

**Working paper**

# **Industrial Development of Kyrgyzstan: Trade Opportunities, Export Potential and the Role of Economic Integration Processes**

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# Industrial Development of Kyrgyzstan: Trade Opportunities, Export Potential and the Role of Economic Integration Processes

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## 1. Introduction

China, the Russian Federation, Kazakhstan, Switzerland, Uzbekistan, Turkey, the United States, Germany, the Republic of Korea, and the United Arab Emirates (UAE) are Kyrgyzstan's top ten trade partners. This list has remained stable over last five years; the major change is the UAE taking over Ukraine as a key trade partner (National Statistical Committee of the Kyrgyz Republic, 2018). The largest sources of imports for Kyrgyzstan are China, the Russian Federation, Kazakhstan, Turkey, the United States and Uzbekistan, while exports target mainly Switzerland, Kazakhstan, the Russian Federation, Uzbekistan, Turkey and China. A significant amount of exports to Switzerland correspond to outputs from the Kumtor gold mine and associated industries. A significant portion of trade with China is for re-export of goods to the Russian Federation, Kazakhstan and Uzbekistan.

According to a survey conducted by IIASA among experts and other organizations with a stake in the industrial sector in Kyrgyzstan, there is believe on that the country will improve economic relations with all its current partners in the future. While the observed structure of key trade partners would remain unchanged significant progress should occur in the economic relations with the UAE, the United States and Europe, as well as with EAEU member countries and countries of Central Asia, notably Uzbekistan (see Figure 1).

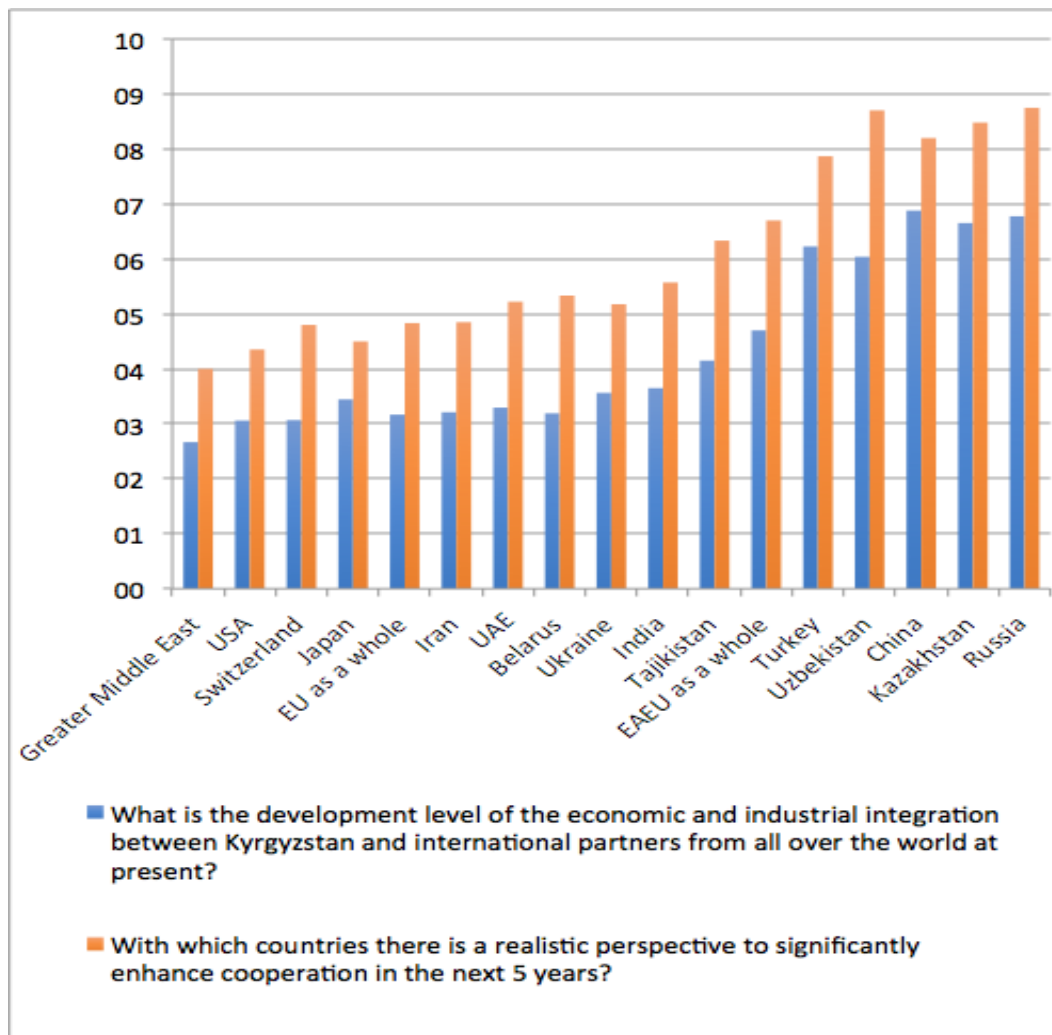


Figure 1. Countries - main economic partners of Kyrgyzstan now and in future according to perceptions of Kyrgyz experts. Scores from 1 (lowest) to 10 (highest). Source: A survey of experts carried out by IIASA.

The total export values are highly volatile, but major items are food products and live animals, non-food raw materials, industrial goods and machinery and transport equipment (see Figure 2). Besides gold, the most exported commodities include vegetables, clothing and accessories, fruits, metal scrap, milk and dairy products, cotton yarn, glass, cigarettes and cigars, incandescent lamps, rolled metal, coal, alternating current engines, cement, tobacco, crude oil, cotton fabric, and skins of cattle (see Figure 3).

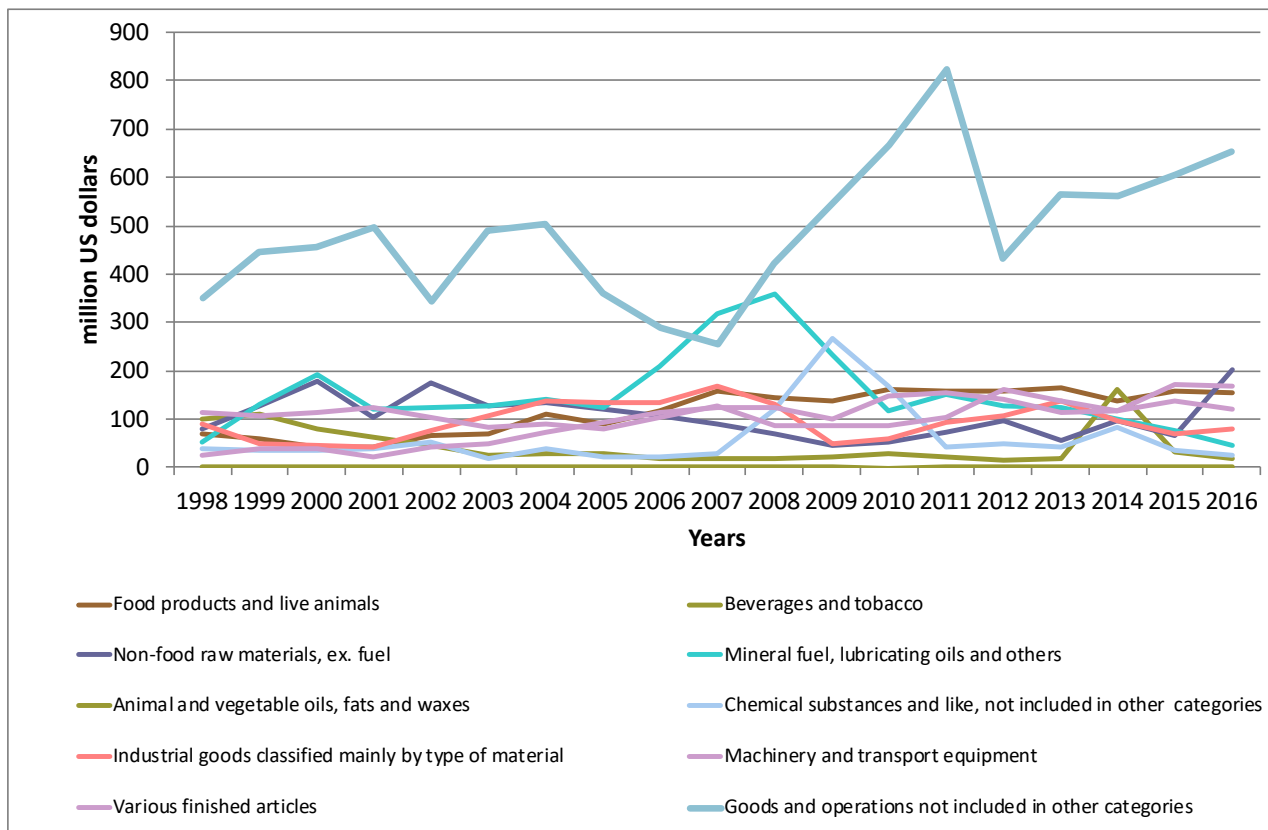


Figure 2. The export structure of goods according to Standard International Trade Classification (SITC) (in constant 2010 prices). Source: (National Statistical Committee of the Kyrgyz Republic, 2018).

