



THE KYRGYZ
REPUBLIC



THE EURASIAN
ECONOMIC UNION

THE KYRGYZ REPUBLIC IN THE EURASIAN ECONOMIC UNION

FIRST RESULTS





**THE KYRGYZ REPUBLIC
IN THE EURASIAN ECONOMIC UNION.
FIRST RESULTS**

The publication was prepared by the Eurasian Economic Commission



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The Kyrgyz Republic in the Eurasian Economic Union. First Results.

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The released publication is based on the report “The Kyrgyz Republic: Two Years in the Eurasian Economic Union. First Results”, which is prepared by the Eurasian Economic Commission in partnership with the government of The Kyrgyz Republic.

In the publication first results and effects of The Kyrgyz Republic membership in the EAEU were analyzed and summarized, the prospects of economic development of the Republic within the Union were given an assessment; the prospects modernization of the economy as well as the prospects of the development of innovative industries, services, industry and financial sector were calculated; the major directions of the growth of the integration segment were identified.

The presented materials, which also include the process of adaptation of the new State Members to the terms of functioning of the Union, will be useful to anyone who is interested in the Eurasian Economic integration and the participation of states in the EAEU.

| | |
|--|--|
| The Treaty on the EAEU | means the Treaty on the Eurasian Economic Union dated May 29, 2014 |
| The Treaty on the Accession | means the Treaty on the Accession of the Kyrgyz Republic to the Treaty on the Eurasian Economic Union of May 29, 2014 signed on December 23, 2014 |
| The Protocol on Conditions and Transitional Provisions | means the Protocol on Conditions and Transitional Provisions for the Application by the Kyrgyz Republic of the Treaty on the Eurasian Economic Union of May 29, 2014, certain international treaties within the law of the Eurasian Economic Union, and acts of the Eurasian Economic Union's governing bodies with respect to accession of the Kyrgyz Republic to the Treaty on the Eurasian Economic Union of May 29, 2014 (Moscow, May 8, 2015) |
| GDP | means Gross Domestic Product |
| WTO | means the World Trade Organization |
| CIS | means the Commonwealth of Independent States |
| EAEU (or) The Union | means the Eurasian Economic Union |
| EEC (or) The Commission | means the Eurasian Economic Commission |
| CU | means the Customs Union of the Republic of Belarus, the Republic of Kazakhstan and the Russian Federation |
| CES | means the Common Economic Space of the Republic of Belarus, the Republic of Kazakhstan and the Russian Federation |
| CN FEA of the EAEU | means the Single Commodity Nomenclature of Foreign Economic Activity of the Eurasian Economic Union |
| SCT of the EAEU | means the Single Customs Tariff of the Eurasian Economic Union |
| FTA | means free trade area |
| RMOR | Refinery means oil refinery |
| POL | means petroleum, oil and lubricants |
| TIR | means Transport International Routier, or international road transport |
| Individual List | means individual national list of restrictions, exemptions, additional requirements and conditions within the framework of the Eurasian Economic Union for the Kyrgyz Republic |
| FDI | means foreign direct investment |

The Eurasian Economic Commission together with the Government of the Kyrgyz Republic prepared a Report "The Kyrgyz Republic: Two Years in the Eurasian Economic Union. First Results", which describes the work carried out on the accession of Kyrgyzstan to the Union, reports the first results of its membership in the Union as well as the prospects for the country's economic development within the Union.

Kyrgyzstan made its decision in view of the country's economic situation and peculiarities of the negotiation process. The main terms and conditions of the Treaty on the Accession of the Kyrgyz Republic to the EAEU and the outcomes of the first two years of the country's membership in the EAEU are analysed, as well as the prospects for economic development of Kyrgyzstan to deepen its integration within the EAEU. The materials and analytical reports of Kyrgyz authorities, the Eurasian Economic Commission, the Eurasian Development Bank and other sources were used to prepare this Report.

**ТЫШКЫ ӨЗГӨРҮҮЛӨРДҮН ТИЙГИЗГЕН ТЕРС ТААСИРИНЕ ЖАНА ӨТӨ КӨҢҮЛ
ЖУБАТАРЛЫК ЭМЕС БОЛЖОЛДОРГО КАРАБАСТАН, БИЗ УЛУТТУК ЭКОНОМИКАНЫН
ЖАҢЫ ИНТЕГРАЦИЯЛЫК ШАРТТАРГА ЖАНА ЭРЕЖЕЛЕРГЕ ИЙКЕМДЕЛҮҮСҮНҮН
УШУНДАЙ КЫЙЫН КЕЗЕҢИНДЕ ЭКОНОМИКАНЫН ТӨМӨНДӨП КЕТҮҮ
ТОБОКЕЛДИКТЕРИН ЖЕҢЕ АЛДЫК. ЕАЭБ ӨЛКӨЛӨРҮ МЕНЕН СООДА-САТЫКТЫН
КӨЛӨМҮНҮН КӨБӨЙҮҮ ПРОЦЕССИНИН БАШТАЛГАНДЫГЫН КАНААТТАНУУ МЕНЕН
БЕЛГИЛЕП КЕТЕБИЗ.**

СОРОНБАЙ ЖЭЭНБЕКОВ,
КЫРГЫЗ РЕСПУБЛИКАСЫНЫН ПРЕЗИДЕНТИ

**SUMMING UP THE RESULTS OF KYRGYZSTAN'S PARTICIPATION IN THE EAEU, IT CAN BE
STATED WITH CONFIDENCE THAT, DESPITE THE NEGATIVE IMPACT OF EXTERNAL SHOCKS
AND THE MOST WORST-CASE PREDICTIONS, WE MANAGED TO ADDRESS THE DOWNSIDE
RISKS OF THE ECONOMIC RECESSION IN THE MOST DIFFICULT PERIOD OF THE NATIONAL
ECONOMY'S ADAPTATION TO THE NEW INTEGRATION CONDITIONS AND RULES. WE WOULD
LIKE TO NOTE WITH SATISFACTION THE PROCESS OF GROWING VOLUME OF TRADE WITH
THE EAEU COUNTRIES.**

SOORONBAY JEENBEKOV,
PRESIDENT OF THE KYRGYZ REPUBLIC

Background

1.1. KYRGYZSTAN AND ITS FIRST ATTEMPTS AT ECONOMIC INTEGRATION IN THE EURASIAN SPACE

Since the early 1990s, the Kyrgyz Republic has been actively involved in the integration processes in the Eurasian space and demonstrated its optimism for developing trade and economic relations with its partner countries in the Eurasian region.

Kyrgyzstan was one of the originators of the Commonwealth of Independent States and a free trade area within the CIS, first, as a party to the 1994¹ Agreement, with no comprehensive free trade regime on the territory of the CIS (countries failed to agree upon a general list of exceptions from preferential treatment); and subsequently - to the 2011² Agreement, which finally formed a multilateral free trade regime in the region. The second document replaced the 1994 Agreement, including more than a hundred previously valid bilateral treaties and agreements.

Kyrgyzstan was also interested in deeper formats of economic integration in the region. Thus, back in 1996, the country joined the Customs Union of Belarus, Kazakhstan and Russia. But integration

¹ Agreement on the Establishment of a Free Trade Area April 14, 1994

² Free Trade Area Agreement October 18, 2011

efforts were ineffective for a number of objective reasons at the time. As a result, a customs tariff of the participating countries, which initially had not been completely unified, began to diverge significantly in a few years – the absence of a supranational governing body contributed to the growing discrepancies.

Since 2000, Kyrgyzstan, now a member of the Eurasian Economic Community (EurAsEC), together with its partners, has been moving forward towards a renewed and more advanced customs union to make a further transition to a new stage of integration – a Common Economic Space, including the implementation of other objectives and tasks related to deeper integration in the economic and humanitarian fields.

Within the framework of the EurAsEC, the work to formulate the regulatory and legal framework for the future customs union was carried out, and the principles and approaches to how it works were discussed. In 2006, at the meeting of the Heads of the EurAsEC Member States in Sochi, a decision on transition of the three Member States – Belarus, Kazakhstan and Russia – to the Customs Union was made. Kyrgyzstan, as well

as Tajikistan (another Member of the EurAsEC) gained the right to accede to the “Troika” project as soon as it was ready.

Kyrgyzstan officially announced its desire to accede to the Customs Union of Belarus, Kazakhstan and Russia in 2011.

1.2. KYRGYZSTAN ON THE EVE OF ACCESSION TO THE EURASIAN INTEGRATION PROJECT

The decision of the leaders of Kyrgyzstan to accede to the Customs Union was preceded by a thorough study of this issue and a broad domestic discussion.

Hence, in 2010, an ad hoc working group was created within the Government of Kyrgyzstan to conduct a preliminary analysis of the legal framework of the CU in comparison with national legislation. Public discussions of this issue were held with the representatives of business circles and expert community.

Thus, the discussion was as open as possible, within Kyrgyzstan, on the prospects for the country's membership in the Eurasian

were to Russia (257.8 million USD), 40.8% – to Kazakhstan (181.7 million USD), and 1.4% – to Belarus (6.4 million USD)¹.

Following the results of 2010, the total import volume to Kyrgyzstan was 3.2 billion USD, while imports from the countries of the Customs Union was 1.52 billion USD, which is 47.3% of the total volume, 71.2% of which was to Russia (1,083.9 million USD), 25.3% – to Kazakhstan (385.6 million USD), and 3.5% – to Belarus (53.4 million USD).²

The structure of exports to the CU countries is more diversified than exports to other countries. For example, the share of the textile industry in exports to the

In particular, the following analytical reports were prepared:

“Analysis of Accession of the Kyrgyz Republic to the Customs Union”, the Eurasian Development Bank, 2011;

“Consequences of Kyrgyzstan's Accession to the Customs Union and the Eurasian Economic Space for the labor market and country's human capital”, the Eurasian Development Bank, 2013;

“Prospects for the Participation of the Kyrgyz Republic in the EAEU, pluses and minuses”, the National Institute for Strategic Studies, 2013;

“Comprehensive Assessment of Economic and Social Consequences”, Expert Group commissioned by the Ministry of Economy of the Kyrgyz Republic, 2015.

