

February 2020



New Golden Age Initiatives

THE KYRGYZ REPUBLIC IN THE EURASIAN ECONOMIC UNION

© 2020, RICA does not take institutional positions on policy issues; the views represented herein are the author's own and do not necessarily reflect the views of RICA, its staff or its trustees.

No part of this publication may be reproduced or transmitted in any form or by any means without permission in writing from RICA.

**The Kyrgyz Republic in the Eurasian
Economic Union**

Contents

Abstract	3
Introduction	4
Kyrgyzstan's place in the EAEU	5
Official and Unofficial evaluations of EAEU membership	15
Conclusion	19
Recommendations	20
References	21

Abstract

This paper analyzes the results of the entry of the Kyrgyz Republic into the Eurasian Economic Union (EAEU). Macroeconomic indicators of the member states are derived from statistics of the World Bank, the Eurasian Economic Commission, the National Statistical Committee of the Kyrgyz Republic, and the National Bank of Kyrgyzstan. A comparative analysis of the position and the role of the country in the integration process is presented. The official position of authorities, as well as an unofficial evaluation of the membership of Kyrgyzstan in the EAEU, is also reflected upon. Recommendations for the improvement of the integration process are given.

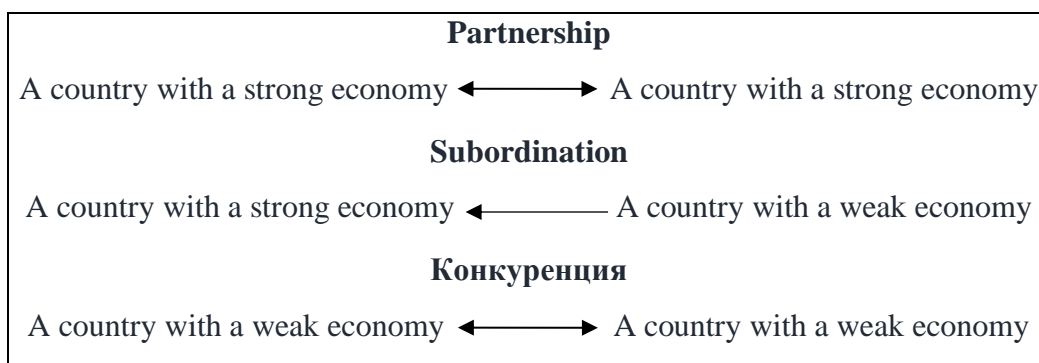
Introduction

Logically thinking, the trade and economic ties between CIS countries should be rationalized and strengthened. This should be enabled through the work of political/economic interstate institutions such as the Commonwealth of Independent States (CIS), the Customs Union (CU), and the Eurasian Economic Union (EAEU).

In the period of its independence, the Kyrgyz Republic has experienced several political and economic crises. There is still a lack of reliability, stability, and dynamism in its development. A sustainable industry structure has not yet been properly formed.

Joining the world economy, as well as continuing integration within the CIS and Central Asian countries, plays an important role in ensuring the sustainable economic growth of Kyrgyzstan. However, in foreign economic cooperation, our country's role is secondary in nature.

The integration process of countries with strong and weak economies



Kyrgyzstan's place in the EAEU

There have been no significant positive shifts in favour of the country's foreign relations. Kyrgyzstan should engage in dynamic economic activity by taking part in various international economic (regional and interregional) organizations, strengthening bilateral and multilateral relations. In pursuit of this goal, during the years of independence the country became a member of thirty-five international economic organizations.

The question of the country's admission to the Customs Union and the EAEU, in 2015, which included Russia, Belarus, Kazakhstan and Armenia, was predetermined. It was obvious that with integrating in these unions, Kyrgyzstan would face many problems in the short-term; and, there was no exact answer to the question of what positive effects the country would experience in the long-term.

There are substantial differences between the EAEU member states in the form of significant structural gaps, heterogeneity in the level of competitiveness and income, government's role in the economy, and varying reactions to economic shocks. There are also differences in the sectoral structure of the different economies. For example, Kyrgyzstan and Armenia are primarily agrarian countries, while Belarus, Kazakhstan, and Russia are industrial, or industrialising, countries.

