

## МИРОВАЯ ЭКОНОМИКА И МЕЖДУНАРОДНЫЕ ФИНАНСЫ

JEL: F13; F15; F53

### Kyrgyz Republic and Structural Reforms: Twenty Years of WTO Membership

*M. Smeets*<sup>1</sup>, *M. Djumaliev*<sup>2</sup>

<sup>1</sup> Technical Assistance Coordination, Partnership and Internship Programs Section  
at the Institute for Training and Technical Cooperation at the World Trade Organization,  
154, Rue de Lausanne, Geneva, 1202, Switzerland

<sup>2</sup> Embassy of the Kyrgyz Republic, Brussels,  
Rue de l' Abbaye, 47 Ixelles, Brussels, 1050, Belgium

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The Kyrgyz Republic joined the WTO twenty years ago with the expectation that structural reforms required for obtaining membership and the application of trade rules would facilitate its transformation from a centrally planned to a market economy and ease its integration into the WTO multilateral trading system. It completed its accession process in record time, liberalized its economy considerably, reduced tariffs significantly, and made substantial commitments in a broad range of services sectors. It adopted legislation in all areas required for WTO membership and created competitive market access conditions for goods and services. Looking back at two decades of WTO membership, there is evidenced that the reform process is paying off. Trade has expanded significantly and new markets have been tapped for imports and exports, thus decreasing its dependency on traditional trading partners. As a result, the economy has grown rapidly. At the same time, many challenges remain to further diversify the economy, take better advantage of opportunities offered in the services trade, attract foreign direct investment, and fully implement all WTO related laws, rules, and regulations. The reform process continues to be essential to Kyrgyzstan's economic policies to deepen and solidify its integration into the world trading system.

*Keywords:* trade policy, negotiations, structural adjustment, post-accession, policy coherence.

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## Introduction

The Kyrgyz Republic was the first Central Asian country to join the WTO in 1998, after gaining its independence in 1991. It applied for WTO membership in 1996 and completed the accession process in a record time of 2 years and 10 months, compared to an average time of nine and a half years needed for most WTO accession negotiations in the past 20 years. As WTO DG Azevêdo stated in a recorded message to the participants to a conference organized at the occasion of the celebration of twenty years of WTO membership: "The Kyrgyz Republic is the pioneer among Central Asian countries and former USSR Republics to take this important step to integrate in the global trading system, further adding that... Kyrgyz Republic holds the record of the fastest accession negotiations in the WTO and that's good, you did it in just two and a half years — in the world of diplomacy that's light speed"<sup>1</sup>.

This achievement is even more remarkable given the complexity of the process of obtaining Membership of the WTO and which implies many challenges for the countries wanting to join. It requires major structural reforms and changes in legislation and trade policies and practices. The government was determined to pursue Membership fast and conduct the necessary economic and legislative reforms and proceed with the transition from a centrally planned economy to a market-based economy speedily, thus unlocking the significant new opportunities that WTO membership was expected to create.

The accession process required a fundamental rethinking of Kyrgyzstan's economic and trade policies, the creation of new institutions designed to implement the policies and major trade capacity building efforts at the technical level to better understand the rights and obligations of WTO membership. Given that the WTO is a system of rights and obligations and that Member's trade policies and practices can legally be challenged, it was important for the Kyrgyz authorities to get it right from the beginning. This meant that it needed to adopt legislation and trade policy measures that would secure the degree of market openness acceptable to the membership and at the same time provide leverage to protect segments in the economy that were not ready to face external competition.

The Kyrgyz Republic, after twenty years of membership is on the wake of undergoing its third trade policy review in 2020, thus providing a good opportunity to take stock of the accomplishments of twenty years of WTO membership and review the reforms undertaken and the key challenges that the Kyrgyz Republic is still facing. This paper will take a closer look at how the reform process was performed and how Kyrgyzstan benefited from it. It will be argued that the domestic reforms undertaken in order to obtain WTO membership have generated tremendous economic opportunities to the Kyrgyz Republic, with significant growth in exports and imports both in goods and services. At the same time, the Kyrgyz

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<sup>1</sup> Conference held in Bishkek on 20 December 2018 and was preceded by an academic event organized at the International University of the Kyrgyz Republic in September 2018 with presentations made by the authors of this paper. URL: <https://youtu.be/lToCW0m8iLE> (accessed: 20.12.2018).

Republic continues to face major challenges integrating more fully in the world economy, diversifying its production, reducing its dependency on primary products, raw materials, minerals, including precious metals and being part of the Global Value Chain. The research is largely based on a review of literature and analysis of official economic data and statistics.

In the paper the authors want to test the hypothesis that accession to the WTO requires fundamental structural reforms resulting in a fuller integration into the multilateral trading system and new trade opportunities. In doing so, the paper is structured as follows: it will first address the domestic reforms required for obtaining WTO membership and include a review of recent literature on accessions and economic reforms. This will be followed by a brief discussion of the conditions that apply to Kyrgyzstan's accession to the WTO. It will be shown that by any standards, Kyrgyzstan has liberalized its economy significantly and which provided the basis for obtaining the economic benefits associated with accession. Evidence to that effect will be offered in a subsequent section, discussing the economic performance of the Kyrgyz Republic after it became a member. It will be argued that the economy expanded very rapidly, but challenges remain in terms of economic and trade diversification. Also, it will be argued that while Kyrgyzstan is rapidly integrating into the WTO multilateral trading system, it is in parallel pursuing the avenue of regional integration, including with some of its traditional trading partners. The question of the legal implications for its WTO commitments will be addressed, as a significant number of tariff lines will need to be renegotiated. The one but last section of the paper will look at the future of Kyrgyzstan's trade policies and the main challenges it is currently facing in view of its membership and legal commitments. It will be argued that there is still a significant job to be done, which require further and deeper reforms in several specific areas. The final section offers some of the main conclusions and which confirm the hypothesis that reforms lead to trade expansion. Kyrgyzstan is much better integrated in the MTS then it was at the time of accession. Concrete and measurable economic benefits were generated, leading to a rapid expansion of its economy and trade.

## 1. How WTO Membership Supports Domestic Reforms?

While WTO membership offers many advantages, one of the key motivations that pushed most formerly centrally planned economies to apply for membership are the underlying structural reforms to be conducted. This certainly was an important driving force for Kyrgyz Republic which applied in 1996, shortly after gaining independence, and launched a drastic reform process. It completed the accession process in a record time, less than 3 years with many of the reforms still on-going today. In 2009, in an interview with the country's chief negotiator with the WTO, former Deputy Prime Minister of Kyrgyzstan, E. Omuraliev, reiterated the main reasons for the country's accession to the WTO: "This was a necessary step that was made in a timely manner and for the good of the country. Through membership in the WTO, Kyrgyzstan received a completely new model of economic development and a legal framework that meets international standards, which became the basis for taking the economy out of the deep crisis caused by the collapse of the USSR and the global financial crisis of 1998" [ICTSD, 2009]<sup>2</sup>.

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<sup>2</sup> Filipova T. (2009) ICTSD, Kyrgyzstan and the WTO: Summing Up the Decade. 23 February. URL: <https://www.ictsd.org/bridges-news/мосты/news/кыргызстан-и-вто-подводя-итоги-десятилетия> (accessed: 05.05.2019).

Kyrgyzstan has benefited significantly from WTO membership, but it still has a long way to go to insert itself more fully into the trading system and reap all the benefits WTO membership has to offer [Sutyryn, Koval, Trofimenko, 2014]. In many ways the reform process is a never-ending process. Reforms are necessary to stay ahead of the game, a sine qua non for creating a more appropriate and favorable business environment, conducive to trade, as is underscored by the official statements made by recently acceded members [Smeets, 2017]<sup>3</sup>. According to the WTO's annual report (2016) by the Director-General, out of a total of 36 Article XII members<sup>4</sup>, 18 of them, i.e. half, specifically indicated in their introductory statements in the working party reports that the transition from central planning to market economy was an explicit objective<sup>5</sup>. Furthermore, and according to the WTO *"since the accession agreements, or 'protocols', are international treaty obligations, they have a wide-ranging effect both on the multilateral trading system and on the national economies that have undertaken the reforms. This means that accession negotiations can prove an important instrument, not only for updating multilateral trade rules, but for helping acceding governments to undertake needed domestic reforms"*<sup>6</sup>.

Bacchetta and Drabek note that *"the third reason is the beneficial effect of the membership on domestic policies and institutions involved in the conduct of international trade. Acceding countries are required to put in place a set of norms and institutions, which support the liberalization of markets and increase transparency and promote the rule of law, contract enforcement and the evolution of an independent judicial system. In principle, nothing would prevent government from putting in place these norms and regulations on a unilateral basis. The role of the WTO in this process is to facilitate the introduction of effective reforms not only by reinforcing the credibility of the government's trade policies but also help introduce the policies that are based on best-practices and that must be harmonized"* [Bacchetta, Drabek, 2002].

Separately, following the independence of the CIS countries and Baltic states, there was a strong push from the side of some major international institutions and more specifically by the OECD, the IMF, World Bank and the EBRD for these countries to engage in the structural and economic reform process, accompanied by specific advice on how to conduct the reforms<sup>7</sup>. The WTO, too, played a key role in consolidating the reforms as it was felt that the WTO membership would anchor the transition to market-based regimes. The recognition that the WTO is the only international organization governing trade with multilateral trade rules was a decisive factor in joining this organization.

In addition to the expected material benefits that trade liberalization would offer, it was increasingly well understood that the cost of staying out of the WTO is too high, certainly at a time with a rapidly growing economic interdependency between nations. One key advantage of membership is the automatic application of the two fundamental

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<sup>3</sup> See also: WTO Accessions 2017, Annual Report by the Director-General (WT/ACC/31, WT/GC/189, WT/MIN(17)6. 29 November 2017. Tables 3 and 4. 7. URL: [https://www.wto.org/english/thewto\\_e/acc\\_e/dgreport\\_2017\\_e.pdf](https://www.wto.org/english/thewto_e/acc_e/dgreport_2017_e.pdf) (accessed: 07.05.2019).

<sup>4</sup> Article XII members are the newly acceded members under Article XII of the Marrakesh Agreement. URL: [https://www.wto.org/english/docs\\_e/legal\\_e/04-wto\\_e.htm#articleXII](https://www.wto.org/english/docs_e/legal_e/04-wto_e.htm#articleXII) (accessed: 07.05.2019).

<sup>5</sup> WTO Accessions: 2016 Annual report. 2 December 2016 (WT/ACC/28). Table 1, p. 17. URL: [https://www.wto.org/english/thewto\\_e/acc\\_e/dgreport\\_2016\\_e.pdf](https://www.wto.org/english/thewto_e/acc_e/dgreport_2016_e.pdf) (accessed: 07.05.2019).

<sup>6</sup> The WTO at Twenty, Challenges and Achievements. WTO Geneva. October 2015, p. 22. URL: [https://www.wto.org/english/res\\_e/booksp\\_e/wto\\_at\\_twenty\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/wto_at_twenty_e.pdf) (accessed: 09.06.2019).

<sup>7</sup> Sometimes the financial support to accompany the reform was made conditional upon the reforms.

non-discriminatory treatment measures of the WTO: Most Favoured Nation (MFN) and national treatment in terms of access conditions to other markets<sup>8</sup>. These principles create security, stability, predictability and certainty in trade which are key factor for business transactions and allowing Foreign Direct Investment (FDI) into the country and are critical in the decision-making process to join.

Importantly, the WTO is a rules-based system where the rule of law applies. While the benefits from WTO accession are often associated with the new market access opportunities offered, the real gains are obtained through the domestic structural reforms conducted in order to align domestic policies with international norms and standards. It is well recognized that there is a price to pay for the acceding country, as the accession leads to economic costs resulting from market adjustments following changes in relative prices of goods and services in the domestic market.

The reform agenda requires institutional change and the creation of new facilities in areas as SPS, TBT, customs administration, services, intellectual property rights and ensuring effective competition in the market, significantly adding to the cost as will be shown further. Hence there is a price tag attached to membership and someone needs to foot the bill (World Bank 2001). How to cope with these costs and how to turn the costs into economic advantage is the challenge faced in the reform process. This is part of the policy challenges of each new WTO member.

