

---

# Kyrgyzstan: removing trade barriers

---



# KAZAKSTAN

# UZBEKISTAN

# TURKMENISTAN

# KYRGYZSTAN

# TAJIKISTAN

# GEORGIA

# ARMENIA

# AZERBAIJAN

# PAKISTAN

Caspian Sea

Aral Sea

Lake Balkhash

Lake Van

Lake Urmia

Novgorod

Kazan'

Kama

Yekaterinburg

Chelyabinsk

Ufa

Petropavl

Ornsk

Samara

Pavlodar

Oral

Aqtöbe

Aqmola

Qaraghandy

Volgograd

Astrakhan'

Atyraü

Leninsk

Qyzylorda

Saryshaghan

khumi

Bat'umi

T'bilisi

Yerevan

Nagorno-Karabakh

Baku

Aqtau

Nukus

Urganch

Shymkent

Tashkent

Talas

Bishkek

Farghona

Osh

Kashi

Naxçivan

Xankändi

Tabriz

Mosul

Nebitdag

Ashgabat

Mary

Bukhoro

Samarqand

Dushanbe

Qürghonteppa

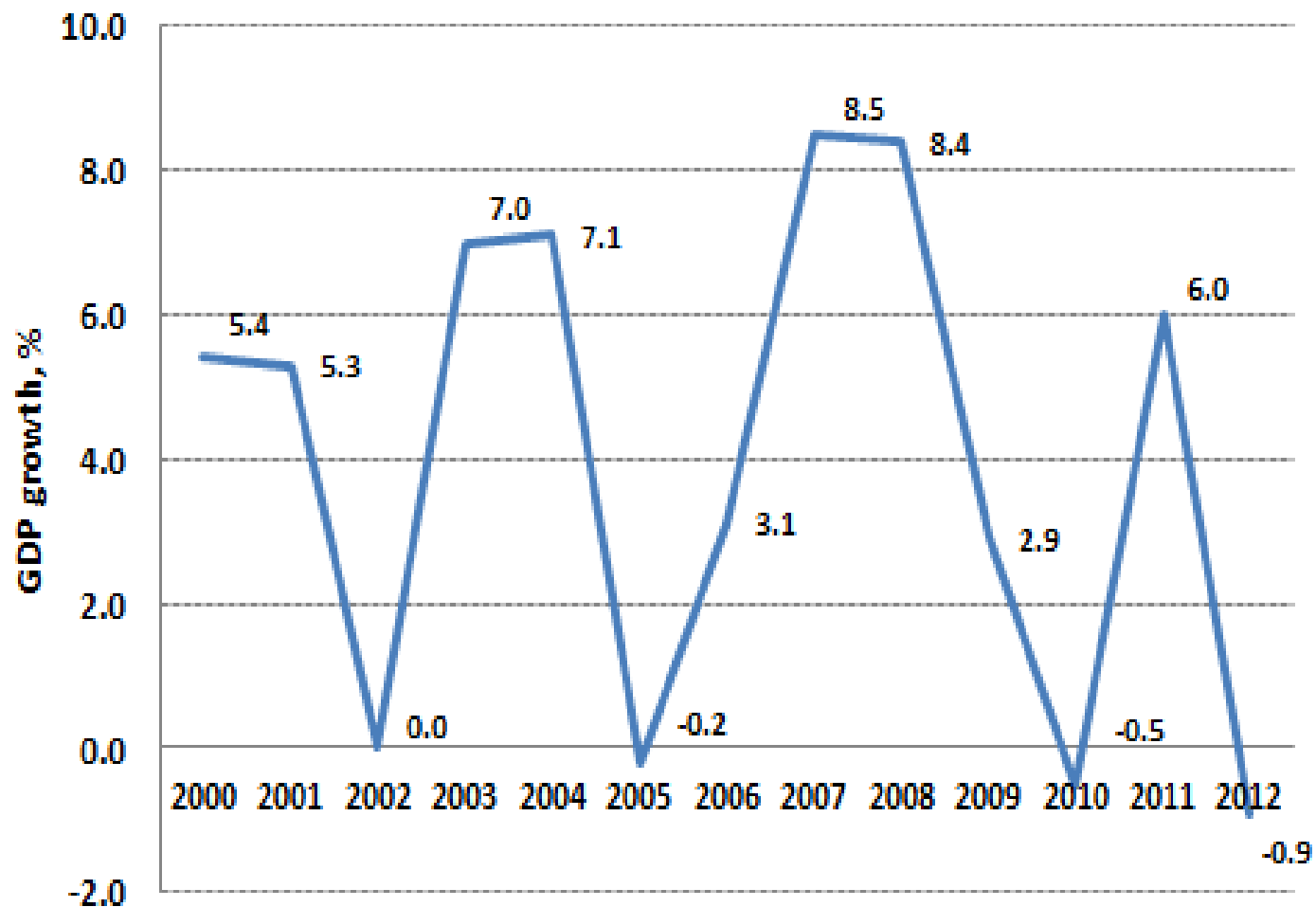
Chärjew

Termiz

Amu Darya

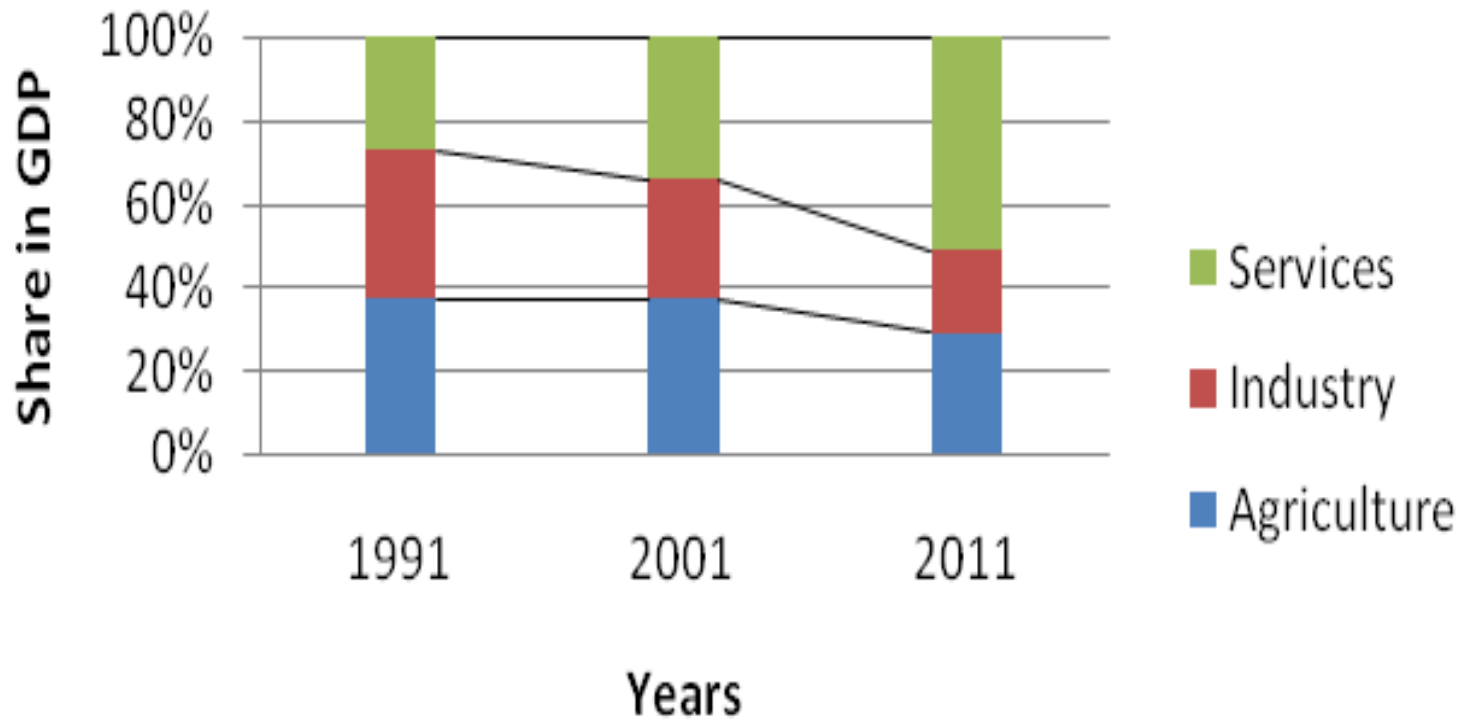
PAKISTAN

# Kyrgyzstan: GDP growth (2000-2012)



- 
- Positive trends in economic growth has been intercepted with periods of recession
  - Dependency on gold and agriculture
  - Limited export opportunities
  - Unstable political situation
-

