KYRGYZ REPUBLIC:
EFFECTS OF JOINING THE EAEU
Beyond Investment Group
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1. WHAT WAS THE PROCESS OF JOINING THE EAEU?

1.1. Which interested parties were consulted, and how was the decision made to join the EAEU?

The decision by the leadership of the Kyrgyz Republic (KR) to join the Customs Union (hereinafter the “CU”) was preceded by a detailed analysis of this issue and extensive public discussions.

Back in 2010, the Government of the Kyrgyz Republic formed a special working group to perform a preliminary analysis of the international treaty framework of the CU and how it would interact with the country’s laws. Public discussions were held with the business community and experts. The goal was to have the most open discussion possible in the Kyrgyz Republic on whether the country should join this project of Eurasian integration, to make an objective economic analysis of the effects of joining, and to assess the long-term benefits of membership.

Public opinion in the Kyrgyz Republic on the issue of EAEU membership was divided, but proponents far outnumbered opponents. Proponents included government officials (among them key figures like President Almazbek Atambayev and Minister of Economy Temir Sariyev), entrepreneurs who were doing business in the countries of the Union, representatives of Kyrgyzstan’s diaspora in Russia and Kazakhstan, and members of the public who had sympathetic attitudes toward Russia and the former USSR. A campaign was launched to promote the idea of joining the EAEU, which included meetings in various parts of the country with key business associations and representatives of nonprofit organizations. These meetings were forums for discussion of the advantages and potential risks of joining, and ways to minimize these risks.

Opponents included liberals, who cited major risks of joining, including even the loss of the country’s political sovereignty. They believed that moving closer to Moscow would seriously harm Kyrgyzstan’s relations with democratic countries, which could ultimately lead to political isolation from western countries. Opinions were also expressed that the business community and the country as a whole were relatively unprepared for the new rules of the union and that sufficient information was not available about how all the integration processes would work.

Surveys were conducted to measure public opinion at various stages of the negotiation process. The results of surveys conducted by various organizations in the period from 2012 to 2019 are shown below:
— according to the Eurasian Development Bank, in 2012 72% of the public supported the idea of Kyrgyzstan joining the union of the “troika” [the original three members – Russia, Kazakhstan, and Belarus];
— according to studies conducted in 2014 by a Kyrgyz polling agency, over 83% of the public in the country had heard of the Customs Union, and over 61% of residents of the Kyrgyz Republic supported the proposal for the country to join the CU;
— according to Gallup (an American public opinion polling company), in 2015 76% of people surveyed in the Kyrgyz Republic supported joining the union.

The International Republican Institute conducted yearly surveys that showed trends in public opinion on support for joining the EAEU and the effects people thought it would have, both before and after the
country joined the union.

Public opinion in Kyrgyzstan on support for joining the EAEU and its perceived effects (2014-2019) (% of respondents)

An important role in formulating Kyrgyzstan’s position on the issue of joining the Customs Union was played by the country’s business community, working with the Government’s Interdepartmental Commission, which handled the negotiations on joining the union.

As a result, Kyrgyzstan’s choice on the integration issue was made openly, with input from government agencies and the business community and based on an objective economic analysis. When the decision was made to join the Eurasian Economic Union, the leadership of the Kyrgyz Republic relied on a wide range of objective economic factors, the significance of which became clearer as the member countries of the Customs Union became more integrated. The choice served Kyrgyzstan’s national interest and was intended first and foremost to enhance the competitiveness of the country’s economy and improve the standard of living of its people, including those working abroad. In the negotiations, Kyrgyzstan’s firm objective was to uphold the interests of business, the main beneficiary of European economic integration.

Membership in the integration association opened enormous opportunities for progressive economic development, overdue structural reforms, and modernization of the economy. Expectations from integration with the customs “troika” were much higher than from joining the CIS free trade zone and membership in the WTO (in the mid-1990s, joining the WTO addressed a number of timely challenges facing Kyrgyzstan, but it did not unleash the country’s economic potential or catalyze growth in industry and domestic manufacturing).

However, joining the EAEU was not easy for the Kyrgyz Republic. Beginning in 1998 (after it joined the WTO), the country began trading in goods from China at reduced import duties. Only a small portion of these goods were sold in Kyrgyzstan; the rest were re-exported to Kazakhstan, Russia, Uzbekistan, Tajikistan, and other CIS countries.
Large markets appeared in the country, providing work for tens of thousands of people. The majority of these people were against Kyrgyzstan joining the EAEU. However, the borders of Kazakhstan and Russia became closed to re-exports of goods from China. The markets and bazaars began to decline.

If the Kyrgyz Republic had not joined the Eurasian Economic Union, it would be considered an outsider country in relation to the EAEU. Kyrgyzstan would have continued to be subject to various restrictions, like closing of customs borders, non-tariff barriers, and unfavorable conditions for migrant laborers, which would have made the economic situation even worse, with the corresponding negative social effects, in the midst of the ongoing world economic crisis.

The Treaty of Accession of the Kyrgyz Republic to the Treaty on the Eurasian Economic Union of May 29, 2014, which was signed in Moscow on December 23, 2014, by the heads of state of the Republic of Belarus, the Republic of Kazakhstan, and Russian Federation, and the Kyrgyz Republic, was the culmination of the negotiations to bring Kyrgyzstan into the project of Eurasian integration, which had begun back in 2011. Upon completion of the ratification procedures, the Treaty of Accession of the Kyrgyz Republic to the Treaty on the EAEU took effect on August 12, 2015. Kyrgyzstan thus became the fifth member of the Eurasian Economic Union. Customs control was discontinued on August 12, 2015.

