

Enikleeva Z.¹

EAEU: opportunity or threat? (the case of the Kyrgyz Republic)

The Kyrgyz Republic has negative trade balance almost every year since its independence. After becoming a member of the Eurasian Economic Union in August, 2015, the country met with additional obstacles in trade: necessity to comply with technical regulations, certificates of quality and conformity, absence of relevant laboratories, disputes with neighbors, etc. Negative influence on trade had last tendency in currency exchange rate with the main trade partners — the EAEU members. There are data on changes in trade, especially in export sector, of Kyrgyzstan in Soviet times, the first years of independence, and years before the entrance to the EAEU and after. The article includes information on measures of governmental export promotion, together with objection, whether Kyrgyzstan could cope with problems, it met the first year of membership in the union.

Key words: *Kyrgyz Republic, Kyrgyzstan, EAEU, trade, export, import, trade balance, export promotion, Central Asia, WTO.*

JELF10

Introduction

The Kyrgyz Republic declared its independence on 31 August 1991 after the collapse of the Soviet Union. Kyrgyzstan started to introduce democratic principles of management, where centrally planned economy was replaced by the market economy.

Obtaining its independence, the Kyrgyz Republic faced a huge number of challenges: increase of inflation, corruption, population poverty, etc. Steadily growing in the Soviet Union, the Kyrgyz industry started to decline in 1990s, while markets and bazars started to appear very fast. The neighborhood with China opened abilities to local population to trade any things, like needles, household appliances, textile etc. There were opened two huge wholesale markets in the Central Asia: “Dordoi”, located in Bishkek city, the capital of the country, and “Kara-Suu”, located in Kara-Suu city of Osh oblast, on the south of the republic. Trade and services sector started to play a big role in the economy of the country.

¹ Enikeeva Zalina — junior researcher staff, Institute of Public Policy and Administration, University of Central Asia (Kyrgyzstan). E-mail: <z.a.enikeeva@gmail.com>.

However, there was not any development of production of capital-intensive sectors of the economy. The volume of industrial output annually reduced by 25–28% from 1992 to 1994; and in 1995, it was 35% from the 1990 level. The greatest economic decline occurred in 1994. Rates of decline of production level happened in the construction complex as well. Volumes of construction were reduced by 72.3% from 1991 to 1994; only the beginning of construction of the huge gold-mining mill in Kumtor (1995–1997) allowed ceasing this tendency [1].

Due to institutional changes in the agricultural sector of Kyrgyzstan, there appeared more mobile, working private producers and peasant (farming) enterprises instead of large tradable agricultural enterprises. The structure of cultivated areas was changed as well: the increase of the grain area empowered more complete to fill the needs of the population in bread and flour [Ibid]. The most important stage in reforming the agricultural sector was the implementation of the private land ownership that provided an additional incentive for development of this sector and the economy of the country.

The Kyrgyz Republic conducts multi-vector policy; it establishes the necessary contacts with a purpose of inflow of appropriate investments to the country. The republic became a member of the United Nations (UN), the Organization for Security and Cooperation in Europe (OSCE), UNESCO, the Commonwealth of Independent States (CIS), the Organization of Collective Security Treaty (CSTO), the Shanghai Cooperation Organization (SCO), the Organization of Islamic States (OIC), Economic Cooperation Organization (ECO), the Cooperation Council of Turkic Speaking States (CCTS), the Eurasian Economic Union and forges relationships not only with CIS member states, but also far abroad.

The government has consistently adhered to the policy of liberalization of foreign trade, maintaining low import tariffs and providing economic agents with freedom to export and import goods. This policy was reinforced by the accession of Kyrgyzstan to the World Trade Organization (WTO) in 1998, becoming the 135th member of the WTO and the first one among CIS countries [1].

On the 12th of August 2015 The Kyrgyz Republic got the status of official member of the Eurasian Economic Union. It became a very important event for the economic development of the Kyrgyz Republic.

Kyrgyzstan during soviet times

The Kyrgyz Soviet Socialist Republic was established as a republic of the Soviet Union on 5 December 1936. During Soviet times, the State Planning Committee of the USSR regulated commodity exchange between union republics, and the Ministry of Foreign Trade of the USSR regulated foreign trade relations [2].

Before the war the republic exported agricultural products to other republics, mostly for industrial processing: wool, leather, cotton, tobacco, cocoons, meat, oilseed crops, fruits and nuts. In 1969–1973 Kyrgyzstan exported production to more than 65 countries of the world including 20 Asian countries, 19 European, 18 African and 3 American. The Republic exported balers, hay-harvesting aggregates, monitoring and metering instruments, pumps, household and automobile electric lamps, cotton fabrics, silk and wool, knitted articles, engineering goods, antimony and non-ferrous metallurgy products etc.

Official data of the National Statistic Committee of the Kyrgyz Republic shows that 29 manufacturing enterprises supplied 59 types of commodities to 65 foreign countries with export volume of 10.5 million rubles in 1985, then 34 enterprises supplied 71 types of commodities to 80 foreign countries with export volume of 41.3 million rubles in 1987.

There was a change of export structure from mainly agricultural products before the war on export of mainly industrial products in the 70–80s of the last century, with the growth of foreign states in foreign trade.

According to the author of the research “External Trade of Kyrgyzstan: History, Analysis, Estimation” E.V. Samigullin, if we compare export volumes of the republic to other foreign countries with its indices of production, then these indices are quite small. For example, the share of export of the volume of gross output of production and agriculture was only 0.1% in 1985 and 0.5% in 1987. The reason for it was that the most part of manufactured goods and significant part of agricultural goods were shipped to Moscow and Leningrad cities and other union states, due to resource allocation plans of the State Planning Committee of the USSR [2].

Additional limitation of export activity of the Kyrgyz Soviet Socialist Republic was because of the situation that all positions of the foreign trade activity had to be coordinated with the union ministry.

The separate issue is the development of the mining industry in the Kyrgyz Soviet Republic. In the second half of the 19th century, on the south of the country the first coal mines appeared. Twenty seven coal mines operated at the total capacity of about 100 thousand tons of coal per year in 1913, the Kyrgyz Soviet Republic supplied the coal to almost all Central Asia. In 40–60s the coal mining was conducted on seven mines and five open cast coal mines; the maximum was reached at 4.9 million tons in 1979. Since 1987, the mining industry has grown faster than the economy of Kyrgyzstan as a whole, due to significant investments in a number of enterprises: Kara-Balta Mining Plant, Kyrgyz Mining and Metallurgical Integrated Works, Saryjaz Tin Factory. By the end of the 80s, Kyrgyzstan produced 100% of antimony, up to 64% mercury, to 30% of rare earth products and up to 15% of uranium in the USSR [3]. The break-up of the Soviet Union made adjustments to the development of this industry particularly, and the whole country.

Kyrgyzstan: trade dynamics 1991–2015

After the declaration of their independence, many CIS countries did not have a dramatic drop in trade; moreover, in such Central Asian countries as Kazakhstan, Kyrgyzstan and Uzbekistan trade did not decrease at all in 1991–1993, while there was reduction of international economic activity as a whole [4]. It could be explained by the fact that in planned economy ex-republics did not trade with foreign countries directly, because all contracts were signed in union ministries in Moscow.

As a result of low level of external economic trade openness in the USSR, volumes of trade with foreign countries were not significant, compared to interrepublic trade. A clear example of this is presented in Table 1, with data on the dynamics of exports by commodity group of the Kyrgyz Republic in the USSR, and first years of its independence. Thus, the export of products of light industry to other republics was substantial and was growing in 1987–1992, while export of the same commodities to other, countries, was comparatively small.

Trade balance of the Kyrgyz Republic since its independence has usually been negative. Thus, the volume of imported goods was higher than the volume of exported goods, and since 1994, negative balance between import and export has been increasing significantly, from –64.2 million U.S. dollars to –334.3 million U.S. dollars in 1998. The main sectors, which commodities were exported by the country, were electrical energy industry, machinery industry, food industry, non-ferrous metal industry and textile industry. The main trade partners of Kyrgyzstan on export were Germany (37% of all exported goods), Kazakhstan (17%), Russia (16%), and Uzbekistan (8%). Most imported goods were from fuel industry, textile industry, medical industry, machinery industry and food industry in 1998. The main importers were Uzbekistan (15% of all imported goods), Russia (24%), USA (5%), Kazakhstan (9%), Turkey (4%), South Korea (3%), China (5%), Italy (3%), Germany (6%) and other countries (26%).

The only year when the trade balance of the Kyrgyz Republic was positive was 2001. It happened because of the increase of the export of gold and products of chemical industry. In 1999 — 2001 gold, that became a traditional export product from 1997 thus far, was exported to not only Germany, but the United Kingdom and Switzerland as well.

For the latest years, there is a tendency of negative trade balance in the Kyrgyz Republic (see Table 2). Import of the country is significantly higher than export for much of that time. Thus, Kyrgyzstan imported commodities for 3,937.7 million U.S. dollars in 2015, while exported only 1,646.40 million U.S. dollars.

The dynamics of trade balance is presented in the Figure 1. There was a negative trade balance (except 2001) during the period 1992–2015, it was dramatically increasing in 2011–2014, then the trade balance decreased in 2015, still being negative.

Table 1

Exports of Kyrgyzstan by commodity group at domestic prices, millions of current rubles

Commodity group	Interrepublic exports						Extrarepublic exports					
	1987	1988	1989	1990	1991	1992	1987	1988	1989	1990	1991	1992
Power	42	78	80	67	188	3047	----	----	----	----	----	----
Oil and gas	11	11	11	10	29	239	----	----	----	----	----	----
Coal	20	22	22	22	14	1013	----	----	----	----	----	----
Other fuel	----	----	----	----	----	----	----	----	----	----	----	----
Ferrous metallurgy	6	8	9	7	12	188	----	----	2	1	----	340
Nonferrous metallurgy	122	129	124	145	492	2208	10	17	18	19	8	3454
Chemical and petroleum	23	25	24	23	218	667	----	----	----	1	----	273
Machinery and metal works	663	939	946	882	2010	20947	11	11	5	11	8	559
Sawmill and lumber industry	5	5	5	4	17	301	----	----	----	----	7	185
Building materials	19	13	17	13	67	1445	----	----	----	----	----	10
Light industry	654	651	650	640	1898	11295	3	14	10	9	3	1414
Food and beverage production	570	521	519	508	1317	3575	8	6	10	8	----	146
Other industries	15	23	26	21	50	523	----	----	----	----	----	2
Agriculture	114	108	96	87	182	792	23	11	6	5	3	33
Other material production	5	5	20	19	12	61	----	----	----	----	11	45
<i>Total exports</i>	<i>2269</i>	<i>2537</i>	<i>2549</i>	<i>2446</i>	<i>6506</i>	<i>46301</i>	<i>55</i>	<i>59</i>	<i>51</i>	<i>53</i>	<i>41</i>	<i>6461</i>

Source: World Bank.

Table 2
Trade balance in 1992–2015, mln USD

	Export	Import
1992	317	420,7
1993	360,2	447,8
1994	340,1	404,3
1995	408,9	558,9
1996	505,4	891,9
1997	630,7	732,3
1998	535	869,3
1999	462,5	613,2
2000	510,9	558
2001	480	471,5
2002	487,3	589,6
2003	582,7	721,8
2004	721,1	946,8
2005	674	1188,7
2006	891,1	1 931,1
2007	1 321,0	2 788,6
2008	1 855,6	4 072,4
2009	1 673,0	3 040,2
2010	1 755,9	3 222,8
2011	2 242,2	4 261,2
2012	1 927,6	5 576,3
2013	2 006,8	5 987,0
2014	1 883,7	5 734,7
2015	1 646,40	3937,7

Source: [5].

For the last 10 years, the largest share of export is presented by gold (see Fig. 2). Thus, there was exported gold amounting to 716,923,300 U.S. dollars in 2014 which is fewer by 19,858,900 U.S. dollars than it was exported in 2013. Since the gold mining “Kumtor” company started its work in gold extraction in 1997, the share of gold export of the country is still significant.

The second largest share of exported commodities relates to clothing and clothing accessories. These commodities were exported at 105,481,900 U.S. dollars in 2013, and 99,995,600 U.S. dollars in 2014. Active development of light industry in Kyrgyzstan started in Soviet times. It is a combination of three sectors: textile, clothing and leather and footwear and fur industries. Light industry still occupies a leading position in the economy of the republic, providing high employment in this sector.

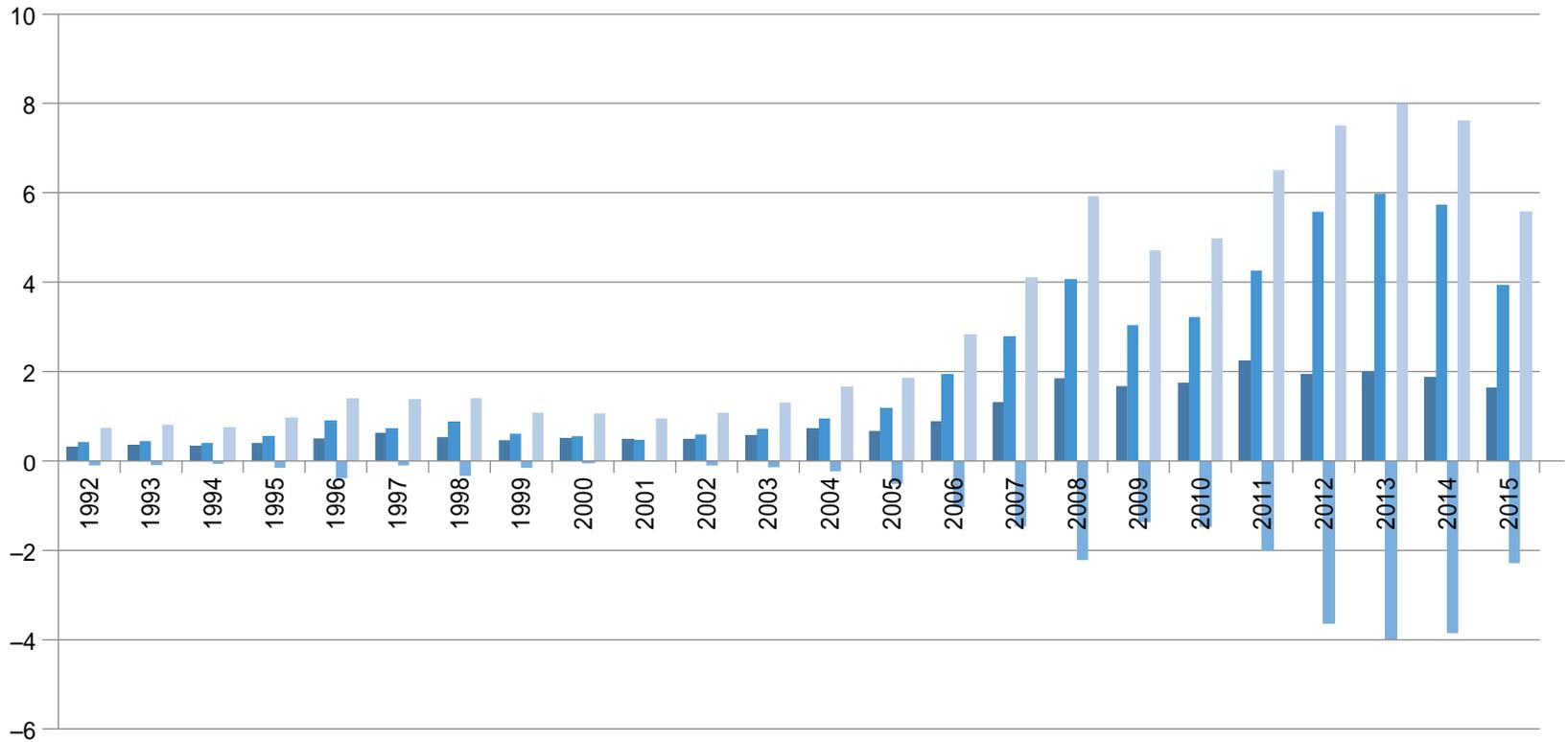


Fig. 1. Trade dynamics in 1992 — 2015, mln. USD:
■ export; ■ import; ■ trade balance

Source: [5].