Figure 2. The Kyrgyz economy's structural transformation



---

# Unbalanced development

- This marked degree of income volatility is mainly attributed to the economy's unbalanced development. In the past decade there was a marked shift away from agriculture and industry towards increased specialization in services, which was mainly driven by commercial services (wholesale and retail trade), and since mid-2000s, tourism, communications, and, to a certain extent, the financial sector
-

---

# Liberal trade regime

- Due to the liberalization of custom regulations and the taxation regime for physical persons involved in international trade, Kyrgyzstan became a trade hub. Commodities are brought by Kyrgyz traders from China, Turkey and some other countries and these are then redistributed to different parts of Russia, Kazakhstan, Uzbekistan and other countries in Central Asia.
-

---

# Reform measures

- The reform measures implemented to improve the business environment. The country is ranked 70th out of 185 economies in the World Bank's Doing Business 2013, and of the 24 countries in the Eastern Europe and Central Asia , Kyrgyzstan is ranked 12<sup>th</sup>.
  - Most notable among these is the introduction of the Single Window facility for reducing administrative barriers, enhancing the efficiency of customs procedures and for improving the transparency and predictability of administrative procedures. Despite of the number of implemented initiatives, the variety of barriers remains unsolved
-



# Kyrgyzstan ranking in the World Bank 2013 Doing Business Report

<b>Topic Area</b>	<b>Overall Rank (out of 185)</b>	<b>Eastern Europe &amp; Central Asia (out of 24)</b>
<b>Starting a Business</b>	15	5
<b>Registering Property</b>	11	6
<b>Getting Credit</b>	12	4
<b>Protecting Investors</b>	13	2

---

# Lack of productivity gains

- However, the economy's structural transformation was not underpinned by productivity gains in agriculture and manufacturing. The agricultural sector, the second major contributor to GDP growth, remains dominated by small, typically one-family, farms, which lack access to markets, modern equipment, necessary material inputs, and cheap credit, so that the sector continues to have a semi-subsistence orientation. As for the manufacturing sector, it is mainly driven by gold production and, to a certain extent, the garments industry
-

---

# Garments industry

- The garments industry emerged as a network of small and medium enterprises producing garments for lower-end market segment, and evolved to become competitive (even relative to similar Chinese production) due to the combination of cheap prices and a reasonable quality.
-

---

# Vulnerability of economic growth

- This unbalanced growth has meant that the economy is dependent on gold mining and agriculture for income generation, which together with the remittances of workers abroad, especially in Russian Federation and Kazakhstan, along with official development assistance making up for the bulk of gross national income. With this narrow range of income sources came a high degree of vulnerability to fluctuations in global prices for commodities and weather conditions
-