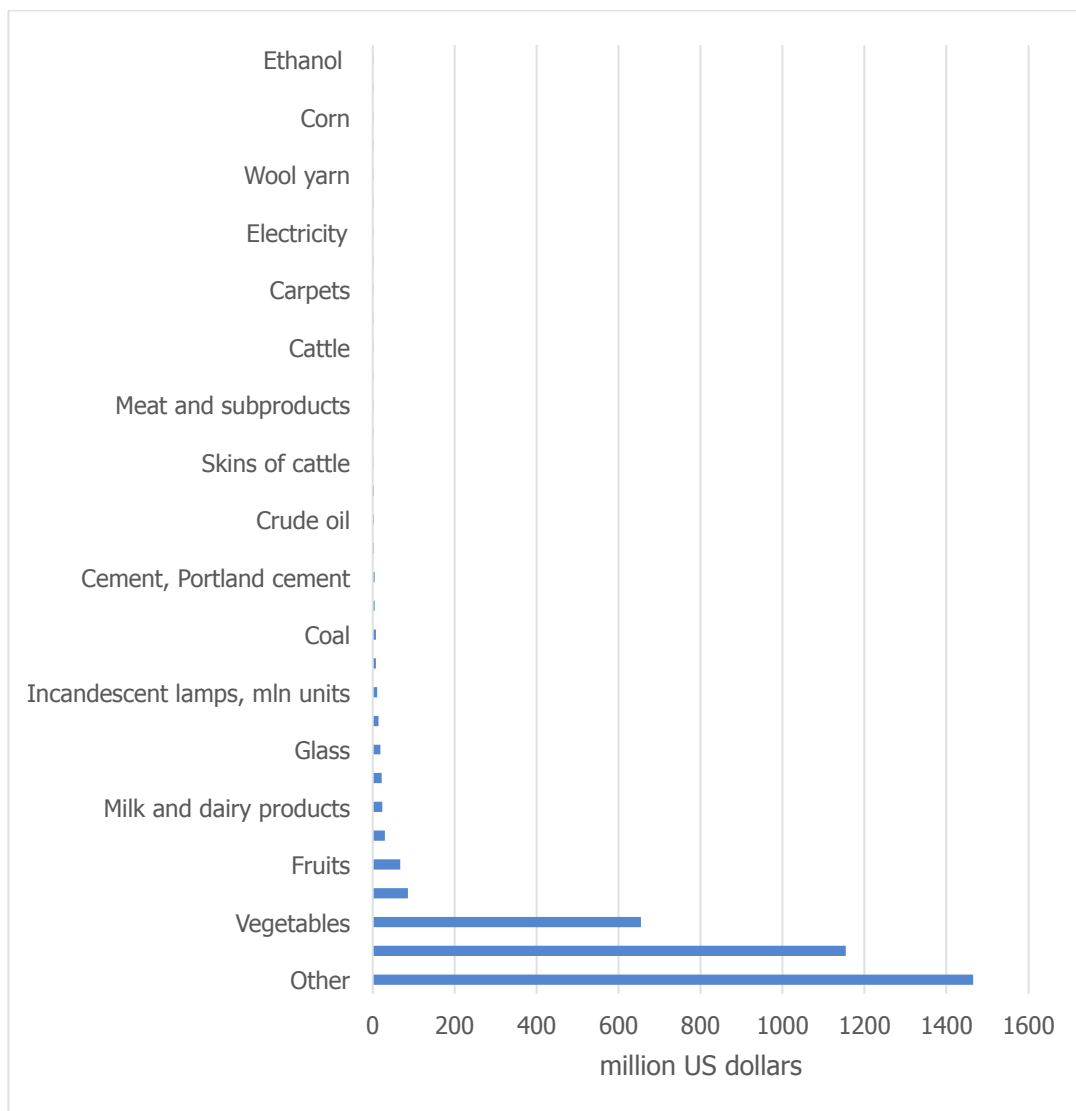


Figure 3. The export structure of basic commodities in 2017 (in constant 2010 prices). Source: (National Statistical Committee of the Kyrgyz Republic, 2018).

## 2. Eurasian Economic Integration and Kyrgyzstan

The Customs Union of Belarus, Kazakhstan and the Russian Federation established in 2010 was one of the most recent examples of modern regional integration in the Eurasian continent. On January 1, 2012 the three states formed the Single Economic Space to further their economic integration. It was replaced by the Eurasian Economic Union (EAEU) as of January 1, 2015; Kyrgyzstan and Armenia joined the EAEU immediately after its creation.

In essence, the EAEU is a customs union. A common customs tariff in trading with third countries applies to



all EAEU member states (with exceptions), while there is no customs tariff (except for special protective, anti-dumping and compensatory measures) applied to trade within the EAEU. All the exceptions to the basic no-internal-tariff-barriers system currently being practiced are documented in detail in the so-called White Paper by the Eurasian Economic Commission (EEC, 2017). In particular, according to its WTO obligations, which Kyrgyzstan had endorsed before joining the EAEU, until 2015 Kyrgyzstan applied very low customs tariffs. Until 2020, Kyrgyzstan enjoys a transition period which allow the country to apply tariffs other than the common EAEU tariff rate; by 2020 Kyrgyzstan should fully adopt the EAEU tariff policy. Correspondingly, according the EAEU agreement, Kyrgyzstan’s share of import custom tariff revenue is 1.9%, which is reported to have increased the tariff revenue to the state budget compared to the situation before 2015 (EEC, 2018b).

In 2017, the trade turnover of Kyrgyzstan with EAEU member countries amounted to 0.6 billion, about 20% more than in 2016; an overwhelming part went to Kazakhstan and the Russian Federation (EEC, 2018a).

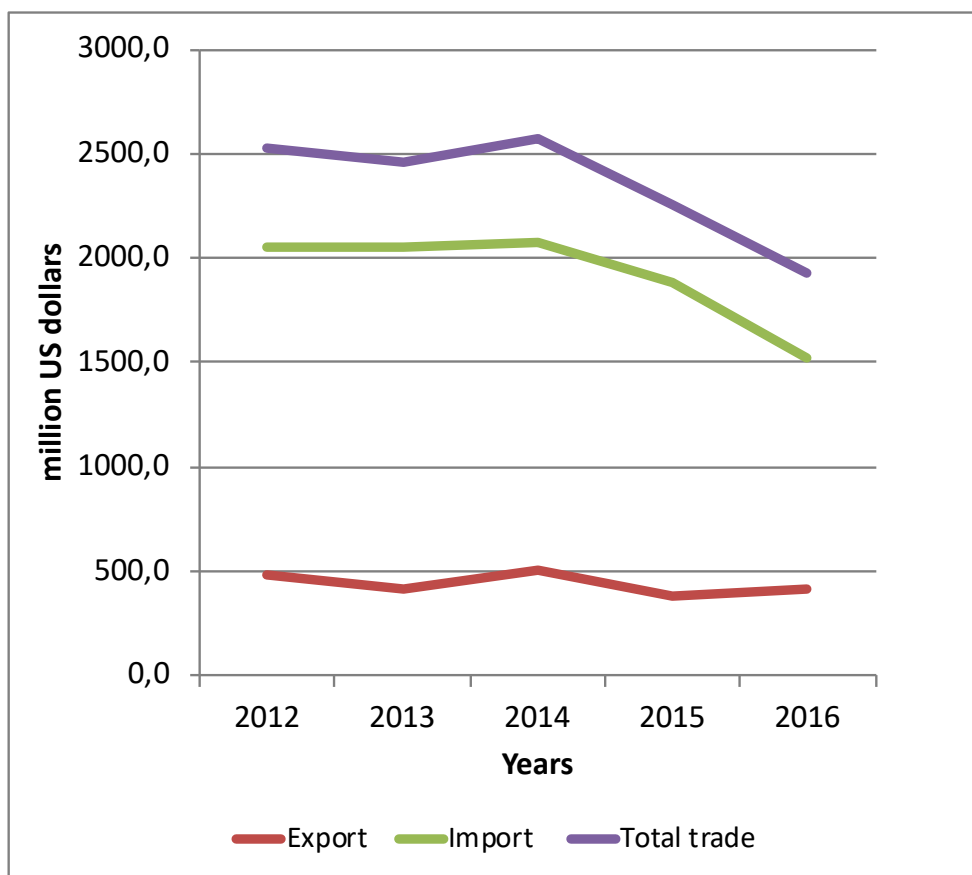


Figure 4. Trade, export and import of Kyrgyzstan with the EAEU countries (in constant 2010 prices). Source: (National Statistical Committee of the Kyrgyz Republic, 2018).

