

18. *Лисина М.И.* Пути влияния семьи и детского учреждения на становление личности дошкольника // Психологические основы формирования личности в условиях общественного воспитания: Тез. докладов Всесоюзной конференции (11–12 апреля 1979 г., Москва) / Под ред. И.В. Дубровиной, А.М. Прихожан, Н.Н. Толстых, Т.И. Юферевой. – М., 1979.
19. Материалы 3-й Всероссийской конференции по охране детства, 25–30 мая 1930 г. – М.-Л.: Наркомпрос РСФСР, 1930//ЦГА КР, ф. 3, оп. 1, д. 167.
20. *Нечаева А.М.* Охрана детства в СССР / Отв. ред. В.П. Мозолин – М.: Наука, 1987.
21. Опыт работы детских домов: история и современность / Методические рекомендации. – М., 1989.
22. *Рыбинский Е.М.* Современное положение и проблемы семейных детских домов // Семейный детский дом: реальность, проблемы и перспективы в современной России: Материалы международной научно-практической конференции. – М.: Дом, 1995.
23. *Свердлов Г.М.* Война и правовая охрана детей в СССР. – Ташкент, 1963.
24. Доклад первого заместителя министра образования Киргизской ССР *К.Толстунова* на пленарном заседании ЦК КП Кирг. ССР от 21 декабря 1980 г. // Архив Министерства образования Кыргызской Республики. Д. № 1-215/ 164, л. 25–26.
25. Центральный государственный архив Кыргызской Республики. – Ф.105, оп. 28, д.184, с. 14.
26. *Чех С.М.* Мероприятия Коммунистической партии и Советского правительства по борьбе с детской беспризорностью в период восстановления народного хозяйства СССР (1917–1925): Автореф. дис... канд. ист. наук. – М., 1954.

**Z. I. Kudabaev,**

*Chair and professor of the Economics Program, AUCA,*

**N. Alymbekova,**

*Graduate of the Economics Program, AUCA*

## *An Impact of Internal Trade Sector of the Economy on Poverty in the Kyrgyz Republic*

### **Introduction**

The increasing role of the service sector is a phenomenon common for the majority of modern developing economies. The Kyrgyz Republic represents one of such examples. In recent years the share of the service sector in the structure of GDP more than doubled. The demand for services is increasing gradually and more than 90% of it is supplied by private entrepreneurs. The greatest share of the service sector is taken by the internal trade. The contribution of the trade sector accounts for 44% of the service sector and 18.3% of the Gross Domestic Product in 2007, which is at 7% greater in real terms than in 1996. One of the explanations for this phenomenon is that the unemployed population faced the necessity of searching newer opportunities for survival. The market of internal trade was attractive for

several distinct reasons: it was easy to enter, as the legal side of the process turned up to be less bureaucratic, demanded for little initial capital, and did not require high-level entrepreneurial skills. On the basis of the developing economical events there is a valid assumption that the sector of internal trade contributed to the well-being of the population. In this article the well-being is measured in terms of poverty level. The main issue, which will be investigated in this article, may be stated in the following way: The sector of internal trade, which has grown by far during 1996-2006, is influencing the poverty level in Kyrgyzstan; in particular, there is a reduction in the poverty level.

### ***Trade sector***

One of the objectives of this article is to observe the internal trade markets, which comprise car trading, retail trade (excluding cars), wholesale trade and repairing services in the structure of service sector of the Kyrgyz Republic (table 1).