1.2. What concessions were made to the Republic of Kyrgyzstan during the negotiations?

Financial support: During the negotiations, a mechanism was developed to provide financial and technical support to the potential member state, which lacked budget resources for these purposes. In particular, Kyrgyzstan and Russia signed the Agreement between the Government of the Kyrgyz Republic and the Government of the Russian Federation on the Development of Economic Cooperation within the Framework of Eurasian Economic Integration. Under this agreement, Russia agreed to provide USD 200 million in grant funding to Kyrgyzstan for equipment upgrades at entry points and laboratories to meet Customs Union requirements. These resources helped Kyrgyzstan meet the goals on the “road map” much more rapidly, especially in bringing its customs infrastructure into compliance with the union’s standards.

Deferral of membership terms: The Kyrgyz Republic acceded to the Treaty on the EAEU and all of the other agreements comprising the law of the union. Articles 6 and 7 of the Treaty allow for a delay in the removal of customs (transportation), sanitary-quarantine, veterinary, and phytosanitary quarantine controls at the Kyrgyz-Kazakh border. This arrangement was made to provide for the possibility that Kyrgyzstan would not complete the necessary infrastructure improvements to meet the union’s standards by the effective date of the Treaty.

Industrial subsidies: In accordance with the Protocol, certain Kyrgyz enterprises (like similar enterprises in other member states) received the right to industrial subsidies until January 1, 2017. This affected about 300 enterprises registered before January 1, 2015, in three free economic zones – Bishkek, Naryn, and Karakol – and enterprises functioning in the “free warehouse” customs regime. These enterprises were granted the right to duty-free imports of goods (essentially raw materials) from
third countries, while during the production cycle with foreign goods changes were to be made at the reprocessing level such that the final product would have the status of an EAEU product.

**Exclusions and transition periods:** According to experts, for many requested items, EAEU member states have made concessions to Kyrgyzstan by granting significant exclusions and transition periods.

For example, for a year and a half after the Treaty went into effect, customs brokers, owners of temporary storage warehouses, and owners of customs warehouses and duty-free shops were allowed to keep operating as they had before. Until January 1, 2020, imports of automobiles into the Kyrgyz Republic were allowed at the usual rates “in accordance with the laws of the Kyrgyz Republic” rather than the rates indicated in the Agreement on the Procedure for Movement of Goods by Individuals for Personal Use across the Customs Border of the CU and the Procedure for Performing Customs Operations, dated June 18, 2010. The Kyrgyz Republic also received the right, for a period of five years, to import duty-free up to 100 thousand metric tons of raw cane sugar per year for industrial processing.

**Tariff preferences:** In accordance with the Protocol “on terms and transitional provisions” of May 8, 2015, the Kyrgyz Republic was granted significant tariff preferences to help it complete six major infrastructure projects involving energy, highway construction, etc.

Under the terms of the Protocol, Kyrgyzstan may exercise any preferences in the payment of import customs duties that were set by international treaties signed by the Kyrgyz Republic before April 1, 2015. Such preferences remain in effect until the expiration of these international treaties. Annex No. 2 to the Protocol contains a list of goods for which, during the transition period, Kyrgyzstan applies import customs duty rates that are different from the SCT [single customs tariff] of the EAEU.

The transition period cannot last beyond the end of 2019. After the transition period ends, the Kyrgyz Republic will apply the rates of the EAEU SCT without exclusions or restrictions.
2. WHAT WERE THE SHORT-TERM AND MEDIUM-TERM EFFECTS OF JOINING THE EAEU FOR DOMESTIC BUSINESSES?

2.1. If any sectors of the economy were particularly affected, positively or negatively, which sectors were they and what measures were taken to mitigate the disruption?

The comparative data shown in the figure below\(^1\) for 2011-2018 generally show **strong growth in production** both before and after the Kyrgyz Republic joined the EAEU, broken down by the real sectors comprising the country’s GDP.

![GDP sectors of the KR in 2010-2018 (growth rate, %)](image)

**Agriculture:** In agriculture, average annual growth in production after joining the EAEU was three percentage points higher (3.5%) than before joining (0.5%), which is attributable to the additional support the government provided to farms and agricultural processing enterprises in the integration process.

**Agro-industrial sector:** The agro-industrial sector receives special treatment within the EAEU. It currently enjoys the most favorable tax regime in the region. The government has exempted entities in this sector of the economy from virtually all taxes.

Changes are being made to the makeup of crops planted in order to increase yields in agricultural products for the EAEU market. New facilities for primary meat processing are being built. Projects are being financed at reduced interest rates from the Russian-Kyrgyz Development Fund. A total of 1,172 projects in the agro-industrial sector have been approved in an amount exceeding USD 85.7 million (as of October 1, 2019). Under an Agreement between the Government of the KR and the Eurasian Development Bank, signed on March 20, 2014, the “Financing Deliveries of Agricultural Equipment to Kyrgyzstan” project is providing $20 million in loans, with a 20-year term and an annual interest rate of 1%, for the purchase and capital leasing of agricultural equipment. Since 2014, 854 pieces of agricultural equipment have been purchased under this project for a total of 1,085.2 million soms.