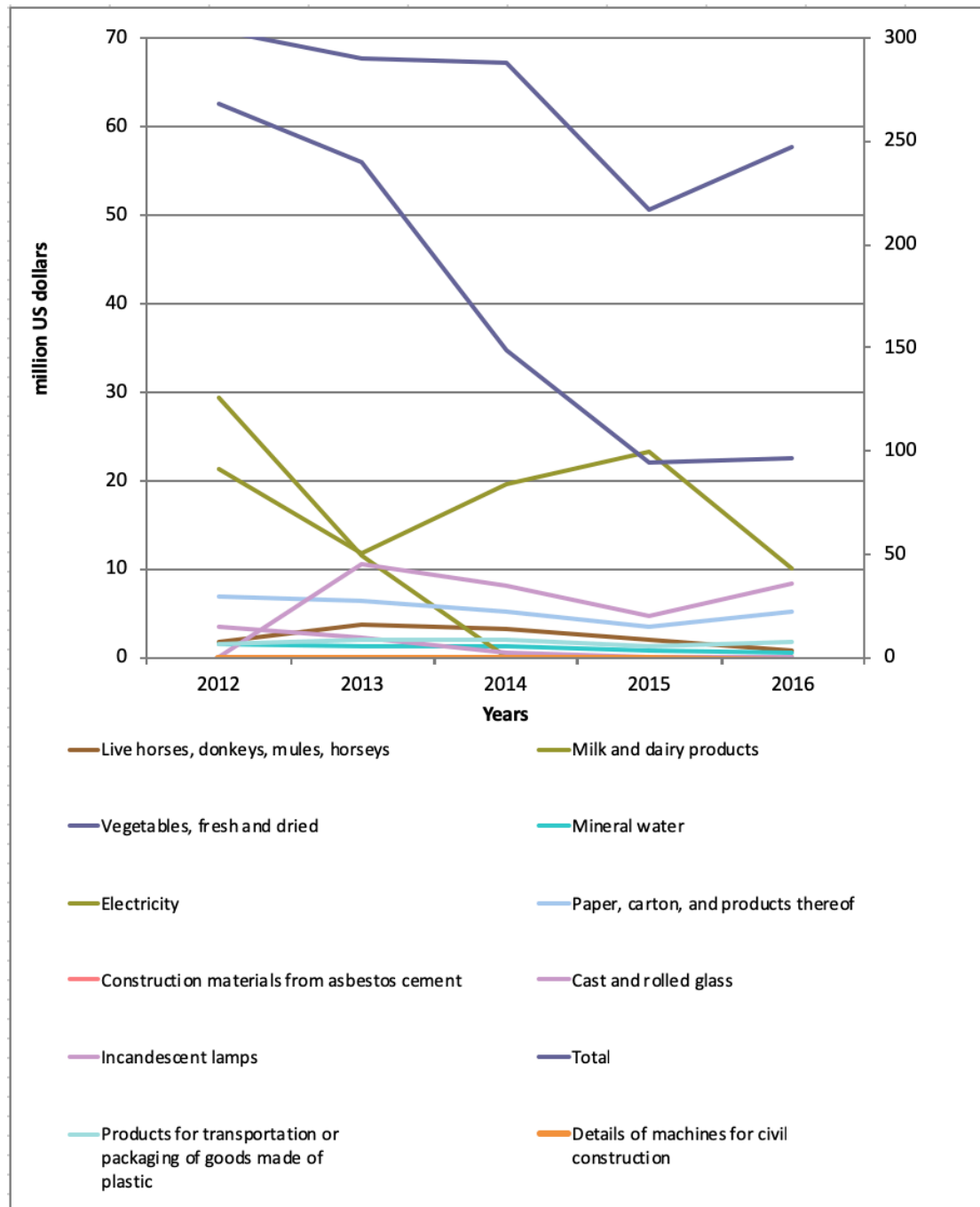


Figure 5. Export of selected Kyrgyz products to Kazakhstan (in constant 2010 prices). The secondary axis reflects the total export values. Source: (National Statistical Committee of the Kyrgyz Republic, 2018).