---

# Export composition

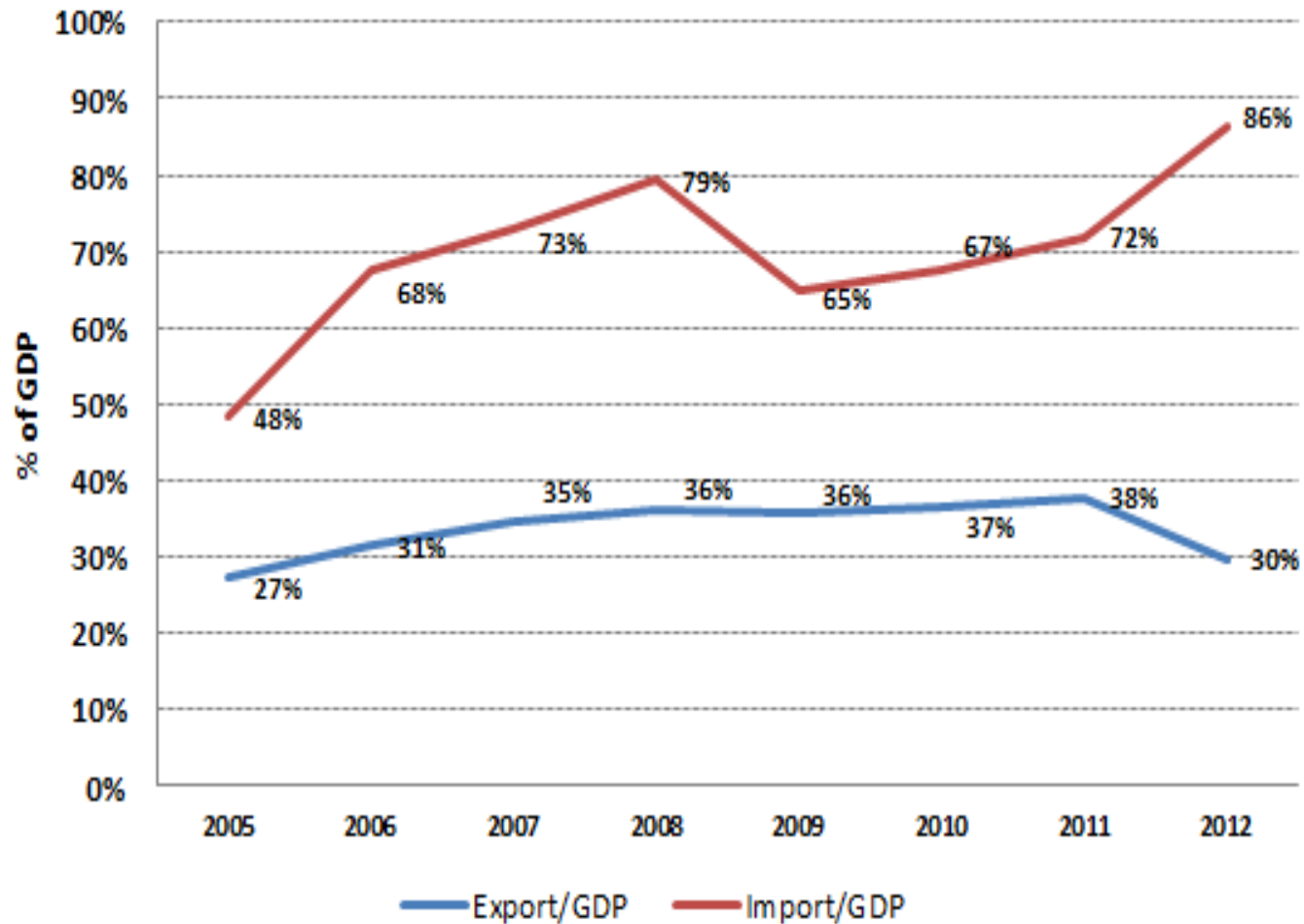
- Another consequence is the trade sector's limited contribution to income generation. Exports consist mainly of raw materials, in addition to a narrow range of manufactured goods of low value added. While the number of products exported has increased, the share of parts and components, as a percentage of GDP, has been falling over the past decade. Agriculture, which is one of the priority sectors, still is not generating large export revenues, even though the country's endowments of rare natural resources gives this sector high export potential.
-

---

# Export growth remains weak

- The limited range of exports further highlight the Kyrgyz firms' weak technological capability and limited resources to response to the requirements of value chain players. Exports constituted only 30 percent of GDP compared to 27 percent in 2005, and the nominal value of export declined by 15.5% in relation to 2011. This reflects the country's weak competitive position in regional and global markets
-

# Exports and imports as a percentage of GDP



---

# Import growth

- Import growth has, and continues, to outstrip export growth, thereby constituting another channel of vulnerability to external factors. The recent global increase in food and fuel prices substantially affected both relative prices and general inflation in Kyrgyzstan, which relies on imports of gasoline, kerosene, natural gas and other fuel
-



---

# Trade deficit doubled

- As Kyrgyzstan's trade-to-GDP ratio increased from 74% in 2005 to over 109% in 2012, international trade has become an increasingly important part of the country's economy, but trade deficit more than doubled
-

# Trade flows and trade deficit, million soms

	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Export</b>	1488,4	1978,9	1683,2
<b>Import</b>	3223,1	4261,2	5373,9
<b>Trade deficit</b>	1734,7	2282,3	3690,7

---

# Export to CIS countries

- The bulk of the exports go to CIS countries, especially the Russian Federation and Kazakhstan, which form the main markets for raw materials, including cotton and tobacco, as well as on electricity and some categories of food products – fruits and vegetables, milk products. Manufactured exports to CIS countries is focused on garments, non-ore minerals, metal products, lamps, vehicles and spare parts for automobiles
-

---

# Export to non-CIS countries

- Export to non-CIS countries is less diversified and is limited to gold, cotton, wool, leather and skin, scrap metal and non-organic chemicals
-

---

# Some figures

- Russian Federation and Kazakhstan are the main trade partners
  - The share of Kyrgyz exports is around 30%
  - The share of Kyrgyz imports is 42,3%
  - The share of gold in exports is 42%
-

