



-Kyrgyzstan-
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Table of Contents

GENERAL FEATURES OF TRADE POLICY

TARIFFS AND DUTIES

INVESTMENT RELATED BARRIERS

IPR

GENERAL FEATURES OF TRADE POLICY

Due to its position as land-locked country and the low level of development, the main objectives of the Kyrgyz foreign policy are to maintain good relations with neighbouring countries, in order to attract foreign investors and to get active involvement of International Financial Institutions.

Kyrgyzstan is a member of the recently created Eurasian Economic Community (EAEC) which also includes Russia, Belarus, Kazakhstan and Tajikistan. However, it is unlikely that this organisation will achieve the substantial integration that its predecessor, the Customs Union, failed to achieve.

The Kyrgyz Republic has good relations with the IMF (which has developed an ESAF programme) and the World Bank. Kyrgyzstan was the first NIS to have its own currency and to achieve (IMF-guided) macroeconomic stability.

Kyrgyzstan has full membership status in the WTO since October 1998. In December 1998 Kyrgyzstan became the first country among the former Republics of the Soviet Union to join the WTO. It remains the only Central Asian WTO Member State and faces strong protection measures in trade with its neighbouring countries. Central Asia's integration into the multilateral trade system is of utmost importance for Kyrgyzstan, which has put considerable efforts into the trade liberalisation of the region. However, an efficient mechanism for dispute settlement still remains to be developed for the region.

In 2002 the economic situation of the Kyrgyz Republic witnessed an unexpected deterioration as a result of a combination of factors. Despite hopeful forecasts for 2002, (GDP growth was projected at 4.5 % in 2002) Kyrgyzstan's GDP dropped 0.5% and amounted to 75.1 bn som (100 KGS = 1.97€). Three key factors explain this drastic fall: the approximately 33% decrease in production at the Kumtor Gold Mine caused by the collapse of a 200m- high wall in July 2002, which severely disrupted all operations, the 11.7% decrease in the production of the energy sector caused by the fall in energy exports to neighbouring countries and the 26% decrease in oil processing.

It is important to note that although oil production is currently almost non-existent, there are various ongoing exploration projects that could potentially lead to an increase in the Kyrgyzstan's oil production capacity by the year 2005.

The shadow economy remains very large. Depending on methods of calculation and sources, it is estimated at 24%, 50% or even 80% of GDP. The shadow economy covers either non-registered economic activities or, more frequently, registered companies hiding most of their revenues. This is closely related to the problem of corruption in tax and customs administrations.

The government is currently discussing a draft law on the prospection introduction of VAT on the agricultural sector.

The following table is an overview of the tradeflow between the European Union and Kyrgyzstan

Section	Year	Import(Euro)	Export(Euro)

Animals & animal products	1996	56,530	325,030
	1997	163,440	448,990
	1998	77,230	706,220
	1999	42,480	39,700
	2000	5,900	39,500
	2001	20,380	129,850
	2002	34,180	108,410
	2003	61,360	22,140
Vegetable products	1996	315,770	4,711,800
	1997	278,660	477,140
	1998	243,360	144,290
	1999	113,550	342,170
	2000	158,010	390,650
	2001	1,464,240	234,530
	2002	689,090	308,800
	2003	973,170	590,780
Animal or vegetable fats	1996	0	979,020
	1997	60,610	1,102,290
	1998	0	506,080
	1999	0	126,280
	2000	35,700	134,670
	2001	145,640	133,380
	2002	47,110	2,140
	2003	10,860	1,960
Prepared foodstuffs	1996	7,880	9,284,310
	1997	680	6,068,880
	1998	130	7,854,540
	1999	8,890	1,535,500
	2000	4,680	505,760
	2001	95,320	2,734,310
	2002	167,020	1,747,570
	2003	244,600	1,942,160
Mineral products	1996	220,330	683,120
	1997	2,947,230	962,080
	1998	3,630,000	1,282,790
	1999	6,920	1,010,820
	2000	15,140	829,290
	2001	25,180	1,131,990
	2002	1,339,860	1,319,400
	2003	0	945,830
Chemical products	1996	978,970	3,723,470
	1997	777,750	7,449,960
	1998	462,570	7,209,520
	1999	265,570	5,207,810
	2000	447,970	5,492,520
	2001	681,620	8,120,950
	2002	463,010	7,346,730
	2003	137,590	8,556,060
Plastics & rubber	1996	0	1,228,110
	1997	1,160	3,845,890
	1998	100	3,301,110
	1999	0	1,770,590
	2000	2,610	2,615,000
	2001	0	2,585,370
	2002	0	1,976,780
	2003	12,900	2,242,860
Hides & skins	1996	74,520	53,430
	1997	56,090	171,930
	1998	20,320	406,380
	1999	48,480	66,550
	2000	791,210	139,020

