



## ***Visiting Fellows Program***

Drivers of Kazakhstan and Kyrgyz Republic's Cross-Border Trade with China: The Voices of Business People

May, 2025

Zalina Enikeeva



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China: The Voices of Businesspeople**

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**May 2025**

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# Abstract

Historically, small and medium-sized enterprises have been the driving force behind Kazakhstan and Kyrgyz Republic's trade with China. The emergence of e-commerce presents both opportunities and challenges for these businesses. This study delves into the experiences and strategies of these business actors to uncover the key drivers of these trade relationships. It also examines the evolving role of the newly established Xinjiang Pilot Free Economic Zone in facilitating trade flows.

Kazakhstan and the Kyrgyz Republic exhibit distinct patterns in their trade with China that reflect their varying levels of re-export activity and logistical infrastructure. Khorgos has emerged as a vital logistics hub for China-Kazakhstan trade, while Kyrgyzstan Republic relies on markets like Dordoi, Madina, and Kara-Suu. Kazakhstan is enhancing its role as a key transit hub in the Middle Corridor, while Kyrgyz Republic strategically leverages its border crossing points to strengthen regional trade integration. The Xinjiang Uyghur Autonomous Region plays a pivotal role in supporting regional development, and the forthcoming China–Kyrgyz Republic–Uzbekistan railway promises to further enhance trade connectivity.

Although previous studies have explored macroeconomic trends and general patterns of trade and entrepreneurship between these countries, the perspectives of businesspeople directly involved in cross-border, including e-commerce, remain largely underrepresented in academic literature. This study uniquely focuses on the “voices of businesspeople” through semi-structured qualitative interviews with entrepreneurs in Kazakhstan and Kyrgyz Republic and analyzes their strategies for trade with China. The findings provide actionable insights for policymakers, trade facilitators, and business stakeholders, contributing to a more nuanced understanding of the practical realities of the region's cross-border trade and e-commerce.

**Keywords:** Kazakhstan, Kyrgyz Republic, China, e-commerce, cross-border trade, re-export, free trade zone

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# Abbreviations

B2B – business to business  
B2C – business to clients  
BCP – border crossing point  
C2C – client to client  
CA – Central Asia  
CAREC – Central Asia Regional Economic Cooperation  
CBEC – cross-border e-commerce  
EAEU – Eurasian Economic Union  
ECDB - European Company Database  
FEZ – free economic zone  
FTZ – free trade zone  
IRU - International Road Transport Union  
KGS – Kyrgyz Som  
KR – Kyrgyz Republic  
KZT – Kazakh Tenge  
NSC KR – National Statistic Committee of the Kyrgyz Republic  
NTM – non-tariff measures  
PRC – People’s Republic of China  
QR - quick response  
RK – Republic of Kazakhstan  
SEZ – special economic zone  
SMEs - small- and medium-sized enterprises  
SPS - sanitary and phytosanitary measures  
SWOT – strengths, weaknesses, opportunities, and threats  
TBT – technical barriers to trade  
TITR - Trans-Caspian International Transport Route  
UN – United Nations  
UNCTAD - United Nations Conference on Trade and Development  
USD - United States dollar  
VAT - value-added tax  
WTO – World Trade Organization  
XUAR – Xinjiang Uyghur Autonomous Region

# 1. Introduction

For decades, the People's Republic of China (PRC) has been the main trade partner for all Central Asian countries, including Kazakhstan and the Kyrgyz Republic. As a WTO member since 1998, the Kyrgyz Republic had enjoyed a liberal trade regime, especially in re-exporting Chinese goods to neighboring countries and Russia (Kaminski & Mitra, 2012; Mogilevskii, 2012). However, the Kyrgyz Republic became a member of the Eurasian Economic Union (EAEU)<sup>1</sup> in 2015, and the accession altered this dynamic due to harmonization of its import tariffs with those of EAEU member-states. Some temporary exemptions from the EAEU Single Customs Tariff were allowed on 166 tariff lines that were required for production and consumption in the domestic market.<sup>2</sup> Kazakhstan joined the WTO in 2015, which allowed it, under certain conditions, to apply lower import rates than those in the EAEU. Goods cleared at WTO rates must be used within Kazakhstan, and exporting to the EAEU requires customs clearance at the EAEU rate,<sup>3</sup> which makes Kazakhstan's trade with China more profitable than the Kyrgyz Republic's.

Due to the COVID-19 pandemic, geopolitical tensions, logistics disruptions, and sanction-driven policies, global trade has experienced significant fluctuations and disruptions in both regional cooperation and trade. Since 2022, the Central Asian region has experienced growing dynamics in mutual trade and the launch of initiatives. Again assuming the role of re-exporters of Chinese commodities to Russia, trade volumes between China and Europe through Central Asia have increased more than fourfold (Azour, 2024).

An additional driver of Central Asian cooperation with the PRC was the China (Xinjiang) Pilot Free Trade Zone (FTZ), established through a State Council circular in 2023. This FTZ, encompassing Urumqi, Kashgar, and Khorgos and over 179.66 square kilometers, is set to become a high-quality development model for central and western China, fostering regional and international trade combined with innovative growth in the digital economy.<sup>4</sup> Over five years, the zone is expected to focus on improving the business environment, enhancing investment and trade facilitation, and promoting advanced and emerging industries, additionally driving the region's development.

Along with the creation of the Xinjiang Pilot FTZ, Xinjiang has intensified cooperation with neighboring Kazakhstan and the Kyrgyz Republic. An agreement between the Cabinet of Ministers of the Kyrgyz Republic and the People's Government of Xinjiang aims to enhance cross-border e-commerce (CBEC) by improving mail processing and establishing mail exchange points.<sup>5</sup> On October 25, 2023, the Border Cooperation Program for 2023-2027 was signed, with a focus on trade, investment, transport, postal services, customs, agriculture, mining, energy, tourism, and finance in specific border regions of the Kyrgyz Republic and Xinjiang.<sup>6</sup> Similarly, Xinjiang and Kazakhstan have initiated partnerships in agriculture, energy,

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<sup>1</sup> The EAEU member states are Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia. Prior to the EAEU, Belarus, Kazakhstan, and Russia formed a Customs Union in 2010 to deepen economic integration and eliminate internal borders. Armenia and Kyrgyzstan joined the EAEU in 2015.

<sup>2</sup> [https://www.wto.org/english/tratop\\_e/tpr\\_e/s411\\_e.pdf](https://www.wto.org/english/tratop_e/tpr_e/s411_e.pdf)

<sup>3</sup> [https://www.wto.org/english/news\\_e/news15\\_e/kazakhannex\\_e.pdf](https://www.wto.org/english/news_e/news15_e/kazakhannex_e.pdf)

<sup>4</sup> <https://www.chinadailyhk.com/hk/article/359172>

<sup>5</sup> <https://www.gov.kg/ru/post/s/23328-minkab-tragasy-akylbek-zhaparov-menen-ker-suar-kompartiyasynyn-partiyalyk-komitetinin-katchysy-ma-sinzhyudun-sylshlrnn-zhyyyntygynda-kol-koyulgan-dokumentterdin-tizmesi>

<sup>6</sup> <https://mineconom.gov.kg/ru/post/9747>

transportation, and tourism, with proposals for constructing terminals in Almaty and Urumqi and increasing flights.<sup>7</sup> Kazakh border region officials have also suggested various cooperation initiatives.

As a naturally located bridge and transit region between eastern Asia and the European end of the Eurasian continent through the Central Asian countries and Russia, Xinjiang Province has high economic potential. Moreover, it accounts for the bulk of the Central Asia Regional Economic Cooperation's (CAREC) trade with China's western provinces and with the east coast and Central Asia.<sup>8</sup> This partnership is not limited only to geographical proximity but is closely linked to Central Asia through historical, cultural, religious, and ethnic ties. The Indigenous peoples of Xinjiang share cultural, religious, and linguistic ties with the people of the Central Asian countries. Key ethnic groups include Kazakhs, Kyrgyz, Tajiks, `Dungan, and Uzbeks, with the Uyghurs being the largest minority and region's namesake. In 1999, Xinjiang was marked by its ethnic diversity, with minorities comprising 61.28% of its population (Loughlin & Pannell, 2001). Following the Soviet Union's collapse, Xinjiang quickly established economic ties with Central Asia by opening a new rail line and air service (between Urumqi and Almaty) and, in 1995, 11 border posts for commerce, primarily for local traffic. Among these, three major ports—Druzhba and Khorgos (for Kazakhstan) and Torugart (for Kyrgyzstan)—facilitated large-scale trade. Additionally, an FTZ was established in Naryn, Kyrgyzstan. Thus, Central Asia became crucial for Xinjiang's trade, serving as the main channel for inland and coastal Chinese products to reach the region, completely changing the Central Asian bazaars (Horak, 2014). After a decline in regional partnerships during the 2010s due to various factors, a new phase of cooperation is now emerging.

Historically, trade between the Kyrgyz Republic, Kazakhstan, and China has been framed as a function of high-level agreements and major industries. However, a closer examination reveals that the true engine of this trade is the dynamic activity of small and medium-sized enterprises (SMEs)<sup>9</sup> in Central Asian countries. Additionally, while traditional cross-border trade continues to dominate, the rise of e-commerce has introduced new trends, presenting both opportunities and challenges for SMEs. Given the significant role of SMEs in Kazakhstan (contributing 36.5% of GDP) and Kyrgyzstan (accounting for 43.3% of gross value-added in GDP), these businesses are well-positioned to leverage the expanding trade opportunities with China. As the global leader in cross-border e-commerce development, the PRC has played a pivotal role in shaping these evolving dynamics. While previous studies have examined macroeconomic trends and described entrepreneurship (Abduvakhobov, 2021; Kourmanova, 2015; Tadjibaeva, 2019), the voices of businesspeople actively engaged in cross-border trade remain underrepresented in academic discourse.

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<sup>7</sup> <https://primeminister.kz/ru/news/suar-knr-predlagaet-kazakhstanu-sotrudnichestvo-s-krupnymi-kompaniyami-gonkonga-i-makao-28707>

<sup>8</sup> <https://www.adb.org/sites/default/files/project-documents/39655-prc-rrp.pdf>

<sup>9</sup> In the Kyrgyz Republic, SMEs are defined by the National Statistic Committee based on employee numbers by sector. For agriculture, mining, manufacturing, and construction, small enterprises have up to 50 employees, while medium-sized ones employ 51 to 200. In sectors like retail, hospitality, transport, finance, real estate, healthcare, education, and social services, small enterprises have up to 15 employees, and medium-sized ones range from 16 to 50. The SME sector also includes individual entrepreneurs and peasant farms, which contribute significantly to value added. In comparison, in Kazakhstan, small enterprises are defined as having up to 100 employees, while medium-sized ones employ 101 to 250, without separation of occupation sectors.

This study seeks to fill this gap by analyzing the drivers of Kazakhstan's and Kyrgyz Republic's trade with China through the experiences and strategies of business actors.

The scope of the study includes:

- Exploring the drivers of the cross-border trade of SMEs in Kazakhstan and the Kyrgyz Republic with China,
- Investigating Xinjiang's role in this trade,
- Analyzing the digital aspect of trade, particularly utilization of Chinese e-commerce platforms by businesses in the Kyrgyz Republic and Kazakhstan.

This study is based on qualitative interviews with businesspeople involved in cross-border trade, providing firsthand insights into the opportunities and challenges they face. To structure the analysis, a strengths, weaknesses, opportunities, and threats (SWOT) framework is applied to examine five key trade strategies utilized by companies in both countries that trade with China. Consequently, the research findings contribute to a more nuanced understanding of the practical aspects of cross-border trade and cross-border e-commerce (CBEC) and offer valuable insights for policymakers, trade facilitators, and business stakeholders.

## 2. Literature Review

The PRC, the largest economy in the CAREC region, remains a major global trading nation despite a decline since 2020 in some exports and imports. The cross-border trade between China, Kazakhstan, and the Kyrgyz Republic has undergone significant transformations over the past three decades, driven by economic liberalization, regional trade agreements, and China's Belt and Road Initiative. As landlocked economies, both Kazakhstan and the Kyrgyz Republic rely heavily on trade with China, particularly through Xinjiang, which serves as a major trade gateway for Central Asia. However, the trade structures, policies, and logistical challenges each country faces differ, shaping distinct patterns of engagement with China.

