

KYRGYZ REPUBLIC: ASSESSING WTO COMMITMENTS AND EAEU MEMBERSHIP

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Outline

- EEU – expectation
- Recent trade
- Estimation of changing of trade regime
- Internal constraints to increase trade
- WTO commitments
- Conclusions

Eurasian Economic Union (EEU)*

- EEU originates from the Customs Union (CU) between Belarus, Russia and Kazakhstan in 2010
- In 2012, the EEU Agreement was signed and transformation finalized in 2014
- Armenia and Kyrgyzstan joined in 2015

4 freedoms of EEU:

1. Free trade of **goods** (Practically it means – free from customs duties. Regulation done by non-tariff barriers) –Custom duties between Kyrgyzstan and EEU states wasn't exist because of Free Trade Agreement since early 2000
2. Free market of **services** – declared to 2025
3. Joint market of **labour**:
 - Recognition of documents on education
 - Terms of stay of citizens of EEU countries prolonged
 - Social security and medical insurance guaranteed
 - Simplified movement of labor
4. Free flows of **capital** – declared to 2025

Eurasian Economic Union (EEU)* (continued)

Kyrgyz Republic in EEU (August 2015 – current time)

Expected changes :

- Improved access to EEU markets – increase Kyrgyz export to EEU
- Decline trade with third parties due to increased EEU tariffs
- Increase of customs duties (redistribution of custom revenues)
- Improve of labor migration terms and conditions

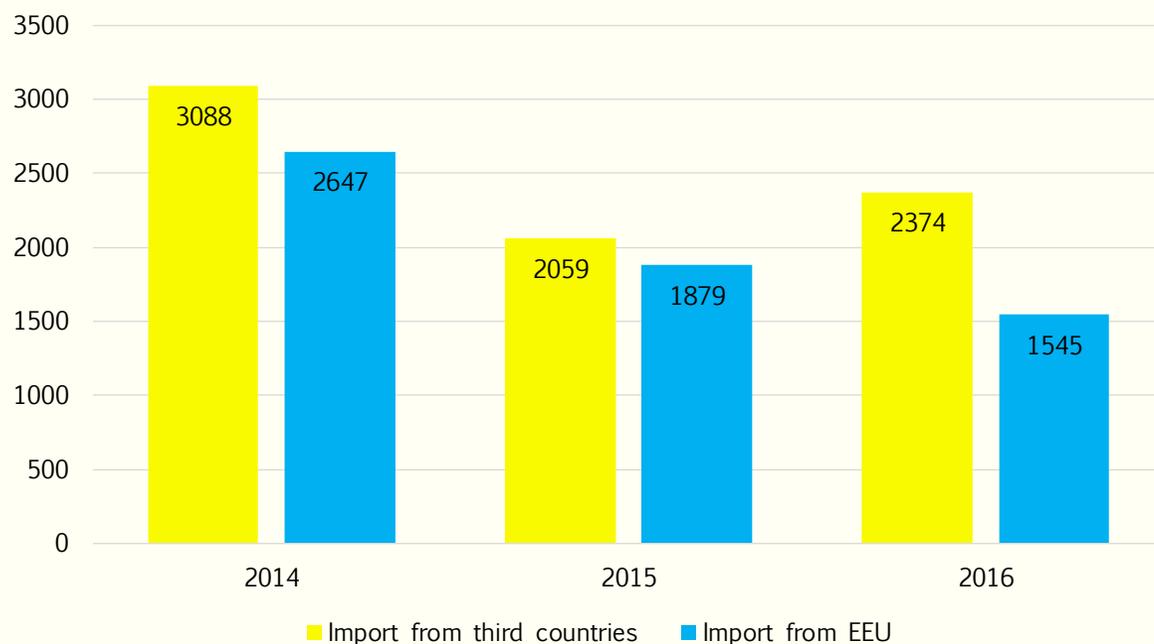
Current changes (2016):