\(^1\) Data from the National Statistics Committee of the Kyrgyz Republic (2010-2018) ([www.stat.kg](http://www.stat.kg))
**Industrial policy:** Kyrgyzstan is participating in the development of a Common Industrial Policy for the EAEU, to ensure that it will reflect the specific needs of the country’s economy and the goal of introducing green technologies in the development of domestic industry. On March 17, 2016, the EEC [Eurasian Economic Commission] Council adopted a Plan of Action to Implement the Main Areas of Industrial Cooperation within the EAEU. This Plan consists of 56 tasks and provides for the creation of a Eurasian network of industrial cooperation and subcontracting, and approval by the member states of cooperation projects submitted to the Eurasian Development Bank, for the purpose of prioritizing the financing and development of industrial cooperation in high-priority types of economic activity and sensitive goods.

In the context of the EAEU’s common industrial policy, it is important to note that when the Kyrgyz Republic joined the EAEU, machine-building enterprises were granted preferences until the year 2020, and it may be advisable to extend them, in particular with regard to materials and components to support manufacturing.2

**Formation of a common electricity market in the EAEU:** According to the Treaty on the Eurasian Economic Union of May 29, 2014, one of the areas of integration that promotes sustainable development of national economies is the effective use of the aggregate energy potential of the member states.

**Clothing and textile manufacturing and export:** The clothing industry is made up primarily of small businesses and sole proprietors. Low production costs, a flexible system for paying wages to employees, and a well-functioning logistical infrastructure – all of these factors have made it possible for entrepreneurs to compete with large garment manufacturers in the EAEU market, mainly in the Russian Federation. The Russian-Kyrgyz Development Fund finances projects in this sector at low interest rates and extended loan terms of up to 10 years.

Beginning in 2013, production declined in this sector due to the decreased purchasing power of the public in Russia and Kazakhstan caused by the fall in the exchange rates of the national currencies (ruble and tenge). Production began to grow again in early 2017 as purchasing power rose and orders for clothing from Russia and Kazakhstan increased. Garment factories are now operating at full capacity. Now entrepreneurs are dealing with a shortage of garment workers. The clothing industry employs over 8,000 sole proprietors and over 150,000 hired workers.

The 12% decline in production in this sector since the beginning of 2019 was brought about by a decrease in exports to the Russian Federation and the Republic of Kazakhstan. In the first six months of 2019, clothing exports fell by 32.3% to USD 38 million, due to the fact that in February 2019, Russia and Kazakhstan imposed stricter border controls in an effort to counteract smuggling. This markedly increased delivery times to key export markets. Given that most clothing is exported by individual textile and clothing producers through the Dordoy and Kara-Suu markets, using shipping companies without written contracts, these measures by fellow members of the EAEU have a

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2 During the transition period, the Kyrgyz Republic applies to these enterprises rates of import customs duties that are different from the duty rates set by the SCT of the EAEU (for 13 items produced by Avtomash-Radiator LLC and 6 items produced by Mayluu Suuyukty Lamp Factory LLC).
negative impact on manufacturing and exports in the garment industry. The Government is working to address this problem, both on the expert level and the political level.

**Results of creating a common market for services in the EAEU:** The freely operating common market for services, proclaimed in the Treaty on the EAEU and planned to be established by 2020, is expected to give Kyrgyzstan a significant advantage in the integration process by stimulating economic growth and exports of services. Member states of the EAEU are obligated to provide the highest possible level of freedom to service providers.

Since the effective date of the Treaty on the EAEU, a Common Market for Services has been established in 52 market segments, a figure that will rise to 61 by 2025. Liberalization in the EAEU service market affects spheres such as construction, engineering, city planning, real estate services, etc.

**Results of integration in the transportation sector:** The Law On Railroad Transportation was drafted and enacted in a very short time. Efforts are underway to improve the information exchange both within the country and with its partners in the EAEU.

In addition, Kazakhstan has expanded the list of Kyrgyz goods allowed to transit across its territory for delivery to Russia by 86 additional commodity groups. The two countries have signed an Agreement under which the Republic of Kazakhstan applies a uniform tariff to cargo shipments by rail through the territory of the Republic of Kazakhstan and the Kyrgyz Republic, which is many times less expensive than the national transit tariff.

**2.2. How has membership affected the domestic market for goods and services?**

On August 28, 2019, at a meeting of the Government of the Kyrgyz Republic, Minister of Economy Sanzhar Mukanbetov presented the results of Kyrgyzstan’s integration into the EAEU and its effect on the country’s domestic market:

**The problem of trade barriers:** During the formative stage of the EAEU market, trade barriers began to snowball. Formal and informal barriers still remain as a frustrating legacy of the protectionist trade policies of the EAEU member countries. However, it is also true that domestic businesses were unprepared for the new procedures and rules for supplying goods to the EAEU market. Fortunately, most major and successful businesses have by now managed to adapt to operating in the EAEU, by learning and allocating the necessary resources.