Trade and economic cooperation within the common economic zone of the EAEU is strongly unbalanced. Moreover, countries in this zone are characterized by the slow modernization of capital stock, low investment in R&D, and an outdated production and technological base which, arguably, leads to excessive material and energy consumption in several key industries.

Territorially, as well as in terms of population, member states of the EAEU significantly differ from each other. A considerable degree of investment, and resultant prosperity, favours Russia followed by Kazakhstan. In contrast, the remaining countries in this zone have quite low economic indicators in terms of the magnitude of investment or economic activity. This can be seen in figure 1.

Figure 1. Area of the EAEU Member States, sq. Km

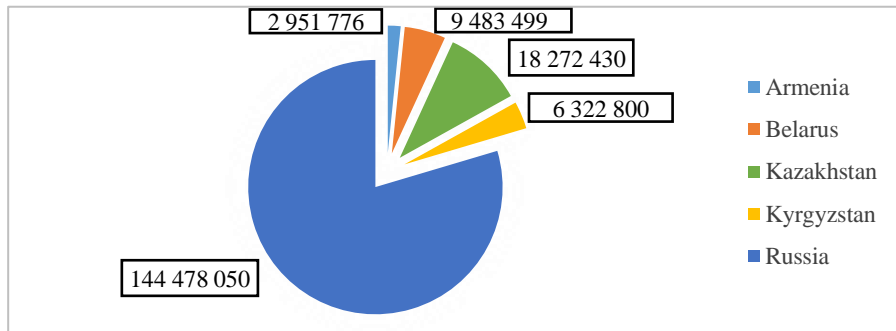
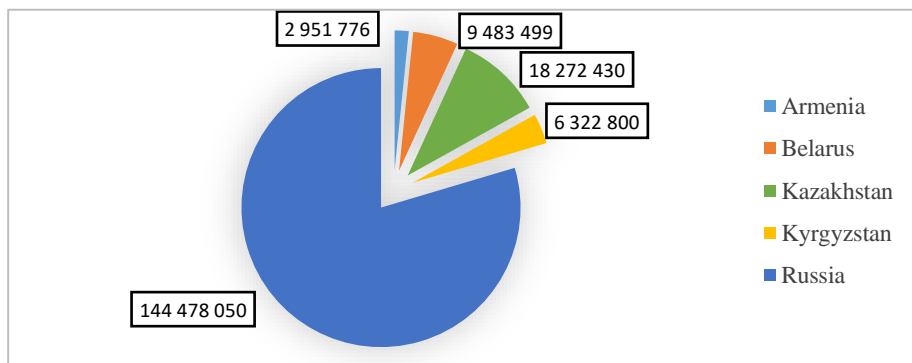


Figure 2. The population of the EAEU Member States



The highest poverty level among member states is found in Armenia and Kyrgyzstan (23.5 and 22.4 percent, respectively), while Kazakhstan shows the lowest poverty rate. For the last four years of membership in the EAEU, the poverty rate decreased only in the poorest member states: in Armenia by 21.7%, and in Kyrgyzstan by 26.8%. These and other indicators are shown in the following tables [2].

Table 1. Poverty level in EAEU Member States

Countries	2014	2015	2016	2017	2018	2019 / 2014
Armenia	30,0	29,8	29,4	25,7	23,5	-21,7%
Belarus	4,8	5,1	5,7	5,9	5,6	16,7%
Kazakhstan	2,9	2,6	2,5	2,7	4,3	48,3%
Kyrgyzstan	30,6	32,1	25,4	25,6	22,4	-26,8%
Russia	11,3	13,4	13,2	12,9	12,6	11,5%

Kyrgyzstan lags behind the other member countries in terms of GNI (Gross National Income) per capita and belongs to the group of countries with below-average incomes. The rest of the member states are classified as upper-middle-income countries. These and other indicators are given in the tables below.