Thus, China's main export destinations are the United States (16.22%), Hong Kong, China (8.28%), Japan (4.81%), the Republic of Korea (4.53%), and Vietnam (4.09%). Notably, Kazakhstan (0.46% of total exports) and the Kyrgyz Republic (0.43%) are not even among China's top twenty export destinations. As for Kazakhstan, its main export destination is Italy (17.85% of total exports), followed by China (13.74%), Russia (11.53%), the Netherlands (6.97%), and the Republic of Korea (5.92%). Only 0.98% of Kazakhstan's exports go to Kyrgyzstan. By contrast, the Kyrgyz Republic's main export destinations are the Russian Federation (47.43% of total exports), Kazakhstan (18.22%), Uzbekistan (10.49%), Turkey (6.18%), and the United Arab Emirates (4.47%). In comparison, exports to China account for only 2.7% of Kyrgyzstan's total exports.

The bilateral trade patterns among these three countries also differ (Table 1). China imports fuels, minerals, metals, chemicals, and stone and glass products from Kazakhstan and the Kyrgyz Republic. In return, the Central Asian countries import primarily textiles and clothing, footwear, machinery and electrical items, and transportation equipment from China. By comparison, trade between Kazakhstan and the Kyrgyz Republic primarily involves food products, vegetables, machinery and electrical items, metals, chemicals, and textiles and clothing.

Table 1: Bilateral trade share, 2022

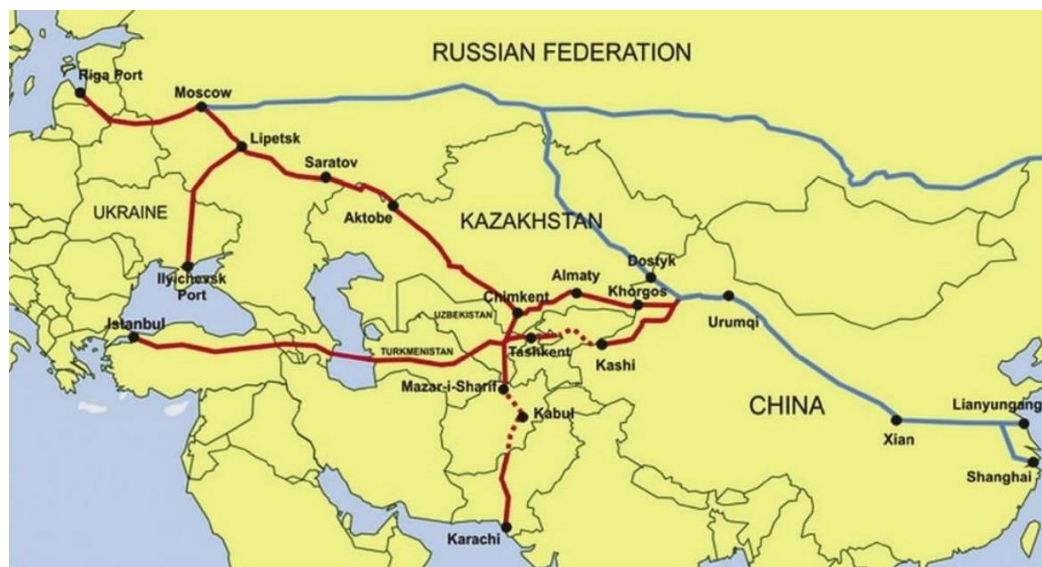
China exports to Kazakhstan	Export Product Share (%)	China exports to Kyrgyzstan	Export Product Share (%)	Kazakhstan exports to China	Export Product Share (%)	Kazakhstan exports to Kyrgyzstan	Export Product Share (%)	Kyrgyzstan exports to China	Export Product Share (%)	Kyrgyzstan exports to Kazakhstan	Export Product Share (%)
Textiles and Clothing	27.27	Textiles and Clothing	52.54	Fuels	51.3	Food products	22.9	Minerals	58.83	Minerals	24.91
Mach and Elec	26.27	Footwear	12.89	Minerals	27.46	Mach and elec	20.73	Fuels	30.27	Stone and glass	15.48
Miscellaneous	9.73	Mach and Elec	10.08	Chemicals	8.42	Metals	9.83	Hides and skins	2.1	Metals	12.12
Transportation	7.23	Miscellaneous	5.85	Metals	7.48	Chemicals	8.86	Metals	1.94	Food products	10.44
Footwear	7.03	Hides and Skins	4.27	Vegetables	4.3	Fuels	8.76	Food products	1.91	Textiles and clothing	8.86

Source: WITS database

For three decades, the flourishing cross-border trade between Kyrgyzstan and China has been exemplified by markets like Dordoi and Madina in Bishkek and Kara-Suu in Osh, which act as key hubs for importing goods—primarily from China—through both formal and informal channels. These goods are often reexported, sometimes with minimal value addition, to other regional economies, highlighting the Kyrgyz Republic’s role as a vital trade intermediary in Central Asia (World Bank, 2020).

Kazakhstan engages in re-exporting Chinese goods to a lesser extent than the Kyrgyz Republic does due to a more diversified trade composition, stricter customs and trade regulations, and its population’s higher purchasing power. Discussions about trade between China and Kazakhstan frequently center on Khorgos (Figure 1), designed as a major logistics and transportation hub on their shared border. Khorgos, a key gateway for trade and tourism between China and Kazakhstan, is home to the Khorgos International Center. This hub facilitates economic cooperation and duty-free trade, allowing exports of up to 8,000 yuan from China and 500 euros or 25 kg monthly from Kazakhstan.<sup>10</sup> Originally envisioned as a tourist destination, Khorgos has evolved into a thriving retail and transit center. Meanwhile, Barakholka, a sprawling market on the outskirts of Almaty, serves as a vital economic hub, offering affordable goods primarily from China alongside local and international products and employing around 250,000 people in some years (Spector, 2008; Kumenov, 2018). Despite its significance, Barakholka’s scale and influence are overshadowed by the Kyrgyz Republic’s Dordoi bazaar, Central Asia’s largest and most prominent wholesale market.

Figure 1: Existing transport routes from China with new China-Kyrgyzstan-Uzbekistan railway route



Source: CAREC Program presentation

([https://www.carecprogram.org/uploads/C2\\_4-%D0%9F%D1%80%D0%B5%D0%B7%D0%B5%D0%BD%D1%82%D0%B0%D1%86%D0%B8%D1%8F-TRSS-PPTX-KGZ-ENG-April-03-2024-1.pdf](https://www.carecprogram.org/uploads/C2_4-%D0%9F%D1%80%D0%B5%D0%B7%D0%B5%D0%BD%D1%82%D0%B0%D1%86%D0%B8%D1%8F-TRSS-PPTX-KGZ-ENG-April-03-2024-1.pdf))

Considering transport connectivity with the PRC, for trade between China and Kazakhstan, road shipments primarily pass through the Horgos–Nur Zholy border crossing points (BCPs), while rail shipments predominantly use the Alashankou–Dostyk BCP. Khorgos handles a significant portion of transit freight

<sup>10</sup> <https://welcome.kz/en/info-cities/zhetysu-oblast/khorgos>

from China.<sup>11</sup> To support growing transit traffic, Kazakhstan Temir Zholy (Kazakhstan Railways) plans to double-track and electrify the Dostyk–Mointy section. The dry ports at the Khorgos and Caspian Sea ports are crucial for connecting China to Europe via Central Asia and the South Caucasus through the Trans-Caspian International Transport Route (TITR), also known as the Middle Corridor. Following geopolitical uncertainties and sanctions on Russia, the Middle Corridor's importance has grown, positioning Khorgos as a potential regional transport and logistics hub. Thus, freight volume in the Middle Corridor in Kazakhstan reached 3.8 million tons in the first ten months of 2024, a 68% increase over the same period in 2023.<sup>12</sup> Container transportation saw a nearly threefold increase, reaching 46,300 TEU (twenty-foot equivalent units). Kazakhstan aims to increase annual container trains from China to 600 and digitize 60% of transportation permits.<sup>13</sup> Thus, Kazakhstan is enhancing its role as a key transit hub in the Middle Corridor, boosting connectivity between China and Europe and solidifying Khorgos' position as a vital logistics center by exploiting railway and road transportation modes.

In contrast, the Kyrgyz Republic relies heavily on road transportation, which accounts for 98% and 96% of passenger and freight traffic, respectively. Although the Kyrgyz Republic does not directly participate in the Middle Corridor, it lies within its influence area through the Lugovaya-Almaty railway connection, presenting opportunities for economic diversification and development (EBRD, 2023). In general, the country's rail network is limited, consisting of two disconnected sections: one in the north entering from Kazakhstan and the other in the south entering from Uzbekistan. The Kyrgyz Republic also has two key BCPs with China: Torugart, which connects to the northern regions and Bishkek and facilitates transit to Kazakhstan and Russia, and Irkeshtam, which links to the southern regions, Osh city, and provides transit routes to Uzbekistan and Tajikistan. A third BCP, Bedel, was opened in September 2024. Located on the China-Kyrgyzstan border, Bedel is approximately 70 kilometers from Wushi County in China's Xinjiang region and about 80 kilometers from Karakol in Kyrgyzstan's Issyk-Kul oblast. Notably, Bedel is only 350 kilometers from Almaty, Kazakhstan, significantly enhancing regional trade connectivity between China, the Kyrgyz Republic, and Kazakhstan.<sup>14</sup> Despite the opening being formal and the lack of necessary infrastructure, this development positions the Kyrgyz Republic as a growing transit link, leveraging its strategic BCPs to strengthen regional trade integration and economic opportunities.

The Xinjiang Uyghur Autonomous Region (XUAR) might play an even bigger role in these regions' development. In 2024, after decades of discussion, the China–Kyrgyzstan–Uzbekistan railway project (Figure 1) was agreed upon and the route approved. The railway will start in Kashgar, China's XUAR, and pass-through the Kyrgyz Republic into Uzbekistan. In the Kyrgyz Republic, it will traverse the Torugart–Arpa–Kosh–Döb–Makmal–Jalal-Abad route, linking Xinjiang with the Naryn region. Once completed, the new railway is expected to carry 15 million tons of freight per year and cut end-to-end transit times by seven days.<sup>15</sup> The PRC is to provide 51% of the railway's construction costs, with the Kyrgyz Republic and Uzbekistan each providing 24.5%.<sup>16</sup> The railway's construction is expected by 2031, adhering to the six-

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<sup>11</sup> [https://www.carecprogram.org/?page\\_id=18721](https://www.carecprogram.org/?page_id=18721)

<sup>12</sup> <https://caspiannews.com/news-detail/middle-corridors-key-developments-future-potential-unveiled-at-cop29-2024-11-22-0/>

<sup>13</sup> Ibid

<sup>14</sup> <https://en.kabar.kg/news/kyrgyzstan-china-open-new-checkpoint-on-border/>

<sup>15</sup> <https://www.railjournal.com/infrastructure/china-kyrgyzstan-uzbekistan-railway-goes-ahead/>

<sup>16</sup> <https://www.globalconstructionreview.com/work-on-8bn-china-uzbek-kyrgyz-railway-to-start-in-october/>

year timeline.<sup>17</sup> Despite the Kyrgyz Republic's notes on the gauge change and uploading happening in the Jalal-Abad region,<sup>18</sup> Kyrgyzstan's business is excited about the planned route as it can boost the Naryn region's economy, which is home to one of Kyrgyzstan's Free Economic Zones (FEZs). An earlier cooperation agreement between the Kashgar FEZ (which is now Xinjiang's FTZ subzone) and Naryn's FEZ had limited impact, but the new railway may enhance regional collaboration. This landmark project is set to transform regional trade dynamics, positioning the Kyrgyz Republic as a critical transit hub in the evolving connectivity landscape of Central Asia when successfully realized.

Xinjiang, China's largest province, boasts vast land, abundant mineral resources, and extensive farmland. Rich in coal, natural gas, petroleum, and uranium, it is strategically important for both domestic energy needs and global exports. Additionally, Xinjiang is a key producer of grain and cotton, supporting food security and the textile industry (Shu & Chen, 2023). Overall, the region has industries developing in agriculture, energy, mining, manufacturing and trade, and logistics.

Starting in the 1990s, Xinjiang has played a crucial role in China's trade with Kazakhstan and the Kyrgyz Republic, sometimes reaching 90% participation in turnover. At that time, cross-border trade was often informal, poorly regulated, and underreported; moreover, it frequently involved smuggling. Linking inland areas to global markets, China exported appliances, electronics, textiles, and food, while imports to China were mainly raw materials, heavy machinery, and vehicles (Peyrouse, 2008). Some evidence notes that in 1992 around 700,000 Kazakhs crossed into China to buy goods for resale at home. By 2002, shop tourism employed nearly half a million Kazakhs, who are estimated to have spent more than \$1 billion in Xinjiang between 1989 and 2003 (Peyrouse, 2008 with references to Syroezhkin). Such "shop tours" led to many stores, restaurants, and bazaars in Xinjiang displaying signs in Russian, alongside Chinese and Arabic, aiming to attract customers from former Soviet countries (Raczka, 1998).