However, despite the difficulties, the share of SME [small and medium-sized enterprises] in the country’s GDP has not decreased and was 40.5% on average for the year, remaining at about the same level as before we joined the EAEU. At the same time, the share of tax revenues from SME in the four years of Kyrgyzstan’s membership in the EAEU has fallen to almost half the level of 2014 (from 44.4% to 22.4% of GDP). This is clear evidence of a shadow economy and the low quality of tax administration in this sector. Therefore, I believe the ministry’s proposal to gradually eliminate labor patents is a painful yet necessary remedy. [Minister S. Mukanbetov. Results of Kyrgyzstan’s Integration into the EAEU and its Effect on the Country’s Domestic Market. http://mineconom.gov.kg/ru/post/5914]
Note: According to data published by the European Bank for Reconstruction and Development in 2019, the contribution of SME is understated in official statistics due to the existence of a significant informal (shadow) sector, which represented 23.6% of GDP in 2017 according to official estimates. The informal economy is probably even larger. The EBRD estimates that the informal sector contributes about 40 percent of GDP, citing a 2012 World Bank study. The shadow economy is predominant in agriculture, construction, and the service sphere. About two-thirds of workers are involved in the shadow economy, of which 80% work in agriculture. Various factors push companies and individual entrepreneurs into the shadow sector, including social contribution rates (27.25% of payroll), administrative barriers, and burdensome regulations. The existence of a large informal sector puts registered firms at a disadvantage and subjects them to unfair competition. With assistance from international experts, the Government is currently assessing the size of the shadow economy and developing an updated plan of action.

Technical regulation: When Kyrgyzstan joined the EAEU, the technical regulations of the EAEU became directly applicable. As of today, the EAEU has adopted 48 technical regulations, of which 41 are in effect in the KR and seven will take effect in the period from 2019 to 2022. With the adoption of the EAEU technical regulations, the number of EAEU certificates of conformity issued in the Kyrgyz Republic has increased fivefold, and the number of registered declarations of conformity has increased by 10 times, which indicates that the regulations are covering more products in the EAEU market and more products are meeting the requirements of the technical regulations.

Also, as of July 2019, the EAEU’s Unified Register includes 14 certification agencies and 33 testing laboratories in the Kyrgyz Republic.

Fiscal health: An important indicator of general improvement of the situation at the regional level is growth in the fiscal health of local governments, which demonstrates the country’s ability to make a difference at the local level by providing public goods. Indicators of fiscal health have improved significantly. In particular, over the four years of integration this indicator has risen 27% to 1,870 soms per capita.

Overall, contrary to pessimistic forecasts and notwithstanding the difficulties of the adaptation period, in the four years since it integrated into the EAEU, the Kyrgyz Republic has maintained positive economic growth, over 4% per year on average, and macroeconomic stability according to key parameters. Notably, these data reflect the economic situation of the country before the crisis caused by the worldwide COVID-19 pandemic beginning in March 2020.

The process of harmonizing the EAEU’s supranational rules with our country’s national laws is progressing successfully. Government agencies have become much more skillful in advocating for the country’s interests in negotiations at the EEC level. One indisputable effect of integration has been marked improvement in the status of migrant workers in Russia and other EAEU member countries and the benefit of the money they send back home. We can also predict that the formation of a common energy market, the implementation of the EAEU’s digital agenda, and the creation of common markets for services and capital by 2025 will all have a major impact on the Kyrgyz Republic.

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Four years after the Kyrgyz Republic was integrated into the EAEU, the government, the business community, and the public are beginning to understand that joining the EAEU was not a single, short-term event, but rather a transition to a new integration-based model for the future development of the country.

Today, most goods in trade with EAEU countries freely enter the EAEU market if they are accompanied by a set of documents that meet the new rules for trade on that market. If Kyrgyzstan had not joined the union, we would not be talking about problems with veterinary inspections, but about access of Kyrgyz goods to markets in the EAEU countries, which are Kyrgyzstan’s main trading partners. Notwithstanding the external shocks and the difficulties of the adaptation period, including formal and informal barriers to moving domestic products into the EAEU market, the Government has achieved a number of tangible results in adapting the Kyrgyz Republic to the new conditions of integrating with the EAEU.

2.3. **What financial and economic benefits has this given to companies?**

Membership in the Eurasian Economic Union has created many opportunities and prospects for economic development in the Kyrgyz Republic. New environments have been created to stimulate business development, including the removal of customs, sanitary, and phytosanitary controls. Without customs borders, trade is flourishing.

Entrepreneurs in the Kyrgyz Republic now have the opportunity to develop and compete in the EAEU market of 183 million people. Work is constantly being done to eliminate existing obstacles in domestic trade, to create a favorable environment for business development, and make financial resources more accessible to businesses. The private sector is the driving force of sustainable development in the entire union.

Membership in the EAEU also simplifies employment procedures and improves social conditions for migrant workers. Membership has pushed the Kyrgyz Republic to raise quality standards for manufacturing, create a modern laboratory infrastructure, and modernize access points on its borders. Significant positive changes in the countries of the Eurasian Economic Union, such as currency stabilization and growth in purchasing power, have created demand for Kyrgyz goods, which has helped domestic businesses adapt to the new conditions and find successful models for doing business. Given the sustained economic growth of up to 4% on average per year until the COVID-19 crisis in 2020, we can say with confidence that economic integration has had a positive effect on free enterprise (42% of GDP).

The data shown below are from the paper *Kyrgyz Republic: Two Years in the Eurasian Economic Union. Initial Results*, which was published by the Eurasian Economic Commission in conjunction with the Government of the Kyrgyz Republic.⁴

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New business environment: Since its integration into the EAEU, the Kyrgyz Republic has made significant progress in reforming its business climate. Key sectors of the economy, including those oriented toward increasing exports, are now regulated by a whole layer of modern, supranational laws based on best international practices. The desire to enjoy all the benefits of competition among national jurisdictions within the EAEU has led to better management within the country and a more business-friendly government apparatus. For example, as a result of efforts to lower administrative barriers, the number of procedures required to register a business has been reduced to two. The number of enforcement agencies has been reduced from 21 to 13.