Table 2. Ranking of countries and territories by GNI per capita

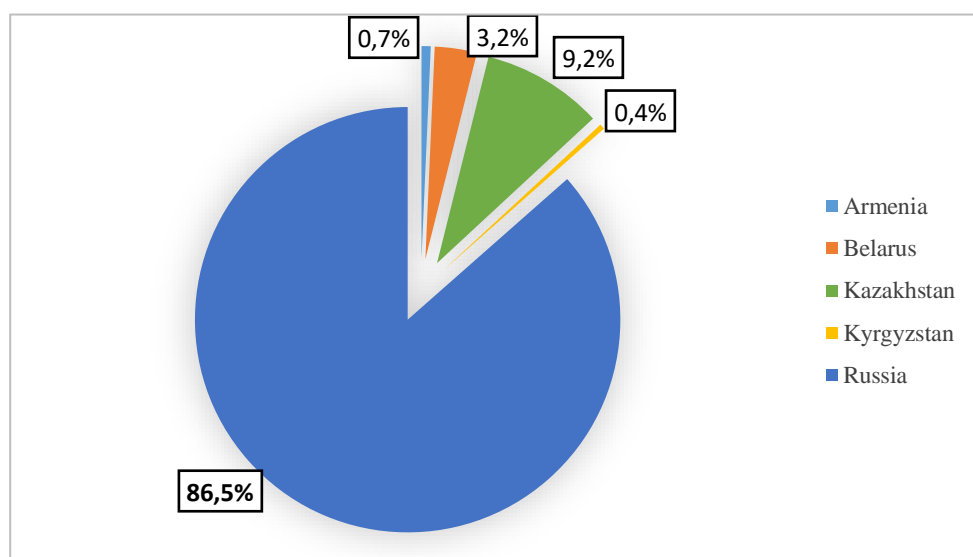
Rating	Economy	Income
Armenia	116	4 230
Belarus	102	5 670
Kazakhstan	83	7 830
Kyrgyzstan	169	1 220
Russia	73	10 230

Table 3. Gross Domestic Product (at current prices; in USD million)

	2014	2015	2016	2017	2018	2019	2019 / 2014
EAEU	2 400 413	1 626 658	1 481 878	1 815 278	1 933 024	1 965 644	-18%
Armenia	11 610	10 553	10 546	11 527	12 458	13 673	18%
Belarus	78 536	55 317	47 478	54 697	59 954	63 175	-20%
Kazakhstan	221 418	184 387	137 278	166 806	179 338	180 264	-19%
Kyrgyzstan	7 469	6 678	6 814	7 703	8 271	8 455	13%
Russia	2 081 381	1 369 722	1 279 762	1 574 544	1 673 003	1 700 078	-18%

Kyrgyzstan's gross domestic product (for less than five years of Kyrgyzstan's membership in the EAEU), as table 3 shows, grew by 13%. The largest growth was observed in Armenia, showing an 18% increase. In contrast, the rest of the member states experienced a decline in GDP. See figures [3].

Figure 3. The relative share of the Member States on the GDP of the EAEU (in %, 2019)



Despite the 13% increase in Kyrgyzstan's GDP, its share is only 0.4% of the total GDP of EAEU.

GDP per capita in Kyrgyzstan is the lowest among the Member States, measured at \$1310. Since the membership was founded, GDP growth as a percentage of growth within Member States has only been observed in Armenia. In its first year as a member of the EAEU, the GDP per capita of Kyrgyzstan, as a percentage of total Member State GDP performance, decreased by 13%. However, in the subsequent five years, this indicator has levelled off to -2%. See Table 4.