According to Schröder (2024), Urumqi was the starting point for the professional journey of many Central Asian middlemen working with China, who gained their first experiences as students, translators, or traders in the 1990s and early 2000s. They entered the Chinese market in Urumqi, often remaining for months or years to gather expertise, establish networks, and build financial reserves. Later, they moved eastward to cities like Guangzhou, Shenzhen, Foshan, and Dongguan—key hubs for light and textile industries, wholesale markets, and logistics services, bolstered by the advantages of the Special Economic Zone (Schröder, 2024; Zhou et al., 2016).

Additionally, the 1990 opening of the second Eurasia Land Bridge that connects with Kazakhstan near the Alashankou port had a big influence on XUAR development. This bridge, connecting Lianyungang port in China's Jiangsu province to Rotterdam Port in Holland across 30 countries and regions, opened a new page for Xinjiang's international linkages because it reduced the distance by 1,100 kilometers, reducing transport costs by 30% (Li, 2016). Trade with Central Asia has significantly boosted Xinjiang's economic growth. Since 2001, Xinjiang's net exports to the five Central Asian states have contributed more to its GDP growth than the cross-border trade of other Chinese border provinces with their neighbors (Zhenqian & Huaiqin, 2013 referenced in Li (2016)).

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<sup>17</sup> <https://www.railway.supply/en/construction-of-the-china-kyrgyzstan-uzbekistan-railway-has-begun/#:~:text=Railway%20Specifications%20and%20Construction%20Stages&text=This%20will%20significantly%20reduce%20operational,to%20the%20six%20year%20timeline.>

<sup>18</sup> <https://www.railway.supply/zheleznodorozhnyj-proekt-kitaj-kyrgyzstan-uzbekistan-detali-i-perspektivy/>

However, for security reasons, the XUAR became subject to restrictions at the end of the 2010s, and the COVID-19 pandemic further complicated the situation. Due to the international sanctions imposed on Russia, the trade and partnership between these regions did not recover until 2022, when Chinese trade with both the Kyrgyz Republic and Kazakhstan rose to pre-pandemic levels (Lillis, 2022) and cooperation began reopening. Building on this momentum, the opening of Kashgar's first International Road Transport Union accredited Transports Internationaux Routiers Logistics Hub aimed to streamline cross-border logistics by offering customs clearance, warehousing, cargo handling, and route development under one roof, thus reducing transit times and boosting regional trade efficiency, potentially further stimulating regional cooperation.<sup>19</sup> Additionally, the 2024 launch of a 7,500 sqm bonded zone<sup>20</sup> under the "Two Countries—Two Parks" initiative between the Kyrgyz Post, Naryn FEZ, and Kashgar FEZ aims to promote e-commerce and Kyrgyz exports to China. Plans for 48- and 72-hour warehouse-to-warehouse direct transport services are set to revolutionize cross-border trade, further deepening economic integration between the regions (Tukueva, 2023). These developments signal a new phase of economic cooperation, positioning Xinjiang as a key trade hub, while fostering deeper regional integration and expanding opportunities for businesses across China, the Kyrgyz Republic, and Kazakhstan.

Due to the absence of publicly available statistics on trade between Xinjiang and the Central Asian countries, this analysis is based only on state official news. According to some sources, since the FTZ operation began at the end of 2023, cooperation between Xinjiang and Central Asian countries has grown rapidly. Thus, in the first four months of 2024, Xinjiang's trade with the five Central Asian countries increased by 28.1% year-on-year, comprising 67.4% of its total foreign trade. In Kashgar Prefecture, trade exceeded approximately 4.56 billion USD, or a 64.7% year-on-year increase, with Central Asian countries being its top three trading partners.<sup>21</sup> Overall, Chinese customs data for the first quarter of 2024 shows Kazakhstan as Xinjiang's primary trade partner, with trade volumes increasing by 58.8%, while trade with the Kyrgyz Republic grew by only 1.9%.<sup>22</sup>

### 3. E-commerce and SMEs

The Xinjiang Pilot FTZ established in 2023 is the 22nd such zone in China and the first in its northwestern provincial-level regions. Officially launched on November 1, 2023, the Xinjiang FTZ operates as a special economic area where goods can be imported, processed, manufactured, and exported without direct customs intervention. Each FTZ in China focuses on specific industrial and economic goals, supported by tailored incentives aligned with the government's current policy priorities (Sazonov et al., 2024). In 1979, Special Economic Zones (SEZs) were established in Shenzhen, Shantou, Zhuhai, and Xiamen, spurring rapid growth in these cities. These SEZs aimed to attract foreign direct investment (FDI), technology, and managerial expertise to boost China's overall development. They also focused on manufacturing export

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<sup>19</sup> <https://www.iru.org/news-resources/newsroom/first-tir-logistics-hub-opens-western-china-boost-pan-asian-trade>

<sup>20</sup> Bonded (free) warehouses are sites where imported goods can be stored indefinitely without going through customs procedures and paying taxes. Legally, such warehouses are assigned to one of the customs offices, and the goods do not formally cross the customs border before leaving the warehouse. The site itself can be located anywhere in the country.

<sup>21</sup> <http://english.ts.cn/system/2024/06/07/036914099.shtml>

<sup>22</sup> <https://timesca.com/kazakhstan-has-become-main-trade-partner-of-chinas-xinjiang-province/>

goods to increase income; FDI played a crucial role in advancing China's economic progress (Takrim et al., 2022). The academic literature highlights the important role of SEZs in China's poverty reduction and regional development (Yuan & He, 2020; Yitao, 2017).

Some literature provides evidence that SEZs in China have played a role in e-commerce development. Thus, Li (2021) shows that cross-border e-commerce and FTZs create community effects that lower labor costs, increase demand, and improve comparative advantage, which encourages overcoming trade barriers for mutually beneficial trade outcomes. SEZs served as a testing ground for legal and technological reforms related to digital trade. Since China's first Comprehensive Cross-Border E-Commerce Pilot Zone was established in 2015, the initiative has expanded to 165 cities, adopting the "Six Systems, Two Platforms" model pioneered in Hangzhou. This model streamlines trade by enabling data exchange among key government agencies, facilitating customs clearance, tax administration, and foreign exchange. According to a UNESCAP study (2024), e-commerce firms benefit from improved financial and logistics services, which reduce financing, remittance, and transportation cost challenges. Additionally, the 1210<sup>23</sup> bonded import model, introduced in 2014, has been progressively expanded, with a 2021 policy extending its scope to free trade zones, bonded logistics centers, and other special trade areas (UNESCAP, 2024).

Given these advancements, China has unsurprisingly emerged as a global leader in e-commerce. By 2023, China had 915.1 million online shoppers, contributing nearly 43% to the country's GDP,<sup>24</sup> while the United States had 270.11<sup>25</sup> million online shoppers. The foundation for China's e-commerce boom was laid as early as 2014, when many regions adopted cross-border e-commerce development strategies, significantly shaping the growth of SMEs. This transition enabled rapid expansion of platforms like Tmall.HK, Kaola, Jumei, Matou, and Red, leading to a more structured and integrated phase in the sector's development (Yue, 2017). Even before these initiatives, China's e-commerce landscape was shaped by pioneers like 8848.com, the country's first domestic B2C e-commerce platform, and Alibaba, which initially focused on B2B transactions. The launch of Taobao in 2003 by Alibaba further revolutionized the industry, establishing a robust C2C marketplace. By 2020, online shopping had become an essential consumption method for Chinese consumers (Deng, 2021).

A key factor driving this expansion has been the rise of digital payment systems such as Alipay and WeChat Pay, which transformed the online shopping experience by offering greater convenience. In 2017, China's mobile payment market experienced a 209% year-on-year surge, with Alipay controlling 54% of the market and WeChat Pay accounting for 38% (Shen, 2020). The impact of cross-border e-commerce has also been significant, with China accounting for over 40% of total import-export transaction value in 2023. Notably, B2C export e-commerce has been dominated by specific product categories: clothing, shoes, and accessories (23%), followed closely by computer, communication, and consumer (3C) electronics (22%) and household products (18%).<sup>26</sup> Among China's top e-commerce platforms, JD.com, Taobao, Tmall.com, Meituan.com, and 1688 have consistently ranked as the most popular among domestic and international consumers.

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<sup>23</sup> 1210 refers to "online shopping bonded import mode" and is applicable in CBEC retail importation pilot cities only

<sup>24</sup> <https://techreport.com/statistics/software-web/china-ecommerce-statistics/>

<sup>25</sup> <https://www.sellerscommerce.com/blog/ecommerce-statistics/#:~:text=The%20Global%20eCommerce%20sales%20will,rate%20compared%20to%20physical%20stores>

<sup>26</sup> Ibid.

By contrast, the Kyrgyz Republic and Kazakhstan have not achieved the same level of e-commerce development. In Kazakhstan, the Bureau of National Statistics reported that e-commerce accounted for 12.7% of total retail trade (including marketplace transactions) in 2023. A substantial 79.7% of enterprises used e-commerce platforms, while 30.3% operated their own online stores (Kazakhstan National Statistics Office, 2024). Notably, small marketplaces (with fewer than 100 employees) dominated e-commerce, accounting for 92.8% of total retail e-commerce turnover. The most popular product categories included phones and gadgets (27.5%), appliances (11.6%), and computer goods and software (10.1%).

The Kyrgyz Republic's e-commerce landscape remains even less developed. No national statistical data on e-commerce is currently available, although the National Statistical Committee of the Kyrgyz Republic is reportedly working on developing a methodology for tracking online trade. Despite this gap, external sources such as the ECDB provide some insights. In 2023, the Kyrgyz Republic ranked 96th<sup>27</sup> in global e-commerce (out of 196 countries), compared to Kazakhstan's 65th position.<sup>28</sup> Electronics (22.8%), hobby and leisure products (22.1%), and fashion (18.3%) were among the leading e-commerce categories in Kyrgyzstan.

A major limitation in assessing cross-border e-commerce between China and Central Asian countries is the lack of publicly available statistical data. For instance, if a resident of Kazakhstan/the Kyrgyz Republic makes a purchase from a local marketplace, it is recorded as an e-commerce transaction in national statistics. However, if the same individual in Kazakhstan/the Kyrgyz Republic orders from a Chinese marketplace, the transaction is excluded from local statistics but recorded in China's data. Anecdotal evidence suggests that Central Asian policymakers are negotiating with leading Russian and Chinese marketplaces to make this data more accessible for decision-making.

Despite the lack of official data, agreements between national postal operators and Chinese e-commerce platforms indicate growing trade volumes. In Kazakhstan, for instance, Qazpost partnered with China's YTO Express, reducing delivery times to 10 days; a similar deal is planned with JD.com.<sup>29</sup> This partnership strengthens Kazakhstan's role as a transit hub between China, the EU, the EAEU, and Central Asia. Official figures show that in the first 10 months of 2024, inbound parcels from China to Kazakhstan increased by 67% year-on-year, reaching 4.5 million shipments (Markova, 2024). The growing popularity of Chinese platforms like Temu, alongside established giants such as AliExpress, Taobao, Tmall, and 1688, further highlights this trend. Russian marketplaces like Wildberries and Ozon also continue to attract Kazakh consumers, benefiting from localized interfaces and expanding pickup points (Lipen, 2024). Recognizing the demand for localized platforms, Qazpost and China Communications Construction Co. Ltd. signed a July 2024 agreement to develop a Russian-language version of JD.com, addressing language barriers and enhancing accessibility.<sup>30</sup> The Kyrgyz Republic's national postal operator, Kyrgyz Post, is also establishing partnerships with Chinese marketplaces. For example, it is collaborating with AliExpress to reduce delivery times for international orders. By transitioning 80% of shipments to a new system, goods now reach recipients in the Kyrgyz Republic within 20 days, with most arriving in under 30 days. To further streamline distribution, Kyrgyz Post is opening a sorting center in Osh, eliminating the current 30-day routing through

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<sup>27</sup> <https://ecommercedb.com>

<sup>28</sup> <https://ecommercedb.com/markets/kz/all>

<sup>29</sup> <https://www.yicaiglobal.com/news/ciie-kazakhstan-seeks-closer-digital-ties-with-china-on-e-commerce-investment>

<sup>30</sup> <https://invest.gov.kz/media-center/press-releases/kazakhstan-i-kitay-podpisali-dokumenty-na-3-7-mlrd/>

Tashkent.<sup>31</sup> Despite these improvements, the e-commerce market segment in the Kyrgyz Republic remains relatively small compared to that in Kazakhstan.