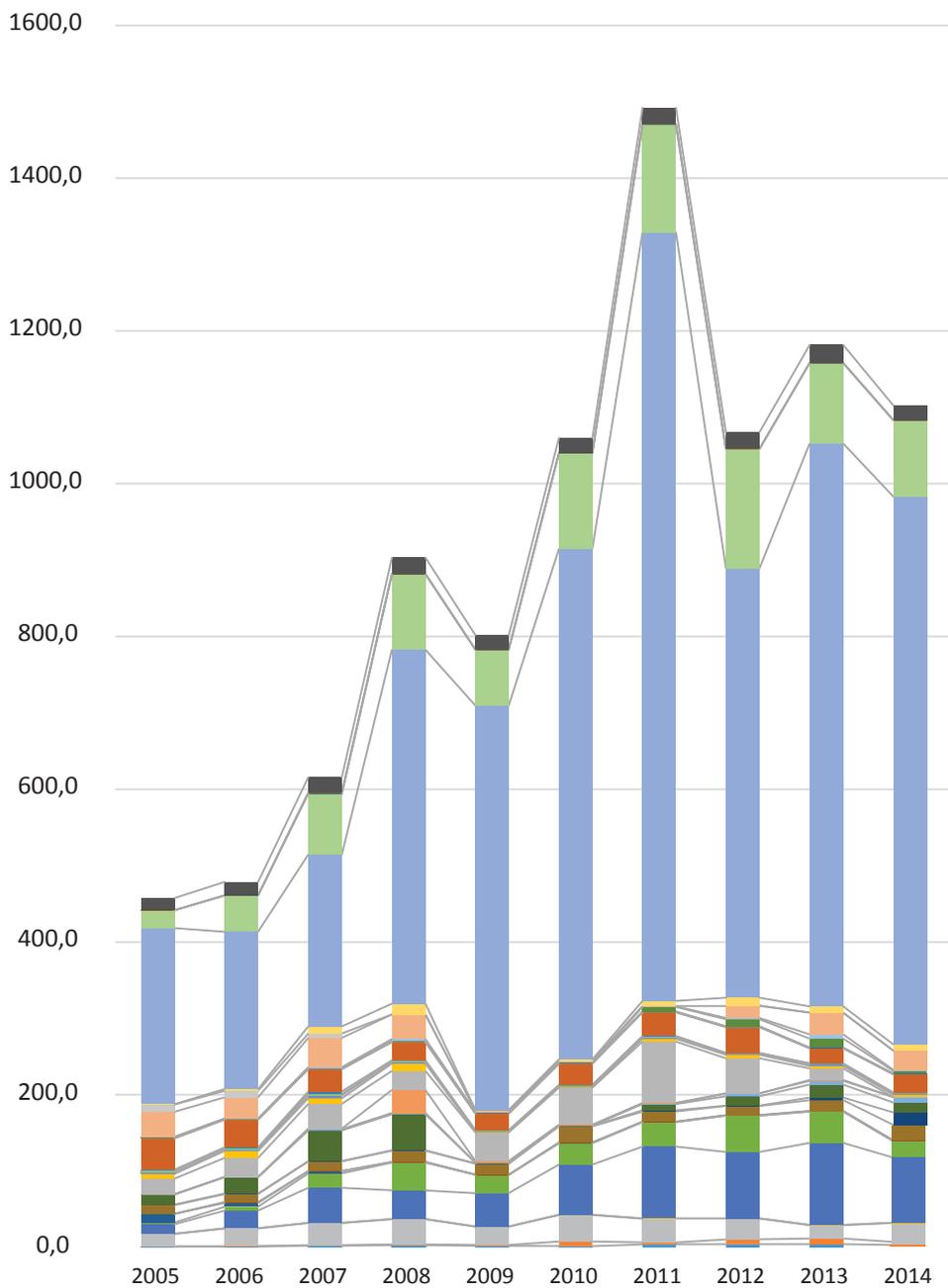


Fig. 2. Export Structure Dynamics, thousand dollars:

- Cattle; ■ Meat and subproducts; ■ Milk and dairy products; ■ Corn; ■ Vegetables;
- Fruits; ■ Sugar; ■ Wax; ■ Ethanol ; ■ Tobacco; ■ Cigarettes and cigars;
- Cement, Portland cement; ■ Coal; ■ Crude oil; ■ Electricity; ■ Skins of cattle;
- Skins of sheep and goats; ■ Wool; ■ Wool yarn; ■ Cotton yarn; ■ Cotton fabrics;
- Woolen fabrics; ■ Carpets; ■ Rolled metal; ■ Metal pipes; ■ Glass;
- Corrugated sheet (slate); ■ Metal scrap; ■ Gold; ■ Clothing and clothing accessories;
- Centrifugal pumps; ■ Alternating current engines; ■ Incandescent lamps, mln units.

Source: [5].

The third largest export sector is fruits and vegetables. The sum of exported vegetables was 107,433,700 U.S. dollars in 2013 and 85,082,800 U.S. dollars in 2014. The same decrease of exported amount of fruits was observed in 2014 compared to 2013: there were exported fruits for the amount of 41,318,456 U.S. dollars in 2013, while the sum of export in 2014 was 21,787,830 U.S. dollars.

The main imported goods in Kyrgyzstan were motor spirit in 2014, with the sales volume of 457,855,200 U.S. dollars. Then, there was imported diesel fuel at the amount of 368,331,200 U.S. dollars in 2014 (Fig. 3).

In 2012, the jet fuel composed 61.6% of Kyrgyz exports to the USA, which was supplied to the American military base, stationed on the territory of capital airport “Manas”. Due to the fact that the base was withdrawn from the republic in 2014, since this year exports were significantly restructured [6].

The main trade partners of the Kyrgyz Republic during 2005-2015, where Kyrgyz commodities were exported to, were Switzerland, Kazakhstan, Russia, Uzbekistan, United Arab Emirates etc. The main countries, where commodities were imported in Kyrgyzstan from were Russia, China, Kazakhstan, Turkey, the USA, etc.

Geographic structure of both exports and imports since the beginning of the 90s gradually changed in the direction of decreasing the proportion of total trade with CIS countries. For the first 13 years of sovereignty, the trade turnover of Kyrgyzstan with CIS countries in terms of exports declined from 65 to 38 per cent but increased from 51.8 to 61.5 per cent in terms of imports. However, since the early 2000s, the share of CIS countries in total trade turnover of Kyrgyzstan has remained at about 50% [Ibid].

The Fig. 4 presents the decline in trade turnover of the Kyrgyz Republic in 2014–2015. For example, the amount of exported goods to Switzerland has fallen by 13.5 million U.S. dollars in 2015 (compared to 2014), to the United Arab Emirates — by 42.8 million U.S. dollars, to Kazakhstan — by 140.1 U.S. dollars. The same negative dynamics in trade turnover is observed in import. Thus, the amount of imported trade turnover from China has decreased by 171.6 million U.S. dollars in 2015 — by 112.4 million U.S. dollars from the USA and 508.2 million U.S. dollars from Russia.

According to the official statistics, Russia is still the largest trade partner of Kyrgyzstan, despite the fact that Russia's share in imports and export of goods as a whole is declining. The basis of Kyrgyz exports to Russia composes cotton, ready-made clothes (mostly Bishkek production), vegetables, fruits, tobacco, cast and rolled glass, as well as electricity lamps. The main imports from Russia to Kyrgyzstan is fuel (automobile gasoline, jet fuel, diesel oil), petroleum products, metal products, fishing, wood and coal, automotive products, household chemicals and products food and drinks.

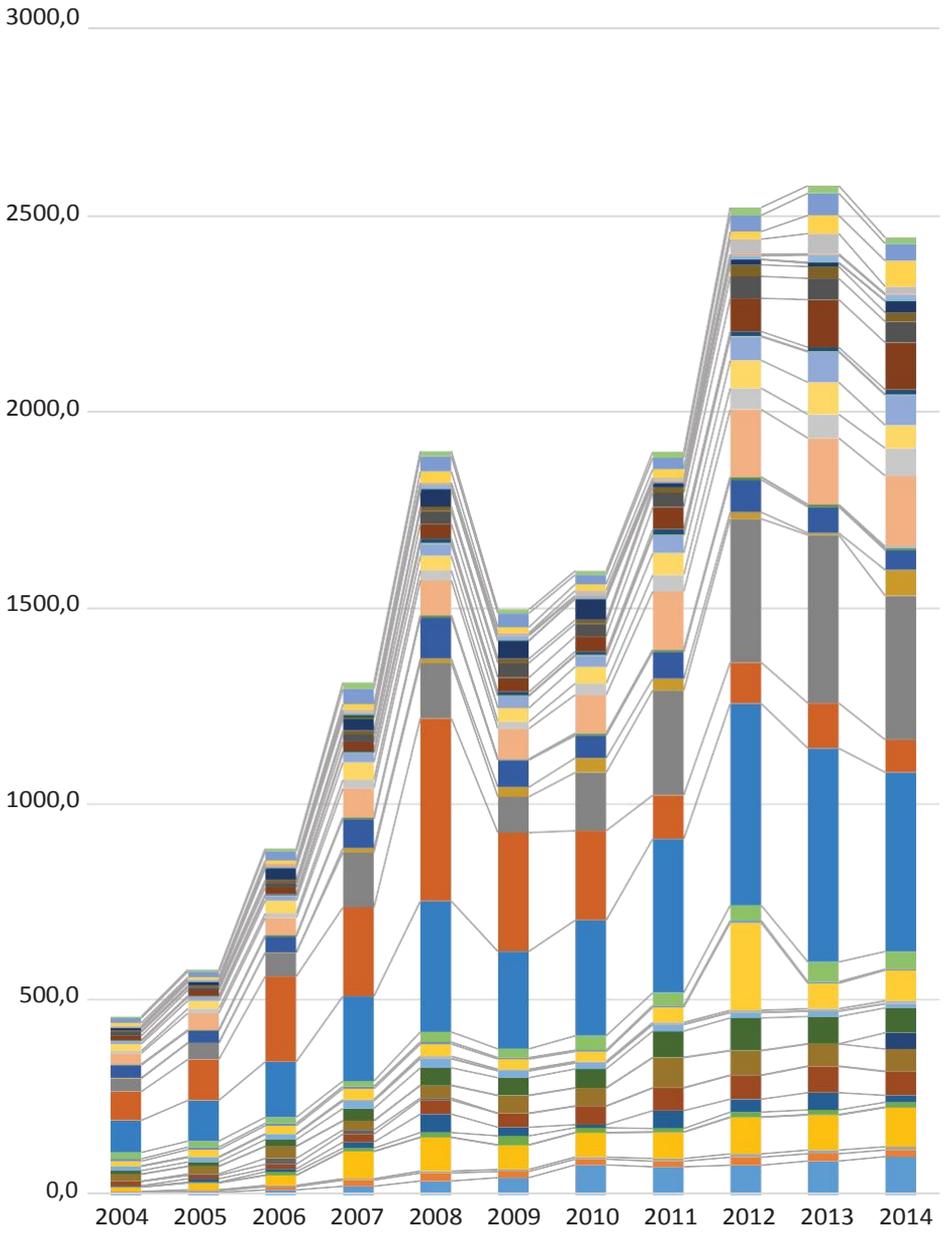
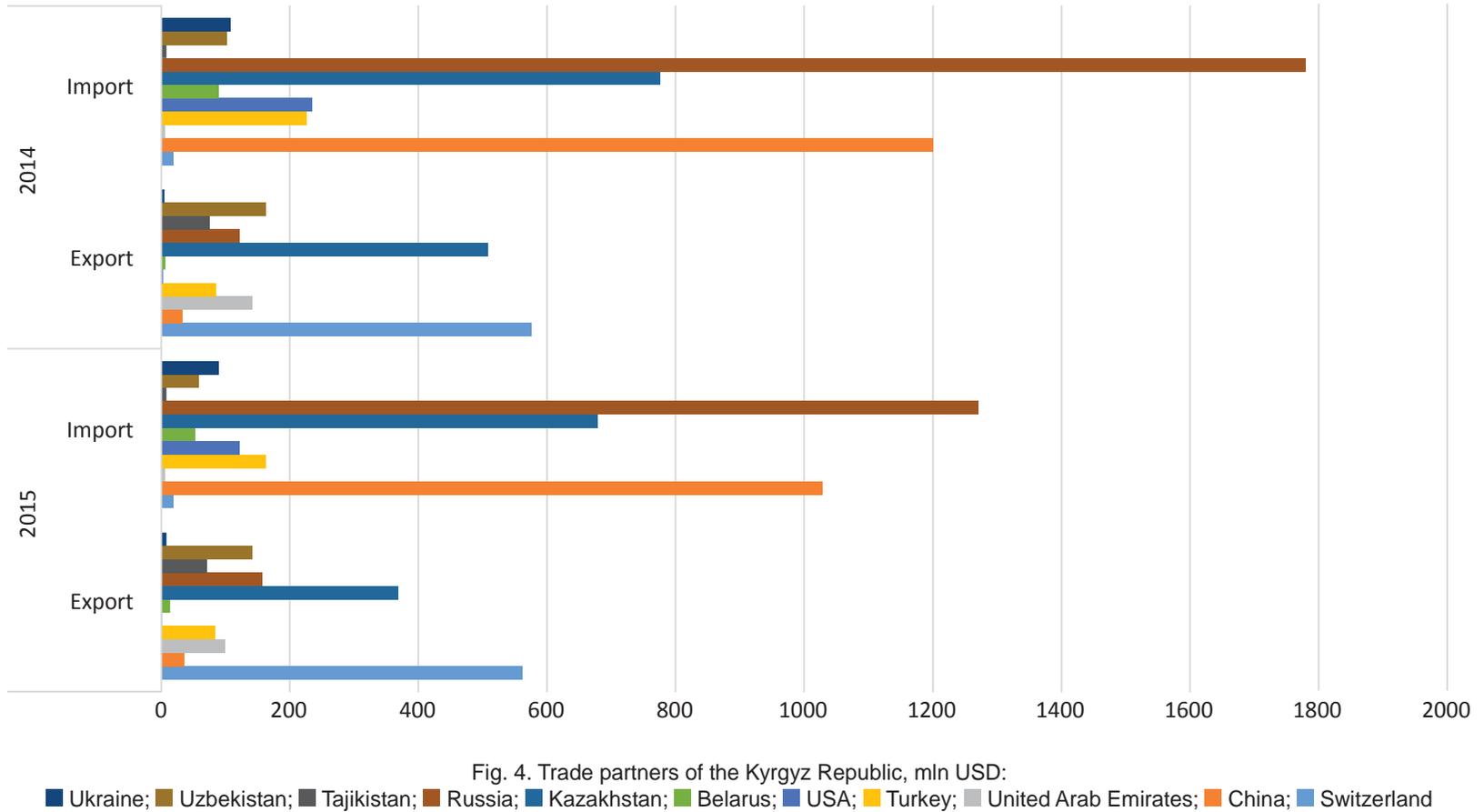


