

Trade Policy Review of the Kyrgyz Republic – October 2013
Gert van Rensburg: D ITR – DAFF – February 2014

The Kyrgyz Republic acceded to the WTO in 1998 and a second Trade Policy Review (TPR) was prepared in 2013 for the period between 2006 and 2012. The complete TPR documentation of the WTO secretariat and the Kyrgyz Republic can be viewed on the WTO website as WT/TPR/S/288 and WT/TPR/G/288 respectively.

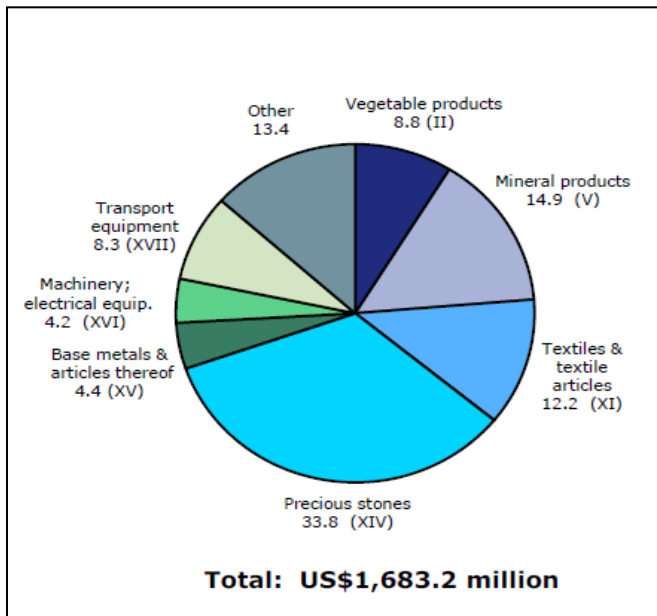
1) Economic and Trade Environment

The Kyrgyz Republic was one of the former USSR Republics. It is a landlocked country with a predominantly mountainous terrain. This is exacerbated by inadequate transport and energy infrastructure; and limited international air links.

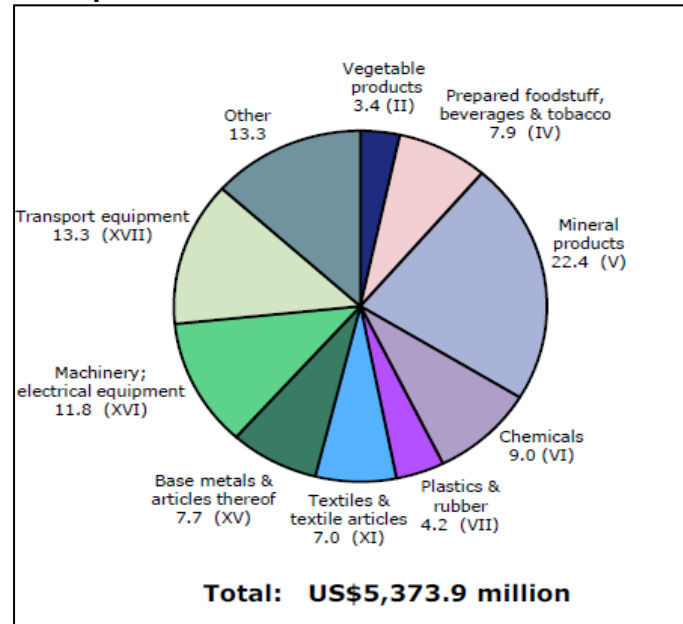
The Kyrgyz economy grew erratic during the review period because of harsh climatic conditions in 2009, domestic political and ethnic crises in 2010 and a sharp decline in gold production in 2012 due to several problems at the only large-scale mining facility.

Table 1: Product composition of merchandise trade in 2012

Exports



Imports



Note: Data in brackets refer to the HS section number.

Source: Trade policy Review. Report by the Secretariat. Oct 2013. WT/TPR/S/288

During the review period the current account balance remained in a deficit. Favourable gold prices have boosted export revenue, but it has remained a poor match for purchases of energy products, foodstuffs and capital goods.

66% of the population lived in rural areas in 2011.

2) Trade Policy and practices

The Kyrgyz Republic does not follow one particular trade policy, but rather a multi-faceted approach depending on its objectives.

The agri-products are one sector that has been identified for further trade development. To boost exports six sectors including clothing, raw and processed fruits and vegetables, raw and processed meat, bottled water and dairy products have been identified.