**Table 1. Trade Sector Inference Data for 1996–2006**

<b>Account/ bln soms</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Turnover in trade, car and personal repair services	28,0	40,6	44,9	53,0	73,6	87,7	107,3
Trade, car and personal repair services (VA)	7,9	9,0	10,8	12,7	15,1	18,0	20,9
Trade, car and personal repair services (VA) (Inflation adjusted)	6,7	8,4	10,5	12,3	14,5	17,3	19,8
CPI	118,7	106,9	102,0	103,1	104,1	104,3	105,6

For the recent period the consumer market is notable for its positive tendencies. The share of trade in the structure of Gross Domestic Product increased from 14.3% in 2002 to 19.3% in 2006 (7). The reasons for such a notable development of the sector are as follows: entering this sector is relatively easy, as the legal part requires real terms and resources, it does not require high levels of the initial investments, and there is an evident link with financial institutions, which proposes loan services for small businesses. For example, in 2006 the loan portfolio of the commercial banks in the Kyrgyz Republic increased by 50% (11.35 billion dollars), from which 50% are given for the support of trade and commercial activities 44.3% (7).

The turnover of trade is outstanding. The greatest share in the trade turnover (other than car trading) take the retail market (51.4%) and wholesale market (35.7%). It is important to define these terms; the wholesale market is a market, which includes all the citizens of Kyrgyzstan with juridical registration that dispose new or utilized goods to retailers, industrial entities, and other wholesale traders for retrading.

The retail market is defined as the value of sold goods to population for cash in private and household needs and the existing markets (bazaars) (7). Considering the detailed content of the goods in retail sector, they are foodstuffs and nonfoods. The majority of consumer goods

are attained in markets as the lower prices are more attractive than those in the organized specialized retail stores.

The population acquires more than 75% of clothing and food in the markets. The number of such markets in 2006 was 390. Another interesting fact in the development of retail sector is the immense increase of so called trading pavilions and networking grocery stores. And the turnover of these organized trading exceeds that in markets. The nonfood part contains furniture, construction materials, home equipment etc. The share of private entrepreneurs in trade is 77%.

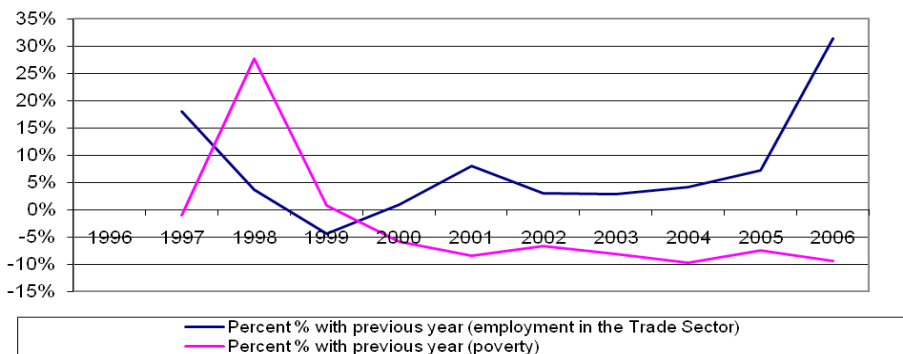
### ***Employment in the trade sector and salaries***

The trade sector of the Kyrgyz Republic plays significant role in the economy of the country.

It is evident when referring to the employment structure in Kyrgyzstan, in which trade takes up considerable share. For the several years till present times the trade sector has been providing jobs for thousands of people. Now it is the second largest after the agricultural sector. In the figure below these six sectors employed the greatest share of the labor force. In 2003 there were 205.8 thousand people working in the sector of trade, by 2004 this number increased to 214.3 thousand and by 2005 to 229.5 thousand people.

Another aspect of the trade sector is average salaries. In 2004 the average earnings were about 1901.2 soms, in 2005 they increased to 2081.5 soms and in 2006 – 2288 soms.

**Figure 1. The correlation between the trade sector and poverty**



On the figure (1) we can observe that the correlation between employment in the trade sector and the poverty levels in the Republic negatively correlate except for 1998 data. The 1998 decline is explained by the Russian crisis, when employment decreased and the poverty level increased in the Kyrgyz Republic. Another economic implication that can be made on this model is that annually the trade sector adds up to the size of well-being as people are changing their jobs in order to have higher incomes. For example, we are observing a situation when teachers that worked before for state educational establishments prefer to find an employment in the trade sector as it is more profitable. Thus we can say that the part

of the poor that found employment in trade sector could be over the poverty line and we have a decreasing tendency in poverty levels in Kyrgyzstan.