Notably, Kazakhstan's users rely on Kaspi.kz, alongside Russian and Chinese marketplaces, for daily-needs purchases. Joint Stock Company Kaspi.kz offers payments, marketplace, and fintech solutions through its three segments: Payments, Marketplace, and Fintech Platforms.<sup>32</sup> It has shown strong financial performance and partnered with Alipay+, enabling Kazakh travelers to pay without cash at over 80 million Chinese retail locations via QR codes in the Kaspi.kz app.<sup>33</sup> With visa-free travel between Kazakhstan and China, Kazakh citizens no longer need to install Alipay or WeChat for payments in China.<sup>34</sup> The Kyrgyz Republic lacks agreements similar to those of Kazakhstan's Alipay+ integration, despite the growth in its local mobile banking platform, MBank, which is owned by Kyrgyzstan OJSC. However, MBank users can access state services, create e-wallets, and make QR code payments through the app. The platform is also developing its own marketplace option, which is expected to boost domestic online trade and accelerate financial services digitalization in the country. These advancements could significantly enhance the local e-commerce ecosystem.

Russian marketplaces like Wildberries and Ozon are popular in both countries, not only for purchasing goods but also as platforms for SMEs to sell local products. In the first half of 2023, the Kyrgyz Republic saw a 2.6-fold increase in sales on Wild berries, with 10,141 enterprises selling items like sporting goods, furniture, and clothing, offering local businesses new opportunities to expand their reach and tap into broader markets such as the EAEU market.<sup>35</sup> Meanwhile, in 2022, over 82,000 Kazakh entrepreneurs sold on Wild berries,<sup>36</sup> while 7,000 Kazakh products were listed on Alibaba in 2023, with food and beverages making up 40.7% of exports.<sup>37</sup> Despite these advancements, the Kyrgyz Republic's e-commerce growth is primarily driven by Russian platforms, while Kazakhstan benefits from a more diversified landscape, reflecting differences in digital literacy and market strategies. This contrast is evident in the UNCTAD B2C E-commerce Index<sup>38</sup> (Figure 2), which measures a country's readiness for online shopping. In 2020, Kazakhstan scored 68.2, ranking 60th out of 152 economies, whereas the Kyrgyz Republic ranked 97<sup>th</sup> with a score of 44.3, highlighting Kazakhstan's stronger e-commerce infrastructure (Figure 3).

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<sup>31</sup> <https://www.pplo.kg/en/news/95/>

<sup>32</sup> <https://finance.yahoo.com/quote/KSPI/#:~:text=Joint%20Stock%20Company%20Kaspi.kz%2C%20together%20with%20its%20subsidiaries%2C,segments%3A%20Payments%20Platform%2C%20Marketplace%20Platform%2C%20and%20Fintech%20Platform.>

<sup>33</sup> <https://fintech.global/2024/05/06/kaspi-kz-alipay-partner-for-seamless-china-payments/>

<sup>34</sup> Alipay and WeChat are two of the most popular digital platforms in China, widely used for a range of services beyond simple messaging or payments

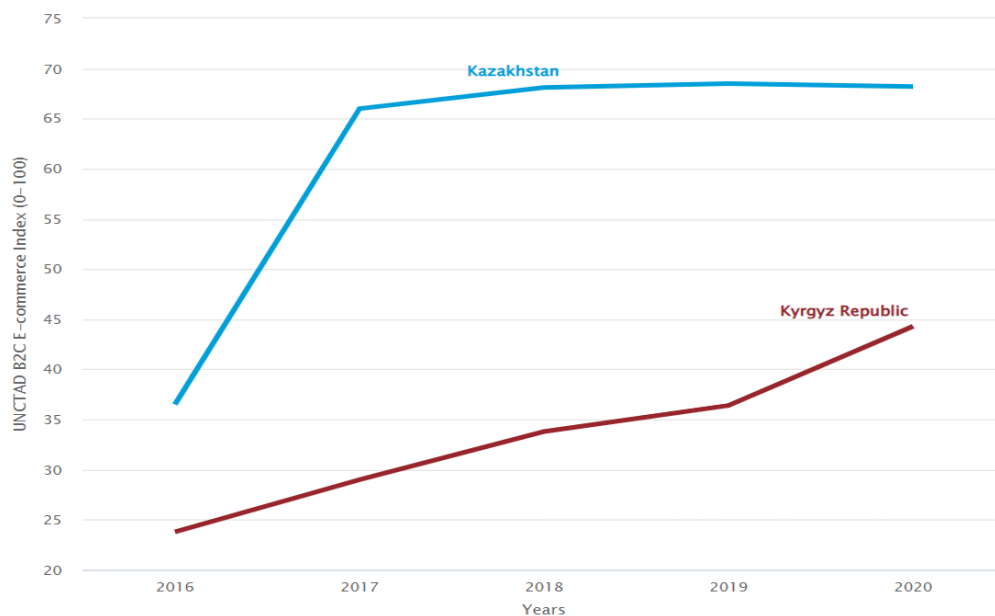
<sup>35</sup> [https://retail-loyalty.org/news/prodazhi-produktsii-iz-kyrgyzstana-na-wildberries-vyrosli-do-9-2-mlrd-rub/?utm\\_source=yxnews&utm\\_medium=desktop](https://retail-loyalty.org/news/prodazhi-produktsii-iz-kyrgyzstana-na-wildberries-vyrosli-do-9-2-mlrd-rub/?utm_source=yxnews&utm_medium=desktop)

<sup>36</sup> [https://forbes.kz/articles/na\\_wildberries\\_prodali\\_kazahstanskih\\_tovarov\\_na\\_1\\_mlrd\\_rubley\\_zh\\_god](https://forbes.kz/articles/na_wildberries_prodali_kazahstanskih_tovarov_na_1_mlrd_rubley_zh_god)

<sup>37</sup> <https://www.retail.ru/rbc/pressreleases/na-wildberries-kolichestvo-kazahstanskikh-postavshchikov-vyroslo-v-7-5-raz/>

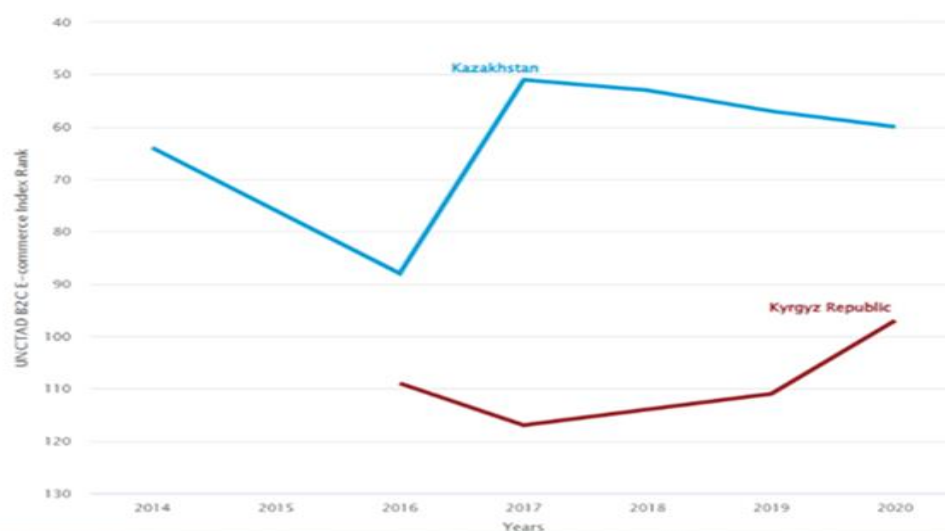
<sup>38</sup> The share of individuals using the internet, share of individuals aged 15 and older with an account, number of secure internet servers, and Universal Postal Union (UPU) Postal Reliability Score.

Figure 2: UNCTAD B2C E-commerce Index (1-100):



Source: <https://prosperitydata360.worldbank.org/en/dataset/UNCTAD+B2C>

Figure 3: UNCTAD B2C E-commerce Index Rank



Source: <https://prosperitydata360.worldbank.org/en/dataset/UNCTAD+B2C>

Digital literacy and widespread use of online payments are essential for driving e-commerce and digital trade, as they enhance user trust, engagement, and business growth (Adel, 2024; Diseiye et al., 2024). Adopting online payment systems not only streamlines transactions and reduces cash dependency but also encourages businesses to expand their digital footprint, making e-commerce more accessible and efficient (Li et al., 2024). However, the level of e-commerce development varies between Kazakhstan and the Kyrgyz Republic. Research by the CAREC Institute indicates that Kazakhstan has a more advanced digital trade infrastructure, benefiting from faster and more efficient payment systems, better logistics, and stronger cybersecurity measures (Razzaq et al., 2022; CAREC Institute, 2022). Additionally, Kazakhstan has made more progress in e-commerce legislation, though both countries have established legal frameworks covering e-transactions, e-documents, e-signatures, international certificates, foreign signatures, and data privacy (CAREC Institute, 2021). One key difference is that Kazakhstan has specific laws protecting consumer rights in e-commerce, whereas the Kyrgyz Republic relies on broader, less targeted regulations. Despite these differences, both countries have enacted general legislation that addresses cybercrime, ensuring a basic level of security for online transactions.<sup>39</sup> Beyond legal and digital infrastructure, trade policies also shape e-commerce dynamics in both nations. As members of the EAEU, Kazakhstan and the Kyrgyz Republic follow common regulations on personal imports, including a *de minimis* threshold that was lowered from 1,000 euros to 200 euros and set at 31 kilograms per shipment. If an import exceeds this threshold, a 15 percent customs duty is applied (Suvorov, 2025). This policy shift may encourage importing lower-value, lower-quality goods as a way to avoid taxation (Yeleussizova et al., 2024). According to Minges and Lazaro (2022), revising the *de minimis* threshold could offer economic benefits by striking a better balance between consumer affordability and tax revenue while also supporting SMEs engaged in cross-border trade.

When discussing SMEs, existing literature primarily highlights their use of online marketplaces as key sales channels to expand customer reach, reduce costs, and scale their operations (Lamba & Gupta, 2024; Borde & Shelke, 2023). Many SMEs integrate online marketplaces to complement their offline sales, using them as an additional revenue stream (OECD, 2023). However, the literature on SMEs' use of online strategies in Kazakhstan and the Kyrgyz Republic is limited, with most studies focusing on promoting products or services in local markets. There is no evidence of SMEs exploiting import strategies from Chinese marketplaces to resell goods locally.

Examining SMEs' broader economic contributions and trade patterns is essential to better understand their potential to leverage online import strategies. According to national data, in 2023, SMEs in the Kyrgyz Republic contributed 40.5% of GDP, with an average share of 39.7% from 2019 to 2023. They employed 106.3 thousand people, accounting for 4.0% of the total workforce. SMEs also play a major role in foreign trade, representing 52.8% of total trade turnover, including 39.9% of exports and 56.3% of imports. However, no information on the type of imported commodities is available. Kazakhstan's statistics lack the same import-export commodities information for SMEs. Nevertheless, as of January 1, 2024, 2,178,951 active SMEs existed with the largest shares in wholesale and retail trade (35.9%), other services (15%), and agriculture (14.5%). Almaty (28.2%) and Astana (19.2%) had the highest concentration of registered legal entities. Despite their economic significance, SMEs in both countries rely heavily on informal trade networks, which help bypass bureaucratic hurdles and reduce costs but also pose risks such as legal

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<sup>39</sup> On July 17, 2024, the country adopted the "Law on Cyber Security of the Kyrgyz Republic," which established a unified system aimed at protecting individuals, society, and the state by ensuring the digital stability of the nation's information infrastructure.

uncertainties and limited access to financial services (Kapalova, 2014; Holzhacker & Skakova, 2019). In Kazakhstan, while the economy is more formalized, SMEs still engage in informal trade practices, especially in border regions and sectors like agriculture and textiles (OECD, 2018; EBRD, 2023).

A significant gap in the literature is a lack of focus on strategies employed by Kazakh and Kyrgyz SMEs in trade with China, particularly trade through e-commerce. Schröder (2024) describes the Kyrgyz middlemen in Guangzhou who work with Russian-speaking clients, organizing trade, liaising with manufacturers, and managing shipments to Central Asian countries, Russia, and Azerbaijan. Based on fieldwork after 2013, the author examines their roles as key actors in formalized, service-oriented value chains, bridging informal and formal economies in cross-border trade, not including the online component. While some studies highlight local product promotions on marketplaces, little exploration has been performed regarding import strategies or the challenges SMEs face when entering the Chinese market. These challenges include cultural and language barriers, complex regulatory requirements, intense competition, and logistical difficulties. Additionally, non-tariff measures (NTMs), such as sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT), significantly impact exports from the Kyrgyz Republic and Kazakhstan, driven by China's demand for higher-quality and safer products (Niu, 2018; Li et al., 2022).