Fig. 3. Import Structure Dynamics, thousand dollars:

- Meat and subproducts; ■ Milk and dairy products; ■ Tea; ■ Wheat; ■ Corn; ■ Rice;
- Wheat flour; ■ Vegetable oil; ■ Crude sugar; ■ Sugar; ■ Wax; ■ Chocolate products;
- Beer; ■ Ethanol; ■ Vodka; ■ Cigarettes and cigars; ■ Asbestos; ■ Coal;
- Motor spirit; ■ Kerosene; ■ Diesel fuel; ■ Black oil; ■ Natural gas; ■ Liquid gas;
- Electric energy; ■ Drugs; ■ Fertilizers; ■ Tyres; ■ Carving wood; ■ Newsprint;
- Glass; ■ Rolled metals; ■ Metal pipes; ■ Isolated electric wikes and cables;
- Coal and rocks extracting machines; ■ Combines; ■ Food industry equipment;
- Light industry equipment; ■ Electric transformers; ■ Cars;
- Car parts and equipment; ■ Furniture

Source: [5].



Source: Ministry of Economy of the Kyrgyz Republic.

Until recently, most imported Chinese commodities have been transited through the territory of Kyrgyzstan and re-exported. This became possible due to special simplified government regulation of imports and sale of “bazaar goods,” giving individuals the opportunity to benefit from imports customs clearance and tax payments based the weight of goods, not their customs value [7].

Another important point, which made re-export more favourable, was a simplified taxation system applied to individual traders based on tax patents, which are far more auspicious for economic agents than the treatment existing in other sectors of the Kyrgyz economy. This facilitated the transformation of the “Dordoi” and “Kara-Suu” bazaars into the region’s largest centers of international trade [Ibid].

The largest regional bazaar “Dordoi” was created in 1992, as a hub of trade between China and Europe. The Dordoi bazaar is made up of a dense maze of 30,000 containers and employs, directly and indirectly, more than 150,000 people, according to World Bank figures from 2009. Its estimated annual turnover is around 3 billion U.S. dollars [8]. It is organized in sections according to the origin or type of goods, coming from Turkey, South Korea, Europe and China. Also, there are rows where ready-made clothes of Kyrgyz production with label “Made in Kyrgyzstan” are sold. These commodities are sold to wholesalers, coming mostly from Russia, Kazakhstan, or are sent to those countries for export. During the last years, the “Dordoi” has faced a big number of problems: difficulties with export of commodities through Kyrgyz-Kazakh border, decrease of trade, increase of internal competition, etc.

Changes during the year

The Kyrgyz Republic became a part of the market of Eurasian Economic Union with population of more than 175 million people.

A most proportion of trade of the Republic with the countries of the EAEU accounts for two countries — Russia and Kazakhstan — 55% and 43% respectively [9].

In the export of goods to Russia dried fruits increased by 6.6%, beans — by 3.8%, clothes — by 0.5%. At the same time in 2.4 times decreased the export of cotton fiber. Imports from Russia increased import of frozen chickens in 1.8 times that of coniferous timber by 36%, soda sweet mineral water—by 22% and other non-alcoholic beverages—by 24%.

Exports from Kazakhstan increased the export of beans by threetimes, mineral water—by 2.3% and knitted garments by 1.5 times. The import of goods from Kazakhstan increased import of vegetable oil by four times, and dairy products — by 24.5%.

The main trade partners of the Kyrgyz Republic in 2016 were Russia, Kazakhstan, China, Switzerland, Uzbekistan, Turkey (Fig. 5.)

The Table 3 demonstrates that there has been a decrease of trade with Belarus as well. In January–November 2015 the export to Belarus included mostly cotton, parts and accessories for automobiles and tractors, products of animal origin, agricultural products, etc. The sum of export was 5.5 million U.S. dollars which is higher than the exported amount in January–November 2016 that was 3.2 million U.S. dollars. The decrease in import from Belarus to Kyrgyzstan is also observed in January–November 2016. The composition of import from Belarus is processed cereal grains, agricultural equipment, drugs, decorative cosmetics, matches, plastic products, tires, materials for repair and construction works, etc. The decline in imported amount of commodities from Belarus was 3.974 million U.S. dollars in January — November 2015 compared to the same period in 2016.

The volume of mutual trade of Kyrgyzstan and Armenia was not large. According to the official statistics, Kyrgyzstan imported pharmaceutical products, facilities for controlling flow of electricity, electric segregators, glass containers, etc. from Armenia in 2016, amounting to 314,544 U.S. dollars, while it exported to Armenia soft roofing materials and plastic plates, amounting to 6.620 U.S. dollars¹.

Migration

As a member of the EAEU, Kyrgyzstan became a part of the common labour market. The legal status of migrants from Kyrgyzstan when in the territory of other countries of the Union. They got equal rights as compared to the residents in respect to employment. No quota agreement or permits are necessary. For example in Russia they can work only not only under a labor but also under civil law contract, pay income tax equal to the Russian citizens and got the rights for social insurance and health care.

For the first 11 months of 2016, remittances to Kyrgyzstan amounted to \$1 billion 834.74 million soms that is almost half of the country's public debt, according to the National Bank of the Kyrgyz Republic [9]. Compared to the same period in 2015, the volume of transfers increased by 18.6%. In November 2016, the inflow of remittances was 174.5 million U.S. dollars, i.e. by 35% higher than in November 2015. The biggest part of money to Kyrgyzstan was coming from Russia: there were 171.1 million U.S. dollars transferred in November 2016. Inflow of money increased by 37.3%. In just 11 months of 2016 1 billion 786.2 million U.S. dollars were received from Russia, which is by 19.8 percent higher than in 2015 [Ibid].

1 Eurasian Commission. Mutual Trade Statistics. URL: <http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/tables/intra/Pages/2016/12.aspx>.

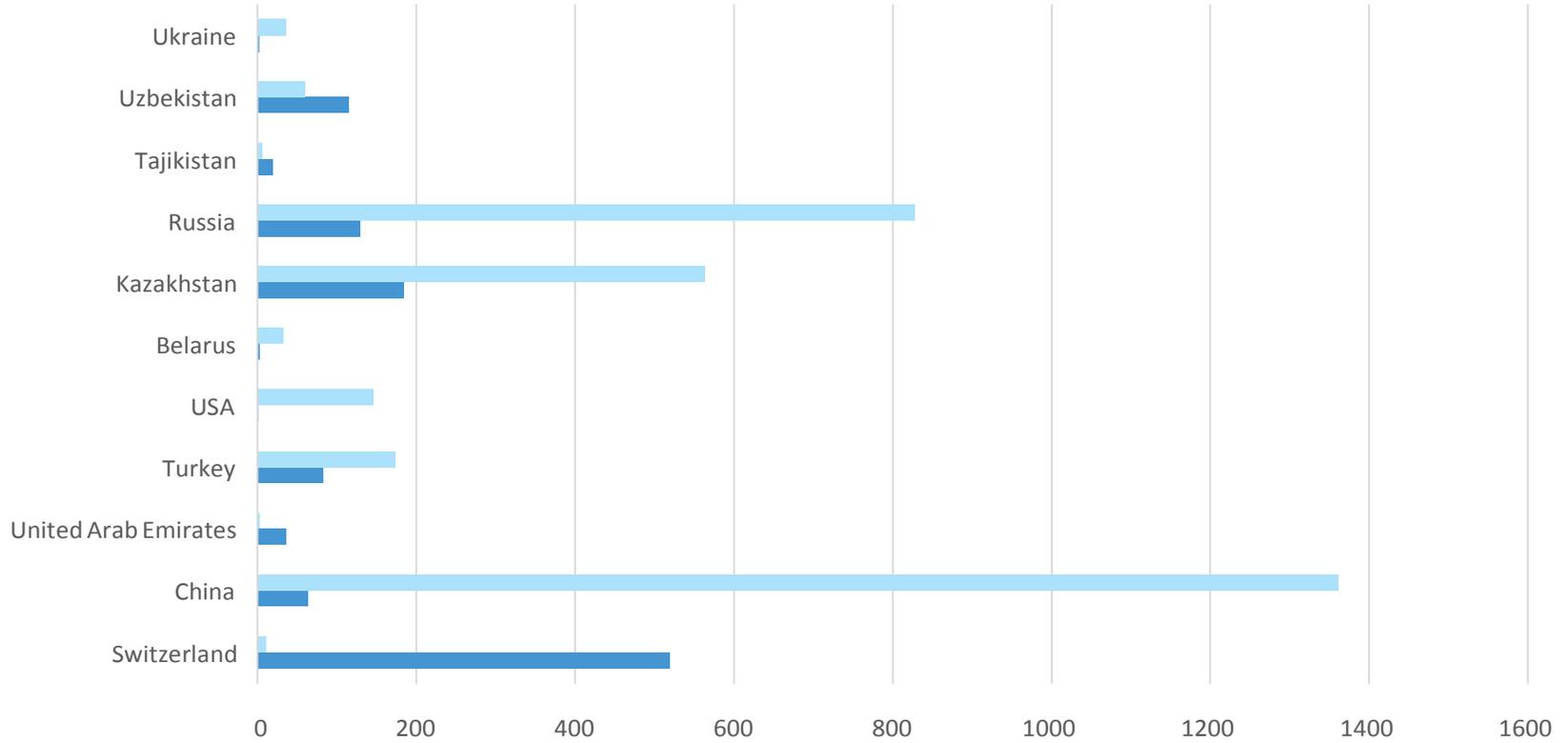


Fig. 5. Trade turnover (export, import) of Kyrgyzstan January-November 2015, 2016, mIn USD:
 ■ January-November, 2016; ■ January-November, 2016

Source: Ministry of Economy of the Kyrgyz Republic.

Table 3
Trade Turnover of the Kyrgyz Republic, mln USD

Country	January-November, 2016		January-November, 2015		Growth rate		
	Export	Import	Export	Import	Trade turnover	Export	Import
Switzerland	519,86	11,41	541,01	17,32	95,2%	96,1%	65,9%
China	63,8	1361,5	28,15	916,19	150,9%	226,7%	148,6%
United Arab Emirates	36,34	3,11	77,33	5,48	47,6%	47,0%	56,7%
Turkey	83,5	174,2	77,56	155,23	110,7%	107,7%	112,2%
USA	0,4	146,2	1,1	112,1	129,5%	35,3%	130,4%
Belarus	3,2	32,8	5,5	36,7	85,1%	57,9%	89,2%
Kazakhstan	184,7	563,9	199,2	540,2	101,2%	92,7%	104,4%
Russia	129,3	828,7	140,3	1172,0	73,0%	92,1%	70,7%
Tajikistan	19,6	6,3	22,1	7,6	87,2%	89,0%	82,2%
Uzbekistan	115,1	60,4	68,7	52,0	145,4%	167,4%	116,3%
Ukraine	2,8	36,8	7,9	84,0	43,0%	34,9%	43,7%

Source: Ministry of Economy of the Kyrgyz Republic.

In Fig. 6, data on money transfers of individuals performed via transfer systems (for example, Western Union, Unistream, Migom, etc.) is presented. We can see that remittances in 2016 were higher than in 2015. The growth of remittances has been observed since June 2016 and it was higher by 15.4 million U.S. dollars. In August, the difference between remittances of 2015 and 2016 was 74.9 million U.S. dollars; then the gap became smaller.

Currency exchange rate

Kyrgyzstan's accession to the EAEU concurred with a line of important events: international sanction against Russia, the drop in oil prices and, finally, changes currency exchange rates: in relation to Kyrgyz som (KGS), there was the devaluation of ruble, national currency of Russia, and tenge, national currency of Kazakhstan; In addition, there was an increase of the exchange rate of dollar per som. For 2016, the official exchange rate of the U.S. dollar in relation to som decreased by 9%, from 75.8969 to 69.0660 soms. For 2015, the exchange rate of grew up in relation to som by 28.9%. from 58.8956 to 75.8993 soms [10].

