

The eve of the 20th anniversary of Kyrgyzstan's membership in the WTO: priorities, consequences and prospects

Aizhan Ismailova^{}, Yulan Du*

School of Economics and Management, Nanjing University of Science and Technology, Nanjing,
China

^{*}Corresponding author: Aizhan Ismailova, aizhan.ismailova@gmail.com

Abstract

Having gained independence, the Kyrgyz Republic not only qualitatively changed its status in the world, but also imposed upon itself certain obligations arising from such status. Confirming its own sovereignty, the country was actively involved in international processes, including entering the World Trade Organization. This article is devoted to the analysis of the effect obtained from Kyrgyzstan's accession to the WTO on the eve of her 20th anniversary. Data obtained were analyzed using MS Excel. Results from the study clearly indicated that membership in the WTO automatically does not provide economic growth. It however helps to strengthen the foundations of long-term growth, but at the same time exacerbates certain problems of national development.

Key words: *World trade organization (WTO); Kyrgyzstan; trade; tariff; liberalization .*

1 Introduction

With gaining independence, Kyrgyzstan, like other post-Soviet states, began to experience a period of sharp decline in production and trade. Such consequences resulted from a series of broken internal and external economic and trade ties based on inefficient trade and payment policies, rooted in the centralized state planning system of the USSR.

Only the liberalization and accelerated integration of the economy into the world's trading network could bring the country's economy out of the systemic crisis. It was this situation in 1995 that prompted the President and the Government of the KR to take a decision on the country's accession to the WTO. In February 1996, Kyrgyzstan submitted a formal application to the WTO Secretariat on accession and on December 20, 1998, Kyrgyzstan became a member of the WTO.

“The World Trade Organization (WTO) is an influential international organization established in 1995 as a forum of participating countries to address the problems arising in multilateral trade relations and to monitor the implementation of the agreements and arrangements of the Uruguay

Round. The goal of the WTO was defined as "harmonization of world trade policy, monetary and financial relations through arrangements on stricter rules in trade and its liberalization, ensuring openness in world trade"(*V.V. Notchenko*¹).

To date, the WTO includes almost all countries of the world, except for some. The fact that all developed countries are WTO members causes the interest of other states to join the organization, in particular because of the trade relations with them.

Prior to joining the WTO, the liberalization of the trade regime in Kyrgyzstan had already been achieved; the licensing of exports and imports had been abolished, except for 8 world articles (weapons, drugs, medical preparations, precious metals, works of art). The Kyrgyz Republic did not introduce quantitative restrictions on imports, only a low tariff on imported goods (10%) originating from third countries (except CIS countries) was introduced, and export duties were abolished. In addition, the financial and credit system of the economy was liberalized, during which a two-tiered banking system was created, headed by the independent National Bank of the Kyrgyz Republic and the national currency, som, was introduced. Also, a new taxation system was introduced, close to those in developed countries, bankruptcy mechanisms, currency and credit auctions, the Kyrgyz Stock Exchange (KSE) and the stock exchange for trading with securities began operating. Such a policy led to a reduction in the rate of inflation, stabilization of GDP and the som's exchange rate, which enabled Kyrgyzstan to join the Article VIII of the IMF's Statute. Thus, the Kyrgyz som has become a convertible currency.

Kyrgyzstan, having joined the WTO in 1998, adopted a certain package of regulatory and institutional documents regulating the country's trade regime in accordance with the norms and rules of the WTO. Kyrgyzstan, joining the WTO, brought its legislation in line with international norms and rules. Changes in the country's foreign trade policy in the process of joining the WTO contributed to the creation of a more stable and predictable trade regime in Kyrgyzstan. The Government's measures were aimed at improving fair trade practices that were based on non-discrimination and increased attractiveness of the business and investment climate. As a result of fulfilling the obligations to the WTO, the trade regime in Kyrgyzstan was liberalized enough.

The revised legislation within the country's accession to the WTO covers such key trade areas as the customs activities of enterprises, intellectual property, investments and specific sectors, including banking, insurance and telecommunications (*D.V. Voronkov*,²)

For the whole time of Kyrgyzstan's membership in the World Trade Organization, there have been many disputes, what consequences it has brought and what advantages Kyrgyzstan has received from it. This determined the relevance of the research topic of my choice.

2 Development of the economy of Kyrgyzstan from the moment of gaining independence to joining the WTO

With gaining independence in 1991, Kyrgyzstan did not receive an economic boost. With the collapse of the USSR, most manufacturing enterprises lost their working capital and closed. There was a cessation of financial support from the budget of the union, whose volumes in 1991 reached 12.5% of Kyrgyzstan's GDP.