The trade sector is considered to be one of the profitable sectors in the Kyrgyz Republic. By the data on the financial balance results the tendency of the profitability of this sector in the period from 2004 to 2006 stays to be positive. The profits of the trade sector in 2004 totaled in 414.1 million soms, in 2005 and 2006 – 558.8 million and 1874.3 million soms relatively in the nominal terms. The interesting fact is that the profitability of the trade sector increased by 235% from 2005 to 2006. As a result in 2006 the trade sector was the second most profitable sector in the Kyrgyz Republic, after communication sector with the profitability of 2330.8 million soms.

Another interesting fact about the internal trade is that the number of unprofitable enterprises decreasing from 2004-2005; however, in 2005 the country experienced political instability and the “tulip revolution” had its consequences on the losses of the enterprises. In 2005 the totaled losses of such trade enterprises increased by 30% or 719.3 million soms comparing with 554.9 millions in 2004. In 2006 the losses of the entities decreased to 441.9 million soms.

The trade sector of the Kyrgyz Republic has all exposures to grow and expand in the future. This assertion may be proved by such an indicator as the financial investments to the sector. The trade sector is the third by the size of investing in it in the Kyrgyz Republic. The two first are the mining industry and the communication sector. In 2006 the trade sector acquired investments for 1768.9 million soms; it is 143% more than in 2004 and 33% than in 2005.

### **Microdata analysis**

In this section the methodology of the trade sector’s contribution to the level of development and the poverty levels will be described. The results obtained in this section were obtained by using the databases of household surveys in NSC of 3000 households from 2000 to 2002 and 5016 households from 2003 to 2006. One of the main objectives was to determine the share of the trade sector in the economy, to be more exact the share of people engaged in commerce sector. For this purpose statistical data on the employment and overall average wages by the economic activities were taken from the period 2000 to 2006. For the endowment assessment the method of poverty by consumption was chosen. The base for the reassessing the poverty levels is the coefficient of the trade portion. Here is the formula for estimating it:

$$TEC = \frac{AW^{ts} \cdot E^{ts}}{AW \cdot E}$$

Where TEC – trade sector endowment coefficient;  $AW^{ts}$ - average wages of trade sector;  
 $E^{ts}$  – number of people employed in the trade sector;  $AW$ - average wages in the economy;  
 E – number of people employed in the economy;

**Table 2. Trade Endowment Coefficient with the MPC adjustment, %**

2000	2001	2002	2003	2004	2005	2006
6%	8%	9%	9,7%	11%	11%	9%

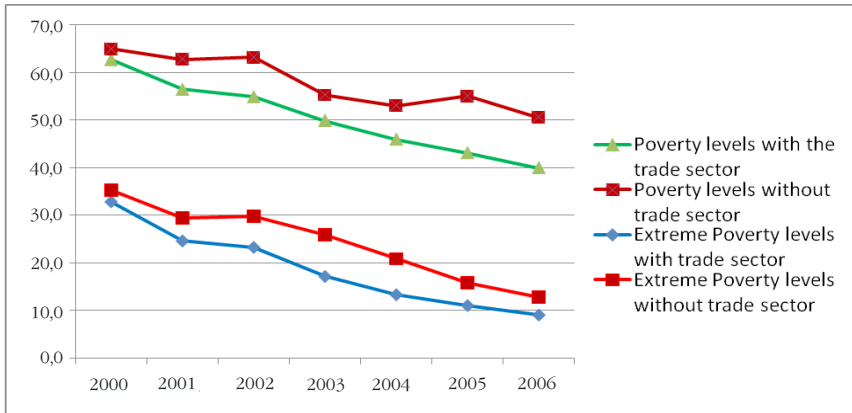
Thus, the table 2 shows the results for the estimation. As an example of interpreting this coefficient consider year 2000 when it equaled 6%, which means that 6% of the labor force adding those who are dependents which increase this share to higher amount is getting well owing to the trade sector. From 2000 to 2004 the coefficient of trade endowment increased from 6% to 11%, the increase for 2001 equaled to 2% and in 2002, 2003, 2004 annually add up 1% of the sector growth. In 2005 the value of the coefficient stayed the same as in 2004 and in 2006 it decreased by 2%. This is the relative tendencies of the estimation and can be explained that all other sectors of the economy grew substantially and the salaries were also increasing however the trade sector growth was not so great to increase its share among other sectors. The main point of the coefficient, that it is tied by the average salaries of the population, and reflects the "income" measure. Thus, we should obtain the measures of consumption levels. For that by the regression model with one dependent variable of final consumption the overall income was used in the measure of disposable income. For the Kyrgyz Republic disposable income of the population is very close to GNP and almost identical measures as tax revenues are not significant, disposable income is used for the marginal propensity to consume coefficient estimation. As a result the coefficient of MPC equaled 0.88 for the period from 1996 to 2006. The coefficients of TEC counted were adjusted on MPC and applied to the consumer expenditures of the households and according to the poverty level line criteria reestimated. Below we are considering the results of obtained estimations.