Because of devaluation of Kazakh tenge, prices of many commodities and services in the Republic of Kazakhstan, where prices are cheaper, became even lower than in Kyrgyzstan now. Local entrepreneurs started to arrive to Almaty, Kazakhstan, to make wholesale purchases and bring them to Kyrgyzstan [11]. For example, some entrepreneurs made wholesale purchases of eggs via intermediaries; now, it is easier for them to go to Almaty by themselves and purchase eggs there due to the devaluation. They travel between cities on their own cars instead of renting transport, and it allows to save money as well. The same problem of cheap import from Kazakhstan is with imported rice, milling industry, sunflower seed oil and other products.

One of the reasons of low prices in the southern capital of Kazakhstan, besides the devaluation of tenge, is the opening of market complex “Khorogos” on Kazakh-Chinese border. That causes a decrease in trade volumes on the “Dordoi” bazaar in Bishkek.

Kyrgyzstan — Kazakhstan

The Khorogos International Center of Boundary Cooperation JSC is a public company established under the Agreements between the Government of the Republic of Kazakhstan and Government of the People's Republic of China for the purpose of creation of the Khorogos International Center for Transfrontier Cooperation at the Kazakhstan and China border in the Panfilov district of Almaty region. The main goals of the activity of the Khorogos ICBC JSC are the implementation of the industrial and innovation policy of the state, mobilization of the region economy by attracting the investment capital and development of the investment climate. Moreover, other goals of “Khorogos” are to increase tax revenues to the budget, to

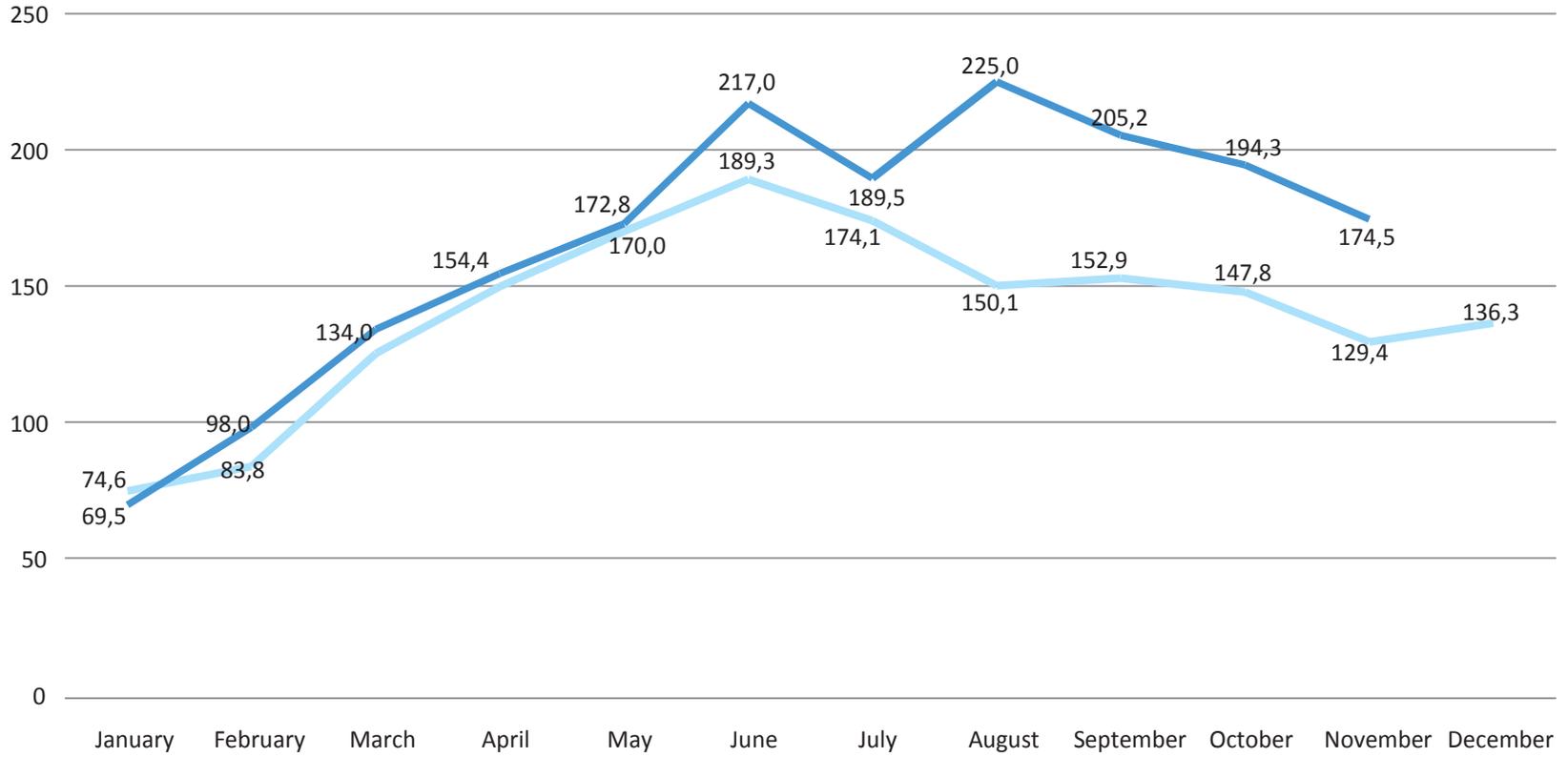


Fig. 6. Remittances, mln. USD:
— 2015; — 2016

Source: National Bank of KR.

introduce the system of the international standards for foreign trade operations, to develop logistics and terminal services of import, export and transit freight flows. Development of the international tourism on the Silk Road, including improvement of tourism, transport and telecommunication infrastructure is one of the main goals of this project as well.

Kazakhstan is the largest landlocked country in the world. During the years of independence, 2,500 kilometers of railways were built in Kazakhstan [12]. The Asian Development Bank (ADB) supports regional cooperation across Asia and the Pacific. The Central Asia Regional Economic Cooperation (CAREC) Program is the largest of such initiatives supported by ADB. Since its inception, CAREC has mobilized more than \$24 billion for transport, energy, trade policy, and trade facilitation, of which ADB has financed in excess of \$9 billion [13].

According to analyses of CAREC Program team, there are stable logistic chains of delivery of Chinese goods from Urumqi to Kazakhstan and Kyrgyzstan.

The main Corridor, which stretches for 2,787 km within Kazakhstan, passes through Urumqi, Khorgos (Kazakhstan), Almaty, and heads west until it crosses Zhaisan into the Russian Federation. The second corridor links the PRC and the Kyrgyz Republic through the Torugart BCP.

Theoretically, trucks from Kazakhstan are legally allowed to collect cargo in Urumqi and transport it to a final destination in Almaty or other locations. In practice, however, the majority of orders is accomplished with transloading at Khorgos. Trucks from the PRC are used to deliver goods to Khorgos, and then trucks from Kazakhstan are used for transport from Khorgos to Almaty. Goods are transported by authorized economic operators (AEOs), which are a tightly guarded community of about 60 companies with about 400 trucks in operation between Urumqi and Almaty. These operators collect consolidated cargo in Urumqi and invite the traders to collect goods when they arrive in Almaty. Clients can transport relatively small shipments; thus, each truck can contain the cargo of several clients. Clients are expected to pay 800–1,000 U.S. dollars per cubic meter for full delivery of customs-cleared cargo in the AEO's terminal in Almaty.

Authorized economic operators existed before the Treaty about the EAEU came into force. In 2010–2011, they charged three times less per cubic meter than in 2014. The increased customs duties and tightening of control at the Eurasian Customs Union borders, particularly Khorgos, after Kazakhstan's accession, resulted in the increased costs [14]. It was possible to import everything that was not prohibited by law, but there was the main condition — operators had to pay a fixed sum to the budget. AEO had to declare all kinds of goods, but the quantity and the price should be corresponded to customs duties: for consumer goods — 10–11 million tenge, for footwear — 6 million tenge (previously, these amounts did not exceed 700,000 tenge) [15]. This was done to ensure that all customs procedures have to move from “black” schemes of customs clearance to “gray” ones, followed by access to “white” schemes.

For the first time, there were only five authorized economic operators, but after some time past the amount was already one hundred. There was increase in unfair competition, goods were delayed, people started to incur losses [Ibid].

In addition, services of these AEOs are quite expensive. According to ADB survey, logistics costs paid by traders to the AEOs for the transport of one truckload of merchandise delivered through this scheme are 80,000–100,000 U.S. dollars per truck. Contrasted with the estimated value of duties of 60,000–70,000 U.S. dollars, the cost of transport of 5,000 U.S. dollars, and the same value of official and unofficial expenses, the AEOs enjoy a good profit margin for every transaction, explaining why the group is well guarded. Although there was a crackdown in 2011 when several customs officials were jailed, it appears that these profitable arrangements were not eliminated, only that this resulted in greater complexity and costs for traders [Ibid].

Despite the close collaboration of the economies of Kazakhstan and Kyrgyzstan, there are periodic tensions on different issues, starting from customs duties, ending with questions of electricity. For today there are opened questions concerning Kyrgyz agricultural products that go through transit via Kazakhstan.

Right after the accession of the Kyrgyz Republic to the EAEU, there were eliminated customs checkpoints and cancelled phytosanitary control at the Kazakh-Kyrgyz border. However, on 1 January 2017 Kazakhstan has imposed restrictions on the delivery of Kyrgyz meat and dairy products to Russia and the West. Now, the transit is allowed only by rail in sealed wagons; transport by truck is prohibited [16].

Kazakh representatives declare that it is a compulsory measure — they need to exclude any possibility of air and automobile transit carriages, because veterinary control on Kazakh-Kyrgyz border was eliminated in terms of the EAEU. This led to the situation that Kyrgyz products not conforming to veterinary and sanitary norms and standards installed on the territory of the EAEU, began to enter the Kazakh market. According to the Vice-Minister of Agriculture of Kazakhstan Gulmira Isayeva, “the new approach will help to prevent the transfer of dangerous viruses and diseases such as foot and mouth disease, pose a threat to people on the territory of Kazakhstan [Ibid].”

Another problem which was announced on the parliament meeting is that Kazakhstan required from Kyrgyzstan to create ideal conditions in veterinary system as requirements of veterinary control are the highest. It includes the process of identification of animals. The pilot of the program has already started in three regions but it takes time. According to the Deputy Economy Minister, Almaz Sazbakov, “veterinary system of Kazakhstan has statuses in the international epizootic bureau. Some oblasts of the country have free movement without aphtha’s vaccination on international level. Kyrgyzstan has the same status. Kazakhstan explains such measures on refusal to remove veterinary control on

the border by the fact that it can influence positive status in the international epizootic bureau” [17].

There has been a trend of higher import from Kazakhstan than Kyrgyz export since 1999. In some years, the amount of imported goods was growing (2011-2012), while in some, e.g. 2013 it was decreasing. We can observe an increase in the amount of goods exported to Kazakhstan since 2009; after 2012, Kyrgyz export experienced some decrease (Fig. 7).

Almost since independence until present, Kyrgyzstan has been exporting to Kazakhstan milk and dairy products, fresh vegetables, paper, cardboard paper and articles thereof, electrical energy, cast and rolled glass, electric incandescent lamps and construction materials from asbestos. The export of cement and portland cement has been stable since the beginning of the 1990s, but its supply has been at zero level since 2010. Significant supply of tea, alcohol drinks (champagne, vodka), cigarettes and mouthpiece cigarettes, cotton fabric and new light motor cars were observed at the end of the 1990s — beginning of the 2000s; thereafter the amount of these reduced. An increase of export of live animals has taken place since 2005 and further, as well as for metallic storage and transportation containers, tires, minerals and articles for transportation or packing made from plastic materials.

The structure of import from Kazakhstan has had some changes since independence as well. Stable import supply consists of wheat, wheat flour, asbestos, coal, automobile gasoline, jet fuel, diesel oil fuel, heating oil and base metals. During the 1990s there were imported maize, liquid gas, ores and concentrates of non-ferrous metal, ferrous metals and articles made of it, cooper and article thereof; the amount of these commodities had tendency to decrease till 2005. On the contrary, the import of beer, sugar, products from grains, mineral water, cattlehides, crude iron, steel, vegetable oils had positive dynamics during the last ten years. Kyrgyzstan and Kazakhstan are allied partners; they have great potential in development of cooperation.

Kyrgyzstan — Russia

Import from Russia was a little bit higher than Kyrgyz export to Russia during 1996–2003; since 2004 the amount of Russian imported goods has started to gain momentum and increase significantly. We can observe decrease of both imported amount of Russian goods and export of Kyrgyz goods to Russia, in 2008 that could be explained by world financial crisis; in 2010 import from Russia started to increase again (Fig. 8). Stable export supply to Russia during the last 25 years consist of fruits and vegetables, tobacco, cotton fiber, electric incandescent lamps, repair parts and equipment for cars, articles of clothing and clothing accessories, glass and glassware. Export of molasses, which was significant during 1990ths, has lost its position during the last years. It is observed the same decrease of export of antimony and articles thereof to Russia, as of alternating current motors.