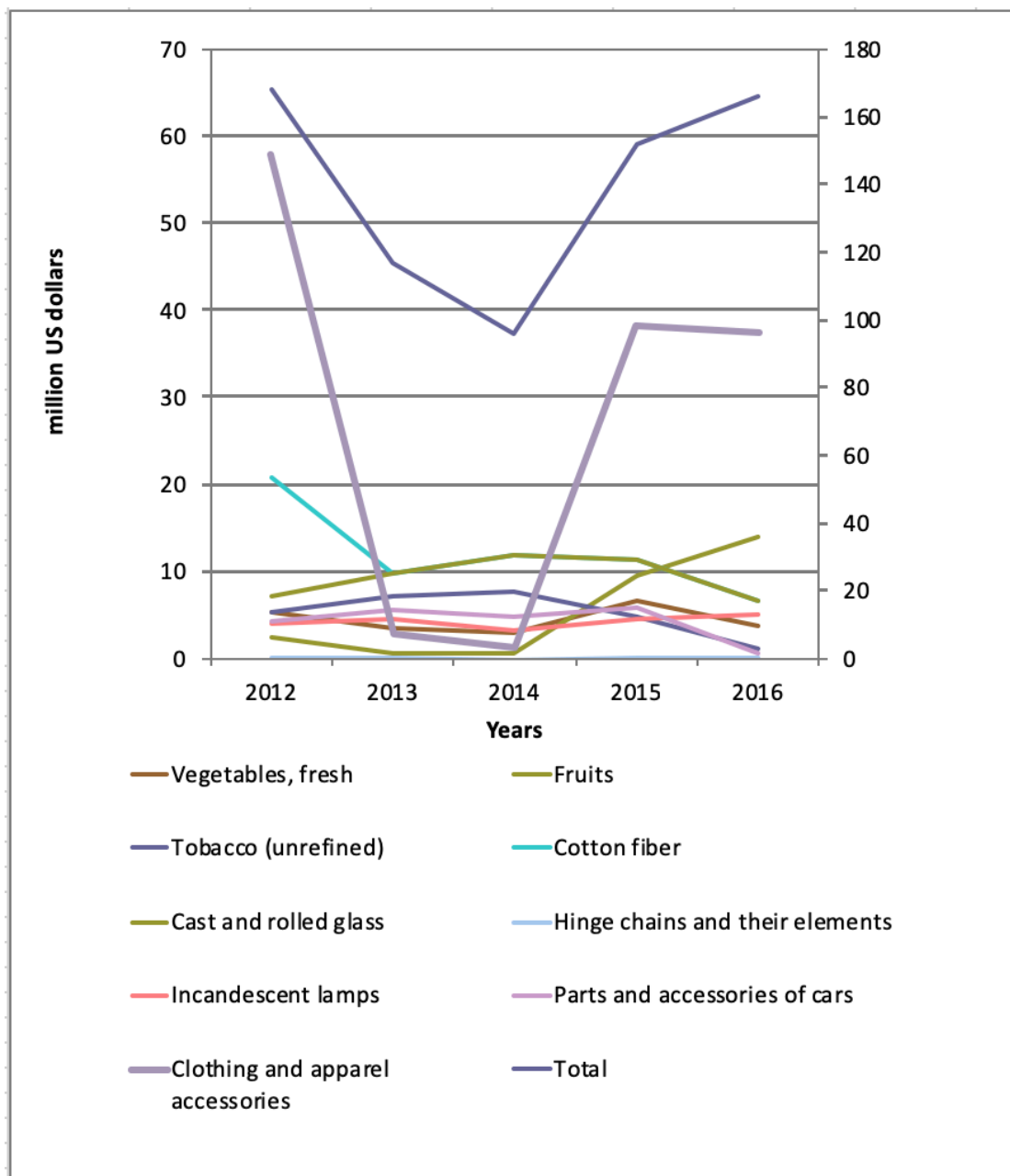


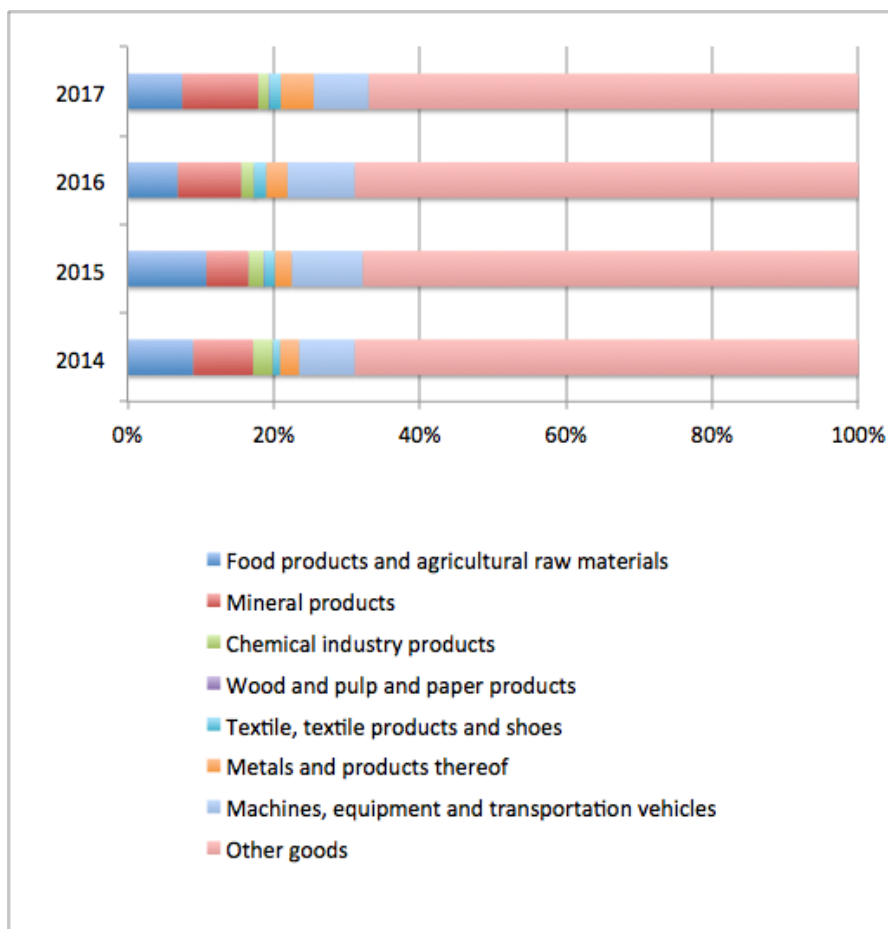
Figure 6. Export of selected Kyrgyz products to Russia (in constant 2010 prices). The secondary axis reflects the total export values. Source: (National Statistical Committee of the Kyrgyz Republic, 2018).

Over the period 2010-2014, Kyrgyzstan's trade with Belarus, Kazakhstan and Russia declined, while the trade among these three countries – members of the Customs Union -- grew substantially. This suggests that exclusion from this block prevented Kyrgyzstan from increasing its trade with major partners in the region (EEC, 2018b).

After joining the EAEU, the export of some of Kyrgyz products into the EAEU countries, notably, Kazakhstan

and Russia increased, which already confirms positive effects of integration. These include light and food industries (see Figures 7 and 8, also (EEC, 2018b)). On the other hand, immediately after joining the EAEU in 2015 the overall export decreased, which was mainly explained by drop in the re-export of Chinese goods due to their non-compliance with the newly adopted EAEU standards. This drop may seem to be a negative outcome of integration; however, in a longer term, more stringent requirements of the EAEU to value added threshold forces Kyrgyzstan to reconsider its economic model, previously highly dependent on re-export, in a direction of more efficient economic activities to take advantage of new opportunities from the open EAEU market (EEC, 2018b).

Importantly, the structure of Kyrgyzstan’s exports to the EAEU countries is more diversified than it is to third countries (see Figure 7). Moreover, trade between Kyrgyzstan and the EAEU grows faster than trade with other non-EAEU countries (see Figure 8). In 2016, exports to the EAEU grew mainly in mineral water, food products and agriculture raw materials, and chemical industry products. In 2017 growth was primarily in textile, textile products and shoes, as well as in food products and agricultural raw materials. It is important to note that these two sectors are those which defined the country’s economic growth in 2016-2017 (EEC, 2018b).



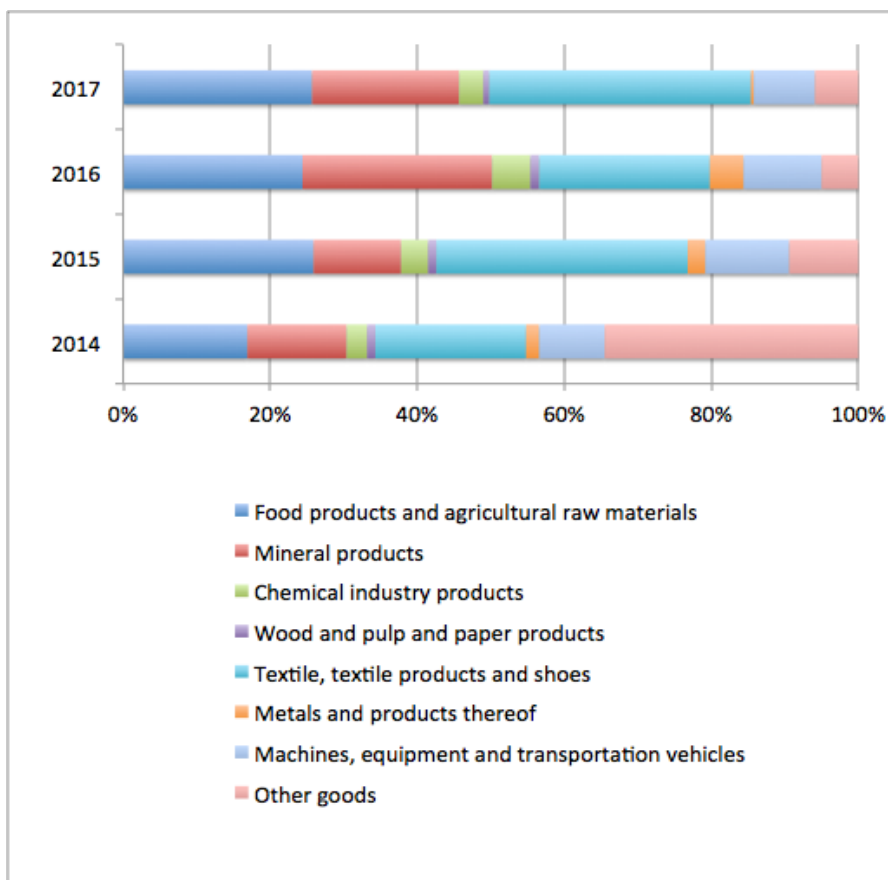


Figure 7. The structure of Kyrgyzstan's export to the third countries (upper panel) and to the EAEU countries (lower panel). Source: (EEC, 2018a).

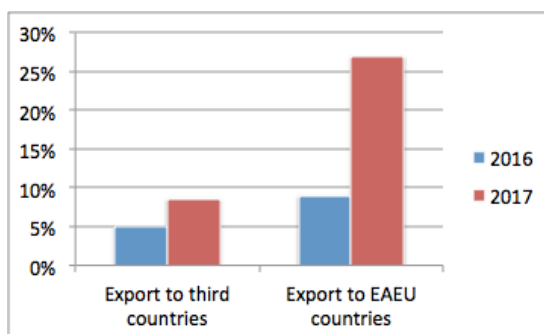


Figure 8. Dynamics of the Kyrgyzstan's export to the third countries and to the EAEU countries. Source: (EEC, 2018b).

Observed positive effects from joining the EAEU include the harmonization of Kyrgyz legislation in key export industries with the more modern EAEU framework. For example, the number of procedures required to start a new business was reduced to two, while the number of supervisory authorities decreased from 21 to 13. Importantly, the double indirect taxation on trade of goods and services has been eliminated (EEC, 2018b). Kyrgyz goods have become more competitive in EAEU markets mainly because a non-discrimination principle

applied to trade within the EAEU and the abolition of indirect taxes on import of goods within one legal entity (EEC, 2018b).

Kyrgyzstan should be able to benefit from a deeper economic integration with the EAEU (EEC, 2018b). The EAEU aims at a higher degree of economic integration modeled in part based on the EU experience. A number of common EAEU markets will be established by 2025, including a common electricity market (2019), a common market of excisable goods (alcohol and tobacco products) (2020), a common market of oil and oil products (2025), a common market of gas (2025), a common market for transport services (2025), and a common financial market (2025). The creation of the common energy market is expected to generate significant benefits for Kyrgyzstan through the stabilization of prices, enhancement of supply reliability and further synergistic economic effects (EEC, 2018b).

Kyrgyzstan has potential to increase energy exports to neighboring countries, including transit capacity. Lower and more stable oil prices offer opportunities to re-invigorate refineries currently underutilized. The direct economic effects from the creation of the common natural gas market is estimated to be as high as 3.6 billion USD per annum; the level of gasification of the country will substantially increase (EEC, 2018b).

The creation of the common market of medicines and the common market of excisable goods is also expected to be in Kyrgyzstan's interest as it should lead to the substitution of expensive imports from third countries by less expensive products produced in the EAEU. For example, Kyrgyzstan could substitute up to 30% of imports of medicines from third countries to EAEU members (Supreme Eurasian Council, 2017).

