



**AN INVESTIGATION INTO ILLICIT TRADE
IN KAZAKHSTAN, UZBEKISTAN,
TAJIKISTAN AND KYRGYZSTAN**



ABOUT TRACIT

The Transnational Alliance to Combat Illicit Trade (TRACIT) is an independent, private sector initiative to drive change to mitigate the economic and social damages of illicit trade by strengthening government enforcement mechanisms and mobilizing businesses across industry sectors most impacted by illicit trade.

For more information, visit www.TRACIT.org

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CENTRAL ASIA AT THE CROSS-ROADS OF ILLICIT TRADE

AN INVESTIGATION INTO ILLICIT TRADE IN KAZAKHSTAN, UZBEKISTAN, TAJIKISTAN AND KYRGYZSTAN

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PART 1: ILLICIT TRADE IN CENTRAL ASIA



I. Introduction

Kazakhstan, Uzbekistan, Tajikistan and Kyrgyzstan form the heart of a region known as Central Asia. And while these countries are still largely recognized as former Soviet states, they each have unique histories and have played significant roles in international trade, dating back to the ancient Silk Road trade routes where they were the crossroads for the movement of people, goods, and ideas between the eastern Asia and Europe.

More recently, Central Asia has reemerged as a strategic hub of international trade, providing a critical transit point between east and west, but also increasingly becoming a destination for investment and economic growth.

In the immediate term, Russia's invasion of Ukraine threatens Central Asian trade and export objectives, leading them to uniquely seek alternative trade routes to Europe.¹ For example, the Trans-Caspian International Transport Route (TITR), has the potential to reshape the role of Central Asian nations in international trade. The TITR stretches over 11,000 kilometers and bypasses Russia by connecting China to Europe via Kazakhstan, Azerbaijan, and Georgia.²

At the same time, China has cultivated robust economic ties in the region through its Belt and Road Initiative (BRI) and numerous infrastructure projects to bolster connectivity, trade, and economic cooperation with Central Asia.

A more interconnected Central Asia brings new economic opportunities for the region. However, this also presents a risk of facilitating illicit trade. From smuggling, counterfeiting and tax evasion, to the illegal sale and possession of goods, services, humans and wildlife, Central Asian governments are already losing millions in tax revenues, natural resources are illegally leaving the country, informal markets are strengthening, and consumers are increasingly exposed to poorly made and unregulated products.

Given the region's economic influence and its growing role as a global trade hub, it is imperative that Kazakhstan, Uzbekistan, Kyrgyzstan, and Tajikistan confront the threat of illicit trade and rapidly invest in measures to mitigate the negative impacts it can have on economic development.

II. Overview of illicit trade in Central Asia

Illicit trade poses a significant challenge to Central Asian countries, undermining economic stability, security, and public health. Counterfeit goods, ranging from shampoo, designer clothes and chocolate bars to pesticides, alcohol and car parts, are widespread. Fuel smuggling is a common practice, while the rapid growth in illicit tobacco trade over recent years not only provides a significant source of funding for organized criminal activities, but also leads to substantial losses in tax revenue for governments.

Human traffickers prey on individuals from various corners of the region for labor and sexual exploitation, while counterfeit medicines have emerged as a serious public health menace, flooding the market with fake and expired drugs, particularly affecting those reliant on essential medications for chronic ailments such as diabetes. The exploitation of natural resources compounds these challenges, further complicating efforts to ensure economic stability and environmental sustainability in the region.

Illicit alcohol

Although illicit trade in alcohol is prevalent in the region, there are few statistics indicating the size of the market apart from reports from Kazakhstan that approximately 40 percent of alcohol sold there is counterfeit.³ In Uzbekistan, illicit alcohol is especially prevalent in the Fergana region⁴ and in 2020, the Uzbekistan Agency for Intellectual Property (AIP) reported 540 incidents of counterfeit alcohol.⁵

Throughout the region, several studies have suggested that smuggling and concealed production constitutes a significant source of all alcoholic beverages and Kyrgyzstan is recognized as a key transit route for the illicit transportation of alcohol into the Eurasian Economic Union.

Counterfeit and pirated goods

Owing to its strategic geographic location and its porous borders with former Soviet republics, Kazakhstan serves as both a destination and a transit country for counterfeit goods originating in China, on route to Russia and Europe. Customs regularly seize thousands of fake products at border crossings. Trade in counterfeit goods is prevalent in Uzbekistan, and high level of corruption facilitates this illicit trade in food products, household chemicals, cosmetics and medicines.⁶ While Kyrgyzstan is not considered to be a major producer of counterfeit goods, the sale and re-export of imported counterfeit goods is prevalent⁷ and has increased over recent years. Weak enforcement of intellectual property rights is a problem throughout the region.⁸ Also, corruption in the region presents a significant challenge and makes enforcement against counterfeits very difficult. And, due to participation in the Eurasian Economic Union, “there are effectively no border checks for goods shipped from Kazakhstan and Kyrgyzstan to Russia and other members of the Union.”⁹

Illegal mining

Illegal extraction and the smuggling of natural resources, particularly gold, continue to be widespread in Uzbekistan. Large amounts of gold are mined every year by organized crime groups and traded on the black market. Kyrgyzstan's abundant resources, including gold, coal, and rare-earth metals, have contributed to the proliferation of illegal mining activities there.

Illicit pesticides

Illicit pesticides are widely traded across Central Asia.¹⁰ According to public data presented by CropLife International, OECD, EUIPO, IDESF and FICCI¹¹ as much as 25 percent of the pesticides sold across Asia are counterfeit.

China serves as the primary supplier of counterfeit pesticides to Kazakhstan. These goods often follow specific transit routes, with China serving as the source, and the main passage leading from China to Kazakhstan and onward to Russia. For counterfeit seeds, the path extends from Russia to Kazakhstan and then spreads to neighboring countries.

Counterfeit pesticides are also a concern in Uzbekistan. The illicit trade in counterfeit pesticides originates primarily from foreign sources. Uzbekistan shares borders with countries known as major producers of counterfeit pesticides, primarily China, transforming the country into a primary transit zone for counterfeit pesticides to Southeast Asia and other Central Asian nations. Industry reports indicate that Kyrgyzstan lacks legitimate markets or shops for legal pesticides. Instead, most of these products are sold in open-air markets, with sellers frequently changing their locations on a weekly basis to evade verification efforts. This situation highlights the challenges in regulating pesticide use and ensuring the safe and legal distribution of such chemicals in the country.

Across all four Central Asian countries, national governments should raise awareness on the risks associated with the use of counterfeit pesticides. This should be accompanied by stricter enforcement measures to detect and seize counterfeit products and establish quarantine warehouses. Active involvement of responsible businesses, civil activists, and international organizations through enhanced interagency and international cooperation is also vital in this context.

Illicit petroleum

The smuggling of petroleum products, particularly across its borders, has been a longstanding challenge for Kazakhstan. In recent years, there has been a notable uptick in fuel smuggling, particularly along the

Kazakh-Kyrgyz border.¹² Fuel and lubricant smuggling is also a problem in Kyrgyzstan, where Kazakhstan and Russian fuel is mainly smuggled to Kyrgyzstan. Tajikistan is also a destination country for smuggled fuel and lubricants.

Illicit pharmaceuticals

Trade in counterfeit pharmaceutical products is a serious concern throughout the region, further exacerbated by ongoing drug shortages.¹³ In Kazakhstan, nearly 70 percent of medicines sold from pharmacies are unlicensed or counterfeit.¹⁴ Similarly, in Uzbekistan, as much as 35 percent of pharmacies stocked counterfeit medicines. In 2019, the head of the Uzbekistan Agency for development of the pharmaceutical industry revealed that counterfeit medicines constituted 10-15 percent of the total pharmaceutical market turnover.¹⁵ Although the trade in illicit pharmaceuticals is not significant Tajikistan, incidents of raids on pharmacies suspected of selling expired or counterfeit medicines are not uncommon.¹⁶ To address these issues, UNODC and WCO, organized a training session in 2020, to equip law enforcement officers in Kazakhstan, Tajikistan, and Uzbekistan with tools to detect counterfeit pharmaceuticals. The training also contributed to better targeting and profiling high-risk consignments, which may potentially contain dangerous medical goods.¹⁷

Illicit tobacco

Illicit tobacco is also prevalent throughout Central Asia. For example, illicit cigarettes in Uzbekistan are estimated to account for as much as 15 percent of the market,¹⁸ according to the Uzbek Agency for Regulation of Alcohol and Tobacco Market. However, NielsenIQ's Empty Pack Study suggests that share could be as high as 24 percent.¹⁹ In Tajikistan, the situation is becoming dramatically worse. In 2020, NielsenIQ found the market share for illicit cigarettes was 59.6 percent, and this has

increased steadily to 74.2 percent in 2021 and to 85.6 percent in 2022.^{20/21} The share of illicit cigarettes in Kyrgyzstan's domestic market is close to 9.5 percent, according to a 2022 study conducted by the think tank IPSOS.²² However, the NielsenIQ estimates show significant swings in the illicit tobacco, which reached a high of 13.2 percent in the previous year.²³ In Kazakhstan, the share of illicit tobacco is significantly lower, with the Kazakh government estimating that the share of illegal tobacco trade on the domestic market was only 1.6 percent in 2021. Industry reports suggest rates of 3 to 6 percent,^{24/25} which could be somewhat troubling because the share of illicit cigarettes remained negligible 2 percent or less from 2013 through 2020.²⁶

Kazakhstan, along with Belarus²⁷ and Kyrgyzstan, serves as a transit and source country of cigarette smuggling to countries like Russia due to its relatively low cigarette prices, simplified border crossing procedure and the lack of a ban on the movement of cigarettes between countries for personal use.²⁸ Lower taxation rates in comparison to its regional counterparts, has made Tajikistan a source country for the illicit trade of cigarettes, with cigarettes smuggled out of Tajikistan exceeding cigarette smuggling into the country.^{29/30}

Human trafficking

Traffickers increasingly exploit Central Asian citizens, in particular Uzbekistani men and women and lesser numbers from Tajikistan and Kyrgyzstan, for forced labor in various sectors within Kazakhstan, including domestic service, construction, bazaars, and agriculture. Notably, many Central Asian

migrant workers, including a substantial population of up to a million Uzbekistanis affected by Russia's 2014 re-entry ban, have sought temporary work and residence in Kazakhstan, where traffickers exploit them.³¹

Kazakhstan serves as both a source and a destination for human trafficking, driven by demand from within the country and abroad. Women and children hailing from nearby East Asian, Central Asian, and Eastern European nations, as well as from rural regions within Kazakhstan itself, fall victim to sex trafficking within Kazakhstan.

Uzbekistan is also both a source and destination country for human trafficking. In recent years, the country has made significant progress in curbing forced labor during the annual cotton harvest. The majority of pickers are unemployed women from rural areas, often without contracts, and are vulnerable to coercion that increases forced labor risks.³²

Human trafficking is a significant issue in Kyrgyzstan and occurs primarily in the form of forced labor and sex trafficking. The country is a source, transit and destination country for this criminal market. The multi-faceted nature of human trafficking in Kyrgyzstan connects domestic illicit actors with transnational criminal networks.

Tajikistan is mainly a source and, to a lesser extent, a destination country for human trafficking. Limited livelihood options, combined with a need for low-skilled labor in Russia and Kazakhstan, create ideal conditions for labor traffickers.

III. Assessing the structural capability of Central Asia to address illicit trade

Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan all face several significant structural weaknesses that inhibit their capability to address illicit trade. These weaknesses stem from their geography, varying legal frameworks, and historical contexts and include high levels of criminality, corruption, large informal economies, and weak enforcement systems and border controls. This situation is evidenced by a number of studies that have examined the regulatory environment and economic circumstances across Central Asia.