	2001	1,202,040	482,270
	2002	867,700	75,300
	2003	313,070	101,600
Wood & wood products	1996	0	113,650
	1997	271,770	155,030
	1998	202,120	351,470
	1999	739,030	145,720
	2000	504,260	181,270
	2001	295,750	342,840
	2002	163,530	384,730
	2003	74,120	287,550
Wood pulp products	1996	1,040	870,480
	1997	0	794,560
	1998	18,450	1,194,610
	1999	1,400	1,539,410
	2000	12,420	2,729,500
	2001	7,700	1,403,200
	2002	2,090	1,802,600
	2003	890	1,560,890
Textiles & textile articles	1996	3,193,690	1,853,520
	1997	4,497,280	722,740
	1998	3,331,560	1,402,540
	1999	3,073,840	1,105,410
	2000	3,158,340	2,366,880
	2001	4,547,900	2,203,330
	2002	3,559,510	1,773,780
	2003	3,444,430	1,955,540
Footwear, headgear	1996	0	839,230
	1997	11,100	782,430
	1998	31,250	1,676,860
	1999	77,720	624,430
	2000	51,770	1,083,020
	2001	25,040	1,002,920
	2002	11,160	720,250
	2003	61,580	721,880
Articles of stone, plaster, cement, asbestos	1996	380	450,560
	1997	0	483,010
	1998	22,710	867,360
	1999	2,050	700,970
	2000	0	559,740
	2001	2,270	413,930
	2002	2,760	490,040
	2003	5,340	870,790
Pearls, (semi-)precious stones, metals	1996	76,890	304,600
	1997	19,787,500	4,250
	1998	173,447,050	75,890
	1999	124,320,360	48,610
	2000	120,624,190	16,540
	2001	103,245,290	177,760
	2002	6,825,230	22,630
	2003	1,674,960	121,570
Base metals & articles thereof	1996	13,671,540	3,392,680
	1997	14,400,840	5,328,030
	1998	8,232,310	3,175,330
	1999	1,414,170	4,696,380
	2000	2,037,580	2,747,510
	2001	546,500	1,941,380
	2002	3,255,400	1,858,400
	2003	2,966,380	2,336,880
	1996	83,140	24,467,710
	1997	259,610	25,941,030

Machinery & mechanical appliances	1998	600,120	25,060,480	
	1999	312,830	31,043,920	
	2000	571,490	21,430,500	
	2001	2,975,050	18,689,530	
	2002	915,530	20,322,970	
	2003	327,530	14,058,910	
Transportation equipment	1996	98,890	5,739,920	
	1997	8,530	5,193,700	
	1998	5,920	5,904,850	
	1999	24,910	3,419,130	
	2000	54,880	2,844,180	
	2001	26,950	5,479,590	
	2002	126,120	5,025,150	
	2003	1,730	5,865,470	
Instruments - measuring, musical	1996	10,920	5,685,190	
	1997	28,280	2,615,870	
	1998	144,440	2,663,010	
	1999	1,770	4,631,490	
	2000	70,140	1,713,470	
	2001	0	1,225,880	
	2002	9,150	3,523,460	
	2003	6,460	5,939,200	
Arms & ammunition	1996	0	49,260	
	1997	0	6,180	
	1998	0	41,880	
	1999	620	650	
	2000	0	460	
	2002	11,450	0	
Miscellaneous	1996		6,270	1,086,060
	1997		5,080	1,549,400
	1998		4,880	3,904,170
	1999		0	3,535,810
	2000		12,190	1,244,040
	2001		23,340	1,460,970
	2002		2,230	1,332,760
	2003		35,920	1,554,500
Works of art	1996	1,980	0	
	1998	3,890	0	
	1999	32,570	0	
	2000	26,750	0	
	2001	18,960	930	
	2002	0	12,290	
	2003	4,970	2,670	
	1997		66,310	1,970,420
Other	1998		201,830	3,944,260
	1999		148,160	2,128,790
	2000		994,670	1,537,010
	2001		1,218,030	1,657,650
	2002		392,450	27,337,980
	2003		3,792,960	34,414,520

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The weak increase in the agricultural sector (only 3.3%) has been unable to compensate for the negative consequences of the fall in the industrial sector. The weather conditions have been unfavourable during the first six months of 2002 and have caused heavy losses. Nearly 23.000 ha of grain and betroot, 36% of grapes and 56% of orchard were lost and tobacco production decreased by 66%.