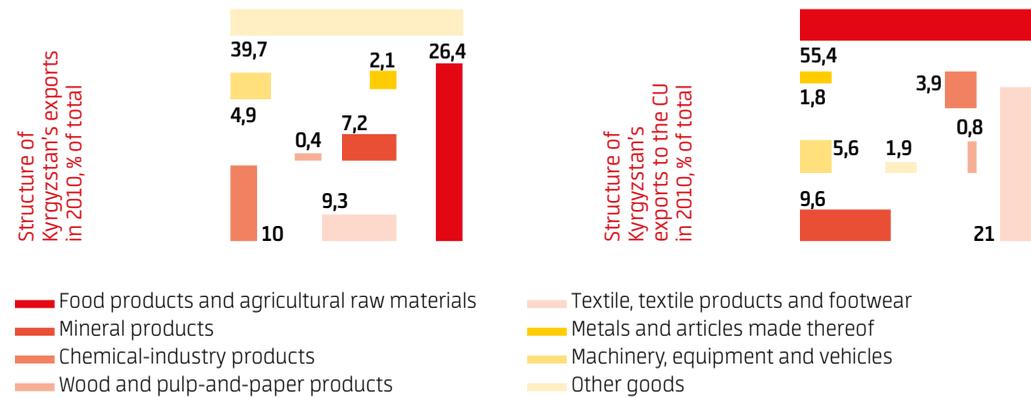
integration project, and on conducting an objective economic analysis of the need for accession and assessment of membership prospects.

First of all, the States of the Customs Union are the most important trade and economic partners of Kyrgyzstan. As of 2010, Kyrgyzstan's exports of goods reached 1.7 billion USD, while exports to the countries of the Customs Union reached 445.8 million USD – 25.4% of total exports, 57.8% of which

CU as of 2010 is 21%, and that of the food products and agricultural raw materials is 55.4%. Meanwhile, these sectors were the most important for Kyrgyzstan at that time in terms of employment and contribution to GDP.

¹ The National Statistical Committee of the Kyrgyz Republic “Foreign Trade of the Kyrgyz Republic in 2010-2014”, p. 36 (excluding the unaccounted export volumes of agricultural products)

² The National Statistical Committee of the Kyrgyz Republic “Foreign Trade of the Kyrgyz Republic in 2010-2014”, p. 38



Commodity specialization of exports of the Kyrgyz Republic to the States of the Customs Union in 2010*, %

| | to Russia | to Kazakhstan | to Belarus |
|-----------------------|-----------|---------------|-----------------------|
| clothing | 98,7 % | 98,9 % | 37,9 % |
| footwear | 79,2 % | 97,9 % | other animal products |
| cotton | 70,2 % | 96 % | 3,1 % |
| tobacco | 48,4 % | 92,7 % | cotton |
| electrical machines | 32,7 % | 91,8 % | |
| vegetables and fruits | 27,7 % | 89,9 % | |
| | | 89,9 % | |
| | | 76,9 % | |
| | | 59,5 % | |
| | | 42 % | |
| | | 30 % | |

Commodity specialization of imports to the Kyrgyz Republic from the States of the Customs Union in 2010, %

| | to Russia | to Kazakhstan | to Belarus |
|---|-----------|---------------|----------------------------------|
| mineral fuel | 75,6 % | 87,6 % | 48,5 % |
| wood and wood products | 69,9 % | 59,1 % | sugar |
| dairy products | 68,2 % | 56,3 % | 5 % |
| cocoa | 52,9 % | 30,8 % | rubber and articles made from it |
| glass and articles made from it | 52 % | 29,6 % | 3,9 % |
| alcoholic and non-alcoholic beverages | 46,6 % | 21,6 % | wood |
| soap | 45,9 % | 16,8 % | 1,3 % |
| fats | 44,2 % | 15 % | land vehicles |
| ferrous metals and articles made from them | 36,4 % | | |
| paper, paperboard and articles made from them | 27,4 % | | |
| rubber and articles made from it | 25,4 % | | |
| pharmaceutical products | 17,8 % | | |
| electrical machines | 17 % | | |

In 2010, the following groups of goods represented a major share in Kyrgyzstan's trade structure with the countries of the Customs Union.

Kyrgyzstan exported mainly clothing (98.7% of the total Kyrgyz exports for this commodity group), footwear (79.2%), cotton (70.2%), tobacco (48.4%), electrical machines (32.7%), vegetables and fruits (27.7%) to Russia.

Live animals (98.9%), dairy products (96%), articles of stone (97.9%), glass (92.7%), paper and paperboard (91.8%), meat and edible meat co-products (89.9%), plastics (76.9%), furniture (59.5%), vegetables and fruits (43%), mineral fuel (42%), ferrous metals and articles made thereof (30%) were exported to Kazakhstan.

Other animal products (37.9%) and cotton (3.1%) were exported to Belarus.

Kyrgyzstan imported mineral fuel (75.6% of the total Kyrgyz imports for this commodity group), timber and wood products (69.9%), dairy products (68.2%), cocoa (52.9%), glass and articles made from it (52%), alcoholic and non-alcoholic beverages (46.6%), soaps (45.9%), fats (44.2%), ferrous metals and articles made from them (36.4%), paper, paperboard and articles made from them (27.4%), rubber and articles made from it (25.4%), pharmaceutical products (17.8%), electrical machines (17%) mainly from Russia.

Cereals (87.6%), tobacco (59.1%), products of inorganic chemistry (56.3%), alcoholic and non-alcoholic beverages (30.8%), fats and oils (29.6%), sugar (21.6%), mineral fuel (16.8%), ferrous metals and articles made from them (15%) were imported from Kazakhstan.

Sugar (48.5%), rubber and articles made from it (5%), timber (3.9%), land vehicles (1.3%) were imported from Belarus.

The turnover with other foreign countries appears to be less favorable in comparison with the structure of trade turnover between Kyrgyzstan and the Customs Union States. For instance, the Kyrgyz exports to the PRC in the trade turnover with China, which, according to 2010, reached 694 million USD (the second after the CU), were only 28 million USD, while imports from the PRC exceeded 666 million USD.

The main Chinese products are clothing (15.9% of total imports), electrical goods

(10.6%), footwear (4.7%), plastic products (3.9%), meat and meat products (3.7%), vegetables and fruits (2.5%), fabrics (2.0%). Exports of Kyrgyz products to China are dominated mainly by five types of products, which include raw leather, wool, ferrous metals and articles made from them, copper and articles made from it, as well as aluminium and aluminium waste.

Even though the Kyrgyz Republic was a party to some preferential agreements within the CIS, it had difficulties in trade with the "Troika" countries upon establishment of the Customs Union in 2010. The so-called non-tariff barriers have had a great influence as they were based on more modern and advanced international practices. As a result, the export of Kyrgyz goods to the Customs Union countries became more expensive.

For example, when delivering products to the market of the Customs Union countries, Kyrgyz manufacturers were obliged to assess the products through the certification bodies and testing laboratories included in the CU single register. This was unprofitable for Kyrgyz suppliers because of the high cost of conformity assessment, especially for small businesses.

Moreover, certain goods traditionally exported to the Customs Union countries have become "restricted" since they failed to meet the requirements of the Troika States.

For example, the export of textiles, which are the most export-oriented goods, fell significantly (about 66% of exporters of clothing faced difficulties) after the Customs Union technical regulations came into force.

The border trade conducted by individuals was particularly affected. Previously, the population transported goods freely in border areas (mainly agricultural products) for trade; then the transportation by individuals became restricted. As a result, those who suffered the most were ordinary citizens who were not trading, but simply crossed the border by road and rail as passengers.

Because of the increased cost, the export of goods from Kyrgyzstan to the countries of the Customs Union did not have a sustainable growth rate (from 445.8 million USD in 2010 to 496.5 million USD in 2014, that is, minus 82.6

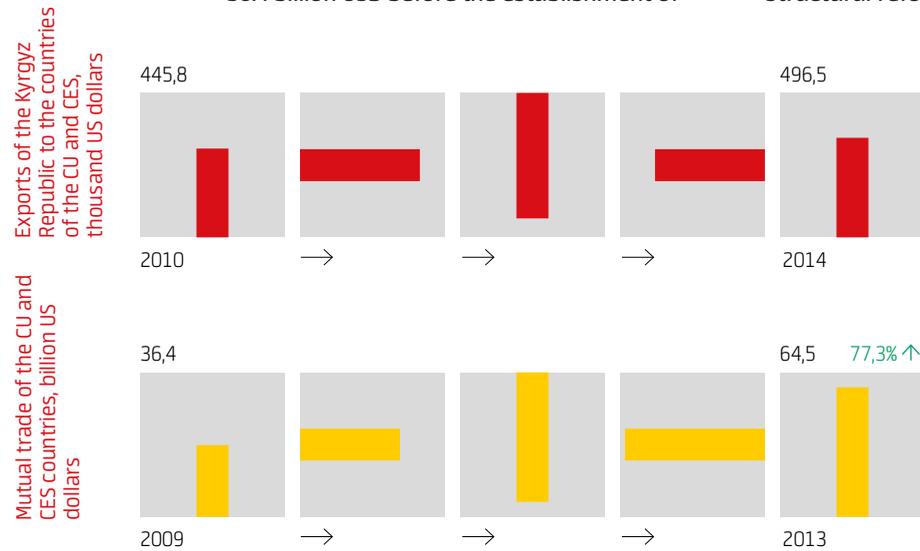
* Data of the National Statistical Committee of the Kyrgyz Republic

million USD in 2013 and minus 46.0 million USD in 2014).³

In other words, the trade between Kyrgyzstan and the "Troika" was declining with an increased volume of mutual trade within the Customs Union, while the mutual trade of these States almost doubled during the first four years of its operation: 36.4 billion USD before the establishment of

they were not allowed to move freely, while new stricter rules began to be applied to the importation of goods by individuals into the Customs Union's territory.

Thus, Kyrgyzstan had to think hard about the need to revise the current model of economic development, under which re-export has been critical, and to initiate structural reforms of the economy that



the Customs Union (2009), and 64.5 billion USD in 2013.⁴

In other words, being outside the integration association (not having moved together with Belarus, Kazakhstan and Russia into the format of the Customs Union since 2010), Kyrgyzstan ceased to have any opportunity to increase turnover in goods with the countries of the Customs Union.

The decline in exports to the CU countries was largely due to the reduced re-export of Chinese goods, which previously transited the Kyrgyz-Kazakh border in large volumes and were further directed mainly to Russia. Under the new conditions, their quality no longer corresponded to the technical requirements of the Customs Union and

were much more effective in the integration association with traditional economic partners.

The Eurasian project came to be seen as a key to modernize the economy and guarantee a sustainable development in the long run.