- Decline of mutual trade
- Decline of export to EEU
- Problems with mutual trade statistics (underestimation of trade)
- Increase of customs duties but much below expected level
- Improve of labor migration terms and conditions – and remittances

Trade of Kyrgyz Republic 2014-2016

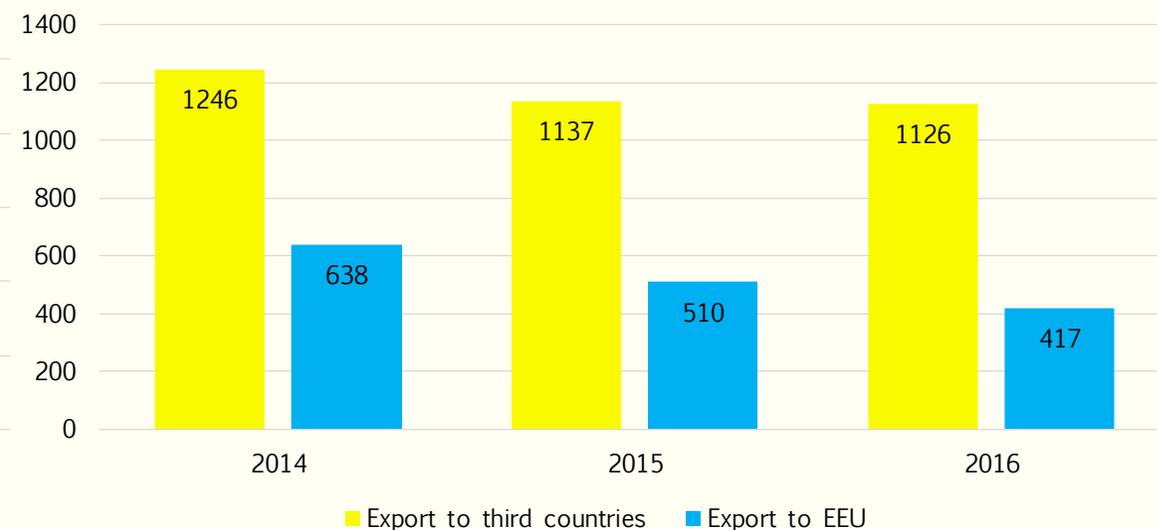
Import

Import to Kyrgyzstan in 2014-2016, million USD



Export

Export from Kyrgyzstan in 2014 -2016, million USD



After decline in 2015, there are signs of a recovery in imports in 2016 in trade with third countries - an increase of 15%, with the EEU countries - **decline of 17% (unofficial trade)**
Exports to third countries decreased slightly, export to EEU - decrease of 18% **(unofficial trade)**
Trade statistics with EEU – change of data collection and monitoring methods

Exchange rate of currencies – import affect factor

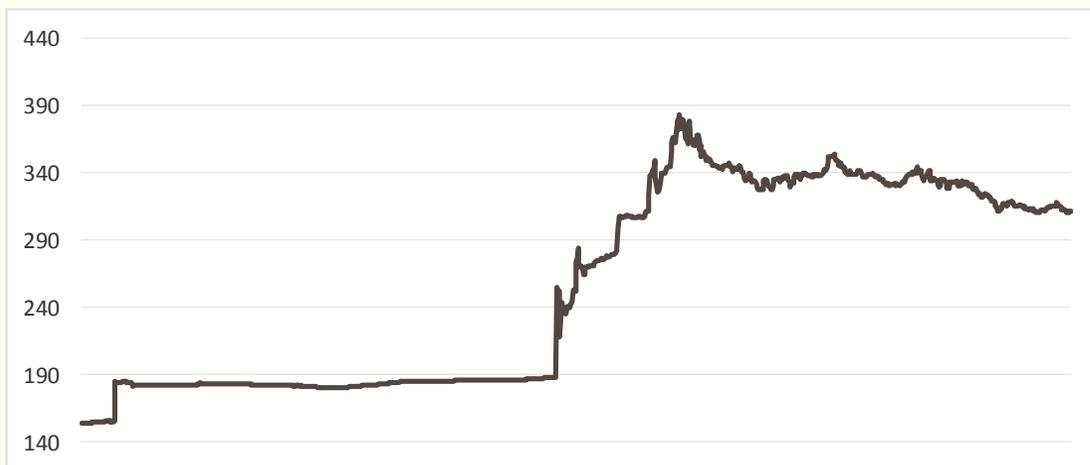
Russian currency depreciation



Kyrgyz currency depreciation



Kazakh currency depreciation



Kyrgyz Som improves related to Russian and Kazakh currency:

- Exchange rate to Russian ruble changed from 1.38 to 1.04 (2016 г.) and to 1.18 (2017)
- Exchange rate to Kazakh tenge changed from 0.3 до 0.205 (2016 г.), and to 0.216 (2017)

Estimation of EEU accession by Kyrgyzstan

Author of the model – Dr. Roman Mogilevskii (2014)

Dependent variable -
import of goods

Explanatory variables are macroeconomic factors (GDP growth rate, world prices, exchange rates), policy factors (tariff change), microeconomic factors (elasticity of demand)

$$q_{ijt} = q_{ij2015}(1 + \Delta Y_t) \left((1 + \Delta p_{it}^{WP})(1 + \Delta p_{jt}^{Exc})(1 + \Delta p_{ijt}^{Cust}) \right)^{E_i} + q_{ijt}^*$$

i – code of the traded good by 6- digit code of EEU

j – one of the five countries (group of countries) analyzed
Russia, Kazakhstan, China, Free trade agreement
countries, ROW

t – 2017 - 2022,

q_{ijt} – volume of good i imported from country j in year t ,

q_{ij2015} – volume of good i imported from country j in
year 2015,

ΔY_t – GDP growth rate in year t in comparison with 2015

Δp_{it}^{WP} – relative change of the world price on good i in year t in
comparison with year 2015

Δp_{jt}^{Exc} – relative change of the prices of goods, imported from
country j in year t due to the change of the exchange rates (3
currencies)

Δp_{ijt}^{Cust} – relative change of the price on good i from country j in
comparison with year 2015 due to change of import taxation

E_i – elasticity of import demand on good i from price growth

q_{ijt}^* - change of the import due to other factors didn't covered in
the model

Estimation of EEU accession by Kyrgyzstan- Results



Conclusion on the model

- The model is sensitive to the quality of the data
- Fluctuations in **exchange rates** of the currencies and **GDP growth** significantly influence the estimation results
- Deviations are noticeable by countries with changing trade regime, e.g. China
- Administration of the trade regime with none EEU countries seems problematic

Additional obstacles for integration of Kyrgyzstan to EEU

- Technical barriers is a significant obstacle to the export of goods to EEU (sanitary and phytosanitary barriers)
- It affect mainly livestock products, and, to a lesser extent, crop products
- Situation with quality infrastructure not resolved - laboratories do not work everywhere, not all types of tests are available
- There are not enough resources (knowledge, experience and and financial costs) to protect the interests of Kyrgyzstan in EEU

WTO commitments - What's going on?

- Kyrgyzstan prepare country panel session and ask for additional time for preparing the arguments (November, 2016)
- WTO requires to provide a measures to compensate losses in trade (mainly raised by China)
- Next session planned for the Fall 2017

Conclusions

- ❑ EEU accession of Kyrgyzstan didn't bring a lot for the country due to the change of global economic trend affecting decline of Russian and Kazakh currency
- ❑ Import strongly depends on exchange rate then of customs tariff
- ❑ Economic benefits from the entry of Kyrgyzstan into the EAPP were not fully realized
- ❑ Monetary policy has led to stability in a number of sectors but has led to stagnation in agriculture and reduced the attractiveness of exports to the Unified Energy System
- ❑ Kyrgyzstan was not ready to enter the EEU due to low capacity of state bodies, weak business potential, and technical infrastructure

Thanks for attention!