Another cost aspect is the result of market liberalization performed through tariff reductions and which a priori implies a loss in fiscal revenue. Lower import duties imply lower tax revenue, which need to be offset one way or another. In practice, this foregone revenue should be compensated for by efficiency gains to be obtained by higher competition in the market, lower transaction costs and the cheaper imports of parts and components used in the manufactures of exports. This follows the logic that a tax on imports equals a tax on exports, hence a reduction of costs in imports improves the competitive conditions in the export market. The positive effects are not immediate and will mostly be felt over time. Hence the accession generates short-term costs with the expectation that these will be outweighed by the medium to longer term gains. The practice confirms that the positive outcome is indeed the case, as recently acceded Members have consistently had stronger trade growth performance than the original members. Since 1995, the average trade growth rate of Article XII members was 12.4%, almost double that of original members (7.4%), including after the financial crisis of 2008. China's average growth rate for the period 1995–2013 is 16.0%, which is exceptionally high, and it largely outperforms the other countries. Economic growth in Kyrgyz Republic has also been above the average, as will be shown later. One should nevertheless be cautious in attributing the substantially

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<sup>8</sup> According to Article I, para. 1 of the GATT 1994, the Most Favoured Nation (MFN) Treatment means that “with respect to customs duties and charges of any kind... any advantage, favour, privilege or immunity granted by any (Member) to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other Members”. See also [Van den Bossche, Zdouc, 2017] for further reading (p. 311–340). National treatment is covered under Article III of the GATT 1994, which contains specific provisions prohibiting discrimination in the treatment of any product, domestic or imported, once it has entered the market. Para. 4 states that: “The products of the territory of any contracting party imported into the territory of any other contracting party shall be accorded treatment no less favourable than that accorded to like products of national origin in respect of laws, regulations and requirements affecting their internal sale, offering for sale, purchase, transport, distribution or use...” For further reading, see also [Van den Bossche, Zdouc, 2017, p. 341–399].

higher growth rates exclusively to the WTO accession, as there are not only numerous other macro-economic factors that contribute to growth, but equally many developments in the world economy play an important role, often unrelated to WTO accession.

The reform process thus is of critical importance and at the same time very challenging, as the inefficiencies of the domestic markets in the transition economies could and probably will lead to a surge in imports competing with domestic goods of sometimes lower quality and foreign direct investment with the risk of depressing the domestic economy at first. How will the market adjust to those challenges, lay-offs and market restructuring and what accompanying or flanking policies can be put in place by the authorities? How rendering the economy more efficient, facilitating a better integration into world markets, producing and selling higher quality of goods at competitive prices and generating a larger consumer choice? Those are the key questions. Like most other acceding countries, as shown further, Kyrgyzstan experienced initially an economic decline in the first years following its accession, before the positive effects kicked in.

The challenge was making the right policy choices for the country. A related question at the time was whether the reforms should be undertaken rapidly or follow a gradual process. Schools of thought differ widely and so did the approaches adopted by formerly centrally planned economies that acceded to the WTO. Some decided to 'bite the bullet' and move fast, in order to quickly introduce the market-based principles, even if this meant a loss in GDP in the early stages of the transition process, as was the case in Kyrgyzstan. Others decided to opt for a gradual transition process, taking more time to introduce the new laws and regulations to conform to the market-based principles. Which process is better remains an open question, but the facts and figures confirm that those countries that took the necessary actions managed to experience a steady growth in their economies.

## 2. WTO Membership and Kyrgyzstan's Commitments

As the case of Kyrgyzstan confirms, membership can be obtained fast and is largely determined by the determination of the acceding country. For a country or a territory to obtain WTO membership, the first condition is to submit a specific written expression of interest for membership by the country or territory to the Secretariat<sup>9</sup>. WTO membership thus is entirely based on the express desire of a country to join and hence a voluntary process. Since the WTO was created in 1995, a total of some 36 countries successfully completed the accession process as Article XII members. It takes an average of 10 years and 2 months to complete, compared to the Kyrgyz accession in less than 3 years<sup>10</sup>.

The process of Kyrgyz Republic accession was officially launched following the application for WTO membership on 13 February 1996. On 16 April 1996, the General Council established a working party to examine the application under Article XII under the chairmanship of Mr Metzger (France), which included a total of 15 WTO Members, counting the EU as one. The terms of reference established were: "To examine the applica-

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<sup>9</sup> According to the Marrakesh Agreement Art XII(1) membership is open to any state or separate customs territory possessing full autonomy in the conduct of its external commercial relations.

<sup>10</sup> WTO Accessions 2016: Annual Report by the Director-General. December 2016. WT/ACC/28. Annex 4. URL: [https://www.wto.org/english/thewto\\_e/acc\\_e/dgreport\\_2016\\_e.pdf](https://www.wto.org/english/thewto_e/acc_e/dgreport_2016_e.pdf) (accessed: 20.06.2019). The accession of LDCs on average takes 2 years and 4 months longer than the accession of the other, non-LDC countries.

tion of the government of the Kyrgyz Republic to acceded to the WTO Agreement under Article XII, and to submit to the General Council recommendations which may include a draft Protocol of Accession”<sup>11</sup>. In addition to the discussions in the working party, bilateral market access negotiations were conducted with 12 members.

The accession discussions and negotiations of Kyrgyzstan took place on the basis of a Memorandum on the Foreign Trade Regime of the Kyrgyz Republic, which had been submitted in the early phases of accession and questions relating to it<sup>12</sup>. The outcome of the discussions and the negotiations are contained in the Report of the Working Party, as well as in the Annex to the report, which contain the Kyrgyz Republic’s tariff schedule with reference CXLII-The Kyrgyz Republic, Part 1-Goods (WT/ACC/KGZ/26/Add.1) and the Kyrgyz Republic’s services commitments in Part II-Services (WT/ACC/KGZ/26/Add.2)

In the case of the former Soviet Republics, what drove them to do so, according to [Broadman, 2005, p. 30] was “the dismantling of the Soviet Bloc brought economic chaos and a collapse of trade flows, which compelled countries in Central and Eastern Europe to begin to reintegrate into the global economy”. The Kyrgyz Republic was the first of the CIS countries to kick off the process, followed by two Baltic states, Latvia and Estonia, who both initiated their accession process in 1993 and 1994 respectively. Their accessions took just over 5 years. Latvia joined the WTO in February 1999 and Estonia in November of the same year. Georgia, which initiated the WTO accession process in the same year as Kyrgyzstan (1996) became a member the WTO member on 14 June 2000, after 4 years of negotiations. The other Baltic States, Caucasus and CIS countries that joined the WTO initiated their accession process as of 1993. Armenia (1993), the Russian Federation (1993), Lithuania (1994), and Kazakhstan (1996). Lithuania joined in May 2001, after 7 years of negotiations, Armenia in February 2003, nine years after starting the process and the Russian Federation joined in August 2012 after 19 years of negotiations. Kazakhstan joined in November 2015 after nearly twenty years of accession negotiations. Tajikistan applied in 2001 and joined in March 2013, thus taking nearly twelve years to complete the process. There are still three former republics in the process of accession, including Uzbekistan, which applied for Membership in 1994, Azerbaijan in 1997 and Belarus, for which a working party was established in 1993.

All three processes are still underway. One country, Turkmenistan, has expressed interest but has still not applied. The two most recently acceded countries are Liberia and Afghanistan, who concluded their accession negotiations to the WTO in December

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<sup>11</sup> WT/ACC/KGZ/2/ 3 May 1996 and Rev.2 18 March 1997. URL: [https://www.wto.org/english/thewto\\_e/acc\\_e/a1\\_kyrgyz\\_republic\\_e.htm](https://www.wto.org/english/thewto_e/acc_e/a1_kyrgyz_republic_e.htm) (accessed: 04.07.2019).

<sup>12</sup> Accession of Kyrgyz Republic to the WTO: Memorandum on the Foreign Trade Regime. 23 August 1996. WT/ACC/KGZ/3. URL: [https://docs.wto.org/dol2fe/Pages/FE\\_Search/FE\\_S\\_S009DP.aspx?language=E&CatalogueIdList=36603,41578,10911,11148,11146&CurrentCatalogueIdIndex=3&FullTextHash=](https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S009DP.aspx?language=E&CatalogueIdList=36603,41578,10911,11148,11146&CurrentCatalogueIdIndex=3&FullTextHash=) (accessed: 04.07. 2019).

<sup>13</sup> Each accession is conducted through a working party, composed of members that have expressed an interest in following the debates and discussions on the terms of accession of the candidate country. Hence, the composition and number of countries in the working party varies from one accession to the other. The Chairman of the working party is appointed by the membership and in close consultation with the applicant country. It is also noted that in addition to the multilateral process, which is conducted through the working party, the applicant conducts bilateral negotiations to agree on the market access conditions, tariff schedules and services commitments with each of the members of the working party. Hence, in the accession process the distinction is made between the multilateral and the bilateral tracks, which are mostly conducted in parallel.

2015 (MC-X, Nairobi)<sup>14</sup> and officially joined in 2016, thus bringing the WTO membership to a count of 164 members<sup>15</sup>. The membership now represents 98 % of world trade, thus making the system nearly universal.

The conditions for membership are not specifically set out in legal texts of the WTO and are not defined. The relevant provisions in the Marrakesh Agreement (Article XII) simply indicate that membership can be obtained “on terms to be agreed between it and the WTO” which is a rather open notion and can have a different meaning for different countries and situations. There are no specific benchmarks and each accession is unique, reflecting the economic situation of the applicant and the commitments it is willing to make. This also explains why acceding countries are mostly required to assume higher levels of obligations than the original members, often referred to as “WTO plus” provisions for the acceding countries. According to the WTO the newly acceded countries make considerably more concessions both in the area of goods and services, with nearly 100 % of all tariff lines bound, mostly at lower levels and covering far more services sub-sectors<sup>16</sup>. This adds to the pressures of the domestic reforms, including in the regulatory area of services and which directly impedes in market regulation.

A new Member thus needs to provide sufficiently convincing evidence to WTO's membership that access to their markets is ensured in similar ways as the access that they will benefit from to world markets following accession. The logic is that a new member, by virtue of the MFN principle acquires in one stroke all rights and obligations that have been negotiated in the GATT/WTO for over 70 years, thus generating unconditional market access to the world markets<sup>17</sup>. The advantages and the acquired rights thus obtained need to be matched at the domestic level and leading to effective market access. Kyrgyzstan created one of the most liberal trade regimes and market access conditions and made significant concessions in the areas of goods and services, opening its market significantly to competition. The Kyrgyz Republic joined the WTO with very low tariffs. As is illustrated in Table 1 the simple average MFN tariff is 7.8 %. For industrial products the average MFN duty is 6.6 %<sup>18</sup>. To compare, developed countries have an average tariff binding of less than 4 % for industrial goods. For agricultural products the average MFN duty is 12.1 % in Kyrgyzstan. To put matters further in perspective, on average, Article XII members have bindings for goods (all products) at 13.8 %, including 12.9 % for industrial goods and 20.1 % for agricultural products. In other words, the Kyrgyz Republic made commitments at nearly half the average of other Art XII members and most of which acceded later. Moreover, the Kyrgyz Republic has bound 100 % of its tariff lines, thus substantially offering predictability and stability in market access conditions. Hence its efforts are significant by any standards.

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<sup>14</sup> World Trade Organization, Nairobi Ministerial Declaration, adopted on 19 December 2015 (2015) WT/MIN(15)/DEC., para 18. URL: [https://www.wto.org/english/thewto\\_e/minist\\_e/mc10\\_e/nairopackage\\_e.pdf](https://www.wto.org/english/thewto_e/minist_e/mc10_e/nairopackage_e.pdf) (accessed: 15.06.2019).

<sup>15</sup> Liberia formally joined the WTO on 14 July 2016, as the WTO's 163<sup>rd</sup> Member, URL: [https://www.wto.org/english/news\\_e/news16\\_e/acc\\_lbr\\_20jun16\\_e.htm](https://www.wto.org/english/news_e/news16_e/acc_lbr_20jun16_e.htm) (accessed: 10.07. 2019); followed by Afghanistan which formally joined the WTO on 29 July 2016 as WTO's 164<sup>th</sup> Member. URL: [https://www.wto.org/english/thewto\\_e/countries\\_e/afghanistan\\_e.htm](https://www.wto.org/english/thewto_e/countries_e/afghanistan_e.htm) (accessed: 10.07.2019).