Thus, the benefits from Kyrgyzstan participation became even more noticeable as the integration processes developed and deepened within the association. The transition of the "Troika" States to the Common Economic Space in 2012, and the declaration of a further transition to the economic union stage starting from 2015 undoubtedly opened up even wider opportunities for Kyrgyzstan with the increased competitiveness of the national economy and citizens' growing well-being.

The Kyrgyz leaders and business circles linked the opportunities for restoring industry and agriculture, especially taking into account the plans to conduct

³ The National Statistical Committee of the Kyrgyz Republic "Foreign Trade of the Kyrgyz Republic in 2010-2014", p. 36 (excluding the unaccounted export volumes of agricultural products)

⁴ EEC statistics: time series: "Foreign and mutual trade in the EAEU goods" http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/time_series/Pages/default.aspx

FOR REFERENCE:

In the late 1990s and early 2000s, the "Dordoi" (Bishkek) and "Kara-Suu" (Osh region) wholesale markets became the largest transit trade channels, for the re-export of Chinese goods to Central Asia and Russia.

"Dordoi" employed more than 30 thousand people, and "Kara-Suu" employed more than 15 thousand.

It is noteworthy that the association of "Dordoi" market owners opposed the country's entry into the Customs Union, citing the fact that increased customs duties on goods from China would adversely affect Kyrgyz entrepreneurs. However, seeing the "high fences" at the borders with Kazakhstan, which became a Member of the Customs Union in 2010, the market administration changed its opinion dramatically, since the re-export of products that did not meet the CU requirements was no longer possible. As a result, the entry of Kyrgyzstan into the CU has been encouraged by the "Dordoi" association of market owners

agreed policies in these sectors. It was very important at a time of a decline in industry's share in the country's GDP (from 20.7%⁵ in 2010 to 16.5%⁶ in 2014), a low level of diversification of the manufacturing industry output (the largest contribution was made by enterprises focused on developing the Kumtor⁷ field), and a reduction in the number of people employed in this sector.

According to the National Statistical Committee of Kyrgyzstan, the number of industrial enterprises decreased by 8% from 2010 to 2014. So, there were 1,903 industrial enterprises in 2010, and yet only 1,745⁸ in 2014.

The number of people employed in the industry fell to less than half. While about 267 thousand people were employed in the industry in 2010, only 126 thousand people⁹ were employed there in 2014.

While 699.1 thousand people¹⁰ were employed in agriculture in 2010, only 688 thousand people¹¹ were employed there in 2012.

⁵ Results of the social and economic development of the Kyrgyz Republic for 2011, p. 1 http://mineconom.gov.kg/index.php?option=com_content&view=category&layout=blog&id=666&Itemid=159&lang=ru

⁶ Results of the social and economic development of the Kyrgyz Republic for 2015, p. 2 http://mineconom.gov.kg/index.php?option=com_content&view=category&layout=blog&id=666&Itemid=159&lang=ru

⁷ Kumtor is one of the world's largest gold deposits, which proven gold reserves are estimated at 8,832 tons, expected ore reserves are estimated at 60,406 tons.

www.kumtor.kg/ru/deposit/production-basic-data/

⁸ Industry of the Kyrgyz Republic 2010 to 2014, Table 2 <http://stat.kg/ru/publications/sbornik-promyshlennost-kyrgyzskoj-respubliki-2008-2012g/>

⁹ Industry of the Kyrgyz Republic 2010 to 2014, Table 3 <http://stat.kg/ru/publications/sbornik-promyshlennost-kyrgyzskoj-respubliki-2008-2012g/>

¹⁰ "Agriculture of the Kyrgyz Republic 2010 to 2014", p. 13 <http://stat.kg/media/publicationarchive/f033ee5d-fb21-42cb-862f-ef9c7e44ab52.pdf>

¹¹ "Agriculture of the Kyrgyz Republic 2011 to 2015", p. 19 <http://>

Employment rate in 2010 was 58.6%, while in 2014 it was 57.3%¹². The outflow of population in 2010 was about 9 people per 1,000 inhabitants.

Expansion of the sales market through the partners in the integration association and the application of a higher Single Customs Tariff provided additional opportunities for the development of domestic production.

As a part of a large single market of more than 180 million people, Kyrgyzstan was counting on increased investment attractiveness and expected key sectors of its economy to become more competitive, primarily its textile and agricultural sectors with their greater export potential. Investment inflow was also expected in the electricity and transport sectors, since the economic relations in these sectors would primarily be regulated at the Union level. The country's participation in a large integration association would help reduce risks and improve the predictability of long-term investments.

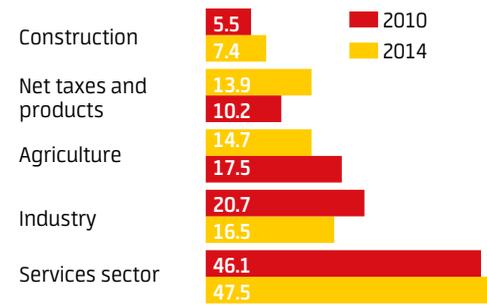
Just before the accession of the Kyrgyz Republic to the Eurasian project, the investment climate became less attractive. In comparison with 2011, the accumulated reserves of direct investment in Kyrgyzstan fell by 62% in 2014.

Capital outflow in 2011 was estimated at 0.002% of GDP, while it reached 1.5% of GDP in 2014.

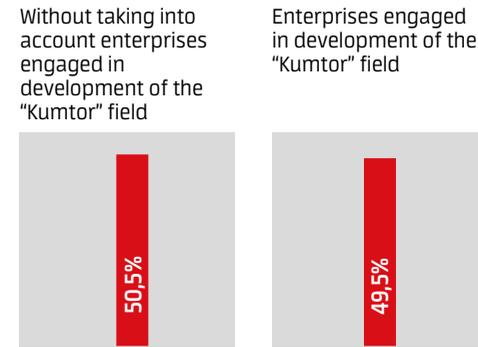
Major infrastructure projects and availability of strategic resources at the

stat.kg/media/publicationarchive/ca2196d5-09ea-46ae-bf23-1a80255b391a.pdf

¹² The National Statistical Committee of the Kyrgyz Republic "Employment and Unemployment", 2010, Table 2.2



Structure of industrial production of the Kyrgyz Republic in 2010



lower prices were important arguments for integration, especially in the context of creating common electricity, gas, oil and oil products markets.

Under the 2011 FTA Agreement, the duty-free trade regime did not apply to mineral resources and oil products within the CIS. Terms of supply are the subject of bilateral agreements of the CIS Member States.

The price of petroleum products is a very sensitive matter for the development of the Kyrgyz economy. More than 90% of all combustive and lubricating materials are supplied from Russia, which is more than 1 million tons per year.

Petroleum products were imported from Russia in the following volumes:

- 1.73 million tons in 2013;
- 1.31 million tons in 2014;
- 1.30 million tons in 2015.

Another persuasive argument for Kyrgyzstan to accede to the Eurasian integration project was to facilitate access to the country's market for goods, which carried export duties (2011 FTA Agreement under the CIS).

Kyrgyzstan's integration expectations were formed against a background of relatively stable main macroeconomic indicators.

At the same time, the level of such indicators remained low in quantitative terms in comparison with similar data in the "Troika" States.

For example, the volume of GDP in Kyrgyzstan in 2010 was 4.8 billion USD, while in Belarus it was 56.9 billion USD, in Kazakhstan – 148.1 billion USD, in Russia

– 1,525.3 billion USD. Thus, this indicator in Belarus is higher than in Kyrgyzstan by almost a factor of 12, in Kazakhstan – by more than 31, and in Russia – by 318.¹³

A significant gap between Kyrgyzstan and other CU Members was observed in GDP per capita. In Kyrgyzstan, this indicator was 920 USD in 2010, while:

- in Belarus – 6,000 USD (6.5 times greater than in Kyrgyzstan),
- in Kazakhstan – 9,071 USD (9.8 times greater), and
- in Russia – 10,678 USD (11.6 times greater)¹⁴.

The volumes of industrial and agricultural production were also small in comparison with the production volumes in Russia, Kazakhstan and Belarus. In 2010 to 2014, these indicators in the Kyrgyz Republic were less volatile than in the three countries¹⁵.

The indicators for Kyrgyzstan on revenues of the consolidated budget were significantly lower than those of other partners in the CU¹⁶.

The extremely low level of gross savings was one of the imbalances, which led to the

¹³ EEC social and economic statistics, time series: "Gross Domestic Product based on Current Prices in US dollars 2005 to 2016" http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/econstat/Pages/national.aspx

¹⁴ EEC social and economic statistics, time series: "Gross Domestic Product per Capita based on Current Prices in US dollars 2005 to 2016" http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/econstat/Pages/national.aspx

¹⁵ EEC social and economic statistics, time series: "Agricultural Production Index 2005 to 2016" http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/econstat/Pages/agricultural.aspx

¹⁶ EEC Financial Statistics, statistical yearbook "EAEU Financial Statistics 2016", p. 24 http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/fin_stat/statistical_publications/Documents/finstat/finstat_2016.pdf

need for significant external borrowing and to significant debt exceeding 50% of the country's GDP¹⁷.

The Kyrgyz citizens working in the Customs Union and the amount of their remittances sent back to Kyrgyzstan constitute another important argument, and were taken into account by Kyrgyz leaders before the integration. According to experts, it was about 1 million people, i.e. every fifth resident (92% of them work in Russia, the rest of them work in Kazakhstan), and 1.1 to 1.8 billion USD per year of additional funding in the country's economy, which was 25% to 30% of GDP.

Remittances from Kyrgyzstan citizens working in the CU countries are comparable to the revenues of the state budget, and in

than 61% of its inhabitants supported the accession.

According to the Center for Integration Studies of the Eurasian Development Bank (the "EADB Integration Barometer" for 2015), Kyrgyzstan has the highest level of public support for integration among the EAEU Member States, with 86% (80% in Kazakhstan, 78% in Russia, 60% in Belarus, and 56% in Armenia). At the same time, the support for Kyrgyzstan's participation in the EAEU is equally high among all age groups.

The Eurasian Development Bank's data is also confirmed by independent Western studies. Thus, Gallup (American Institute of Public Opinion) data showed that 76% of respondents in Kyrgyzstan supported its entry into the Union in 2015.

FOR REFERENCE:

Whereas Kyrgyzstan managed to reach bilateral and multilateral agreements on the duty-free supply of certain categories of goods to be covered by the exemption from the free trade regime within the CIS (primarily POL, metals, timber, paper, paperboard, etc.), such a compromise was not reached with Kazakhstan, since the exports of goods from Kazakhstan to Kyrgyzstan did not include duties on soybeans, skins, metal structures, POL, etc.