In summary, the literature review reveals a significant gap in understanding the perspectives of Kazakh and Kyrgyz businesses concerning partnerships with Chinese counterparts and the drivers of cross-border cooperation, including the e-commerce component. Existing marketplace research is limited, focusing primarily on promoting local products rather than exploring the potential Chinese platforms have for import-driven business models. This study aims to address these gaps by investigating the under-researched dynamics of cross-border partnerships and strategic use of Chinese marketplaces for import-driven business strategies used by SMEs.

## 4. Research Methodology

To address the gaps identified in the literature, this study employs a mixed-methods approach for exploring the strategies utilized by Central Asian SMEs in establishing partnerships with the PRC. The research methodology combined desk research with qualitative data collection, supported by a SWOT analysis to evaluate the findings. Central to the qualitative approach were in-depth interviews conducted with Kazakhstan and the Kyrgyz Republic SMEs engaged in trade with the PRC. Using snowball sampling, a total of 16 interviews were conducted—11 in Kyrgyz Republic and 5 in Kazakhstan—with each interview lasting approximately 30 minutes.

Additionally, two interviews were conducted with leaders of business associations who collectively represent 52 members, 21 of whom are actively involved in trade with China. These association members are entrepreneurs who own and operate businesses in the Kyrgyz Republic, producing goods for both the domestic and international markets. Among them, some import Chinese commodities, while others source materials or products from China to manufacture goods locally. The association leaders possess a deep understanding of the challenges faced by their members, particularly in relation to trade with China, making their insights highly relevant for addressing barriers and fostering business growth as they closely work with China by themselves.

All respondents were asked semi-structured, open-ended questions to gather detailed insights. Table 2 provides a comprehensive breakdown of the respondents, including profiles of their respective companies.

Table 2: Profile of respondents

Sectors	<ul style="list-style-type: none"> <li>• Cargo</li> <li>• Sewing industry (seamstresses producing women's clothing in Kyrgyzstan and selling on the local market and on Wildberries marketplace)</li> <li>• Textile industry (suppliers of fabrics, fittings and accessories from Madina bazaar)</li> <li>• Shop of goods for extreme leisure</li> <li>• Clothing and footwear shops</li> <li>• Intermediaries (1) who order commodities online from Chinese marketplaces and resell on the local market and/or Wildberries marketplaces; 2) those who accompany businesspeople during their trips to China and help establishing partnerships between these businesspeople and factories)</li> <li>• Online courses on entering marketplaces (Amazon, Wild berries, AliBaba)</li> </ul>
Branches	Bishkek, Osh, Almaty, Moscow
Number of employees	From 1 to 160
Average years of SME work	3 years (from 1 year to 9 years)

Before conducting the interviews, ethical approval was obtained from the relevant institutional committee. Informed consent was obtained from all participants, either in written or oral form, depending on the participant's preference, with anonymity and confidentiality assured. Participants were provided with detailed information about the study's purpose, their right to withdraw at any time, and how their data would be used. To encourage participation and avoid discomfort, sensitive questions related to revenue, profit, or other financial income with telling exact numbers were excluded from the interviews. To protect privacy, all respondent and business names have been removed from this article. The research followed ethical guidelines to safeguard participants' rights and privacy.

## Study Limitations

1. Business owners are reluctant to disclose the full extent of their trade relationships with China, fearing competitors might copy their strategies or business secrets
2. Permission from Chinese local government representatives is required for a more comprehensive perspective and to conduct interviews with Chinese intermediaries.
3. Reliable data on e-commerce and details of SME import-export operations is scarce.
4. The higher refusal rate among Kazakh businesspeople compared to those in the Kyrgyz Republic, possibly due to the author's location in Bishkek.

This study's SWOT analysis integrates insights from the respondents' perspectives. Given that businesses in Kazakhstan and the Kyrgyz Republic have distinct relationships with China and adopt varying strategies, separate SWOT analyses were conducted for each country.<sup>40</sup> This approach recognizes that what constitutes a threat to businesses in one country may represent an opportunity for businesses in the other.

<sup>40</sup> Note: In cases where certain points in the SWOT analyses are common for both Kazakhstan and the Kyrgyz Republic, a reference to the section where these aspects are discussed in detail is provided. This approach is

## 5. Findings

The research findings show that Kazakhstan and Kyrgyzstan's SMEs employ five strategies in their trade with China. In general, companies in the Kyrgyz Republic and Kazakhstan use at least two primary strategies when trading with China, with the choice and number of strategies often influenced by firm size and resource capacity. Larger companies with greater financial and operational resources are more likely to implement a wider range of strategies to optimize their trade activities. These strategies include:

1. **Direct Trade with Xinjiang:** Given its geographical proximity and established trade infrastructure, Xinjiang serves as a key hub for direct trade. In addition, many Kyrgyzstan and Kazakhstan businesspeople have relatives in Xinjiang who assist in sourcing Chinese commodities and coordinating smooth goods transfer, supporting business operations in these countries. Companies in the Kyrgyz Republic and Kazakhstan frequently engage in cross-border transactions with Xinjiang-based suppliers and distributors, leveraging cultural, regional, and economic possibilities. Additionally, Kazakhstani citizens in the PRC have a visa-free regime for 30 days; their citizens enjoy the option of travelling to Xinjiang at any time convenient for them to find suppliers, contacts, middlemen, etc.
2. **Direct Trade with Southern PRC Regions:** Some companies extend their trade networks to southern China, particularly Guangdong and Zhejiang provinces but also Guangzhou and Shanghai, which are known for their manufacturing hubs and export-oriented industries. This strategy allows access to a broader range of products, factories, and competitive pricing, although it often requires more logistical coordination and higher transportation costs than other strategies.
3. **Orders from Chinese Marketplaces:** E-commerce platforms such as Alibaba, Taobao, Pinduoduo, and 1688.com have become increasingly popular among Central Asian SMEs. These marketplaces enable businesses to source goods directly from Chinese manufacturers and wholesalers, often at lower cost. However, this strategy requires familiarity with digital tools, knowledge of the Chinese language, and reliable payment and logistics solutions.
4. **Repurchase from Local Companies:** Some businesses opt to source Chinese goods indirectly by purchasing from local intermediaries or distributors that have already imported products from China at low prices and in large quantities. This strategy is employed by small shops selling clothes, footwear, apparel, fabrics, fittings and other items, that purchase commodities from domestically located warehouses. This approach reduces the complexity of cross-border trade but may result in higher costs due to added margins.
5. **Utilization of the Khorgos FEZ:** The Khorgos FEZ, located on the Kazakhstan-China border, serves as a critical trade and logistics hub. SMEs use the FEZ to streamline customs procedures, reduce tariffs, and facilitate storing and reexporting goods. Khorgos FEZ is used by SMEs to purchase commodities at cheaper prices and resell on the local market and/or trade centers. This strategy is particularly advantageous for businesses looking to minimize costs and enhance efficiency in cross-border trade.

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intended to minimize repetition while ensuring that the analysis remains comprehensive and focused. Readers are encouraged to refer to the mentioned sections for a deeper understanding of these shared elements.

Adoption of these strategies varies depending on the company's size, industry, and access to resources. Larger firms with greater financial and logistical capabilities are more likely to diversify their approach by combining direct trade and e-commerce to maximize their competitive advantage. In contrast, smaller SMEs may focus on one or two strategies due to resource constraints, often relying on intermediaries or localized trade networks. This strategic diversity highlights the adaptability of Central Asian businesses in navigating the complexities of trade with China.

## 5.1 SWOT analysis for the Kyrgyz Republic's companies

### **Strategy 1. Direct trade with Xinjiang**

<p>Strengths:</p> <p><b>1. Similarities</b></p> <p>Before the pandemic, businesses in Kyrgyzstan extensively engaged in trade with Xinjiang, particularly Urumqi. Xinjiang's diverse population, including Uyghurs, Kazakhs, and Kyrgyz, facilitated cooperation through shared Turkic languages and a common Muslim religion, which plays a pivotal role in fostering trust and mutual understanding. Local Uyghurs are significant traders at the Madina Bazaar in Bishkek, a hub for fabrics, fittings, and other materials essential to the garment industry. Sewing workshop owners source fabrics from this bazaar as well as from other major markets such as Dordoi, Ak-Suu, and Kerben.</p> <p><b>2. Geographical proximity</b></p> <p>The geographical proximity and shared border between the Kyrgyz Republic and Xinjiang enhance transport and logistics connectivity, enabling efficient trade routes, shorter transportation times, and lower logistical costs. This strengthens economic cooperation and facilitates smoother cross-border trade.</p> <p>"Of course, we are interested in trade with Xinjiang – one can say, we share the common border", cargo owner told.</p>	<p>Weaknesses:</p> <p><b>1. Visa-entry regime</b></p> <p>During and after the pandemic, trade with Xinjiang declined. Kyrgyz businesspeople are required to obtain a Chinese visa to visit Xinjiang or other regions of the PRC. This process involves presenting an official invitation letter (TE form) issued by the inviting party, typically a factory in the relevant business sector. Obtaining this TE form can be time-consuming, particularly when dealing with smaller factories, which are often reluctant to engage in such administrative procedures. To expedite the process, many Kyrgyz businesspeople turn to travel agencies based in the Kyrgyz Republic, which offer comprehensive visa assistance services. These services, however, come at a cost, ranging from \$380 to \$500 but provide full support by preparing the whole package of documents necessary to submit to the embassy.</p> <p>Respondents in the garment industry highlighted that fabrics, fittings, and production sewing machines are predominantly manufactured in the southern regions of the PRC, such as Guangzhou, Shaoxing, and Yiwu. Consequently, they have greater business interest in these regions than in others, particularly Xinjiang.</p> <p>"Problems with getting visa to Urumqi forced me to reorient to buying fabrics and fittings in other PRC provinces, where it is much easier to get a</p>
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	<p>visa”, fabrics and fittings owner at Madina bazaar said.</p> <p>Thus, it is often easier for Kyrgyz businesspeople to secure invitations from other Chinese provinces, particularly Guangzhou and Shanghai, rather than Urumqi. Therefore, many opt to travel directly to southern Chinese cities where the visa application process is typically faster and more straightforward.</p> <p><b>2. Lack of factories of interest</b></p> <p>Kyrgyzstan’s businesses are not particularly interested in the factories located in Urumqi. Instead, representatives of factories and manufacturing companies typically operate from warehouses near the wholesale bazaars in Urumqi. When potential clients visit these bazaars, they often encounter locals, such as Uyghurs, Kazakhs, local Chinese Kazakhs, or Kyrgyz Republic, who assist in finding suppliers, translating between languages, and negotiating with company representatives. These local helpers, referred to as "<i>pomogaiki</i>," are often contacted through personal networks. They typically charge 100–200 yuan per day, although in practice, they often receive a 20% commission on purchases made.</p> <p>In addition to the services provided by <i>pomogaiki</i>, businesspeople can seek translation services through online platforms, with fees generally around \$100 per day plus, usually, 10 percent as markup to the purchased volume.</p> <p>“There are many companies providing translation services in Urumqi. One can arrange cooperation with such agencies online before arrival in Urumqi. But businesspeople from Kyrgyz Republic prefer hiring ‘<i>pomogaiki</i>’ who can help not only with translation but find the necessary suppliers, provide the detailed information regarding the business and assist with other things. One can establish long-term partnership with them”, the</p>
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	<p>intermediary working with large-scaled business told.</p> <p>However, Kyrgyz Republic businesspeople often avoid Urumqi due to its limited production and poor product selection, preferring southern China for better prices and variety. Urumqi mainly attracts trade from small-scale businesses, while larger enterprises favor regions with more favorable terms.</p> <p><b>3. Markups</b></p> <p>The fabrics sold at the Madina Bazaar have undergone multiple stages of repurchase and resale. Initially, a large factory in the southern provinces of China manufactures the fabrics and sells them to customers. The first buyer is typically a company that presents itself as a manufacturer, but in reality, it rebrands and resells the fabric. The second buyer is another factory that similarly rebrands the fabric and sells it as though it were produced in-house. Eventually, the fabrics reach Urumqi, where sellers at the Madina Bazaar purchase them. This supply chain is extensive, and at times, fabrics sold at the Madina Bazaar can have as many as five to seven markups, representing multiple rounds of resale.</p> <p>“When looking at the transport documents I found out that the fabrics that I bought from the factory (as I thought at that time) was repurchased several times before delivering to me, I started seeking for the initial factory who manufactures these fabrics. But it appeared that manufacturing factories sell their fabrics only by huge amounts that I cannot afford,” the brand owner shared.</p> <p>This approach of rebranding and reselling is common not only in the garment industry but also across various other sectors (equipment, home products, furniture, etc.).</p> <p><b>4. Low quality</b></p> <p>Owners of sewing warehouses in the Kyrgyz Republic report that fabrics purchased at the</p>
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	<p>Urumqi market are often of inferior quality, with numerous manufacturing defects and outdated designs.</p> <p>Business owners in other sectors have made similar claims regarding quality. Experienced businesspeople who have been operating in the market for a long time prefer to work directly with factories, bypassing imports from Urumqi. However, establishing direct partnerships with factories requires significant financial investment, effort, and time. <b>A more detailed description of working with factories is provided for the “Direct trade with the southern regions of the PRC” strategy.</b></p>
<p>Opportunities:</p> <p><b>1. Affordability for small-scale businesses</b></p> <p>Trade with Xinjiang is well-suited for small-scale businesses. Kyrgyz Republic’s shop owners use industry contacts to send images of needed goods via the WeChat app; negotiate prices, quantities, and delivery dates with Urumqi suppliers; and arrange shipments. This model is fast and convenient, allowing them to order small quantities to test market demand. If demand grows and funds are available, they explore other sourcing and delivery channels for Kyrgyz Republic.</p> <p>“When I started purchasing commodities from China, I got used travelling to Urumqi (it was before the pandemic). After the introduction of lockdown measures, I started purchasing online. My business started to grow with years passed. Then I found out that one can buy the same commodities at a cheaper price from the factories outside of Xinjiang. Now I opened several branches of my shop in Bishkek, and work directly with the factories,” glasses shop owner told.</p> <p><b>2. FTZ Kashgar</b></p> <p>The business sector is optimistic about the China–Kyrgyzstan–Uzbekistan railway, especially as it will pass through Torugart, a key border crossing with China. Naryn’s FEZ, near this crossing, offers local</p>	<p>Threats:</p> <p><b>1. Only imports from Xinjiang, no exports.</b></p> <p>The business sector has made efforts to export local products to China. However, entering the Chinese market remains challenging due to stringent requirements for certificates, licenses, and laboratory tests. Results from in-depth interviews indicate that a collective effort by 30 Kyrgyz Republic-based companies to enter the Alibaba marketplace and sell dried fruits was unsuccessful. In addition to difficulties obtaining the necessary certificates and licenses, these companies were unable to meet China's required product volumes.</p> <p>“Unfortunately, Kyrgyz Republic businesspeople cannot provide the necessary for PRC market volumes,” the head of business association told.</p> <p>Attempts have been made to export products like camel milk, dried fruits, and licorice, but these efforts have largely failed. Regarding Xinjiang, some Kyrgyz Republic’s companies successfully export honey, lamb, and beef to the region, and significant potential exists for mutual trade if non-tariff barriers are removed.</p> <p><b>2. Unprofitable business</b></p>

