

# **Bazaars and Trade Integration in CAREC Countries**

# Outline of presentation

- Background to the study: why was it undertaken and its significance?
- Two-pronged approach to estimating bazaar-intermediated trading
  - Surveys: their design and methodology
  - Mirror trade statistics as a tool of analysis
- Bazaars: taxonomy and functions

# Major messages

- Bazaars are not unorganized and undesirable features of a modern market economy, to the contrary:
  - in Central Asia, bazaars form a very sophisticated logistical system effectively distributing products across large areas overshadowing other channels of production and distribution
- Without well-functioning bazaars, the populations would be poorer
  - the cost of trade would be considerably greater,
  - the prices of goods higher and availability more restricted,
  - trade volumes considerably lower,
  - and the powerful welfare-raising effects from re-exports (in which bazaars play a critical role) as well as trade itself would be greatly muted.
- National authorities should foster the development of bazaars in view of the growth, employment-generation and poverty-fighting characteristics of the operations of bazaars.

# Background and significance

- This study examines the role of bazaars in central Asia in promoting trade and raising economic welfare of populations.
- It was prepared in response to a request made by CAREC representatives at ministerial and officials' level meetings in 2008.
- It was triggered by questions about **significance of bazaars** raised in the World Bank report on border trade in CAREC
- This is the first systematic attempt to empirically assess the role of bazaars in Central Asia building on World Bank's study of bazaar trading in Kyrgyzstan
- It presents the findings of surveys of a sample of bazaars, carried out in summer of 2008, in three Central Asian CAREC countries—Kazakhstan, Kyrgyzstan, and Tajikistan, and complemented by statistical analysis of foreign trade intermediated in Central Asia by bazaars

# Goals of the project:

- Identification of the 'map' of 'bazaar' trading activities in terms of sources of supply and direction of flows: hubs and spokes.
- Estimate of the scope and composition foreign trade flows intermediated by bazaars.
- Estimate of welfare effects of bazaars
- Identification of policy implications and developing recommendations

# Two-pronged approach and scope of study

- Two-pronged approach: bazaar surveys and mirror trade statistical analysis
- Surveys, based on semi-structured interviews, sought to assess organization, trade turnover, cost and revenue in sample of 12 bazaars
- Mirror trade statistical analysis examined flows of goods, identified as traded in bazaars, largely unreported in national trade statistics often for legitimate reasons (special customs arrangements for shuttle-trading)

# Surveyed bazaars

- ***International***: Big hub-type bazaars with international reach: Barakholka (Almaty); Dordoi (Bishkek); Karasuu/ Turatali (near Osh); Korvon (Dushabe).
- ***Countrywide/regional bazaars***: Altyn Orda (Almaty); Shanghai (Astana); Madina (Bishkek); Sultoni Kabir (Dushanbe)
- ***City /local bazaars***: Artem (Astana); Karkara (Almaty); Dehkon (Dushanbe ); Panjshanbe\_A (Khujand); Sahovat and Dehkon (Dushanbe)

# Surveyed bazaars are a highly diversified group

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

# Bazaars as an international distribution network

- **Hub-and-spokes pattern** trade intermediation with large international and countrywide bazaars largely involved in wholesale
- **But overlapping concentric circles** encompassing the whole of Central Asia linking together international bazaars, nation-wide or regional bazaars and city/local bazaars together with cross-border trading bazaars;
- **Diverse sources of supply:** domestic products supplied directly by their producers to local bazaars and then shipped to other bazaars to imported products often re-exports intermediated by bazaars.

# Larger ones operate as shopping malls and regional logistics centers

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

# A large portion of imports goes through bazaars

- Around three quarters of surveyed Kyrgyz bazaars' total sales are to foreigners as compared to around five percent of aggregate sales of surveyed bazaars in Kazakhstan and Tajikistan.
- Share of imports in surveyed bazaars' sales varies between 25 percent for food bazaars and 80-100 percent for others
- Their origination varies depending on location with food, clothing and miscellaneous products also from neighboring surveyed countries

# Criteria that a foreign made good has to meet to be 'bazaar good'

- observed presence in bazaars
- consumption-use;
- ease of transport;
- shuttle-trade prone,
- Imports not fully reported in national statistics, of Kazakhstan and Kyrgyzstan (Tajikistan and Uzbekistan do not report to the UN COMTRADE database) as shown in partners' exports of bazaar goods higher than reported in national imports statistics. Partners do not include Central Asian CAREC countries

# Flows of bazaar intermediated imports are large

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

# With Kyrgyz bazaars having emerged as major re-export platforms of mainly Chinese goods

- Kyrgyzstan cannot afford to use domestically all imports of bazaar goods amounting in 2006 to 65 percent of GNI
- Propensity to import bazaar goods is unusually with their share in total mirror imports of 55% well above in other countries (e.g., Uzbekistan and Tajikistan—18% and 16%)
- Foreign sales in two largest bazaars in Kyrgyzstan, Dordoi and Karasuu, account for 75% and 85% of their total sales
- Bazaar goods originating in China account for 90% of bazaar imports and re-exported through two major routes (see Map)

# Geography of bazaar intermediated trade in Central Asia

- Re-exports from Kyrgyzstan mainly go to Uzbekistan, Kazakhstan and Russia and Tajikistan
- Kyrgyzstan has emerged as supplier of clothing to bazaars across Central Asia
- Construction materials, chemicals, some household goods and foods traded in bazaars originate in neighboring Central Asian CAREC countries

# Two channels of flows of imports of bazaar goods from China into Central Asia



# Employment effects of bazaars

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

# Income effects of bazaars

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

# Indirect welfare effects: important externalities

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

# Recommendations

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

# Surveyed bazaars are not an icon of the past

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