A separate bilateral agreement with Kazakhstan was required for the removal of export duties. However, Kyrgyzstan's initiatives did not succeed.

Besides, Kyrgyz entrepreneurs could not import waste paper from the Republic of Kazakhstan for their production needs, since a ban on the export of this raw material was in effect in Kazakhstan.

These issues were completely and successfully settled after Kyrgyzstan's accession to the Union.

fact, they support domestic consumption and cover 50-75% of the country's trade deficit.

Kyrgyz leaders mainly relied upon public opinion when studying the possibility of accession to the Customs Union.

Population-based surveys were conducted at various stages of the negotiations. According to the data of the Eurasian Development Bank, 72% of the population supported Kyrgyzstan's accession to the "Troika" union in 2012. According to Kyrgyz agency studies in 2014, more than 83% of the country's population are aware of the Customs Union and more

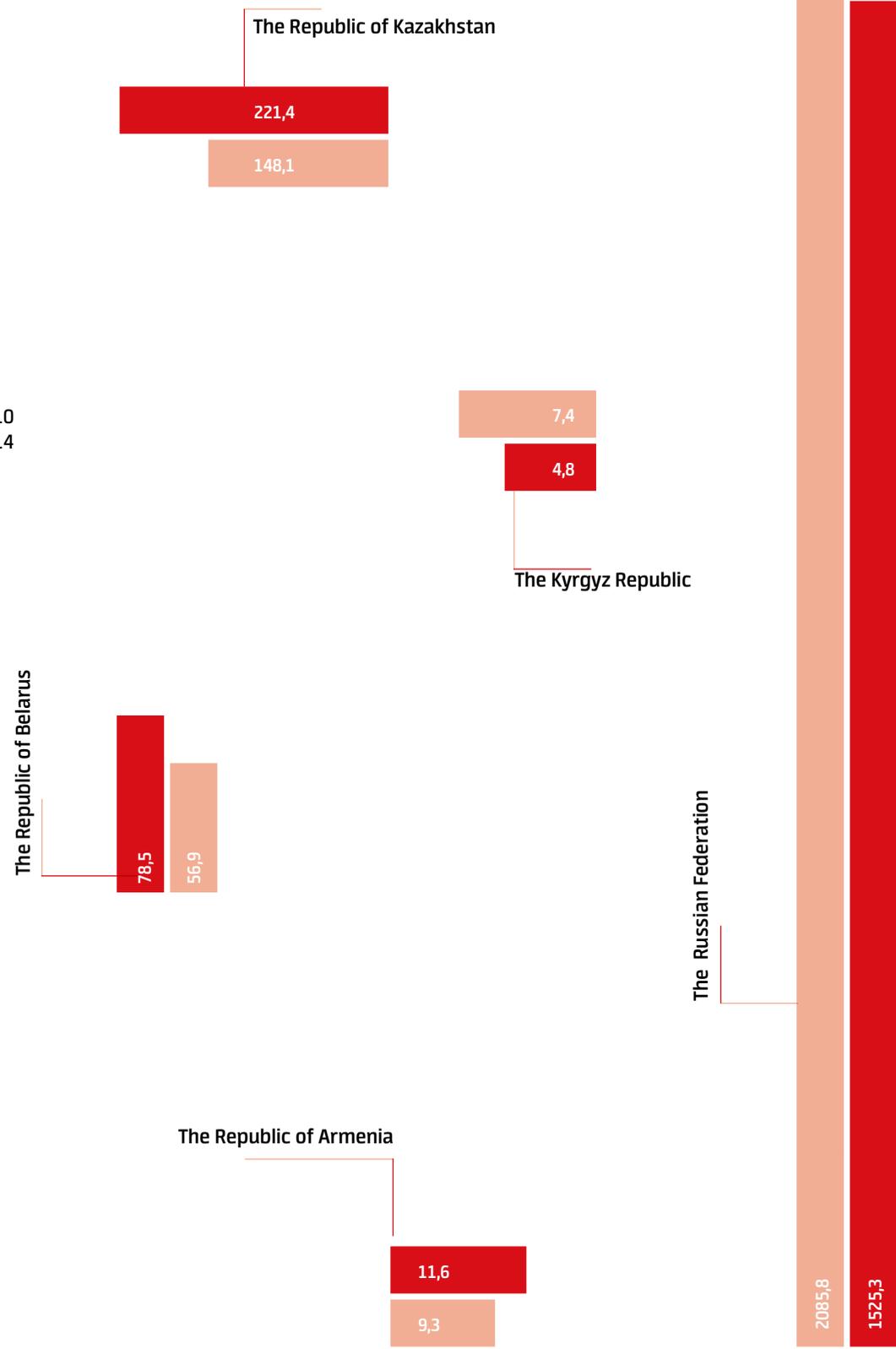
The country's business circles played an important role in the formation of Kyrgyzstan's position on accession to the Customs Union. They were involved in the work of the Inter-Ministerial Commission under the auspices of the Government of the Kyrgyz Republic responsible for the accession negotiations.

The issue of integration was considered openly in Kyrgyzstan with the participation of representatives of state bodies, business companies and the support of objective economic analysis.

¹⁷ EEC Financial Statistics, statistical yearbook "EAEU Financial Statistics 2016", p. 39 http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/fin_stat/statistical_publications/Documents/finstat/finstat_2016.pdf

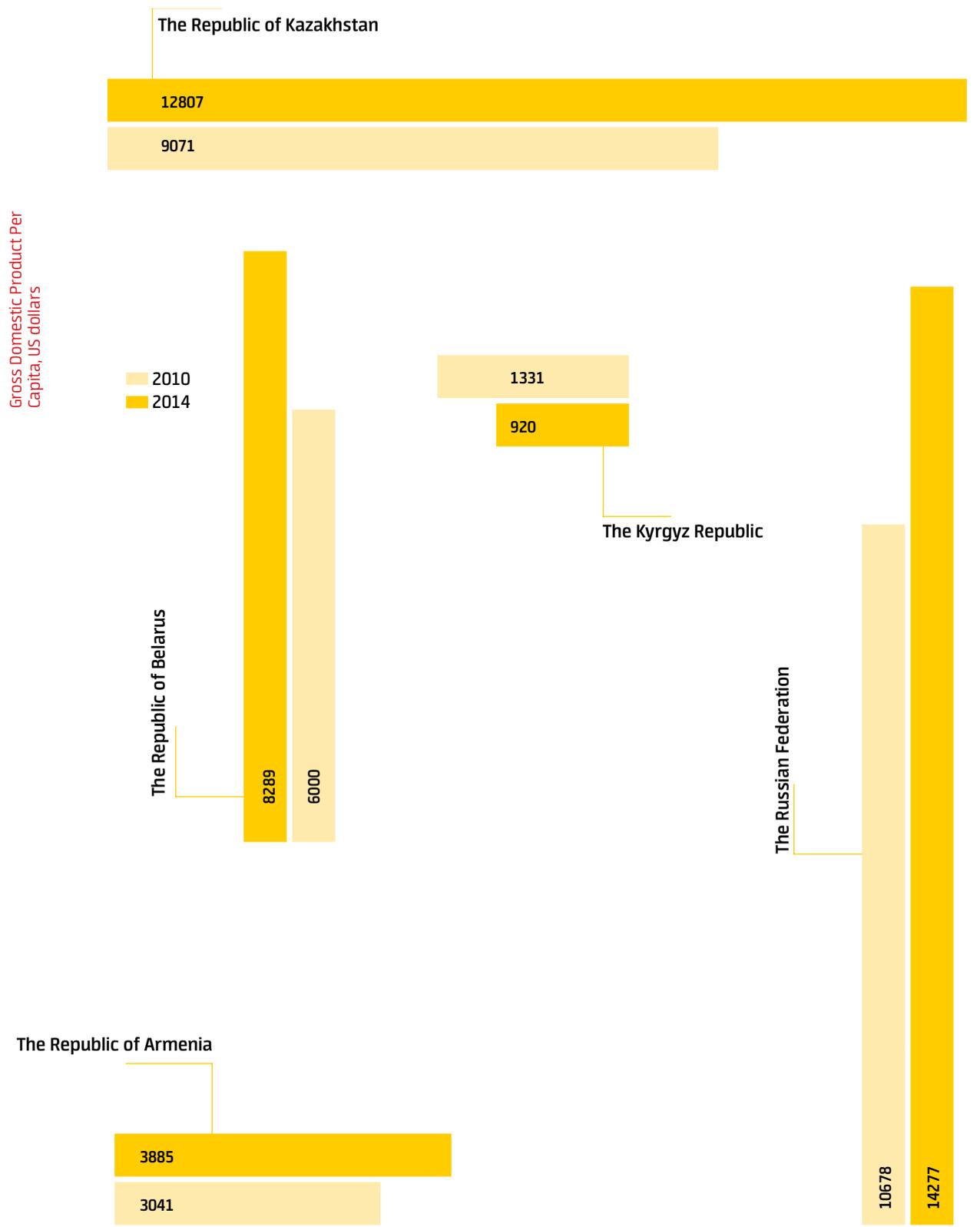
The volume of GDP, billion USD

2010
2014



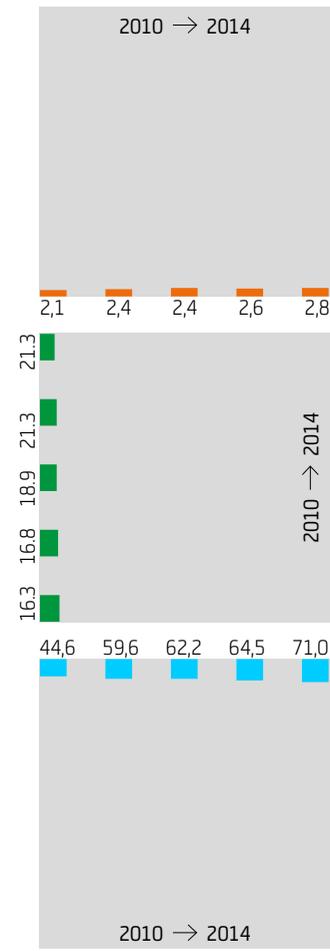
Gross Domestic Product Per Capita, US dollars