A large part of the agricultural sector in Kyrgyzstan consists of low-yield extensive farming and breeding (since more than 90% of the country is mountainous). The agricultural

sector only constitute 2% of the total budget revenue, as it is VAT-free. Although the Government is currently discussing a draft law on the prospective introduction of VAT on the agricultural sector. This initiative has been IMF orientated but Kyrgyzstan resisted the move for fear of social unrest and of the potentially negative effects on rural areas.

Land tax is the only tax which is paid by the agricultural producers. The receipts of this tax account for only 2% of the budget revenue, the share of agriculture being 35% of the GDP.

The introduction of VAT on agricultural products :

- would allow to soften tax burden for agriprocessing enterprises
- would make capital investments into agriculture enterprises more attractive as the VAT included into the costs of the fixed assets could be obtained as VAT credit
- would stimulate export of agricultural products as VAT on export is at a zero rate

Leading agricultural products include meat, wool, leather, cotton, silk, tobacco, cereals, potatoes, vegetables, fruit and sugar beet. The privatisation of the agricultural sector has well advanced since the legal framework for private agriculture is in place. However, livestock and wool production have declined severely.

[back to top](#)

TARIFFS AND DUTIES

New amendments to the Tax Code, providing for a tougher tax regime, were approved in July 2002 at the Parliament.

The most important sources of the state budget revenue are VAT, excise taxes, income tax and profits tax. The growing role of VAT and decreasing importance of excise taxes are of special interest. A person must be registered as a VAT payer if his total turnover exceeds 300 thousand soms (1 KGS = € 0.019659).

The object of VAT taxation are taxable supplies as well as taxable imports. In exports of goods and services on international transportation a zero rated VAT is applied.

The exempt supplies include supply of living structures or rent of living accommodations and land; supply of agricultural products, processed agricultural products grown by agricultural producers; supply and export of gold; rendering of financial services, insurance services, city transport system services, provision of postal services and public utilities to the population etc.

A number of taxes bring insignificant revenue (local taxes and taxes from small businesses collected according to the simplified scheme).

[back to top](#)

INVESTMENT RELATED BARRIERS

In the first half of 2002, the EU continued to be an important investor, with about one quarter of the volume of total investments of which Germany amounts to 82% of EU FDI's. China has also become a key investor in Kyrgyzstan in the course of recent years. Its current enterprises include a beer factory in Chiu, a plastic bag factory and one of the biggest oil and processing complexes in the country.

Another major industrial project that deserves special attention is the Interglass factory, which constitutes one of the key German investment in Kyrgyzstan.

The high level of corruption in governmental structures, the tax regime, which often kills the viability of business activities and the difficulty to access credits constitute the major obstacles encountered by potential investors, reinforced by the low purchasing capacity of the population and the lack of export opportunities.

Despite the lack of concrete results, a number of foreign investors have expressed their interest in various small assets, particularly in the tourism sector.

In November 2002 the Government agreed to sell 51% of Kyrgyz Telecom and since then a number of foreign companies have expressed an interest in acquiring it (including EU, Kazak and Chinese).

Privatisation of part of Kyrgyzenergo is currently being planned with the support of the World Bank and the government plans to launch a restructuring programme for Kyrgyz airlines as a first step on the road to its privatisation and finally the privatisation of Kyrgyzgaz has been agreed with the World Bank and is currently being discussed in Parliament.

Since February 2002 an information agency for investors has been created. Despite its limited budget, the agency provides for different services such as contact making, searching of business partners, legal advice,

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It has to be noted that there has been no progress achieved so far on the draft Investment Law which was submitted to Parliament beginning 2002. The law provides for a reasonable degree of protection of investors (10-year stability clause, access to international arbitration). Foreign and local investors are put on an equal footing. The major blocking issue is the allocation of tax preferences to attract new investment. The Parliament is currently discussing a scheme of tax exemptions in the form of credit, which would be gradually repaid to the government after several years of operations.

[back to top](#)

IPR

The Kyrgyz Republic is member of WIPO since December 1991 and has signed the following Conventions:

Paris Convention for the Protection of Industrial Property

Berne Convention for the Protection of Literary and Artistic Works

Madrid Agreement concerning the International Registration of Marks

Nice Agreement concerning the International Classification of Goods and Services for the Purpose of Registration of Marks

Locarno Agreement establishing an International Classification for Industrial Designs

Vienna Agreement Establishing an International Classification of the Figurative Elements of Marks

Trademark Law Treaty

WIPO Copyright Treaty

WIPO Performances and Phonograms Treaty

Washington Patent Cooperation Treaty

Strasbourg Agreement concerning the International Patent Convention

Geneva Phonograms Convention