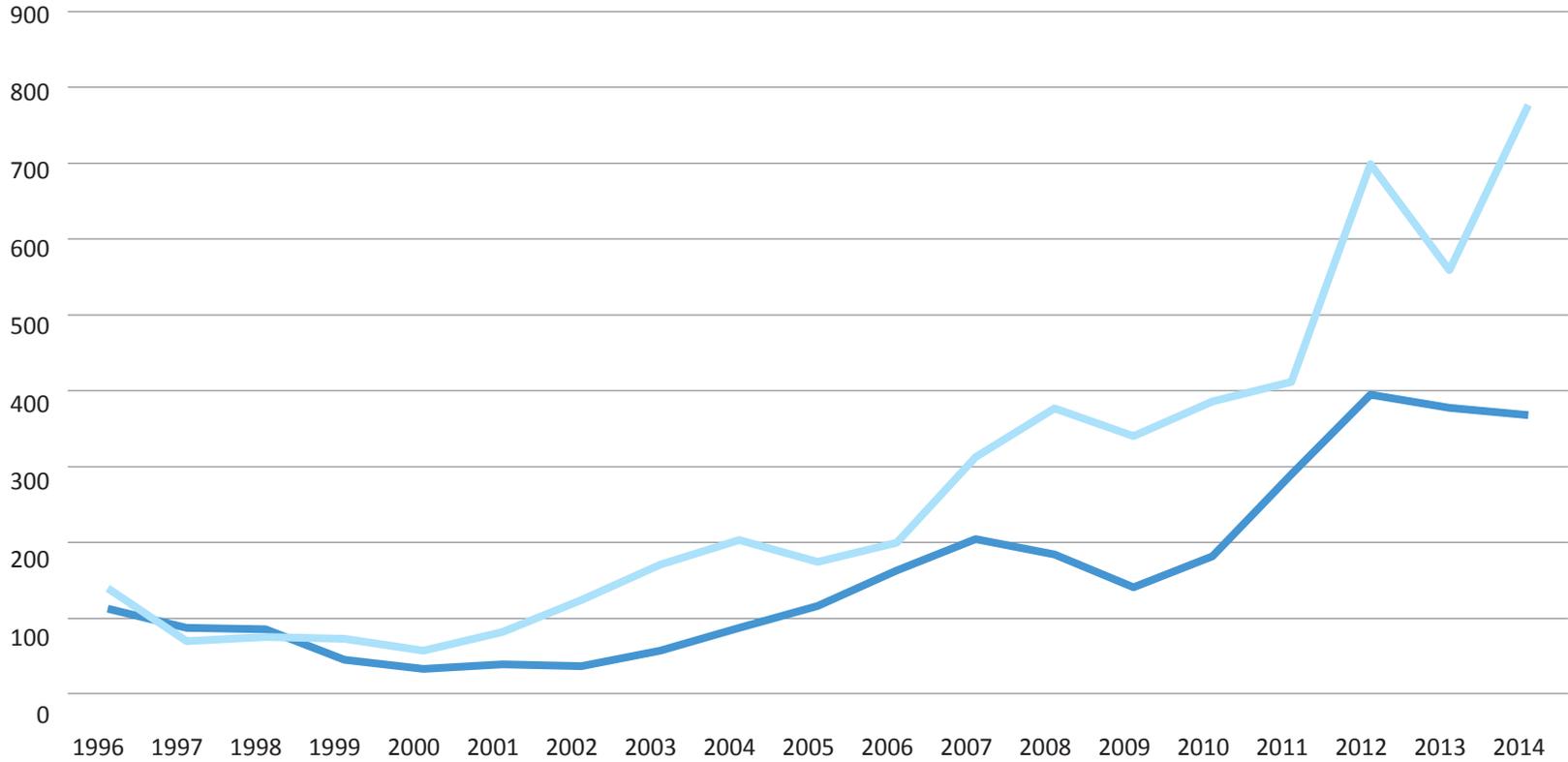


Fig. 7. Mutual trade of Kyrgyzstan — Kazakhstan in 1996–2014, mln USD:
— export to Kazakhstan; — import from Kazakhstan

Source: National Bank of the Kyrgyz Republic.

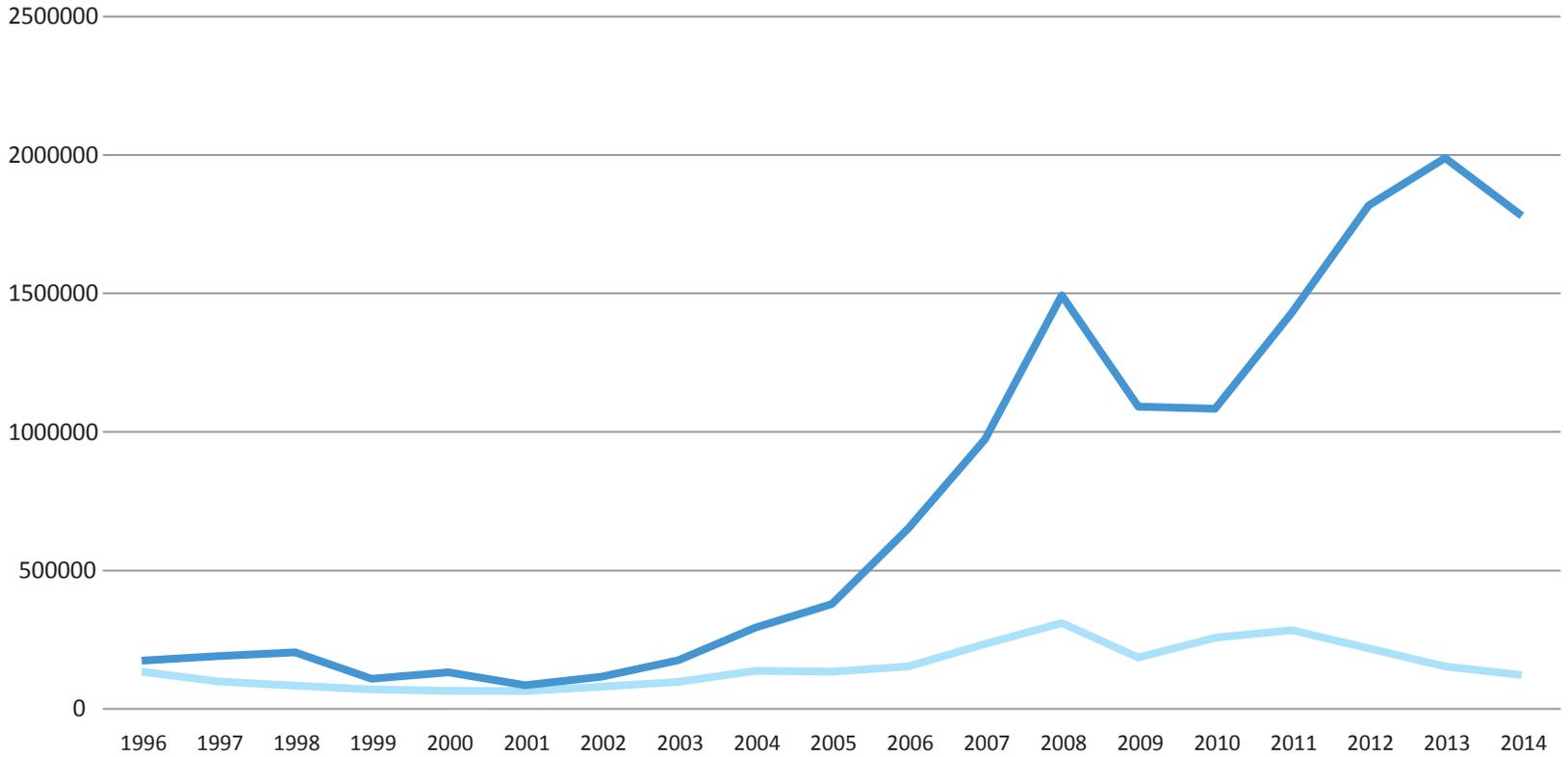


Fig. 8. Mutual trade of Kyrgyzstan — Russia in 1996–2014, mln USD:
 — export to Russia; — import from Russia

Source: [5].

Stable export supply to Russia in the last 25 years has consisted of fruits and vegetables, tobacco, cotton fiber, electric incandescent lamps, repair parts and equipment for cars, articles of clothing and clothing accessories, glass and glassware. Export of molasses, which was significant during the 1990s, has lost its position during the last years. The same decrease of export of antimony and articles thereof to Russia is observed, as well as of alternating current motors.

Import structure of Russian goods is quite stable during the last 25 years. It consists of sugar, automobile gasoline, diesel oil fuel, inorganic chemicals, medications, fertilizers, tires, paper and cardboard paper, wood and articles thereof, light motor vehicles, lorries, chocolate and other food products containing cocoa, beer, jet fuel, repair parts and equipment for cars etc. increase of imported amount of articles made from base metals, different food products, crude iron or non-alloy steel articles is observed in the last ten years.

Relationships with Russia have strategic importance in all spheres for Kyrgyzstan. Russia is the main trade and economic partner, as well as the military one. In June 2016, the government of the Russian Federation and the government of the Kyrgyz Republic signed the agreement on partnership in the sphere of oil and oil products supply. This agreement regulates customs free delivery of oil products from Russia to Kyrgyzstan [18].

Taking into account the membership of Kyrgyzstan in the Eurasian Economic Union, it is necessary to promote the supply of agricultural commodities (fruits and vegetables, refined products) to the market of Russia. Compared to Kazakhstan, Russia has agreed on export of animal products to its market from Kyrgyzstan. Currently 20 Kyrgyz enterprises have relevant conformity certificates and can supply their products to the market of the EAEU.

Kyrgyz clothing manufacture takes leading positions in Russia as well. This partnership should be continued as well as partnerships in processing industry, mining and metallurgy industry, transport sector etc.

In 1995–2009, the trade turnover between the two countries increased by more than six times: from 206 million U.S. dollars to 1,283 million U.S. dollars. The Kyrgyz deliveries to Russia prevailed in clothes, raw cotton, vegetables and fruits, electrical equipment. In 2000–2010 food exports of Kyrgyzstan in the Russian Federation has undergone significant changes: dramatic reduce of tobacco supply, but the increase of supply of fruits and vegetables. There were massive delivery amounts of timber, petroleum products, machinery and equipment, chemical products from Russia to the Central Asian countries [19].

The assistance to Kyrgyzstan from Russian side before joining to the EAEU was creation of the Russian-Kyrgyz Development Fund (RKDF).

Russian – Kyrgyz development fund

The Russian-Kyrgyz Development Fund was established and operates in accordance with the Agreement between the Government of the Kyrgyz Republic and the Russian Federation “On the development of economic cooperation under the Eurasian economic integration” May 29, 2014, the Agreement between the Governments of Kyrgyzstan and the Russian Federation “On the Russian-Kyrgyz Development Fund” dated November 24, 2014 [20].

The mission of the Fund is to facilitate modernization and economy development of the Kyrgyz Republic, as well as economic membership between countries of the Fund [Ibid]. The Fund provides funding for projects that, in addition to commercial benefits for owners, carry a positive effect on the economy as a whole: the creation of additional jobs, increase tax deductions, export orientation and import substitution, and have a positive effect on the development of local communities.

In September 2015, RKDF signed an agreement with “Aiyl Bank” and “RSK Bank” on cooperation in launching the program targeted financing of small and medium size enterprises (SMEs) and provided them with 1.2 billion soms. Under this program, entrepreneurs may apply for preferential loans at 12 % per year in KGS for a period of up to five years [21]. As of January 2017, there were 639 approved projects at the amount of 175 million U.S. dollars from the assigned 500 million U.S. dollars to the Russian-Kyrgyz Development Fund [22]. Priority sectors of financing are agro-industrial complex, apparel and textile industries, processing industry, mining and metallurgy industry, transport infrastructure, tourism and medicine (Table 4).

Table 4

Information about credit activity of the RKDF (as of 16 January 2017)

Sector of the economy	Total approved projects, including issued	
	mln USD	Number
Agricultural complex, processing and production of agricultural products	22.006	293
Manufacturing industry, modernization of production equipment	72.361	213
Power industry, construction of mini hydro powers	2.275	5
Mining and metallurgy industry	3.974	13
Transport infrastructure and storage of cargo	28.651	32
Communication and information technologies	3.200	1
Trade infrastructure	2.500	1
Tourism infrastructure	14.302	24
Health service infrastructure	2.277	17
Other sectors	23.002	40
Total, in USD	174.548	639

Source: [23].

Kyrgyzstan and main trade partners

Kyrgyzstan — Uzbekistan

Trade with Uzbekistan is characterized by different dynamics: in some years a higher import volume of Uzbek commodities to Kyrgyzstan than Kyrgyz export was observed, for example in 1996 — 1999 and 2001 — 2007; in 2007 — 2009 the amount of exported commodities to Uzbekistan was significantly higher than the import from that country. A dramatic fall of export to Uzbekistan in 2010 could be explained by the interethnic conflict, which happened in June 2010 in the south of Kyrgyzstan between ethnic Kyrgyz and Uzbeks [24]. The amount of export from Kyrgyzstan to Uzbekistan was higher than the amount of import from that country in 2011, however, it has had a tendency to decrease since 2012 (Fig. 9).

Sales volume of Kyrgyzstan with Uzbekistan for nine months of 2016 was 140.3 million U.S. dollars due to the official data from the national Ministry of Economy. For the same period of 2015 year the sales volume increased on 46.3%, including the growth of export on 78.9% (it is 93.2 million U.S. dollars) and import on 7.3% (47.1 U.S. dollars in 2016) [25].

Kyrgyzstan exports coal, stones, travertine, spirits, incandescent electric lamps, duplicates of machine parts, food products, products of agriculture, washing facilities to Uzbekistan. At the same time, Kyrgyzstan imports fertilizers, products of chemical industry, cognac spirits, products of textile and light industry, natural gas and lubricating oil, agricultural products, engineering products from Uzbekistan.

Uzbekistan was the main supplier of natural gas to Kyrgyzstan. In 2014, Russia's Gazprom took over the Kyrgyz state gas supplier KyrgyzGaz for a symbolic one U.S. dollar. Gazprom also took on KyrgyzGaz's 40 billion U.S. dollars in debt and in the process irritated Uzbekistan. Uzbekistan cut gas supplies to the southern Kyrgyzstan for nearly nine months, only resuming flows in December 2014. Because Kyrgyzstan does not have significant gas deposits of its own and must import, and southern Kyrgyzstan is linked to pipelines in Uzbekistan and the north to Kazakhstan which are not linked to each other. While Gazprom can ensure supply to the northern Kyrgyzstan, until new pipelines are built it cannot supply the southern Kyrgyzstan [26].

Kyrgyz — Uzbek relations received new impulse for constructive dialogue and mutually beneficial cooperation with the election of new President of the Republic of Uzbekistan, Shavkat Mirziyoyev, in December 2016.

Many agreements and contracts with Kyrgyzstan were signed on the First International Food-and-vegetable Exposition in Tashkent on 8–10 November 2016, where local authorities from Kyrgyzstan, private entrepreneurs from Osh and Jalal-Abad oblasts (south of the republic) and other Kyrgyz agricultural companies took stage or were presented.