Table 4. GDP per capita (current USD)

Countries	2014	2015	2016	2017	2018	2019	2019 / 2014
Armenia	3 852	3 512	3 524	3 869	4 196	4 616	20%
Belarus	8 289	5 829	4 997	5 759	6 322	6 691	-19%
Kazakhstan	12 807	10 510	7 715	9 248	9 813	9 731	-24%
Kyrgyzstan	1 331	1 163	1 179	1 296	1 364	1 310	-2%
Russia	14 472	9 356	8 725	10 723	11 394	11 584	-20%

Table 5. Investment in fixed assets (current USD million)

Countries	2014	2015	2016	2017	2018	2019	2019 / 2014
EAEU	428 015	276 509	255 296	315 552	332 090	347 815	-19%
Armenia	1 115	1 008	855	891	874	905	-19%
Belarus	21 956	12 745	9 356	10 879	12 256	13 332	-39%
Kazakhstan	36 785	31 681	22 686	26 904	32 430	32 797	-11%
Kyrgyzstan	2 011	1 975	1 938	2 109	2 200	2 318	15%
Russia	366 148	229 100	220 461	274 769	284 330	298 463	-18%

Before joining the EAEU, Kyrgyzstan relied on foreign direct investment growth. Over the last five years, only Kyrgyzstan has shown growth in fixed asset investment, amounting to 15%; and, per capita, the increase was 4%.

Tables 6. Investment in fixed assets per capita (in US dollars)

	2014	2015	2016	2017	2018	2019	2019 / 2014
EAEU	2 385,4	1 515,9	1 394,7	1 719,1	1 806,0	1 888,9	-21%
Armenia	370,0	335,3	285,6	298,9	294,5	305,4	-17%
Belarus	2 317,3	1 343,0	984,7	1 145,4	1 292,3	1 412,0	-39%
Kazakhstan	2 127,7	1 805,9	1 274,9	1 491,5	1 774,4	1 771,5	-17%
Kyrgyzstan	344,6	331,6	318,7	340,2	348,0	359,1	4%
Russia	2 545,9	1 564,8	1 503,1	1 871,2	1 936,5	2 033,6	-20%

There has been a significant outflow of direct investments from the EAEU member states (over four years). Investors continue to be other foreign countries. The structure of foreign investment inflow shows the weakness of investment ties between the EAEU member states.

Table 7. The net inflow of direct investments into the Kyrgyz Republic, (in USD million)

Countries	2014	2015	2016	2017	2018	2018 / 2014
EAEU	148,4	512,5	279,6	67,1	-13,8	-109%
Armenia	-	-	-	-	-	-
Belarus	-1,7	17,6	-17,6	-	0,5	-129%
Kazakhstan	12,3	5,3	16,0	-7,3	-15,8	-228%
Russia	137,7	489,7	281,1	74,4	1,4	-99%
Non-EAEU	199,6	629,2	336,3	-174,3	60,4	-70%

Further observation shows that the export of goods to the EAEU decreased by 22%. The largest trading partners for exports are

countries outside the EAEU: Great Britain, Uzbekistan, Turkey, and China. These countries mainly specialize in the supply of manufactured goods, energy products, mineral ores, concentrates of precious metals, and agricultural products. Among the goods exported to the EAEU countries, agricultural and manufacturing products prevail. The largest volumes of exports, from outside the EAEU, are imported by Russia and Kazakhstan.

Imports from the EAEU member states decreased by 29% over the given period. Russia and Kazakhstan continue to be the main importers among the ‘allies’. See tables [5].

Table 8. Bilateral trade of the Kyrgyz Republic, (in USD million)

Export	2014	2015	2016	2017	2018	2018 / 2014
EAEU	725,7	410,2	447,2	541,5	568,4	-22%
Armenia	-	0,1	-	0,1	0,1	-
Belarus	6,5	5,6	3,3	7,1	7,0	8%
Kazakhstan	579,2	237,6	265,5	268,6	247,2	-57%
Russia	139,8	166,8	178,4	265,7	314,1	125%
Non-EAEU	1 159,1	1 072,8	1 126,0	1 222,8	1 196,2	3%
Import	2014	2015	2016	2017	2018	2018 / 2014
EAEU	2 518,0	2 056,1	1 625,9	1 863,7	1 776,7	-29%
Armenia	0,1	0,3	0,9	1,8	0,6	500%
Belarus	91,4	51,4	44,7	108,7	39,1	-57%
Kazakhstan	74,4	53,1	531,0	520,5	502,0	575%
Russia	1 851,9	1 460,2	1 049,4	1 232,7	1 239,9	-33%
Non-EAEU	3 214,5	2 088,8	2 374,5	2 631,1	3 130,7	-3%