As the country has integrated into the EAEU since 2015, fiscal policy has been liberalized: the tax burden has been reduced by gradually eliminating the sales tax, and businesses are being incentivized to come out of the shadows, which has led to growth in entrepreneurial activity.

Attractiveness for investment: Kyrgyzstan has seen a trend toward improvement in the investment climate and growth in its attractiveness to investors both from third countries and from EAEU states (before the COVID-19 crisis began in 2020). According to data from the National Statistics Committee of the Kyrgyz Republic, foreign investment at the end of 2016 had grown by 10.2% relative to the beginning of the year and totaled USD 7.9 billion. The leading investors in Kyrgyzstan’s economy are China (26.2% of total foreign investment, with growth of 9.8% in 2016), Russia (15.9%, with 41.2% growth), the UK (7.4%, down 8.1% for the year), Canada (6.1%, with growth of 31.9%), Turkey (3.1%, down 5.7%), and Kazakhstan (3.0%, down 37.2%).

Although direct foreign investment has increased and Kyrgyz migrant workers in Russia have benefited from the country’s membership in the EAEU, Kyrgyz exports continue to decline, the hoped-for modernization of the economy has not occurred, and compliance with the standards and norms of the Union remains a serious challenge. However, Kyrgyzstan’s economy is still in the transition and adaptation phase, so it is difficult to predict the long-term effects of joining the EAEU. Moreover, some negative results have to do with the economic crisis in Russia and Kazakhstan, which also had a negative impact on Kyrgyzstan’s economy.

Dialog with business: Building relationships between Kyrgyzstan’s business community and EAEU business circles has been an important step. The Union of Industrialists and Entrepreneurs of the Kyrgyz Republic joined the EAEU Business Council, which brings together key business associations in the union’s member states and works closely with the EEC, representing the views of the business community. The channel of communication between the business community and the Union’s supranational management body is the Advisory Council on Cooperation between the EEC and the EAEU Business Council.

Russian-Kyrgyz Development Fund: Local entrepreneurs have received appreciable support through financing from the Russian-Kyrgyz Development Fund, which was created by the Russian Federation. As of February 1, 2020, the Fund had approved 2,355 projects for a total of USD 379 million.5

Views of entrepreneurs: Between September 2015 and August 2016, the International Trade Center surveyed over 300 companies on non-tariff measures and their opinions of membership in the

5 Official data of the Russian-Kyrgyz Development Fund (www.rkdf.org)
One-third of the companies believed they had benefited from membership in the EAEU, and 11% felt the effect was negative. A quarter of the businesses said they saw no change, and one-third were unsure of the effects. However, over half of the companies (52%) believed that in the long term, membership in the EAEU will have a positive effect on their business. Only 6% thought their business would suffer, and a large number of the companies (42%) were not sure how the changes would affect them in the long term.

In addition, many complaints by entrepreneurs (mainly in small business) have more to do with the new administrative rules and requirements for entering the EAEU market, including the requirements for the set of accompanying documents needed to export products, and with unrealistic expectations about the ease of doing business within the EAEU.

The contrast between the expectations some entrepreneurs had about Kyrgyzstan’s membership in the EAEU and the actual conditions of doing business may be due both to unrealistic initial expectations and to insufficient information and support provided to businesspeople by government agencies. It should be noted that throughout the entire time during which Kyrgyzstan was preparing to enter the Customs Union (CU) and join the EAEU, government agencies never created or encouraged unrealistic expectations. In fact, they frequently cautioned that joining the CU (which was transformed into the EAEU) was not an invitation to a “banquet” but an opportunity that businesses needed to learn how to take advantage of.

**Main result:** The clear majority of large and successful businesses managed to adapt to the EAEU and devoted the necessary resources to this. Therefore, we can say with a high degree of confidence that difficulties were experienced mainly by small businesses and farms, which lack sufficient resources to grow and learn in the new conditions. In other words, expectations of support from the government are attributable not to inaction by the government but to their own institutional weaknesses.

According to experts, one factor that had a certain negative impact was that government agencies, while actively supporting Kyrgyzstan’s participation in economic integration, did not always provide businesses with accessible and complete information on the challenges they should expect and prepare for. As a result, difficulties in understanding and correctly applying the new requirements

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became major problems for Kyrgyz business.

The situation has changed now, and businesspeople are better informed. Both government agencies and entrepreneurs have accumulated some experience. Therefore, a qualitative shift is needed in the content of information being provided, from general education about Kyrgyzstan’s membership in the EAEU toward precise and specific advice for businesspeople. This service, which should be provided in a developed market economy by professional consulting firms, is available in Kyrgyzstan to a very limited extent, especially in rural areas.

Overall, we can state with certainty that integration into the Eurasian Economic Union has opened many opportunities for our country and has become a key factor in improving the business climate.
3. WHAT ARE THE SHORT-TERM AND MEDIUM-TERM EFFECTS OF JOINING THE EAEU ON GOVERNMENT POLICY?

3.1. How has membership affected the policymaking process?

The Eurasian Economic Union remains the key element in the system of Kyrgyzstan’s multiformat relationships in the post-Soviet space. In terms of the number of areas of economic interaction, the EAEU predominates, and there is no real alternative to it in our region. An enormous layer of government functions is now under the auspices of the EAEU: creation of digital infrastructure, industrial cooperation, customs and tariff regulation, price formation, consumer protection, currency policy, investment programs, the service market, transportation policy, anti-monopoly regulation, the functioning of the domestic market, and others.