The full transition to the common market of services will generate benefits to Kyrgyzstan as well; this also applies to the common market of financial services (EEC, 2018b). Transport services is another very promising direction (Supreme Eurasian Council, 2017).

Opportunities for Kyrgyzstan arise from the enhanced cooperation and integration of the EAEU with third-party countries. Currently, People's Republic of China (PRC), the Islamic Republic of Iran (IRI) and Vietnam closely cooperate with the EAEU. On October 6, 2016 the EAEU signed an agreement on a free trade zone (FTA) with Vietnam. It is expected that the deepening of economic cooperation can boost trade turnover between EAEU and Vietnam up to 10 billion US dollars by 2020. On May 18, 2018 the temporary agreement on the FTA between the EAEU and the IRI was signed. After the agreement enters into force, the parties will be able to save on customs import duties. On the same day, a non-preferential agreement on trade and economic cooperation with the PRC was signed. Although it does not provide the cancellation of duties or the automatic reduction of non-tariff barriers, it aims to enhance access of EAEU goods to the Chinese market, through a simplification of trade procedures, increased transparency and improved interaction across all spheres of trade cooperation (China Briefing, 2018). Major products Kyrgyzstan currently exports into China include leather; crude oil and oil products, skins of cattle, and wool (EEC, 2018b).

Negotiations are under way to conclude agreements on an FTA with Israel, Serbia and Singapore. Similar negotiations with Egypt and India are expected to begin soon. In addition, Jordan and Thailand also initiated

negotiation for a FTA with the EAEU.

The Eurasian Economic Commission (EEC) promotes the dialogue with the business community in the EAEU member states and intends to take into account the interests of business into their decisions. Kyrgyz business was involved very early in the process of a the country's accession to the EAEU, which allowed to voice their interests in the official Kyrgyz negotiation position (EEC, 2018b). Among recent example, of such a dialogue is the Customs Code of the EEC that came into force in 2018. It legally secures the opportunity for business to make most of required transactions via the Internet, interacting with the information systems of the customs authorities of the EAEU countries, which simplifies many of the procedures.

The creation of the Russian-Kyrgyz development fund in 2014 is a significant element helping Kyrgyzstan to adapt to the EAEU's membership. In 2015-2016 the Fund financed 767 projects with a total budget of 248 million US dollars. The Fund supports both large businesses and SMEs through loans with substantially reduced interest rates (4-7% per annum). The Eurasian Development Bank, as well as the Eurasian Fund for Stabilization and Development support modernization of the Kyrgyz infrastructure and provide funds for investment.

The development of trade and logistical infrastructure, and the enhanced compliance of goods with EAEU standards are two major pre-requisites for Kyrgyzstan to maximize benefits from its EAEU membership. Russia's financial aid fosters progress in these areas. According to the agreement signed in May 2014 between the Russian government and the Kyrgyz government, the Russian Federation committed to finance the equipment of the border checkpoints and certifying laboratories in the amount of up to 200 million US dollars. The transition to new common technical regulations of the EAEU (many technical regulations have already been adopted, some are under way) will form a common legal space to ensure the quality of goods and protect the country from illegal and falsified products. Current problem areas include delays in completing the installation of a proper border control system; remaining exceptions to the common tariff policy (for example, on import of sugar from Ukraine), and the remaining veterinary controls on the Kyrgyz-Kazakh border (EEC, 2018b).

Significant positive effects from the EAEU membership are expected through the realization of the *Major directions of industrial cooperation within the EAEU*. Kyrgyzstan's priorities in this area include the production of construction materials; the production of machines and equipment for the mining industry; energy sector and light industry.

The benefits from the EAEU membership will be generated by the combination of five effects: a substitution of imports from third-party countries; an increase of exports into third-party countries; an increase of exports to the EAEU markets; multiplier effects; and an increase of the demand for intermediate products. According to the analysis of the (Supreme Eurasian Council, 2017) the **sectors/commodities with the highest potential in terms of import substitution** are

- Transport services
- Cars for transportation of people

• Therapeutic medicines;  
the **sectors/commodities with the highest potential in terms of export increase** are

- Parts and accessories of automobile vehicles
- Cars
- Costumes, dresses, skirts, trousers, and shorts for women;

the **sectors/commodities with the highest potential of specialization** are

- Telecommunication services
- Engines internal combustion with spark ignition
- Grapes, fresh and dried;

the **sectors/commodities with the highest multiplicative effects** are

- Metallurgy
- Petrochemicals
- Production of building materials
- Machinery;

the **sectors/commodities with the highest potential to integrate into value chains** are

- Petrochemicals
- Machinery
- Metallurgy

Overall, this analysis identified the following sectors that are expected to benefit from the EAEU integration the most:

- Machinery (mainly due to import substitution)
- Transport and communications (due to import substitution)
- Production of oil products (mainly due to multiplier effects)
- Production of chemical products, (mainly due to multiplier effects)
- Production of rubber and plastics and other non-metallic products (mainly due to multiplier effects)
- Metallurgy (due to multiplier effects)

Moreover, machinery and metallurgy have a high potential to join international supply chains; production of oil products, chemical products, rubber and plastics and other non-metallic products, agriculture, forestry and hunting has a high potential to embed into the EAEU value chains (Supreme Eurasian Council, 2017).

Table 1 summarizes the major factors related to the membership of Kyrgyzstan in the EAEU to play a role for the national industrial development.

*Table 1. Major factors to define the economic effects of Kyrgyzstan's membership in the EAEU.*

	Factors
Related to markets	<ul style="list-style-type: none"> <li>• Dynamics of the demand for goods in Kazakhstan, Russia and other EAEU countries, including the effects of the import substitution policy and changing price of oil</li> <li>• Further integration within the EAEU, including the elimination of tariff barriers and exceptions; full adoption of the EAEU common tariff</li> <li>• Creation of the EAEU common energy market</li> <li>• Liberalization of trade between the EAEU and other countries</li> <li>• Major logistical problems for trade</li> </ul>
Related to production	<ul style="list-style-type: none"> <li>• Compliance with the EAEU standards</li> <li>• Competitive labor and energy costs</li> <li>• Access to strategically important inputs</li> </ul>



<p>Related to financial support and investment</p>	<ul style="list-style-type: none"> <li>• Financial support of Russia, including the Russian-Kyrgyz Development Fund</li> <li>• Loans from Belarus and Kazakhstan</li> <li>• Sustaining inflow of remittances</li> </ul>
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### 3. Cooperation with the EU

The European Union (EU) and the Kyrgyz Republic have established an official economic partnership already in 1991. The Partnership and Cooperation Agreement (PCA), effective since 1999, identified three main pillars for cooperation: political dialogue, economic relations and cooperation in various sectors. In December 2017, the EU and Kyrgyzstan launched negotiations for a modernized, comprehensive bilateral agreement that would replace the current PCA. The European Union is one of the main donors of the Republic of Kyrgyzstan. Since 2014, EU bilateral assistance to the Kyrgyz Republic amounted to 174 million Euros through grants under the Development Cooperation Instrument (WBS). This assistance has been directed primarily at the integrated rural development, education and supporting the rule of law. In 2017, bilateral trade between the EU and the Kyrgyz Republic amounted to 459 million Euros.

In January 2016, the European Union decided to grant the Kyrgyz Republic an expanded status under the Generalized System of Preferences (GSP+). This status offers Kyrgyzstan opportunities to increase and diversify exports to the EU market. The GSP+ is a component of the EU Generalized Scheme of Preferences (GSP) for developing countries. The extended status of GSP+ means that zero customs duty applies to Kyrgyzstan for more than 6,200 EU tariff lines. While the GSP provides a reduction in customs duties for 66% over the tariff lines for goods imported from developing countries, the GSP+ offers the advantages of the duty-free trade, provided that beneficiary countries comply with the requirements of 27 international conventions in the field of human rights, labor protection, environmental protection and bona fide management. Earlier, the Kyrgyz exporters paid customs duty of 14.6% for some types of fruits and vegetables and up to 5-9% for garments. Thus, the GSP+ arrangement should be beneficial for Kyrgyz producers.

However, the GSP+ user status does not provide any simplification of procedures for obtaining certificates or their cancellation; the requirements in the field of technical regulation (on safety, quality, packaging, labeling and other conditions of the products supplied to the European market) remain in place. This means that products exported to the EU should comply with EU requirements, which is a significant barrier for Kyrgyz exporters. The geographical remoteness and the lack of efficient transport corridors is another barrier preventing from taking advantage from this opportunity (UNIDO, 2018).