The rupture of traditional economic ties, the loss of traditional sales markets, the outflow of skilled personnel (mainly the Russian-speaking population) and the lack of an effective economic policy led to a sharp decline in industrial production. Gross domestic product in 1990-1995 decreased by 49%. The fall in production affected almost all sectors of the economy without exception: output of agricultural products fell by 38%, while industrial production fell by 68% (*S.V. Zhukov and O.B. Reznikova.*³).

At the first stage of the development of the sovereign economy, the creation and development of market infrastructure, the transformation of forms of ownership by the privatization program began. The first stage (1991-1993) is characterized by the establishment of a legislative base, the beginning of the transformation of industrial, agricultural, construction, transport and other enterprises of various sectors of the economy. At the second stage (1994-1995), a program was launched to improve the regulatory, methodological and legal framework for privatization. The third stage (1996-1997) is characterized by the denationalization of large monopolized and structuring sectors of the economy, where individual privatization schemes were used.

The Kyrgyz Republic became one of the few CIS countries that consistently followed the course recommended by the IMF to achieve macroeconomic stabilization and introduce market-based economic management mechanisms into practice. In general, such a policy contributed to the achievement of financial stabilization, but did not lead to significant reforms. "In particular, after the rapid implementation of small-scale privatization, the process of denationalization since the mid-1990s practically ceased. (*Post-Soviet Countries and the Financial Crisis in Russia*⁴)

The long and deep decline in production ceased in 1995. After negative growth rates until 1996, the dynamics of the development of the Kyrgyz economy showed a break for the better (Table 1).

Industrial production increased, positive growth rates of agriculture were noted. In 1997, the country's GDP already increased by 9.9%, industrial production grew by 39.7%. In 1998, GDP, industry and agriculture continued to grow (*S.V. Zhukov and O.B. Reznikova.*³).

Table 1. Economic growth in 1991-1998, in % to the previous year

Indicators	1991	1992	1993	1994	1995	1996	1997	1998
GDP	7.9	-13.9	15.5	-20.1	-5.4	7.1	9.9	2.1
Industrial production	-0.3	-26.4	-25.3	-28.0	-17.8	3.9	39.7	5.3
Agricultural products	10.0	-5.0	-10.0	-18.0	-2.0	12.0	3.0	9.0

The second half of the 90s is characterized by strengthening the monocultural nature of the economy. A sharp jump in industrial production occurred after the commissioning of a processing enterprise at the Kumtor gold field in 1997 (7% of GDP), which acquired structural importance for the national economy. At the same time, production in the light and food industries decreased significantly to 38.6% in 1995, compared to 54.1% in 1985, and in mechanical engineering and metalworking to 5% (*S.V. Zhukov and O.B. Reznikova.*³).

A noticeable decline in labor productivity and the displacement of huge labor in the low-productivity sectors of the economy were distinctive features of the development of the Kyrgyz economy in the 90s. (*Interstate Statistical Committee of the Commonwealth of Independent States*⁵).

From 1993, the liberalization of foreign trade began; the quota system and export licensing were abolished, with the exception of several the most important goods. Liberalization of foreign trade was strengthened by accession to the WTO, to where Kyrgyzstan was accepted first of the CIS countries in 1998. But the Russian crisis of 1998 affected the state of foreign trade that year. Exports fell by 15.2%, in 1997 it increased by 18.8%. The situation was different in terms of imports: in 1997, it fell by 17.5%, and in 1998 it grew by 17%. As a result, the negative trade balance increased from \$ 15.2 million in 1997 to \$ 220.7 million in 1998. The account deficit on current operations increased from \$ 138.4 million to \$ 364.7 million (from 7.9 to 16.7% of GDP) (*NatStatCom of the KR*⁶).

For the period of 1992-2000 there were major shifts in trade with the CIS countries. At an average annual rate of growth in the foreign trade turnover of 5.95%, the average annual rate of decline in trade with the CIS countries was 0.25%, while the average annual growth rate of trade

with non-CIS countries was 17.70%. As a result, the share of CIS countries in the total volume of foreign trade declined from 77.5% in 1992 to 45.1% in 2001. The share of foreign countries in the total foreign trade turnover increased from 22.5 to 54.9% (Economic Strategies of the CIS Countries and Russia ⁷).

For the period of 1994-1999 the volume of direct investments to Kyrgyzstan amounted to \$404.9 million, or \$ 8.3 per capita. This is about 3.4% of GDP in 1994 and 3.1% of GDP in 1999. In order to attract FDI, reduce unemployment, introduce new technologies and standards, and improve the welfare of the population, four free economic zones (FEZs) were opened in Kyrgyzstan: Naryn, Karakol, Maimak and Bishkek. They attracted investors from more than 30 countries; they created more than 600 companies and joint ventures that work in the field of trade, food and light industry, production of construction materials and furniture, as well as tourism

In the late 90s - early 2000s the economic situation in Kyrgyzstan was extremely unfavorable. The country had accumulated a huge external debt - in 1998 it amounted to \$ 897.7 million (65.8% of GDP) (*Post-Soviet Countries and the Financial Crisis in Russia* ⁴); there was a significant level of poor population (about 50%), unemployment, corruption in state bodies. Along with other factors, the active population growth also influenced the difficult social and economic situation.