<p>businesses significant opportunities, with plans to position Naryn as a second Khorgos, enabling duty-free trade of 20-25 kg per person. This could allow businesses to buy Chinese goods and resell them locally at higher profits.</p> <p>Unlike Khorgos in Kazakhstan, which is unpopular among Kyrgyz Republic's citizens due to its poor infrastructure and mainly used by small-scale entrepreneurs, Naryn's proposed duty-free zone is expected to be well-received. This could boost regional development, particularly with Kashgar's FTZ producing goods like fabrics and fittings for the Kyrgyz Republic's market, reducing logistics costs and enhancing regional cooperation.</p> <p><b>3. Installment payments</b></p> <p>Respondents note that working with Xinjiang is convenient in terms of installment payments. Sellers often accommodate buyers by requiring them to pay in full only after the goods have already been sold in the Kyrgyz Republic.</p> <p>"After the COVID-19 pandemic, Chinese sellers are open to suggestions to wait for the whole payment until we resell their products locally," several entrepreneurs told.</p>	<p>The current challenge is that, despite measures implemented by both states, business operations between these regions may continue to be inefficient and expensive.</p> <p>Thus, in 2024, a delegation of 12 companies from XUAR visited the Kyrgyz Republic. During the visit, negotiations were held with Kyrgyzstan-based companies, leading to the prospect of collaboration in cotton production using modern irrigation systems. However, the potential collaboration was ultimately halted when the companies were unable to reach a budget agreement.</p>
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## **Strategy 2: Direct trade with the southern PRC regions**

To avoid overpaying due to markups, garment and other industry business owners are increasingly seeking direct suppliers and exploring ways to establish connections with manufacturing factories in China. Given the challenges in obtaining visas to Urumqi, Kyrgyz Republic's businesses focus on finding contacts in larger regions that are closer to the factories. Their strategy involves attending Canton exhibitions, organized business tours reaching out to companies and/or intermediaries/middlemen who either live in China or have experience there and knowledge of local manufacturing facilities. These intermediaries offer recommendations of which factories to visit based on the type of products or business the Kyrgyz businessperson intends to establish in the Kyrgyz Republic.

<p>Strengths:</p> <p><b>1. Profitability increasing</b></p>	<p>Weaknesses:</p> <p><b>1. Low order volumes</b></p>
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<p>Working directly with manufacturing factories enables businesses to import goods at lower prices, thereby increasing profitability. Establishing direct access to suppliers can foster a mutually beneficial partnership between PRC factories and Kyrgyz companies. The ability to purchase goods in large volumes often leads to a distributor-type arrangement. A distribution agreement typically entails the manufacturer refraining from selling the product in a specific territory, granting the distributor exclusive rights to distribute the product within that region.</p> <p>Purchasing in large volumes allows businesses to negotiate lower wholesale prices and reduce transportation costs, leading to overall savings. This strategy enhances profitability and strengthens the potential for long-term partnerships with suppliers.</p>	<p>Working with southern PRC regions is primarily feasible for medium and large enterprises, as they can afford to place orders involving significant financial commitments. Manufacturing fabrics are typically sold in wholesale quantities, which are more suited for larger businesses. For example, a single fabric roll contains 50 meters, and factories often require minimum orders of 10,000 meters (10 kilometers), which exceeds the needs and capacities of most Kyrgyz producers. On average, Kyrgyz manufacturers can produce 30–60 units of clothing from one fabric roll, depending on the type of garment. Many garment producers prefer purchasing smaller quantities to test the market before committing to larger production runs, as large-scale sewing carries the risk of unsold inventory.</p> <p><b>2. Intermediaries</b></p> <p>The quality of items sent to Central Asian countries often differs from the quality of items shipped to Europe, with Chinese factories prioritizing higher-quality products for European markets while designating goods with defects for Central Asia. To ensure the quality of imports from China, Kyrgyz businesspeople frequently hire intermediaries based in China—often Kyrgyz students—who act as negotiators with factories and inspect orders for defects prior to shipment. The fee for these services varies, typically up to 20% of the contract value.</p> <p>The respondents highlighted the difficulty finding reliable intermediaries, noting that while the market is highly competitive, it is also rife with fraudsters and unreliable agents.</p> <p>“A few intermediaries send products of the necessary quality. They [intermediaries] can send beautiful pictures, but then you receive defective goods”, several respondents said.</p>
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	<p><b>3. Lack of Chinese language knowledge</b></p> <p>Working with Chinese factories often necessitates proficiency in the Chinese language. Large-scale companies hire employees with Chinese language knowledge. When this is not possible, Kyrgyz businesspeople rely on tools like Google Translate for communication. To ensure clarity, they typically send messages in both Chinese and Russian, allowing the recipient to cross-check their understanding. Similarly, they apply this dual-language approach when communicating with potential clients.</p> <p>In other cases, if they employ Russian/Kyrgyz-speaking intermediaries with Chinese language knowledge, they will be charged extra fees or pay for it as an additional service.</p>
<p>Opportunities:</p> <p><b>1. Exclusive rights</b></p> <p>Achieving the status of a distributor with exclusive rights is considered a significant milestone for many Kyrgyz companies. Such agreements grant the exclusive ability to sell products within a designated territory, often resulting in a competitive market advantage. This arrangement can enhance profitability, foster long-term partnerships with Chinese manufacturers, and provide stability through predictable supply chains. Exclusive rights also allow Kyrgyz businesses to negotiate better terms and conditions, such as price guarantees and marketing support from manufacturers.</p> <p><b>2. Prices</b></p> <p>Access to a wide range of Chinese products at competitive prices presents a significant opportunity for Kyrgyz businesses. This allows local companies to diversify their offerings and cater to various consumer preferences. By purchasing goods directly from factories at wholesale rates, businesses can reduce their overall costs, increase profit margins, and offer more attractive pricing to their customers.</p>	<p>Threats:</p> <p><b>1. Distributor competition</b></p> <p>While becoming a distributor offers significant advantages, the intense competition among Chinese factories producing similar goods poses a challenge. Kyrgyz companies face direct competition from rival distributors in the same commodity segment, each backed by different factories. This can lead to price wars, reduced profit margins, and market saturation, making it harder to maintain a competitive edge or creating a need to sell at lower prices.</p> <p><b>2. Logistics challenges</b></p> <p>While proximity to China is an advantage, logistical bottlenecks, such as border delays, inadequate infrastructure, and rising transportation costs, remain significant threats. Dependence on specific trade routes or over-reliance on intermediaries can exacerbate these issues.</p> <p>“After the pandemic, importing from PRC became expensive because of higher fees for transportation and customs clearance”, several respondents noted.</p>

Furthermore, the broad variety of products available ensures that Kyrgyz businesses can remain competitive in dynamic market conditions, adapting quickly to changing consumer demands.

### **3. Transport routes**

If goods are being exported to Kyrgyzstan, the truck can be sent directly to Kashgar by road, bypassing Urumqi. This route shortens delivery time and speeds up the process.

### **3. Payments**

Nearly all payments are conducted through informal channels. The money remains in the Kyrgyz Republic but is handed over to local intermediaries. These intermediaries then confirm with the Chinese partner or factory that the payment has been received, completing the transaction.

Some businesspeople prefer using the services of individuals in the Kyrgyz Republic who exchange money (USD or KGS) into RMB at more favorable rates. Respondents noted that the National Bank of the Kyrgyz Republic offers unfavorable rates for converting KGS to yuan, leading to a loss of about 10% from the initial amount. Additionally, bank payments incur transaction fees, which further increase the cost of goods.

Certain respondents mentioned attempts to work directly with factories. For instance, they send inquiries on behalf of their companies and transfer payments in dollars directly to the factory's overseas dollar accounts, typically opened in Hong Kong, South Korea, or occasionally in the U.S. These accounts are registered under the factory's name but are based in the PRC. Such factories also handle their own refundable VAT. While cash payments are an option, they depend on the product type and order size.

Within China, factories and companies primarily accept payments in yuan. While some may accept dollars, the exchange rates offered within the country are often unfavorable. Factories are also closely monitored by the government, which adds a layer of scrutiny to payment processes.

Almost all respondents emphasized that transactions with Chinese companies are predominantly conducted in USD but occasionally in RMB. Payments in KGS are not accepted.