The 2023 **Global Organized Crime Index** shows that all Central Asian countries suffer from high levels of criminality and extensive criminal markets.³³ While Kazakhstan and Uzbekistan score slightly below the global average, Kyrgyzstan and Tajikistan score just above the global average. (The higher the score, the more severe is the criminality.) Amongst the four countries, Kazakhstan (4.47) registers the best/lowest score, followed by Uzbekistan (4.95), Kyrgyzstan (5.32) and Tajikistan (5.45).

Rank /193	Central Asia Economy	Criminality Score /100
127	Kazakhstan	4.47
100	Uzbekistan	4.95
GLOBAL Average		5.03
81	Kyrgyzstan	5.32
78	Tajikistan	5.45

Central Asia Country Rank and Scores from the 2023 Global Organized Crime Index³⁴

A similar situation is illustrated by the Economist Intelligence Unit (EIU) **Global Illicit Trade Environment Index**, commissioned by TRACIT. Along with more than 80 other countries, two Central Asian countries (i.e., Kazakhstan and Kyrgyzstan) were evaluated on a number of policy, legal, regulatory, economic, trade, institutional and cultural indicators reflecting the structural capability to effectively protect against illicit trade. Both countries rank in the bottom half of the Index. Amongst the four categories in the Index, Kazakhstan scores above the global average on only one (Transparency and Trade). Both countries struggle in the Customs Environment, while Kyrgyzstan, which is ranked 78 out of 84 countries globally, underperforms significantly on all categories compared to the global average.

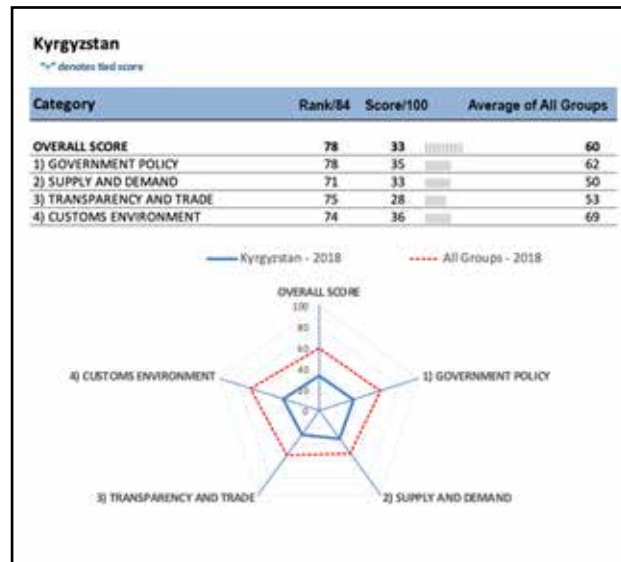
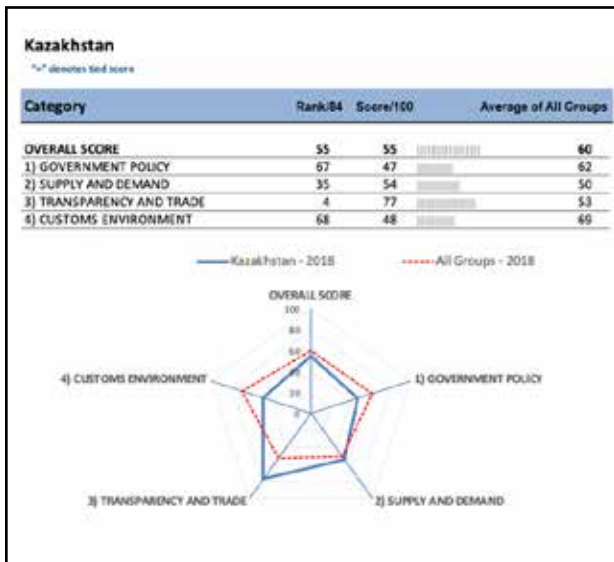
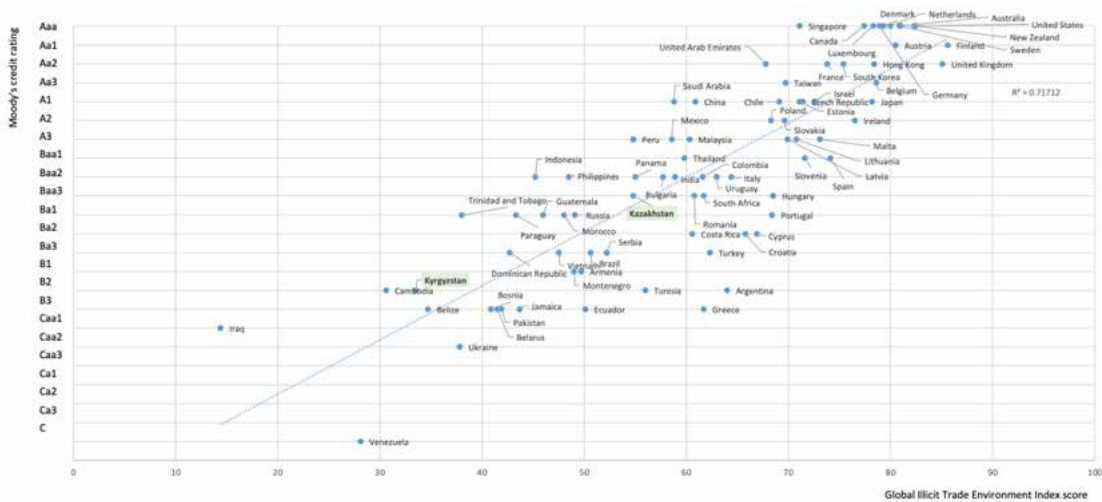


Figure 1: Moody's credit ratings and the Global Illicit Trade Environment Index



Source: Overall scores per country from the Global Illicit Trade Environment Index, available at: <http://illicittradeindex.eiu.com>; credit ratings: <https://tradingeconomics.com/country-list/rating>, accessed 17 September 2018.

The relationship between illicit trade, various macro-economic forces, and related structural circumstances – like corruption and governance – are illustrated in TRACIT’s 2021 report, **The Link Between Illicit Trade and Sovereign Credit Ratings**.³⁵ Figure 1 shows that countries that are poorly equipped to tackle illicit trade also suffer from poor credit worthiness. This is borne out by the positive correlation that exists between the Index and the credit ratings assigned by the major international credit rating agencies, such as Moody’s. Countries with high scores on their capacity to fight illicit trade also have higher credit ratings. Conversely, countries with inadequate regulatory environments and weak institutions making them particularly unprepared to face illicit trade, also have lower credit rating scores.

Figure 1 shows that Kazakhstan and Kyrgyzstan both exhibit a strong correlation between low capabilities to fight illicit trade and low credit ratings. Since TRACIT’s 2021 report was published, both Kazakhstan and Kyrgyzstan have been downgraded. In the case of Uzbekistan and Tajikistan, recent ratings place them in the speculative category with high credit risk.

The takeaway is that illicit trade has a direct negative impact on the very economic, social, and institutional risk factors that credit rating agencies evaluate to determine countries’ ability to honor their debt. The corruption, crime, human trafficking, money laundering, and environmental degradation connected with illicit trade all combine to weaken a country’s economic, financial, and institutional stability that underpin its credit ratings. This suggests that if Kazakhstan, Uzbekistan, Kyrgyzstan and Tajikistan invest resources and develop policy initiatives to combat illicit trade more effectively, the macro-economic benefits associated with eliminating illicit trade and related criminal activities can have a significant positive impact on future credit scores.

These studies collectively underscore that while the circumstances of each nation may differ, they all share several common structural challenges that impede their efforts to combat illicit trade effectively. Left unaddressed, illicit trade and its associated criminal activities will continue to rob the region of essential tax revenue and deter investments in the country.

IV. Examining the weaknesses that enable illicit trade in Central Asia

Recent political changes and reforms in some Central Asian nations have created opportunities to address illicit trade. Uzbekistan, under President Shavkat Mirziyoyev, has embarked on a series of economic, legal, and social reforms. These reforms aim to modernize the country, improve its international standing, and reduce its vulnerability to criminal flows. While political will for change is evident, the full implementation of these reforms remains complex, involving overcoming entrenched interests and trade-offs.

Given illicit trade's negative impact on private sector investment and the development of a formal sector, it is critical that Central Asia governments prioritize and increase efforts to combat illicit trade, and the underlying conditions that facilitate it. The production and trade of illicit goods do not contribute to socioeconomic development or economic transformation, nor do they create jobs or generate tax revenue.

Unmitigated illicit trade could also trigger a decline of confidence and a pullback of both foreign and domestic investments, directly impacting consumer well-being by limiting the range of quality and affordable products and services available to them, and in the long run, affecting economic growth.

Consequently, each of the four Central Asian governments will need to address these factors that enable illicit trade:

- Porous borders
- Large Informal/Shadow Economy
- Endemic corruption
- Weaknesses in regulatory and enforcement systems
- Notorious markets
- Insufficient penalties to deter illicit activities
- Low respect for intellectual property rights (IPRs)
- Lack of awareness

Porous borders

Central Asia's geographical proximity to Afghanistan, a major narcotics producer, makes it a critical transit point for drug trafficking and associated illicit activities. Simultaneously, its proximity to China, a significant producer of illicit goods, has transformed the region into a vital transit zone for counterfeit and smuggled products.

The long, porous borders, and mountainous terrain are difficult to monitor effectively, making them vulnerable to smuggling activities. Furthermore, the capacity for border control has historically been impeded by ongoing border disputes between neighboring countries. Smugglers have opportunistically exploited contested sections of the border, where border guards were absent, to facilitate the illicit movement of goods and people.

This situation is further aggravated by the lack of international cooperation between customs authorities of the countries in the region. Entities engaged in these illegal activities often employ intricate logistics, engage in the forgery of certificates, tamper with transport documents, and manipulate brand identities through repackaging or label alterations.

Moreover, national customs authorities often have limited information on imported products and their active ingredients, forwarding agents and producers, supply routes and pricing. These elements are vital for the enhancement of risk management systems, which are integral to better detecting customs fraud and other illicit trading activities.

Also, it has been reported that illicit traders have exploited vulnerabilities in the Eurasian Economic Union. The agreement establishing the Union provides for free movement of goods, services, capital and labor between its Member-States (Armenia, Belarus, Kazakhstan, Kyrgyz Republic and the Russian Federation). In particular, it has been reported that the free movement

of goods and people across member state borders resulted in the increase of the flow of contraband.³⁶ Rightsholders are closely monitoring the impact of the unified procedure for declaring goods containing objects of intellectual property, effective for EAEU countries on October 1, 2023.

Despite efforts by rightsholders to safeguard products at the border, including by providing regular training for authorities responsible for enforcement, the implementation of customs practices remains disjointed and ineffective. In spite of training opportunities and the establishment of Customs recordal systems, the frequency of Customs seizures is very limited, often nonexistent. For example, the Kazakhstan customs service rarely notifies brand owners about the arrival of counterfeit products bearing their trademarks at the border, with such notifications occurring only a few times each year. Meanwhile, Uzbekistan customs authorities do not communicate with brand owners even when suspicious goods with their labels are discovered at the border. The situation is further compounded by ambiguity surrounding the legality of parallel imports. Where such imports lack official authorization, rightsholders still find themselves without clearly defined legal recourse, or resorting to sending a letter or pursuing civil actions.

As a result, border measures and customs processes across the region are widely viewed as inefficient and insufficient.

Size of informal sector (% of GDP) ³⁷	
Kyrgyzstan	30.8
Tajikistan	37.1
Uzbekistan	27.2
Kazakhstan	31.9

Large informal economies

The historical legacy of the Soviet Union continues to play a role in shaping the region's dynamics. While the collapse of the Soviet Union granted Central Asian nations independence, it also left behind deeply ingrained networks of corruption and informal economies.³⁸ The prevalence of a substantial informal (otherwise known as the underground or shadow economy) in the region provides a fertile ground for illicit trade to thrive. This informal sector operates beyond the oversight of formal regulatory and taxation systems, making it easier for illicit goods to circulate.