The GSP+ status is also expected to attract FDI. The EU has allocated 184 million Euros of bilateral aid for the period 2014-2020 along the lines of the Development Cooperation Instrument; in addition, there is support

via the Investment Facility for Central Asia in cooperation with the EIB and EBRD, as well as other instruments supporting sustainable development projects. The differences between the EAEU and the EU in terms of technical and SPS standards may further limit export opportunities of Kyrgyzstan to the EU market (UNIDO, 2018).

The improvement of the investment climate is the biggest benefit experts anticipate from Kyrgyzstan's collaboration with the EU (see Figure 9). Other highly ranked effects include reduce corruption and improved interaction in the financial sphere.

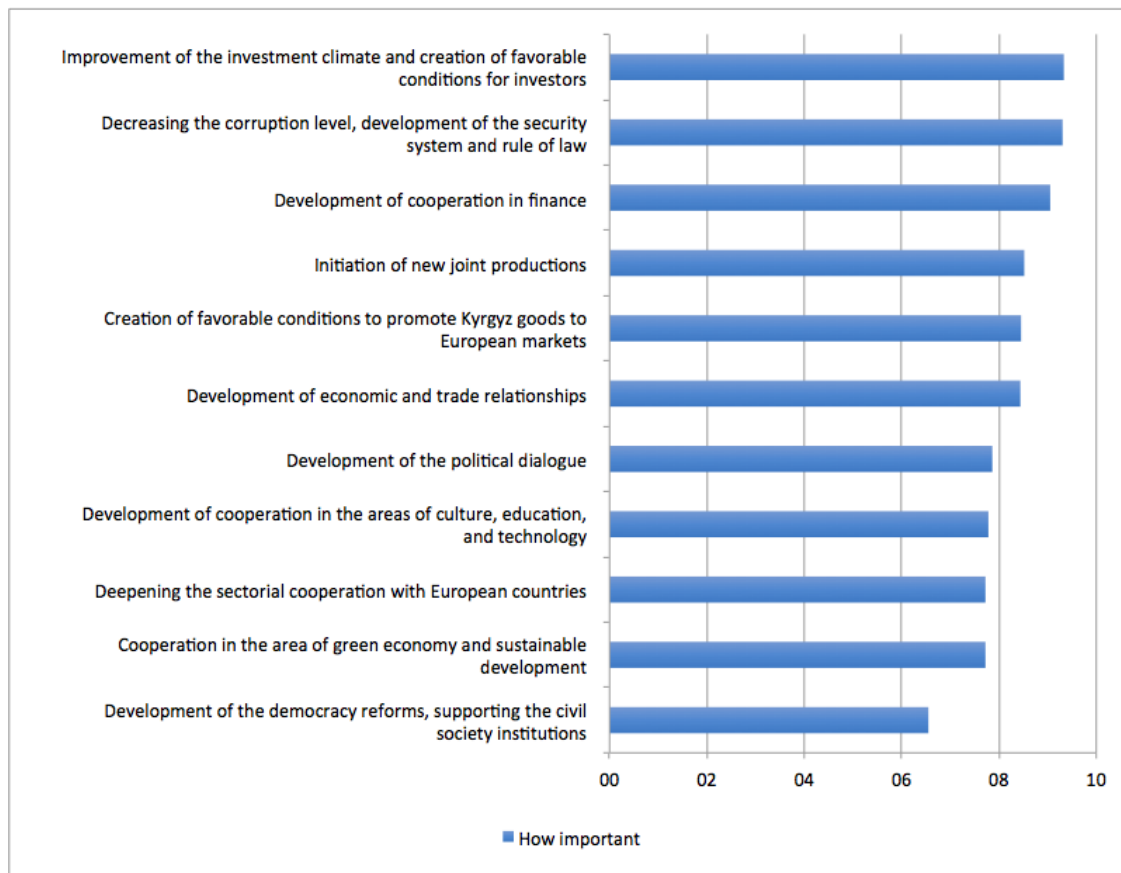


Figure 9. Various potential benefits from Kyrgyzstan's cooperation with the EU, ranked from 0 (lowest) to 10 (highest). Source: A survey of Kyrgyz experts carried out by IIASA.

## 4. Silk Road Economic Belt Initiative and Kyrgyzstan

Silk Road Economic Belt (SREB) Initiative of China is expected to strengthen economic relations between China and the countries, through which the New Silk Road will pass. To implement this initiative, the Chinese government intends to allocate as much as 50 billion dollars in the next years. Once implemented, the SREB will deliver cargo and passengers overland between China and Europe. The Export-Import Bank of China and

the China State Bank have declared their intentions to allocate 380 billion yuan (about 55 billion US dollars) to support the project. In December 2014, the Silk Road Investment Fund was established. It will support the development of infrastructure projects in the countries along the SREB and the Maritime Silk Road, as well as the sale of Chinese products.

It is expected that this initiative will give rise to joint Kyrgyz-Chinese development projects, primarily in the field of transport and infrastructure, which will play an important role in the future development of Kyrgyzstan. Thus, Kyrgyzstan may benefit from the formation of the transport corridor "Europe-Asia", involving China, Kyrgyzstan and Uzbekistan, whose ultimate goal is to build a new transport corridor that will allow the delivery of goods by railways to the EU countries via a shortened route. Technical barriers, which are likely to affect these developments, include the heterogeneous train lengths; different track gauges; differences in electrification; heterogeneous standards regarding the axle load in countries along the SREB (Beifert, Shcherbanin, & Vinokurov, 2018).

Political risks are vast; at this stage they mainly relate to the political will of countries to be involved to support the SREB initiative. Notably, while the EU support is key, there is evidence it might be ambivalent. For example, in 2013 the EU refused the proposal of the former President of the Republic of Korea for creating a Eurasian transport corridor from Seoul–London, pointing out the necessity to focus rather on domestic issues and saying that there was "already a high level of maritime transport development independent of the transit policies of third countries". A political crisis with Russia is yet another reason why the EU might prefer a reserved position with respect to the SREB, at least in the short term (Beifert et al., 2018).

China also invests in Kyrgyzstan in projects other than transport. During the twenty-five years of diplomatic relations between the two countries, direct investments from China amounted to 1.2 billion US dollars. Examples include two oil refineries, assistance in the reconstruction of the Bishkek-Torugart road, Osh-Erkeshtam, and the construction of small enterprises in the processing industry.

Overall, expectations of experts are positive on that Kyrgyzstan will benefit from the SREB initiative (see Figure 10), particularly in areas related to transport and infrastructure (see Figure 11). Additional gains should result from enhanced foreign trade, increased employment and the creation of new enterprises.

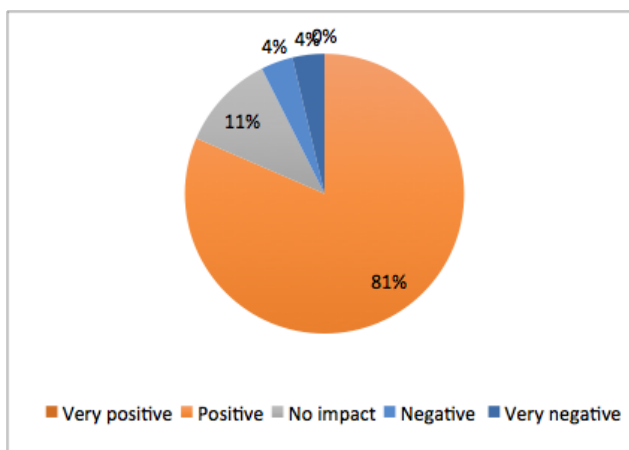


Figure 10. Expected effects from SREB for Kyrgyzstan. Source: A survey of Kyrgyz experts carried out by IIASA.

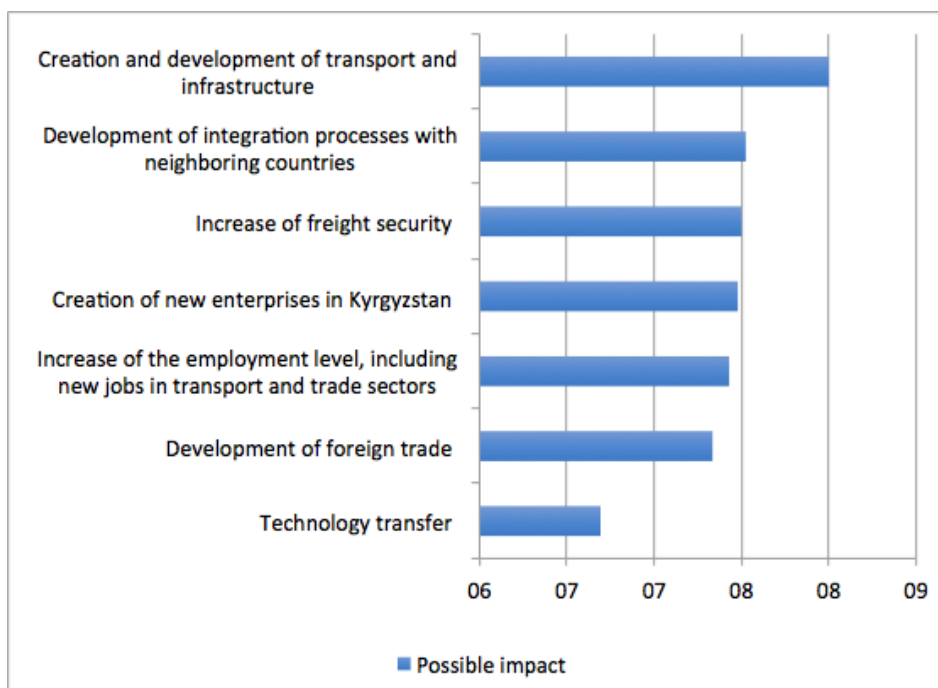


Figure 11. Various potential benefits from Kyrgyzstan's cooperation with the SREB, ranked from 0 (lowest) to 10 (highest) according to a survey of Kyrgyz experts carried out by IIASA.