Within the framework of the Eurasian Economic Union, the Board of the Eurasian Economic Commission (EEC) meets weekly, the EEC Council at the level of deputy prime ministers of the member states meets monthly, and the Eurasian Intergovernmental Council (EIGC) at the level of prime ministers of the member states and the Supreme Eurasian Economic Council (SEEC) at the level of heads of state of the EAEU member states meet quarterly, In addition, the Eurasian Economic Commission has 22 advisory committees, 25 working groups, 3 expert groups, and 2 subgroups.

It should also be noted that the Eurasian Economic Commission is the permanent supranational regulatory body of the union, and its decisions are binding on EAEU member states. To deal with the increasing volume of documentation and economic activity within the EAEU, the Government of the Kyrgyz Republic adopted Resolution No. 138, dated March 9, 2020, “On the Organization of Work within the Framework of the Eurasian Economic Union.” The goal and objective of this resolution is to organize the interdepartmental cooperation among authorized government agencies on matters involving the Eurasian Economic Union and their interactions with the Eurasian Economic Commission, and to involve the business community in the decision-making process on EAEU issues.

Changes in customs regulation:

The Customs Code of the Kyrgyz Republic has been repealed. It has been replaced by the Customs Code of the EAEU (CC), a supranational document. The Customs Code of the EAEU was adopted, along with the single foreign economic activity commodity nomenclature, the single customs tariff of the EAEU, and predominantly supranational regulation in general, in order to provide for the stable operation of a common market for goods in the EAEU.

The Kyrgyz Republic has enacted a Law On Customs Regulation, which moves customs control to the external borders of the EAEU (i.e. to the borders with China, Tajikistan, and Uzbekistan) and transitions to supranational regulation of customs matters.

The main innovations of the EAEU Customs Code include: implementation of 16 of the 21 international agreements among the EAEU member states into the EAEU Customs Code; consistency with international conventions and the obligations of the EAEU member states under the WTO; use of modern information technologies (priority for electronic customs declarations and use of written declarations only in certain cases); filing of customs declarations without supporting
documentation (under the Customs Code of the Customs Union, customs declarations could be filed only with commercial and transportation documents); automatic performance of customs operations by the information system, etc.

**Changes in tax regulation:**

The functions of regulating imports and exports in mutual trade in the EAEU were transferred to the tax agencies (on imports of goods, businesses were granted a deferral of VAT payment for up to 50 calendar days). Rules were promulgated under which mutual trade with the EAEU is taxed in accordance with the tax laws of the country. The customs and tax laws are applied separately, and the functions of the customs and tax authorities of the KR are separate. In addition, amendments necessary to integrate the Kyrgyz Republic into the EAEU were made to the Tax Code of the KR.

**Problems:** Insufficient control over imports of goods from Kazakhstan in violation of Kyrgyzstan’s tax laws remains a problem, as does the growth in imports of uncounted volumes of products from Kazakhstan, without payment of indirect import taxes, that are brought in on the pretext of being goods for personal use. Preliminary estimates indicate that the amount of such uncounted products is quite sizeable.

**What is being done:** The Government has introduced a control mechanism (waybill) for passing through control points, and temporary checkpoints for goods have been established. Mobile groups are operating, made up of officials from the Government’s State Service for Counteracting Economic Crimes, the State Tax Service, and the Ministry of Internal Affairs.

**3.2. How has membership affected tax revenues?**

Joining the EAEU has forced the Kyrgyz Republic to embark on a path of major liberalization of fiscal policy, with the attendant risks to the budget, in order to support business in the phase of adapting the country to integration with the EAEU, including benefits and preferences for agricultural processors, garment manufacturers, importers of capital goods, etc. Big changes have also occurred in tax and customs regulation.

**Results:** Customs revenues, mirroring trends in trade, entered a clearly unfavorable period in 2015-2016, when customs collections fell by 25% in 2015. But by 2018 customs revenues totaled nearly 42 billion soms, basically recovering to 2014 levels. Overall, yearly customs revenues averaged just over 34 billion soms after the country joined the EAEU, compared to only 30 billion soms per year on average before joining the EAEU.7

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7 Data from the National Statistics Committee of the Kyrgyz Republic (2011-2018) ([www.stat.kg](http://www.stat.kg))
Tax revenues maintained an overall upward trend in the period 2010-2018. But before Kyrgyzstan joined the EAEU, yearly tax collections averaged 32.5 billion soms, while after joining this figure nearly doubled to 65 billion soms per year on average.
3.3. How does the government of the member state participate in the consultation process on EAEU policy?

Bodies of the Eurasian Economic Union:

The **Supreme Eurasian Economic Council** (Supreme Council, SEEC) is the highest body of the EAEU, consisting of the heads of state of the member countries. The Kyrgyz Republic is currently represented by President Sooronbay Jeenbekov. The Supreme Council considers fundamental issues of the Union, determines the strategy, direction, and prospects for further integration, and adopts decisions directed toward achieving the objectives of the Eurasian Economic Union.

The **Eurasian Intergovernmental Council** (Intergovernmental Council) is the body of the EAEU consisting of the heads of government of the member states. The Kyrgyz Republic is currently represented by Prime Minister Mukhammedkalyi Abylgaziev. The Intergovernmental Council implements and enforces the Treaty on the Eurasian Economic Union, international agreements within the union, and decisions of the Supreme Council; by referral from the Council of the Commission it considers issues on which consensus has not been reached; it gives direction to the Commission; and it exercises other authority under the Treaty on the EAEU and international agreements within the union.