<sup>16</sup> World Trade Organization, WTO at Twenty: Challenges and Achievements. WTO (2015). Table 5. URL: [https://www.wto.org/english/res\\_e/booksp\\_e/wto\\_at\\_twenty\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/wto_at_twenty_e.pdf) (accessed: 16.07.2019).

<sup>17</sup> Cf footnote 8.

<sup>18</sup> It is recalled that the average MFN tariff for industrial products in developed countries is 3.8 %. Hence the Kyrgyz Republic has aligned its tariff rates very close to this average, which is a significant step.



Table 1. Tariff structure, 2006, 2009, and 2012

	MFN applied			Final bound <sup>a</sup>
	2006	2009	2012	
Bound tariff lines (% of all tariff lines)	99.90	99.90	99.90	99.90
Simple average rate	4.90	5.10	5.00	7.80
WTO agricultural products	8.40	8.70	8.40	12.10
WTO non-agricultural products	4.10	4.10	4.10	6.60
Duty free tariff lines (% of all tariff lines)	46.10	45.50	46.40	18.90
Simple average rate of dutiable lines only	9.20	9.40	9.40	9.60
Tariff rate quotas (% of all tariff lines)	0.00	0.00	0.00	0.00
Non-ad valorem tariffs (% of all tariff lines)	1.30	1.40	1.40	1.80
Domestic tariff «peaks» (% of all tariff lines) <sup>b</sup>	2.70	1.30	1.30	0.00
International tariff «peaks» (% of all tariff lines) <sup>c</sup>	0.00	1.30	1.30	4.00
Nuisance tariffs (% of all tariff lines) <sup>d</sup>	0.00	0.00	0.00	0.00
Total number of tariff lines	11.13	10.95	10.99	10.985 <sup>e</sup>
Ad valorem rates	5.84	5.82	5.73	8.71
Duty free	5.14	4.98	5.10	2.08
Specific rates	11.00	11.00	14.00	19.00
Mixed rates	139.00	143.00	145.00	181.00
Bound tariff lines (% of all tariff lines)	99.90	99.90	99.90	99.90
Simple average rate	4.90	5.10	5.00	7.80
WTO agricultural products	8.40	8.70	8.40	12.10

Notes: a — final bound rates are based on the 2012 tariff schedule in HS07 nomenclature;

b — domestic tariff peaks are defined as those exceeding three times the overall average applied rate;

c — international tariff peaks are defined as those exceeding 15 %;

d — nuisance rates are those greater than zero, but less than or equal to 2 %;

e — total number of bound lines (including partially bound rates); 2006 tariff is based on HS02 nomenclature, 2009 and 2012 tariffs are based on HS07. Calculations for averages are based on national tariff line level (10-digit), excluding specific rates (14 tariff lines falling under alcoholic beverages) and including the *ad valorem* part of mixed rates.

Based on: WTO Secretariat calculations. Kyrgyz WT/TPR/S/288/Rev.1 21 January 2014. Table 3.7, p.35. URL: [https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=2ahUKewj14SY3f\\_1AhWNIIsKHYF3D3wQFjAAegQIAxAC&url=https%3A%2F%2Fdocsonline.wto.org%2Fdoc2fe%2FPages%2FFE\\_Search%2FExportFile.aspx%3Fid%3D121920%26filename%3Dq%2FWWT%2FTPR%2FS288R1.pdf&usq=AOvVaw2s7UdkpuV31IpHKQ3G6nMC](https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=2ahUKewj14SY3f_1AhWNIIsKHYF3D3wQFjAAegQIAxAC&url=https%3A%2F%2Fdocsonline.wto.org%2Fdoc2fe%2FPages%2FFE_Search%2FExportFile.aspx%3Fid%3D121920%26filename%3Dq%2FWWT%2FTPR%2FS288R1.pdf&usq=AOvVaw2s7UdkpuV31IpHKQ3G6nMC) (accessed: 03.08.2019).

Also, of significant importance is the fact that nearly 20 % of tariff lines are bound at duty free levels. The Kyrgyz Republic has very few tariff peaks and hardly any tariff

escalation<sup>19</sup>. Despite the good record, the Kyrgyz Republic faces some main challenges, with approximately 90 tariff lines exceeding the WTO bindings. More recently, the Kyrgyz Republic faces serious difficulties in its tariff schedules following its accession to various regional trade integration initiatives, including customs unions. De facto this implies that it will have to align its MFN duties with the common external tariff of the CU, representing an increase of its (low) MFN duties and thus affecting its WTO commitments. The implications of its regional integration will be considered further below.

In addition to its tariff liberalization, Kyrgyz Republic undertook significant services commitments, including in 136 services (sub) sectors. Only Moldova (147) and Ukraine (137) exceed that number, with all other Article XII members having made fewer commitments<sup>20</sup>. This observation should be qualified, as the number of services (sub) sectors in itself doesn't say much about the openness of the (sub) sector and the economic significance of the commitments, which can only be understood by reading the commitment itself. Nevertheless, the number gives an indication of the policy orientations of the acceding country and signals its willingness to liberalize the services trade. Services account for less than half of the Kyrgyz Republic's GDP and the government intends to develop the services economy steadily further, as will be discussed further.

Commitments by acceding countries generally go beyond what most original members have committed to, thus pointing at a two-speed process. In addition, most acceding countries have an obligation to initiate the process of joining the Government Procurement Agreement (GPA) following their accession, thus expanding its membership and coverage. This also applies to the Kyrgyz Republic, which is an observer to the GPA and committed to join, as will be discussed in the next part.

The market access conditions provided are one side of the coin, as the acceding member needs to prove that all domestic laws and regulations are in conformity with WTO law and ensure that all institutional arrangements are effectively in place to put its legal system into full operation. In Kyrgyzstan a total of 155 legislative and regulatory changes were introduced, as contained in the final working party report presented to and adopted by the General Council on 14 October 1998<sup>21</sup>. This seems to be well within the average. Only Ukraine (449), China (2300) and Russia (1166) considerably exceeded that number<sup>22</sup>. The laws and regulations are scrutinized by the membership during working party meetings dedicated to each accession.

This leads to another challenge, consisting of getting the full support of the law makers within the set time-frame to ratify the WTO Accession Protocol<sup>23</sup>. It can be and often

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<sup>19</sup> Tariff escalation occurs when the tariff rates increase with the level of processing and which, thus reducing incentives for adding value in the production process.

<sup>20</sup> WT/ACC/KGZ/2/ 3 May 1996 and Rev.2 18 March 1997. URL: [https://www.wto.org/english/thewto\\_e/acc\\_e/a1\\_kyrgyz\\_republic\\_e.htm](https://www.wto.org/english/thewto_e/acc_e/a1_kyrgyz_republic_e.htm) : Accession of Kyrgyz Republic to the WTO: Memorandum on the Foreign Trade Regime. 23 August 1996. WT/ACC/KGZ/3 (accessed: 04.07.2019).

<sup>21</sup> WT/ACC/KGZ/26 31 July 1998; WTO Report of the Working Party on the Accession of the Kyrgyz Republic. URL: [https://docs.wto.org/dol2fe/Pages/FE\\_Search/FE\\_S\\_S009-DP.aspx?language=E&CatalogueIdList=36603,41578,10911,11148,11146&CurrentCatalogueIdIndex=3&FullTextHash](https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S009-DP.aspx?language=E&CatalogueIdList=36603,41578,10911,11148,11146&CurrentCatalogueIdIndex=3&FullTextHash) (accessed: 14.07.2019).

<sup>22</sup> The WTO at twenty. Table 4, p. 25. 14 July 2019. URL: [https://www.wto.org/english/res\\_e/booksp\\_e/wto\\_at\\_twenty\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/wto_at_twenty_e.pdf) (accessed: 05.08.2019).

<sup>23</sup> According to Article XII the applicant member has a period of 6 months to complete the domestic ratification process, following completion of the accession negotiations and the adoption of the Protocol of Accession by the membership. This has been particularly challenging in many countries and the WTO

is a challenge to convince law makers that the long-term balance will tip in the favour of the country joining the WTO and outweigh the short-term costs<sup>24</sup>. Parliamentarians tend to take short term views given their often limited mandates and change during the (long) accession process. Many have little knowledge of the WTO system and rules and regulations, which may mean little to their local constituencies. Indeed, the economic advantages of membership are not immediate and mostly spread over the economy, rather than immediate with clear and demonstrable economic effect on the electorate. It thus becomes a challenge to convince them of the longer-term advantages of membership and accept the short-term costs. This also explains why some accession processes become “dormant”, particularly if the domestic constituency is not convinced of the gains<sup>25</sup>. This was different in Kyrgyzstan where the adoption of the negotiating package was smooth and speedy.

The accession process and timely conclusion thus much depends on the preparedness of a country in engaging both domestically and with its trade partners. This requires a strong domestic set up to facilitate the many structural domestic legislative reforms to be undertaken and conduct consultations at all levels and involving all stakeholders. With a view of getting the necessary support in modifying existing and introducing new legislation, one of the first steps in Kyrgyz Republic included the setting up the institutional and legislative framework and the inter-ministerial coordination mechanisms to ensure coherent approaches. The Ministry of Economy is the central body in the executive given authority for the functions of state policy on tariffs, licensing, investment, and foreign trade<sup>26</sup>. It is guided by the Constitution, normative legal acts, international law, and treaties that have entered into force for the Kyrgyz Republic. Several decrees and regulations of the Kyrgyz Republic have established an inter-departmental commission on the WTO in which various ministries and other state bodies have a role in developing WTO-related policy and overseeing obligations. The WTO inter-departmental Commission was created in 1999 to coordinate WTO multilateral trade issues. It sets out the distribution and responsibilities of the ministries and other government bodies with respect to the WTO Agreements<sup>27</sup>. The private sector was also fully associated with the process from the outset and the negotiators had regular interactions with the Parliament. The President of the Republic took a keen and immediate interest in the WTO accession, thus solidifying the political commitment. All issues could be addressed and resolved promptly, which contributed to the adoption of timely decisions and easing the accession.

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has often been called upon to speak to parliaments in acceding countries and hold bilateral meetings with lawmakers to explain the WTO, including the main elements of the WTO rules-based system and possible implications of membership. Personal experience confirms that these meetings often turned out to be decisive in getting the support of Parliament.

<sup>24</sup> It is not easy to measure and quantify in economic terms the benefits that WTO membership brings following the accession process, as many of the advantages are gradually obtained during the accession process, when the domestic reforms are conducted, and laws are introduced. Contrary to a common belief, little immediate change occurs on the day following membership, as most conditions are already met on that day.

<sup>25</sup> This was the case with Vanuatu earlier, Algeria, Ethiopia, Lebanon and Sudan; the latter three have resumed their accessions.

<sup>26</sup> WT/TPR/S/288/Rev.1. 21 January 2014: Kyrgyz Decree of 4 June 2013. No. 312. URL: [https://www.google.com/url?sa=t&rc=j&q=&esrc=s&source=web&cd=1&ved=2ahUKewjmm-aHsP\\_IAhVrkIsKHWz3AtsQFjAAegQIBRAC&url=https%3A%2F%2Fdocs.wto.org%2Fdocsonline.wto.org%2Fdocsonline.wto.org%2FPages%2FFE\\_Search%2FExportFile.aspx%3Fid%3D121920%26filename%3Dq%2FWT%2FTPR%2FS288R1.pdf&usg=AOvVaw2s7UdkpuV31IpHKQ3G6nMC](https://www.google.com/url?sa=t&rc=j&q=&esrc=s&source=web&cd=1&ved=2ahUKewjmm-aHsP_IAhVrkIsKHWz3AtsQFjAAegQIBRAC&url=https%3A%2F%2Fdocs.wto.org%2Fdocsonline.wto.org%2Fdocsonline.wto.org%2FPages%2FFE_Search%2FExportFile.aspx%3Fid%3D121920%26filename%3Dq%2FWT%2FTPR%2FS288R1.pdf&usg=AOvVaw2s7UdkpuV31IpHKQ3G6nMC) (accessed: 14.07.2019).