2010
2014

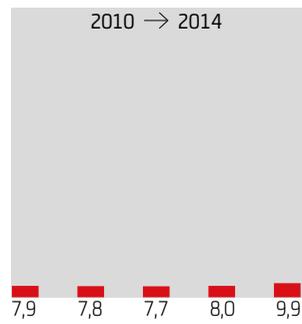
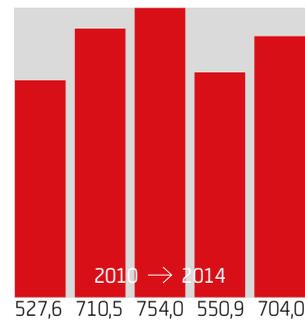
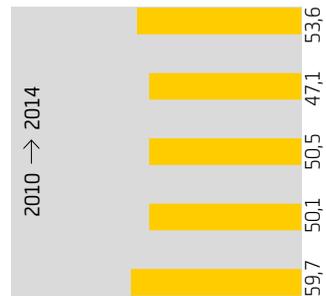
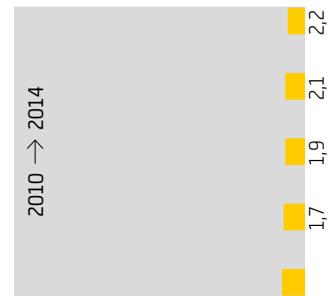
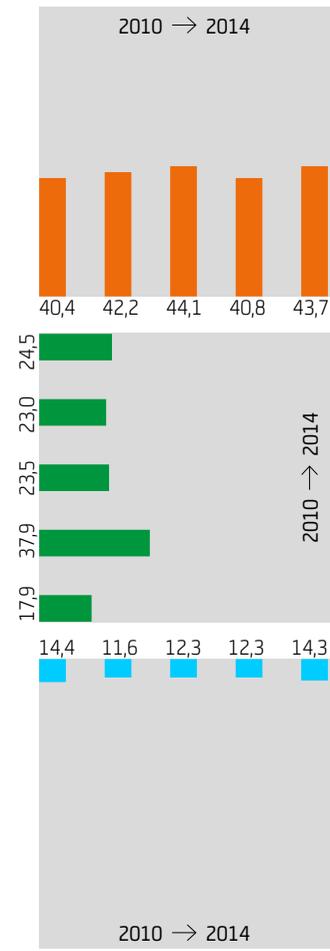


Incomes of the consolidated budget, billion US dollars, from 2010 to 2014

- The Republic of Armenia
- The Republic of Belarus
- The Republic of Kazakhstan
- The Kyrgyz Republic
- The Russian Federation



Public debt, % of GDP



The industrial output of the Kyrgyz Republic, in billion US dollars, % increase



Total agricultural, forestry and fisheries production in the Kyrgyz Republic, in billion US dollars, % increase



Kyrgyzstan's choice to participate in the Eurasian economic project was a logical continuation of Kyrgyzstan's participation in integration projects in the post-Soviet space since the 1990s. As a Member of the EurAsEC, Kyrgyzstan exercised its right to accede "by default" to the Customs Union of the "Troika".

Owing to Kyrgyzstan's long-term cooperation with the "Troika" States, its legal framework was already relatively harmonized.

In the accession issue, Kyrgyz leaders relied upon a number of objective economic factors, the significance of which became more and more noticeable as the integration progressed.

When the decision was taken, Kyrgyzstan focused, first of all, on increasing the competitiveness of the national economy and growing well-being of citizens, including those working outside the country.

Participation in the integration association opened up enormous possibilities for the country's sustainable economic development and structural reforms, including modernization of the economy.

Expectations for integration with the "Troika" customs were much more significant than those for the country's participation in the free trade area within the CIS and WTO membership (Kyrgyzstan's accession to the WTO in the mid-1990s solved a number of urgent problems, but did not completely open up the country's economic potential and did not become a catalyst for the development of industrial and domestic production).

5

SIMPLE STEPS
IN SIDE OF COMMON
EURASIAN HOME

1

To obtain the status of the Candidate State by sending an appeal to the Chairman of the Supreme Eurasian Economic Council. The decision is made by the Heads of the Union Member States.

2

To participate in the activities of the working group for the study of readiness to join the Union, the development of a roadmap for accession to the Union and the draft contract, which outlines the rights and responsibilities of a state candidate, as well as the format of its participation in the work of the government bodies of the Union.

3

To realize points of the program action plan ("roadmap") for accession to the Union.

4

To participate in the preparation of the report of the Working group on the implementation of the obligations arising from the right of the Union.

5

To participate in signing the international Treaty of accession to the Union with the Member States of the Union. The Treaty is subject to ratification and shall enter into force upon completion of all ratification procedures.

THE EURASIAN
ECONOMIC UNION
IS OPEN FOR ANY
STATE WHICH SHARES
ITS GOALS AND
PRINCIPLES, UNDER
CONDITIONS AGREED
UPON BY THE MEMBER
STATES.

Accession of the Kyrgyz Republic to the Customs Union and the Common Economic Space

2

Following the preliminary conclusions of the working group on the possible participation of the Kyrgyz Republic in the Eurasian economic project, the country's intention to enter the negotiations on accession to the Customs Union was approved in April 2011 through open debates culminating in an appeal on behalf of the Prime Minister of the Kyrgyz Republic to the EurAsEC Interstate Council as the supreme body of the Customs Union. The Government of the country was establishing an inter-ministerial commission for accession negotiations to the Customs Union to develop Kyrgyzstan's negotiating position with its partners in the Customs Union. The Prime Minister of the Kyrgyz Republic was appointed the Head of the commission.

In relation to the appeal of the Kyrgyz party on May 19, 2011, the EurAsEC Interstate Council adopted a Decision "On accession of the Kyrgyz Republic to the Customs Union within the framework of the EurAsEC"; the Secretariats of the EurAsEC Integration Committee and the Commission of the Customs Union were instructed to study this issue and prepare relevant proposals.

Thus, procedurally, Kyrgyzstan received the approval of the supreme body of the Customs Union to conduct accession negotiations, and a working group on accession of the Kyrgyz Republic to the Customs Union was established on October

19, 2011 in accordance with the Decision of the EurAsEC Interstate Council.

However, the negotiations entered the practical phase only after the Eurasian Economic Commission was created in 2012 as a permanent regulatory body, not only of the Customs Union, but also of the Common Economic Space of Belarus, Kazakhstan and Russia.

The governance of activities of the working group including representatives from the EEC, the Member States and the Kyrgyz Republic was entrusted to Tatyana Valovaya, a Member of the Board – Minister in charge of Integration and Macroeconomics of the Eurasian Economic Commission.

Since Kyrgyzstan's accession application to the Customs Union was the first one, and the procedure for the entry into the association was not determined at that time, the main goal of the working group was, first of all, to determine the set of rules and procedures for the country's accession to the integration project. During the meetings of the working group, the basic approaches to the accession process were determined, the main one being the "package principle", according to which accession to the CU and the CES at that time meant acceptance of the association agreements in their entirety.

Another specific feature of the negotiations was the fact that the "Troika" countries were already in transition to the

next stage of integration, the economic union, and were working actively to codify the entire legal and regulatory framework of the CU and the CES and to prepare a single basic document, namely, the Treaty on the Eurasian Economic Union. Consequently, it was necessary to align the accession work with the future needs, and to take into account the future changes in the context of the EAEU emerging law.

Based on the package principle, preparation of Road Maps began as a set of measures necessary for the Kyrgyz Republic to carry out in interaction with the Member States of the CU and the CES and the Eurasian Economic Commission to ensure accession of Kyrgyzstan to the Eurasian integration project. Firstly, it was about harmonization of the national legislation of the Kyrgyz Republic and the legal framework of the EAEU and, secondly, it was about aligning the customs infrastructure facilities, and sanitary and quarantine, veterinary and sanitary, quarantine phytosanitary and other forms of control (supervision) in Kyrgyzstan with the Eurasian requirements (1st meeting – May 12, 2012, 2nd meeting – June 13, 2012, 3rd meeting – August 10, 2012, 4th meeting – November 12, 2012, 5th meeting – May 27-30, 2013, 6th meeting – June 6, 2013, 7th meeting – August 15, 2013, and 8th meeting – October 23, 2013).

Road Maps were initially developed to be implemented over a long period without reference to specific dates, with the definition of the activity timelines "before accession" and "after accession".

Another step towards Union membership was signing the Memorandum "On Deepening Interaction between the Eurasian Economic Commission and the Kyrgyz Republic" on May 31, 2013 in Minsk. This gave the Kyrgyz party the right to participate in the meetings of the Supreme Eurasian Economic Council, the Council and the Board of the Eurasian Economic Commission, and the Representative of the Kyrgyz Republic at the Eurasian Economic Commission was appointed.

During the negotiations, it was agreed that it is more consistent to discuss a number of issues of interest to Bishkek

in the context of accession outside the framework of the Road Map, but bilaterally at the government-to-government level of the parties concerned. It covered such essential issues as financial support to Kyrgyzstan to implement the measures stipulated by the Road Map, further functioning of large wholesale markets in Kyrgyzstan and assisting the Kyrgyz Republic in creating new labor-intensive industries with the possibility of establishing a financial support fund of Kyrgyzstan for the country's economy to adapt to the membership in the integration association.

The negotiations were intensified in 2014.

In spring 2014, the draft of the first Road Map for the "customs union" cluster of issues was agreed by the Parliament of Kyrgyzstan, the Council and the Board of the EEC within the Working Group (9th meeting on April 3, 2014, 10th meeting on May 12, 2014), which made it possible to approve the document at the level of Heads of States on May 29, 2014¹⁸.

At the same time, an Agreement between the Government of the Kyrgyz Republic and the Government of the Russian Federation on developing economic cooperation in the context of Eurasian economic integration was signed on May 29, 2014, whereby the Russian party committed itself to provide Kyrgyzstan, on a gratuitous basis, with financial resources of up to 200 million USD for the implementation of activities related to equipping checkpoints and the laboratory base of Kyrgyzstan for compliance with the CU requirements. The agreements reached have significantly accelerated the process of implementation of the Road Map Paragraphs, especially with regard to measures to bring Kyrgyzstan's customs infrastructure in line with the association rules.

¹⁸ The Road Map Action Plan for the accession of the Kyrgyz Republic to the Customs Union of the Republic of Belarus, the Republic of Kazakhstan and the Russian Federation was approved by the Decision No. 74 of the Supreme Eurasian Economic Council at the level of Heads of States on May 29, 2014 and in accordance with the Declaration of the Heads of States of the Republic of Belarus, the Russian Federation and the Kyrgyz Republic dated May 29, 2014.