After independence from the former Soviet Union the Kyrgyz Republic started a process of opening borders and trade, and started the accession process to the WTO. The Kyrgyz Republic has free-trade agreements with the Commonwealth of Independent States (CIS) countries. In 2012 imports from CIS countries were 50% of total imports (Russia 33%, Kazakhstan 10%, Belarus 3% and other CIS 4%) and exports to CIS countries were 52% of total exports (Russia 13%, Kazakhstan 24%, Uzbekistan 11% and other CIS 4%). The Kyrgyz Republic is also a signatory to the Eurasian Economic Agreement which is envisioned for 2015, with work ongoing on the draft agreement. Forty six least developed countries have preferential tariff treatment with the Kyrgyz Republic, where they pay zero duty on all products. These trade is however small and account for only 0.2 % of imports in 2012.

The Kyrgyz Republic is expected to join the customs union (CU) of Belarus, Kazakhstan and Russia in the near future. Joining the CU would have a significant impact on the trade policy of the Kyrgyz Republic. As a CU have a common external tariff to the outside countries, it is still to be seen how compensation will be by the Kyrgyz Republic, whose average tariff is at least 10% lower than the tariffs of the current CU.

During the period under review a number of customs reforms were introduced. A project on “single window” and on “paperless trade” was introduced in 2007 and 2008 respectively and work on a uniform information system was also introduced. As a result efficiencies have improved, but these projects are still in the initial phases and are still developed and implemented.

Merchandise clearance through customs brokers are allowed, but the Kyrgyz Republic don't make use of pre-shipment inspection companies. The rules of origin are based on international practise and norms. Since 2009 the Kyrgyz Republic is legally required to use the Harmonized Nomenclature System, it has been in use for a while via the Eurasian Economic Community's common nomenclature.

The Kyrgyz Republic has ad valorem, specific and mixed MFN tariffs. These are applied to all WTO members on a MFN basis and to other countries where an MFN provision has been agreed. A maximum rate of 35% may be applied to non members of agreements.

The MFN applied tariffs is currently on average 5% and had stayed basically the same over the review period.

In 2012 a comparison of bound and applied rates was done. About 90 lines were in excess of WTO bindings, and these were mainly concerned with fruits, juices, and machinery and auto parts. The Kyrgyz Republic authorities were aware of these discrepancies, but it would take some time to correct the situation.

The Kyrgyz Republic maintains annual import quotas on alcoholic beverages. An anti-dumping law was notified in 1999 and no changes have been notified since then. There is legislation and related regulations on countervailing duties, but these have never been used. During 2009-2010 three safeguard investigations on white sugar, wheat flour and poultry eggs have been notified. Only the investigation related to wheat flour has led to a safeguard duty.

During the period under review there were frequent changes in the direction and structure of the SPS policy. A number of studies have indicated a lack of compliance with internationally accepted regulations. As a result there is no clear policy with respect to SPS matters.

The Kyrgyz Republic has recognised the need to create a system of food-product safety that would meet world standards. It is expected that upon joining the CU, the Kyrgyz Republic will directly apply the CU technical regulations and SPS measures.

3) Agricultural trade policy.

As mentioned earlier the agricultural sector performance was affected by several shocks, including adverse climatic conditions, political and ethnic crises. The result was that the sector's GDP share decreased by 10 percentage points over the period 2006-2012. Crops and livestock segments dominate agricultural output, while forestry and fisheries make a minor contribution to the GDP.

Notwithstanding certain increases in cultivated area and livestock headcount, productivity indicators such as average crop, milk, egg and meat yield remained almost unchanged and in some cases even deteriorated. Reasons for this are: land fragmentation that limit the scope for economies of scale, a degraded and inefficient managed irrigation system, limited access to quality seed, problems in the monitoring of pasture rights and a dysfunctional veterinary system.

Agriculture employed 30.7% of Kyrgyz Republic workers in 2011, versus 34.5% in 2006 and agricultural workers earned about one half of the average national salary. Domestic market fragmentation due to a poor infrastructure and underdeveloped trading platforms squeezes the producer's profit margins.

The Kyrgyz Republic remains a net food importer and its agricultural trade deficit increased during the review period. A number of agricultural imports (wheat, flour, vegetable oil, and sugar) are supplied or transit through Kazakhstan. This dependence on a single trading partner reflects the configuration of transport routes, which were built at a time when current national borders barely mattered.

Agriculture and food processing continue to receive the highest level of import tariff protection. Tobacco, alcohol, fish and clothing have the highest tariffs averaging over 10%. For wood, paper and cotton the tariffs are zero. There is almost no tariff escalation between the first stage of processing and fully processed products. Some agricultural products may occasionally be subject to export taxes or bans.

Domestic support to the agricultural sector takes on various forms including: subsidized credit; machinery leasing facilities; procurement and direct market intervention by the state; veterinary, sanitary and phytosanitary; and tax and tariff concessions. Government actual support to the sector was modest; given the prolonged political instability. The agriculture sector (producer, commodity and service cooperatives) is exempt from sales tax and profit tax.

Sources: WTO Trade policy Review documentation by the WTO Secretariat and the Kyrgyz Republic – Oct 2013