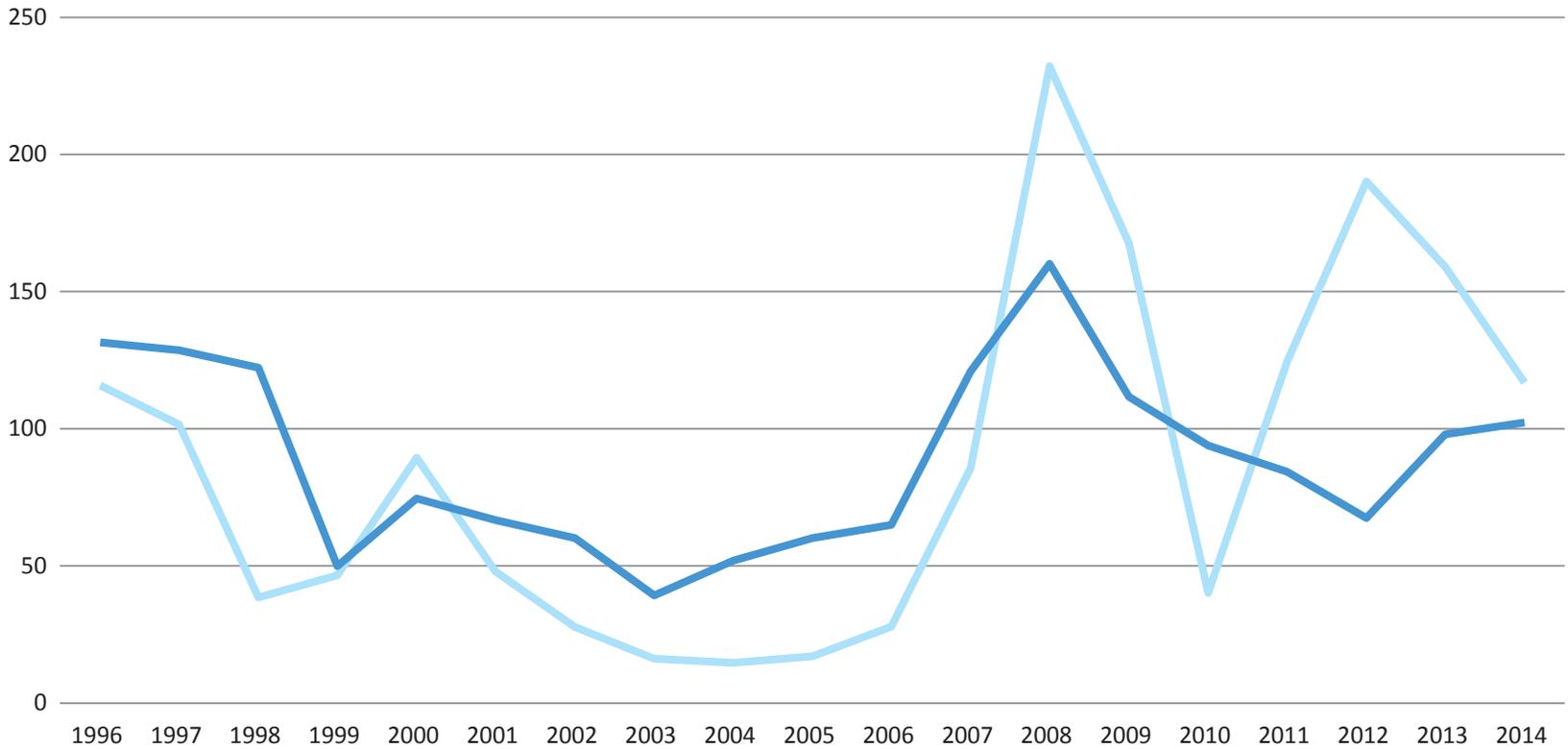


Fig. 9. Kyrgyzstan — Uzbekistan bilateral trade in 1996 — 2014, mln USD:
 — export to Uzbekistan; — import from Uzbekistan

Source: [5].

Kyrgyzstan — Tajikistan

Export of Kyrgyz commodities to Tajikistan is higher than the amount of imported commodities from it. Import dynamic from Tajikistan has been quite stable during the whole period of mutual trade relationships with Kyrgyzstan; the volume of Kyrgyz export can vary from year to year. Thus, the amount of export had a decline in 2008 — 2009 during the world financial crisis, but in 2010-2012 it was increasing (Fig. 10).

The composition of Kyrgyz export to Tajikistan has not significantly changed since 1995 and consists of live animals, dairy products, vegetables and fruits, tobacco, mineral fuels, plastics products, textile etc. Kyrgyzstan imports from Tajikistan fruits and vegetables cereals, meat, ores, slags, ashes and other commodities.

Relationships of Tajikistan and Kazakhstan are quite stable; the only object of dispute is unfinished process of delimitation and demarcation of state borders and areas along the borders. Today Tajikistan and Kyrgyzstan share more than 900 km of the state border, much of which is not demarcated. The main reason for conflicts lies in the openness of borders and until the parties finalize the demarcation of the state border, disputes and conflicts will continue. On the other hand, demarcation of the border should take place in a peaceful and civilized way but Tajikistan and Kyrgyzstan have different views on determining the common border. The problem lies in the fact that countries use maps issued in different years whilst designing the borders. Tajikistan insists on consideration of the boundaries of the map-based 1924–1939, and Kyrgyzstan defends the right to determine the line boundaries of the maps-based 1958–1959 [27].

Despite the fact that Tajikistan is learning the experience of Kyrgyzstan and Armenia on their accession to the EAEU before entering it too, the presence of Chinese investments into Tajikistan is growing every year. In 2012, the Ministry of Agriculture of Tajikistan leased 500 acres of land for 49 years to Chinese farmers “in order to develop its agricultural sector”. Last year a Chinese-Tajik company there was handed over 15 thousand hectares for temporary use for cotton growing [28].

Kyrgyzstan — China

In the last 20 years, amounts of exported goods to China and amount of Chinese import to Kyrgyzstan were almost equal until 2002. As Fig. 11 shows, while the amount of exported commodities to China has showed stable dynamics since 1996, the amount of imported Chinese goods was increasing every year (except for 2008 and 2012, during which the import declined).

Kyrgyzstan exports cattlehides, wool, cooper waste and scrape, waste and scrape of aluminum, aluminum itself, leather, cooper, ores and concentrates of non-ferrous metal. China exports to Kyrgyzstan clothing and clothing accessories, footwear, articles made from base metals, plastics, furniture, rice, tobacco, woven fabrics from artificial textile materials, fruits fresh or dried, inorganic chemicals, textile

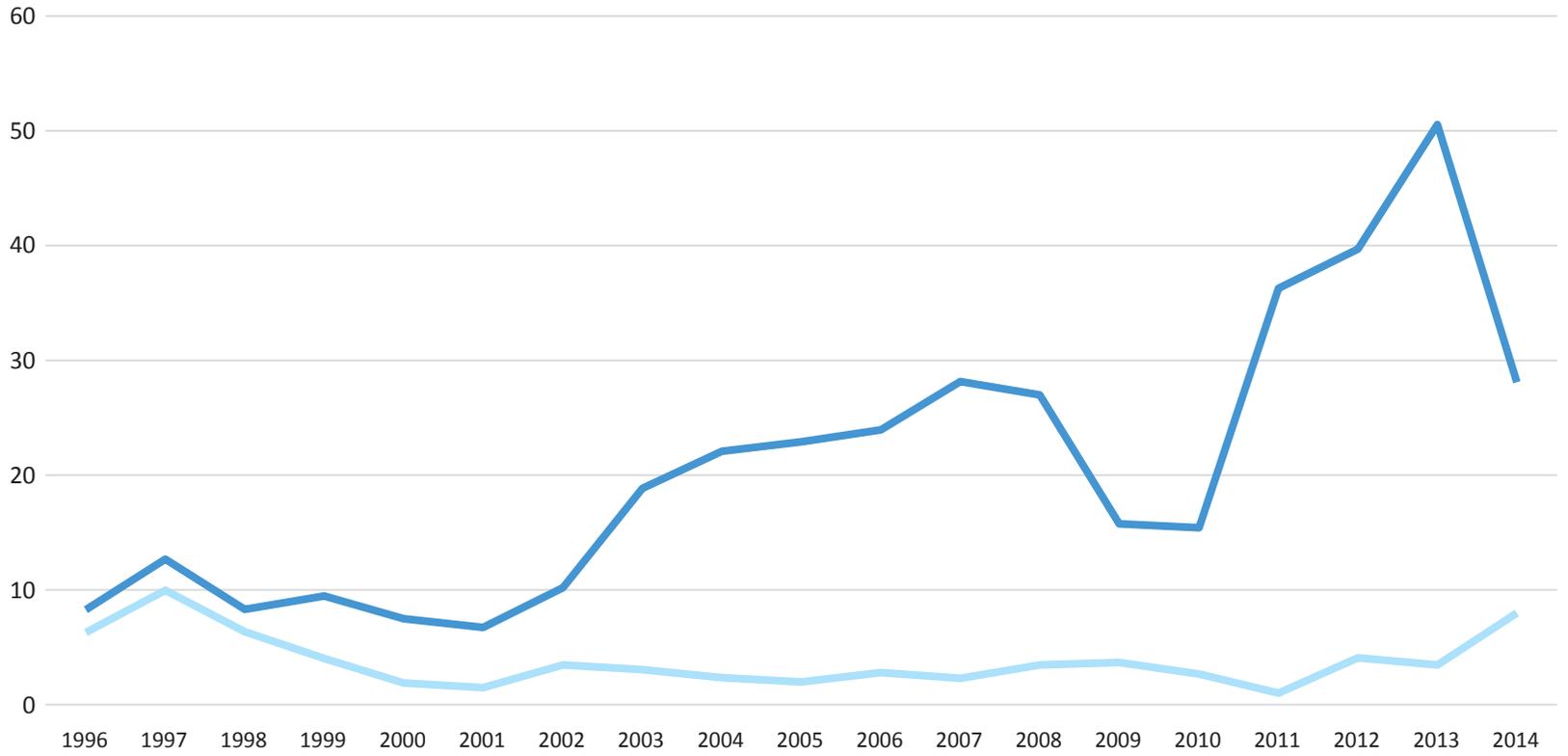


Fig. 10. Mutual Trade of Kyrgyzstan — Tajikistan in 1996–2014, mIn USD:
— Export to Tajikistan; — Import from Tajikistan

Source: [5].

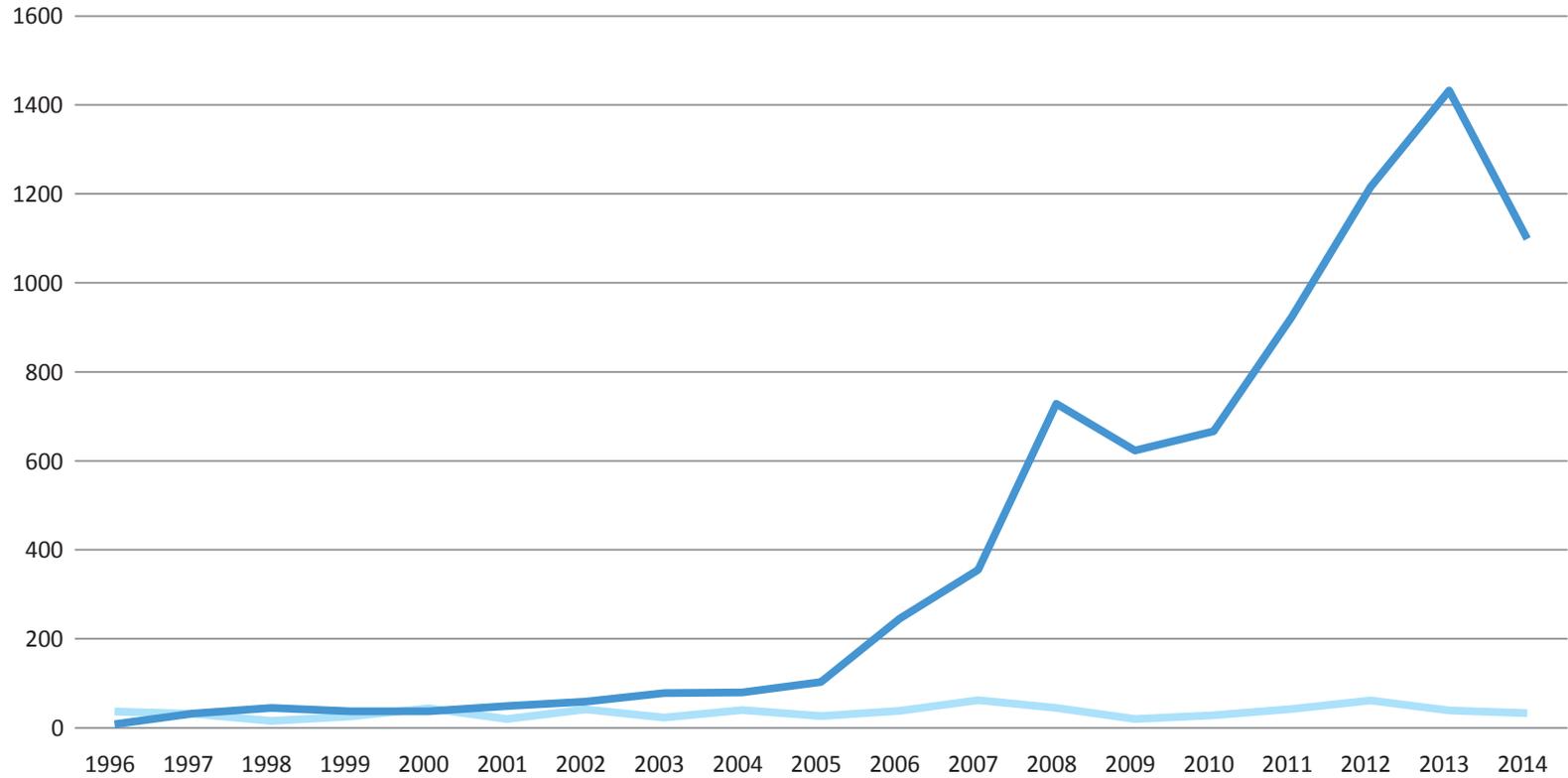


Figure 11. Mutual Trade of Kyrgyzstan — China in 1996–2014, mIn USD:
— Export to China; — Import from China

Source: National Statistic Committee

yarns, explosives and pyrotechnics, telephones for cellular networks, machinery for working of food products and rubber or plastics, etc.

Since 2012, after the election of president of China Xi Jinping, it has been implementing a plan on strategic development of relations with all Central Asian countries, including Kyrgyzstan: there is a program of development of a strategic partnership until 2025. Kyrgyzstan is interesting for China from the geopolitical and geoeconomic points of view: China wants all its neighbors to become geo-economically stable and prosperous before 2049 [29].