In all the countries examined in this study, informal economies constitute more than a quarter of their total economic activity, with nearly 40% of all economic activity in Tajikistan taking place in the shadow economy.

As noted by the IMF, “the growth of the shadow economy can set off a destructive cycle. Transactions in the shadow economy escape taxation, thus keeping tax revenues lower than they otherwise would be.”³⁹ More informality is associated with significantly

Transparency International's 2022 Corruption Perceptions Index	Rank /180 (Higher rank = more corrupt)
Kazakhstan	101
Uzbekistan	126
Kyrgyzstan	140
Tajikistan	150

lower revenues and expenditures, less effective public institutions, more burdensome tax and regulatory regimes, and weaker governance.⁴⁰ Its pervasiveness is of particular concern now, because it may make it harder for Central Asian economies to achieve the inclusive development that is needed to undo the damage of the COVID-19 pandemic.⁴¹

Endemic corruption

Corruption continues to undermine the region's efforts to combat illicit trade. According to Transparency International's 2022 Corruption Perceptions Index, all four countries in this study rank in the bottom half of the global index, signifying significant corruption challenges in the region.⁴²

There will be limited success in the fight against illicit trade without commensurate efforts to address corruption. Laws and regulations to combat illicit trade are rendered ineffective when corrupt officials are responsible for their enforcement. Increasing criminal penalties alone is not enough to deter corrupt practices if the probability of being caught and held accountable is low. Furthermore, public trust in the justice system is eroded when corruption allows criminals to walk free.

Corruption enables illicit trade by creating an environment where illegal activities can thrive. Specifically, corruption in law enforcement and border control agencies can amplify the threat and incidence of illicit trade. Smugglers seeking to transport illegal goods across borders or engage in illegal trading schemes, even with respect to legal goods, can exploit collusion with government officials. The implications of such practices go beyond the immediate transaction. For instance, if a customs official accepts a bribe to allow the importation of counterfeit or stolen medical products, it not only involves the customs official and trader, but it also affects producers and consumers of these goods worldwide. This can lead to serious consequences, such as the

proliferation of substandard or dangerous products and harm to public health and safety.

The nexus of illicit trade with corruption and other criminal activities creates a triple threat to economies by crowding out legitimate economic activity, depriving governments of revenues for investment in vital public services and undermining the integrity of the very state institutions tasked with addressing the problem. While there have been improvements in recent years, the region has a long way to go to reverse the negative impacts of long-standing corruption.

Weaknesses in regulatory and enforcement systems

While most Central Asian nations have relatively well-defined legal structures and enforcement mechanisms, they all face challenges related to legal gaps, insufficient enforcement capabilities, and corruption within their law enforcement agencies.

A significant issue is the absence of dedicated state agencies responsible for combatting IP crimes. Typically, counterfeiting cases are investigated by law enforcement agencies (LEAs) that lack specialization in this area. This situation leads to several key problems:

- Counterfeiting isn't a top priority for these existing LEAs.
- There is a shortage of trained officers dedicated to handling trademark infringement cases.
- The lack of experience among available officers hampers the investigative process.

To address these issues and bolster efforts against counterfeiting, various solutions can be implemented: (i) Establish specialized LEAs devoted to combating counterfeiting, (ii) Authorize existing LEAs to investigate and prosecute IPR infringements, (iii) Impose key performance indicators (KPIs) on existing LEAs to incentivize effective investigations and prosecution of IP infringements.

Additionally, there are regulatory gaps that need attention. For instance, none of the countries in the region has established a system for the collection and proper disposal of pesticide containers. This gives criminals additional opportunity to acquire original containers and reuse them for the distribution of counterfeit pesticides.

There is also a role for authorities to address issues related to look-alike products. These authorities should be empowered to independently monitor the market to identify instances of IPR infringements and consider cases of IPR violations without requiring initial appeals from brand owners.

Notorious markets

Notorious open markets for a variety of illicit products presents specific enforcement challenges. For instance, the Dordoi Bazaar in Bishkek, Kyrgyzstan, often referred to as the "Container City," is Central Asia's largest hub for counterfeit goods and a known hub for the re-exportation of Chinese counterfeit goods to Europe and Russia.⁴³ The absence of state regulation in these open markets is a pressing concern. This lack of oversight, combined with issues of corruption and resistance from market management, hinders law enforcement agencies from conducting effective raids in these markets.

Insufficient penalties to deter illicit activities

There is an urgent need to strengthen criminal penalties for illicit trade and in particular for IPR-related crimes. Rights holders working in the region stress that penalties for IPR crimes are relatively small, especially when compared to the substantial profits obtained from counterfeiting. With little to no criminal deterrence, infringers persist in their unlawful operations even when facing legal prosecution. The necessity to strengthen penalties becomes evident when comparing the maximum fines for counterfeit activities across the countries:

In Kazakhstan, the maximum criminal fine for counterfeit activities is approximately USD 500. In Kyrgyzstan, the fine is set at USD 1,150. Tajikistan imposes a fine of USD 1,250 and Uzbekistan, in contrast, lacks criminal liability for counterfeit activities, opting for administrative liability for illegal trademark use, which carries a maximum fine of USD 565.

Increasing fines is a critical step in deterring IPR-related crimes, but it's not a panacea. Overemphasizing fines can lead to issues like increased bribery to law enforcement and obstruction of legal proceedings. Charging repeat offenders with fines that they can easily afford, can have a demoralizing effect on law enforcement officers and hampers the efficacy of investigations. Moreover, the imposition of fines may not dissuade infringers with limited declared assets, given that they frequently hide their wealth and take advantage of insufficient money laundering regulations in these countries.

To effectively address illicit trade and counterfeiting in the region, it will be necessary to introduce criminal liability with substantially higher deterrent penalties. Even more effective would be the inclusion of short-term imprisonment as an additional penalty.

Low respect for intellectual property rights (IPRs)

There is a general lack of understanding and respect for intellectual property rights (IPRs) in the region. This not only affects legitimate businesses but also contributes to the growth of illicit trade. There are several underlying factors behind this problem.

Firstly, state bodies often do not fully understand the advantages of robust IP protection, despite various efforts to promote awareness. This lack of comprehension leads to inadequate allocation of resources and time for the effective enforcement of IP rights.

Secondly, there is a noticeable lack of skills related to IPR matters among many officials. For example, IPR cases in Central Asia have a better chance to succeed when handled in the capitals, where judges possess more experience in resolving IPR disputes than their provincial counterparts. Similarly, there is a scarcity of specialized local legal counsels and investigators with experience in IPR matters.

Lastly, there is limited public awareness about the significance of IPRs. IPR violations are not commonly viewed as substantial offenses by the general population, leading to a lack of awareness and concern regarding the importance of protecting IPRs.

Lack of awareness

A general lack of awareness among the public and relevant authorities regarding the nature, size and consequences of illicit trade can impede efforts to address the issue. There is also limited awareness among the public on the negative impacts of illicit trade on society, including its economic, health, and security consequences.

For example, it is important to raise awareness among the public on the economic, employment, environmental and safety associated with counterfeit pesticides.

According to public data presented by CropLife International, OECD, EUIPO, IDESF and FICCI,⁴⁴ as much as 25 percent of all pesticides in the Asian market are counterfeit.

To address this gap, it is advisable to raise awareness on the negative impacts of illicit trade on the economy and society.

Insufficient data and statistics

The region is also impacted by a lack of centralized data and statistics on illicit trade, including seizures and outcomes of enforcement activities. Without collecting accurate and up-to-date information, it is challenging for governments and organizations to assess the scope and nature of illicit trade, identify trends, and allocate resources effectively to address the problem. Furthermore, this lack of data can also impede international cooperation and coordination in combating illicit trade, as it makes it difficult to share information and best practices.

PART 2: COUNTRY ASSESSMENTS

The chapters in Part 2 are country assessments of Kazakhstan, Uzbekistan, Kyrgyzstan and Tajikistan. Each chapter provides an overview of the key issues in the country, including geographic, political and economic dynamics and impacts of corruption and criminal activity. Each chapter also includes an examination of illicit trade as it occurs in any of the 10 sectors vulnerable to illicit trade.

PART 2: COUNTRY ASSESSMENTS

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I. Spotlight on Kazakhstan



Kazakhstan, the largest landlocked country in the world, occupies a strategically important position in Central Asia. It shares borders with Russia and China and is near Afghanistan and Iran. This vast upper-middle-income nation, known for its abundant natural resources and economic growth since gaining independence, is positioned to become a regional leader, fostering cooperation among the five Central Asian countries.⁴⁵

Kazakhstan occupies a crucial position in China's Belt and Road Initiative (BRI) since its launch in 2013. Its geographical location connects China to Europe through the Eurasian landmass, making it a vital transit corridor facilitating the flow of goods between Asia and Europe.⁴⁶ The fastest overland shipping route for Chinese goods bound for Russia or Europe transits through Kazakhstan.⁴⁷

Kazakhstan has also emerged as a pivotal trade hub within the region. The nation is actively collaborating with its neighboring countries to foster the development of two vital economic corridors: the Almaty-

Bishkek and the Shymkent-Tashkent-Khujand trade routes. Moreover, Kazakhstan is currently exploring the potential for investments in a state-of-the-art trade and logistics center situated at the Uzbekistan border.⁴⁸

However, beneath its promising economic outlook and efforts to improve regional cooperation, Kazakhstan faces ongoing challenges with illicit trade and organized crime.⁴⁹

Smuggling is a pervasive problem in Kazakhstan, often involving tactics like understating exports and inflating invoices for imported products to evade taxes and tariffs. This is evident in the substantial (~50%) disparities observed in the official statistics of Kazakhstan's foreign trade with countries in Asia and Europe and the US.⁵⁰

Another key challenge for the government is to improve border security to prevent illicit trafficking in goods, including weapons and narcotics.⁵¹ This starts with upgrading and equipping its border and customs units.⁵² Corruption of customs officials makes the

problem worse and jeopardizes the country's ability to effectively secure its borders and combat various forms of unlawful activities. Complicating this task is Kazakhstan's membership in the Eurasian Economic Union, which allows for the unimpeded flow of goods between Russia and Kyrgyzstan. Fortunately, a new, comprehensive action plan to combat the shadow economy for 2023-2025, will introduce systemic measures to improve efficiency of customs inspections and optimize customs procedures.⁵³ Other positive developments include the November 2021 decision by the Minister of Justice to establish an Interdepartmental Working Group on Combating Counterfeit Goods, comprising representatives of relevant government agencies and the National Chamber of Business.⁵⁴

Generally, corruption is also observed in nearly all sectors in Kazakhstan, and the country ranks 101 out of 180 in Transparency International's Corruption Perception Index.⁵⁵ Corruption is reported as being pervasive in the judicial system⁵⁶ and there are reports indicating the involvement of low-level law enforcement officers facilitates various forms of illicit trade.⁵⁷

Recently, President Tokayev announced that the government would do more to combat corruption and then approved the *Concept of Anti-Corruption Policy for 2022-2026* and an Action Plan for its implementation.⁵⁸ Within months, the government initiated several investigations targeting influential figures⁵⁹ and fired several politically appointed civil servants for corruption crimes committed by their subordinates.

Overall, nearly 450 government officials received disciplinary action for corruption offences.⁶⁰ Efforts to combat corruption in the police force have also been undertaken by reorganizing law enforcement agencies to improve efficiency and address a culture of impunity.⁶¹

Illicit trade by sector

Illicit alcohol

Illicit trade in alcohol is a prevalent concern within Kazakhstan.⁶² According to KazAlcoTabak industry Association, 40 percent of the alcohol sold in the market is counterfeit or illegal.⁶³ The TALAP research center calculated that 58 percent of illegal vodka is sold in rural areas and 27 percent in urban areas. Notably, a portion of this illicit vodka consists of surrogates, posing severe risks to the lives and health of consumers.⁶⁴ The most common modus operandi includes refilling of used bottles (acquired from restaurant disposals) and sealing them with counterfeit stamps.