The **Eurasian Economic Commission** is the permanent regulatory body of the EAEU. The Commission consists of the Council and the Board. The Kyrgyz Republic is represented in the Council by Deputy Prime Minister Erkin Asrandiev and in the Board by Oleg Pankratov (Minister for Customs Cooperation of the EEC) and Emil Kaikiev (Minister for Energy and Infrastructure of the EEC) in the Council. The Commission adopts regulatory decisions that are binding on the member states, directives on organizational and management issues, and non-binding recommendations.

The **Court of the Eurasian Economic Union** acts as the judicial body of the EAEU, formed and permanently acting in accordance with the Treaty and the Rules of the Court. The Kyrgyz Republic is represented by Judges Aizhamal Azhibraimova and Galina Skripkina. The purpose of the Court, in accordance with the Rules of the Court, is to ensure the uniform application by the member states and the bodies of the Union of the Treaty, international agreements within the union, international agreements of the union with third parties, and decisions of the bodies of the union.
4. HOW DID JOINING THE EAEU AFFECT THE KYRGYZ REPUBLIC’S OTHER BUSINESS / ECONOMIC / TRADE RELATIONSHIPS?

With regard to how integration has affected trade with the EAEU countries and third countries, the following conclusions can be made:

- Since the Kyrgyz Republic joined the EAEU, major changes have occurred in fundamental economic trends in Russia and Kazakhstan. As a result, the expected economic benefits of joining the EAEU for Kyrgyzstan have not been fully realized.

- The most recent trend shows growth in both exports and imports, both within the EAEU and in trade with third countries. Trade with China and Russia is gradually increasing, re-exports of goods from China to Russia and Kazakhstan are gradually returning to their previous levels, and exports of ore and precious metals are growing. Notably, these data reflect the condition of Kyrgyzstan’s trade relations before the beginning of the COVID-19 crisis in 2020.

- In the period 2015-2018, Kyrgyzstan’s trade volume with the UK increased by 46.6 times. The increase was due to shipments of gold (the UK represents 11.5% of Kyrgyzstan’s trade volume, including 41.3% of exports and 0.4% of imports).

- China traditionally and actively pursues trade and economic relations with the Kyrgyz Republic and is its largest trading partner. China’s share in the country’s total trade volume is 26.4% (2019).

Kyrgyzstan’s status as a user of the European Union’s Generalized System of Preferences (GSP+) also increased its trade volume to some extent.

*Trends in Foreign Trade of the Kyrgyz Republic (KR), 2015-2019 (USD million) (China, Turkey, EU, UK, USA)§:*

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade volume of the KR – total</td>
<td>5636.7</td>
<td>5573.7</td>
<td>6259.0</td>
<td>7128.8</td>
<td>6869.3</td>
</tr>
<tr>
<td>growth rate</td>
<td>74.0%</td>
<td>98.9%</td>
<td>112.3%</td>
<td>113.9%</td>
<td>96.4%</td>
</tr>
<tr>
<td>Exports</td>
<td>1482.9</td>
<td>1573.2</td>
<td>1764.3</td>
<td>1836.8</td>
<td>1965.5</td>
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<tr>
<td>Imports</td>
<td>4153.8</td>
<td>4000.5</td>
<td>4494.7</td>
<td>5292</td>
<td>4903.8</td>
</tr>
<tr>
<td>KR’s trade volume with China</td>
<td>1085.7</td>
<td>1548.5</td>
<td>1597.5</td>
<td>2003.5</td>
<td>1816.3</td>
</tr>
<tr>
<td>China’s share of total trade volume of the KR</td>
<td>19.3%</td>
<td>27.8%</td>
<td>25.5%</td>
<td>28.1%</td>
<td>26.4%</td>
</tr>
<tr>
<td>Exports to China</td>
<td>36.2</td>
<td>80.1</td>
<td>97.5</td>
<td>61.2</td>
<td>81.5</td>
</tr>
<tr>
<td>China’s share of total exports of the KR</td>
<td>2.4%</td>
<td>5.1%</td>
<td>5.5%</td>
<td>3.3%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Imports from China</td>
<td>1049.5</td>
<td>1468.4</td>
<td>1500.0</td>
<td>1942.3</td>
<td>1734.8</td>
</tr>
<tr>
<td>China’s share of total imports of the KR</td>
<td>25.3%</td>
<td>36.7%</td>
<td>33.4%</td>
<td>36.7%</td>
<td>35.4%</td>
</tr>
</tbody>
</table>

KR’s trade volume with Turkey

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>251.5</td>
<td>281.1</td>
<td>356.1</td>
<td>394.5</td>
<td>312.7</td>
<td></td>
</tr>
</tbody>
</table>

§ Data from the National Statistics Committee of the Kyrgyz Republic (2015-2019) (www.stat.kg)
### Turkey’s share of total trade volume of the KR