Even though there has been an increase in the average monthly wage of 7% in Kyrgyzstan, accompanied by a decrease in average monthly wages in other Member States, Kyrgyzstan significantly lags behind other countries in the EAEU. An even more frustrating minimum wage indicator for Kyrgyzstan, is that Kyrgyz minimum wages amount to only 4% of Fixed Capital Investment per Capita.

Table 9. Average monthly nominal wages (in US dollars)

Countries	2014	2015	2016	2017	2018	2019	2019 / 2014
Armenia	381	359	363	344	358	380	-0,3%
Belarus	590	413	361	426	476	522	-12%
Kazakhstan	675	568	418	463	472	485	-28%
Kyrgyzstan	229	209	212	228	239	246	7%
Russia	856	561	549	671	699	733	-14%

Figure 4. The level of average monthly wages in the EAEU member states in 2019, in US dollars

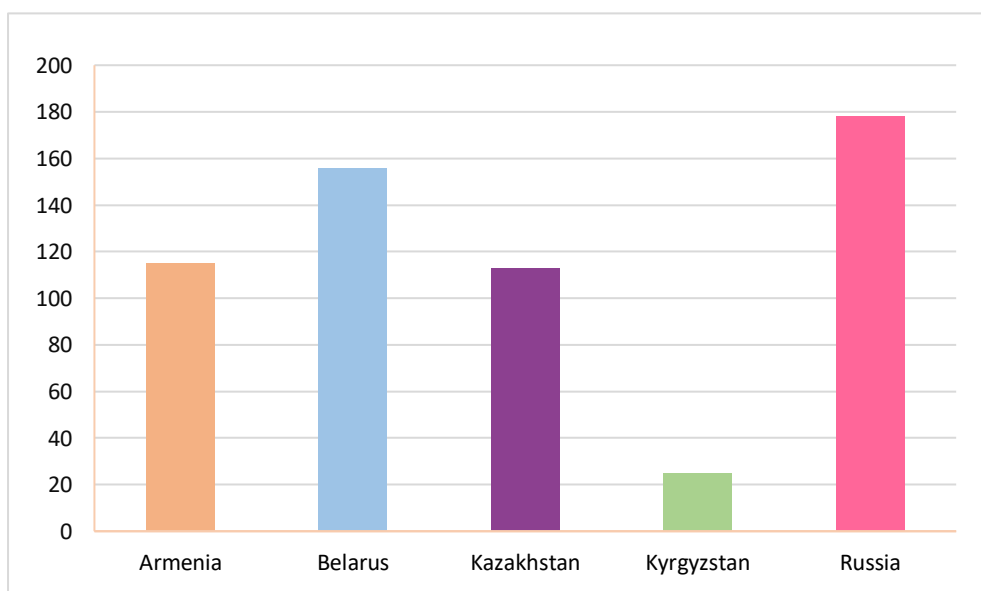
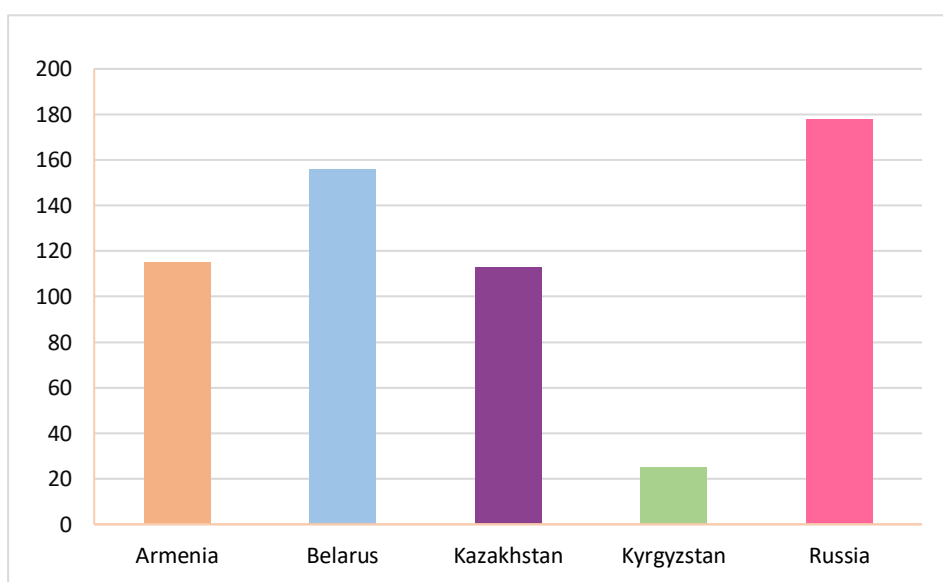