<sup>27</sup> Kyrgyz Decree of 23 June 2003. No. 374. URL: <http://cbd.minjust.gov.kg/act/view/ru-ru/54515?cl=ru-ru> (accessed: 14.07.2019).

In addition to preparing and adjusting laws, rules and regulations, the challenges included submitting all legal text in official WTO language, sharing information with private sector and get their feedback on concessions, identify priorities for give and take and establishing red lines, get full support from domestic constituency, including the Parliament, which needs to be briefed regularly, build technical knowledge and expertise on the WTO rules and rights and obligations. The practice shows that WTO Members will always ask for the maximum concessions from acceding countries, which need to be clear as to how far they can go with granting concessions. In other words, they need to establish their “red lines”.

Finally, it should be noted that the accession of the new Members to the WTO works both ways. It is beneficial for the acceding country and in return generates economic growth and stimulates world trade. Equally important, it strengthens the rule of law through multilateral approaches to trade. The reforms undertaken by the Article XII members, especially those with large economies like China, have significantly lowered protection world-wide and expanded trade opportunities over the past 20 years<sup>28</sup>. Concerning goods trade, acceding members have made binding commitments on virtually all their agricultural and non-agricultural tariffs, significantly improving the certainty and predictability of their trade regimes.

The accession of new members to the WTO has thus been very beneficial economically and stimulated trade and economic growth world-wide, but equally so from systemic perspective. Indeed, the WTO as an institution was genuinely interested to include countries coming from different economic systems, adding to the diversity of the membership. It strongly welcomed and embraced the membership of the formerly centrally planned economies that had moved to applying market-based principles. It triggered a process of considerable trade liberalization and a wider adherence to the rules-based trading system, which was both of economic and systemic significance. This explains why the Secretariat organized a WTO Ministerial Conference for Central Asia and Caucasus countries in Tbilisi (May, 2002), in recognition of the considerable reform efforts undertaken by countries in the region and a similar Conference was held in Croatia for countries in the Balkan, many of whom were negotiating their accession to the WTO following the breaking up of former Yugoslavia and the creation of new and independent countries.

### 3. Kyrgyzstan's Economic Performance after WTO Accession

It is an established fact that the Article XII members have economically outperformed its trading partners in the world in terms of increase in value of merchandise trade<sup>29</sup>. This also applies to the Kyrgyz Republic, which has experienced a strong economic performance since joining the WTO. The economy has undergone a significant structural change since its independence in 1991 and strengthened by WTO accession in 1998, as confirmed at the two trade policy reviews carried out for the Kyrgyz Republic

<sup>28</sup> Cf WTO at Twenty. Table 5. URL: [https://www.wto.org/english/res\\_e/reser\\_e/ersd201710\\_e.pdf](https://www.wto.org/english/res_e/reser_e/ersd201710_e.pdf) (accessed: 14.07.2019).

<sup>29</sup> WT/ACC/31.WT/GC/189.WT/MIN(17)/6. Figures 5,6, 7, p. 33–34, Table 6-1 and 6-2, p. 42. URL: <https://webcache.googleusercontent.com/search?q=cache:Tl199FXe9DcJ:https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx%3Ffilename%3Dq:WT/ACC/31.pdf+%3D&cd=1&hl=en&ct=clnk&gl=kg&client=safari> ; WTO at Twenty, challenges and achievements. WTO, Geneva 2015, p. 27. URL: [https://www.wto.org/english/res\\_e/booksp\\_e/wto\\_at\\_twenty\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/wto_at_twenty_e.pdf) (accessed: 16.08.2019).

in 2006 and 2013<sup>30</sup>. The structural reforms undertaken allowed Kyrgyz Republic to move from a centrally planned economy to integrate into the world economy on the basis of market-based principles. Its WTO membership has helped the Kyrgyz Republic stabilizing and strengthening some of the economic fundamentals, including inflation, budget deficits and currency stabilization.

Based on data from the World Bank, the development of the GDP of the Kyrgyz Republic can be illustrated in Figure 1 (a, b). The GDP has risen significantly over the past twenty years, except for two years, thus confirming a healthy growth of the economy. There was a noticeable decline in GDP in 2000 to the amount of \$200 mln, followed by another major decline in 2015–2016 of \$800 mln compared to previous years. These declines are in part attributed to the effects of a global economic recession, including the Asian and Russian crises in 1998. These are often considered one of the most severe economic crises in the history of Russia — the main trade and economic partner of the Kyrgyz Republic. In addition, the Kyrgyz economy declined due to domestic political instability, a change in government and constitutional changes.

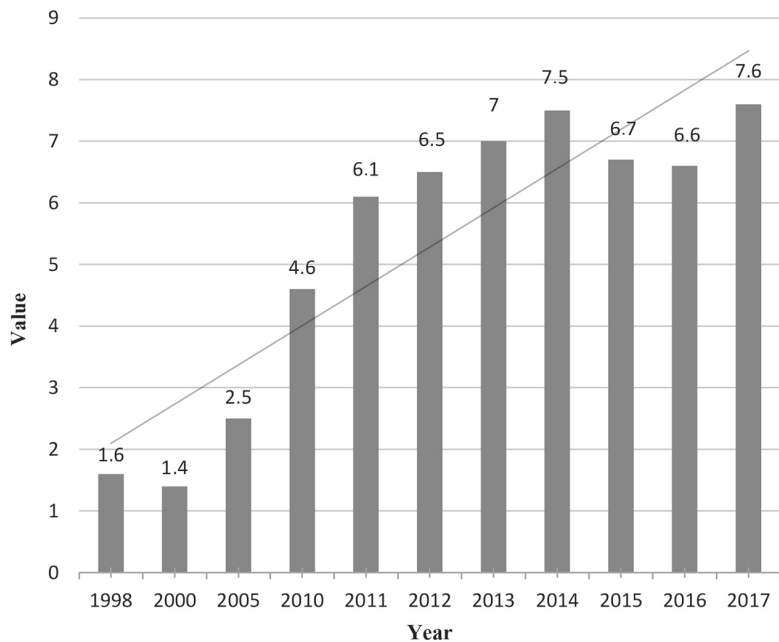
The Kyrgyz Republic's trade turn-over, including exports and imports evolved rapidly and increased 26 times from 60 to 1.6 bln US\$. Imports exceeded exports significantly, resulting in a rapidly growing trade deficit. Merchandise imports in 2017 (4,5 bln US\$) are nearly triple merchandise exports (1,8 bln US\$). Agriculture represents just over 11 % of exports and 13.4 % of imports, manufactures 22.7 % of exports and 69.7 % of imports. Exports and imports of fuels and mining products are almost even at around 10 %. Kyrgyz Republic is highly dependent on the imports of manufactures and petroleum oils, other than crude. The main non-agriculture products exported include gold (20 %), precious metal ores and concentrates. Sectors and products that are considered to have an export potential for the Kyrgyz Republic include textile-garments, meat, fruit and vegetables, milk and dairy products and bottled water, given its unlimited natural fresh water supply. The commodity structure of Kyrgyz exports has hardly changed since 2000 and there is overall little diversification, which remains one of the key structural reform challenges for Kyrgyzstan. It remains strongly dependent on resource-based products generating limited skilled employment.

Trade flows of the Kyrgyz Republic following its WTO accession fluctuated considerably. Following a slowdown, trade expanded very rapidly until 2014 and increased by a factor 6, reaching a peak of 7.6 bln US\$. It then decreased and somewhat stabilized at a lower level. The volume of trade in goods of the Kyrgyz Republic, according to the data of the National Statistics Committee, in 2017, amounted to 6.3 bln US\$. In absolute numbers, between 1998 and 2017, the trade turnover of the Kyrgyz Republic thus effectively increased 4.5 times from 1.4 bln US\$ to 6.2 bln US\$ (cf fig. 2).

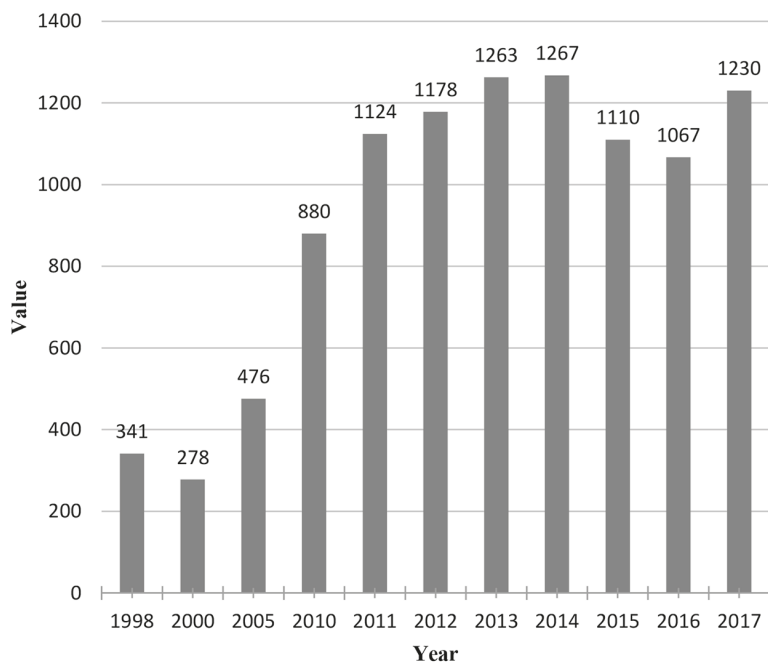
The share of trade with the main trading partners of Kyrgyz Republic in the CIS, as well as within the economic space of the EAEU remained relatively steady with some exceptions. Trade with the Russian Federation increased 5 times from 287.8 to 1,456.6 mln US\$, and with Kazakhstan 5.5 times from 160.7 to 876.7 mln (cf Table 2). As can be observed from Table 2, trade turnover grew exponentially fast with China. It is also evi

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<sup>30</sup> WT/TPR/G/170 (4 September 2006); WT/TPR/S/170 (4 September 2006), /WT/TPR/M/170 (13 December 2006), WT/TPR7G/288 (1 October 2013); WT/TPR/S/288/Rev.1 (21 January 2014), /WT/TPR/M/288 (13 January 2014). Official site of World Trade Organisation. WTO. URL: [https://www.wto.org/english/thewto\\_e/countries\\_e/kyrgyz\\_republic\\_e.htm](https://www.wto.org/english/thewto_e/countries_e/kyrgyz_republic_e.htm) (accessed: 16.08.2019).



a) GDP (in bln of US doll.)



b) GDP per capita (US doll.)

Fig. 1. Growth of GDP in Kyrgyz Republic since 1998 to 2017

Based on: World bank data. URL: <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=KG> (accessed:06.08.2019); World bank data. URL: <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?end=2018&locations=KG&start=1998> (accessed: 06.08.2019).

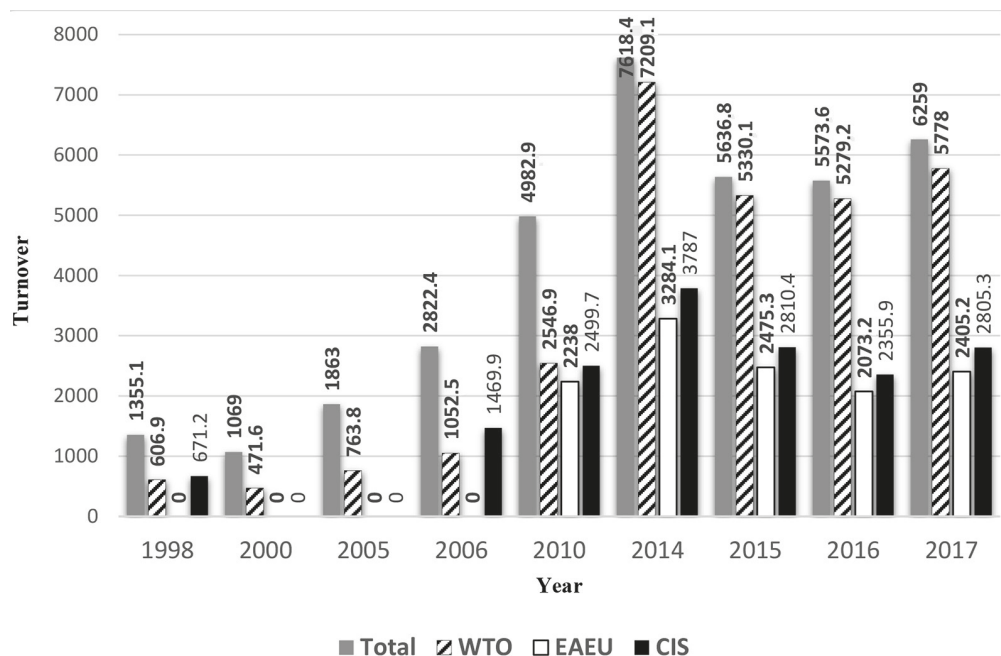


Fig. 2. Dynamics and structure of the trade turnover of the Kyrgyz Republic in the context of the EAEU, CIS and WTO countries for 1998–2017 (in mln of US doll.)