3 Consequences of the country's accession to the WTO

Kyrgyzstan, unlike a number of other post-Soviet countries, joined the WTO in a very short time (two years), while other countries thought and joined the WTO for about 10 years. Kyrgyzstan sought to quickly join the WTO, trying to negotiate without much difficulty, significantly conceding in something to partners.

Kyrgyzstan practically did not take into account the factor of protection from external penetration such branches as agriculture, processing industry, finance and telecommunications sector. Along with this, Kyrgyzstan accepted some obligations formally not fixed in the WTO.

Kyrgyzstan joined the WTO as a developed country. Although, at that time, the country had nothing to defend in the domestic market. Exports were raw materials, and the processing industry was not developed. It was pointless to defend high customs tariffs when border and customs services were inefficient, which could only increase smuggling. In addition, national foreign trade had already been liberalized in the country. (*Foreign Trade of the KR* ⁸).

Figure 1 and 2 show the dynamics of the national production and foreign trade of Kyrgyzstan, starting from 1998.

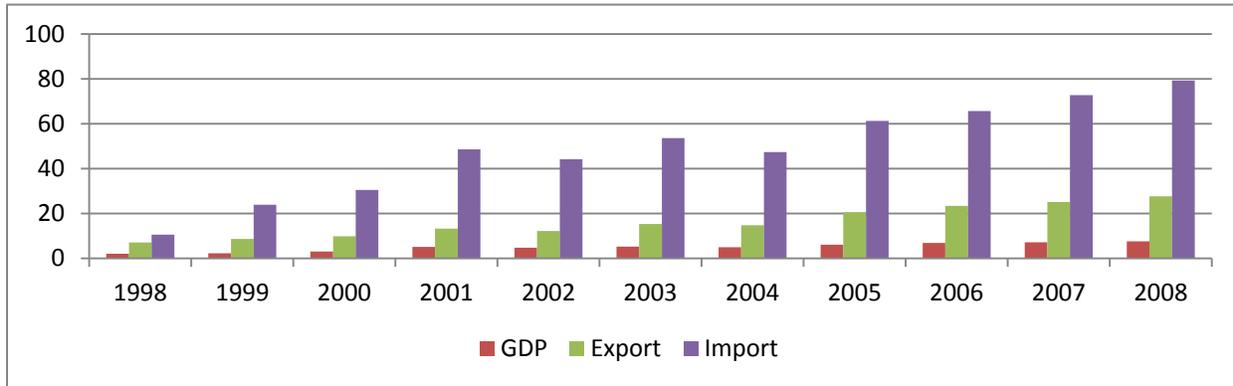


Fig. 1. Growth rates of GDP, exports and imports of goods and services of Kyrgyzstan in 1998-2008, %

It can be seen from Figures 1 and 2 that the entry of Kyrgyzstan into the WTO in 1998 had no significant impact on the dynamics of national production, the growth rates of foreign trade turnover also largely depended on the conjuncture of the world economy. However, the turnover of foreign trade in the first ten years of membership of the KR in the WTO underwent significant changes. If prior to joining the WTO in 1998, the average annual growth rates of exports and imports had been 7.1% and 10.6%, over the 10 years the growth rate was 27.7% and 79.3%, respectively.

During this period, the negative foreign trade balance also increased, which was explained by the liberal import regime and, at the same time, the insufficient level of competitiveness of goods produced by Kyrgyzstan.