Table 10. Minimum wages (in US dollars)

Countries	2014	2015	2016	2017	2018	2019	2019 / 2014
Armenia	108	114	114	114	113	115	6,5%
Belarus	167	121	122	132	143	157	-6%
Kazakhstan	110	66	68	73	76	111	1%
Kyrgyzstan	15	13	15	17	24	25	67%
Russia	100	86	121	133	166	179	79%

Figure 5. The level of the minimum wage in the EAEU member states in 2019, in US dollars

Migrant outflows from Kyrgyzstan decreased by 31% over the five-year period being examined. However, labour migrants transferred, yearly (on average), \$2 billion according to the Ministry of Economy of the Kyrgyz Republic. The amount decreased in 2015 to \$1.4 billion, but rose again to \$2.3 billion in 2018.

Migration to Russia decreased by 54%, while the outflow of workers, or migrants, from Kazakhstan increased significantly and amounted to 139%. See tables [6].

Table 11. Indicators of international migration in the EAEU member states, by number of people

Countries	2014	2015	2016	2017	2018	2018 / 2014
Armenia	-21 798	-25 906	-24 792	-23 962	-18 286	-16%
Belarus	15 722	18 494	7 940	3 874	9 362	-40%
Kazakhstan	-12 162	-13 466	-21 145	-22 130	-29 121	139%
Kyrgyzstan	-7 757	-4 229	-3 965	-3 925	-5 390	-31%
Russia	270 036	245 384	261 948	211 878	124 854	-54%

One of the important arguments of the Kyrgyz government when joining the EAEU was that there would be a simplification of migration processes between the member states, that "all conditions will be created for the free movement of labour migrants in the territory of the Union". Indeed, labour migrants have benefited the most from Kyrgyzstan's accession to the EAEU. Many restrictions on migrants were lifted: special work permits, obligatory exams for language, culture, history, and Russian legislation, were abolished. Further, the permitted periods of residence for labour migrants without registration in the territories of the EAEU member states have been increased. Kyrgyz labour migrants were also given exemptions from procedures for recognizing documents on education and received the right to equal social security.

Official and unofficial evaluation of the EAEU membership

Let us go through the official and unofficial views on the results of the almost five-year membership of the Kyrgyz Republic in the EAEU.

Official evaluation of EAEU membership

In August last year, the Government of Kyrgyzstan summed up the results of its membership in the EAEU for the past four years. Indicators are given below [7].

Pros	Cons
<ul style="list-style-type: none"> – GDP growth – Increase in the volume of the tax receipts – An increase in the amount of money transferred by labour migrants to the Kyrgyz Republic. 	<ul style="list-style-type: none"> – Decrease in tariffs – Foreign trade never reached the level that the country had before joining the EAEU.

The benefits received by Kyrgyzstan from joining the EAEU were presented at a government meeting by the Minister of Economy, Sanzhar Mukanbetov. He associates achievements in all spheres solely with the country's entry to the EAEU. Thus, according to the minister:

“Despite the pessimistic forecasts and the difficulties during the adaptation period, Kyrgyzstan managed to maintain a positive dynamic of economic growth of over 4% (on average per year) and, in general, maintained macroeconomic stability over the four years of integration into the EAEU. The process of harmonizing

the supranational rules of the EAEU with the national legislation of our country is progressing successfully. After four years of the integration of the Kyrgyz Republic into the EAEU, the State, businesses, and society came to understand that the accession of the country to the EAEU is not a one-time and short-term event, but is a transition to a new integration model for the country's future development.”