<table>
<thead>
<tr>
<th></th>
<th>4.5%</th>
<th>5.0%</th>
<th>5.7%</th>
<th>5.5%</th>
<th>4.6%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exports</strong></td>
<td>85.2</td>
<td>90.0</td>
<td>131.2</td>
<td>104.3</td>
<td>89.9</td>
</tr>
<tr>
<td>Share of exports of the KR</td>
<td>5.7%</td>
<td>5.7%</td>
<td>7.4%</td>
<td>5.7%</td>
<td>4.6%</td>
</tr>
<tr>
<td><strong>Imports</strong></td>
<td>166.3</td>
<td>191.1</td>
<td>224.9</td>
<td>290.2</td>
<td>222.8</td>
</tr>
<tr>
<td>Share of imports of the KR</td>
<td>4.0%</td>
<td>4.8%</td>
<td>5.0%</td>
<td>5.5%</td>
<td>4.5%</td>
</tr>
<tr>
<td><strong>KR’s trade volume with EU countries</strong></td>
<td>373.5</td>
<td>318.8</td>
<td>543.8</td>
<td>1068.3</td>
<td>1193.9</td>
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<tr>
<td>Share of EU countries in total trade volume of the KR</td>
<td>6.6%</td>
<td>5.7%</td>
<td>8.7%</td>
<td>15.0%</td>
<td>17.4%</td>
</tr>
<tr>
<td><strong>Exports</strong></td>
<td>50.4</td>
<td>72.3</td>
<td>246.4</td>
<td>758.8</td>
<td>884.9</td>
</tr>
<tr>
<td>Share of EU countries in total exports of the KR</td>
<td>3.4%</td>
<td>4.6%</td>
<td>14.0%</td>
<td>41.3%</td>
<td>45.0%</td>
</tr>
<tr>
<td><strong>Imports</strong></td>
<td>323.1</td>
<td>246.5</td>
<td>297.4</td>
<td>309.5</td>
<td>309.1</td>
</tr>
<tr>
<td>Share of EU countries in total imports of the KR</td>
<td>7.8%</td>
<td>6.2%</td>
<td>6.6%</td>
<td>5.8%</td>
<td>6.3%</td>
</tr>
<tr>
<td><strong>KR’s trade volume with the UK</strong></td>
<td>14.6</td>
<td>41.2</td>
<td>205.8</td>
<td>681.0</td>
<td>848.9</td>
</tr>
<tr>
<td>Share of the UK in total trade volume of the KR</td>
<td>0.3%</td>
<td>0.7%</td>
<td>3.3%</td>
<td>9.6%</td>
<td>12.4%</td>
</tr>
<tr>
<td><strong>Exports</strong></td>
<td>1.8</td>
<td>32.0</td>
<td>191.2</td>
<td>670.0</td>
<td>833.2</td>
</tr>
<tr>
<td>Share of the UK in total exports of the KR</td>
<td>0.1%</td>
<td>2.0%</td>
<td>10.8%</td>
<td>36.5%</td>
<td>42.4%</td>
</tr>
<tr>
<td><strong>Imports</strong></td>
<td>12.8</td>
<td>9.2</td>
<td>14.6</td>
<td>11.0</td>
<td>15.7</td>
</tr>
<tr>
<td>Share of the UK in total imports of the KR</td>
<td>0.3%</td>
<td>0.2%</td>
<td>0.3%</td>
<td>0.2%</td>
<td>0.3%</td>
</tr>
<tr>
<td><strong>KR’s trade volume with the USA</strong></td>
<td>123.2</td>
<td>154.0</td>
<td>156.3</td>
<td>130.7</td>
<td>92.8</td>
</tr>
<tr>
<td>Share of total trade volume of the KR</td>
<td>2.2%</td>
<td>2.8%</td>
<td>2.5%</td>
<td>1.8%</td>
<td>1.4%</td>
</tr>
<tr>
<td><strong>Exports</strong></td>
<td>1.1</td>
<td>0.4</td>
<td>1.0</td>
<td>1.9</td>
<td>2.6</td>
</tr>
<tr>
<td>Share of the USA in total exports of the KR</td>
<td>0.07%</td>
<td>0.02%</td>
<td>0.05%</td>
<td>0.1%</td>
<td>0.13%</td>
</tr>
<tr>
<td><strong>Imports</strong></td>
<td>122.1</td>
<td>153.6</td>
<td>155.3</td>
<td>128.8</td>
<td>90.2</td>
</tr>
<tr>
<td>Share of the USA in total imports of the KR</td>
<td>2.9%</td>
<td>3.8%</td>
<td>3.4%</td>
<td>2.4%</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

**Third countries:** In order to create a favorable environment for expanding cooperation between the EAEU and third countries, and as a first step to building enduring cooperative relationships, the EEC has established the practice of signing memoranda of cooperation. Essentially, this creates a platform to assist in the comprehensive development of trade and economic cooperation and to identify and eliminate barriers to trade. The Eurasian Economic Commission has already signed such memoranda with the governments of Mongolia, Singapore, Cambodia, Jordan, Morocco, Chile, Peru, and Moldova. The EEC has also issued a joint declaration with the government of Greece.
The active work by the Eurasian Economic Union to create free trade zones is helping to spur exports from the EAEU countries and integration into new markets. A free trade zone with Vietnam is currently operating successfully. From 2016 to 2018, trade volume between the Kyrgyz Republic and Vietnam more than doubled, from USD 3.3 million to USD 7.2 million.

An Agreement on Trade and Economic Cooperation with China took effect on October 1, 2019. Agreements have been signed with Iran, Serbia, and Singapore that will lead to the formation of free trade zones, negotiations are underway with Egypt and Israel, and the groundwork is being laid for negotiations with India. In addition, the Eurasian Economic Commission, in conjunction with the member states of the union, is working to determine the next set of countries with which negotiations will be conducted to create free trade zones. The priorities for the EAEU’s international activities in the near term are:

- to deepen comprehensive trade and economic cooperation with the member states of the Commonwealth of Independent States;
- to build a systematic dialog with the goal of moving toward mutually beneficial cooperation with the EU, the Shanghai Cooperation Organization, and the Association of Southeast Asian Nations (ASEAN); and
- other areas.