“GREY RE-EXPORT” Alternative Method of IFFs Measurement

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“Grey Re-Export” of goods

- “Grey re-export” is a part of goods smuggling, the main purpose of which is concluded in the import of goods (using illegal or semi-legal ways) into one country with the aim of subsequent resale of the same goods to other countries, while most of such re-exports are not taken into account in the official statistics of the country.

- The main mechanism of “Grey re-export” is recognized as a number of methods of import and subsequent re-export of goods, including:
  - false classification of goods;
  - manipulation of customs rules;
  - forgery of customs documents;
  - artificial underestimation of volumes and prices of goods;
  - corruption, as a result of which a certain part of the goods crosses the border without accounting and registration;
  - manipulations with goods associated with a change of the country of origin of goods in order to give imported goods the status of local production for subsequent export to other countries without paying customs fees and taxes within inter-government agreements.
“Grey Re-Export” in Kyrgyzstan

**Situation**

- Existence – more than 20 years
- Main object – Chinese products (textile)
- Route – China – Kyrgyzstan – CIS/CU countries (especially Russia and Kazakhstan)
- Main Methods - manipulation of customs rules and falsification of foreign trade documentation
- Negative consequences - tax and customs evasion

**Reasons**

- Common border with China
- Membership of the Kyrgyz Republic (1998) and the PRC (2001) in the WTO
- Membership of the Kyrgyz Republic (since 1994) in the free trade zone of the CIS countries
- Membership of the Kyrgyz Republic (2015) in the Customs Union
Preliminary Evaluation and Research

<table>
<thead>
<tr>
<th>Import of all goods from China to Kyrgyzstan (USD, million)</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>China reports</td>
<td>5,588.77</td>
<td>6,312.09</td>
<td>2,876.41</td>
</tr>
<tr>
<td>Kyrgyzstan reports</td>
<td>1,942.29</td>
<td>1,734.97</td>
<td>736.84</td>
</tr>
<tr>
<td>GAP (possible volume for “Grey Re-Export”)</td>
<td>3,646.48</td>
<td>4,577.12</td>
<td>2,139.58</td>
</tr>
</tbody>
</table>

According to one of the information and analytical agency of the Kyrgyz Republic "Temirov Live", in 2021 the trade gap between China and Kyrgyzstan increased by 4.2 times. China reports that it exported to Kyrgyzstan goods on 6.2 billion USD, and at the same time Kyrgyzstan reports that it imported goods from China on 1.4 billion USD. And as a result of such trade gap, which is 4.8 billion USD, the budget of Kyrgyzstan in 2021 lost almost 573 million USD only due to non-payment of import VAT (not taking into account customs fees and other taxes).

In addition, the mentioned agency made the estimation of the category of goods “clothes”, the largest category in terms of trade indicators between Kyrgyzstan and China, and revealed a trade gap in almost 40 times: the PRC claims that it exported clothes to the Kyrgyz Republic on 2.7 billion USD, and the Kyrgyz Republic reports that it imported Chinese clothes only on 76 million USD.
Commodity Flows
Money Flows
Circulation of “Grey Re-Export”
“Grey Re-Export” (real case, 2019)

Grey re-export

Cash smuggling of 700 million USD

Accounts of shell companies

False trade documents

Grey re-export

700 million USD

China

Russia

Kyrgyzstan
IFFs Estimation from “Grey Re-Export”

- Calculation formula:

\[ \text{Grey Reexports}_{xbct} = \text{Imports}_{xbat} - \text{Exports}_{xbct} + \text{Production}_{xbt} - \text{Consumption}_{xbt} \]

where –

- \( x \) – goods
- \( a \), the country of origin for the goods \( x \);
- \( b \), the importer of goods \( x \);
- \( c \), country of destination to which the goods \( x \) is later exported (re-exported) from country \( b \);
- \( t \) – year.

- Adjustments:
  - CIF/FOB;
  - Internal Production;
  - Internal Consumption.
### Results of “Grey Re-Export” Estimation

(USD, million)

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>104.35</td>
<td>71.22</td>
<td>95.46</td>
<td>98.18</td>
<td>134.64</td>
<td>141.91</td>
<td>94.09</td>
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<tr>
<td>Imported</td>
<td></td>
<td>3,042.74</td>
<td>2,433.35</td>
<td>3,773.01</td>
<td>3,878.78</td>
<td>3,436.03</td>
<td>3,820.57</td>
<td>1,775.60</td>
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<tr>
<td>Total(Prod_Imp)</td>
<td></td>
<td>3,147.08</td>
<td>2,504.57</td>
<td>3,868.47</td>
<td>3,976.97</td>
<td>3,570.66</td>
<td>3,962.48</td>
<td>1,869.69</td>
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<tr>
<td>Consumption</td>
<td></td>
<td>387.64</td>
<td>313.72</td>
<td>356.11</td>
<td>398.49</td>
<td>427.59</td>
<td>446.43</td>
<td>322.70</td>
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<tr>
<td>Balance after consumption</td>
<td></td>
<td>2,759.44</td>
<td>2,190.84</td>
<td>3,512.36</td>
<td>3,578.47</td>
<td>3,143.08</td>
<td>3,516.05</td>
<td>1,547.00</td>
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<tr>
<td>Exported KG</td>
<td></td>
<td>103.39</td>
<td>65.07</td>
<td>78.14</td>
<td>152.07</td>
<td>174.16</td>
<td>119.79</td>
<td>59.70</td>
</tr>
<tr>
<td>Grey Re-Export</td>
<td></td>
<td>2,656.06</td>
<td>2,125.77</td>
<td>3,434.22</td>
<td>3,426.40</td>
<td>2,968.92</td>
<td>3,396.26</td>
<td>1,487.30</td>
</tr>
</tbody>
</table>

![Grey Re-Export Graph](image)
Next Steps to Do

- To determine ratio of domestic consumption of locally produced goods (dom ratio)
- To define domestic consumption of locally produced and imported goods
- To estimate Unreported and Misreported Re-Export
- To estimate IFFs from “Grey-Re-Export” using alternative calculation formula:

  \[ \text{Grey Reexports IFF}_{xbct} = |\text{Unreported reexports}_{xbct}| + |\text{Misreported Reexports}_{xbct}| \]

- To compare the results of IFFs from “Grey-Re-Export” with the results of IFFs from PCM
Thank you for your attention!!!

Questions???