the course of joining the CU, while retaining very low or zero rates on fabrics and other materials used by the Kyrgyz textile industry.

In phase II of the same study, **Beshimov, Abdykaimov and Sultanalieva (2010)**[22] analyze the impact of border closures by Kazakhstan and Uzbekistan in 2010 on formal and informal trade flows from Kyrgyzstan. They argue that formal flows only suffered a little and perhaps even grew. Informal flows and re-exports, however, suffered significantly. According to surveys of traders at Dordoi bazaar, the share of wholesale trade (re-exports and exports of the Kyrgyz textile goods) dropped from 80 to 30%. This is consistent with data provided in Vashakmadze, Kaminski and Mironova (2011). The authors conclude that re-exports would gravely decline due to the restriction of the customs administration in the case of a full-fledged operation of the CU and predict a massive drop in trade and employment at Dordoi bazaar. The impact of border closures on revenues of the government budget was insignificant mainly due to the customs duties at a single rate and patent-based income taxes, paid by re-exporters, totaling a small share in cumulative tax receipts.

To stimulate exports and localise[23] re-exports, the authors recommend that VAT refund procedures be simplified for exporters in Kyrgyzstan; cooperation with customs services of the CU nations be solidified; mechanisms for applying control prices in the course of importing goods to Kyrgyzstan and CU countries be fine-tuned; and measures be taken to ensure the recognition of certificates of origin issued in Kyrgyzstan by CU states.

Beshimov, Abdykaimov, Rajapov and Tashbekov (2011)[24] analyse the state of cross-border trade between Kyrgyzstan and Uzbekistan, based on findings of a survey of traders and

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20 Allen M. Shinn, Askar Beshimov and Azamat Usubaliev, *Economic Consequences of the Customs Union for the Kyrgyz Republic*, Report prepared for the Ministry of Economic Regulation, (Bishkek: AECOM International Development, Fund "Project for the Future" and USAID, 2010).

21 In many cases, the Uniform Customs Tariff of the CU uses combined tariff rates; in such cases, this publication only considered the *ad valorem* component, while the value of specific rates was unaccounted for.

22 Askar Beshimov, Oktyabr Abdykaimov and Salika Sultanalieva. "*Economic Consequences of the Customs Union for the Kyrgyz Republic*," Phase II Final Report prepared for the Ministry of Economic Regulation. (Bishkek: AECOM International Development, Fund "Project for the Future" and USAID, 2010).

23 The transition from the simple transit of goods from China to CU countries to a significant processing of Chinese materials.

24 Askar Beshimov, Oktyabr Abdykaimov, Bakhodirjon Rajapov and Nurbek Tashbekov. *Border Trade. Assessment of Border-crossing between Kyrgyzstan and Uzbekistan*, (Bishkek: Central Asian Free Market Institute and OSCE, 2011).

observations conducted at official and unofficial border crossing points along the Kyrgyz-Uzbek border. The authors state that the border closure on the Uzbek side resulted in a 50% decrease in trade. Nevertheless, in their estimates, re-exports to Uzbekistan still total US$ 605 million. The authors also acknowledge re-export flows in other direction, namely fruit and vegetable exports from Uzbekistan via Kyrgyzstan to Kazakhstan and Russia but do not provide quantitative assessments.

In addition to these empirical studies, there are several policy papers and reports that address re-exports. The **Public Advisory Council (2011)**[25] of the Ministry of Economic Regulation of the Kyrgyz Republic provides an overview of positions of various politicians and experts on the issue of Kyrgyzstan's accession to the CU and re-exports activities. The Council argues that "re-exports of Chinese goods and other third-nation products into the territory of the CU will significantly decline and currently cannot be accounted for as an item of national revenues (irrespective of whether the Kyrgyz Republic will join the CU or not)."

Aktalov (2011),[26] however, argues that "non-standard" channels for the arrival of re-exports from Kyrgyzstan to Kazakhstan still function, albeit slower and at higher costs. Costs to move goods across the border using porters are around US$ 0.35-0.40 per kg. A somewhat similar method for moving goods is used at the Kyrgyz-Uzbek border (see Beshimov, Abdykaimov, Rajapov and Tashbekov, 2011).

Mogilevsky and Hristev (2011)[27] discuss Moldova's foreign trade and re-exports, which occur in a similar context to Kyrgyzstan; Moldova's size, the structure of its economy, and its level of economic development are similar to Kyrgyzstan's. Re-exports also play a vital role in the Moldovan economy, accounting for up to 40% of total exports. Just as in Kyrgyzstan, the Moldovan textile industry plays an important role in re-exports, with its key trade partner being the European Union rather than China, as in the case of Kyrgyzstan. The study shows that the development of re-exports activities in Kyrgyzstan was not a random phenomenon; in small, open and loosely regulated economies which are not endowed with easy-to-extract natural resources, entrepreneurs always look for market niches and opportunities, and actively utilize all advantages provided by the national trade regime compared to trade regimes offered by neighbouring countries.

The overview of publications above suggests that many facts and trends related to re-exports of goods from Kyrgyzstan have already been established and studied, despite the insufficiency of information and direct data on this type of economic activity. A summary of key findings includes the following:

- Re-exports mainly include consumer goods; primarily garments and footwear, and fabrics, plastic goods and consumer electronics. All these goods are imported to Kyrgyzstan primarily from China but also from other Asian countries. Kyrgyzstan also re-exports fruits and vegetables from Uzbekistan (and, possibly, Tajikistan) to Kazakhstan and Russia.

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25 Public Advisory Council under the Ministry of Economic Regulation of the Kyrgyz Republic, *Recommendations on the Customs Union*, (Bishkek: Ministry of Economic Regulation of the Kyrgyz Republic 2011).

26 Askar Aktalov, "Female porters and size of bribes on the Kyrgyz-Kazakh checkpoints," *K-News Investigation* (Bishkek: K-News news agency, 2011). http://www.knews.kg/ru/action/820/.

27 Roman Mogilevsky and Eugene Hristev, *Aid for Trade Needs Assessment for the Republic of Moldova. Trade and Human Development*, (Chisinau: United Nations Development Programme, 2011).

- Estimates of re-exports volumes using mirror statistics and surveys at the Kyrgyz bazaars provide similar figures, establishing volumes of re-exports totaling billions of US$ annually.
- The recent dynamics of re-export processes was uneven. Re-exports grew exponentially until 2008, when re-exports activities peaked. In 2009, volumes of re-exports dropped significantly due to the impact of the global economic crisis. In 2010, re-exports further decreased due to political instability in the country and, to a certain degree, due to the implementation of the CU.
- Important factors facilitating the development of re-exports activities in Kyrgyzstan include government policy that established preferential treatment for imports by individuals and favourable tax and administrative conditions for trade by individuals at Kyrgyz bazaars.
- The opportunity to receive cheap Chinese materials and develop trade at open bazaars/markets facilitated the formation and rapid growth of the textile industry of Kyrgyzstan which turned into one of the major export sectors of the national economy.

The future of re-exports activities in Kyrgyzstan is not apparent. Most experts agree that the activity has peaked already. However, the scale of future decline is widely assessed, with some predicting the sector's demise and others predicting its stabilization at a lower level of activity. Accordingly, policy recommendations differ, ranging from restricting fiscal policy to harmonise it with the customs regime adopted in the CU to adopting measures that at least partially compensate re-exporters for losses resulting from a change in the external environment.

There remains a set of unstudied issues pertaining to re-exports. Firstly, the contribution of re-exports to GDP is yet to be sufficiently realized. Secondly, although at the qualitative level it is clear how re-exports respond to positive and negative shocks, quantitative assessments of sensitivity of re-exports are virtually inexistent. Thirdly, fiscal consequences of various possible changes in the treatment of re-exports have not been studied. The following two sections address these issues.