---

# Exports to main partners markets

- In 2000-2008, there was a rapid growth of the economy of Russia and Kazakhstan, considerable growth of consumption at very high growth rates of import. However, Kyrgyzstan has not managed to take advantage of the situation, to raise the level of its presence in the markets of these countries, because export of Kyrgyzstan basically has been limited to agricultural products and the raw goods, while consumers tend to give preference to sophisticated and high-quality products.
-

## Export volume of Kyrgyzstan in comparison to the total import of Russia and Kazakhstan

<b>Total amount of import</b>	<b>2000</b>	<b>2005</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Russia (bln. USD)	49	181	229	336	337
Proportion of export of Kyrgyzstan (%)	0.10	0.08	0.08	0.09	0,07
Kazakhstan (bln. USD)	5	23,6	31,1	36,9	46,4
Proportion of export of Kyrgyzstan (%)	0.66	0.67	0.58	0.78	0,87

- 
- The geographic concentration of exports further aggravates income instability, making the economy vulnerable to external shocks stemming from main export markets
  - Establishment of Customs Union (Belarus, Kazakhstan and Russian Federation) resulted in emerging increased non-tariff barriers
-



---

# Decline in exports

- Kyrgyzstan experienced a decline in exports to the CU countries as a result of introduction of common external tariff as well as more strict customs control procedures, new regulations in conformity assessment which restrict Kyrgyz exports and especially re-exports of Chinese goods to the countries of the Customs Union
-

---

# Procedural and regulatory barriers

- Despite continued efforts to remove non-tariff barriers
  - According to Trading Across Borders indicator of World Bank Doing Business Report, Kyrgyzstan ranked 174 out of 185 economies, and 21st out of the 24 countries in the Eastern Europe and Central Asia
-

- 
- The overall time for receiving the complete package of certificates and approvals, including customs clearance, may take from 14 to 30 days for an import operation and up to 15 days for an export operation
  - This translates into higher costs for traders. Ultimately, these costs are accrued by the end-consumers in the form of high prices
-

- 
- Surveys conducted show that Kyrgyzstan has complex and uncoordinated system of administering foreign trade procedures
  - According to survey conducted by IFC, 47 per cent of small and medium businesses estimated that it is rather difficult and very difficult for passing export procedures and 42 percent for passing import procedures.
-

- 
- Respondents identified as main challenges to exports the number of documents necessary for export operations (42 per cent), informal payments, bureaucracy and weaknesses in the rule of law in customs bodies (49 per cent). Main challenges to imports include informal payments, red tape and weak rule of law in customs bodies (34 per cent), high customs fees (27 per cent)
-

---

# Issues in technical regulation

- There is a variety of issues in technical regulation still to be resolved: the laboratories and certification bodies should have an international accreditation, quality management systems still need to be fully integrated, measurements methods and regulations for metrology are still underdeveloped
-

---

# A range of regulatory and procedural barriers

- Cumbersome measures by control agencies at the border involving physical inspection;
  - Unnecessary licenses and permits;
  - Inconsistent enforcement and interpretation of laws and regulations;
  - Informal payments;
  - Lack of institutional capacity of the government agencies.
-

---

# Preparation of project proposal

- Consultations with stakeholders
  - Based on previous phase of Aid for Trade
  - Updating the Matrix of Actions
  - Consultations with state agencies
  - Identifying priorities
  - Non-tariff barriers
  - Agriculture and food industries
  - Technical regulations and quality management
-



- 
- Understanding of the requirements for harmonizing national legislation and aligning technical regulations with those of the CU countries
  - To familiarise State agencies with best practices of neighbouring and EU countries in trade facilitation
-

---

# Project proposal

- Long-term development objective - to contribute to integrating Kyrgyzstan into regional and global value chains
  - Immediate development objective - supporting the removal of regulatory and procedural barriers to trade and supporting regional integration
-

---

# Outcomes

- Improved understanding among policy makers, trade support institutions, enterprises and traders of regulatory and procedural barriers
  - Manufactured goods
  - Agricultural goods and food products
  - Of the Generalized System of Preferences +
  - Of consequences of entering the Customs Union
-

---

# UNECE evaluation methodology

- Assessment of regulatory and procedural barriers to trade, using the UNECE evaluation methodology and focusing on key sectors
  - A strategy for removing regulatory and procedural barriers to trade
-

- 
- Proper analysis of the underlying processes, which involve several state agencies, transport operators, market support institutions, banks and cover a range of areas including customs; logistics; technical regulations; standardization policy and conformity assessment
-

---

**Thank you for your  
attention!**

---