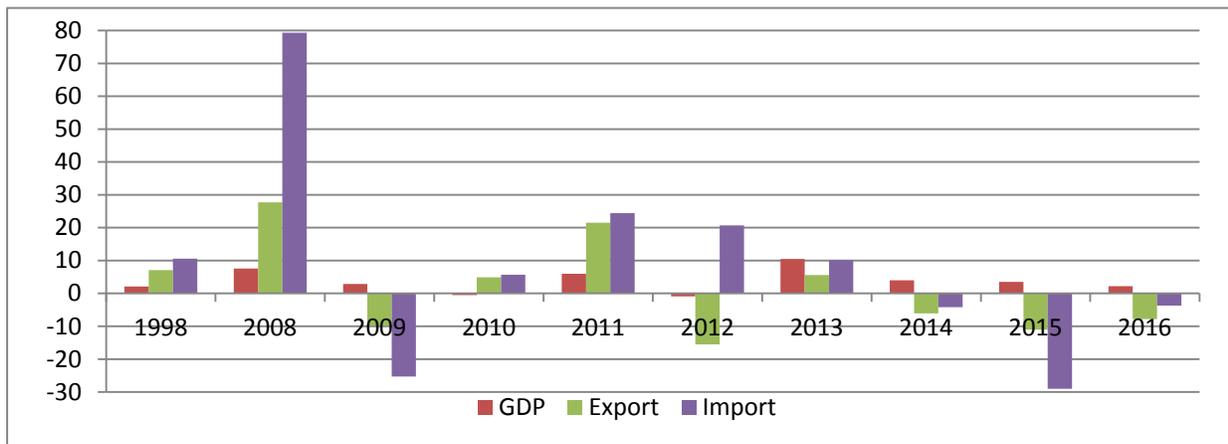


Fig. 2. Growth rates of GDP, exports and imports of goods and services of Kyrgyzstan in 1998, 2008-2016, %

However, in the second decade that Kyrgyzstan is currently experiencing, we see significant changes, and in general for the period of 2008-2016 the volume of exports of Kyrgyzstan fell 1.2 times, and imports - 1.1 times. This generally indicates a large decline in exports and imports in relation to the past ten years, which is associated with a decrease in the external commodity turnover of Kyrgyzstan. This confirms the fact that Kyrgyzstan's membership in the WTO has no influence on the growth rates of GDP, exports and imports of goods and services of the country.

4 Results and discussion

1. Kyrgyzstan's accession to the WTO was primarily of political importance and was a manifestation of the country's readiness to integrate into the world economy.
2. The participation of Kyrgyzstan in the WTO does not in any way affect the growth rates of GDP, exports and imports of goods and services of the country.
3. The participation of Kyrgyzstan in the WTO has acquired more minuses than pluses. In general, this is an infringement of domestic producers, support of Russian and foreign suppliers, in parallel with the rise in price of imported goods from non-CIS countries.
4. Kyrgyzstan needs to develop its relations with the WTO in three ways: to better study the world multilateral trading system, to participate much more actively in the development of norms and rules of world trade and fully apply the mechanisms, infrastructure and institutions of the WTO for the development of the country.
5. In the future, the benefits of Kyrgyzstan from WTO membership should be determined by the activation of integration into international markets of such sectors as service sector, ICT, food and light industry. Also, Kyrgyzstan should realize its competitive advantages: cheap labor and low costs.

5 Conclusions

Today, at the world level, Kyrgyzstan is quite actively involved in international processes related to the WTO, despite the fact that it has a low level of human and financial resources.

Membership in the trade organization provided Kyrgyz producers with access to international markets. The discriminatory policies of a number of countries with regard to Kyrgyz goods also bypassed us.

In the long term, from membership in the WTO Kyrgyzstan should benefit by actively integrating the service sectors, ICT, food and light industries into the world market and realizing its competitive advantages - cheap labor and low costs.

The example of Kyrgyzstan clearly shows that membership in the WTO automatically does not provide economic growth. It helps to strengthen the foundations of long-term growth, but at the same time exacerbates certain problems of national development. Joining the WTO is not an end in itself, but only an additional mechanism for implementing the developed economic policy of the state. Therefore, in the long term, expectations from participation in the WTO should be more moderate and objective.

References

1. *V.V. Notchenko* WTO Accession as a Factor Determining the Development of the National Economy // Proceedings of the Pskov Polytechnic Institute – 2010 – No. 13 – pp. 200–203.
2. *D.V. Voronkov* Problems and Prospects of the Participation of the Kyrgyz Republic in the WTO in the Context of Economic Cooperation with the EurAsEC Countries // Thesis for the degree of candidate of economic sciences. M., 2008.
3. *S.V. Zhukov, O.B. Reznikova* Central Asia in the Socio-Economic Structures of the Modern World. M., 2001, pp. 48-77.
4. *Post-Soviet Countries and the Financial Crisis in Russia*. M.: CJSC “Epikon”, 2000, pp. 105-114.
5. *Interstate Statistical Committee of the Commonwealth of Independent States*. 10 years of the Commonwealth of Independent States (1991–2000). M., 2001, p. 394.
6. *National Statistical Committee of the Kyrgyz Republic*; IMF. Public Information Notice. 1999. March 29, No. 99/27.
7. *Economic Strategies of the CIS Countries and Russia*. M.: Publishing House of the Russian University of Friendship of Peoples. 2003, p. 156.
8. *Foreign Trade of the KR* // Statistical Yearbook. B.: The National Statistical Committee of the KR, 1998-2017.