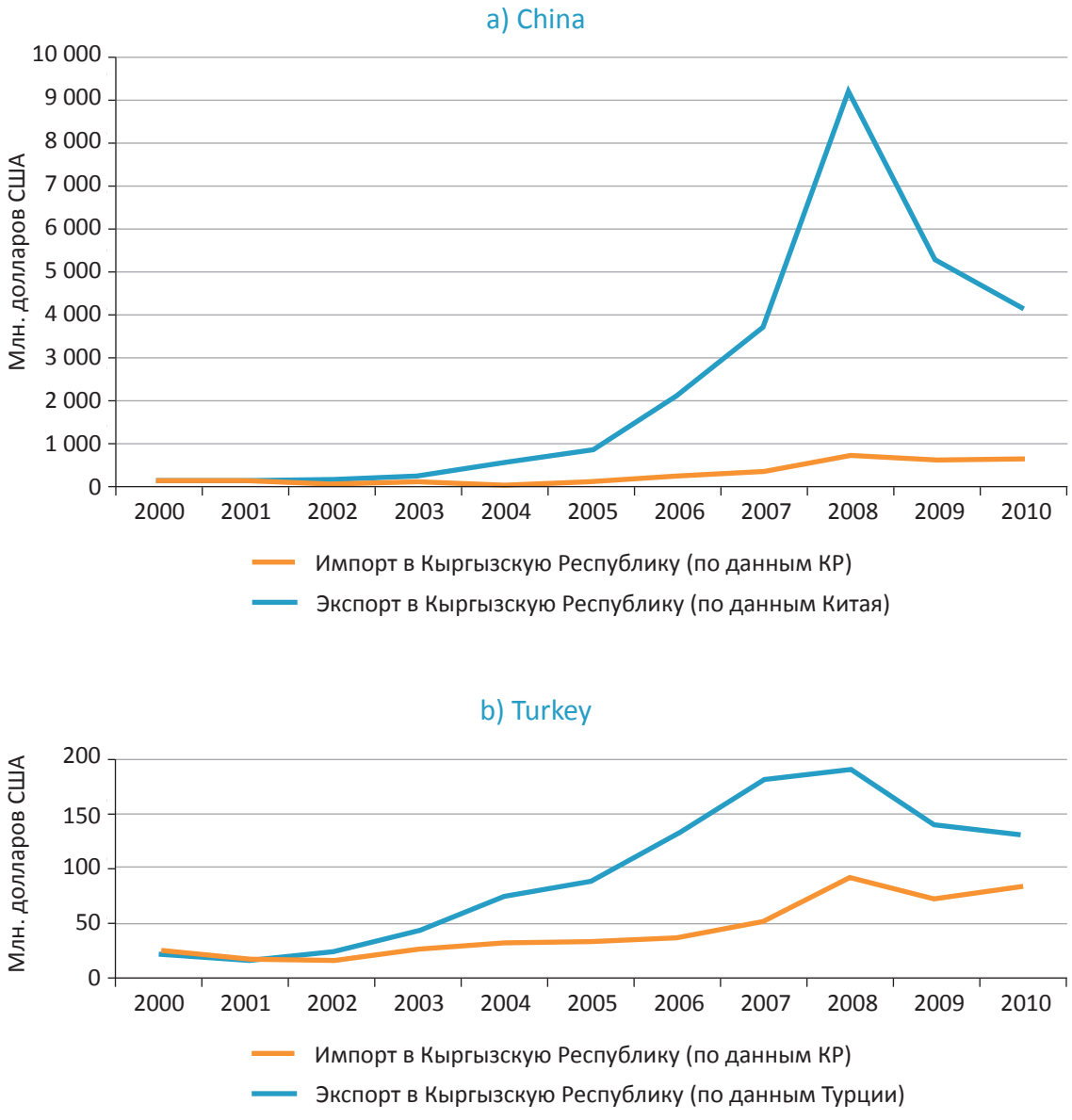
3. Analysis of re-export flows

As the World Bank studies indicate, mirror statistics are an effective tool in studying re-exports. When compared to the official statistics of Kyrgyzstan, mirror statistics make it possible to identify those imports flows filed in compliance with the simplified procedure for customs clearance for individuals under national legislation. When goods are imported in Kyrgyzstan under this regime, taxes are paid on the basis of weight rather than value and information about these goods' customs value is rather arbitrary. On the other hand, one can presume that mirror statistics are accurate because exporters usually do not have an incentive to knowingly inflate the value of the products they are exporting. In this paper, all estimates are based on the data of exports to Kyrgyzstan from the UN Comtrade database, which are based on reporting by trading partner countries.[28]

[28] Using this method excludes from consideration re-exports of foodstuffs moved from Uzbekistan and Tajikistan via Kyrgyzstan to Kazakhstan and Russia since neither Uzbekistan nor Tajikistan submit data on their foreign trade to the UN COMTRADE database. However, volumes of these re-export flows are small and do not influence the key findings of this paper.

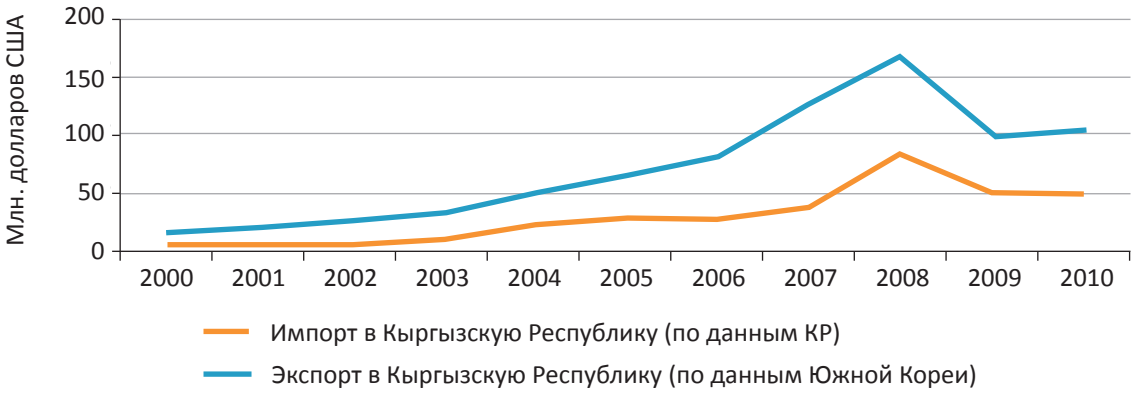
A comparison of data of domestic and mirror statistics from 2000 to 2010 identifies those countries from which goods for re-exportation originate, and provides a broader picture of the total volumes and dynamic of unaccounted-for imports (see Figure 2). As the comparison suggests, and according to the findings discussed in Section 2, the main difference in imports statistics pertain to China, and to a lesser extent, to Turkey and South Korea. Visible differences in various years were observed with respect to trade with India, United Arab Emirates (UAE) and Iran.[29]

Figure 2. Imports/exports to Kyrgyzstan based on domestic and trade partner country statistics, 2000-2010



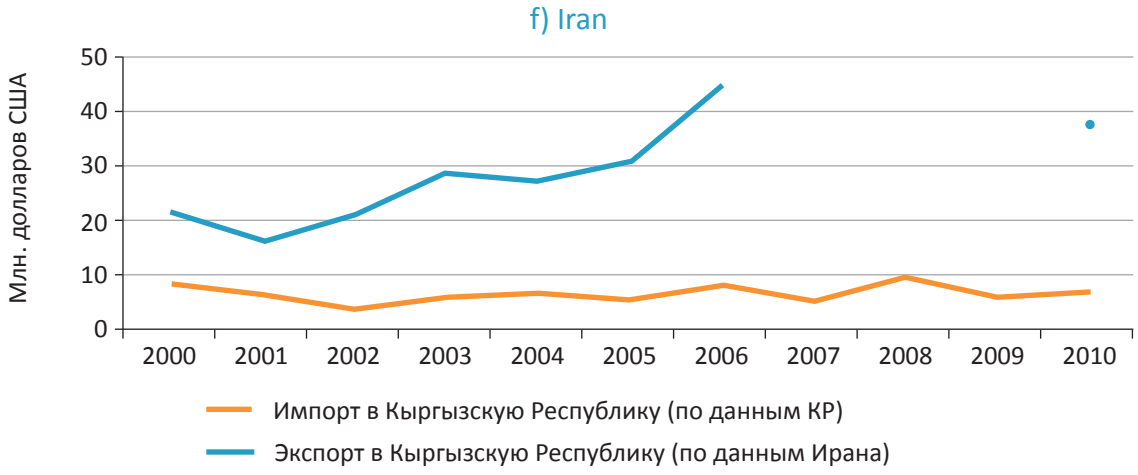
[29] There is no data for Iran for 2007-2009.

c) South Korea



d) India

e) United Arab Emirates



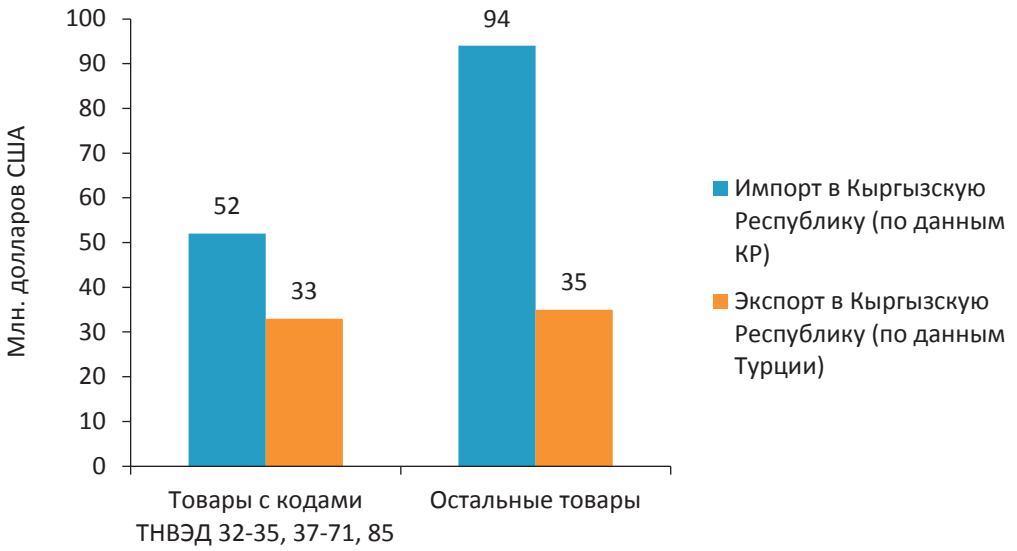
Source: UN Comtrade database

The comparison of information on the goods structure of imports and exports shows that the primary differences were observed with respect to goods to which the simplified procedure applies (Figure 3 and Table A1).[30] This confirms that the simplified procedure that is the main factor enabling the existence of large-scale imports unaccounted for in domestic statistics. Imports are therefore mainly legal.

Figure 3. Commodity structure of imports based on domestic and mirror statistics, 2010

[30] These differences also exist for other groups of goods to which the standard procedure for customs clearance and taxation applies.

b) Turkey



Source: UN Comtrade database

The simplified regime applies to products of a whole range of industries, including light industry, chemical industry and mechanical engineering. Mirror statistics data shows that the main differences between domestic statistics are observed in products of light industry.[31] With respect to the products in question, the volumes of imports into Kyrgyzstan exceed its ability to absorb them, and there is little doubt that these products are re-exported. For example, Table A1 indicates that, in 2010, from China alone, Kyrgyzstan imported knitted fabric (Harmonised System (HS) code 61), footwear (HS code 64) and garments except for knitted apparel (HS code 62) for an amount equivalent to 26%, 9% and 7% of GDP, respectively. Imports volumes of other types of goods (plastic, consumer electronics and foodstuffs), are not as large and could be consumed domestically (which does not preclude portions being re-exported).[32]

To estimate volumes of re-exports and their contribution to the Kyrgyz GDP, one must assess the value of imported products intended for re-exports and the value added to these imports in Kyrgyzstan. When estimating the value of imports, account for the fact that exporting countries traditionally indicate exports figures in free-on-board (FOB) prices, or the price in the delivery, while importing countries account for the value of imported products in cost, insurance, freight (CIF) prices, or the price at the customs border of the importing country. These prices differ based on transportation and insurance costs. Pursuant to World Bank approaches, we will assume that these costs total 5% of the FOB price. This is a conservative assessment; according to NBKR data, the difference between the CIF and FOB prices for imported goods in 2010 totaled, on average, 8%. Using the value of 5% assumes that transportation and insurance costs of goods imported under the simplified procedure are lower than those costs for all imports. Such an assumption is justified given the relative geographic proximity of China and low transportation costs of Chinese carriers.