Table 2. The evolution of commodity turnover of the Kyrgyz Republic with its main trading partners (in mln of US doll.)

Region	1998	2017	Growth rate
World	1 404,0	6240,00	4,50
Russia	287,80	1456,50	5,06
Kazakhstan	160,80	876,70	5,45
Uzbekistan	160,70	309,90	1,93
Belorussia	14,90	91,80	6,16
China	60,10	1597,60	26,58
USA	48,50	156,30	3,22
Turkey	44,80	356,10	7,95

Source: National Institute for Strategic Studies of the Kyrgyz Republic. URL: <http://nisi.kg/112-stati/517-analiz-uchastiya-kyrgyzskoj-respubliki-na-platforme-vto.html> (accessed: 12.08.2019).

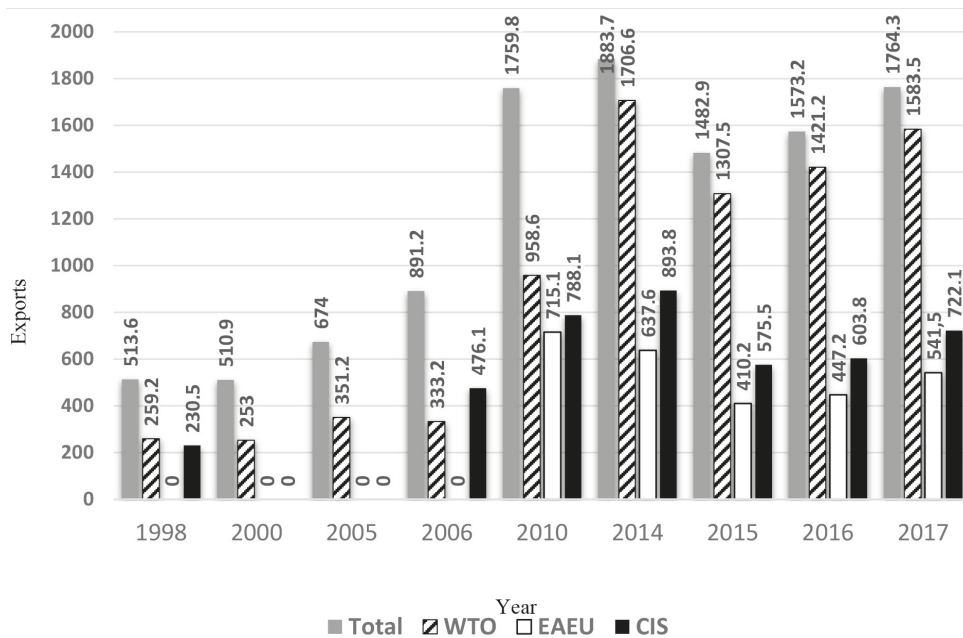


Fig. 3. Dynamics and structure of exports of the Kyrgyz Republic with EAEU, CIS and WTO in 1998–2017

Source: Ministry of Economy. URL: <http://mineconom.gov.kg/en> (accessed: 20.09.2019).

denced in the WTO's Trade Policy Review reports and confirmed in figures 3 and 4, that Kyrgyzstan managed to diversify its trading partners and increase its trading relations with WTO members (Cf fig. 3 and 4). It traded goods and services with most WTO members, thus benefiting from the new market access conditions offered through WTO Membership. On the export side the main trading partners in 2017 included Switzerland (27.4%), Kazakhstan (16.5%), Russia (14.7%), European Union (13.8%), Uzbekistan (8.2%), Turkey (7.4%) and China (5.5%). In terms of imports, the main trading partners were China (33.4%), Russian Federation (26.4%), Kazakhstan (13.1%), the European Union (6.7%), Turkey (5%). This shows that Kyrgyzstan has a major trade deficit with China, the Russian Federation and the EU. These figures have remained relatively stable over time with some changes since 2006, confirming that the direction s in trade happened early on after the accession was completed.

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<sup>31</sup> Cf WT/TPR/S/288/Rev.1 p. 15 ch.t 1.2 direction of merchandise trade 2006 and 2012 . URL: [https://docsonline.wto.org/dol2fe/Pages/FE\\_Search/FE\\_S\\_S009-DP.aspx?language=E&CatalogueIdList=121920,1](https://docsonline.wto.org/dol2fe/Pages/FE_Search/FE_S_S009-DP.aspx?language=E&CatalogueIdList=121920,1)



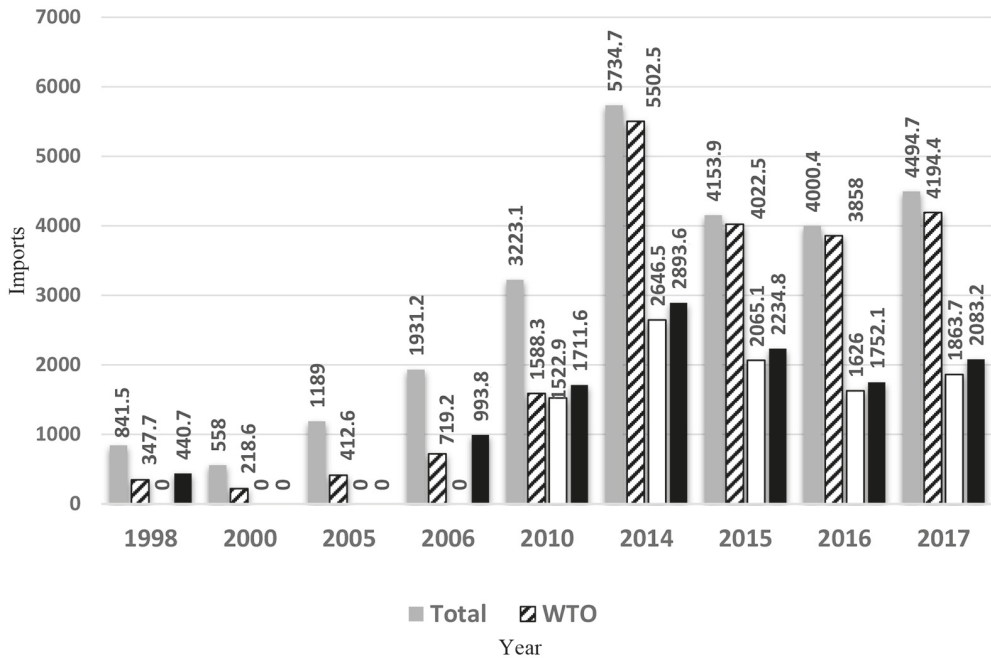


Fig. 4. Dynamics and structure of imports of the Kyrgyz Republic with EAEU, CIS and WTO in 1998–2017

Source: Ministry of Economy. URL: <http://mineconom.gov.kg/en> (accessed: 20.09.2019).

Membership. On the export side the main trading partners in 2017 included Switzerland (27.4%), Kazakhstan (16.5%), Russia (14.7%), European Union (13.8%), Uzbekistan (8.2%), Turkey (7.4%) and China (5.5%). In terms of imports, the main trading partners were China (33.4%), Russian Federation (26.4%), Kazakhstan (13.1%), the European Union (6.7%), Turkey (5%). This shows that Kyrgyzstan has a major trade deficit with China, the Russian Federation and the EU. These figures have remained relatively stable over time with some changes since 2006, confirming that the directions in trade happened early on after the accession was completed.

The share of exports to CIS countries reached a total of 2.1 bln US\$ corresponding to less than 50% of total exports, staying far behind in growth compared to third country markets. WTO accession thus implied a rapid diversification of trade and to the benefit of WTO members and a relative decrease of the share of CIS in Kyrgyzstan's trade.

Imports into the Kyrgyz Republic grew significantly due to low tariffs and MFN trade, offering good market access conditions to the Kyrgyz Republic. Among the sectors that showed the strongest increase in imports in the Kyrgyz Republic are: medicines, vehicles, machinery equipment, finished food products, metal products and textile fabrics.

The developments on Kyrgyz trade patterns thus show that there has been an exponential high growth in exports and imports since Kyrgyz Republic joined the WTO, but at the same time the Kyrgyz Republic has become more dependent on the import of foreign

19696,82889,71996&CurrentCatalogueIdIndex=0&FullTextHash=&HasEnglishRecord=True&HasFrenchRecord=True&HasSpanishRecord=True (accessed: 08.09.2019).

manufactures. It also has not been able to diversify the composition of exports and imports. One of several challenges will consist of integrating more fully into world trade by better linking to GVC and generating more value addition in the production process and upgrading production. Challenges encountered in that regard concern a lack of technological innovation, areas that have the attention of the authorities.

#### 4. Regional Integration Challenges for Kyrgyzstan

While the main purpose of WTO membership was to promote multilateral trade liberalization and decrease its dependency on regional trading partners, interestingly Kyrgyzstan recently has made significant strides (re-)integrating regionally. This is much in line with the new trend of regionalism, covering basically all regions, including most of the key players and world traders [Acharya, Chauffour, Maur, 2011]. Central Asia is no exception with several regional integration initiatives under way.

From a WTO perspective, one of the concerns with RTAs is that the benefits of trade liberalization under RTAs are limited to those parties subscribing to the RTAs and so they are exclusive. Hence there is a potential conflict between the two approaches, thus necessitating policy choices. While regionalism is tolerated under the rules of the multilateral trading system of the WTO, RTAs deviate from the MFN principles, which ensure that all benefits accrue to the entire membership<sup>32</sup>. In accepting regionalism under WTO rules, a fundamental element is that the overall net balance of the regional integration initiative should be a positive one, with a net benefit for the world as a whole, an issue that economists refer to as trade creation versus trade diversion<sup>33</sup>. In the case of a customs union or free trade area, members must remove duties and other restrictions affecting 'substantially all trade' among them<sup>34</sup>. Other rules require a detailed plan and schedule to show how the members will move to free trade, and these are examined to confirm that Article XXIV's requirements have been met. As the GATT provisions on regionalism became largely obsolete, the Marrakesh Agreement led to a new Understanding clarifying the procedures to be followed and/or touches upon most of the concerns that have come up and making it easier to reach agreement on whether regional agreements meet Article XXIV rules<sup>35</sup>. The

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<sup>32</sup> Article XXIV of the GATT (URL: [https://www.wto.org/english/docs\\_e/legal\\_e/gatt47\\_02\\_e.htm](https://www.wto.org/english/docs_e/legal_e/gatt47_02_e.htm) articleXXIV (accessed: 07.08.2019)) contains specific language detailing the conditions and criteria applying to regional integration initiatives, e.g. customs union, free trade arrangements, preferential schemes etc. These provided the legal basis for the European Union to establish its customs union in the 1950s and later to cover its preferential schemes with its overseas territories. It also became evident that the provisions of Article XXIV had some shortcomings, as the question whether the condition in the relevant provisions had been met could never be answered. This hampered the discussions and debates for many years, until improvements in the provisions were finally adopted, enhancing the transparency principles on regionalism.

<sup>33</sup> Regional integration can lead to trade creation by eliminating trade obstacles through tariff reduction and/or elimination between the constituent parties as well as a reduction of non-tariff measures. It can also lead to trade diversion as the conditions provided to the parties of the regional entity are better than those provided to the non-parties, thus giving an economic advantage to the region. The difficulty consists of making the economic calculations between the trade creation and trade diversion effects and draw conclusions on the overall effects.