During 8 months of 2016, the volume of investments from China to Kyrgyz economy was 120 million U.S. dollars which is 57.5% higher than for the same period in 2015. Furthermore, China is one of the main trade partners of Kyrgyzstan: there was an increase in the trade turnover between Kyrgyzstan and China. During January-October 2016 the trade turnover between these two countries amounted to 1 billion 289.4 million U.S. dollars (i.e. growth by 1.5 times). The export to China was not significant and amounted to 48 million U.S. dollars (growth by 1.9 times), while imports from China reached 1 billion 241.4 million USD (growth in 1.5 times). The share of China in the total trade turnover of Kyrgyzstan amounted to 29.3% (while in January–October 2015 it constituted 17%) [30].

China is Kyrgyzstan's second-largest trading partner after Russia though there is a large trade imbalance between the two countries. It is passive imbalance for the Kyrgyzstan side. The possibilities for Kyrgyzstan could be for example increase exports of agricultural products to China. The competitive advantage could be high quality and organic nature of the Kirgiz products.

Investors from China are very active in Kyrgyzstan. The most successful examples were:

- Junda and Tokmok oil refineries in the Chui province, Taldybulak Levoberezhny deposit,
- construction of the North-South motor road,
- reconstruction of the Bishkek thermal power plant,
- rehabilitation of the street network in Bishkek,
- construction of a hotel in Osh in the south of the country.
- To promote the investment Kyrgyz-Chinese investment fund was established.

An investor from China plans to invest \$50 million in the construction in Bishkek the new tile plant with a capacity of 10 million square meters of products per year. The businessman from China is interested in not just Kyrgyzstan, but Kyrgyzstan as a member of the Eurasian economic Union. The functioning of the Union has increased the cost of export of tiles from China. Because of this there was decided to open trade within the EAEU. Successful implementation of this major project will make it the first one that will be implemented in the Kyrgyz Republic because of the country's accession to the EAEU. Apart from the fact that in the Republic settles \$50 million, the project will create 400 jobs, the market will be full of cheap tile, and tax deductions will amount to over 200 million KGS per year [31].

There are big project to develop the transport infrastructure and improve possibilities for transport links between Kyrgyzstan and China. Kyrgyzstan proposed to launch a Bishkek-Beijing-Bishkek flight. Construction of the China-Kyrgyzstan-Uzbekistan railway is under discussion. Also the huge project of the Silk Road Economic Belt (One Belt and One Road or OBOR) is also to be discussed.

Kyrgyzstan — Iran

The dynamic of bilateral trade flows between Kyrgyzstan and Iran is quite unstable. The higher export of Kyrgyz commodities to Iran than its import was observed in 2006 — 2010; before those years and after them the amount of imported Iranian commodities was higher than export (Fig. 12).

Economic relationships of Kyrgyzstan and Iran are gaining a new momentum. The long-term program of cooperation until 2026 was signed between Iran and Kyrgyzstan in December 2016. During the meeting of presidents of Iran and Kyrgyzstan there was a suggestion from Kyrgyz side of opening of Iranian enterprises in the country — the membership of Kyrgyzstan in the EAEU will allow to export Iranian commodities throughout the union without customs tariffs [32].

Foreign trade turnover between Kyrgyzstan and Iran for the first 9 months of 2016 amounted to 13.43 million U.S. dollars. There were exported Kyrgyz commodities to Iran for the amount of 7.65 million U.S. dollars and import of Iranian commodities for the amount of 5.77 million U.S. dollars for the same period. The main commodities that are imported from Iran are food (meat, nuts, pistachio nuts, sunflower oil), clothing and clothing accessories and plastic products. Kyrgyzstan exports meat, fruits and vegetables, cheese, milk, nuts, scrap and waste of alloyed steel; negotiations on resumption of deliveries of Kyrgyz lamps to Iran are in progress [34].

Kyrgyzstan — EU

Besides the trade partnership with the EAEU members and other neighboring countries, the Kyrgyz Republic has trade agreements with the European Union. On 27 January 2016 Kyrgyzstan became the sixteenth country whom the European Union provided with special preferential regime for sustainable development and effective management (GSP+) for seven years [35]. Getting GSP+ regime reduces tariff duties on certain commodities to zero and eliminates tariff barriers. It makes the European market more attractive and desirable for domestic enterprises. Earlier exporters from the Kyrgyz Republic paid tariff duties for the amount of 14.6% for agricultural products and 5–9% for textile products [Ibid].

Kyrgyzstan is currently the only Central Asian country that has such preferential regime with the European Union. This provides a comparative advantage to representatives of Kyrgyz business, compared to neighbors, in terms of exporting more than 6000 commodities to the European countries at zero tariffs.

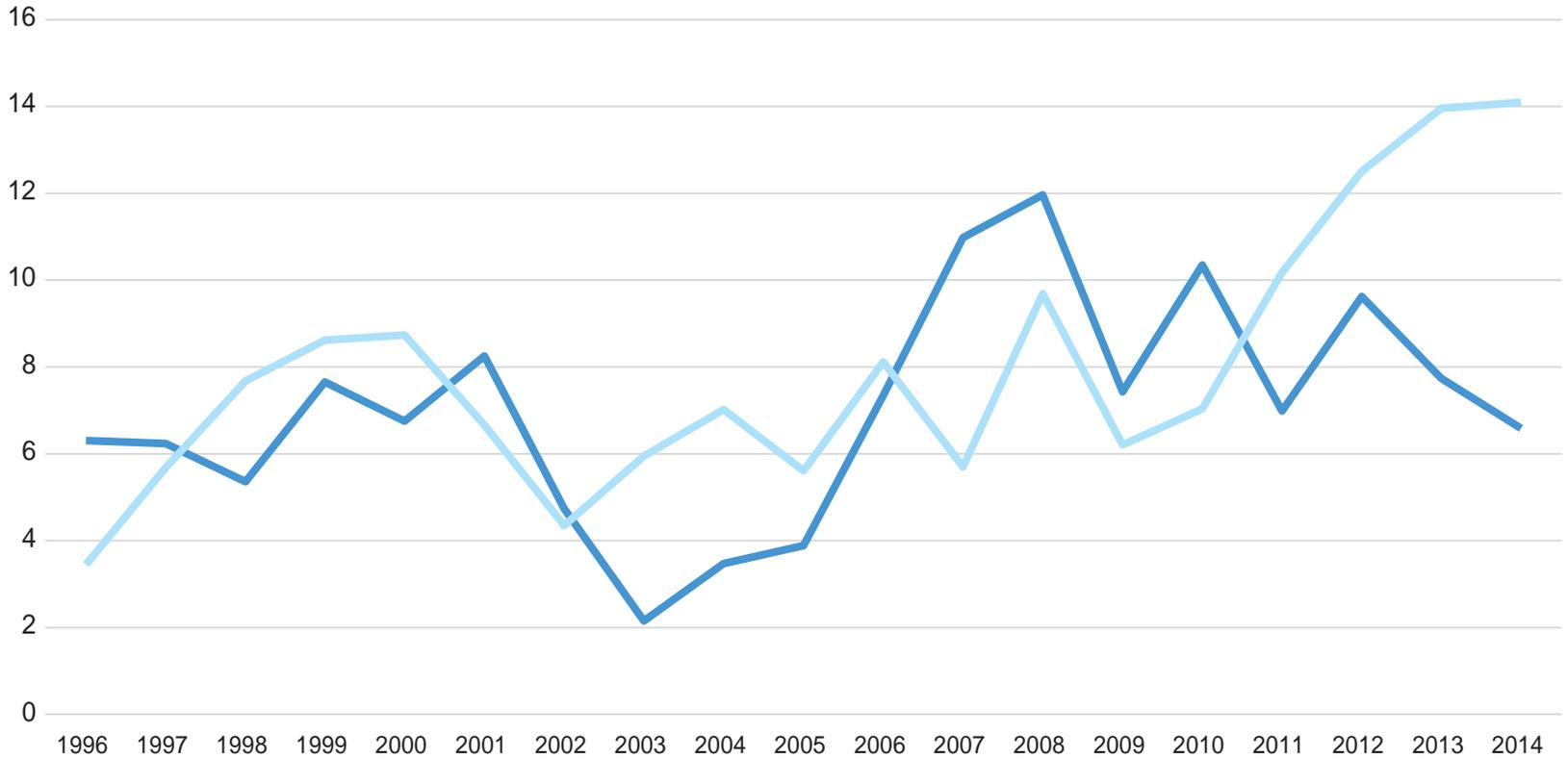


Fig. 12. Kyrgyzstan — Iran bilateral trade in 1996 — 2014, mln USD:
 — export to Iran; — import from Iran

Source: [5].

The traditional composition of trade turnover between the European Union and the Kyrgyz Republic since 1993 has been the following: the EU exports to Kyrgyzstan electrical machinery (25%), machinery (16%), vehicles (14%), measuring, optical and surgical tools (6%), and iron products (4%). Main EU import items are gold (95%), cotton (2%). The main trade partners from the European Union are Austria, Belgium, Germany, Italy, Latvia, Netherlands, Poland, France, Sweden and Switzerland.

Other benefits of membership in the EAEU

The Russian side has previously allocated 200 million U.S. dollars through which ~~in~~ the Kyrgyz Republic equipped customs stations, checkpoints and laboratories: 4 checkpoints (Manas, Osh, Torugart, Irkeshtam) and 7 veterinary checkpoints: Torugart, Irkeshtam, Dostuk, Kyzyl Bel, railway “Kara-Suu”, airports “Manas” and “Osh”. Also, there are eight checkpoints under construction and equipment from the public budget. Phytosanitary control on Kyrgyz-Kazakh border is removed; phytosanitary quarantine control on the Kyrgyz-Kazakh border is cancelled. 30 accredited laboratories and 9 certification authorities of the Kyrgyz Republic were added to the Unified register of the EAEU. Those release documents which are accepted on the territory of the whole union [36].

Moreover, 19 Kyrgyz animal products enterprises were included in the document covering companies which can produce and deliver their products on the territory of the Customs Union. There are 12 enterprises for milk products, 3 — fish products, 3 — honey production, 1 — meat products.

Since 5 February 2016 there has been an agreement in place between Kazakhstan and Kyrgyzstan on removal of customs support of Kyrgyz transport operators.

There were accepted measures on increase of statistical accounting confidence and improvement of tax management. On 1 January 2016, the VAT threshold was increased from four to eight million soms. The tax from sales of export supplies and supplies outside of the territory of KR was cancelled.

There are also temporary preferences till 1 September 2018 for enterprises of food and processing industries that make a processing of agricultural products.

Program on export promotion

In May 2015, the Government of the Kyrgyz Republic has issued the Act on Plans of the Government on export development of the Kyrgyz Republic in 2015–2017. It was done with the purpose of export possibilities’ expansion and increase of competitiveness of Kyrgyz producers in the external market [37].

According to the Act, the main challenges in the promotion of exports are:

- 1) Export flows of Kyrgyzstan are focused on Kazakhstan and Russia. Trade relations with other countries remain unstable (with the exception of the supply of gold);
- 2) Exporters, especially SMEs, do not have the production capacity to diversify their customer base and are slow to respond to new qualitative and quantitative requirements of new markets;
- 3) Institutional support for SMEs at the entrance and retention in undeveloped markets is still very limited;
- 4) Insufficient level of quality of transport services, cargo handling, certification;
- 5) Limited institutional capacity in the field of quality management increases the uncertainty and, as a rule, entails additional costs of using skills in more economically developed markets. Especially important is the role of institutions of metrology, testing and conformity assessment when entering the European market and the markets of the countries of the Organization for Economic Cooperation and Development (OECD);
- 6) The low level of use of different finance mechanisms, including export credits and insurance.

Actions that government determine are aimed on promotion of export potential of Kyrgyz commodities, ensuring harmonization of the normative legal acts of the Kyrgyz Republic in the sphere of technical regulation with the EAEU documents, increasing the competitiveness of Kyrgyz goods and, crucially, increasing the responsibility of producers for their products.

There are assigned directions of export development. Accordingly, there are such commodities of Kyrgyz production on which there is a stable demand; consequently, the export promotion of these commodities should not be very difficult. Such types of commodities are gold, electricity, cotton, vegetables, fruits and other products. We can observe a sustainable growth of export deliveries of wearing apparels of Kyrgyz production.

Significant export potential is in small and medium-sized enterprises. The share of SMEs in the total volume of foreign trade turnover in 2015 amounted to 19.6%, including 11.3% for export and 23.1% for import. Trade balance of SMEs was negative in 2015, and the deficit constituted 722 million U.S. dollars [5]. Many small and medium sized enterprises do not have sufficient export potential; they need to receive support from government.

Due to the analysis of the International Trade Center (ITC) dated 2013, there are the following results of the comparative analysis of sectors, which have export potential (Table 5).

The Plan of the Act of the Government of the Kyrgyz Republic underlines four directions for tasks decision. The first one is the access to trade information and export promotion. It includes the possibility of participants of foreign economic

Table 5
Selection of priority sectors

Social and economic development	Export potential		
	Low	Medium	High
High	—	Tourism	Clothes
Medium-high	Handicraft trade	Fresh fruits and vegetables, nuts; milk and meat products	Processed fruits and vegetables, bottled water
Medium	—	IT services	Cotton
Medium-low	Fur of animals	Hide and skin of animals	Mineral fuel resources and metals
Low	—	—	—

Source: Ministry of Economy of the Kyrgyz Republic.

activities to receive trade information and services from different sources, such as associations, institutes of trade support, the Union of Enterprises of Textile Industry “Soyuztekstil”, the Agribusiness Competitiveness Center, Informational and Marketing Center, public authorities, the National Bank of the Kyrgyz Republic or international development partners.

The next step is participation of exporters in specialized exhibitions and fairs. Thus, Association “Legprom” organizes two international exhibitions “Fashion Industry” in Bishkek annually. Besides, it organizes a collective participation of the private sector (textile and clothing) in specialized exhibitions in CIS countries and far abroad. The Chamber of Commerce and Industry of the Kyrgyz Republic organizes participation of SMEs in the world exhibitions “Expo”, anniversary exhibitions of the CIS.

The Ministry of Economy of the Kyrgyz Republic and Ministry of Agriculture and Melioration of the Kyrgyz Republic with the support of the German Society for International Cooperation organize participation of Kyrgyz exporters in the international agricultural exhibition “Green Week” in Berlin, Germany. The Ministry of Economy also assists SMEs in participating in the regional exhibition “Expo”, held annually in Urumqi in the People’s Republic of China.

