

Kyrgyzstan's accession to the WTO

by John Quigley

The Kyrgyz Deputy Minister of the Ministry of External Trade and Industry, Mr Muktar Jumaliev, speaking at a lunch briefing on 20th January 2004, told the European Institute for Asian Studies that Kyrgyzstan placed significant emphasis on an open economy and developing trade ties, both regionally and within the context of the World Trade Organisation (WTO). The accession to the WTO in 1998 represented an important milestone in Kyrgyzstan's independence, particularly in light of the fact that Russia has still not joined the world trade group.

As a landlocked country, most of Kyrgyzstan's trade takes place with its Central Asian neighbours. Kyrgyzstan's accession to the WTO represented an important step forward, given that the country was without any significant industrial sector or, at the time, any major trade exports. However, the government saw a clear potential benefit to membership, not least in terms of attracting foreign direct investment. Foreign investors are conscious that Kyrgyzstan has reformed its domestic trade policies and institutions to prepare for membership. In turn, Kyrgyzstan has access to major export markets, cheaper imports and the WTO's trade dispute settlement mechanism. Small countries, Mr Jumaliev said, tend to have little ability to solve trade disputes on a bilateral basis.

Membership of the WTO did not come without costs to Kyrgyzstan, in terms of the pooling of sovereignty, the economic and fiscal costs and the more liberal trade regime the government put in place. The civil service had to designate specific national experts to work solely on meeting accession criteria. The government established an office in Geneva and national civil servants were required to travel frequently for bilateral and multilateral meetings. In fiscal costs, the government has reduced import tariffs to 10%, even though this is a major source of revenue for a country like Kyrgyzstan. Even though the period between the application and subsequent entry into force of the WTO Agreement was one of the shortest ever, for a country the size of Kyrgyzstan, the process represented a major investment of time and money.

As part of the accession process, Kyrgyzstan demanded that its export products should receive ready access to foreign markets and that Kyrgyz exporters should enjoy non-discriminatory treatment. In turn, the government offered a more favourable climate for foreign investments and adapted the domestic legal system to comply with WTO standards. Increased flows of foreign goods, services and investments should be a spur to domestic production in terms of quality and competitiveness, Mr Jumaliev said. Kyrgyzstan received technical assistance to meet the application criteria from the United States development agency USAID, particularly in preparing domestic legislation. The European Union also assisted through providing training courses to civil servants.

To comply with WTO rules, the Kyrgyz government follows open and liberal trading policies, is eliminating tariff and other barriers and promotes trade without discrimination. Under the national treatment rule, Kyrgyzstan is prevented from discriminating against import goods and like domestic products by being unable to

offset tariff reductions through higher domestic non-tariff measures, such as a consumption tax. Since 1994, the government has been making changes to trade legislation, Mr Jumaliev said. This culminated in the adoption of the list of countries that enjoy most favoured nation status in February 2000.

In terms of Gross Domestic Product (GDP) figures, membership of the WTO has proved advantageous for Kyrgyzstan. In 1998, at the time of accession GDP stood at SOM34bn (US\$1=SOM40) increasing by almost 50% to SOM48bn in 1999 and to SOM75bn in 2002. It is estimated that in 2003, GDP had risen to SOM78bn. The dollar-som exchange rate is pegged and the National Bank does not intervene to support the currency. Over the last couple of years, Kyrgyzstan's trade growth has developed with new partners outside the Commonwealth of Independent States (CIS). Since accession in 1998, when the trade balance between the CIS and other WTO members was approximately 50:50, the ratio has changed by 2002 to favour the WTO countries 60:40. In 2002, Kyrgyzstan's main export trading partners were Switzerland, Russia and the United Arab Emirates, whereas the main import partners were Kazakhstan, Russia and Uzbekistan. The European Union accounted for only 3.9% of total exports in 2002 but made up 20% of imports.

In 1998, foreign direct investments stood at US\$140m falling to US\$90m in 2001 before rising to US\$95m by 2002. While much of Kyrgyzstan's trade takes place with its Central Asian partners, unfortunately its neighbours are not members of the WTO. This means that, while the domestic economy is opening up, Kyrgyzstan continues to face high tariff barriers in regional exports.

Responding to questions, Minister Jumaliev said that WTO entry has benefited Kyrgyzstan and will help promote WTO membership in the region. The region-wide Customs Union and free trade agreements that Kyrgyzstan has signed with neighbours have not been as successful as once hoped. ■

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