<sup>34</sup> One of the unresolved questions is what is meant by 'substantially all trade' and how to measure it? How can the economic effects of the harmonisation technical regulations, standards, laws in the area of services and intellectual property rights, agricultural regulations be quantified?

<sup>35</sup> GATT 1994: Understanding on the Interpretation of Article XXIV of the General Agreement on Tariffs and Trade 1994. URL: [https://www.wto.org/english/docs\\_e/legal\\_e/10-24.pdf](https://www.wto.org/english/docs_e/legal_e/10-24.pdf) (accessed: 07.08.2019).

Agreement also contains provisions on the examination of regional trade agreements, and which are mostly procedural.

Kyrgyzstan is a member of various regional integration initiatives: in 2015, Kyrgyzstan joined the EAEU, while in the same year, Kazakhstan completed the process of accession to the WTO<sup>36</sup>. These factors created new conditions in the foreign trade regimes of the EAEU with WTO member countries and affected tariff schedules and concessions made during the WTO accession. For many items, import duties for both Kyrgyz Republic and Kazakhstan were significantly lower than the Common Customs Tariff of the EAEU and needed to be raised to comply with the Common External Tariff (CET) of the EAEU.

Following the accession of the Kyrgyz Republic to the EAEU Treaty of May 29, 2014, consultations were held at the WTO on the new trade regime and the implications for WTO members. As provided for under the WTO rules, negotiations are carried out by Kyrgyzstan in the framework of Articles XXIV and XXVIII of GATT 1994 and in order to change the tariff concessions of the Kyrgyz Republic in the WTO. As was observed in Kyrgyzstan's TPR in 2014, the implication of joining the Customs Union meant that the Kyr-

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<sup>36</sup> Kyrgyzstan's main regional integration commitments include:

*Commonwealth of Independent States (CIS)* — Established in December 1991, the participants include: the Republic of Azerbaijan, the Republic of Armenia, the Republic of Belarus, Georgia, the Republic of Kazakhstan, the Kyrgyz Republic, the Republic of Moldova, the Russian Federation, the Republic of Tajikistan, Turkmenistan, the Republic of Uzbekistan, Ukraine (before recent events). The basic document of cooperation among the CIS states was the "Agreement on the Establishment of a Free Trade Zone" of April 15, 1994 and currently is the "Agreement on the Free Trade Zone", signed in St. Petersburg on October 18, 2011. Based on these agreements, the Kyrgyz Republic provides a free trade regime for all goods originating from the CIS countries, while maintaining its own external tariff.

*Economic Cooperation Organization (ECO)* — Established in November 1992. The members are the Kyrgyz Republic, the Republic of Kazakhstan, the Republic of Uzbekistan, the Republic of Tajikistan, the Republic of Turkmenistan, the Republic of Azerbaijan and the Islamic Republic of Afghanistan. The main objectives of the organization are the acceleration of regional cooperation in the field of economy, science and technology; the development of communication infrastructure both among the ECO member states and with other countries.

*CAREC Programme*: The CAREC programme is in operation since 2001. It is a consultative forum initiated by the Asian Development Bank, covering the Republic of Azerbaijan, the PRC, Afghanistan, the Republic of Kazakhstan, the Kyrgyz Republic, the Republic of Uzbekistan, the Republic of Tajikistan and Mongolia. Basic principles — "Good neighbours, good partners, good prospects" The main activities in 2010–2020 are the implementation of joint projects aimed to develop transport, trade, trade policy and electric power industry. CAREC activities until 2030 involves focusing on five operational clusters: (a) economic and financial stability; (b) trade, tourism, and economic corridors; (c) infrastructure and economic connectivity; (d) agriculture and water resources; (e) human development.

*Eurasian Economic Union (EAEU)*: The predecessor of the EAEU is the CIS Customs Union, formed on January 6, 1995 by Russia and Belarus. Kazakhstan joined it on January 20, 1995, Kyrgyzstan joined on March 29, 1996, Tajikistan joined on February 26, 1999. On October 10, 2000, the Customs Union was transformed into EurAsEC, and Uzbekistan joined it on January 25, 2006. The formation of the Common Economic Space began on January 1, 2012. The process of transforming the CU into the EAEU was completed by the beginning of 2014. From January 1, 2015, a new integration association, the Eurasian Economic Union (EAEU), began to function. Armenia and Kyrgyzstan joined in 2015. The includes free movement of goods, a common market for services, with a transitional period until 2025, a common labour market and the free movement of capital, with transitional period until 2025.

Kyrgyzstan is a member of several preferential trade agreements with CIS countries and signed FTAs with Russia on 8 October 1992, Kazakhstan on 22 June 1995, Uzbekistan on 24 December 1996, Azerbaijan on 12 January 2004, Armenia on 7 July 1994, Moldova on 26 May 1995, Ukraine on 26 May 1995, Belarus on 30 March 1999, Tajikistan on 19 January 2000.

gyz Republic would have to raise its average rate of duty from 5 % to the CET of 10.5 %<sup>37</sup>. This is quite problematic and requires substantial renegotiation of tariff concessions. Referring to a study undertaken by the Eurasian Development Bank<sup>38</sup>, it is noted that:

- 30 % of Kyrgyz duties align with those of the customs union, and thus would not need to be changed;
- 21 % can be re-aligned with those of the customs union without violating WTO commitments, but
- Nearly 50 % do not align and would require re-negotiations and compensation to WTO Members.

Interest in conducting negotiations with the Kyrgyz Republic was expressed by seven WTO member countries (hereinafter referred to as the Participants of the negotiations), which account for more than a third of world exports. The Government of the Kyrgyz Republic submitted the required notifications to the WTO on the entire spectrum of issues that are subject to changes in the foreign trade regime of the Kyrgyz Republic, following its accession to the EAEU. The main objective is to ensure that all measures taken at the level of the EAEU are brought in conformity with the WTO.

The question then is, looking at the evolution of its trade patterns from an economic perspective, with most significant trade growth occurring with WTO Members and not its regional trade partners, why Kyrgyzstan puts itself in a situation requiring a significant increase in its tariffs and the explicit obligation of renegotiating its commitments and providing compensation. The process risks to be long, cumbersome and very expensive for Kyrgyzstan and its trading partners. It is understood that not all compensation needs to be provided by Kyrgyzstan, as long as the overall balance of trade concessions can be maintained, but someone will have to pay the bill. Given that the renegotiations concern the EAEU Members in terms of compensation to be provided, the negotiation process is carried out in close coordination with the EAEU member countries in order to determine the levels of compensation. The process of renegotiating tariff concessions is likely to be long, complex and costly.

## 5. The Way Forward

In pursuing its key objectives and as a new and Recently Acceded Member (RAM) of the WTO, the main challenges for the Kyrgyz Republic consists of continuing the reform process initiated during and following its accession process<sup>39</sup>. The domestic reform agenda is particularly challenging at a time of globalization and the need to be inserted in Global Value Chains [Smeets, Mashayekhi, 2019; Smeets, 2017]. Putting the right policies in place and having an economy that can be reactive and responsive to rapidly changing economic conditions is not an easy task. It includes a broad range of measures aimed at re-

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<sup>37</sup> WT/TPR/S/288/Rev.1, p. 23. URL: [https://docs.wto.org/dol2fe/Pages/FE\\_Search/FE\\_S\\_S009-DP.aspx?language=E&CatalogueIdList=120527,118699&CurrentCatalogueIdIndex=0&FullTextHash](https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S009-DP.aspx?language=E&CatalogueIdList=120527,118699&CurrentCatalogueIdIndex=0&FullTextHash) (accessed: 08.08.2019).

<sup>38</sup> Eurasian Development Bank (2012); USAID/The services Group/AECOM (2010a) and (2010b).

<sup>39</sup> The countries that are recognized as Recently Acceded Members (RAMs) are defined in the WTO negotiations and listed as such for the purpose of having a common understanding on which ones they are. Given their status as having recently acceded and having made considerable concessions in the process, special conditions are considered for them under the terms of the draft agreements under negotiation.

ducing transaction costs, easing business transactions, reviewing tax laws and regulations and enhancing transparency with a view attracting foreign direct investment (FDI). All measures are geared towards enhancing competition, encouraging and facilitating trade, easing customs procedures, lowering import duties and reducing the incidence of non-tariff measures. The key challenge is to ensure that all benefit from the liberalization.

Given its transition from a centrally planned system to a market-based economy, a fundamental policy shift included reducing state control over strategically important sectors, which for many years generated government revenue as well as the control it could exercise over its operations in industries, such as mining, energy and many other key areas. Privatization was key to success. Other major challenges included the elimination of non-tariff measures, quantitative restrictions, adjusting its customs valuation methodology for the importation of goods and bring it in line with the customs valuation agreement, reviewing its licensing systems (automatic licensing), adopting standards and regulations in line with international technical and sanitary and phytosanitary standards, which can be complex, costly and difficult to implement. While many actions were taken in that sense, other policy options still need to be pursued for a further and deeper integration in the trading system.

The implementation of the WTO agreements is not only technically challenging, but requires further institutional and regulatory reforms, which can be complex and costly. Calculations made by the World Bank show that the implementation of the Customs Valuation Agreement, including the institutional reforms of the customs and its modernization can cost well beyond \$100 mln [Finger, Schuler, 1998]. Separately, membership required legislation for intellectual property rights, another major challenging area, eliminating trade related investment measures (TRIMS), which are in conflict with WTO etc. This again is to show that the reform process is still on in critical sectors of the economy.

### *5.1. The Trade Facilitation Agreement (TFA)*

Bearing the above-mentioned objectives in mind, and after a careful examination of all aspects of the Trade Facilitation Agreement (TFA), the Kyrgyz Republic decided to fully support and ratify the Agreement, which happened on 6<sup>th</sup> December 2016. It is recalled that the TFA was negotiated at the MC-IX (Bali) WTO and adopted by the members on 27 November 2014<sup>40</sup>. The TFA could only enter into force once two-thirds of members had completed their domestic ratification process. On 22<sup>nd</sup> February 2017, the required total of 111 members had ratified the agreement, thus freeing the way to its entering into force and implementation<sup>41</sup>. To date a total of 145 members have ratified<sup>42</sup>. In ratifying the TFA, nearly two years after the TFA was negotiated, Kyrgyz Republic showed a strong political will and commitment to be bound by provisions of this Agreement. It is strongly motivated by the economic efficiency gains that can be derived from a full implementation

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<sup>40</sup> Agreement on Trade Facilitation. 11 December 2013. WT/MIN (13)/36, WT/L/911. URL: [https://webcache.googleusercontent.com/search?q=cache:mMq\\_pDAwUW4J:https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx%3Ffilename%3Dq:WT/MIN13/36.pdf+%&cd=1&hl=en&ct=clnk&gl=kg&client=safari](https://webcache.googleusercontent.com/search?q=cache:mMq_pDAwUW4J:https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx%3Ffilename%3Dq:WT/MIN13/36.pdf+%&cd=1&hl=en&ct=clnk&gl=kg&client=safari) (accessed: 12.08.2019).

<sup>41</sup> Cf WTO 2017 News item. 22 February 2017: WTO's Trade facilitation Agreement enters into force. URL: [https://www.wto.org/english/news\\_e/news17\\_e/fac\\_31jan17\\_e.htm](https://www.wto.org/english/news_e/news17_e/fac_31jan17_e.htm) (accessed: 12.08.2019).

<sup>42</sup> TFA Data base of the WTO. URL: <https://www.tfadatabase.org> (accessed: 12.08.2019).

of the TFA. The Ministry of Economy introduced the Single Window and initiated new, streamlined administrative customs procedures, aiming at an information system based on paperless trade. In undertaking these changes and improvements in customs procedures it benefited from substantial technical support provided by the World Customs Organization and the Asian Development Bank.