In 2020, Kazakhstan launched a mobile app to combat counterfeit and illegal alcohol trade. The app verifies the legality of alcoholic products by scanning tax stamp barcodes or manual data input. The app then returns information on the name of the product and its manufacturer or delivers a warning if the code is invalid.⁶⁵

Counterfeit and pirated goods

Owing to its geographic location and its porous borders with former Soviet republics, Kazakhstan is both a destination and a transit country for counterfeit goods originating in China enroute to Russia and Europe. Western sanctions in the wake of the Ukraine invasion have further amplified Kazakhstan's role as a prominent transit point and source country for the illicit trafficking of various goods into Russia.⁶⁶ Counterfeit goods are commonly discovered in stores within commercial centers in Almaty. While landlords of commercial centers are not liable for the sale of counterfeits on their premises, rightsholders have observed that infringers are generally responsive to cease and desist letters.

Among counterfeited products is the widespread availability of counterfeit condoms, which are often sold at significantly lower prices compared to genuine products. These fakes are found in retail stores and pharmacies.

In 2022, the government seized 2,136 units of counterfeit goods, including stopping the operation of two illegal factories producing counterfeit household chemicals.⁶⁷ Moreover, customs authorities suspended customs clearance of counterfeited goods worth USD 13 million. Inspections by law enforcement agencies resulted in USD 3,500 in fines for violation of trademark rights.

Nonetheless, rightsholders have encountered substantial challenges in their enforcement efforts as a direct consequence of Presidential Decree No. 229, which imposed a moratorium on inspections and preventive control and supervision visits from January 1, 2020, until January 1, 2023. This decree, subsequently extended to 2024, has effectively hindered rightsholders from conducting enforcement raids over the past four years. Consequently, infringers have been able to operate their activities with impunity and without fear of consequences.⁶⁸

Kazakhstan maintains a relatively robust legal framework for the protection of intellectual property rights (IPR); however, enforcement needs further improvement. Judges, customs officials, and police officers lack IPR expertise, which exacerbates weak IPR enforcement.⁶⁹ To facilitate its accession to the WTO and attract foreign investment, Kazakhstan continues to improve its legal regime for protecting IPR.⁷⁰

The nation routinely conducts nationwide campaigns, specifically named "Counterfeit" and "Anti-Fraud." These initiatives are geared towards identifying and curtailing IPR infringements.⁷¹

Illicit pesticides

Pesticides are widely traded across Central Asia, with an increasing percentage being discovered as illicit and frequently counterfeit.⁷² According to public data presented by CropLife International, OECD, EUIPO, IDESF and FICCI⁷³ as much as 25 percent of the pesticides sold across Asia are counterfeit. This situation is amplified by the proximity of major pesticides producers to large consumer markets for agricultural, chemical, and economic commodities. The risks associated with illicit pesticides range from the reintroduction of obsolete pesticide stocks into agricultural production to the local assembly, production, and distribution of counterfeit pesticides, both for domestic use and export.

China serves as the primary supplier of counterfeit pesticides to Kazakhstan. These products often follow specific transit routes, with China serving as the source often Kazakhstan and onward to Russia. For counterfeit seeds, the path extends from Russia to Kazakhstan and then spreads to neighboring countries.

Certain regions in Kazakhstan stand out as high-risk areas, including Almaty, Shymkent, Saryagash, Zhambylsk, Pavlodar, and Kostanay. Illicit suppliers predominantly make use of the OLX platform and connect with farmers and clients through communication channels like WhatsApp, Telegram, Ozon, and Wildberries.

During the period from 2022 to 2023, Kazakhstan succeeded in seizing over 2,000 kilograms of counterfeit products. In 2023, authorities have resumed conducting raids, but now exclusively based on clear notifications received from rightsholders, with no ex officio raids conducted. However, industry representatives continue to highlight enforcement challenges.

Compounding these challenges is the absence of well-defined legal frameworks within the judicial system for calculating damages. Damage calculations are limited to products that have been definitively proven to have been sold and must surpass the EUR 15,000 threshold to be considered a criminal offense. This has resulted in cases where the Supreme Court declined to calculate damages for products found in warehouses, citing insufficient evidence of their intent for commercialization, ultimately leading to the cases being dismissed on the premise of "No damage, no claim."

Illicit pharmaceuticals

Trade in counterfeit pharmaceutical products is a serious concern, further exacerbated by ongoing drug shortages within the country.⁷⁴

In 2016 the chairman of the Board of JSC "National Scientific Medical Center" claimed that nearly 70% of medicines sold in the market of Kazakhstan are unlicensed or counterfeit products.⁷⁵ Unfortunately, according to a study conducted by the "Transparency Kazakhstan Public Foundation,"⁷⁶ it appears that drawing accurate estimations in the country is particularly complex. In 2017, the Foundation presented the results of the study "Customs Corruption of Kazakhstan: Mirror Analysis of Trade Turnover." In this publication, the Foundation analyzed official data on trade turnover between Kazakhstan and ten countries, including partners that are not members of the Eurasian Economic Union. The report shows that, according to data submitted by Kazakhstan to the WTO, from 2013 to 2017 there was a decrease in the volume of products imported into Kazakhstan. But this contradicts the information of partner countries: according to their statistics, the share of goods exported to Kazakhstan increases every year. In particular, the study points out that the pharmaceutical category ranks second in

terms of volume of goods for which the discrepancy in official customs statistics between Kazakhstan and partner countries exceeded 50 percent. The researchers emphasized that this is an obvious sign of corruption schemes on a large scale.⁷⁷

- According to the Committee for Control of Quality and Safety of Goods and Services of the Ministry of Health of the Republic of Kazakhstan, from 2018 to 2021 it was reported that there was an increase in the circulation of unregistered counterfeit drugs on the market. For example, in 2019, the Committee noted that they had established more than 70 cases of circulation of such drugs in the country's pharmacies. And in 2020, an underground workshop producing counterfeit goods was discovered in Almaty.⁷⁸
- In July 2020, a clandestine workshop to produce medicines was discovered in Almaty, where about 100 tons of products were seized. According to the prosecutor's office, "a printing house for the production of packaging materials, a warehouse for storing manufactured illegal products, and an underground workshop had been detected."⁷⁹
- In June 2022, the National Security Committee announced the suppression of the smuggling channel for the supply of finished medicines that were being disguised as raw materials. According to the Committee, a large batch of counterfeit drugs was withdrawn from circulation, which they intended to sell to commercial organizations and further distribute to medical institutions where oncological diseases are treated.⁸⁰

Illicit tobacco

In Kazakhstan, the share of illicit tobacco is significantly lower than the other countries in this report. The Kazakh government estimates that the share of illegal tobacco trade on the domestic market was only 1.6 percent in 2021. Industry estimates suggest rates of 3 to 6 percent,^{81/82} which could be somewhat troubling because the share of illicit cigarettes was negligible or usually under 2 percent from 2013 through 2020.⁸³

Based on a report on the illegal cigarette market in the Eurasian Economic Union prepared by KPMG, Kazakhstan lost about 8 billion tenge in tax revenues in 2021, due to smuggling.⁸⁴ Experts have reported that smuggling of cigarettes in Kazakhstan is steadily growing due to increases in excise taxes.⁸⁵

Kazakhstan, along with Belarus⁸⁶ and Kyrgyzstan, primarily serves as transit countries and, to a lesser extent, sources of cigarette smuggling to nations. like Russia due to its relatively low cigarette prices, simplified border crossing procedure and the lack of a ban on the movement of cigarettes between countries for personal use.⁸⁷

Smuggled cigarettes entering Kazakhstan primarily originate from Gulf countries, facilitated through various means, including re-exports, duty-free shops, and porous borders.⁸⁸ For instance, the Khujand-Isfara highway, spanning the border between Kyrgyzstan and Tajikistan, is a conduit for many gray commodities from the UAE.⁸⁹ Typically, these products are transported in vans in small batches alongside other goods.⁹⁰ The use of trains to smuggle tobacco from Kyrgyzstan into Kazakhstan has also been reported. In August 2023, law enforcement officers from the Zhambyl region confiscated two wagons of tobacco products worth 1.3 billion tenge.⁹¹

Interviewed sources also referred to illicit whites, explaining that “as a rule the source of 'cheap white' cigarettes is mainly the

UAE. There is a huge free economic zone (FEZ) of Jebel Ali, where there are about 27 large tobacco factories that can produce any brand on order. Call it whatever you want, give them the packaging, and they will do it for you in any quantity, and [from UAE legislation standpoint] completely legally.

Experts explained that some legal loopholes and legislative shortcomings need to be resolved to tackle the illicit tobacco problem. For instance, in Kazakhstan there is no liability for storing and transporting up to 25 cases of cigarettes. As such, criminal responsibility does not arise until the illicit trader effectively commercializes the illegal products.

Nicotine carriers

There are also reports of an increase in illicit trade in disposable electronic cigarettes and liquids for refilling vapes. In Kazakhstan, heated tobacco, disposable electronic cigarettes, and other products containing nicotine are subject to mandatory labeling.⁹⁴ Nonetheless,

- Sellers do not normally hide the illegal origin of the products, which are sold 20-30% cheaper than authentic electronic cigarettes.
- It has been reported that most vape units are sold without official labeling requirements and are frequently tagged with inaccurate manufacturing dates.

As of 12 December 2019, pursuant to a Resolution of the Chief State Sanitary Doctor of the Republic of Kazakhstan, snus products (a form of smokeless tobacco) are banned in the territory of the country.⁹⁵ However, there are reports indicating that snus products are still available in the country, albeit concealed under the counter and provided only upon specific requests from customers. Additionally, there have been reports of certain markets, such as those in Karaganda, where these products are openly displayed for sale.

Illicit petroleum

The smuggling of petroleum products, particularly across its borders, has been a longstanding challenge for Kazakhstan. In recent years, there has been a notable uptick in fuel smuggling, particularly along the Kazakh-Kyrgyz border.⁹⁶ This increase can be attributed to the socio-economic impacts of the COVID-19 pandemic and the overall economic slowdown in Kazakhstan. Smuggling of liquified petroleum gas (LPG) has also been on the rise, driven by government reforms aimed at addressing the illegal export of the commodity to other countries like Russia and Kyrgyzstan.⁹⁷ The Chaldybar– Avtodorozhny and Kaindy–Avtodorozhny checkpoints on the Kazakh-Kyrgyz border have been flagged as the main transit points for smuggled fuel, although historically Kazakhstani and Russian fuel was smuggled into Kyrgyzstan via the Chu (Shu) River.⁹⁸

In the first half of 2022, the Agency of the Republic of Kazakhstan for Financial Monitoring opened 35 criminal cases of illicit trade in.⁹⁹ In January 2023, Kazakh Prime Minister Alikhan Smailov tasked the Energy Ministry to take decisive measures to enhance control and prevent fuel smuggling.¹⁰⁰

Forestry and wildlife crime

Instances of wildlife trafficking have been reported along established drug smuggling routes, particularly in areas with open border crossings in rural and remote regions. The poaching of animals is primarily driven by subsistence needs. However, there have been cases where rare and endangered species, such as the saiga antelope, have been targeted for their body parts. These parts are then illicitly smuggled into countries like China and other regions in East and Southeast Asia.¹⁰¹

The illicit poaching of sturgeon is a major concern, involving the illegal trafficking of both live sturgeon and their valuable caviar. The Ural-Caspian region has witnessed a stark decline in the sturgeon population, plummeting by 98 percent over the course of a decade. Additionally, the population of saiga antelope has also experienced a severe decline, with numbers dwindling by 95 percent within the past two decades.¹⁰²

Human Trafficking

Kazakhstan serves as both a source and a destination for human trafficking, driven by demand from within the country and abroad. Women and children from nearby East Asian, Central Asian, and Eastern European nations, as well as from rural regions within Kazakhstan itself, fall victim to sex trafficking within Kazakhstan. Traffickers typically target young girls and women, enticing them with offers of employment opportunities. Increasingly, traffickers use online recruitment methods, where false promises are propagated through social media networks advertising positions such as waitresses or models.¹⁰³

Traffickers increasingly exploit Central Asian citizens, in particular Uzbekistani men and women and lesser numbers from Tajikistan and Kyrgyzstan, for forced labor in various sectors within Kazakhstan, including domestic service, construction, bazaars, and agriculture. Notably, many Central Asian migrant workers, including a substantial population of up to a million Uzbekistanis affected by Russia's 2014 re-entry ban, have sought temporary work and residence in Kazakhstan, where traffickers exploit them.¹⁰⁴

II. Spotlight on Uzbekistan



Uzbekistan is a lower middle-income country and the most populous nation in Central Asia and the South Caucasus. It holds a critical geographic position in the region because it is the only Central Asian country that shares borders with all four of its neighbors. Over the past five years, it has undertaken significant reforms with the aim to improve the lives of its citizens, foster business development, and enhance regional integration.¹⁰⁵

However, its position in the heart of Central Asia also renders it vulnerable to criminal groups transiting illicit products through its territory. For example, Uzbekistan finds itself situated along major trafficking routes, including those facilitating the trade in opium and heroin originating from Afghanistan, which exacerbates its vulnerability to criminal flows and other forms of illicit trade.