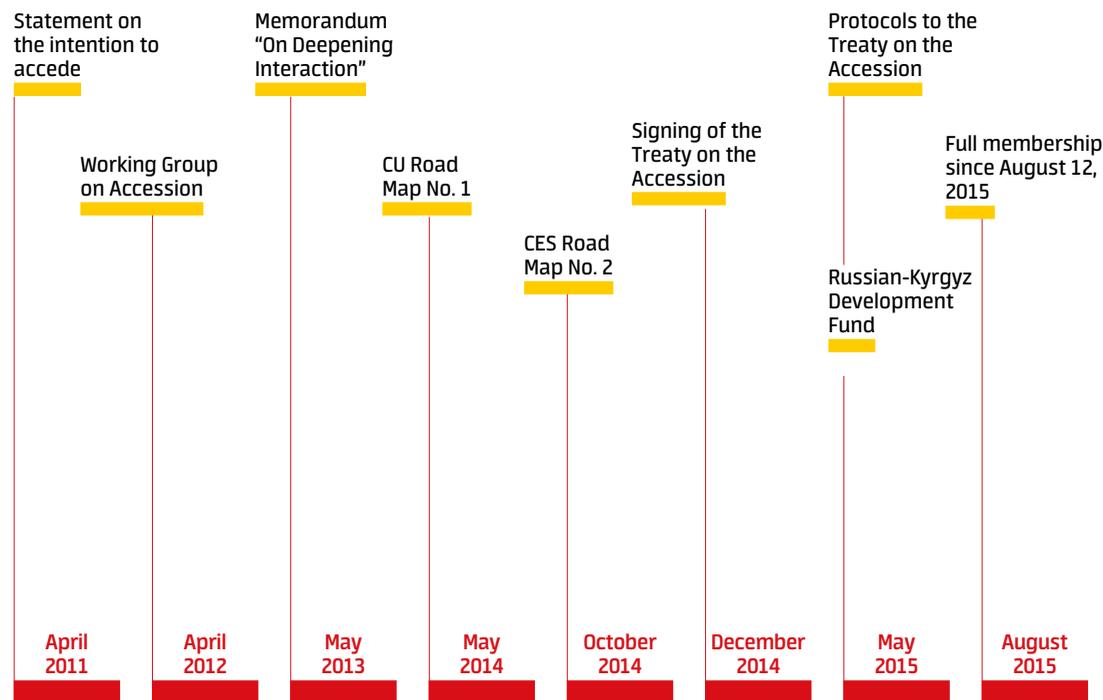
The agreement between the Government of the Kyrgyz Republic and the Government of the Russian Federation on technical assistance to Kyrgyzstan within the EAEU accession process was signed on March 31, 2015 and supplemented by the relevant Protocol dated February 28, 2017.

The agreement strengthened the efforts of Russia on another matter of material assistance to Kyrgyzstan, i.e. the creation of the Russian-Kyrgyz Development Fund to promote adaptation of Kyrgyz economy to functioning within the integration association.

As a result of the day-to-day work and interaction of the Eurasian Economic Commission, the Member States and Kyrgyzstan, it was possible to sign the document by the Heads of States by the end of December 2014.

The Treaty on the Accession of the Kyrgyz Republic to the Treaty on the EAEU dated May 29, 2014 was signed on December 23, 2014 in Moscow.

The Kyrgyz Republic accession to the EAEU
More than 52 months of negotiations



The negotiation process with Kyrgyzstan was the first precedent of a country's accession to the Eurasian integration project (the Customs Union and the Common Economic Space at that time) and was organized on the premises of a standing supranational regulatory body, the Eurasian Economic Commission.

The Working Group meetings were held publicly with the participation of representatives of interested public authorities of the CU Member States and the CES, the Kyrgyz Republic and the relevant EEC departments.

During the negotiations, a set of rules and principles for the country's accession to the CU and the CES was developed, taking into account the concurrent preparation to the transition of the "Troika" States to the next stage of economic integration – the economic union and the preparation of a single codified document of the future Union – the Treaty on the Eurasian Economic Union. Kyrgyzstan's experience was largely used in the negotiations on Armenia's accession, which began in autumn 2013, and subsequently formed the basis for the Procedure for the Accession of new members in the Eurasian Economic Union and termination of membership in the Union, approved by the Decision No. 25 of the Supreme Eurasian Economic Council dated October 16, 2015.

The interaction within the Working Group on accession made it possible to promptly interact between core-business departments of the EEC and Kyrgyzstan's executive bodies.

The representatives of business circles of the CU and the CES Member States and Kyrgyzstan also participated in the negotiations. The EEC representatives conducted training workshops, round tables, conferences in Kyrgyzstan, and the authorities' representatives worked systematically with business representatives in the country's regions.

As a result, Kyrgyzstan's negotiating position served business interests as the main beneficiary of Eurasian economic integration.

The discussion on accession was under the control of the Parliament of Kyrgyzstan: both Road Maps and the Treaty on the Accession were approved by the Parliament before approval by the Heads of States.

The Working Group's activities on accession were performed as openly as possible. The results were reported to the governments of the States which were parties to the process. Upon approval of the Road Maps, the EEC monitored the implementation of the relevant measures.

During the negotiations a mechanism for providing material and technical assistance to the Candidate State in the absence of a targeted budget was developed.

The negotiations took into account the obligations of Kyrgyzstan as a Member of the WTO.

The Treaty on the Accession of the Kyrgyz Republic to the Treaty on the Eurasian Economic Union. Conditions and Particular points

3

The Treaty on the Accession of the Kyrgyz Republic to the Treaty on the Eurasian Economic Union dated May 29, 2014 signed on December 23, 2014 in Moscow by the Heads of Belarus, Kazakhstan, Russia and Kyrgyzstan was the outcome of the negotiations on the Kyrgyzstan's accession to the Eurasian integration project started in 2011, and had a number of characteristics in both form and content.

On the one hand, Kyrgyzstan failed to fulfill the necessary minimum measures under the Road Maps for accession to the Union by December 2014. On the other hand, the Kyrgyz party showed its willingness to formalize the country's accession to the EAEU by the end of 2014 and to complete the modernization of the infrastructure necessary for the accession before the Treaty entered into force, that, within the few months required for the ratification of the Treaty by national parliaments. As a result, approaches and wordings acceptable to all parties were found.

The Agreement dated December 23, 2014 took the form of a "framework" document containing references to two protocols, which, as the presidents instructed, should be finalized in short time to be ready for signing in a few months. The first protocol is about changes in the Treaty on the EAEU and other agreements that constitute the Union's law, in connection with Kyrgyzstan's accession¹⁹.

¹⁹ Protocol on Amendments to the Treaty on the Eurasian Economic Union dated May 29, 2014 and certain international

The second protocol is about conditions and transition periods for the country²⁰.

The protocols contained all the substance that determined the conditions for Kyrgyzstan's accession into the Union, and were agreed over the winter-spring 2015. The protocols are an integral part of the Treaty and entered into force together with the Treaty as a "single package".

Hence, the Treaty dated December 23, 2014 consists of a preamble, 11 articles and annexes, which contain a list of international treaties within the EAEU law, to which Kyrgyzstan is to adhere.

The following basic points are established in the Treaty.

Kyrgyzstan accedes to the Treaty on the EAEU dated May 29, 2014 and all other agreements listed in the Annex (Article 1) that constitute the Union's law.

Kyrgyzstan applies the unified Foreign Economic Activity Commodity Nomenclature (CN FEA) of the EAEU from the date on which the Treaty enters into force.

treaties within the law of the Eurasian Economic Union, in connection with the accession of the Kyrgyz Republic to the Treaty on the Eurasian Economic Union dated May 29, 2014

²⁰ Protocol on Conditions and Transitional Provisions for the application by the Kyrgyz Republic of the Treaty on the Eurasian Economic Union dated May 29, 2014, certain international treaties within the law of the Eurasian Economic Union, and regulations issued by the governing bodies of the Eurasian Economic Union with respect to accession of the Kyrgyz Republic to the Treaty on the Eurasian Economic Union dated May 29, 2014.

The single customs tariff (SCT) of the EAEU is applied by Kyrgyzstan from the date of the Supreme Eurasian Economic Council's decision to abolish the customs control of goods and vehicles at the Kyrgyz-Kazakh section of the state border (Article 3).

Article 5 states that Kyrgyzstan applies a regime in trade with third countries that corresponds to the regime applied by all the EAEU Member States as of January 1, 2015.

Articles 6 and 7 provide for the possibility of a delayed cancellation of customs (transport), and sanitary-quarantine, veterinary-sanitary and quarantine phytosanitary control at the Kyrgyz-Kazakh border. This provision can be applied in the event the Kyrgyz party

The Kyrgyz Republic – 1.900%;
The Russian Federation – 85.265%.

Thus, the work on Kyrgyzstan's accession to the EAEU was conducted after December 23, 2014 in two key areas: preparation and coordination of the two protocols to the Treaty and implementation of the Road Maps.

As a result of the negotiations within the Working Group (17th meeting – January 19, 2015, 18th meeting – January 28, 2015, 19th meeting – February 3, 2015, 20th meeting – February 5, 2015), the parties managed to quickly reach an agreement on the texts of the protocols. The discussion of issues related to accession played an important role at the meeting of the Eurasian

FOR
REFERENCE:

Taking into account the revised distribution standards as of January 1, 2017, the shares appear to be as follows:

| | |
|----------------------------|----------|
| The Republic of Armenia | 1.220%; |
| The Republic of Belarus | 4.560%; |
| The Republic of Kazakhstan | 7.055%; |
| The Kyrgyz Republic | 1.900%; |
| The Russian Federation | 85.265%. |

does not have enough time to complete the modernization of the necessary infrastructure to be in line with the Union standards before the Treaty enters into force.

Article 8 defines the distribution ratios of the amounts of customs duties applicable to each Member State, taking into account the accession of the Kyrgyz Republic:

| | |
|----------------------------|----------------------------|
| The Republic of Armenia | – 1.11% (1.13 % earlier); |
| The Republic of Belarus | – 4.56% (4.65% earlier); |
| The Republic of Kazakhstan | – 7.11% (7.25% earlier); |
| The Kyrgyz Republic | – 1.90%; |
| The Russian Federation | – 85.32% (86.97% earlier). |

As a result, according to the established standards, income to Kyrgyzstan's budget from import customs duties increased after joining the EAEU.