31 HS codes 42, 43, 50-67.

32 Henceforth, this paper will only discuss imports and re-exports of light industry products, assuming re-exports of other goods are negligibly small.

Imported goods are funneled for both domestic consumption and re-exports. Domestic consumption, in turn, is split between end consumption by households and intermediate consumption by industrial enterprises. The basis for intermediate consumption is the procurement of fabrics and accompanying goods by textile enterprises of Kyrgyzstan. Textile products are produced for both domestic consumption and exports. In practice, it is difficult to differentiate between imports for purposes of immediate re-exportation (value is only added in Kyrgyzstan by traders) and imports for purposes of industrial processing and subsequent exportation (value is added in the textile industry and in trade). Therefore, the estimates below do not distinguish between re-exports of products that are not subjected to processing in Kyrgyzstan and exports of textile goods made in Kyrgyzstan including official exports. All these flows are viewed as re-exports of imported products to which value was added in Kyrgyzstan.

In the case of processed products, the share of added value in processed products is higher than the share of value added in trade. According to the Input-Output tables of Kyrgyzstan for 2008-2009, trade margin for products of light industry ranged from 15.5% to 35.2%; in light industry value added ranged from 47% to 66.8% of intermediate consumption (fabrics and other material resources). Subsequently, in calculations in this paper, the share of value added in Kyrgyzstan to the value of imports in CIF prices is assumed to total 20%, which is also a conservative assessment; the NBKR study, assesses this share between 50 to 200%.

In order to assess the size of domestic consumption of imported products of light industry, one can use the data from quarterly representative sample household survey conducted by the National Statistical Committee of the Kyrgyz Republic (NSCKR).[33] According to those studies, garments and footwear account for 10% of all consumer expenditures by individuals. According to the Input-Output table, the use of light industry products for government consumption and accumulation only totals several percent of the total consumption by households (5.9% in 2008 and 1.8% in 2009). The estimates of the total volume of domestic consumption of light industry products are provided in Table 2.

Table 2. Domestic consumption of light industry products

#	Indicator	2007	2008	2009	2010
1	The share of light industry products in final household consumption, %	12.6	11.4	9.6	11.7
2	Final household consumption of all types of goods and services,[1] US$ million	3 234.6	4 684.1	3 611.2	3 812.6
3	Aggregate household consumption of light industry products, US$ million Row 1Row 2/100	409.1	532.2	347.4	444.9
4	Aggregate use of light industry products for government consumption and accumulation, US$ million 5% of Row 3	20.5	26.6	17.4	22.2
5	Domestic use of light industry output, US$ million Row 3 + Row 4	429.5	558.8	364.8	467.1

Sources: NSCKR and author's calculations

[33] www.stat.kg

Based on the information above, one can estimate Kyrgyzstan's income from re-exports (Table 3). The methodology for these estimates assumes that the domestic manufacture of light industry products wholly based on domestic materials is lacking, (although in reality it did occur in much smaller quantities than those based on imported materials), resulting in an insignificant overstatement of domestic consumption of imported products and an understatement of volumes of re-exports. This concurs with the general direction of estimates aimed at assessing the lower boundary of volumes of re-exports.

Table 3. Assessment of re-exports of light industry products through Kyrgyzstan to Central Asian countries and Russia

#	Indicator	2007	2008	2009	2010
1	Total light industry products imports (according to mirror statistics in FOB prices), US$ million	2 956.5	8 381.1	4 355.4	3 219.7
	Light industry products imports from China, US$ million	2 782.0	8 173.4	4 199.4	3 135.9
2	Freight and insurance costs of imports, % of FOB prices	5	5	5	5
3	Imports of light industry products at CIF prices, US$ million Row 1(1 + Row 2/100)	3 104.3	8 800.1	4 573.2	3 380.7
	Customs duties levied at single rate, US$ million Weight of imports single rate	31.4	58.9	45.7	59.6
4	Trade margin / value added at industrial processing, % of sum of imports value at CIF prices and customs duties	20	20	20	20
5	Domestic use of light industry products, US$ million	429.5	558.8	364.8	467.1
6	Value added in Kyrgyzstan to imports, US$ million Row 3Row 4/100	658.5	1 830.7	969.5	747.6
7	Re-exports value, US$ million Row 3 + Row 6 - Row 5	3 333.3	10 072.0	5 177.9	3 661.2
8	Value added in Kyrgyzstan, US$ million Row 7Row 4 / (100 + Row 4)	555.6	1 678.7	863.0	610.2
	Value added in Kyrgyzstan to re-exports, % GDP	14.6	32.7	18.4	13.2

Sources: NSCKR, UN Comtrade database and author's calculations

The data in Table 3 indicates that in 2008-2009, volumes of re-exports exceeded the country's GDP; in 2008, they were almost double the GDP! Even after a steep decline in volumes in 2009-2010 (re-exports in 2010 only totaled just over a third of re-exports of 2008), re-exports generated revenues of about 13% of GDP, while their absolute figure was double official figures of exports, at about US$ 1.4 billion. It is likely that only a portion of these revenues were accounted for in the estimating GDP, and an even smaller portion was used to estimate the Kyrgyz exports.

Data on revenues from re-exports well corresponds to available data on employment. According to various estimates, bazaars facilitating main re-export flows and their surrounding infrastructure employ between 70 and 120,000 people. According to the NSCKR, another 111 to 115,000 people are employed in the textile industry, making the sector responsible for about 10% of total employment nationwide. Given that labour productivity in re-exports activities[34] is higher than the national average (average productivity is impacted by agricul-

[34] Which in this study includes the textile industry.

ture and other sectors with low productivity), the sector is generating well over a 10% share in GDP; which is reflected in Table 3.

Table A2 shows the commodity structure of re-exports, providing data on goods whose volumes of imports are too large to be fully consumed domestically. The table includes all goods, identified by HS codes, whose imports volumes in 2010 exceeded a value of US$ 50 million, according to mirror statistics. The goods include garments, footwear, fabrics, bed linen. Data based on mirror statistics make it possible to estimate prices for imported goods per kg or per piece, and to utilize these prices to calculate *ad valorem* equivalents of single rates of customs charges, used hereinafter in this paper.

Data on the dynamic of re-exports volumes (in Table 3) can be used to assess the price elasticity of re-exports. The decline of re-exports in 2009 is associated with the global economic crisis. The impact was seen in the diminished GDP growth rates in major markets for re-exports (Russia, Kazakhstan, Uzbekistan), as well as in the appreciation of the Chinese *yuan* (RMB) pegged to the United States dollar (US$), in relation to the Russian *ruble* (RUB) and the Kazakh *tenge* (KZT). According to World Development Indicators,[35] in real terms, in 2009, the RUB and the KZT depreciated in comparison to 2008 by virtually the same value; 15.5% and 15.4%, respectively. Demand for goods from Kyrgyzstan, specifically garments and footwear, did not change significantly in these countries, compared to 2008 (see Table 4). Without visible shocks in other dimensions of re-exports activities, such as border administration, customs tariffs, and the profitability rate of re-exports operations in 2009,[36] it is reasonably accurate to atribute the decline in re-exports in 2009 to the fact that Chinese goods became more expensive in Russian and Kazakh markets due to the appreciation of the RMB.

Table 4. Assessment of demand for clothing and footwear in key re-exports markets before and during the economic crisis

#	Indicator	Russia		Kazakhstan		Uzbekistan		Total	
		2008	2009	2008	2009	2008	2009	2008	2009
1	Household expenditure on clothing and footwear, % of total household consumption expenditure	10.0	9.9	10.4	10.0	10.0[2]	10.0[38]		
2	Final household consumption, % GDP	48.0	53.8	42.0	49.7	54.2	56.2		
3	GDP, US$ billion at 2005 Purchasing Power Parity (PPP) prices	2 096.2	1 932.4	164.1	166.1	67.1	72.5		
4	Household expenditure on clothing and footwear, US$ billion at 2005 PPP prices Row 1/100Row 2/100Row 3	100.5	103.3	7.2	8.3	3.6	4.1	111.3	115.7

Sources: Federal Service of Public Statistics of the Russian Federation, Agency of Statistics of the Republic of Kazakhstan, World Development Indicators, IMF WEO database, and author's calculations

35 World Bank. World Development Indicators. World databank. http://databank.worldbank.org/ddp/home.do.

36 A certain decline of re-exports could be brought about by the closure of the Cherkizovskiy Market in Moscow in June 2009. This market served as a large trade center for Chinese goods and items manufactured from them, some of which arrived via Kyrgyzstan. However, this market is not the only destination of re-exports from Kyrgyzstan, and traders based there relocated to other markets in Moscow. Therefore, the impact on Kyrgyz re-exports should be negligibly small falling within the limits of calculations error.

Considering price elasticity of demand to be constant,[37] one can assess its value using data on changes of the real currency exchange rates of RUB/KZT to RMB, as a measure of price changes of re-exports goods. Elasticity could be determined using the following formula, $E = \ln(1+\Delta Q\%)/\ln(1+\Delta P\%)$, immediately ensuing from the type of demand function, where $\Delta Q\%$ is a percentage change in volumes of re-exports in 2009 compared to 2008, and $\Delta P\%$ is a percentage change in price (or the real currency exchange rate) in 2009 compared to 2008. Once we insert numbers from Table 3 and the previous paragraph of this text, we arrive at $E = -4.6$. One should note that this value of elasticity indicates a high sensitivity of re-exports to price fluctuations. This is expected since the pillar of competitiveness of Chinese goods, which make up most re-exports, is their affordability; a strong RMB leads to an inevitable loss in competitiveness.