### **Strategy 3: Utilizing Chinese marketplaces**

<p>Strengths:</p> <p><b>1. Convenience</b></p> <p>Purchases through marketplaces help firms find suppliers; the 1688 platform is especially good at this. If a firm knows how, they can find manufacturing factories and place orders directly with them. Many online educational centers in the Kyrgyz Republic advertise this option when offering courses on marketplace entry and/or learning how to order from them.</p> <p>Kyrgyzstan's business owners try to hire employees who know the Chinese language, which helps eliminate intermediaries and allows them to work directly with factories. Having a Russian or English-speaking intermediary immediately increases the wholesale price.</p> <p><b>2. Scalability</b></p> <p>Platforms like 1688 support bulk purchases, enabling businesses to efficiently scale up their operations as demand grows.</p> <p><b>3. Faster entry to the market</b></p> <p>By sourcing directly through marketplaces, businesses can quickly access the products they need and introduce them to the Kyrgyz market, thus rapidly responding to consumer demands.</p> <p><b>4. No need for physical presence</b></p> <p>Leveraging marketplaces minimizes the need for regular trips to China, saving on travel expenses and time, particularly for smaller businesses with limited budgets.</p> <p>"My company has transferred to the electronic orders mostly. It became difficult and expensive to get visa to PRC after pandemic, and now we prefer to order online", clothes shop owner told.</p>	<p>Weaknesses:</p> <p><b>1. Challenges with payments</b></p> <p>Even when using marketplaces, businesses often rely on intermediaries to handle payments, which can increase costs and risk due to informal or unregulated transactions. (See the "<b>Channel 2: Direct trade with the southern PRC regions</b>" section). This is the case when cooperation is already established.</p> <p><b>2. Control issues</b></p> <p>Without in-person inspections, businesses face difficulty verifying the quality of goods before purchase, leading to potential dissatisfaction or disputes.</p> <p><b>3. Size</b></p> <p>This strategy is suitable for SMEs and is usually the first step. If cooperation goes smoothly, Kyrgyzstan's companies try to establish direct connections with the supplier side, eliminating the marketplace.</p> <p>"PRC sellers are reluctant to work in small retail; they prefer to work with large volumes", the buyer told.</p> <p><b>4. Risk of fraud or scams</b></p> <p>Online marketplaces, especially lesser-known ones, may have suppliers that engage in fraudulent practices, putting businesses at risk of financial loss.</p> <p><b>5. Regulatory and tariff challenges</b></p> <p>Import regulations, customs duties, and tariffs complicate calculation of the true cost of goods purchased through marketplaces, potentially leading to financial setbacks. Additionally, the de minimis threshold limits the quantity or value of imported goods that can be brought in without incurring taxes, further restricting trade flexibility.</p>
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<p><b>5. Comparison opportunities</b></p> <p>Businesses compare prices, product quality, and reviews across multiple sellers, ensuring better decision-making without incurring the costs of physical visits.</p>	
<p>Opportunities:</p> <p><b>1. Access to a global supplier base</b></p> <p>Marketplaces like Alibaba, Taobao, and 1688 provide access to a wide range of suppliers across China, offering opportunities to compare prices and products from multiple manufacturers, leading to better sourcing decisions and establishing mutually beneficial relationships.</p> <p><b>2. Pricing</b></p> <p>Marketplaces often offer competitive prices due to the high volume of suppliers and ability to purchase directly from manufacturers. Additionally, bulk purchasing can result in discounts, reducing the overall cost of goods for Kyrgyz businesses.</p> <p><b>3. Flexible order quantities</b></p> <p>Marketplaces allow businesses to place orders of various sizes, from small sample orders to large bulk purchases, providing flexibility based on the demand in the Kyrgyz market. This makes it convenient for businesses to check the market demand and decide whether to order more.</p>	<p>Threats:</p> <p><b>1. Increasing demand for cargo services</b></p> <p>Due to the challenges Kyrgyzstan's users face when ordering on Chinese marketplaces, many prefer to utilize the services of local cargo companies. Numerous warehouses and cargo services in the Kyrgyz Republic cater to these needs. Customers can visit these services and show a specific item, such as a vacuum cleaner, and the company will find a matching product within the requested budget. The client pays for the item and shipping, with the cost averaging \$3-4 per kilogram. Payments are made in KGS, either through a local bank account, e-wallet, or in cash. When ordering, the client receives an order number/code. Once the item is delivered to the cargo company, the customer is notified. The customer then provides the order number and picks up the item from the cargo service.</p> <p>Notably, this purchase model presents a potential threat to offline businesses, as it allows individuals to bypass traditional retail channels and almost directly purchase the necessary items.</p>

#### **Strategy 4: Repurchase from local companies**

SMEs that are unwilling to engage directly with Chinese factories and suppliers often purchase commodities from distributors or companies that import goods in bulk. Anecdotal evidence suggests that the fabric market in Madina Bazaar is dominated by three major Kyrgyzstan-based companies that import fabrics to the country. Business owners operating at the bazaar typically source their fabrics from one of these companies and then resell them to representatives of the garment industry.

<p>Strengths:</p> <p><b>1. Risk minimization</b></p>	<p>Weaknesses:</p> <p><b>1. Markups</b></p>
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<p>Repurchasing from local companies helps SMEs minimize risks. These companies can purchase in smaller amounts, which helps them assess product demand without committing to large orders upfront. This approach is especially useful for new or small businesses with limited cash flow or those trying to test the market's response to different products. Additionally, it allows SMEs to remain flexible and quickly adjust their inventory based on sales trends.</p> <p>"I buy fittings from the local company at wholesale prices and resell them at the Madina bazaar. I have been doing this for two years, and this strategy suits me. I do not plan to change anything," the fabric store owner responded.</p>	<p>While this approach reduces risk, it also has significant drawbacks. SMEs often earn less profit because the goods are bought from local distributors who add a markup. As a result, the final selling price is higher, and the business's profitability is compromised. Adding this additional markup means that SMEs may struggle to remain competitive, especially if the products they are selling are not significantly differentiated from those offered by competitors.</p>
<p>Opportunities:</p> <p><b>1. Competitive environment</b></p> <p>The repurchase model fosters a competitive market environment, which can drive innovation and improvement among SMEs. To stay ahead of competitors, business owners explore new strategies, such as improving customer service, offering promotions, or diversifying their product range. This competition can also encourage more efficient supply chain management, leading to better pricing and potentially creating space for SMEs to carve out their niche in the market and provide jobs.</p>	<p>Threats:</p> <p><b>1. Bankruptcy</b></p> <p>Increased competition and reliance on local distributors can lead to numerous bankruptcies among SMEs. When similar products are sold at the same price, businesses find it harder to differentiate themselves, leading to price wars that erode profitability. Due to their limited purchasing power, this situation becomes even more challenging when small enterprises struggle to negotiate better terms with distributors, making it difficult for them to sustain long-term business growth. Additionally, any supply chain disruptions or shifts in consumer preferences can heavily impact the financial stability of SMEs relying on this model.</p>

### **Strategy 5: Khorgos FEZ**

All respondents from Kyrgyzstan reported that they stopped importing goods from Khorgos for resale purposes due to weight/amount and time restrictions, which rendered the process impractical. Some, primarily shop owners, attempted to pool resources with friends or relatives to transport goods from Khorgos. However, this approach was not cost-effective due to monthly limits on weight and funds. Consequently, they shifted to online purchasing or finding intermediaries in Urumqi.

## 5.2 SWOT analysis for Kazakhstan's companies

### 1. Strategy 1: Direct trade with Xinjiang

<p>Strengths:</p> <p><b>1. Visa free regime</b></p> <p>The 30-day visa-free regime between China and Kazakhstan enables Kazakhstani citizens to enter China at any time, strengthening and facilitating business cooperation between the two countries. Small-scale business owners frequently travel to Xinjiang to negotiate with company representatives and establish direct trade partnerships for importing goods.</p> <p><b>2. Geographical proximity</b></p> <p>Multiple transport options, including buses, trains, and direct flights from Almaty to Urumqi, make these trips accessible and cost-effective. While buses and trains are affordable, they require around 19 hours of travel, whereas direct flights offer a faster (but more expensive) alternative.</p> <p><b>3. Cultural ties</b></p> <p>Kazakhstan was the first country to establish a trade partnership with Xinjiang after the Soviet Union's collapse due to ethnic Kazakhs living in XUAR. Relatives' ties are still supported, and XUAR residents often help Kazakhstan's residents send Chinese commodities for resale in Central Asia.</p>	<p>Weaknesses:</p> <p><b>1. Lack of factories of interest</b></p> <p>A lack of established relationships with Xinjiang representatives often results in higher import expenses and less favorable terms. The current model of importing goods from Xinjiang is not scalable and is primarily suitable for small-scale businesses with limited capacity.</p>
<p>Opportunities:</p> <p><b>1. Diversification of trade relationships</b></p> <p>Kazakhstan's companies have the potential to establish long-term partnerships with Xinjiang-based manufacturers and suppliers to expand product variety and secure better terms. The existing Xinjiang FTZ makes cooperation with the region attractive in terms of establishing business cooperation between companies.</p> <p><b>2. Growth of logistics hubs</b></p>	<p>Threats:</p> <p><b>1. Import only, no export</b></p> <p>The problems are similar to those of Kyrgyzstan. The dominance of import-oriented business cooperation limits opportunities for Kazakhstan to develop its export potential, creating an imbalance in trade and a dependency on Chinese goods (see <b>"Strategy 1: Direct trade with Xinjiang" for the Kyrgyz Republic</b>).</p>

Investment in logistics and transport infrastructure from both countries, such as warehouses and distribution centers, can streamline cross-border trade operations.	<p><b>2. Prevalence of Chinese sellers on Kazakhstan's market</b></p> <p>Chinese citizens in Xinjiang export commodities directly to Kazakhstan, bypassing Kazakhstani intermediaries. This undermines local SMEs, leading to financial losses or bankruptcies. Some Kazakhstani respondents noted that PRC citizens send commodities for sale to Kazakhstan directly and place them in special warehouses; a foreign citizen with a residence permit can purchase any type of real estate in Kazakhstan.<sup>41</sup></p> <p>“Warehouses in Zarya Vostoka (the Dawn of the East) village (the current name is Shapagat microdistrict, but many citizens still call it by previous name) are abundant with sellers from China. They are mostly ethnical Kazakhs, Uyghurs, Dungan with Chinese citizenships; few of them are Hans”, shop owner told.</p>
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## 2. Strategy 2: Direct trade with the southern PRC regions

<p>Strengths:</p> <ol style="list-style-type: none"> <li>1. The 30-day visa-free policy simplifies business travel for negotiations and partnerships.</li> <li>2. Well-established trade routes with robust infrastructure, such as Khorgos and other cross-border hubs, enhance logistics.</li> <li>3. Kazakhstan's businesspeople have more opportunities to sign contracts and import goods for large amounts of money. The factories in southern PRC regions produce a wide variety of goods, meeting diverse market demands in Kazakhstan.</li> <li>4. Purchasing Chinese commodities for Russian warehouses and their resale on Russian marketplaces has become a significant business model. The well-established delivery routes through the Middle Corridor facilitate this process, offering a reliable and efficient</li> </ol>	<p>Weaknesses:</p> <ol style="list-style-type: none"> <li>1. Heavy reliance on imports from China limits Kazakhstan's opportunities for export-led growth.</li> <li>2. Over-reliance on Chinese manufacturers makes Kazakhstani businesses vulnerable to supply chain disruptions.</li> <li>3. The absence of competitive domestic industries increases dependence on Chinese imports.</li> </ol>
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<sup>41</sup> [https://mybuh.kz/news/mozhet-li-fizicheskoe-litso-nerezident-imet-nedvizhimost-v-kazahstane/#google\\_vignette](https://mybuh.kz/news/mozhet-li-fizicheskoe-litso-nerezident-imet-nedvizhimost-v-kazahstane/#google_vignette)

supply chain for goods moving from China to Russia.	
<p>Opportunities:</p> <ol style="list-style-type: none"> <li>1. This offers a competitive environment and leveraging investments in logistics to improve efficiency and reduce trade costs.</li> </ol>	<p>Threats:</p> <ol style="list-style-type: none"> <li>1. Larger Chinese companies might monopolize key sectors, marginalizing smaller Kazakhstani businesses.</li> </ol>

### 3. Strategy 3: Utilizing Chinese marketplaces

<p>Strengths:</p> <ol style="list-style-type: none"> <li>1. Kazakhstan's rapid e-commerce growth creates a favorable environment for businesses that use online platforms.</li> <li>2. Access to a wide range of commodities from Chinese marketplaces at lower prices enables competitive pricing in local markets.</li> </ol>	<p>Weaknesses:</p> <ol style="list-style-type: none"> <li>1. This strategy relies solely on imports, creating trade imbalances and limiting export opportunities for local products.</li> <li>2. As the population becomes more digitally literate, consumers may bypass intermediaries and order directly from Chinese marketplaces.</li> <li>3. Active development of local marketplaces reorients SMEs to the domestic market.</li> </ol>
<p>Opportunities:</p> <ol style="list-style-type: none"> <li>1. Importing goods and reselling them on regional marketplaces like Russia's Wild berries allows businesses to tap into larger markets.</li> <li>2. Importing products and branding them as private labels could increase profit margins and customer loyalty.</li> <li>3. Agreements between the PRC and Kazakhstan governments to establish warehouses and</li> </ol>	<p>Threats:</p> <ol style="list-style-type: none"> <li>1. The dominance of imported goods may lead to bankrupting local offline stores like shopping and entertainment centers, especially in sectors like clothes, furniture, toys, accessories, etc. "Many shop owners in trade centers are asking the government either to reduce rent fees or to eliminate the possibility of online purchases for citizens. Otherwise, the accessibility of ordering from Chinese marketplaces will kill small</li> </ol>

distribution centers in Kazakhstan develop the region as a cross-border e-commerce hub.	businesses in Kazakhstan”, clothes shop owner told.
	2. Changes in import duties or customs regulations could increase costs and impact the strategy’s viability.
	3. Fluctuations in exchange rates and economic conditions could negatively affect purchasing power and profit margins.
	4. Demand for cargo services: <b>see details in SWOT analysis for the Kyrgyz Republic</b> . Although this service is less popular in Kazakhstan than in Kyrgyzstan, citizens nevertheless apply for cargo services and order items via them.

