

Kyrgyzstan Slows Pace of Customs Bloc Entry

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Officials concerned that terms for joining Customs Union could do more bad than good.

For most of last year, Kyrgyzstan seemed to be heading resolutely towards membership of the Customs Union. But then the Central Asian state's government pulled back as it realised it was not going to get the deal it wanted from the former Soviet trading bloc.

Talk of Kyrgyz accession to the Customs Union – whose current members are Russia, Kazakstan and Belarus – began in 2011, but took a more serious turn in April last year when President Almazbek Atambaev said his country was firmly resolved to join. At the same time, he made it clear his government was looking for concessionary terms to mitigate the initial economic impacts of accession.

Kyrgyzstan formally submitted an application in May. Work then began on a roadmap setting out the steps for Kyrgyzstan to join the Customs Union. On November 19, this document was approved by the Council of the Eurasian Economic Commission, the oversight body of the Customs Union.

At this point, the Kyrgyz government made it clear it had major reservations, and argued that its views had not been properly taken into account when the roadmap was formulated.

In a recent interview, Deputy Economy Minister Daniil Ibraev told IWPR that the document “does not reflect Kyrgyzstan's position”.

“Our economy is weaker than those of the Custom Union member countries,” he continued. “Accession could deliver a shock to some sectors of our economy, and we are asking for certain preferential terms to soften the blow.”

The terms which Kyrgyzstan has been pressing for included a delay to introducing new import and export tariffs; exemptions that would effectively turn major wholesale markets into free trade zones; a special fund that would support weaker Customs Union members; and assistance in strengthening Kyrgyzstan's external border controls.

Officials have argued that such concessions are essential because the Kyrgyz economy is in poorer shape than those of Customs Members, and because it would suffer if it had to raise its low import taxes.

Kyrgyzstan and its eastern neighbour China are members of the World Trade Organisation (WTO), with low trade tariffs between them. This has led to imports of cheap Chinese goods which are then re-exported from Kyrgyzstan to the wider region. This flow of goods would be curbed if the Kyrgyz authorities had to start levying the higher customs rates required by the Customs Union.

Ibraev told IWPR that Kyrgyzstan was seeking a temporary exemption for its three biggest wholesale markets, where goods come in from China and are then resold for export to countries like Kazakstan and Uzbekistan. He pointed out aht the Kara Suu, Dordoi and Madina markets provided direct and indirect employment to about a fifth of the country's workforce.

After Kyrgyzstan objected to the first version, the roadmap document was supposed to be redrafted in time for a Eurasian Economic Council summit on December 24. After the meeting, however, President Atambaev made it clear there was still a problem and that his administration would not be rushed into a deal.

“Kyrgyzstan will join integrated groupings only if its national interests are taken into account,” he said.

Three days later, Deputy Prime Minister Joomart Otorbaev reinforced the message that national interests came first.

“We put forward conditions relating to the large [wholesale] markets in Kyrgyzstan, border protection, and a support fund worth 200 million US dollars,” he said.

Otorbaev indicated that that the roadmap might still be ready in March or May 2014, while the accession process could take another year.

Accession to the Customs Union will affect different parts of the Kyrgyz economy in different ways. Unless an exception is made, the re-export trade from China could collapse. Higher import prices on goods originating from outside the Customs Union zone will also make life more expensive for Kyrgyz shoppers.

“That isn't going to be easy for our population, since incomes are lower than those in other Customs Union countries,” said Aynura Chekirova, acting director of the Bishkek Business Club.

She added that textile manufacturers which import fabrics and equipment from countries like Turkey would also struggle as their costs increased and made them uncompetitive.

On the plus side, Kyrgyzstan would benefit from duty-free imports of petroleum products from Russia and Kazakhstan, according to Ulan Kulov, acting director of the national Association of Oil Traders.

Rimma Kiseleva, head of the foreign trade and WTO department at the economy ministry, said Kyrgyzstan would benefit from greater investment and a free exchange of goods. She said the government had to weigh the interests of potential winners and losers.

As an example of a beneficiary, Kiseleva cited the agriculture sector, which would gain access to an export market of 170 million Russians, Kazaks and Belarusians.

However, Manas Samatov, head of the Association of Agricultural Producers, warned that the downside of free trade was already visible. Customs Union manufacturers were already pushing sales of expensive farm machinery, and without competition from the likes of China, "that will be the end of opportunities to modernise the sector", Samatov said.

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