Taking into account the revised distribution standards as of January 1, 2017, the shares appear to be as follows:

| | |
|----------------------------|-----------|
| The Republic of Armenia | – 1.220%; |
| The Republic of Belarus | – 4.560%; |
| The Republic of Kazakhstan | – 7.055%; |

Intergovernmental Council on February 6, 2015, where some of the most sensitive issues remained to be agreed upon.

The draft protocols modified taking into account the discussion held at the level of Prime Ministers were sent to the Heads of the EAEU Member States and Kyrgyz Republic on February 11, 2015 to carry out domestic legal procedures required for signing.

At the same time, during the domestic procedures and legal and technical proof-reading of the text of the draft protocols, some new wordings different from those in the agreements reached at the meeting of the Eurasian intergovernmental council dated February 6, 2015 were proposed by the parties.

To resolve the differences, the Eurasian Economic Commission organized a special meeting of the Working Group (21st meeting – February 24, 2015, which was the last one) and six coordination consultations with the representatives of concerned departments of the parties. As a result of this effort, most of the differences were resolved. The remaining disagreements on the draft

The first issue was the “cut-off point” for vehicles (from which date cars imported to Kyrgyzstan were to be bound by restrictive measures); the second issue was the functioning of free economic areas and free warehouses in Kyrgyzstan (it was required to coordinate the number of residents and the added value of handling of goods in order to consider the goods manufactured there to be goods of the Union); the third issue was the “cut-off point” for international treaties, under which Kyrgyzstan would have duty-free importation of goods.

protocols were considered at the meetings of the Council of the Eurasian Economic Commission on April 23 and April 28, 2015.

Eventually, the Heads of States managed to sign the two protocols during the meeting of the Supreme Eurasian Economic Council in Moscow on May 8, 2015²¹. The entire set of documents (the Treaty dated December 23, 2014 and two protocols thereto dated May 8, 2015) were prepared to be ratified by national parliaments of the EAEU Member States and Kyrgyzstan.

With due regard to Kyrgyzstan's implementation of the necessary minimum of infrastructure measures and the assessment of the customs control system established on an on-going basis in the country, Decision No. 5 of the Supreme Eurasian Economic Council was adopted on May 8, 2015 on abolition of customs control in the Kyrgyz-Kazakh section from the date of entry into force of the Treaty.

The Presidents decided to cancel sanitary-quarantine, veterinary-sanitary and quarantine phytosanitary control (Decision No. 6 dated May 8, 2015). However, this should have happened upon assessment and recognition of the systems of control and acceptance of assessment results by the EEC Council as equivalent, but not before the entry into force of the Treaty.

Upon completion of ratification procedures, the Treaty on the Accession of the Kyrgyz Republic to the Treaty on the EAEU dated May 29, 2014 entered into force on August 12, 2015. Thus, Kyrgyzstan became the fifth member of the Eurasian Economic Union.

The customs control was abolished on August 12, 2015.

²¹ Taking into account the fact that the Republic of Armenia was already a member state of the EAEU at the time of signing the protocols, the Protocol on the Accession of the Republic of Armenia to the Treaty on the Accession of the Kyrgyz Republic to the Treaty on the Eurasian Economic Union dated May 29, 2014 signed on December 23, 2014.

As far as other types of control are concerned, the sanitary-quarantine and phytosanitary quarantine control was removed from November 18, 2015 according to the corresponding decision taken by the EEC Council upon acceptance of assessment results of the phytosanitary control system and familiarization with the sanitary control system of Kyrgyzstan.

Phytosanitary control was abolished by Kazakhstan on October 26, 2016 (Order No. 277 of the Ministry of Agriculture of the Republic of Kazakhstan dated October 26, 2016).

Veterinary-sanitary control is still maintained (in particular, as of the end of March 2018), the Kyrgyz party holds working meetings with the Kazakh party at the inter-ministerial level to address this issue.

Kazakhstan still questions the recognition of the verification (inspection) system of veterinary control facilities of Kyrgyzstan equivalent to those of the EAEU Member States (Paragraph 100 of the Road Map for the Customs Union and Paragraph 59 of the Protocol on Conditions and Transitional Provisions on application of the Treaty on the EAEU by the Kyrgyz Republic).

Nevertheless, in view of the efforts of Kyrgyzstan to re-equip veterinary laboratories and checkpoints, the low-risk products (finished meat and dairy products that have undergone heat treatment, fish products) from a number of Kyrgyz enterprises were allowed to enter Russia as from February 2016. Dairy products from certain enterprises were allowed to enter Kazakhstan. Such products are imported into these countries of the Union under enhanced laboratory control with at least 10 samples selected for the safety checks.

Protocol “on changes” dated May 8, 2015 consists of a preamble, 2 articles and annexes, and describes the changes made,

firstly, directly to the Treaty on the EAEU dated May 29, 2014 (Paragraphs 1 to 6); secondly, to other international treaties that are part of the Union's law (Paragraphs 7 to 20).

In addition to the editorial changes introduced into the Treaty on the EAEU and other treaties in connection with Kyrgyzstan's accession, there are also substantial changes.

Under the Protocol, a number of Kyrgyz enterprises (as well as similar enterprises of other Member States) became entitled to receive industrial subsidies (about 300 enterprises registered before January 1, 2015 in three free trade areas – “Bishkek”, “Naryn” and “Karakol”, and enterprises operating as “free warehouses” – Altyn-Azhydaar, LLC, Coca-Cola Bishkek Botlers, CJSC, Ilbirs, OJSC, Avignon, LLC, Shelkovy Put, LLC and Renaissance, LLC (Paragraphs 5, 15, 18 of the Annex to the Protocol)) until January 1, 2017.

These enterprises were granted the right for the duty-free importation of goods (in fact, raw materials) from third countries, while changes should occur in the production process with foreign goods in terms of the processing level for the final products to be classified as the EAEU goods.

The sufficient processing criteria are used so that the goods can be considered Kyrgyz (goods of the Union) after processing inside the free economic area.

Prior to joining the EAEU, the added value of goods manufactured at these enterprises and supplied to the domestic Kyrgyz market was significantly lower (re-export was encouraged, since the goods were easily acknowledged as Kyrgyz and could easily be sold to the Union States). The Union's requirements to increase the added value were supposed to stimulate the localization of production, the output growth and the number of employees.

The above protocol specified the list of restrictions on services specific for Kyrgyzstan, including financial services (“horizontal” list). In particular, there are 12 remaining “horizontal” restrictions (exceptions from national treatment) applied to the Kyrgyz Republic in terms of sectors and activities related to trade in services.

The protocol defines the set of rules and the terms for approving the individual national list of restrictions for Kyrgyzstan.

A list with 13 exceptions applicable to Kyrgyzstan was approved in October 2015. These exceptions deal with the regulation of such areas as financial markets, natural monopolies, energy, and transport, and are applied without prejudice to Articles 66 and 67 of the Treaty on the EAEU. According to them, the Kyrgyz Republic, as well as all other EAEU Member States, retains the right to apply restrictions, exceptions, additional requirements and conditions.

Furthermore, according to the list, Kyrgyzstan retains restrictions on licensed activities, including those related to the sale of ethyl alcohol, excluding brandy alcohol, the establishment of mass media, including attorneys, notaries, detective and security activity (lawyer, private notary, forensic expert and patent attorney can only be a citizen of the Kyrgyz Republic).

In addition, Kyrgyzstan reserves the right to introduce and apply measures against activities related to the use of subsoil for facilities of national importance. There are also restrictions on a wide range of activities related to trafficking in narcotic drugs, psychotropic substances and their equivalents, and on the activities for the collection and purchase of scrap and waste of non-ferrous metals and steel.

It should be noted that such exemptions, additional requirements, restrictions and conditions are recorded in individual national lists of other EAEU Member States.

Protocol “On Conditions and Transitional Provisions” dated May 8, 2015 is composed of a preamble, two articles and two annexes.

Annex No. 1 to the Protocol is the conditions and transitional provisions for the Kyrgyz Republic.

According to expert assessments, the EAEU Member States have made concessions to the Kyrgyz party in many ways by providing tangible exceptions and transition periods.

Thus, for example, customs brokers, owners of temporary storage warehouses, owners of bonded warehouses and duty-free shops could operate for a year-and-a-half

Thus, it is about such restrictions applied before the entry into the EAEU, as a restraining order preventing foreign persons from private ownership of land plots intended for agricultural production, and from purchasing any property on the border territories of the country with a special status, while the right of perpetual land use cannot belong to foreign land users. A foreign legal entity can be a subsoil user only if such a person establishes a subsidiary in the Kyrgyz Republic with 100 percent participating interest to issue a special license.

from the date of entry into force of the Treaty (Paragraph 2 of the Annex to the Protocol).

Importation of cars is allowed to Kyrgyzstan until January 1, 2020 at the usual rates.

It concerns vehicles brought to Kyrgyzstan by individuals for personal use (headings 8702, 8703, 8704 21 and 8704 31 of the CN FEA of the EAEU). They would also be subject to rates applicable "in accordance with the legislation of the Kyrgyz Republic" (Paragraph 26 of the Annex No. 1 to the Protocol), and not the rates specified in Annex 5 of the Agreement on the Order of Transportation of Goods by Individuals for Their Personal Use Through the Customs Border of the Customs Union and the Performance of Customs Operations dated June 18, 2010.

Moreover, cars imported into Kyrgyzstan before January 1, 2014 can be freely sold in other Union Member States without any additional payments (Paragraph 40 of the Annex to the Protocol).

The earlier "cut-off point" was caused largely by the concerns of the Union Member States (first of all, Kazakhstan) that the Union market would receive a large volume of cars imported into Kyrgyzstan after the removal of the customs borders at national (lower) rates.

In case of cars sold in Union Member States before January 1, 2025, which were imported to Kyrgyzstan in the period from January 1, 2014 to January 1, 2020 at low rates, it is necessary to pay the remaining balance of the cost of customs clearance in other Union States, i.e. the difference in the amounts of import customs duties calculated at the rates established by the SCT of the EAEU and the amounts paid when importing such goods into Kyrgyzstan (Paragraph 24, 27, 40 of the Annex to the Protocol). After that, the cars will be deemed to be the goods of the Union. Before that, they are deemed to be "conditionally released".

Kyrgyzstan also became entitled to import up to 100 thousand tons per year of duty-free raw cane sugar for 5 years for industrial processing (Paragraph 44 of the Annex to the Protocol).

At the same time, the Government of Kyrgyzstan provides certain guarantees to ensure that the raw sugar imported for industrial processing, and white sugar produced from it, will not be redirected to other Union Member States.