The country's extensive borders and mountainous terrain are challenging to monitor and police, leaving them vulnerable to illicit crossings.¹⁰⁶ The capacity for border

control has historically been hampered by disputes around demarcation of boundaries with both Kyrgyzstan and Kazakhstan. However, as of January 2023, Uzbekistan has most border disputes with Kazakhstan and Kyrgyzstan, which sets the stage for improved border control and further cooperation among Central Asian nations.¹⁰⁷

Uzbekistan has ratified most of relevant international treaties related to organize crime, except the Arms Trade Treaty of 2013, and two UN Conventions Against Transnational Organized Crime (UNTOC) protocols – against the smuggling of migrants and against the illicit manufacture and trafficking in firearms.¹⁰⁸

While Uzbekistan has steadily improved on Transparency International's Corruption Index – gaining 14 points since 2013 – it still ranks 126th out of 180. The improvements can be traced to a prioritization of corruption prevention that commenced in 2017 when the government launched an extensive anti-corruption campaign that included legislative, regulatory,

and institutional initiatives.¹⁰⁹ Measures included the establishment of an anti-corruption agency as well as a mandatory online public procurement platform to enhance transparency. While Uzbekistan's national legal framework is well-crafted and criminalizes almost all organized crime activities, "the levels of corruption and widespread evasion of justice undermine the importance of the legal structure".¹¹⁰

Despite progress and the implementation of important measures, the Asian Development Bank (ADB) points out that "Uzbekistan remains an authoritarian state where activists and civil society face persecution, interrogation and dismissals," and until this changes, it will not be possible to fully address corruption.¹¹¹

As President Mirziyoyev enters his second five-year term, it will be important to move forward with the implementation of key reforms, including adopting sweeping judicial and law enforcement reforms.¹¹² For example, in April 2023, he enacted a presidential decree on "additional measures aimed at providing the population with high-quality consumer goods". Notably, several of the provisions can strengthen the government's ability to mitigate illicit trade:¹¹³

- Strengthening liability for acts related to the illegal circulation of goods that do not meet the requirements for the safety of life or health of consumers.
- Establishing liability for acts related to the illegal trafficking of ethyl alcohol, alcohol and tobacco products, based on the level of public danger.
- Strengthening liability for the illegal use of someone else's trademark, service mark, geographical indication, appellation of origin of goods, or the use of someone else's trade name.

Illicit trade by sector

Illicit alcohol

The illegal sale and purchase of alcohol is a ubiquitous issue in Uzbekistan, especially in the Fergana region.¹¹⁴ In 2020, the Uzbekistan Agency for Intellectual Property (AIP) reported 540 incidents of counterfeit alcohol.¹¹⁵ The presidential decree of 4 April 2023 proposes specific measures to tackle illicit trade in alcohol:¹¹⁶

- It requests the Prosecutor General to establish liability for an act related to the illegal trafficking of ethyl alcohol and alcohol, based on the level of public danger.
- It introduces control measures for ensuring the protection of consumers, including the destruction of confiscated alcohol products that do not meet safety requirements.
- It establishes new regimes for tax stamps in alcohol products.

Counterfeit and pirated goods

Trade in counterfeit goods is prevalent in Uzbekistan, notably in food products, household chemicals, cosmetics and medicines.¹¹⁷ Industry reports suggest that Farkhad Market in Tashkent is a particular hotspot for counterfeits in the country.

Uzbekistan's legal framework for copyright protections is generally sufficient, but enforcement remains one of the biggest IPR challenges. Notably, IP violators are rarely obligated to cease infringing activities or pay meaningful penalties.

Rightsholders are reluctant to begin legal proceedings because of the time and cost, reputational risk, and uncertain outcome. Trademark cases often take years to settle in the courts, with judges frequently siding with the local infringer over the foreign brand.

The Prosecutor General's Office (PGO) has the authority to both penalize violators and order them to desist from producing, marketing, or selling infringing goods, but few cases ever make it to the PGO. This is probably because the burden of proving an IPR violation is so high. While these cases are stalled in the court system, infringing companies often continue to operate without restrictions.¹¹⁸

President Mirziyoyev introduced Intellectual Property Protection Centers (IPPCs) by presidential decree in 2021, to bolster enforcement efforts. In 2022, the government issued a national strategy for IP development, indicating high-level political support to improve IPR protections and a high-level commitment to ensure Uzbekistan's IPR regime complies with international standards and obligations.

Uzbekistan introduced a limited form of ex-officio authority in 2022, through a presidential decree granting customs officials authority to suspend potentially infringing goods at the border for up to 24 hours while confirming shipment details with the rightsholders.¹¹⁹ While this is an important step, amending the Customs Code to grant full "ex-officio" powers to customs authorities would help them identify and seize infringing goods. This authority could also alleviate burdensome obligations imposed on rightsholders to provide detailed information about possible infringing imports. These measures would be welcomed as part of Uzbekistan's potential WTO accession.^{120/121}

According to the Uzbekistan Agency for Intellectual Property (AIP), in 2022 local authorities initiated 570 criminal and 2,000 administrative cases on IPR violations. Authorities confiscated over USD 3.5 million worth of infringing or substandard goods, with another USD 3.4 million seized and destroyed by customs officials. The government also estimates that it confiscated

and destroyed an additional USD 114,000 of counterfeit laundry detergents and perfumes. However, rightsholders report that authorities have limited authority to challenge trademark infringement by individual persons. As a result, determined counterfeiters can skirt the law by operating without a registered business.¹²²

While Uzbekistan demonstrates political will and has made strides in addressing IPR challenges, effective enforcement policies, strengthening legal frameworks, and enhancing border control authority are needed to enhance IPR protection in the country.¹²³

Illegal mining

Illegal extraction and the smuggling of natural resources, particularly gold, continue to be widespread in Uzbekistan.¹²⁴ Large amounts of gold are mined every year by illegal organized groups and traded on the black market, mainly in Navbahor, Nurota, Tomdi, Uchkuduk and Khatirchi districts of the Navoi region, Angren and Almalyk cities, Akhangaron district of the Tashkent region, Pakhtachi and Koshrabat districts of the Samarkand region.¹²⁵

Despite the legalization of private gold mining in 2019, that prompted dozens of individual entrepreneurs to hunt for gold legally, unauthorized mining operations persist. In 2020, Uzbekistan's state media said that illegal gold mining in the country involved some 10,000 people in a season and produced around one ton of gold every year.¹²⁶

Illicit pesticides

Counterfeit pesticides pose a significant concern in Uzbekistan and illicit trade, mainly originating from foreign sources, is increasing. These counterfeit agricultural chemicals undermine the agricultural sector's productivity, threaten food safety, and result in substantial economic losses.

The challenge lies not only in the influx of these substandard pesticides but also in the need for stringent enforcement measures and regulations to curb their prevalence and protect the interests of farmers and consumers.

Uzbekistan shares borders with countries known as major producers of counterfeit pesticides, primarily China, transforming the country into a primary transit zone for counterfeit pesticides to Southeast Asia and other Central Asian nations.

Criminals involved in this trade utilize a number of tactics, such as sophisticated logistics, counterfeit certificates, forged transport documents, and manipulation of brand names through methods like repackaging or altering labels. Rightsholders have noticed that illicit traders not only order finished products from Chinese suppliers but also substantial quantities of active ingredients and unbranded products. These unbranded items are intended for local use in the production of counterfeit pesticides. The illicit activities are primarily concentrated in the Tashkent region.

Similar to neighboring countries, Uzbekistan lacks a systematic approach for collecting and disposing of pesticide containers. This gives criminals easy access to original containers, which they can then repurpose to distribute counterfeit pesticides. Customs authorities could be more effective if they had better, more comprehensive data concerning imported products, such as information about active ingredients, forwarding agents, producers, supply routes, pricing, and seasonality in pesticide flows. The absence of effective international cooperation among customs authorities within the region further exacerbates this issue.

Illicit pharmaceuticals

The prevalence of counterfeit medicines in Uzbekistan's healthcare system has become a significant concern.¹²⁷ In 2009, a survey of 1,214 pharmacies by the Federation of Societies of Consumer Protection in Uzbekistan found that 35 percent stocked counterfeit drugs, with over 50 percent selling medicines lacking proper instructions.¹²⁸ In 2019, the head of the Agency for development of the pharmaceutical industry¹²⁹ revealed that counterfeit medicines constituted 10-15 percent of the total pharmaceutical market turnover.¹³⁰

Although the majority of counterfeit medicines are suspected of being imported, instances of illegal production facilities for falsified medicines and dietary supplements have been discovered within Uzbekistan.¹³¹ In 2022, the government issued its first financial penalty (USD 5,500) for producing counterfeit medicine and estimates that it removed USD 275,000 worth of counterfeit pharmaceuticals from the market by introducing stricter product validation requirements for producers and retailers.¹³²

The government has reported several incidents in the past months:

- In August 2023, the Uchtepa District Office of the Department under the General Prosecutor's Office, together with employees of the State Security Service, carried out a special operation to stop the sale of 18 types of medicines. A total of 12,400 packages of various drugs were seized.¹³³

- In February 2023, the Criminal Investigation Department of the Internal Affairs Directorate of the Andijan Region reported the arrest of two individuals who have smuggled potent drugs. The operation resulted in the confiscation of “Tropicamide” valued in USD 9,000.¹³⁴
- In January 2023, the Department for Combating Illicit Trafficking in Narcotic and Psychotropic Substances of the Ministry of Internal Affairs arrested an individual selling 720 units of a potent drug labelled “Reduxin” (sibutramine) for UZS 2,800,000. The arrest led to the confiscation of 1,621 units of “Fatsorb”, 324 units of “Reduxin” and 13,312 units of other types of illicit pharmaceuticals.¹³⁵
- Tragically, 20 children died in 2022 due to contaminated cough syrup containing ethylene glycol, a toxic substance, that originated in India, underscoring the serious impact of substandard and counterfeit medicines in circulation.¹³⁶

Illicit tobacco

The illicit cigarette trade in Uzbekistan presents a significant and escalating challenge. The Agency for Regulation of Alcohol and Tobacco Market has revealed that the prevalence of illicit tobacco products increased for from 4 to 15 percent between 2021 and 2023.¹³⁷ This increase is in line with KANTAR's analysis, indicating that the share of counterfeit product sales in Tashkent grew from 11 percent at the beginning of 2022 to 15 percent by May 2022. Moreover, several regions in the country experienced a similar spike in counterfeit markets,¹³⁸ which may explain why NielsenIQ's Empty Pack Study suggests that share could be as high as 24 percent.¹³⁹

Consequently, this situation is causing substantial fiscal losses, with the government reporting up to UZS 550 billion in losses from uncollected tax revenues.¹⁴⁰ Beyond financial ramifications, concerns linger about the quality of these smuggled products, including nicotine levels exceeding permissible limits.