According to the Prime Minister of the Kyrgyz Republic, M. Abylgaziev, citizens of Kyrgyzstan working in the EAEU countries received certain advantages in both economic and social terms. He states that:

“The most important thing is the achievement of the free movement of capital, people and goods. Of course, there are several problems. However, there are more positive aspects . . . the main task is to ensure that Kyrgyz entrepreneurs have equal opportunities to compete with entrepreneurs from the EAEU countries. Indeed, there exist several problems in tax administration. These issues will be resolved through the early implementation of necessary fiscal policies.”

Unofficial evaluation of EAEU membership

Despite the positive reports of the government, Zhamin Akimaliev, Director of the Kyrgyz Research Institute of Agriculture, criticized the government with respect to problems relating to the EAEU.

He claims:

“Yes, there was growth and, in general, incomes seemed to have increased. Nevertheless, to say that all this happened due to the

country's accession to the EAEU is wrong. The growth took place also because of partnerships with other states, including China, Europe, and Arab countries. Even though there was some benefit from joining the EAEU, there are many problems that we experienced because of our integration with the Union. Most importantly, the export of food products from Kyrgyzstan has not increased. In fact, the country was flooded with import goods. Kazakhstan, Russia, and also Uzbekistan (which is not a member of the EAEU), overwhelmed us with their products, resulting in a threat to our economic security. If the government stated, or showed, that ‘we are selling the goods produced by our farmers and we are receiving good income’, then it would be a different matter. But they relied on other economic statistics and are, thus, telling us ‘fairy-tales’. We have situations that have not yet been adapted to work within the association.”

Indeed, in the past four years, a lot of criticism has been expressed concerning the cooperation of Kyrgyzstan with the countries that are part of this union. More particularly, the intensification of inspections by Kazakhstan at border crossings, the tightening of customs controls, and the emergence of long queues in this regard at checkpoints, as well as the return of fruit and vegetable products by Russian importers and/or authorities back to Kyrgyzstan, have negatively impacted on perceptions surrounding Kyrgyzstan’s participation in the EAEU.

The head of the JIA Association (Association of Young Entrepreneurs), Temirbek Azhykulov, expressed his opinion regarding this matter. He reports:

“The main complaints and applications made to us come from entrepreneurs who specialize in exports. There is such a thing as ‘non-tariff barriers’, and many entrepreneurs complain about their proliferation. Many businessmen have suffered from the closure of borders as well as increased bureaucracy. After all, this is the failure to comply with the rules adopted within the EAEU. They create obstacles for us while increasing the volume of products that are exported to us. Our entrepreneurs, farmers, and agricultural producers are facing great difficulties. But there is not a word about this in the government's report. Membership in the EAEU might have been a good idea, but, in reality, we do not feel that this decision has brought us many advantages or benefits. It is said that ‘the markets have opened’, but there are no laboratories, or testing facilities, that meet the requirements for shipping products to these markets. The certification process has not been established - the certification of these laboratories, or other facilities, that the state has built is still not recognized by the EAEU member states. In general, there are a lot of problems”

Conclusion

To sum up, the results of our analysis show that many economic indicators, forecast (and planned for) by the advocates for the improvement of Kyrgyzstan's economy through joining the EAEU, were in fact negative over the four years examined. The positive indicators were characterized only by the decrease in the poverty rate and migrant outflows. However, this does not greatly affect the general level of well-being of the population of the republic. See the table below.