The results of the estimation were obtained as following. Accounting the general and extreme poverty lines of each household, in 2000 the contribution of the trade sector in poverty reduction was 2.3% and in extreme case 2.4%, and the urban and rural cases are different. For the same year the effects of the trade sector for urban areas was higher than for rural. The rural poverty decreased by 0.9% while the urban by 1.8% and the extreme poverty in rural localities contracted to 2.4% and in urban to 2.9%. And the higher decrease effect is noted in the extreme poverty level reduction rather than in general poverty level. In 2001 the trade sector played more meaningful role in the well-being of the population. But with the opposition to the previous year's estimations, the general poverty level was mostly influenced, while the extreme poverty level acquired less influence. General poverty level was reduced by 6.3% with the existence of the trade sector and the extreme poverty level by 4.7%. In urban localities the reductions for both measuring levels were 6.7% and 3.6% relatively and in rural 5.6% and 5.5%. Here we can clearly see that for this year commerce sector mainly affected urban population, but with the effect on rural population as well.

For 2002 data we have also positive effects of the contribution. The results showed that population engaged in the trade sector attributed to the national well-being by reducing the poverty by 8.2% and the extreme poverty level by 6.5%. However, the estimations for 2003 the endowments of the commerce sector to the general poverty levels are having less effect but to the extreme case higher effects. And the urban and rural effects equaled 5.6% and 5.3% for the general case and for the extreme case – 5.3% and 10.4%. So the 2003 contribution of the commerce sector for the rural extreme poverty level was significant. The year of 2004 is characterized by the following results: influence of the trade sector on the general poverty is 7.1%, from that urban effect equals to 5.4% and rural to 8.2%. The extreme poverty case was influenced by 7.5% and the rural effect is higher. In 2005 we are observing an appreciable effect in the general poverty reduction. It can be explained by the greater employment in the trade sector for this year and by the higher wages, earned by the population. And at last the data for 2006 looks as following: the general poverty had an effect

of 10.6%, the effect for the urban and rural areas are 11% and 10.2%. The extreme poverty level estimations are reduced by 4.4%, in urban by 1.8% and in rural by 4.5%.

**Figure 2. The contribution of the trade sector to the general and extreme poverty level, %**



The graphs shown above illustrate that the contribution of the trade sector to the poverty levels in the Kyrgyz Republic increased till 2003 year where the contribution started to be lower than for previous periods. One of the explanations is that the sector of internal trade reached the saturation levels meaning that for more than 10 years trade sector was developing with a gradual growth of the value added parameters which are resulted in GDP growth and reached the point of its significant level in the Kyrgyz economy. From 2004 to 2006 the contributions are growing but they are not exceeding much the levels provided before. In 2006 we have lower contribution effects than in 2005.