In 2010, re-exports from Kyrgyzstan continued to decline, triggered by border closures resulting from political instability in Kyrgyzstan, and later, by the restrictions of customs administration due to the implementation of the CU. The impact of the creation of the CU, in its contemporary form and composition, was already reflected in re-exports volumes in 2010; the subsequent reduction of re-exports to CU members for this reason is unlikely unless there are any further changes in the trade regime in these countries or in Kyrgyzstan. Other factors of regional significance can, however, influence re-exports activities (see below).

Differences in mirror statistics in relation to imports of Chinese consumer goods are not unique to Kyrgyzstan. Although not as large as in Kyrgyzstan, excesses of Chinese exports (based on Chinese information) over imports from China as reflected in national statistics, are also seen in Kazakhstan and Tajikistan, which also maintain special treatment for imports by individuals. It is obvious that "non-standard" import flows compete with re-exports coming via Kyrgyzstan. With the implementation of the CU, the Government of Kazakhstan was forced to repeal the special treatment for customs clearance for individuals, however, as discussed in Section 2, it still retained mechanisms which allow individuals to continue conducting cross-border trade. Additionally, the creation of the Khorgos International Cross-Border Trade Center at the Kazakh-Chinese border and the active development of transportation infrastructure leading to it in Kazakhstan will likely facilitate, *inter alia*, the increase of imports of Chinese consumer goods in Kazakhstan without the intermediation of third countries.

The juxtaposition of the decline of re-exports via Kyrgyzstan with the intensification of imports from China, and perhaps, re-exports[38] to other countries of the region led to a significant decline in Kyrgyzstan's role in the regional trade in Chinese light industry goods (Figure 4). According to Chinese statistics, in 2008, Kyrgyzstan served as a transit route for 35% of all Chinese exports of these products to Russia and Central Asia (excluding Turkmenistan). In 2010, this share decreased twofold to 17.3%. The future retention by Kyrgyzstan of even this share is only possible if delivery costs of supplies from China via Kyrgyzstan remain low.

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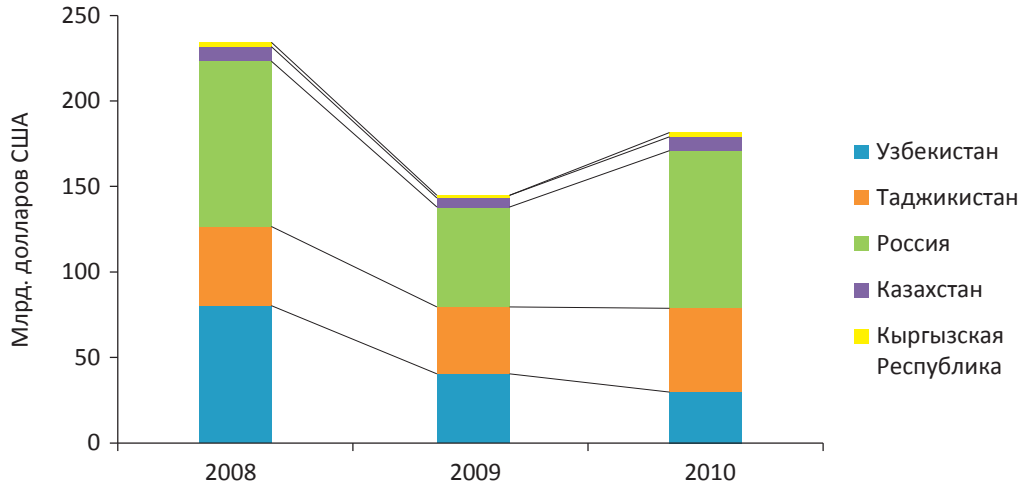
37 The demand function is $Q=CP^E$, where Q – quantity of demand, P – price, and E – price elasticity.

38 Such as volumes of exports of Chinese light industry products to Tajikistan (15% of GDP in 2010), which are also too large to be consumed domestically.

Table 5. Exports of light industry products from China to Central Asian countries and Russia



Source: UN Comtrade database

Another long-term external factor capable of influencing re-exports via Kyrgyzstan is the gradual change in Chinese economic policy, which has been stressing the development of the domestic market and the relative reduction of an exports orientation by key industries of the Chinese economy. Under this policy, the need for exchange rate of the *RMB* pegged to the US$,[39] (the most important tool to ensure competitiveness of Chinese industrial goods in foreign markets), is steadily dissipating. The likely future appreciation of the *RMB* relative to the US$, and consequently to CA currencies, will create a situation where Chinese goods in Russian and CA markets become more expensive, further hampering opportunities for re-exports activities in Kyrgyzstan. The appreciation of the *RMB* will not only adversely impact trade activities in Kyrgyzstan, it will also harm the domestic textile industry whose export successes are related to the affordability of Chinese fabrics, equipment and other materials used in production.

The rest of this paper will discuss what measures could be taken by Kyrgyzstan to adapt to the changing external environment which is creating an unfavourable context for re-exports.

4. Government regulations affecting re-export activities

Currently, the main public policy instrument regulating re-export activities, establishing a special procedure for customs clearance and taxation of importing operations performed by individuals is the Instruction "On Movement of Goods and Road Transport Vehicles across the State Border of the Kyrgyz Republic by Individuals" (the Instruction), first approved by Resolution of Government of the Kyrgyz Republic #976 dated 31 December 2004. This Instruction replaced the "Rules for Movement by Individuals of Goods and Other Subjects across the Customs Border of the Kyrgyz Republic" approved by Resolution of Government of the Kyrgyz Republic #347 dated 11 June 1997 and the "Rules for Movement of Transportation Vehicles by Individuals across the Customs Border of the Kyrgyz Republic" approved by

[39] According to IMF estimates, the degree of undervaluation of RMB could be as high as 23% (IMF, 2011b).

Resolution of Government of the Kyrgyz Republic #583 dated 20 September 2000. As their titles suggest, the Instruction, and preceding Rules, were enacted to regulate the importation by individuals of both consumer goods and transportation vehicles.[40]

The "Rules for Movement by Individuals of Goods and Other Subjects across the Customs Border of the Kyrgyz Republic" established a simplified procedure for the importation of goods by individuals. This procedure was applied in cases where the imported goods were not intended for manufacturing or other commercial purposes. If the total value and weight of goods did not exceed US$ 500 and 50 kg respectively, and if individuals complied with quantitative restrictions on certain types of goods, they were exempt from paying customs charges (customs duties and VAT). When these restrictions were exceeded, single rates of customs charges were applied; US$ 0.39 per kg of goods imported by air and US$ 0.15 per kg of goods imported by road.

The simplified procedure for customs clearance of goods imported by individuals based on the payment of customs charges at the single rate was introduced well before the re-exports boom and was aimed at the regulation of imports of goods intended for domestic consumption. An important restriction was the requirement for non-commercial use of goods imported by individuals, which was supposed to be enforced by customs officers, using ambiguous criteria within the Rules to establish the non-commercial intent of importers.

In replacing the Rules, the Instruction created the most favorable conditions for doing business for individuals importing goods into Kyrgyzstan and/or re-exporting goods from Kyrgyzstan. It did this by repealing restrictions, extending eligibility and further simplifying procedures for traders.

The repeal of the requirement for non-commercial use of goods imported by individuals was a significant change in the legislation introduced by the Instruction. Individuals were given an opportunity to legally import almost unlimited quantities of goods apparently intended for commercial use, while still benefiting from preferential customs treatment based on the single rate. The value of this rate, for the majority of goods, remained at US$ 0.39 or US$ 0.15 per kg, depending on the mode of transportation. The Instruction also more precisely defined and expanded the list of goods subject to the simplified treatment to include goods with HS codes 32-35, 37-42, 44-71, 85 (except for excisable, licensed and other goods with special regulation treatment). The simplified procedure now applied to a broad range of products, including chemical and related products, plastic materials, natural rubber, rubber and rubber items, untreated hides and leather items, timber and timber items, paper and cardboard, textile materials and items, footwear, headwear, items made of stone, gypsum, ceramic, and glass, precious stones, and electrical machinery and equipment.

Further simplifying the treatment was the introduction of Customs Payment Order (CPO) requiring importers to provide far less information than the standard Cargo Customs Declarations (CCD).

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[40] Re-exports of transportation vehicles from Kyrgyzstan have never reached volumes close to those of consumer goods, so this section does not discuss the rules of importation of transportation vehicles in Kyrgyzstan.

Between 2005 and August 2012, the Instruction was heavily amended,[41] through as many as 15 Resolutions of the Government of the Kyrgyz Republic, indicating the significance and utility of this tool of government regulation. However, despite their abundance, prior to 2011, the amendments did not significantly impact re-exports activities. For example, in 2006, the Government adopted higher single rates for mobile phones, TV sets and similar equipment, which made their importation, and consequent re-exportation, somewhat more expensive. However, this group of good accounts for only a small fraction of re-exports, and their importation under the simplified procedure was still more profitable than under regular customs clearance procedures. In 2008, an amendment increasing the maximum value of goods imported with full exemption from customs charges from KGS 5 thousand to KGS 38 thousand (from US$140 to US$1,040) per person made imports somewhat cheaper but failed to impact main imports flows, which are much higher. The same resolution slightly increased the single rate of customs charges for goods imported by air transportation, from US$ 0.39 to US$ 0.40 per kg.

In September 2010, the Government introduced Customs Payment Orders of Simplified Form (CPO-SF) for goods not exceeding 500 kg or litres imported in accompanying baggage of individuals. Such goods[42] became subject to single duty rates of KGS 1 (US$0.02) per kg or litre. This impacted on goods imported from other CA countries, such as fuel and lubricants, fruit and vegetables, and flour, for domestic use or re-exportation (in smaller amounts[43]) than on the majority of re-exports goods coming from China in unaccompanied baggage which do not fall under this customs treatment and payment of customs charges.