The primary source of illegal tobacco products infiltrating the market is smuggling, with contraband entering through the porous southern regions. This includes the use of "interrupted transit" or "fake transit" smuggling schemes, where goods are initially declared for transit through Uzbekistan during customs clearance. However, once these consignments cross the border, they “disappear”, and the illicit cigarettes find their way into the Uzbek market. Brands such as the United Arab Emirates' "Milano" and KT&G's "Esse" are reported to transit Kyrgyzstan and Tajikistan on their way to Uzbekistan. Kyrgyzstan, part of the Eurasia Economic Union's common customs space with Kazakhstan, is also pivotal in the smuggling of cigarettes to neighboring countries, including Uzbekistan.¹⁴¹

Historically, illicit tobacco products lacked proper markings or labels detailing their quality and origin. However, since 2022, the government has mandated that all data be provided in the Uzbekistan language. This requirement empowers both law enforcement and consumers to easily identify illegal cigarettes. In other words, if the product lacks Uzbek language markings, it is likely contraband.¹⁴²

Human trafficking

Uzbekistan serves as both a source and destination country for human trafficking. In recent years, the country has made significant progress in curbing forced labor during the annual cotton harvest (Uzbekistan is the sixth largest cotton producer in the world). However, isolated instances persist, primarily due to local officials imposing cotton production quotas in contravention of the national ban on the practice, which can perpetuate incentives for coercion in the cotton harvest.¹⁴³ The majority of pickers are unemployed women from rural areas, often without contracts, and are vulnerable to coercion that increases forced labor risks.¹⁴⁴

Uzbek victims, including children, women, and LGBTQ+ individuals, experience sex trafficking locally and abroad. Complex documentation processes required to obtain proper documentation in Russia mean that many Uzbek migrant workers in Russia work informally, heightening trafficking risks. Additionally, many migrant workers from Uzbekistan face high risks of trafficking within Russia itself, where migrants are charged high work permit fees that make them vulnerable to debt-based coercion. Corruption among low-level officials allegedly compounds these challenges.¹⁴⁵

III. Spotlight on Kyrgyzstan



The Kyrgyz Republic¹⁴⁶ (also known as Kyrgyzstan), a landlocked nation in Central Asia, shares its borders with Kazakhstan, Tajikistan, Uzbekistan, and China. Since gaining independence in 1991, the country has grappled with political turbulence, frequent government changes, and socioeconomic challenges.

The country's recovery from the COVID-19 pandemic was further complicated by the Russian invasion of Ukraine, where spiking food and energy prices have exacerbated poverty.¹⁴⁷ Notably, this nation ranks as the second-poorest among the former Soviet republics, with migrant worker remittances to home countries accounting for 30 percent of its GDP.¹⁴⁸ Based on government statistics, the informal economy constituted approximately 21 percent of the total economy.¹⁴⁹ However, independent analysts suggest that the actual figure could be closer to 50 percent.¹⁵⁰

The prevalence of weak job prospects, which has driven over a million Kyrgyz citizens to seek employment abroad,¹⁵¹ has exacerbated the challenges associated with illicit trade.

With limited formal job opportunities within Kyrgyzstan, a significant portion of the workforce, approximately 70 percent, operates within the informal economy. This sector, while contributing an estimated 28 percent of total value added to the economy, operates without the safeguards and regulations that accompany formal employment.¹⁵² This significant presence of the informal economy also presents substantial opportunities for corruption. As a result, both the Kyrgyzstan economy and its citizens are vulnerable to the various illicit activities that thrive in the absence of formal regulation and employment protocols.

Amid this reality, experts have expressed that *"the presence of huge unaccounted products imported into the country practically nullifies any attempts by the state to somehow develop domestic production. One of the main factors that scares foreign investors away from Kyrgyzstan is unfair competition. What's the point of introducing new technologies and modern management systems if someone can import any product into the country and sell it freely without paying taxes?"*¹⁵³

Smuggling has been an increasing problem in Kyrgyzstan since the breakup of the Soviet Union. The country, strategically located along the ancient Silk Road, naturally serves as a transit point for various legal and illegal goods.¹⁵⁴ Networks involved in smuggling legal goods and those trading in illicit goods frequently overlap. Well-established smuggling channels for Chinese goods can easily be employed for drug trafficking and vice versa.¹⁵⁵ The issue is further compounded by Kyrgyzstan's membership in the Eurasian Economic Union and its close trading relationship with Russia. In July 2023, the U.S. imposed sanctions against four Kyrgyz companies allegedly involved in the re-export of prohibited or sanctioned goods to Russia in an attempt to circumvent the sanctions imposed in connection with the invasion of Ukraine.¹⁵⁶

The country's rugged, mountainous topography, rough landscapes and lack of adequate infrastructure makes border control very difficult and further renders the country susceptible to organized crime and illicit trade.¹⁵⁷ This vulnerability is most pronounced in southern Kyrgyzstan, where organized crime is the highest. Particularly challenging are the Kyrgyz-Uzbek and Kyrgyz-Tajik borders, characterized by widespread criminality and deep-seated ethnic tensions that have endured over time. Adding to these complexities, border-control personnel grapple with low salaries and inadequate resources, creating an environment where corruption can easily take root.¹⁵⁸

Ongoing border disputes between countries can also create opportunities for smuggling activities, as demonstrated by the discovery of several cross-border smuggling tunnels near the Kara-Suu bazaar in 2022. This area serves as a crucial entry point for goods from China and is located alongside Uzbekistan's portion of the Fergana

Valley. Here, smugglers take advantage of contested sections of the border, especially where border guards are absent, to move illicit goods and people. These tunnels, stretching for hundreds of meters and some even equipped with elevators, electricity, and closed-circuit cameras, highlight the sophistication of smuggling operations.¹⁵⁹

Following the transition to a presidential system in 2021, Kyrgyzstan's political leadership made significant commitments to combat organized crime. Although there has been notable progress in apprehending criminal groups, a significant number of suspects have been either released or fined – raising doubts about the government's credibility and commitment to addressing the issue of organized crime.¹⁶⁰

Corruption remains a serious problem at all levels of Kyrgyz society and in all sectors of the economy.^{161/162} Ranking 140th out of 180 in Transparency International's Corruption Perception Index, Kyrgyzstan is among the weaker performers in the region.¹⁶³ Bribery is seen as an "efficient" way to receive government.¹⁶⁴ The Kyrgyz government and political system has been largely infiltrated by organized crime, evidenced in the election of criminals to government positions.¹⁶⁵

Coupled with the border-control personnel being poorly paid and under-resourced, border officials are especially vulnerable to corruption.¹⁶⁶ However, this is not only true for border control, as under-resourced and under-paid civil servants across government agencies create systemic incentives for corruption.¹⁶⁷

The National Security Concept, which was adopted in 2021, identifies the growth of the shadow economy as an insider threat to the national security. The concept calls for the government to take a comprehensive approach to combating illicit trade, including through law enforcement, border security,

and public awareness initiatives.¹⁶⁸ The National Security Committee in Kyrgyzstan holds the responsibility for combatting organized crime and corruption. However, despite these efforts, corruption and bribery continue to proliferate within the country.¹⁶⁹

The country's judicial system is deemed to be “one of the most corrupt state bodies in the country, with widespread corruption and bribery among judges.”¹⁷⁰ Political influence, corruption, lack of resources and nepotism adds to the endemic corruption.¹⁷¹ Corrupt government officials also facilitate Kyrgyzstan’s human trafficking market, where traffickers are able to operate with relative impunity,¹⁷² and corrupt officials facilitate the sale of fraudulent migration documents and identity cards.¹⁷³

Effectively tackling these challenges demands a multi-faceted approach, encompassing initiatives to bolster economic stability, incentivize the transition from the informal to the formal sector, fortify anti-corruption measures, improve enforcement mechanisms, and strengthen border controls.

Illicit trade by sector

Illicit alcohol

Although there are no specific statistics on the illegal alcohol trade, several studies point to smuggling and illegal domestic production as significant sources of illicit alcoholic beverages in the country.¹⁷⁴ Additionally, Kyrgyzstan is recognized as a key transit route for the illicit transportation of alcohol within the Eurasian Economic Union. A significant portion of these products originate from Middle Eastern and European nations, as well as neighboring Central Asian countries such as Tajikistan.¹⁷⁵

Counterfeit and pirated goods

Kyrgyzstan is not considered to be a major producer of counterfeit goods, nonetheless the sale and re-export of imported counterfeit goods is prevalent.¹⁷⁶ Illegal trade in counterfeits has increased over

recent years and the country has become an intermediary between China and Russia.

Kyrgyzstan is a signatory to several IP-related international treaties and has legislation protecting intellectual property rights, including criminal liability for violation of IPR. However, enforcement is a problem, evidenced by the fact that there have been no successful prosecutions for IPR violations in the history of Kyrgyzstan.¹⁷⁷

The State Customs Service regularly publishes alerts and notifications on the recent seizure of counterfeit goods on its official website, however, there is no central database of official statistics on the seizure of counterfeit goods.¹⁷⁸

According to the Intellectual Property Owners Association, corruption in Kyrgyzstan poses a significant challenge and makes enforcement against counterfeits essentially impossible. Also, since it is part of the Eurasian Customs Union, there are effectively no border checks for goods shipped from Kyrgyzstan to Russia and other members of the Union.¹⁷⁹

The Kyrgyz Republic was listed on the 2022 U.S. Trade Representative’s Notorious Markets report, due to the availability of counterfeit goods sold at the massive Dordoi bazaar and the lack of actions by government to shut down the illegal markets.¹⁸⁰ Located in Bishkek, the Dordoi Bazaar is the largest counterfeit market in Central Asia and a hub for the re-exportation of Chinese counterfeit goods to Europe and Russia.¹⁸¹

Illegal mining

Kyrgyzstan's abundant resources, including gold, coal, and rare-earth metals, have contributed to the proliferation of illegal mining activities. Illicit coal mining operations are prevalent in the southern region of the country, with the coal being illicitly transported to Uzbekistan.

Moreover, the country has witnessed a surge in illegal gold mining, driven by the high unemployment rates, particularly in the Naryn region.¹⁸² Given Kyrgyzstan's strategic location, it also serves as a transit point for the trafficking of illegal minerals originating from Afghanistan and Tajikistan, as well as the smuggling of oil from Kazakhstan route to Tajikistan.¹⁸³

- During the inspection carried out by the prosecutor's office of the Aksy region, the State Inspectorate for Environmental and Technical Safety reported that the illegal mining of minerals in the region resulted in state revenue loss of KGS 19.5 million.¹⁸⁴
- In December 2022, the State Committee for National Security reported that private firms illegally mined coal in Jalal-Abad, causing damages exceeding KGS 4 million. According to the conclusion of experts, the violators carried out work outside the licensed area without the appropriate permits.¹⁸⁵
- The government recently published guidelines directed at the mining industry, calling for strengthened controls over illegal mining, including licensing, rational use of land and environmental safety.¹⁸⁶
- In June 2017, the State Committee for National Security of Kyrgyzstan stopped the illegal import into the country of gold shipments and precious stones worth over KGS 27 million.¹⁸⁷

Illegal pesticides

Industry reports indicate that Kyrgyzstan lacks legitimate markets or shops for legal pesticides. Instead, most of these products are sold in open-air markets, with sellers frequently changing their locations on a weekly basis to evade verification efforts. This situation highlights the challenges in regulating pesticide use and ensuring the safe and legal distribution of such chemicals in the country.