Table 12. Changes in the main economic indicators of members of the EAEU, in %

Kyrgyzstan	2019 / 2014
Poverty rate	-26,8%
GDP growth	13%
GDP per capita	-2%
Investment on fixed capital	15%
Fixed capital investment per capita	4%
The net inflow of direct investments to the Kyrgyz Republic from the EAEU	-109%
The net inflow of direct investments to the Kyrgyz Republic out of the EAEU	-70%
Export within the EAEU	-22%
Import within the EAEU	-29%
Average monthly nominal wages	7%
Minimum wage (in USD)	67%
The outflow of migration within the EAEU	-31%

Recommendations

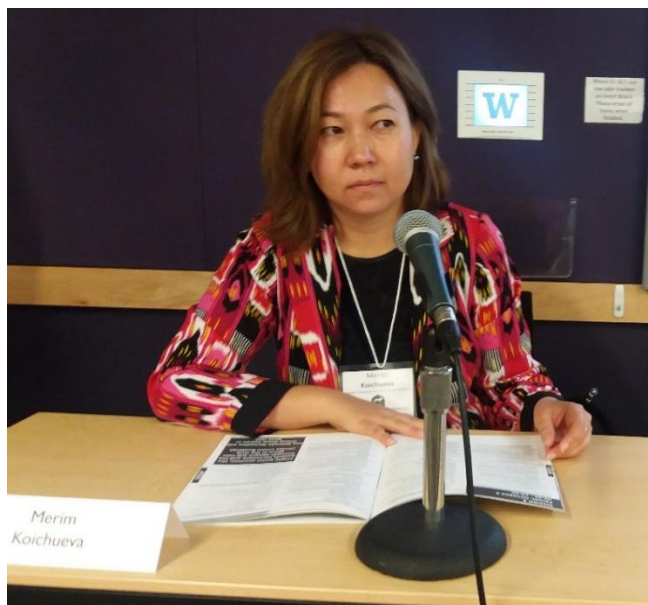
It is necessary for Kyrgyzstan, and its neighbors, that a ‘deep and wide’ economic integration is created, where there would exist no economic borders and barriers between the countries. More precisely, borders would be open and the free movement of resources, goods, capital, and labour would be guaranteed.

These require the following steps

1. Economic legal laws, norms, and ‘rules of the game’ must be clearly identified and demarcated, aligned and harmonized, and not contradict each other.
2. There should be agreed, or uniform, prices for goods and services, as well as agreed tariffs for transportation.
3. Moreover, based on a generally accepted approach, the issues of determining the level of wages, its minimum rate, and the sustainable level of a minimum consumer budget (i.e. living wage), should be resolved.
4. It is necessary to develop a common position, among member countries, concerning external markets and their impacts on member countries.

References

1. World Development Indicators. <https://data.worldbank.org/>
2. <http://www.eurasiancommission.org/>
3. Национальный Банк Кыргызской Республики.
<https://www.nbkr.kg/>
4. Национальный Статистический Комитет Кыргызской Республики. <http://www.stat.kg/>
5. Нурматов Э. Кыргызстан и ЕАЭС: плюсы и минусы четырехлетнего пребывания в организации, Азаттык, август 30, 2019 <https://rus.azattyk.org/a/kyrgyzstan-economy-eurazes/30137604.html>
6. Кыргызстан - выбор пути развития в цивилизованном мире / под. науч. рук. акад. Т. Койчуева. Бишкек: Илим, 2015 г., ISBN 978-9967-11-497-5
7. Евразийский экономический союз в настоящем и будущем / под. науч. рук. акад. Т. Койчуева, 2016 г., ISBN 978-9967-12-638-1



Koichueva Merim Turarovna

PhD in Economics, Professor, Institute of Economics
National Academy of Sciences of the Kyrgyz Republic

E-mail: mkoichueva@gmail.com

**REGIONAL INSTITUTE OF CENTRAL ASIA ACCEPTS RESEARCH PAPERS FOR
ITS MONTHLY PUBLICATION SERIES**

What
we do:



Social issues



Politics and Security



Economy



IT and Innovations

72001, Isanova str. 1/2a

Bishkek, Kyrgyzstan

Tel.: +996 (312) 88 22 01

@: rica.networking@gmail.com

www.rica.network