Indeed, there has been a large conversion of thought in the literature on the economic benefits that the implementation of the TFA can yield [WTO World Trade Report 2015...]. A recent study undertaken jointly by the WTO and the World Bank underscores the role of reducing transaction costs in developing countries in support of trade [World Bank Group..., 2015]. It observes that it is “a common finding in the literature that trade facilitation can improve export performance and that the potential gains are larger for developing countries than developed countries”<sup>43</sup>. The WTO estimates that “the full implementation of TFA could reduce global trade costs by an average of 14.3 per cent”<sup>44</sup>. According to the Peterson Institute, “the implementation of the TFA could amount to over US\$ 1 trillion in gains to the world GDP” [Hufbauer, Schott 2013]. There is wide recognition of the fact that while the implementation of the TFA will benefit all countries, it will mostly come to the benefit of developing countries, as both export and GDP growth will increase more than in developed countries. Beverelli calculates that “improved trade facilitation can lead to an increase in the number of products exported by destination of up to 16 per cent” [Beverelli, Neumuller, Teh, 2015]. Similar conclusions on the gains of the TFA are contained in a series of case studies presented by WTO Chairs, in which they analyze the cost and benefits of the implementation of the TFA for countries and regions and more specifically for Africa and Arab countries [Teh et al., 2016]. Calculations made by economists, international organizations and think tanks suggest that the trade costs in developing countries are on average the equivalent of 219 % import duties<sup>45</sup>. Hence the literature provides the supporting evidence justifying the determination of the Kyrgyz Republic to upscale and modernize its customs procedures. The expected gains from the TFA for Kyrgyzstan have not yet been quantified, but merit further consideration.

## 5.2. Information Technology Agreement (ITA)

The Kyrgyz Republic became a Participant to the Information Technology Agreement (ITA). It is recalled that the first ITA was agreed by the WTO members during the first Ministerial Conference, MC-I (Singapore)<sup>46</sup>. The ITA includes 82 WTO members, who collectively account for 97 % of world trade in IT goods<sup>47</sup>. It is a typical example of a sectorial initiative aimed at liberalizing trade in a specific area and providing new market access opportunities. It is noteworthy that the ITA members inscribe the tariff concessions, that

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<sup>43</sup> World Bank Group and the World Trade Organization (2015). The Role of Trade in Ending Poverty. Joint publication. URL: [https://www.wto.org/english/res\\_e/booksp\\_e/worldbankandwto15\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/worldbankandwto15_e.pdf) (accessed: 20.08.2019).

<sup>44</sup> Cf WTO World Trade Report 2015. Ch. D, p. 73.

<sup>45</sup> Ibid, Foreword by the Director General.

<sup>46</sup> As contained in the Ministerial Declaration on Trade in Information Technology Products. 13 December 1996. URL: [https://docs.wto.org/dol2fe/Pages/FE\\_Search/FE\\_S\\_S009-DP.aspx?language=E&CatalogueIdList=15259,1447,59473,31385,38875,31396,20233,3979,15215,38784&CurrentCatalogueIdIndex=8&FullTextHash](https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S009-DP.aspx?language=E&CatalogueIdList=15259,1447,59473,31385,38875,31396,20233,3979,15215,38784&CurrentCatalogueIdIndex=8&FullTextHash) (accessed: 23.08.2019).

<sup>47</sup> Data as of August 2019.

is, elimination of duties in their tariff schedules, which de facto implements the ITA on a MFN basis. In other words, all the benefits of the ITA are automatically extended to the entire WTO membership by virtue of the MFN principle. Ministers endorsed the results of the negotiations at MC-X (Nairobi) and in accordance with the Ministerial Declaration, the first set of tariff cuts were implemented in July 2016, with a second tranche of cuts to be implemented in 2017<sup>48</sup>. As a member to the ITA the Kyrgyz Republic should make efforts to take full advantage that the membership offers.

### **5.3. Government Procurement**

The Kyrgyz Republic has been an observer to the Government Procurement Agreement (GPA) for the past 20 years and continues assessing the prospects of joining the agreement. In joining the GPA, the Kyrgyz Republic has the prospect of stimulating more domestic competition in the process of procuring goods and services, allowing government entities to be listed under the terms of the GPA to purchase these goods and services at competitive market prices, thus generating public cost-savings. According to various studies, the government procurement market represents 15–20% of the world economy and it is an increasingly strategic focus for governments [Anderson, Arrowsmith, 2011; The WTO at Twenty..., 2015]. The GPA was revised recently and it is estimated that the parties to the revised GPA will see gains in market access of some US\$ 80 bln to US\$ 100 bln annually for their businesses<sup>49</sup>. These gains in market access are expected to be obtained as a result of adding a large number of government entities (ministries and agencies) to the scope of the GPA and from new services and other areas of public procurement activities being included in its expanded coverage.

It is believed that inter alia, GPA membership will reduce the risk of corruption, often associated with government procurement. Accession to the GPA will imply a change in current procedures, ensure transparency and a transition to international standards. The market of Kyrgyz government purchases is relatively small with an estimated value of around 300–500 million US dollars. The threshold for tendering under the GPA is between 130–400 US dollars depending on the purchase and for construction works it is 5 million US dollars. Thus, Kyrgyzstan, when joining the GPA is expected to save on the large contracts and likely to retain a leverage for the lion share of the purchases which remain below the threshold. Given that two of Kyrgyz main partners, Russia and Kazakhstan, are actively engaged in negotiations on their accession to the GPA, and Armenia has been a member of the GPA since 2015, the Kyrgyz Republic cannot stay behind. The EBRD is supporting Kyrgyzstan's negotiation process through the legal and technical assistance to the negotiation team. The current status of the negotiations was signalled at the GPA committee in 2018 with most bilateral negotiation with other GPA members completed.

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<sup>48</sup> Cf Ministerial Declaration on the Expansion of Trade in Information Technology products. 16 December 2015. MC-X (Nairobi).

<sup>49</sup> As contained in WTO News items of 7 April 2014. URL: [https://www.wto.org/english/news\\_e/news14\\_e/gpro\\_07apr14\\_e.htm](https://www.wto.org/english/news_e/news14_e/gpro_07apr14_e.htm) (accessed: 23.08. 2019).

#### *5.4. Promoting Services Trade in Support of Kyrgyzstan's Economic Development*

As part of the Kyrgyz Republic's National Sustainable Development Strategy pursued between 2013–2017, the government decided to accord specific attention to promoting the export of services, which in 2012 represented a share of 46.6 % of GDP, compared to only 40 % in 2006<sup>50</sup>. This is well below the average with most developed countries having a share of 60–65 % of GDP and shows that there is a significant potential to develop [Mashayekhi, Antunes, 2017] and further carefully liberalize the services sectors in the Kyrgyz Republic. It also means that the potential has largely remained untapped, since Kyrgyzstan had made a total number of services commitments in 135 (sub)sectors and which is the third highest number of commitments to date<sup>51</sup>.

Services trade offers a great development perspective and a valuable alternative and/or complement to the industrial development [Mashayekhi, 2000]. “The key concern for developing countries is not only whether the flow of trade is maximized but also development aspects of such trade, including its contribution to building a competitive services sector and maximization of overall level of development”. She then explains that “it is now widely recognized that carefully designed and prepared liberalization can contribute to improve the economic performance of developing countries through their integration in the world economy. This improved performance is, among other things, the result of increased competition and opportunities for developing countries exports and accompanying transfer of skills, information and technology. However, for a broader development, social and equity objectives to be achieved in developing countries, it is important that trade liberalization is coordinated with policies to promote domestic supply capacity and related regulatory and institutional reform” [Mashayekhi, Olarreaga, Pinto, 2011].

In accordance with the commitments made in services, the Kyrgyz Republic grants MFN treatment for most services activities to WTO Members, except where it has made exemptions to MFN in accordance with GATS and as inscribed in the commitments. At the same time, it benefits from MFN treatment abroad, thus allowing its services exports to grow. Since its accession to the WTO, Kyrgyzstan has made significant strides opening its market for important service operators in critical sectors of the economy, including banking, insurance, telecommunications etc. By way of illustration, at the time of its accession, there were significant restrictions for foreign banks operations in the Kyrgyz Republic, which were lifted in 2002. The same applies to insurance services, which included significant restrictions on the participation of foreign insurance companies until 2002.

The most important services sectors of Kyrgyzstan are wholesale and retail trade services, transportation, tourism and business services [Mashayekhi, 2000]<sup>52</sup>. Other types of services have a small share (from 0.1 % to 8 %). The share of tourism services has tended to grow both in total exports and imports over the period 2006–2012. Meanwhile, the share of transportation services has gone down over the same period. Kyrgyzstan being a land-

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<sup>50</sup> WT/TPR/G/288, p. 5. URL: [https://www.wto.org/english/tratop\\_e/tpr\\_e/g288\\_e.pdf](https://www.wto.org/english/tratop_e/tpr_e/g288_e.pdf) (accessed: 30.08.2019).

<sup>51</sup> As was observed earlier, most if not all Article XII members have taken higher levels of commitments than other WTO members.

<sup>52</sup> WT/TPR/G/288, p. 8. URL: [https://www.wto.org/english/tratop\\_e/tpr\\_e/g288\\_e.pdf](https://www.wto.org/english/tratop_e/tpr_e/g288_e.pdf) (accessed: 24.08.2019).



locked country and at cross-roads between East and West including some major trading nations, much depends on a good infra-structure, including road and air transportation. This means that more efforts will need to be undertaken in this sector and for which the implementation of the TFA will be of critical importance. Also, most (i.e. over 50 %) of its services trade takes place within CIS countries, testifying of the economic significance of this region for services trade. This stands in contrast with goods trade, with the main trading partners being other than CIS countries. Here again there is scope for diversification.

In the long-term, the expectation is that the services sector will have the largest impact among the real sectors of economy, which form the GDP. This sector will develop faster in comparison with other economy sectors of the country. Hence the priority that is accorded to services trade and implementing legislation that is likely to be conducive to attract more FDI in such sectors as banking, telecommunications, postal services, transport, tourism etc.

To attract more FDI in the services sectors, the Kyrgyz Republic is committed to pursuing its liberalization efforts for postal, tele-communication services, air transport services, lawyer services and energy distribution. Also, given the rapidly splitting up of production processes and rising trade in parts and components, as well as growing interaction between goods and services, with a steadily rising share of services incorporated in goods, the Kyrgyz Republic would stand to gain from a fuller participation in the global value chains. Given the limitations of its small domestic market for production and consumption, being part of the EAEU offers new opportunities to generate economies of scale for goods and services.

### ***5.5. Technical Barriers to Trade and Sanitary and Phyto Sanitary Measures (TBT and SPS)***

Technical regulations, standards and sanitary and phyto-sanitary regulations are areas that are of significant interest to Kyrgyz Republic given the potential for further developing and expanding trade and meeting the relevant standards and SPS conditions in the export markets. It is also recognized that in doing so, a deepening of the expertise of Kyrgyz officials is required. The reality however is that the technical requirements are subject to frequent change and the Kyrgyz Republic does not have an inquiry point for SPS measures. During the Trade Policy Review conducted for Kyrgyz Republic in 2014, WTO Members observed that further efforts were required on the side of the Kyrgyz Republic to ensure that its regulatory system would be implemented according to WTO obligations in the SPS Agreement, which calls on WTO Members to base their regulations on international standards and science<sup>53</sup>.

It requires establishing enquiry points, which allow foreign operators to get information on those very same standards and regulations introduced. The structural adjustments required thus go far beyond the introduction of new laws and regulations, but it involves the setting up of physical and technical infra-structures, requiring considerably investment in equipment and technologies, as well as in training and skill development for the

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<sup>53</sup> WT/TPR/S/328 para 20. URL: [https://docsonline.wto.org/dol2fe/Pages/FE\\_Search/FE\\_S\\_S009-DP.aspx?language=E&CatalogueIdList=227590,135736,66726,105138&CurrentCatalogueIdIndex=1&FullTextHash=&HasEnglishRecord=True&HasFrenchRecord=True&HasSpanishRecord=True](https://docsonline.wto.org/dol2fe/Pages/FE_Search/FE_S_S009-DP.aspx?language=E&CatalogueIdList=227590,135736,66726,105138&CurrentCatalogueIdIndex=1&FullTextHash=&HasEnglishRecord=True&HasFrenchRecord=True&HasSpanishRecord=True) (accessed: 04.09.2019).

operators of the standard bodies. It requires staff and training, which takes both time and money. According to Finger and Schuler the implementation of the agreements relating to TBT, SPS and intellectual property can cost over \$130 mln [Finger, Schuler, 1998]. This is an area where the Kyrgyz Republic continues to face challenges.