In 2011-2012, the Government passed several resolutions more likely to affect re-exports activities. Resolution #64 dated 22 February 2011 significantly narrowed the list of goods subject to the procedure for customs clearance and tax payment established by the Instruction. The simplified procedure no longer applied to goods groups with HS codes 1001, 32-35, 37-40, 44-49, 57, 66, 68-71, 85, and 8517120000. However, the main groups of re-exported goods (codes 52, 54, 60-64) still qualified for the simplified treatment. Another Resolution, #95 dated 4 March 2011, applied the simplified procedure to a range of foodstuffs.[44] Resolution #389 dated 14 July 2011 increased the norm for importation of goods cleared under CPO-SF from 500 kg and litres to 2,000 kg or 1,500 litres. Resolution 301 dated 18 May 2012 qualified wheat (code 1001) but disqualified wheat flour (code 110100) from treatment under CPO-SF. Resolution #573 dated 17 August 2012 excluded furs (code 43) and established higher single rate customs duties and taxes, at US$ 0.35 and US$ 1.00 per kg for goods imported by land and air transportation, respectively. In summary, the amendments disqualified some goods from importation under the simplified procedure were eliminated, while expanding the benefit to others.

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41 Amendments to the Instruction and their impact on importers and re-exporters are described in detail in Table A3.

42 The list of affected goods subject was established by a normative document for restricted use only (Order of Government of the Kyrgyz Republic for Restricted Circulation #90-R dated 18 September 2010), which is inaccessible to ordinary citizens. It was not accessible to the author.

43 According to the State Customs Service, the total amount of taxes paid under customs clearance based on CPO-SF during the first 6-month period of its application was KGS 8.6 million. At the single rate of KGS 1 per kilogram/litre, the mass of imported goods totaled around eight thousand tons. In comparison, according to Chinese statistics, in 2010, the mass of light industry goods exported to Kyrgyzstan (most of which for re-exports) totaled 372,000 tons.

44 Listed in Table A3.

Resolutions #64 and #573 increased the single rates from US$ 0.15 to US$ 0.35 per kg of goods imported by land and from US$ 0.40 to US$ 1.00 per kg for goods imported by air. However, a comparison of *ad valorem* equivalents of single rates for basic goods imported under the simplified procedure and those rates established by the Law of the Kyrgyz Republic "On Customs Tariff in the Kyrgyz Republic" for the standard procedure of customs clearance and tax payment shows that the increased rates were still relatively low (see Table A2). Additionally, under the standard treatment, importers pay customs duties and 12% VAT of the customs value and customs duty. Depending on the type of goods, the cumulative rate of customs tariff and VAT exceeds the single rate by 5-10 times.

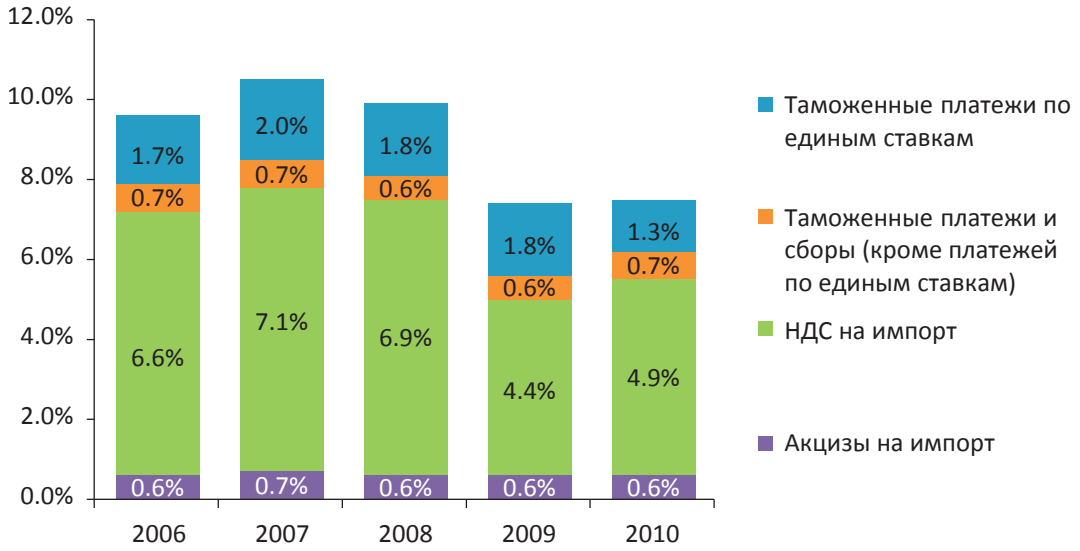
Thus, despite multiple amendments, the key components of Resolution #976 dated 31 December 2004 remain the same, and importation of goods by individuals is far more profitable than the importation of goods by legal entities under the standard procedure.

Low costs of re-exports are also supported by other regulations. Chinese cargo trucks that transport goods for re-exports in bulk are allowed to deliver their shipments to Bishkek and Osh to Dordoi and Karasuu bazaars without unloading them, saving time and money, and consequently, decreasing costs and increasing the competitiveness of products re-exported from Kyrgyzstan.

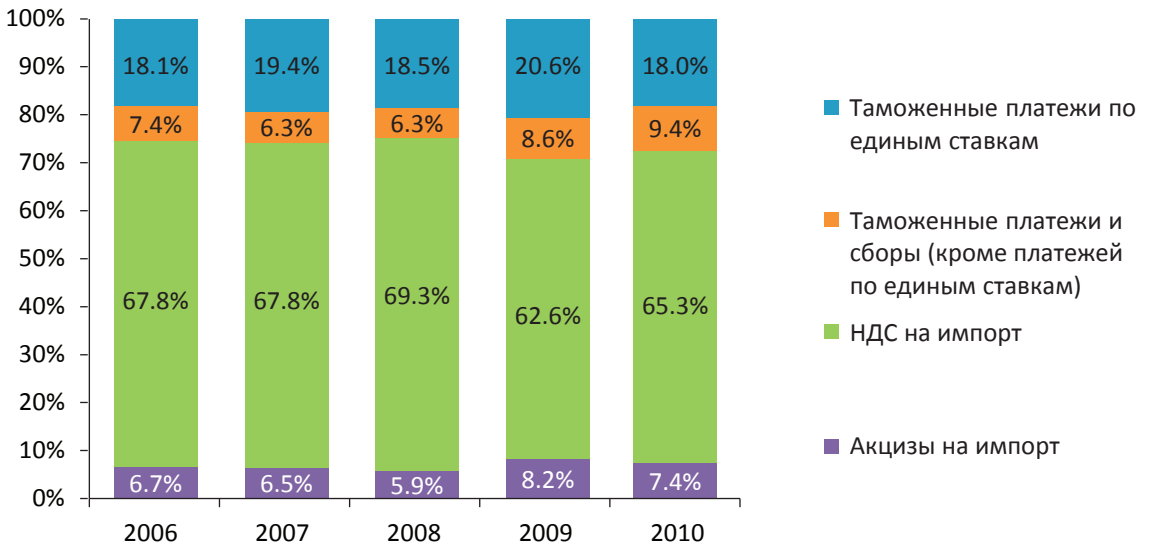
Most imports in Kyrgyzstan are cleared under the simplified procedure with customs charges paid at the single rate. Budget revenues under this scheme reached their maximum of 2% of GDP in 2007, and have since steadily declined (Figure 5a). Their notable decrease in 2009-2010 corresponded with the significant decrease in re-exports volumes.

Figure 4. Government budget revenue from taxation of imports

a) Revenue as share of GDP



b) Revenue structure



Source: Central Treasury of the Ministry of Finance of the Kyrgyz Republic (MFKR) and author's calculations

When assessing the role of taxes paid by re-exporters in total budget revenues, it should be noted (see Figure 5b) that customs charges at the single rate totaled less than one fifth of all government budget revenues from the taxation of imports (except for in 2009). Additionally, goods taxed at the single rate are not subject to any other taxes on imports and that volumes of imports under the simplified procedure (US$ 3.4-8.8 billion from 2008 to2010, see Table 3) have steadily and significantly exceeded volumes of imports brought in under the standard treatment (US$ 2.8-3.7 billion in from 2008 to2010).[45] While re-exporters also pay a patent-based income tax, it makes up only a very small portion of total budget revenues. The total amount of patent-based tax receipts (including payments of both re-exporters and individuals engaged in purely domestic trade) even at the peak of this tax' collections in 2009 only totaled 0.8% of GDP. In the absence of required data, it seems inconceivable to estimate an accurate share of re-exporters in patent-based tax payments. However, to just assess the order of numbers, assume that re-exporters (including textile enterprises) pay half of all the taxes levied in the country on the basis of a tax patent. Then, estimates indicate that overall taxes on re-exports activities total around 8-10% of total tax receipts by the government budget (Table 5). Therefore, the contribution of re-exports activities into revenues of the government budget are much less than into the country's GDP (see estimates in Table 3).

Table 6. Assessment of government revenue from taxation of re-exports

#	Indicator	Formula / source	2006	2007	2008	2009	2010
1	Total income from customs charges at single rate, % GDP	Figure 5a	1.7	2.0	1.8	1.5	1.3
2	The share of re-exports in customs charges at single rate, %	Table 3: Row 7/ (Row 5 + Row 7)	83.1	88.5	94.7	93.4	88.5

[45] According to the NSCKR.

#	Indicator	Formula / source	2006	2007	2008	2009	2010
3	Income tax paid based on patent system, % GDP	CTr MFKR	0.1	0.3	0.3	0.8	0.7
4	Share of re-exporters in income tax payments based on patent system, %	Assumption	50	50	50	50	50
5	Total tax payments of re-exporters, % GDP	(Row 1Row 2 + Row 3Row 4)/ 100	1.5	1.9	1.9	1.8	1.5
6	Total tax revenue of the government budget, % GDP	CTr MFKR, NSCKR	17.6	18.7	19.1	17.9	17.1
7	Total tax payments of re-exporters, % of total tax revenue of the government budget	Row 5/Row 6 100	8.7	10.3	10.0	9.9	8.3

Recently, the Government has discussed changing the mechanism for regulating imports by individuals. One suggestion calls for drastically narrowing the scope of the Instruction and moving most imports of goods by individuals to the standard procedure for legal entities. This would mean the taxation of imports by customs duties in compliance with the Law of the Kyrgyz Republic "On Customs Tariff in the Kyrgyz Republic" as well as VAT of 12%. The Government is also considering Kyrgyzstan's accession to the CU and under such that scenario, the country would adopt the CCT of the CU, under which rates are markedly higher than under the Kyrgyz law. Any increase in imports tariffs will make imported goods more expensive and re-exports products from Kyrgyzstan less competitive. This may lead to a significant reduction in volumes of re-exports.