Illicit pharmaceuticals

In Kyrgyzstan, more than 10 million packages of medicines and medical products were seized from illegal circulation.

However, despite this report, there is little public evidence of illicit pharmaceutical in the Kyrgyzstan market, which suggests that corruption of government and media have hidden the realities of the market.¹⁸⁸

Illicit tobacco

Kyrgyzstan is recognized as a transit route for the illicit trafficking of tobacco products within the Eurasian Economic Union. The majority of these products enter the country from Middle Eastern and European nations, as well as other Central Asian countries such as Tajikistan.¹⁸⁹

The country shares a customs union with Kazakhstan as part of the Eurasian Economic Union, and it is suspected to engage in the re-export of inexpensive cigarettes to multiple neighboring countries. A 2019 report by consulting firm KPMG indicated that nearly one-third of cigarettes imported into Kyrgyzstan are subsequently re-exported to other regions in Central Asia and Russia, frequently through various illicit smuggling networks.¹⁹⁰ Furthermore, the Uzbekistan State Customs Committee has accused Kyrgyzstan of unlawfully exporting tobacco products into Uzbekistan, with a substantial portion of these shipments traversing the porous southern border shared by the two countries.¹⁹¹

The share of illicit cigarettes in Kyrgyzstan's domestic market is close to 9.5 percent, according to a 2022 study conducted by the think tank IPSOS.¹⁹² However, the NielsenIQ estimates show significant swings in the illicit tobacco, which reached a high of 13.2 percent in the previous year.¹⁹³ IPSOS estimated that the national budget lost between USD 6-7 million from uncollected tax revenues due to illegal trade on the domestic market.¹⁹⁴

Forestry and wildlife crime

Illegal wildlife poaching and trafficking are concerns in Kyrgyzstan. The country not only faces issues of illegal poaching but also serves as a source for the illicit trade of animals. Protected species like Argali, brown bears, and various wolf species are targeted and trafficked out of Kyrgyzstan, primarily to neighboring countries in Central Asia.¹⁹⁵ Additionally, the illegal trade in Saker falcons is a significant problem, with trafficking occurring both domestically and across Central Asia.

Almost 100 cases of illegal hunting were registered in 2020. This data was provided by the country's Ministry of Internal Affairs. Lawmakers have proposed introducing a moratorium on the shooting of rare animals, including bans in the Naryn, Chui and Issyk-Kul regions where rare species still exist.¹⁹⁶ Currently, face a fine of up to USD 17,500 and as a prison term of up to five years.¹⁹⁷

Cases of unauthorized deforestation in regions such as Dzhети-Oguz and Karakol have resulted in the removal of around 534 cubic meters of forest, causing an estimated damage worth approximately KGS 3,500 million. These activities pose severe threats to Kyrgyzstan's biodiversity and ecosystems.¹⁹⁸

Human trafficking & forced labor

Human trafficking is a significant issue in Kyrgyzstan and occurs primarily in the form of forced labor and sex trafficking. The country is a source, transit and destination country for this criminal market. Factors such as pervasive poverty and gender-related practices amplify the vulnerability of the local population to exploitation, both within the country and abroad. Forced labor is prevalent in sectors like agriculture, construction, and textiles, with victims also subjected to domestic servitude and childcare. The multi-faceted nature of human trafficking in Kyrgyzstan connects domestic illicit actors with transnational criminal networks. Additionally, corrupt government officials play a role in facilitating the human trafficking market, allowing traffickers to operate with a troubling degree of impunity.¹⁹⁹

IV. Spotlight on Tajikistan



Tajikistan is a small, landlocked country. It is the poorest nation in Central Asia and is among the world's 30 most impoverished countries.²⁰⁰ Its economy is heavily reliant on remittances Tajik migrants working abroad, which accounts for about 27 percent of GDP, according to the World Bank labor migrants.^{201/202}

Situated along a major trafficking route for opiates transiting from Afghanistan to Russia and Eastern Europe, Tajikistan is a critical nexus in the global narcotics trade.²⁰³ The illicit drug flow poses multiple threats, affecting its security, public health, and socio-economic stability. In recent years, Tajikistan has also grappled border conflicts with Kyrgyzstan.²⁰⁴

In addition to ongoing security challenges, Tajikistan faces a number of structural challenges that enable illicit trade. Tajikistan's extensive and porous borders, particularly the 1,400 km border with Afghanistan border presents a major challenge for controlling the movement of illicit goods and people.

Limited livelihood options, combined with a need for low-skilled labor in Russia and Kazakhstan, create ideal conditions for labor traffickers.²⁰⁵ Unfortunately, the war in Ukraine and the financial crisis in Russia have led to a decrease in remittances sent by Tajikistani migrants working in Russia, leaving Tajik families even more vulnerable to trafficking.²⁰⁶

Tajikistan's criminal justice sector faces significant challenges stemming from outdated practices and systemic issues.²⁰⁷ The executive branch often interferes with judicial matters, undermining the system's independence and impartiality. As a result, the current judicial process is characterized by both unfairness and unreliability.²⁰⁸

These challenges are further exacerbated by pervasive corruption, as Tajikistan is among the countries with the highest corruption levels globally, ranking 150th out of 180 countries in Transparency International's 2022 Corruption Perceptions Index.²⁰⁹

While the government has instituted legal anti-corruption measures, criminalizing bribery, extortion, money laundering, and other offenses, the enforcement of these laws is notably weak, often selective, and generally ineffective.^{210/211}

The government's anti-corruption unit is widely perceived by the public as one of the most corrupt state institutions. It faces severe understaffing, lacks a legal obligation to share audit reports with the public, and suffers from limited independence, as many oversight institutions are directly or indirectly controlled by the government, rendering them insufficient for ensuring transparency and accountability.²¹² Furthermore, law enforcement is widely viewed as highly vulnerable to corruption.²¹³ This issue extends to the customs administration as well, where corruption is rampant. The customs procedures themselves are arduous, compounded by the prevalence of bribes and irregular payments, particularly at the Tajik-Uzbek border.^{214/215}

In confronting the multifaceted challenge of illicit trade, Tajikistan must prioritize a set of strategic goals to safeguard its security, promote economic development, and ensure the rule of law.

- *Enhance Border Security and Customs Controls:* Strengthen border security measures to curtail the illicit flow of narcotics, arms, and counterfeit goods. Improve customs controls and procedures to detect and deter smuggling activities.
- *Bolster Law Enforcement Capabilities and Professionalism:* Invest in the training and capacity-building of law enforcement agencies to effectively combat illicit trade. Foster professionalism within law enforcement to minimize corruption and enhance public trust. The level and quality of cooperation and coordination among agencies involved with tackling illicit trade can be improved through

training, information sharing, and the establishment of multi-agency task forces.²¹⁶

- *Tackle Corruption:* Implement robust anti-corruption measures and enforcement mechanisms to combat corruption at all levels of government and society. Enhance transparency and accountability within public institutions to minimize opportunities for corrupt practices.

Illicit trade by sector

Counterfeit and pirated goods

Trade in counterfeit goods is prevalent in Tajikistan and is facilitated by high levels of corruption. Counterfeit consumer goods of well-known brands are commonly found in domestic markets, due to the weak protection of intellectual property rights.²¹⁷

Estimates indicate over 90 percent of software and other media products sold in the country are unlicensed copies and many “brand name” consumer goods are counterfeit products manufactured in China. Officially, Tajikistan amended its customs code during WTO accession to provide authority for customs officers to seize and destroy counterfeit goods. However, these actions are limited in practice.²¹⁸ Tajikistan is also a transit country for counterfeit goods smuggled from Asia (mainly China) to Russia.²¹⁹

Tajikistan's placement on and off the United States Trade Representative's Special 301 Watch List reflects its tumultuous relationship with IPR protection. The country has a history of widespread use of unlicensed software and ineffective IP enforcement measures, hampered by routine government reshuffling, weak bureaucratic capacity, and inadequate public education on the importance of IPR.²²⁰ The government has also not published IP enforcement statistics since 2013.

Although the government has adopted a 2021-2030 National Strategy for the Development of Intellectual Property, the strategy offers few specifics or benchmarks to guide officials in implementation or enforcement and it lacks the necessary funding.²²¹

Illegal mining

Tajikistan enjoys vast natural resources with over 400 mineral deposits, including one of the largest silver deposits in the world.²²² The aluminum mining sector plays a pivotal role in the country's economy, with extraction primarily controlled by the state-owned enterprise, Talco. Remarkably, Talco contributes more than a third of Tajikistan's GDP. Unfortunately, this sector has been plagued by corruption. Notably, the principal actors involved in illicit activities within the natural-resource market often have strong ties to the state, allowing them to operate with minimal oversight and regulation.²²³

Illicit petroleum products

Tajikistan is a destination country for smuggled fuel and lubricants.^{224,225} The main smuggling route goes from Kyrgyzstan's Batken region to Tajikistan, and there are suggestions that high-level officials in Kyrgyzstan may be involved in the illegal export of gasoline into Tajikistan.^{226/227}

Illicit pharmaceuticals

Although the trade in illicit pharmaceuticals is not significant, incidents of raids on pharmacies suspected of selling expired or counterfeit medicines are not uncommon.²²⁸ To address these issues, UNODC and WCO, organized a training session in 2020, to equip law enforcement officers in Kazakhstan, Tajikistan, and Uzbekistan with tools to distinguish genuine pharmaceutical products from illicit and counterfeit versions, which have significantly increased during and since the COVID-19 pandemic. The training also contributed to better targeting and

profiling of high-risk consignments, which may potentially contain dangerous medical goods.²²⁹

Most of the reports concerning possible cases of illicit trade in pharmaceuticals come from consumers, patients and doctors, who have pointed out that the quality of medicines has decreased over the past years. Also, Tajikistan residents have reported that medicines sold on the Tajik market are less effective than medicines brought from other countries. For instance, a consumer reported that she gave Nurofen to her daughter *“but the temperature did not drop, so we had to call an ambulance. A week later she got sick again and I gave her Nurofen again, but only the one my sister brought from Russia. All symptoms quickly disappeared, and the temperature returned to normal.”*²³⁰

Illicit tobacco

Illicit cigarette consumption is pervasive in Tajikistan, with one estimate that three out of every four cigarettes consumed in the country have illicit origin. The country's lower taxation rates in comparison to its regional counterparts, has made Tajikistan a source country for the illicit trade of cigarettes, with cigarettes smuggled out of Tajikistan exceeding cigarette smuggling into the country.^{232/233}

Given these dynamics, the recent announcement of plans to build a tobacco production plant in the Dangar Free Economic Zone, situated in the Khatlon region, with a capacity to produce 6 billion cigarettes per year, could present a vulnerability to illicit increased illicit cigarette production and trade in the region.²³⁴ This is especially the case because the demand for illicit cigarettes in Tajikistan has recently become dramatically worse. In 2020, NielsenIQ found the market share for illicit cigarettes was 59.6 percent and has increased steadily to 74.2 percent in 2021 and to 85.6 percent in 2022.²³⁵

Human trafficking

Tajikistan is mainly a source and, to a lesser extent, a destination country for human trafficking. Limited livelihood options, combined with a need for low-skilled labor in Russia and Kazakhstan, create ideal conditions for labor traffickers. Tajik men are usually trafficked inside the country for forced labor purposes, while Tajik women and children are usually victims of sex trafficking abroad.²³⁶ The fall cotton harvest is crucial for the economy, and there are

reports of Tajikistani children and adults, including victims trafficked primarily from Afghanistan and Bangladesh, who have been subjected to forced labor without pay.²³⁷ The war in Ukraine and the financial crisis in Russia have also caused a decrease in remittances sent by Tajikistani migrants working in Russia, leaving Tajik families extra vulnerable to trafficking.²³⁸

PART 3: RECOMMENDATIONS

Improve governance and coordination

- **Appoint an Interagency Anti-Illicit Trade Coordinator.** A successful strategy against illicit trade will require concerted, sustained and joined up efforts between all the responsible government bodies. To oversee the interagency cooperation, each Central Asian government should appoint an independent, specialized “Anti-Illicit Trade Coordinator” with high-level authority within the national government supported by an anti-illicit trade framework with clear leadership responsibilities and accountabilities. Objectives would include raising the profile on illicit trade, allocating necessary financial and personnel resources and more aggressively enforcing anti-illicit trade regulations, especially in the areas of Intellectual Property Rights violations and untaxed and unregulated parallel (grey) market imports.
- **Foster the formal sector while discouraging informal economic activities.** This involves establishing and rigorously enforcing robust anti-corruption legislation. Reforming state-owned enterprises should also be prioritized as a measure for strengthening formal private sector growth.²³⁹ Moreover, digitalization can play an important role in promoting formal private sector development. For instance, the digitalization of tax and customs administrations has proven instrumental in domestic revenue mobilization within Kyrgyzstan, illustrating its potential impact on efforts to combat illicit trade.²⁴⁰
- **Implement coherent domestic tax policies** to disincentivize producers and consumers from switching from legal

products to the illicit channel to avoid higher taxes. Tax structures and tax levels should consider market dynamics like ease of implementation and enforcement, consumer affordability, comparative tax and price levels in neighboring countries, and long-run consequences of substitution of illicit product alternatives.