## 5. Enabling environment for increasing exports and trade

The following factors represent major barriers to increasing the exports and enhancing trade with other countries:

- Unfriendly business environment
- The lack of transport
- The lack of trade infrastructure
- The lack of proper certification system

The “Ease of doing business” index developed by the World Bank (World Bank, 2017a) provides a helpful set of indicators to describe ten major aspects to define the business environment in a country. In 2018, Kyrgyzstan ranked 77<sup>th</sup> in the world; for comparison: the Russian Federation and Kazakhstan ranked 35<sup>th</sup> and 36<sup>th</sup> respectively; Central Asia regional average was 71.

The least performing factor was “getting electricity” (see Table 2): Kyrgyzstan should improve procedures, time and cost required for businesses to connect to the grid, enhance reliability of supply and transparency and affordability of electricity tariffs. Problems include: too high number of procedures, too long time to go through all procedures, too high costs of these procedures, unreliable supply and non-transparent and too expensive tariffs, including total duration and frequency of outages per customer a year, mechanisms for monitoring outages, mechanisms for restoring service, regulatory monitoring, financial deterrents aimed at limiting outages and communication of tariffs and tariff changes (World Bank, 2017b).

Other aspects of the business environment, where Kyrgyzstan is lagging behind include “paying taxes”, “enforcing contracts”, “resolving insolvency”, and “trading across borders”. “Paying taxes” refers to taxes and mandatory contributions that a medium-size company must pay or withhold in a given year; it measures the administrative burden in paying taxes and contributions. While the tax burden on companies in Kyrgyzstan is rather modest – the total tax and contribution constitutes only 29% of profit Kyrgyzstan should work on reducing the number of payments and time involved (see Table 3). In what concerns “Enforcing contracts”, Kyrgyzstan should address problems related to too long time to enforce a contract through the courts, too high cost required to enforce a contract through the courts and too low quality of judicial processes (see Table 4). In what concerns “Resolving insolvency”, efforts should be directed to reduce high costs required to recover debt, to increase the recovery rate for creditors and to strengthen the insolvency framework (see Table 5). Finally, to improve “trading across borders”, Kyrgyzstan should reduce both the time and costs involved (see Table 6).

On the other hand, "starting business", "dealing with construction permits", "registering property", "getting credit", and "protecting minority investors" are doing relatively well (World Bank, 2017b).

*Table 2. Selected indexes within the Ease of doing business related to Getting electricity aspect (World Bank, 2017a).*

	Kyrgyzstan	Europe and Central Asia	OECD high income countries	Best performer
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Number of procedures	7	5.4	4.7	2 (UAE)
Time to go through all procedures (days)	125	113.7	79.1	10 (UAE)
Costs of these procedures (% of income per capita)	814.4	344.3	63.0	0 (Japan)
Reliability of supply and transparency and cost tariffs (index 0-8)	0	5	7.4	8 (28 economies)

*Table 3. Selected indexes within the Ease of doing business related to Paying taxes aspect (World Bank, 2017a).*

	Kyrgyzstan	Europe and Central Asia	OECD high income countries	Best performer
Total tax and contribution rate (% of profit)	29.0	33.1	40.1	18.5 (32 economies)
Number of payments	51	16.5	10.9	3 (Hong Kong, China)
Time required to comply with 3 major taxes (days)	225	218.4	160.7	50 (Estonia)

*Table 4. Selected indexes within the Ease of doing business related to Enforcing contracts aspect (World Bank, 2017a).*

	Kyrgyzstan	Europe and Central Asia	OECD high income countries	Best performer
Time required to enforce a contract through the courts, time to file and serve the case, time for trial and to obtain the judgment, time to enforce the judgment (days)	410	489.9	577.8	164 (Singapore)
Cost required to enforce a contract through the courts including attorney fees, court fees, and enforcement fees (% of claim value)	47	26.2	21.5	9 (Iceland)
Quality of judicial processes, including the court structure and	4.0	10.0	11.0	15.50 (Australia)

proceedings, case management, court automation, and alternative dispute resolution (index 0-18)				
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*Table 5. Selected indexes within the Ease of doing business related to Resolving insolvency (World Bank, 2017a).*

	Kyrgyzstan	Europe and Central Asia	OECD high income countries	Best performer
Cost required to recover debt, which includes court fees, fees of insolvency administrators, lawyers' fees, assessors' and auctioneers' fees and other related fees (% of estate)	15.0	13.1	9.1	1.0 (Norway)
Recovery rate for creditors (cents on the dollar recovered by secured creditors)	35.2	38.0	71.2	93.1 (Norway)
Insolvency framework, which includes commencement of proceedings, management of debtor's assets, reorganization proceedings index, and creditor participation	6.0	10.8	12.1	15.0 (6 economies)

*Table 6. Selected indexes within the Ease of doing business related to Trading across borders aspect by the (World Bank, 2017a).*

	Kyrgyzstan	Europe and Central Asia	OECD high income countries	Best performer
Time to export: Border compliance (hours)	20.0	28.0	12.7	0 (17 economies)
Time to export: Documentary compliance (hours)	21.0	27.9	2.4	1.0 (25 economies)
Time to import: Border compliance (hours)	72.0	25.9	8.7	0 (30 economies)
Time to import: Documentary	36.0	27.3	3.5	1.0 (30)

compliance (hours)				economies)
Cost to export: Border compliance (USD)	445	191.4	149.9	0.0 (19 economies)
Cost to export: Documentary compliance (USD)	145	113.8	35.4	0 (19 Economies)
Cost to import: Border compliance (USD)	512	185.1	111.6	0 (21 economies)
Cost to import: Documentary compliance (USD)	200	94.7	25.6	0 (30 economies)

The Kyrgyz experts participated in the IIASA survey overall put more emphasis on non-financial instruments to support economic activities and export-oriented production than on financial ones (see Figures 12 and 13). The highly ranked financial measures include: the decrease of interest rates, the development of the system guarantying the safety of investments, the development of the credit system, the development of foreign economic relations.

The highly ranked non-financial measures include: increasing the availability of skilled labor, modernizing the production means, introducing new technologies, entering new markets, development of electronic means and digital trade platforms, convergence to international standards.