Information about price elasticity of demand for re-exported goods provided in Section 3 can be used to assess possible changes (mentioned in the previous paragraph) in volumes of re-exports and receipts to the government budget from customs duties and VAT on imports.

The model developed in this paper and used for such an assessment includes the following modules:

- Information for 2010 on imports of light industry products from countries, primarily China and Turkey, to which the simplified procedure applies; for each type of good identified by a six-digit HS code, this information includes the country of origin, volumes of imports in cost, weight and in-kind value and information derived from them about per-kg and per-unit prices for imported goods.
- Nominal rates of customs charges and, if necessary, *ad valorem* recalculated equivalent rates.
- Assessment of an increase in product price after payment of all customs duties and taxes in the course of the transition from the current customs tariff to an alternative customs tariff;
- Assessment of a change in the physical volume of imported goods in the case of a price increase, as determined during the previous step, using the value of price elasticity as determined in Section 3; then, an assessment of the value of imports on the basis of a new physical volume.
- Assessment of total volumes of imports and payments of customs duties and taxes at the current customs tariff and alternative customs tariff by calculating the sum of all goods.
- Assessment of value of re-exports and value added in the course of re-exports (using methodology presented in Table 4).

Three scenarios with the possible different customs protocols are discussed below, using data of mirror statistics for 2010:

1. *Basic protocol*: the Government uses single rates of customs charges and categories of goods as of 31.12.2010.
2. *Standard Tariff protocol*: the Government applies VAT and import duties pursuant to the Law of the Kyrgyz Republic "On Customs Tariff in the Kyrgyz Republic" to all imports of goods of main re-exports categories (HS codes 42-43,[46] 50-67) imported by individuals.
3. *Customs Union protocol*: the Government applies a 15% VAT rate[47] and import duties in compliance with the CCT of the CU to all imports of goods by individuals in the main re-exports categories.

The adoption of the CCT of the CU will impact both goods imported under the simplified procedure and under the standard regime. This paper does not discuss the impact of the CCT of the CU on imports of goods imported under the standard treatment.

For many lines of the CCT of the CU combined rates of customs duties are applied that include an *ad valorem* component (a percentage of the customs value) and a specific component (as established in Euro per kg or measurement unit); for taxation, the larger of the two applies. For this paper, we estimated an *ad valorem* component for each combined rate using price information from mirror statistics (see Table A2). As Table A2 shows, in most cases, the specific component is larger than the *ad valorem* one, and the former component determines the effective value of the customs duty.

Results of calculations are in Table 6. These findings indicate that, as expected, an increase in tariffs under the *Standard Tariff* and *Customs Union* scenarios result in a decline in volumes of imports and re-exports and an increase in receipts of the government budget from taxation of goods previously taxed at single rates. A growth of revenue receipts from customs charges can total around US$ 250 million or 5.4% of GDP under the *Standard Tariff* scenario, and around US$ 85 million or 1.8% of GDP under the *Customs Union* scenario.[48] This is achieved, however, due to a drastic decline (50% in the *Standard Tariff* scenario and 82% in the *Customs Union* scenario) in volumes of re-exports. Losses of the private sector of the Kyrgyz Republic will thus total about US$ 350 million (7.6% of GDP) in the *Standard Tariff* scenario and about US$ 500 million (10.8% of GDP) in the *Customs Union* scenario. The total impact of these two scenarios is a loss of 2.3% of GDP (*Standard Tariff)* and 9% of GDP (*Customs Union)*.

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46 Except for excisable goods.

47 An average of VAT rates in the major destination markets for re-exports goods; in Kazakhstan, the VAT rate is 12%, in Russia, it is 18%. The application of such a rate is based on an assumption that re-exporters receive full refunds of their VAT paid at the customs border of Kyrgyzstan. In reality, this would be difficult to achieve (see Beshimov, Abdykaimov and Sultanalieva, 2010). If full or partial refunds do not materialize, the effective VAT rate is actually much higher.

48 This figure can only be considered a rough estimate of the budget revenue in case of Kyrgyzstan's joining the Customs Union. In the Customs Union, charges collected by all member states are summed and divided among the participating nations in a predetermined proportion. Kyrgyzstan's share under such a splitting deal is unknown and the very principle based on which it will be established is yet to be determined.

Table 7. Results of simulations of changes in customs duty size

	Basic scenario	*Standard Tariff* scenario		*Customs Union* scenario	
	US$ million	US$ million	Deviation from baseline scenario, %	US$ million	Deviation from baseline scenario, %
Customs charges (import duty + VAT on imports)	59.6	307.4	416	144.4	142
Re-exports	3 661.2	1 550.4	-58	661.0	-82
Value added in Kyrgyzstan at re-exports	610.2	258.4	-58	110.2	-82

Sources: UN Comtrade database, Law of the KR on customs tariff, Common Customs Tariff of the CU and author's calculations

The different potential outcomes of the two scenarios are based on the policies that guide them. The rates established by the Law of the Kyrgyz Republic "On Customs Tariff of the Kyrgyz Republic" are moderate and primarily aim to generate more revenues for the government budget and, to a lesser extent, to protect the domestic market. Rates of the CCT of the CU are much higher and are specially designed to prevent the penetration of the CU territory by cheap imported goods; revenues from the taxation of imports are of much less interest to the CU members. Not surprisingly, *Standard Tariff* results in a marked increase of revenue receipts for the government budget (a reduction in volumes of imports occurs to a much smaller degree compared to a growth of tax rates). *Customs Union*, though resulting in a growth of budget receipts compared to the *Basic* scenario (with almost zero tax rates), is visible more disadvantageous in terms of collection compared to *Standard Tariff*. This is due to a steep decline in volumes of re-exports that will no longer be compensated by the difference between rates of the CCT of the CU and those of the customs tariff of the Kyrgyz Republic.

Under the methodology used in this paper, re-exports include products of the textile industry of Kyrgyzstan manufactured using Chinese fabrics and other materials. The assessment results suggest that in case the CCT of the CU is adopted, exports of these products will be hurt quite considerably. For example, as data from Table A2 suggest, the effective rate of a customs charge for the type of cotton fabrics dominating the Kyrgyz imports (HS code 521019) totaled 1.6% in 2010. If the CCT of the CU is applied and VAT on imports is paid, it will increase to as high as 32.3%. This implies a 30% increase in the cost of fabrics for Kyrgyz manufacturers. Such a price shock would significantly worsen the competitiveness of the Kyrgyz textile industry.

It should be stressed that the estimates and assessments above do not take into account additional costs that can emerge during the transition from taxation of weight of imported goods to taxation of their value. Customs clearance on the basis of the Cargo Customs Declaration will require importers to produce additional documents that verifying the customs value of imported goods. Securing such documents in China may be accompanied by additional costs. Additionally, the standard procedure treatment of imports maintains stricter legal and financial requirements. Importers will have to undergo appropriate training or form legal entities to utilize services of highly paid specialists, while also receiving markedly less

preferential tax treatment. Related high costs will further reduce price advantages of the re-exports trade via Kyrgyzstan.

The analysis above suggests that abandoning the simplified procedure for customs clearance and charges applied to trade by individuals for the standard treatment applied to trade by legal entities may result in a sizable net loss for the national economy (2.3% of GDP). Additionally, if the CCT of the CU is also introduced, the net loss would be compounded, and could be as high as 9% of GDP. If the Government decides to abandon the simplified procedure or joins the CU, a gradual transition, over five to seven years should be provided, to reduce net losses, and enable entrepreneurs to adapt to the changing situation, as the Government gradually raises tariffs and introduces new administrative rules.

5. Conclusions

Re-exports of consumer goods from China and other countries and the manufacture of textile goods from materials imported from China play a major role in the Kyrgyz economy. It is estimated that re-exports total billions of dollars. Re-exports activities reached their peak in 2008. In 2009-2010, re-exports dropped by two thirds due to the global economic crisis, domestic political instability, border closures with neighbouring countries, and the commencement of the CU of Belarus, Kazakhstan and Russia. However, according to estimates, re-exports still accounted for over 13% of GDP in 2010. A secondary effect of re-exports and information export flows is the impact they have on total employment in Kyrgyzstan due to the number of employees engaged in the trade and textile industries that serve re-exports and informal exports flows.

The almost 50% decline in re-exports in 2009, as triggered by the global economic crisis, is associated with Chinese consumer goods becoming more expensive in the Russian and Kazakh markets due to the depreciation of the RUB and the KZT. The comparison of the scales of re-exports decline with the value of price changes indicates that demand for re-exports goods is highly sensitive to changes in prices for them. This means that an increase in cost of doing re-exports business due to higher taxes, cost of transportation and other costs can result in a sharp decrease in the volume of re-exports.

The efforts of neighbouring countries, Kazakhstan in particular, to develop their own trade with China has resulted in a decrease in re-export flows via Kyrgyzstan. The appreciation of the RMB against the US$ and regional currencies of the region, and the concurrent prices increases for Chinese goods, also objectively reduces the capacity for re-exports trade in those goods. Thus, the trend for the reduction of re-exports that emerged in 2009-2010 could continue in the future. This raises the question of the need for changes in government regulation of re-export activities in Kyrgyzstan.

Important tools in government regulation of re-exports currently include the Instruction “On Movement of Goods and Road Transport Vehicles across the State Border of the Kyrgyz Republic by Individuals,” approved by Resolution of the Government of the Kyrgyz Republic #976, dated 31 December 2004. This Instruction established preferential treatment of importation of consumer goods by individuals, based on the levying of customs charges against

the value of goods rather than their weight. From 2005 to 2012, the Resolution was amended often, but the fundamental provisions remain in place.

Preferential tax treatment of imports by individuals resulted in the share of taxes paid by re-exporters in total tax receipts (about 8% in 2010) being less than the value-added share in the case of re-exports in GDP (over 13% in the same year).