- **Partner with the private sector.** Promote the creation of local private-public partnerships to bring key industry and government stakeholders together to define strategies, share know-how, intelligence and data, improve risk assessment, strengthen border control and improve awareness. Sustained collaboration between the government and private sector is crucial for combatting illicit trade online and offline. Industry associations can enhance stakeholder knowledge and skills in identifying and preventing illicit trade by providing training and capacity-building programs.

Improve border security and customs controls

- **Engage in international law enforcement and customs cooperation,** both bilaterally and within available multilateral mechanisms such as through INTERPOL, the World Customs Organization (WCO) and WCO-UNODC Container Control Program. These initiatives facilitate information sharing, capacity building, and the adoption of best practices among customs officials across different countries and regions.

- **Strengthen cooperation with neighboring countries** to address informal cross-border trade, smuggling and alignment of tax and subsidy policies. This report shows that one of the primary vulnerabilities to illicit trade in the region is the weakness of shared borders. Targeting known border hotspots and intensifying cooperation on both sides of the border should swiftly mitigate trafficking at these key junctures. Border agents should also seek to harmonize tax rules and rates between countries to prevent price differentials that incentivize smugglers to transport products across borders into higher priced markets. As members of the Eurasian Economic Union (EAEU), Kazakhstan, Kyrgyzstan, and Uzbekistan should proactively examine the successful strategies employed by other EAEU member states in their battle against smuggling, while safeguarding the economic advantages linked to EAEU membership.
- **Empower customs officials with advanced tools and knowledge.** To effectively combat illicit trade, it is imperative that customs officials receive proper training and equipment. Under resourced customs agencies is a problem in all four Central Asian countries. Bolstering intelligence and enforcement capabilities, including the implementation of advanced risk management systems, is crucial to creating a sustainable and effective anti-illicit trade framework.
- **Address Interrupted Transit (or Fake Transit) schemes:** Introduce relevant regulations and enforcement practices to tackle the use of interrupted transit (or fake transit) for smuggling illicit tobacco into the region. Concrete measures could include the introduction of a mandatory tax deposit for transit, proper utilization of track and trace systems and GPS trackers to monitor and trace the movement of shipments in real-time.
- **Grant customs authorities full “ex-officio” power.** Customs regulations should be amended to grant customs authorities with full “ex-officio” power to independently seize infringing goods.
- **Articulate customs’ activity between neighboring countries, considering current vulnerabilities.** The report showcases numerous examples of illicit trafficking across Central Asian boundaries, ranging from illicit petroleum to counterfeit and pirated goods, as well as illicit tobacco and human trafficking. These patterns, including the most frequent modus operandi, should be shared among customs authorities to improve risk profiling. In addition, the existence of different regimes among countries, such as the Eurasian Economic Union, should be taken into consideration when articulating strategies between customs authorities.

Improve enforcement

- **Strengthen and enforce criminal penalties.** Intensifying criminal penalties should be a priority to act as a deterrent measure and to discourage illicit traders from exploiting markets with the weakest penalty regimes. Sanctions imposed against criminals must be proportionate to the nature of the crime and the inherent risk of the illicit product to human health and environmental safety (e.g., cases involving illicit pharmaceuticals, pesticides, or alcohol). In addition to penalties and fines, consideration should be given to the inclusion of short-term imprisonment as an additional penalty.
- **Tighten controls on money laundering.** Denying access to entities and mechanisms used to launder proceeds of crime – and thereby depriving criminals and their networks of related profits – is one of the most effective ways to deter illicit trade. This requires a holistic, comprehensive anti-money laundering

regime including the ability to trace, freeze, seize and confiscate assets related to illicit financial flows.

- **Promote interagency and interdepartmental cooperation at the national level.** Increased coordination across agencies responsible for trade, health, economy, security, finance licensing/ inspecting commercial activities and law enforcement (notably customs and police) is critical for addressing the multifaceted problem of illicit trade. A good regional example of this approach is the establishment of the Interdepartmental Working Group on Combating Counterfeit Goods in Kazakhstan, comprising representatives of relevant government agencies and of the National Chamber of Business. The Group's mandate includes: (a) identifying shortcomings in the current IPR protection system in Kazakhstan; (b) determining how to resolve existing issues following international best practices; (c) conducting joint efforts to raise public awareness of the harm and risks associated with the acquisition and use of counterfeit products; and (d) encouraging rightsholders to enforce their IPRs.²⁴¹
- **Invest in enforcement bodies to improve their capacity and capabilities.** Ensure that law enforcement officials are regularly trained on illicit trade-related laws and regulations, evidence collection and preservation and assembling case files. Increasing funding and specialized training programs are critical to enhancing the capacity of enforcement bodies to combat complex illicit trade activities, which face persistent capacity constraints, skills shortages, and limited resources.

- **Harness the full potential of Track & Trace systems for tobacco products.** Kazakhstan, Kyrgyzstan, and Uzbekistan have instituted digital Track & Trace systems for tobacco products, mandating that each legal cigarette pack bears a unique digital code that can be swiftly scanned, authenticated, and traced along the entire supply chain. While this technology represents a powerful tool against illicit tobacco trade, it is currently being underutilized by law enforcement agencies and other relevant authorities. By educating law enforcement on these systems and maximizing their utilization, these countries can significantly enhance their capacity to combat illicit tobacco trade, protect public health, and safeguard their economies.

Strengthen the IPR enforcement regime

- **Address the role of open markets.** State authorities should be empowered to actively monitor open markets and take immediate action to stop IPR infringements. The primary action should be to shut down open markets exhibiting IPR infringements and address issues such as corruption and market operators' resistance to foster an environment conducive to IPR protection.
- **Improve respect for IP.** Implement nationwide programs aimed at educating the public about the adverse consequences of counterfeit goods. These initiatives are designed to raise awareness about the importance of IPR protection among government authorities and the general public and equip state officials with the necessary knowledge and skills to handle IPR-related cases effectively. A notable example of this is

Uzbekistan's introduction of Intellectual Property Protection Centers (IPPCs) by presidential decree in 2021. Additionally, the development of a national strategy for IP in 2022 reflects a commendable commitment at the highest political level to enhance Uzbekistan's IPR regime. Such initiatives serve as positive steps toward addressing the challenge of low respect for IPRs and fostering an environment that encourages innovation and legitimate trade in the region.

- **Enhance the knowledge and expertise of legal professionals on IP matters.** Across Central Asia there is a scarcity of specialized local legal counsels and investigators familiar with domestic legal regulations and experienced in IP matters. To address this gap, it is advisable to implement additional educational measures, conferences, and round table discussions in which representatives of brand owners participate. These initiatives would serve to cultivate a shared culture of combating IP crimes and enhance the knowledge and expertise of legal professionals in the region.
- **Establish specialized Law Enforcement Agencies (LEAs) exclusively focused on countering counterfeiting.** These units should have the necessary expertise and resources for effective IPR infringement enforcement. Alternatively, authorize existing law enforcement agencies to investigate and prosecute IP infringements, expanding their capabilities. Moreover, consideration should be given to establishing Key Performance Indicators (KPIs) for LEAs to motivate them to proactively handle IPR infringements.
- **Involve antimonopoly authorities in brand protection and addressing look-alike product issues.** This includes granting them the authority to independently monitor markets for IP infringements and considering IPR

violations without waiting for brand owner appeals, streamlining the process for timely intervention.

- **Invest in capacity-building for more effective adjudication of illicit trade crimes.** Ensure that practitioners (law enforcement authorities, prosecutors, judges, etc.) receive proper training to handle the complexities of illicit trade cases. Judicial authorities may consider establishing a special body (or designate an already existing body) to centralize information concerning illicit trade investigations. The centralized body may serve as an intelligence hub and may gather information from all relevant investigators and law enforcement.
- **Improve risk profiling, data gathering and standardization of IP laws.** In this regard, the Eurasian Economic Union has displayed some interesting, good practices that could be widely adopted, such as the continued monitoring of the market trends and proposal to standardized IP laws related to the use of Internet.²⁴²

Inform, Engage and Educate Stakeholders

- **Improve public awareness and education on the threat of illicit trade.** Efforts to address illicit trade are hampered by a lack of public awareness of its dangers, which has led to a degree of social acceptability. To this end, local and regional educational campaigns and community-level awareness activities are essential to help shift public perception and understanding of the negative impacts of illicit trade.
- **Integrate key illicit trade threats into comprehensive National Risk Assessments.** By formally recognizing these threats within the National Risk Assessment, governments can prioritize resources, develop targeted policies, and

coordinate efforts to mitigate these risks effectively. This sends a clear message to domestic and international stakeholders that the government is aware of the challenges posed by illicit trade and is actively taking steps to combat it.

- **Create / enhance a system for monitoring, analyzing, and collecting data on illegal trade.** Understanding the nature of the illicit trade is crucial to preventing it. Regular and ongoing market studies aimed at determining the actual extent of the problem and quantifying the presence of illicit goods in the local markets provide much-needed information to policymakers, law enforcement and other stakeholders. For example, measuring the amount of excise tax revenue collected over time provides quantifiable data on the fiscal impact of illicit control measures. Similarly, a central database with the volume and frequency of seizures at border crossings gives indications of the efficiency of border controls and can reveal trends in smuggling activities. By measuring the extent of IP infringements, governments can gain essential insights into the economic implications of IPR infringement and the overall investment attractiveness of local markets. Partnering with the private sector in data collection and analysis can enhance the effectiveness of these efforts.

Enhance Transparency and Accountability

- **Tackle pervasive corrupt practices that continue to facilitate illicit trade,** notably at the level of customs, law enforcement authorities, regulatory/inspection bodies and the judiciary. As long as corruption persists within government agencies, any attempt to strengthen border policing and control will have limited effect.

- **Engage proactively with international mechanisms** such as the UN Convention Against Corruption (UNCAC).
- **Rotation policies** are useful for reducing the corruption risks in field offices, ports, border stations and offices charged with monitoring for environmental crimes.
- **Streamline and automate permit processes and controls,** as the elimination of the use of paper permits greatly reduces opportunities for criminals to use fraudulent or falsified documents.
- **Move towards a comprehensive digital environment for border clearance,** as automated systems reduce human touch points and thus lessen the opportunities for improprieties.
- **Strengthen prevention** by implementing and enforcing strong codes of conduct and a robust reporting system of wrongdoing and protection for witnesses and whistleblowers.

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