#### 4. Strategy 4: Repurchase from local companies (largely similar to the Kyrgyz Republic SMEs’ SWOT for the same strategy)

This strategy is commonly adopted by small businesses, often those that are family-run. Kazakhstan’s respondents noted that some SMEs purchase commodities (mostly textiles and shoes) from warehouses located in big cities, such as Almaty.

<p>Strengths:</p> <ol style="list-style-type: none"> <li>1. This strategy minimizes risk in terms of quality and delivery delays.</li> <li>2. Shorter delivery times from local companies improve a business’s responsiveness and flexibility.</li> </ol>	<p>Weaknesses:</p> <ol style="list-style-type: none"> <li>1. Supply chains are longer and markups are smaller.</li> <li>2. This strategy generates dependence on local suppliers.</li> <li>3. Costs are higher for smaller suppliers.</li> </ol>
<p>Opportunities:</p> <ol style="list-style-type: none"> <li>1. The environment is competitive and employment can increase.</li> <li>2. Support is provided for domestic startups.</li> </ol>	<p>Threats:</p> <ol style="list-style-type: none"> <li>1. This model involves only imports; no goods are exported.</li> <li>2. <b>Supplier risks</b> Some respondents noted that the number of suppliers with Chinese residency that own warehouses in Kazakhstan is growing. This threatens local small businesses, as in the future this market may be “conquered” by Chinese residents, requiring local businesses to close.</li> </ol>

## 5. Strategy: Khorgos

<p>Strengths:</p> <p><b>1. Locating in Kazakhstan</b></p> <p>Khorgos provides a convenient and accessible shopping hub for Kazakhstani citizens to purchase goods and resell them locally. The FEZ supports local SMEs by providing access to a wide range of affordable products for resale, boosting small business growth.</p> <p><b>2. Access to Chinese market</b></p> <p>While some respondents note this as a “weakness,” other Kazakhstan SMEs consider Khorgos a great opportunity to establish partnerships with Chinese companies and send Chinese goods abroad as within Kazakhstan.</p> <p>“I buy Chinese commodities at Khorgos and send them both to other regions and to other countries. Thus, I was able to establish connections with Azerbaijani businesspeople,” said the businessman, who identified himself as a ‘seller of all sorts of things.’</p>	<p>Weaknesses:</p> <p><b>1. Restrictions</b></p> <p>Limitations on the total sum, size, and number of items per purchase reduce the effectiveness and scalability of this business model. Managing transportation and customs processes for frequent small purchases can be time-consuming and costly.</p> <p>Some Kazakhstani businesspeople import goods from China's Horgos due to fewer financial restrictions, a wider variety of products, lower prices, and a superior infrastructure.</p> <p><b>2. Competition with PRC citizenship owners-sellers</b></p> <p>The strong competition with Chinese sellers who often charge lower prices for their products decreases sales by Kazakhstan businesses.</p> <p><b>3. Less-developed infrastructure from Kazakhstan’s side</b></p> <p>The less-developed infrastructure in Kazakhstan’s Khorgos motivates SMEs to establish partnerships and purchase from Chinese counterparts.</p> <p>“There is hardly anything on the Kazakh side - just the same Chinese goods purchased from the Chinese side but with higher price now. Besides, the infrastructure on the Kazakh side looks even more bleak and underdeveloped comparing with Chinese’s”, owner of a homewares store told.</p>
<p>Opportunities:</p> <p><b>1. Positioning beyond trade</b></p> <p>Enhancing Khorgos’s appeal as a dual-purpose destination—shopping and sightseeing—could attract more visitors and diversify revenue streams. Positioning Khorgos as a regional trade</p>	<p>Threats:</p> <p><b>1. The “second” Khorgos</b></p> <p>The potential development of a “second Khorgos” in Naryn, Kyrgyz Republic, could divert shoppers and traders, reducing traffic to Khorgos.</p>

and cultural exchange hub could strengthen its importance in Central Asia.	Changes in customs regulations or trade policies could affect the viability of the Khorgos shopping and trading model.
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## 6. Summary

Overall, while SMEs are integral to the economies of both the Kyrgyz Republic and Kazakhstan, their development is shaped by distinct economic conditions, regulatory environments, and access to resources. Kazakhstan's relatively larger and more stable economy provides greater access to capital and diverse market opportunities, whereas SMEs in the Kyrgyz Republic operate in a more volatile landscape with different challenges and constraints. Despite these differences, SMEs in both countries demonstrate resilience and adaptability, leveraging their unique strengths to drive entrepreneurial growth and economic development.

The Kyrgyz Republic and Kazakhstan businesses that seek to establish trade ties with China largely employ similar import-oriented strategies, although their approaches differ in scale and infrastructure. SMEs from both countries typically visit Urumqi bazaars to purchase goods or engage in reselling through Chinese marketplaces, while micro-sized companies buy from distributors or warehouses that import from China. Larger firms aim to establish direct connections with manufacturing factories using Canton exhibitions, marketplaces, or intermediary services. The main differences lie in the volume of orders—Kazakhstan businesses tend to place larger orders than the Kyrgyz Republic businesses—and the ease with which Kazakh entrepreneurs can visit Urumqi due to the visa-free regime, which allows more frequent travel compared to that of their Kyrgyz counterparts. Difficulty getting visas to Urumqi force the Kyrgyz Republic entrepreneurs to re-orient to the southern PRC provinces and establish partnerships with those companies. To enhance trade, both countries can address structural barriers, boost export potential, and inform local businesses about Xinjiang's FTZ opportunities. This study's findings underscore the adaptability of SMEs in Kazakhstan and the Kyrgyz Republic in navigating the complexities of trade with China. While challenges such as regulatory barriers, logistical bottlenecks, and competition persist, opportunities arising from regional integration, e-commerce, and infrastructure development offer significant potential for growth.

While this study provides valuable insights into Kazakhstan and Kyrgyzstan's SMEs cross-border trade with China, including the e-commerce component, it is limited by its focus on a specific group of respondents and geographic area. Future research could expand the Chinese factories and businesses working with Central Asian markets and making export-import operations. This would help build a comprehensive understanding of drivers for the cross-border trade and regional cooperation.

## 7. Policy Recommendations

	Kazakhstan	The Kyrgyz Republic
1. Visa-free regime		<b>Actionable steps:</b> 1. Negotiate bilateral agreements: introduce a visa-free regime between

		<p>the Kyrgyz Republic and the PRC.</p> <p><b>Stakeholders:</b> Ministries of Foreign Affairs, government authorities</p>
<p><b>2. Improve trade and E-commerce data collection and accessibility</b></p>	<p><b>Actionable steps:</b></p> <ol style="list-style-type: none"> <li><b>1. Promote data transparency:</b> publish reports on a consistent basis.</li> <li><b>2. National reports:</b> encourage national statistics authorities to publish standardized country-level cross-border trade and e-commerce trade statistics.</li> <li><b>3. Encourage private sector participation:</b> Collaborate with e-commerce platforms (e.g., Chinese Alibaba, JD.com, and national marketplaces such as Kaspi.kz, MBank) to share aggregated trade data on cross-border transactions.</li> </ol> <p><b>Stakeholders:</b> National statistical agencies, e-commerce platforms</p>	
<p><b>3. Raise business awareness</b></p>	<p><b>Actionable steps:</b></p> <ol style="list-style-type: none"> <li><b>1. Organize trade forums and workshops:</b> Conduct regular events to educate SMEs on trade opportunities, including companies based in the Xinjiang FTZ.</li> <li><b>2. Develop digital resources:</b> Create online platforms and guides highlighting trade regulations, procedures, and opportunities in China, specifically in the Xinjiang region.</li> <li><b>3. Enhance business networks:</b> Facilitate connections between Kyrgyz and Kazakh businesses and Chinese counterparts through B2B matchmaking events; promote established trade houses; and inform business in Kyrgyzstan and Kazakhstan of the list of enterprises located in the Xinjiang FTZ.</li> </ol> <p><b>Stakeholders:</b> Business associations, trade chambers, regional trade councils.</p>	
<p><b>4. Foster SME participation in global online marketplaces</b></p>	<p><b>Actionable steps:</b></p> <ol style="list-style-type: none"> <li><b>1. Assist in export operations for SMEs:</b> Provide training and certification for SMEs to meet Chinese and international e-commerce standards.</li> <li><b>2. Support local online marketplace development:</b> Improve digital infrastructure by investing in high-speed internet and mobile connectivity; enhance e-commerce regulations by developing clear, supportive legal frameworks for e-commerce, including consumer protection, data privacy, and secure payment systems; promote digital literacy by launching training programs to improve digital skills among entrepreneurs.</li> </ol>	

	<p><b>3. Facilitate cross-border trade:</b> Simplify customs procedures and reduce trade barriers to enable local marketplaces to expand regionally and internationally.</p> <p><b>Stakeholders:</b> Customs services, financial regulators, trade ministries, business associations.</p>	
		<p><b>4. Promote integration of</b> WeChat Pay, Alipay, and UnionPay with local banking systems</p>
<b>5. E-commerce development</b>	<p><b>Actionable steps:</b></p> <ol style="list-style-type: none"> <li><b>1. Facilitate customs clearance:</b> Harmonize procedures with China by aligning customs regulations and standards to simplify cross-border trade.</li> <li><b>2. Streamline tax administration:</b> Simplify tax codes by reducing complexity in tax regulations for cross-border trade, especially for SMEs; introduce E-Tax systems by developing platforms for tax filing, payments, and refunds to improve efficiency; establish clear mechanisms for quickly resolving tax-related disputes with China.</li> <li><b>3. Facilitate foreign exchange:</b> Create digital platforms for real-time foreign exchange transactions and hedging services; foster partnerships between Kyrgyz, Kazakh, and Chinese banks to simplify trade financing and currency exchange</li> </ol> <p><b>Stakeholders:</b> financial regulators, tax authorities, trade ministries, customs services</p>	

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# Appendix

## Consent form

The purpose of this research is to explore the drivers of cross-border digital trade between small and medium enterprises (SMEs) in Kyrgyzstan and Kazakhstan, and Chinese e-commerce platforms, with a particular focus on the role of Xinjiang as a trading hub.

You are invited to participate in this research study through an interview. Your insights and experiences are valuable in understanding the key factors influencing cross-border digital trade.

Your participation in this study is entirely voluntary. You may choose to withdraw from the interview at any time without any consequences or the need to provide a reason.

Your responses will be kept anonymous, and your identity will not be revealed at any point during or after the research process. The information you provide will be used solely for research purposes, and no personally identifiable information will be included in any reports, publications, or presentations. You have the right to withdraw from study at any point during the interview or afterward. If you choose to withdraw, any data collected from you up to that point will be destroyed and will not be included in the study.

The interview is expected to take approximately 30 minutes. However, you may choose to end the interview at any time.

**Participant's Signature:** \_\_\_\_\_

**Date:** \_\_\_\_\_

**Researcher's Signature:** \_\_\_\_\_

**Date:** \_\_\_\_\_

## Questionnaire for companies

1. What is the specific area of activity for your company? Please describe your company's primary industry or sector.
2. Please provide the exact year of your company's establishment.
3. How many employees currently work for your company? Please provide the total number of employees.
4. Does your company operate any branches in other regions or countries? If yes, please specify the locations of these branches.
5. Which Chinese provinces does your company engage in trade with? Please list the provinces involved.
6. What channels does your company use for conducting trade with Xinjiang/PRC regions? Please specify each channel used.
7. How does your company typically identify and establish partnerships in Xinjiang/PRC regions? Please describe the methods used.

8. Does your company use intermediary services for trade with Xinjiang/PRC regions? If so, please specify: a) the type and role of the intermediaries used, b) the process by which your company identified or selected these intermediaries, and c) contact information for these or any other intermediaries from Xinjiang, if available.
9. What specific barriers does your company face in trading with Xinjiang/PRC regions? Please list the barriers encountered.
10. Which platforms does your company use to search for commodities? Please specify each platform used.
11. What are the main bottlenecks your company experiences in trade with Xinjiang/PRC regions? Please describe these bottlenecks.
12. Does your company exclusively import commodities from Xinjiang, or have you attempted to export to Xinjiang or other Chinese regions? If so, please describe your experience.
13. Which currency does your company use for transactions in trade with Xinjiang/PRC regions? Please explain the reasons for this choice.
14. Does your company encounter language barriers in its partnerships? If so, what language(s) does your company use for communication?
15. Did your company's trade with Xinjiang/PRC regions change since the COVID-19 pandemic? If so, please describe any specific changes observed.
16. What specific policy recommendations can be made to enhance your company's collaboration with Xinjiang/PRC regions?



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