Estimates based on the re-exports model show that substitution of the existing tax treatment for individuals with a standard tax treatment under the Law of the Kyrgyz Republic "On Customs Tariff in the Kyrgyz Republic" and the Tax Code leads to re-exports declining 2.5 times. Net economic loss here totals 2.3% of GDP annually. At the same time, government budget revenues could increase significantly, by as much as 5.4% of GDP. If the country transitions to tariff rates of the CU, re-exports could decline even further, by 5.5 times, while net loss could reach 9% of GDP, and budget revenues could grow by a mere 1.8% of GDP. These loss values seem to be very high (especially in the case of CU tariff rates), while the growth of budget revenues fails to compensate for the losses for the economy and employment in particular.

Estimates further demonstrate that if the country rejects a simplified customs treatment for individuals, not only will trade activities under re-exports suffer, so will the entire textile industry. Chinese fabrics and other materials will go up in price significantly (up to 30%), and consequently, Kyrgyz-made textiles will become more expensive and less competitive.

The abovementioned estimates of consequences of tariff increase and changes in customs administration are fairly conservative. If entrepreneurs have to change their business practices and switch from an informal to a formal economy, which is accompanied by extra costs, the decline in economic activity could be even more significant.

A lengthy transition period from a simplified customs treatment to a standard customs treatment (or treatment as adopted in the Customs Code) will enable re-exporters to gradually adapt to changes and reduce the national economic losses during the transition.

6. Recommendations

To resolve the problems that the re-exports sector of the Kyrgyz economy faces today, the research suggests the following recommendations:

- As long as the political situation allows, **the existing simplified mode of customs clearance for individuals should be maintained,** at least for primary groups of goods (clothing, footwear, fabrics) until re-exports activities start to decline due to external causes, such as changes in the supplying countries (China) or purchasing states (CU members and Uzbekistan).

- If the government decides to transition from the simplified treatment of imports by individuals for commercial purposes to the standard mode of customs clearance on the basis of the Customs and Tax Codes and the Law of the Kyrgyz Republic "On Customs Tariff in

the Kyrgyz Republic," **the transition should be made gradually**; ideally over a period of five to seven years.

- **The transition should be implemented through a gradual phase-out of certain groups of goods** from the list of goods subject to a simplified treatment, **with a concurrent gradual increase of single rates** for goods left for simplified treatment. By the end of the transition period, the value of single rates should reach the level of standard customs tariffs.

- **The government should retain the most preferential terms for imports of fabrics and other materials for as long as possible**, especially for those materials imported for processing in Kyrgyzstan.

- **Measures should be taken simultaneously to reduce the costs of exporters** in Kyrgyzstan including the resolution of problems with VAT refunds, and issues related to technical regulation, certification and transportation.

- If administrative problems concerning VAT refunds are not solved promptly, **VAT exemptions on all fabrics and other materials** used in export-oriented manufacturing industries should be considered, and **a zero rate of import duties should be established for these materials** (if Kyrgyzstan does not join the CCT of the CU) to minimize the tax burden on this sector of the economy.

- **The re-exports sector of the national economy should be continuously monitored,** using improved statistical measurements including the systematic use of sample-based observations, sustained dialogue with businesses, and analytical activities to assess the economic, budgetary and social impact of changes in government regulation.

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Appendices

Table A1. Product groups with the largest differences between domestic and mirror statistics, million US$

Commodity group		Data source	2007	2008	2009	2010
HS Code	Title					
China						
Total		KR	355.6	728.2	617.3	666.3
		China	3 665.5	9 212.0	5 227.5	4 127.5
02	Meat and edible meat offal	KR	9.8	12.0	6.7	23.4
		China	30.6	49.1	50.7	74.0
39	Plastics and articles thereof	KR	7.9	17.9	18.0	25.7
		China	130.6	124.8	107.4	100.6
42	Articles of leather, animal gut, harness, travel goods	KR	0.4	3.5	3.2	3.1
		China	126.0	345.8	136.1	171.2
48	Paper and paperboard, articles of pulp, paper and board	KR	2.1	4.0	6.3	6.5
		China	31.7	40.2	28.6	23.3
52	Cotton	KR	0.0	0.7	1.2	2.0
		China	5.1	72.2	75.6	148.6
54	Manmade filaments	KR	0.4	14.5	15.3	13.5
		China	101.5	130.9	160.8	220.5
55	Manmade staple fibres	KR	19.4	59.7	35.5	35.2
		China	59.3	117.5	82.5	88.5
58	Special woven or tufted fabric, lace, tapestry, etc.	KR	0.1	0.1	0.3	0.4
		China	212.6	386.5	211.7	45.1
59	Impregnated, coated or laminated textile fabric	KR	0.5	1.2	1.3	0.9
		China	9.0	11.4	29.8	55.3
60	Knitted or crocheted fabric	KR	0.2	0.0	0.2	0.8
		China	47.1	158.9	172.2	240.2
61	Articles of apparel, accessories, knit or crochet	KR	2.0	66.8	38.0	41.4
		China	1 160.9	3 391.5	1 733.0	1 178.4
62	Articles of apparel, accessories, not knit or crochet	KR	3.8	49.0	48.2	54.3
		China	300.8	1590.8	375.9	304.8
63	Other made textile articles, sets, worn clothing, etc.	KR	1.3	9.2	10.6	10.0
		China	203.6	369.3	358.1	346.0
64	Footwear, gaiters and the like, parts thereof	KR	5.3	55.0	46.2	31.3
		China	529.9	1516.1	826.0	413.9
65	Headgear and parts thereof	KR	0.1	1.5	1.2	1.3
		China	12.0	51.0	17.1	8.6
70	Glass and glassware	KR	1.6	3.1	5.0	6.7
		China	35.1	44.0	81.2	92.7

Commodity group		Data source	2007	2008	2009	2010
HS Code	Title					
73	Articles of iron or steel	KR	18.7	33.6	27.9	20.3
		China	44.3	68.9	55.6	44.1
82	Tools, implements, cutlery, etc of base metal	KR	22.5	20.8	5.8	12.7
		China	16.8	17.2	49.5	49.6
83	Miscellaneous articles of base metal	KR	7.5	9.9	9.9	5.6
		China	31.5	29.4	37.8	33.1
85	Electrical, electronic equipment	KR	57.0	69.6	46.9	69.8
		China	84.4	99.2	68.5	80.4
87	Vehicles other than railway, tramway	KR	26.1	43.7	35.2	37.4
		China	61.2	74.8	49.9	63.4
91	Clocks and watches and parts thereof	KR	0.2	0.1	0.1	0.2
		China	3.7	0.9	34.0	20.0
94	Furniture, lighting, signs, prefabricated buildings	KR	15.9	13.3	15.5	9.8
		China	52.1	48.5	81.8	50.5
96	Miscellaneous manufactured articles	KR	3.2	5.0	9.5	7.3
		China	99.8	136.7	102.1	66.6
Turkey						
Total		KR	50.9	91.1	72.7	84.7
		Turkey	181.3	191.4	140.1	129.2
18	Cocoa and cocoa preparations	KR	1.8	2.3	2.2	2.2
		Turkey	10.7	16.2	9.6	5.6
57	Carpets and other textile floor coverings	KR	2.4	4.5	3.9	3.7
		Turkey	26.2	45.6	19.0	11.2
61	Articles of apparel, accessories, knit or crochet	KR	0.1	11.3	7.0	7.6
		Turkey	16.6	17.0	16.8	13.2
71	Pearls, precious stones, metals, coins, etc	KR	0.1	6.2	0.3	1.1
		Turkey	33.3	12.8	7.5	8.6
85	Electrical, electronic equipment	KR	3.8	6.0	4.6	6.4
		Turkey	10.9	11.7	10.6	11.5
South Korea						
Total		KR	39.1	83.2	51.3	49.5
		S. Korea	125.6	166.3	100.1	104.5
60	Knitted or crocheted fabric	KR	0.1	0.1	0.2	0.9
		S. Korea	44.3	55.9	40.5	40.8
87	Vehicles other than railway, tramway	KR	2.8	7.8	7.2	12.8
		S. Korea	32.6	58.4	22.2	19.2

Commodity group		Data source	2007	2008	2009	2010
HS Code	Title					
India						
Total		KR	8.7	14.0	15.1	21.6
		India	32.7	22.2	22.2	24.3
61	Articles of apparel, accessories, knit or crochet	KR	0.1	0.7	1.1	0.6
		India	15.4	7.5	12.3	8.3
UAE						
Total		KR	14.7	12.0	5.8	9.6
		UAE	30.8	19.2	18.0	11.5
84	Nuclear reactors, boilers, machinery, etc	KR	1.8	2.5	0.7	0.4
		UAE	12.0	4.6	6.2	1.4

Source: UN Comtrade database

Table A2. Imports of key commodities for processing and re-exports to Kyrgyzstan, 2010

Product		Imports						Import duty rates[49]					
HS Code	Title	Country of origin	Quantity, million pieces[50]	Weight, tons	Costs, US$ million	Price, US$		Nominal value			*Ad valorem* equivalent, %		
						Per piece	Per 1 kg	Single rate, KR	Law on CU, KR	CCT CU	Single rate, KR	Law on CT, KR	CCT CU
640590	Footwear, nes	China			410.5	5.36	8.27	0.15 $/kg	10%	(10%, 1 €/pair)	4.8	10	24.8
600192	Pile knit or crochet fabric, of manmade fibres, nes	China		54.2	207.7		3.83	0.15 $/kg	10%	10%	3.9	10	10
610342	Men's, boys' trousers and shorts, of cotton, knit	China	36.0	16.0	192.1	5.34	11.99	0.15 $/kg	10%	(10%, 4 €/kg)	1.3	10	44.3
611030	Pullovers, cardigans, etc. of manmade fibres, knit	China	36.3	13.6	180.5	4.98	13.26	0.15 $/kg	12%	(10%, 3 €/kg)	1.1	12	30
630260	Toilet or kitchen linen, of cotton terry towelling	China		17.2	168.8		9.79	0.15 $/kg	10%	(20%, 0,7 €/ kg)	1.5	10	20
521019	Woven cotton nes <85% +manmade fibre <200g, unbleached	China		14.1	132.2		9.40	0.15 $/kg	10%	15%	1.6	10	15
610423	Women's, girls' ensembles, synthetic fibres, knit	China	21.8	10.5	119.6	5.50	11.43	0.15 $/kg	12%	(10%, 4 €/kg)	1.3	12	46.5
540752	Woven fabric >85% textured polyester, dyed, nes	China		23.6	118.9		5.03	0.15 $/kg	10%	10%	3.0	10	10
611593	Hosiery nes, synthetic fibres, knit	China		11.5	99.2		8.66	0.15 $/kg	12%	(15%, 2 €/kg)	1.7	12	30.7

[49] As of 31 December 2010.
[50] For footwear: a million pairs.