Despite a great number of different exhibitions and fairs, Kyrgyz exporters do not fully participate in them because of lack of financing. Additionally, there is a low level of awareness of private sector about the importance of trade information for export. The Plan shows some solutions to such problems, e.g. training workshops on export promotion for private companies, taking into account the membership of Kyrgyzstan in the EAEU. Also, it is planned to organize training workshops on export promotion for public authorities involved in shaping foreign trade policy and services provision with a glance to accession of Kyrgyzstan to the Union.

The second direction is trade facilitation. It includes a facilitation of all procedures for delivering Kyrgyz commodities abroad: logistics, customs procedures,

border control, procedures at other control bodies and improvement of transport infrastructure. Such trade facilitation will allow to minimize costs, risks or waste of time; these all will help to increase the country's competitiveness. One of such measures on trade procedures facilitation is the automatization of system of the State Customs Service and implementation of the principle of "single window system" on the basis of informational and communication technologies. This system provides for reducing time spent on bureaucratic procedures.

In many cases, commodities produced in the Kyrgyz Republic cannot compete in foreign markets in terms of prices due to the burden of costs resulting from inefficient trade procedures and poor transport infrastructure. According to the evaluation of the Asian Development Bank, 13% of the export value and 10% of the value of the import is due to travel expenses [5].

One example is the creation of the Sokuluk Logistic Center, which was constructed in Chui oblast in 2015. This logistic center can store 7000 tons of different products (apples, onions, potatoes, cabbages, carrots, etc.). Unfortunately, besides the modern European equipment, there is a lack of laboratories that could provide conformity certificates; presence of an official customs representative at this center could influence on facilitation of all procedures for faster export of fruits and vegetables.

The next important direction is support and development of quality infrastructure. The national system of quality management is not so efficient yet. As a result, that reduces the capabilities of domestic SMEs producing goods and services for foreign markets. It is quite important to support small and medium-sized enterprises in adaptation to the EAEU conditions. It is necessary to implement standards ISO 9001 and HACCP on accession to trade information, export promotion and market diversification, including Europe (GSP+) and Asian countries (including Iran and Arab countries).

The Investment and Trade Promotion Agency under the Ministry of Economy of the Kyrgyz Republic with the assistance of the UNDP project "Aid for Trade", funded by the Government of Finland, started a large-scale campaign "Caravan of Export" in all regions of the Kyrgyz Republic in February 2017. The aim of the campaign is to inform local producers about benefits and conditions of export, to determine the number of producers, potential and existing exporters, and to identify their needs and requirements for providing assistance in entering foreign markets. The target audience of the program are producers of fruits and vegetables, meat, dairy products, clothing products and bottled water [38].

CONCLUSION

To sum up, the analysis and facts, referred in the article, show that the work on integration of the country into the Eurasian Economic Union is ongoing. The situation is compounded by the expiration of preferential regime in August 2017. Kyrgyzstan will start performing 18 technical regulations of the EAEU, including

regulation related to packages of goods, acquisition of licenses in the textile industry, standardization of railway wagons, etc.

Kyrgyzstan is still facing lots of challenges: decrease of trade turnover, veterinary control, identification of cattle, decrease of re-export, implementation of standards, building laboratories and many other problems that should be solved as soon as possible. Over the years, the decrease of trade at huge bazaars like “Dordoi” and “Kara-Suu” took place due to high customs tariffs towards non-members of the EAEU.

At the same time, membership in the EAEU provides many opportunities for Kyrgyzstan, and in the long term the Eurasian integration might have a beneficial effect on the national economy. According to estimates of some researchers, integration into a major regional economic union will lead to the expansion of markets of goods produced in Kyrgyzstan, as well as to an increase in the investment attractiveness of the Republic for the provision of appropriate facilities in its territory. Together, these factors will ensure a good basis for GDP growth and increase of exports. The only constraint is that it does not suggest immediate implementation. The economic integration of Kyrgyzstan into the EAEU will take a long time to change the situation in the economy as well as to conduct relevant reforms and transformations.

References

- [1] Otkrytyi Kyrgyzstan. Ekonomika Kyrgyzstana v 1991–2015 godakh. 2014. 21 Mar. URL: <<http://www.open.kg/about-kyrgyzstan/kyrgyz-economy/page,2,241-ekonomika-kyrgyzstana-v-1991-2005-godah.html>>.
- [2] *Samigullin E.* Vneshnyaya Torgovlya Kyrgyzstana: istoriya, analiz, otsenka. Bishkek, 2011.
- [3] Otkrytyi Kyrgyzstan. Razvitiye gornodobyvayushchey otrasli Kyrgyzstana. 2015. 29 Aug. URL: <<http://www.open.kg/about-kyrgyzstan/kyrgyz-economy/industry/2702-razvitiye-gornodobyvayushchey-otrasli-kyrgyzstana.html>>.
- [4] *Mogilevsky R., Tochitskaya I.* Vneshnyaya Torgovlya Stran Sng, Institute of Privatization and Management. 2004. URL: <<http://www.old.research.by/pdf/2004n4r02.pdf>>.
- [5] National Statistic Committee. Maloye I Sredneye Predprinimatel'stvo V Kyrgyzskoy Respublike, 2011–2015, Bishkek, 2016. URL: <<http://stat.kg/media/publicationarchive/3896dcd5-18c8-45d8-9ba3-b9e30b786b07.pdf>>.
- [6] *Turaeva M.* Ekonomika Kirgizii: Instituty I Resursy Razvitiya, Russian Academy of Science Institute of Economy. Moscow, 2016. URL: <https://inecon.org/docs/2016/Turaeva_paper_2016.pdf>.

- [7] *Mogilevsky R.* Re-export Activities in Kyrgyzstan: Issues and Prospects, Graduate School Of Development, Institute of Public Policy and Administration, 2012.
- [8] *Paczai T., Berlioux J.* Kyrgyzstan's Colossal Dordoi Bazaar: A Time of Opportunity and Change. 2015. 21 Oct. URL: <<http://www.eurasianet.org/node/75546>>.
- [9] *Kudryavtseva T. V* 2016 godu migranty pereveli v Kyrgyzstan pochti \$ 2 milliarda. 2017. 11 Jan. URL: <http://m.24.kg/finansy/43021_v_2016_godu_migranti_pereveli_v_kyrgyzstan_pochti_2_milliarda/>.
- [10] *Denisenko D.* Predvaritel'nyye itogi 2016 ot NBKR: god sil'nogo soma i deflyatsii, rosta kreditovaniya i snizheniya stavok. 2016. 29 Nov. URL: <<https://www.akchabar.kg/article/economy/happy-new-year/>>.
- [11] *Kojobaeva Z.* Kyrgyzstan stradayet ot nizkikh tsen v Kazakhstane. 2016. 6 Feb. URL: <<http://rus.azattyk.org/a/27535619.html>>.
- [12] The "Astana Times". Kazakhstan Overcomes Challenges Faking Landlocked Nations. 2014. 1 Oct. URL: <<http://astanatimes.com/2014/10/kazakhstan-largest-landlocked-country/>>.
- [13] Asian Development Bank (ADB), Operationalizing economic corridors in Central Asia: A case study of the Almaty–Bishkek corridor, Mandaluyong City. Philippines: Asian Development Bank, 2014.
- [14] CAREC. Operationalizing Economic Corridors In Central Asia A Case Study of The Almaty–Bishkek corridor, ADB, 2014. URL: <<http://www.carecprogram.org/uploads/docs/CAREC-Publications/CAREC-ECD-study.pdf>>.
- [15] *Vorotilov A.* Pochemu kitaiskii import ushel iz Kazakhstana na kirgizskuyu tamojnyu. 2016. 30 Mar. URL: <http://forbes.kz/process/probing/tam_mojno_1>.
- [16] *Torebaeva M.* Kak Kazakhstan i Kirgiziya v ramkakh YEAES sporyat iz-za moloka i myasa. 2017. 18 Jan. URL: <<http://www.dw.com/ru/как-казахстан-и-киргизия-в-рамках-еаэс-спорят-из-за-молока-и-мяса/a-37159300>>.
- [17] Kabar. Kazakhstan vystavil Kyrgyzstanu samyye vysokiye trebovaniya v voprosakh veterinarnogo kontrolya. 2017. 27 Jan. URL: <<http://www.kabar.kg/news/kazakhstan-vystavil-kyrgyzstanu-samy-e-vysokie-trebovaniia-v-voprosakh-veterinarnogo-kontrolia-almaz-sazbakov/>>.
- [18] Interfax. Sapar Isakov: vzaimootnosheniya s RF imeyut dlya nashey strany strategicheskoye znachenije. 2017. 30 Jan. URL: <<http://www.interfax.ru/interview/547294>>.

- [19] *Masaulov S.* Yevraziyskaya Integratsiya. 2016. 15 Feb. URL: <<http://www.ritmeurasia.org/news--2016-02-15--rossijskaja-pomosch-kyrgyzstanu-chastnye-mnenija-i-realnye-fakty-21914>>.
- [20] RKDF. Mission, Objectives And Tasks. URL: <http://rkdf.org/o_nas/obschaja_informatsija/missija_tseli_i_zadachi>.
- [21] Sputnik. Summa kreditov, vydannykh RKFR, dostigla 338 millionov somov. 2015. 25 Nov. URL: <<http://ru.sputnik.kg/economy/20151125/1020378062.html>>.
- [22] Kabar. Na segodnyashniy den' po linii KRFR vydano l'gotnykh kreditov na summu 175 mln. dollarov SSHA dlya realizatsii 637 projektov. 2017. 19 Jan. URL: <<http://old.kabar.kg/rus/economics/full/116641>>.
- [23] RKDF. Informatsiya o kreditnoy deyatel'nosti Rossiysko-Kyrgyzskogo Fonda razvitiya v razreze otrasley. 2017. 16 Jan. URL: <<http://www.rkdf.org/files/graph/160117.pdf>>.
- [24] Human Rights Watch. Interethnic Violence in Southern Kyrgyzstan and its Aftermath. 2010. 16 Aug. URL: <<https://www.hrw.org/report/2010/08/16/where-justice/interethnic-violence-southern-kyrgyzstan-and-its-aftermath>>.
- [25] Kabar. Posol KR v RUz o kyrgyzsko-uzbekskikh otnosheniyakh, ikh prioritetakh i perspektivakh. 2017. 11 Jan. URL: <<http://www.ca-portal.ru/article:32388>>.
- [26] *Putz C.* Kyrgyzstan Declares Energy Independence. 2015, 1 Sep. URL: <<http://thediplomat.com/2015/09/kyrgyzstan-declares-energy-independence/>>.
- [27] *Sarayev B.* Zastarelaya Problema Ili Ocherednaya Igra Muskelami. 2016. 21 Dec. URL: <<http://procella.ru/5317-zastarelaya-problema-ili-ocherednaya-igra-muskulami.html>>.
- [28] *Nabokov A.* Kogda družhba osnovana na korysti. Kak Kitay "vlivayet" v Tadzhiqistan. 2017. 25 Jan. URL: <<http://www.centrasia.ru/newsA.php?st=1485292920>>.
- [29] Abdriyayev E. Politolog o vazhnykh momentakh kyrgyzsko-kitayskikh otnosheniy i interese dvukh stran. 2017. 11 Jan. URL: <<http://www.ca-portal.ru/article:32387>>.
- [30] International Business Council. EAES: Tamozhenny kodeks, tovarooborot i investitsii. 2017. 4 Jan. URL: <http://www.ibc.kg/ru/analysis/articles/2457_eaes_tamozhennyi_kodeks_tovarooborot_i_investitsii>.
- [31] Denisenko D. Potomu chto EAES: investor iz Kitaya postroit pod Bishkek kafel'nyy zavod stoimost'yu \$50 mln. 2016. 29 July. URL: <<https://www.akchabar.kg/article/business/let-the-kafel-begin/>>.

- [32] Akchabar. Bol'she biznesa, chem politiki: vizit prezidenta Irana v Kyrgyzstan zavershilsya na ekonomicheskoy note. 2016. 23 Dec. URL: <<https://www.akchabar.kg/news/bolshe-biznesa-chem-politiki-vizit-prezidenta-irana-v-kyrgyzstan-zavershilsya-na-ekonomicheskoy-note/>>.
- [33] Akipress. Kyrgyzstan vozobnovit eksport v Iran elektricheskikh lampochek v bol'shikh ob'yemakh. 2008. 26 Aug. URL: <<http://kg.akipress.org/news:30775?place=nowread>>.
- [34] Chamber of Commerce of the KR. News. 2016. 27 Jan. URL: <<http://cci.kg/news/1/1783.html>>.
- [35] Akchabar. V ray cherez soyuz: poltora goda chlenstva Kyrgyzstana v EAES. 2017. 23 Jan. URL: <<https://www.akchabar.kg/news/v-raj-cherez-soyuz-poltora-goda-chlenstva-kyrgyzstana-v-eaes/>>.
- [36] Ministry of Justice of The Kyrgyz Republic. O Plane Pravitel'stva Kyrgyzskoy Respubliki po razvitiyu eksporta Kyrgyzskoy Respubliki na 2015–2017 gody. 2015. 31 Mar. URL: <<http://cbd.minjust.gov.kg/act/view/ru-ru/97426>>.
- [37] Pancherskaya A. Predprinimatel'nyam KR pomogut s eksportom tovarov. 2017. 9 Feb. URL: <<http://www.news-asia.ru/view/ks/10196>>.

Еникеева
З.¹

ЕАЭС: возможность или угроза? (на примере Кыргызской Республики)

Представлены данные по торговле, в частности, по экспорту, начиная с советских времен. Раскрывается информация о правительственных мерах продвижения экспорта, а также об основных целях торговой политики. Проанализированы итоги первого года членства страны в ЕАЭС.

Ключевые слова: *Кыргызская Республика, ЕАЭС, торговля, экспорт, импорт, торговый баланс, продвижение экспорта, Центральная Азия, ВТО.*

The article was submitted to the editors in 2017. 17 Feb.

¹ Еникеева Залина — младший научный сотрудник Институт государственного управления и политики, Университет Центральной Азии (Бишкек, Кыргызская Республика). E-mail: <z.a.enikeeva@gmail.com>.