### **5.6. Promoting Foreign Direct Investment**

The Kyrgyz Republic attracts relatively little FDI, which led the government to take various economic reforms with a view to ensuring a strong legal system to protect investor rights and apply the national treatment to all investors. The government of Kyrgyz Republic has made it a priority to further improve the investment climate and strengthening investor confidence to attract foreign direct investment and boost economic growth. As is observed in the TPR<sup>54</sup>, the overall investment trends demonstrate an uneven inflow of foreign investments to Kyrgyzstan. Foreign investments for the years 2006–12 have increased by 1.7 times, with 12.1 % average annual growth rate (from USD2,514.4 to 4,335.8 mln). The inflow of Foreign Direct Investments has uneven trends, which were within the range of 9–17 % of the GDP. The value of this index is below the threshold value of indicator of FDI sufficiency that makes 25 % of GDP according to international practice. FDI inflow over the last years has been mostly from non-CIS countries and mainly from Canada and China, accounting for nearly 34 % of all FDI. To this should be added nearly 19 % of FDI originating from the EU. The CIS share in FDI is less than 29 %, of which Kazakhstan alone takes a share of 22.5 %. Canada mainly invests in the mining industry, and China in both large-scale investments projects and in small and medium sized enterprises. The processing industry, which accounts for the largest part of Foreign Direct Investments, continues to be the most attractive sector for foreign investors in Kyrgyzstan. This again points to the importance of one segment in the economy that is predominant and generates government revenue, but accounts for a small share of employment and doesn't generate much value addition. Policies should thus be geared towards other sectors that would ease inclusive growth, including in services and other value adding process.

### **5.7. Enhancing Transparency through Notifications**

Data contained in the WTO Secretariat reports on notifications<sup>55</sup> that are circulated to Members and the relevant tables contained in the documents on Members' notifications in specific fields show that the Kyrgyz Republic stays behind in meeting its notification obligations. While this is a tedious and elaborate job, it is nevertheless essential in enhancing transparency in policy making. To assist WTO Members and facilitate the process of making notifications, the WTO Secretariat has prepared a handbook on notifica-

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<sup>54</sup> WT/TPR/G 288, p. 9. URL: [https://www.google.com/url?sa=t&rcct=j&q=&esrc=s&source=web&cd=2&ved=2ahUKEWjXmKrCyyv\\_lAhXFhqQKHdsBDYgQFjABegQIARAB&url=https%3A%2F%2Fdocs.wto.org%2Fdoc%2F02%2FPages%2FFE\\_Search%2FDFFDocuments%2F119697%2Fq%2FWT%2FTPR%2FG288.pdf&usg=AOvVaw3yZC6VqyOmqIoyuJLrJ53](https://www.google.com/url?sa=t&rcct=j&q=&esrc=s&source=web&cd=2&ved=2ahUKEWjXmKrCyyv_lAhXFhqQKHdsBDYgQFjABegQIARAB&url=https%3A%2F%2Fdocs.wto.org%2Fdoc%2F02%2FPages%2FFE_Search%2FDFFDocuments%2F119697%2Fq%2FWT%2FTPR%2FG288.pdf&usg=AOvVaw3yZC6VqyOmqIoyuJLrJ53) (accessed: 04.09.2019).

<sup>55</sup> G/L/223/Rev.26. URL: [https://www.google.com/url?sa=t&rcct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=2ahUKEWjEzZSEz\\_lAhXlo4sKSH3CiEQFjAAegQIBhAC&url=https%3A%2F%2Fdocs.wto.org%2Fdoc%2F02%2FPages%2FFSS%2Fdirectdoc.aspx%3Ffilename%3Dq%3A%2FG%2FL%2F223R26.pdf&usg=AOvVaw2wYb6UID\\_T12NK3YjU0T3q](https://www.google.com/url?sa=t&rcct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=2ahUKEWjEzZSEz_lAhXlo4sKSH3CiEQFjAAegQIBhAC&url=https%3A%2F%2Fdocs.wto.org%2Fdoc%2F02%2FPages%2FFSS%2Fdirectdoc.aspx%3Ffilename%3Dq%3A%2FG%2FL%2F223R26.pdf&usg=AOvVaw2wYb6UID_T12NK3YjU0T3q) (accessed: 07.09.2019).

tions, accessible to all Members. It offers training programs on notifications and under the internship programs offered by the WTO and of which Kyrgyz Republic had benefited, the secretariat offers direct support to beneficiaries in discharging their notification requirements. Hence, this is an area where more efforts should be pursued.

On the positive side, and regarding agriculture, the Kyrgyz Republic has notified that it provided no *export subsidies* to agricultural products. This is in line with its accession commitments, where it agreed not to apply export subsidies. It is recalled that at MC-X (Nairobi) a decision was taken to fully eliminate and prohibit export subsidies by developed countries with immediate effect, followed by the elimination of export subsidies by developing countries by the end of 2018<sup>56</sup>.

### ***5.8. The Role of Institutional and Human Trade Capacity Building***

Given the highly complex nature of the WTO agreements and the technical expertise required to understand and implement the agreements, trade capacity building was an essential component in the reform process. This was one of the conclusions of the two Ministerial meetings that the then Director-General organized for the CIS and the Balkan countries: the efforts undertaken by countries in these two regions were significant precisely because of the scale of reforms required to conform to the WTO's market-based principles [Smeets, 2013]. The human and institutional capacity required was provided by the WTO Secretariat, bilateral donors and other international organizations, including USAID, SECO, EBRD, UNDP, World Bank and CTPL [Smeets, 2013].

Officials from the Kyrgyz Republic have been associated with over 600 TA activities since they joined the WTO. The activities included training courses, general and specialized technical seminars and courses to enhance their knowledge, awareness and understanding of the agreements and obligations. In addition, a WTO reference centre was established in support of the government, academic and business society. Many training events took place in-country (Bishkek) for government officials, including general and specialized WTO training sessions.

The Kyrgyz Republic has also benefited from the WTO's internship programs, including a dozen officials that have been trained under the Netherlands Trainee Program and the French Irish Mission Internship Program. In Fall 2018, an academic event was held in the Kyrgyz Republic, with lectures and seminars offered by the authors to students at various universities. Discussions were also held with professors and academics on research to be undertaken on the WTO and more specifically on trade related issues of particularly interest to the Kyrgyz Republic and with a view of assisting policymakers in their policy decisions. The rationale is to more closely involve the academia in policy making decisions. This is an area that can be strengthened further.

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<sup>56</sup> Ministerial Declaration WT/MIN(15)45-WT/L/980, para.7. URL: [https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=2ahUKewjps-ip0v\\_1AhXr-SoKHZseA4QQFjAAegQIBhAC&url=https%3A%2F%2Fdocs.wto.org%2Fdol2fe%2FPages%2FSS%2Fdirectdoc.aspx%3Ffilename%3Dq%3A%2FWT%2FMIN15%2F45.pdf&usg=AOvVaw2AbZL-hGMJzy9r4K\\_6HsRn](https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=2ahUKewjps-ip0v_1AhXr-SoKHZseA4QQFjAAegQIBhAC&url=https%3A%2F%2Fdocs.wto.org%2Fdol2fe%2FPages%2FSS%2Fdirectdoc.aspx%3Ffilename%3Dq%3A%2FWT%2FMIN15%2F45.pdf&usg=AOvVaw2AbZL-hGMJzy9r4K_6HsRn) (accessed: 09.09.2019).

## Conclusions

This paper started with the hypothesis that policy reforms are a necessary condition for a country's fuller integration into the WTO multilateral trading system and achieving economic benefits. The paper evidences that the policy directions chosen by the government of Kyrgyz Republic since its accession to the WTO twenty years ago are clear: in addition to the fundamental economic and policy reforms, significant liberalization in goods and services, very low tariffs and a significant number of services commitments, there is strong commitment to reforms and abiding by the rules of the WTO multilateral trading system. It was argued that Kyrgyzstan's policies are geared towards applying market based principles, creating and enhancing a competitive trading environment, reducing obstacles to trade, applying international standards, simplifying and streamlining customs procedures, taking advantage of the potential benefits generated by the application of the TFA, promoting FDI, innovation and transfer of technology, diversifying production and exports, generating more value added, being more closely linked to GVCs and developing and strengthening further the services economy, including in the tourism sector. This is full agenda and shows that reforms are part of an on-going process.

It was demonstrated that during its twenty years of WTO membership, the Kyrgyz Republic has conducted major structural reforms in order to achieve its key objectives, i.e. the integration into the world economy, including the implementation of WTO membership obligations. It has diversified its trade relations with a broader range of WTO Members, while at the same time deepening its relations with countries in the region, by joining regional integration initiatives, including the customs union of the EAEU. It was also shown that many of its objectives continue to be work in progress. Some of the objectives can be achieved through internal, i.e. domestic efforts, such as abiding by the rules, liberalization and enhancing transparency, others depend on outside factors, some of which are beyond its control. The Kyrgyz Republic is an active Member in the WTO, committed to making substantive inputs in the deliberations and negotiations in pursuit of its economic and trade interests.

In conclusion, this paper evidences once again that domestic reforms are a sine qua non for generating economic growth. It requires a strong political commitment, determination, a longer-term vision, strategy, a clear understanding of the country's economic potential and the political will to implement the reforms. Even then when all ingredients are in place, a full integration into the multilateral trading system remains a challenge.

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#### Authors’ information:

Maarten Smeets — PhD; maarten.smeets@WTO.org

Mukhtar Djumaliyev — PhD; mukhtar2206@gmail.com

## Кыргызская Республика и структурные реформы: двадцать лет членства в ВТО

М. Смитс<sup>1</sup>, М. Джумалиев<sup>2</sup>

<sup>1</sup> Институт подготовки кадров и технического сотрудничества  
при Всемирной торговой организации,  
Швейцария, 1202, Женева, Рю де Лозанна, 154

<sup>2</sup> Посольство Кыргызской Республики, Брюссель,  
Бельгия, 1050, Брюссель, Рю де Л'аби, 47

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Кыргызская Республика вступила в ВТО двадцать лет назад с надеждой на то, что структурные реформы, которые будут проведены для получения членства, и применение торговых правил станут способствовать ее преобразованию из централизованно планируемой экономики в рыночную и облегчат ее интеграцию в многостороннюю торговлю ВТО. Процесс присоединения завершился в рекордно короткие сроки, экономика была значительно либерализована, тарифы существенно снижены, появились серьезные обязательства в широком спектре сектора услуг. Кыргызстан принял законодательство во всех областях, необходимых для членства в ВТО, и создал конкурентные условия доступа на рынки товаров и услуг. Оглядываясь назад на два десятилетия членства в ВТО, мы видим, что процесс реформ окупается. Торговля значительно расширилась, появились новые рынки для импорта и экспорта, что уменьшило ее зависимость от традиционных торговых партнеров, и экономика росла очень быстро. В то же время остается много проблем для дальнейшей диверсификации экономики, более эффективного использования возможностей, предлагаемых в торговле услугами, привлечения прямых иностранных инвестиций и полной реализации всех связанных с ВТО законов, норм и правил. Следовательно, процесс реформ по-прежнему имеет существенное значение в экономической политике Кыргызстана для углубления и укрепления его интеграции в мировую торговую систему.

*Ключевые слова:* торговая политика, переговоры, структурные преобразования, пост-вступление, политическая согласованность.

**Предупреждение.** Статья содержит точку зрения авторов. Она может не совпадать с позицией ВТО и ее членов и не нацелена на ущемление их прав и обязанностей. Все возможные ошибки допущены авторами. Авторы выражают благодарность за вклад в данную работу коллегам из Министерства экономики Кыргызстана, а также госпоже А. Р. Рахмановой, госпоже С. Ормоновой и госпоже А. Медетбековой. Авторы также благодарят профессора С. Ф. Сутырина и О. Ю. Трофименко за их ценные комментарии в отношении предыдущего проекта.

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Контактная информация:

Смитс Маартен — PhD; [maarten.smeets@WTO.org](mailto:maarten.smeets@WTO.org)  
Джумалиев Муктар — PhD; [muktar2206@gmail.com](mailto:muktar2206@gmail.com)