Product		Imports						Import duty rates[49]					
HS Code	Title	Country of origin	Quantity, million pieces[50]	Weight, tons	Costs, US$ million	Price, US$		Nominal value			*Ad valorem* equivalent, %		
						Per piece	Per 1 kg	Single rate, KR	Law on CU, KR	CCT CU	Single rate, KR	Law on CT, KR	CCT CU
620193	Men's, boys' anoraks etc., of manmade fibres, not knit	China	10.2	7.6	93.6	9.20	12.35	0.15 $/kg	12%	(10%, 5 €/kg)	1.2	12	53.8
610520	Men's, boys' shirts, of manmade fibres, knit	China	17.6	5.3	89.3	5.06	16.95	0.15 $/kg	12%	(10%, 3 €/kg)	0.9	12	23.5
610510	Men's, boys' shirts, of cotton, knit	China	18.2	4.4	76.9	4.22	17.54	0.15 $/kg	10%	(10%, 3 €/kg)	0.9	10	22.7
610333	Mens, boys jackets & blazers, synthetic fibres, knit	China	10.6	6.2	73.9	6.99	11.9	0.15 $/kg	12%	(10%, 4 €/kg)	1.3	12	44.6
540751	Woven fabric >85% textured polyester unbl/bleached,nes	China		15.8	72.3		4.58	0.15 $/kg	10%	10%	3.3	10	10
620293	Women's, girls' anoraks etc. of manmade fibres, not knit	China	2.5	2.3	60.1	23.60	26.22	0.15 $/kg	12%	(10%, 5 €/kg)	0.6	12	25.3
611592	Hosiery nes, of cotton, knit	China		6.2	58.3		9.39	0.15 $/kg	12%	(15%, 2 €/kg)	1.6	12	28.3
610343	Men's, boys' trousers, shorts, of synthetic fibres, knit	China	15.4	4.7	51.1	3.32	10.81	0.15 $/kg	10%	(10%, 4 €/kg)	1.4	10	49.2

Sources: UN Comtrade database, legislation of the KR, Commission of the CU

Table A3. Amendments to Instruction "On Movement of Goods and Road Transport Vehicles across the State Border of the Kyrgyz Republic by Individuals," 2005-2012

Resolution of Government of the Kyrgyz Republic		Content of amendments	Significant Impact on:	
#	Date		Imports for domestic consumption	Re-exports
505	26 October 2005	The list of goods subject to the Instruction was expanded to include sail and motor boats, yachts, cutters and other watercrafts (HS codes 890391, 890392, 890399)	Imports became cheaper	None
263	12 April 2006	• The charge for customs clearance was set, not as a standard 0.15% of the customs value of goods, but rather, as a fixed charge in the amount of 2-10 minimum salary rates depending on the weight of a batch of goods.	• Administration became simpler	• None
		• Goods with HS code 8525 were excluded from the simplified procedure except for mobile phones (HS code 8525209100), for which a single rate of customs duties and taxes was set in the amount of US$ 7 per item *in lieu* of US$ 0.5 per kg.	• Imports became more expensive; budget revenues off a unit of imports improved slightly	• Re-exportation of this group of goods became less profitable
		• For goods with HS code 8528,[51] the single rate was increased from US$ 0.5 to US$ 0.7 per kg.	• Imports became more expensive; budget revenues per unit of imports somewhat improved	• Re-exportation of this group of goods became less profitable
307	27 April 2006	The amendment revised the procedures for customs clearance of road transportation vehicles.	None	None
94	4 April 2007	The wording "minimum salary" was replaced with "calculation parameter."	None	None
388	4 September 2007	The list of goods subject to the Instruction was expanded to include wheat and wheat and rye flour (HS codes 1001 and 1101) provided that the volume of a batch of such imported goods did not exceed 20 tons.	Imports became cheaper	None

[51] I.e. monitors and projectors not including receiving television equipment; receiving equipment for television communication including or not including broadcasting receiving radio sets or equipment recording or reproducing sound or images.

Resolution of Government of the Kyrgyz Republic		Content of amendments	Significant Impact on:	
#	Date		Imports for domestic consumption	Re-exports
632	21 November 2008	• The maximum value of goods that could be imported with full exemption of customs duties was increased from 50 to 380 calculation parameters per person.	• Imports became cheaper	• Opportunities for re-exports improved
		• A ceiling restriction in the amount of 40 000 calculation parameters [52] for the value of a batch of goods to which the simplified procedure of customs clearance could be applied was introduced.	• Some restriction on volumes of imports	• None
		• In the case of exports of road transportation vehicles by individuals, the CCD is to be used instead of the CPO.	• None	• None
		• For road transportation vehicles manufactured more than seven years before clearance, the cost of customs clearance was increased from 2 to 4 calculation parameters.	• None	• None
		• The single rate of customs duties and taxes for majority of goods imported by air transportation was increased from US$ 0.39 to US$ 0.40 per kg.	• Imports became more expensive	• None
		• For goods with HS code 85[53] (except 8517120000[54] and 8528), the single rate of customs duties and taxes was decreased from US$ 0.5 per kg to the level applied to all other goods (US$ 0.15 per kg imported by land, and US$ 0.4 per kg for goods imported by air).	• Imports became cheaper	• None[55]
		• For goods with HS code 8528 (TV sets, monitors, projectors), the single rate was decreased from US$ 0.7 per kg to the level applied to all other goods (see the previous item).	• Imports became cheaper	• None
		• Single rates of customs duties and taxes were increased for road transportation vehicles; and difference in the rates for transportation vehicles arriving from CIS countries and those arriving from third nations were eliminated.	• Imports of road transportation vehicles became more expensive	• None

52 KGS 4 million (US$109 thousand).

53 Electrical machines and equipment, their parts; sound-recording and sound-reproducing equipment, equipment for recording and reproducing television images and sound, their parts and accessories.

54 Mobile phones.

55 Goods of this group are re-exported on a small scale.

Resolution of Government of the Kyrgyz Republic		Content of amendments	Significant Impact on:	
#	Date		Imports for domestic consumption	Re-exports
680	9 December 2008	The date of entry into effect of Resolution #632 was postponed from 11 December 2008 (15 days following the publication thereof) to 1 January 2009.	The period of time during which one was allowed to import road transportation vehicles at lower rates became longer	None
299	18 May 2009	Wheat and rye flour (HS code 1101) were excluded from the list of goods to which the simplified procedure for customs clearance could be applied.	Imports of this type of goods became more expensive	None
211	18 September 2010	CPO-SF introduced: customs clearance charges at a single rate of customs duties and taxes in the amount of KGS 1 (US$0.02) per 1 kg or liter were introduced for goods filed as per CPO-SF, and imported as part of baggage not exceeding 500 kg or litres.	Imports of this category of goods became cheaper	None
64	22 February 2011	• The restriction of the volume of 20 tons for wheat was repealed.	• Imports of wheat became cheaper	• None
		• Goods with HS codes 1001, 32-35, 37-40, 44-49, 57, 66, 68-71, 85, 8517120000 were exempt from the procedure established by the Instruction.	• Imports of the categories of these goods became more expensive	• Opportunities for re-exports deteriorated
		• Single rates of customs duties and taxes were increased for goods imported by land transportation, from US$ 0.15 to US$ 0.20 per kg and for goods imported by air transportation, from US$ 0.40 to US$ 0.45 per kg.	• Imports became more expensive, budget revenues per unit of imports improved	• Re-exports became less profitable
		• The list of goods subject to the Instruction was expanded to include parts and accessories of road transportation vehicles, for which the amendment established separate prices for customs clearance and a single rate of customs duties and taxes.	• Imports of these goods became cheaper	• None
95	4 March 2011	The list of goods subject to the Instruction was expanded to include meat (beef, lamb and poultry; HS codes 0201, 0202, 0204, 0207), rice (code 1006), buckwheat (code 10081000), wheat flour or wheat and rye flour (code 110100), vegetable oil (code 1512), white sugar (code 170199100), macaroni products (code 1902).	Imports of these goods became cheaper	None

Resolution of Government of the Kyrgyz Republic		Content of amendments	Significant Impact on:	
#	Date		Imports for domestic consumption	Re-exports
259	27 May 2011	To eliminate the duplication of documents, the customs certificate was excluded from the list of required documents for the importation of road transportation vehicles into the territory of the Kyrgyz Republic.	Imports became easier due to simplified procedures	None
389	14 July 2011	Rates of importation of goods cleared under CPO-SF were increased to 2000 kg or 1500 litres although their value must not exceed 380 calculation parameters.	Imports of these goods became cheaper	None
301	18 May 2012	The list of goods cleared under CPO-SF was expanded to include wheat (HS code 1001) and narrowed to exclude wheat flour (code 110100).	Imports of these goods became cheaper and more expensive, respectively	None
573	17 August 2012	• The procedure established by the Instruction no longer applied to groups of goods with HS code 43 (furs).	• Imports of the category of these goods became more expensive	• Opportunities for re-exports deteriorated
		• Single rates of customs duties and taxes were increased: for goods imported by land transportation, from US$ 0.20 to US$ 0.35 per kg; and for goods imported by air transportation, from US$ 0.45 to US$ 1.00 per kg.	• Imports became more expensive, budget revenues off a unit of imports improved	• Re-exports became less profitable

Source: Resolutions of the Government of the Kyrgyz Republic (Toktom legal database, www.toktom.kg)

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