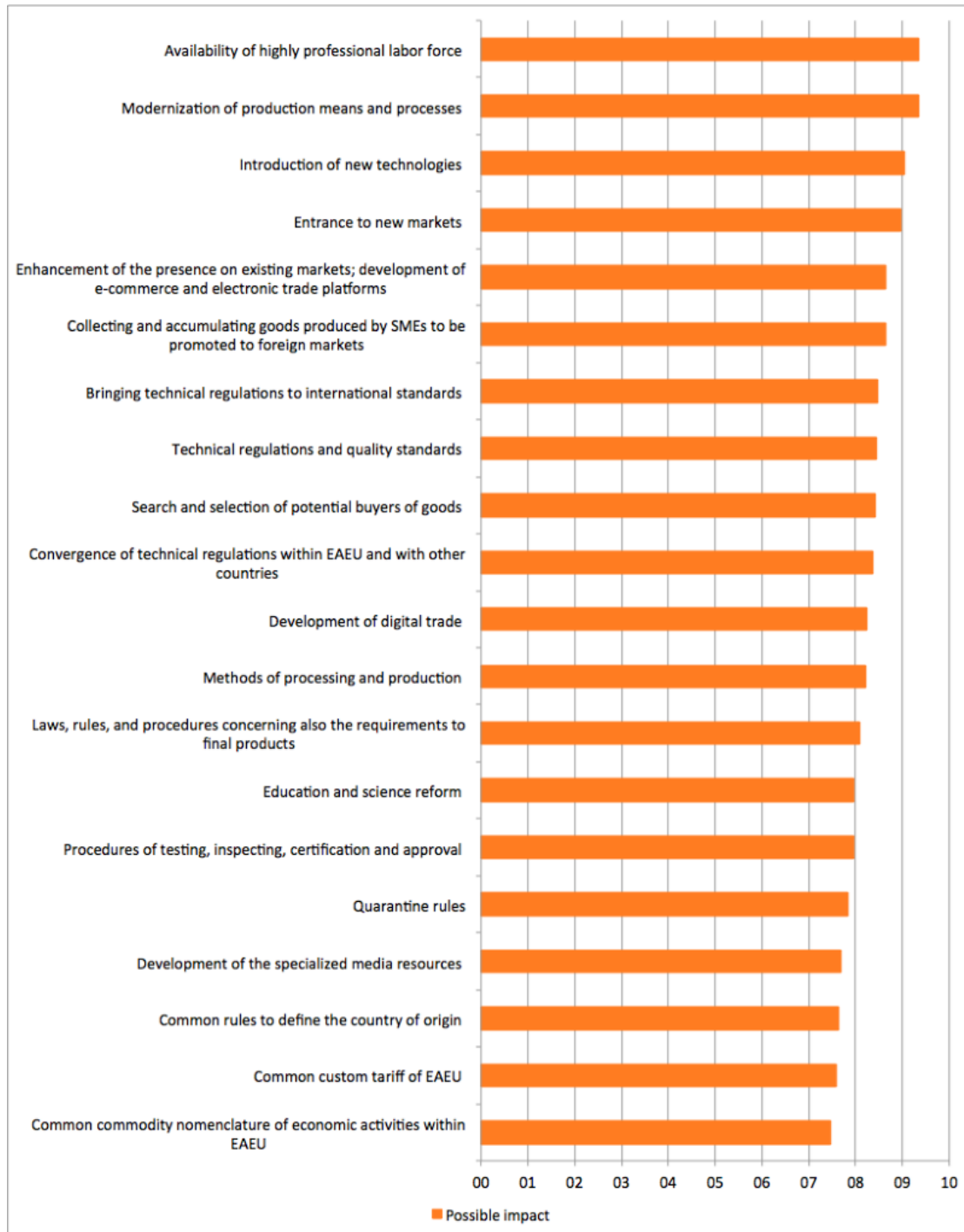


Figure 12. Non-financial measures to support economic activities and export-oriented production. Source: A survey of Kyrgyz experts carried out by IIASA.

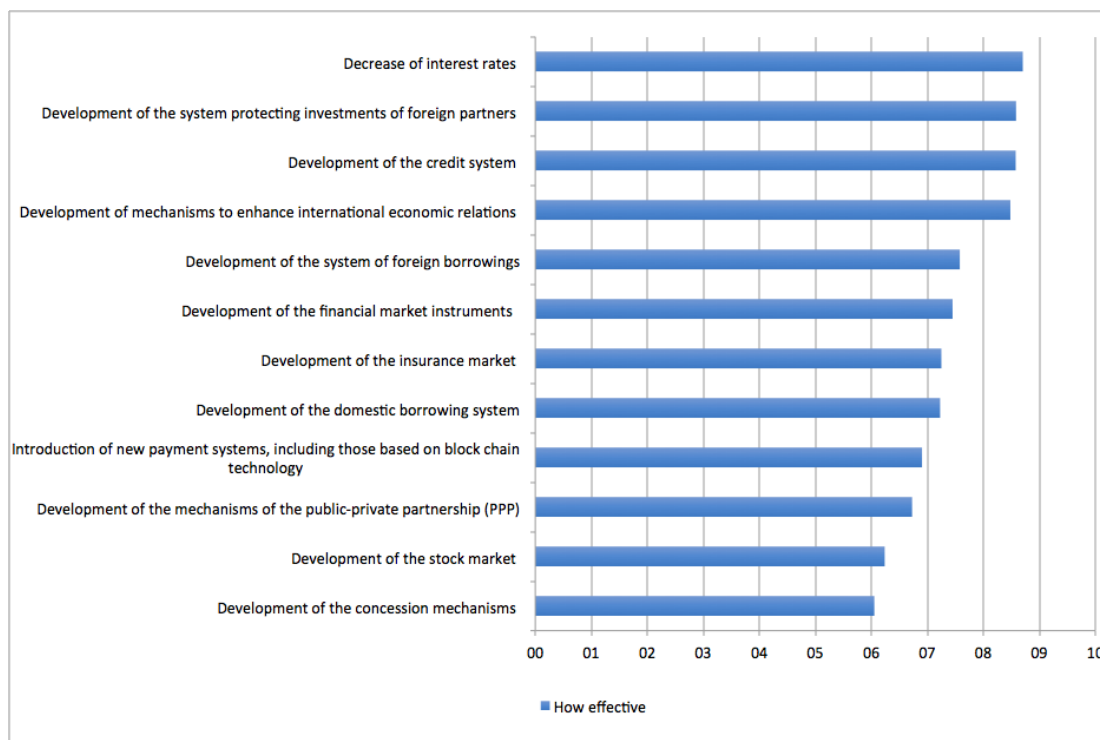


Figure 13. Financial measures to support economic activities and export-oriented production. Source: A survey of Kyrgyz experts carried out by IIASA.

Table 7. Selected policies aimed at the enhancement of trade and exports in terms of their importance in medium (until 2023) and long term (until 2040). Source: A survey of Kyrgyz experts carried out by IIASA.

<b>In the perspective until 2023</b>	<b>Lower priority</b>	<ul style="list-style-type: none"> <li>• Development of the cross-border trade</li> <li>• Creation of the industrial zones</li> <li>• Maintaining and furthering ties within CIS, SCO and others</li> <li>• Creation of the electronic trade platforms to promote Kyrgyz products to external markets</li> <li>• Modernization and renewal of checkpoints on state borders</li> <li>• Creation of a fund supporting the preparation of projects</li> </ul>	<ul style="list-style-type: none"> <li>• Embedment into regional and global value chains, including those emerging from membership in economic integration blocks</li> <li>• Participation in the cooperation processes in the area of development of water and energy resources and efficiency of their deployment</li> <li>• Enhancement of internal and external energy policy by strengthening the governmental anti-crisis management, improvement of the integration processes aimed to enter international</li> </ul>

			energy markets <ul style="list-style-type: none"> <li>• Coordinated and targeted actions of the institutions focused on foreign trade; economic diplomacy to promote interests of Kyrgyzstan globally, re-invigorating of the system of trade representatives at Kyrgyz embassies abroad</li> </ul>
		<b>Lower priority</b>	<b>High priority</b>
<b>In the perspective until 2040</b>			

## 6. Key messages

- Kyrgyzstan records an unsustainable trade balance deficit. Export promotion policies coupled with import substitution initiatives are suggested for the country.
- Trade relations are expected to remain strong with the country’s main trading partners: China, Russia, Kazakhstan, Switzerland (solely exports of gold and products thereof), and Uzbekistan. This geographic concentration should remain qualitatively the same in the short- and mid-term, although membership in the EAEU brings potential to increase trade particularly with Russia and Kazakhstan (along with other EAEU members).
- Russia's import substitution policy offers new opportunities for Kyrgyz exporters; to utilize this and other opportunities from the EAEU membership, Kyrgyzstan should improve the business environment, develop the trade and transport infrastructure; Kyrgyz producers should make sure to comply with EAEU technical standards.
- Kyrgyzstan's economy will benefit from a deeper economic integration with the EAEU, in particular, from the creation of new common markets, notably the energy market. To maximize benefits from participation in this regional integration, Kyrgyzstan should use the evidence base to form their negotiation position and actively participate in the decision making at the supra-national level; the participation should also extend to business circles.
- The following sectors should generate the largest socio-economic benefits as a result of Kyrgyzstan’s joining the EAEU: Machinery, Transport and communications, Production of oil products, Production of chemical products, Production of rubber and plastics and other non-metallic products and Metallurgy.
- Improved access to electricity is a crucial factor to support Kyrgyz producers; hydropower generation is a promising; optimizing the pricing is essential to balance the interests of consumers and generators; the electricity tariff system should be optimized in close connection with the water pricing system.
- Further reform to the trade-relevant institutions should make procedures easier and more transparent, notably via the introduction of the e-governance and other digital means.
- Enhanced cooperation with the EU may yield economic benefits, yet to unlock this potential, trade and transport infrastructure should be developed. A thorough cost-benefit analysis is needed of the benefits stemming from enhanced trade and the costs incurred via efforts to comply with EU standards. Convergence between EAEU and EU standards will play an important role here.
- China's Silk Road Economic Belt initiative might offer new opportunities for Kyrgyzstan to tap into its transit potential. To utilize this opportunity, experience of other countries cooperating with China should be

studied carefully and plans should be made based on scientific evidence in Kyrgyzstan's interests to turn the transport corridors into development corridors.

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