For the case of extreme poverty the picture is shown in a different way. In particular, the extreme poverty structure is presented by the following groups of people: handicapped, retired and rural population. Thus the effect of the internal trade grew till 2003 when it reached the maximum point. This phenomenon is explained as people who could be employed by the trade sector are already there but others just are incapable of working in any sector and require social welfare allowances from the government.

Adding up to this research, macroeconomic data analysis was also provided where time series of 40 observations were used for value added parameters of 3 main sectors (agriculture, processing industry and trade) which made almost 70% of GDP of the Kyrgyz Republic. The obtained results showed that the elasticity of consumer expenditures with the respect to the value added of the trade sector was the highest among those for agriculture and processing industry sector, proving that the trade sector remained to be a strategic for the better development and social well-being improvement of the country.

In the conclusion it is essential to summarize the key inferences of the performed analysis and draw policy implications resulting from it.

### **Conclusion**

For the short period of independence the trade sector becomes one of the important sectors from the social and economical points of view. Annually the trade sector grows at a considerable pace.

The results of micro-data and macro-data analysis supported for the stated problem. As a result we can confirm that the sector of internal trade which has grown significantly during 1996-2006 is influencing the poverty level in Kyrgyzstan; in particular, there is a reduction in the poverty.

While many pro-poor policies are administratively complex and expensive to implement, the most important bits of trade reform – tariff reductions and the abolition of nontariff barriers – are easy to do and will frequently save resources. Thus trade reform may be one of the most cost effective anti-poverty policies available to governments. Certainly the evidence suggests that, with care, trade liberalization can be an important component of a “pro-poor” development strategy. The article has many incentives to continue the research on the topic of the influence of international trade on the poverty of the Kyrgyz Republic.

The trade sector has preserved a stable growth for the last 7 years. This tendency led to the widening of the number of people who are employed here, more and more people get the welfare of the sector. Trade sector provides with the opportunities of being prosperous. That is why the policy of micro-crediting can be another push for the development of the internal trade. However the trade sector is exposed to high risks, like increase in world prices. Hence, the trade sector may be the mechanism for the poverty reduction in the short run; however, in the long term it will still add up to the improvement of the well-being of the nation. But for the long term goals it is essential to revive other sectors of economy, in our example, agriculture and processing industry, which in their turn will provide the steady growth and less dependence on external shocks. For example, in the long term we can observe the situation when agflationary fluctuations of the agricultural products can result in better development of the agricultural sector.

To summarize the policy implications we can classify them into:

- Promoting the principles of free trade in the Kyrgyz Republic;
- Following the principles of diversified economy;
- Promoting agricultural and processing industry sectors, as well as other ones.

Finally, the internal trade is a very important factor which should be indeed considered in the policy making process concerning the countries' development level and when solving the problem of the nations' well-being with the account of the stated reasons.

### **References**

1. Kudabaev, Zarylbek. *Economic Development of the Kyrgyz Republic* (in Russian). 2004, Chapter 1: 5-6.
2. Kakwani, Nanak. “Poverty and Economic Growth with Application to Cote D’Ivoire.” *Economic Journal*. June 1993: 121-128.
3. Rumiantsev, V. “Employment of the Population”, paper presented at the National Seminar on Poverty and Social Protection in the Kyrgyz Republic, September 1994: 1.
4. Borodich, S.A. *Introduction to Econometrics*. Minsk: BGU, 2000.
5. Kyrgyz National Statistical Committee. *Kyrgyzstan in Numbers*. Bishkek, 2006: 165 – 172.
6. Ravallion, Martin. “Issues in Measuring and Modelling Poverty.” *Economic Journal*. Sep 2006: 1328-1333. < <http://www.jstor.org/stable/2235525>>
7. Mendenhall, W. and J. Reinmuth. *Statistics for Management and Economics*. 6<sup>th</sup> edition, Boston: PWS – Kent Publishing Company, 1989.
8. Kudabaev, Zarylbek. *The Problems of Poverty Reduction in Kyrgyzstan* (in Russian). Bishkek, 2004: 5-83.