Under the Protocol, Kyrgyzstan is applying substantial tariff exemptions for the implementation of six significant infrastructure projects (Paragraph 45 of the Annex to the Protocol):

- modernization of the heat and power plant in Bishkek;
- construction of the 500 kV Datka-Kemin transmission line and 500 kV Kemin substation;
- rehabilitation of two road sections in Kyrgyzstan (Wide Area Network (WAN) No. (2012) 54 number (242));
- construction of an alternative North-South highway on the Kazarman-Jalal-Abad and Balykchy-Aral sections;
- reconstruction of the Bishkek-Naryn-Torugart road;
- reconstruction of the Taraz-Talas-Suusamyр road.

Under the terms of the Protocol, Kyrgyzstan may apply exemptions from import customs duties in accordance with international treaties of the Kyrgyz Republic signed until April 1, 2015. Such benefits are applied until the termination of these international treaties.

Kyrgyzstan was exempted from the import customs duty for military products with no EAEU equivalents to be imported into the country before December 31, 2022 to meet the needs of the Armed Forces of the Kyrgyz Republic, and certain types of civilian helicopters, civilian passenger and cargo

planes (Paragraph 46 of the Annex to the Protocol).

At the same time, the country was committed to use all goods imported on preferential terms exclusively within its territory and for purposes determined by the Conditions for the Granting of Tariff Preferences (Paragraph 47 of the Annex to the Protocol).

In all other cases, tariff exemptions shall be granted with respect to goods imported from third countries into Kyrgyzstan, as well

diesel and marine fuel, and jet fuel and heating oil (Paragraph 50 of the Annex to the Protocol).

Prior to the application of the EAEU specific technical regulation, the products of Kyrgyz enterprises can only be circulated within Kyrgyzstan (Paragraph 56 of the Annex to the Protocol).

Kyrgyzstan's veterinary control system of Kyrgyzstan is considered equivalent to those of the Union Member States after an appropriate audit (Paragraph 59 of the Annex

The Government of Kyrgyzstan sets annual quotas for raw sugar import and informs the EEC of the actual volumes of imports: in 2014, 82.7 thousand tons were imported against a quota of 413 thousand tons; in 2013, 362 thousand tons against a quota of 434 thousand tons, and 135 thousand tons against a quota of 434 thousand tons in 2012.

as into other EAEU Member States exclusively in accordance with the Treaty on the Eurasian Economic Union dated May 29, 2014.

It covers cases and conditions for granting tariff exemptions as set out by Annex No. 6 to the Treaty on the Eurasian Economic Union dated May 29, 2014, and by the Decision of Commission of the Customs Union No. 130 "On Unified Customs Tariff Regulation of the Eurasian Economic Union" dated November 27, 2009.

Regarding Kyrgyzstan's membership in the WTO, it should be noted that the Protocol establishes provisions for holding negotiations with WTO members on changing Kyrgyzstan's earlier tariff commitments (Paragraph 41 of the Annex to the Protocol) in connection with the country's accession to the EAEU.

Kyrgyzstan is entitled to a six months extension in the transition to the technical regulations of the EAEU, and 1 to 4 year extension with respect to 22 technical regulations (1 year later – for technical regulations for machinery, explosive equipment, farm tractors, 2 years later – for railway rolling stock, railway infrastructure, packaging, pyrotechnic products, children's and teen products, toys, elevators, light industry products, food products and their labeling, juices, fat-and-oil products, furniture, specialized nutrition, explosives, food additives, milk and meat; 4 years later – for automobile and aviation gasoline,

to the Protocol).

Kyrgyzstan was granted a one-and-a-half year extension to apply the Union's law in the field of competition policy (Paragraph 65 of the Annex to the Protocol), natural monopolies (Paragraph 66 of the Annex to the Protocol), energy (Paragraph 67 Annex to the Protocol), 2 year extension – in the field of railway transport (Paragraph 68 of the Annex to the Protocol), public procurement (Paragraph 69 of the Annex to the Protocol), intellectual property (Paragraph 71 of the Annex to the Protocol).

Annex No. 2 to the Protocol lists goods, to which Kyrgyzstan applies the rates of import customs duties other than the rates of the SCT OF THE EAEU duties during the transition period.

To ensure the application of the List of Exceptions and in accordance with the Treaty on the EAEU, a decision of the EEC Board was adopted²².

The maximum transition period is set until the end of 2019.

At the end of the period, Kyrgyzstan ensures the application of the SCT OF THE EAEU rates without exceptions and limitations.

Kyrgyzstan's List of Exceptions includes the following categories of goods: agricultural products, chemical and

²² Decision "On approval of the list of goods and rates to which the Kyrgyz Republic applies the rates of import customs duties other than the rates of the Common Customs Tariff of the Eurasian Economic Union duties during the transition period" No. 68 dated June 30, 2015

metallurgical goods, plastics, motor vehicles, equipment, medicines, etc.

With respect to the goods of the List of Exceptions, the country applies zero import customs duties exclusive of certain types of motor vehicles to which the rates of 10% of the customs value apply.

The Kyrgyz Republic committed itself to prevent the export of goods from the List of Exceptions to the other EAEU Member States without charging difference in the amounts of import customs duties calculated at the rates of the SCT OF THE EAEU and the amounts of import customs duties paid when importing such goods into Kyrgyzstan.

The CN FEA of the EAEU allows exportation of vehicles of 8701, 8702, 8703, 8704, 8705, 8716 tariff lines and 8433 51 000 1, 8433 51 000 9 subheadings to the rest of the EAEU territory without charging any difference in the amount of duties but only 5 years after Kyrgyzstan applies SCT of the EAEU rates applicable for these vehicles.

In addition, the Protocol provides for the relevant institutional changes in the

representation of Kyrgyzstan in the EAEU bodies.

The Commission Board initially consisted of 9 members (Ministers), three from each Union Member State. But following Kyrgyzstan's accession to the EAEU and the principle of equal representation of the Union Member States in the Board, the Board members (Ministers) were reassigned by the Supreme Eurasian Economic Council. Thus, the Board included 10 Members – Ministers, two from each Union Member State, as of February 1, 2016²³. Among them, a Member – Minister in charge of Energy and Infrastructure from Kyrgyzstan supervising the Department of Transport and Infrastructure and the Department of Energy, and a Member – Minister in charge of Customs Cooperation supervising the Department of Customs Legislation and Law Enforcement Practice and the Department of Customs Infrastructure.

²³ Decision of the Supreme Eurasian Economic Council No. 37 dated December 21, 2015 "On Personal Composition and Allocation of Responsibilities among the Members of the Board of the Eurasian Economic Commission"

The Treaty on the Accession of the Kyrgyz Republic to the Treaty on the EAEU has a number of characteristics: it reflects the specifics of the negotiations on Kyrgyzstan's accession to the Eurasian integration project. This is not a single instrument, but several documents signed with an interval of 5 months, and that have been enacted as a complete set.

The Treaty on the Accession was signed prior to the full implementation of all the required points of the Road Map, while the necessary minimum of measures were implemented at the time of entry into force of the Treaty and protocols thereto.

The Kyrgyz party was provided with suitable transition periods and acceptable solutions for all sensitive issues.

The Treaty on the Accession is not only the obligations of Kyrgyzstan, but also the guarantee of equal participation in the integration association and the painless transition period of the economy's adaptation to the EAEU membership.

The EAEU Member States contributed to the process of accession and developed a set of rules and procedures for rendering financial and material and technical assistance to the country on modernization of the customs infrastructure.

The entry into force of the Treaty on the Accession summed up the years of work of representatives of all interested structures of the EAEU Member States, Kyrgyzstan and the EEC.

First results

4

Today, it is already possible to see preliminary results and certain conclusions after over two years since Kyrgyzstan became a member of the Eurasian Economic Union on August 12, 2015.

The results can be seen in various fields and sectors of the economy and are confirmed by data from different sources.

Basic macroeconomic and socio-economic indicators

Despite the country's accession to the EAEU occurred in hard economic times, Kyrgyzstan has felt positive effects of the integration since the first months of its membership.

Thus, the key macroeconomic indicators in Kyrgyzstan were already showing positive trends in 2015, which had started in 2014, strengthened in 2016, and continued in 2017, against the economic slowdown across the EAEU.

The gross domestic product of Kyrgyzstan has been growing since 2015 at a rate exceeding the increase in GDP across the EAEU. This trend remained throughout 2016-2017. According to the EEC statistics, in 2017, the GDP growth was 4.6% (according to the IMF forecasts, it is 3.5%)²⁴.

In 2016, services took a greater share of the GDP²⁵ (up to 47.5%), industry (up to 18.2%) and

²⁴ The EEC monthly analytical overviews: http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/econstat/Pages/express.aspx

²⁵ Publication "Information on the results of the social and

construction sector (up to 8.4%). The contribution of agriculture is significant – 12.8%. At the same time, the contribution of the service sector to GDP growth in 2016 was plus 1.7%, manufacturing output – plus 1.0%. All other sectors of the economy also made a positive contribution to the country's GDP growth in 2016.

In 2017, Kyrgyzstan's GDP growth was largely achieved by an increase services (+0.5 p.p.). Also there is an increase in the services sector's shares of GDP (up to 48.0%)²⁶.

Positive trends in industrial production (growth is ahead of the EAEU since 2016) are due to the increase in production in the manufacturing industry²⁷. In 2016, the recession in the manufacturing industry (-7.8% in 2015) was replaced by a steady growth (+5.9% in 2016).

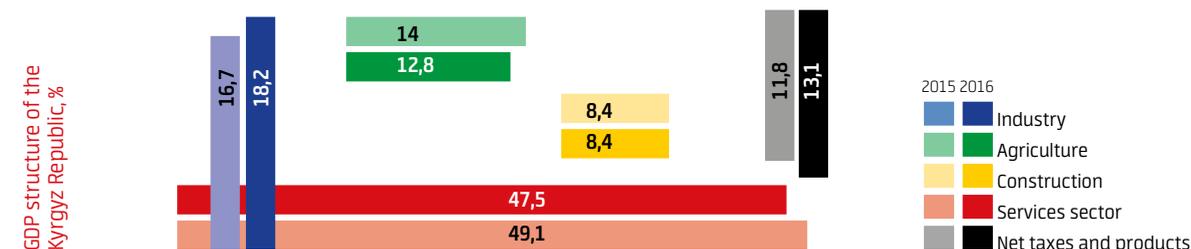
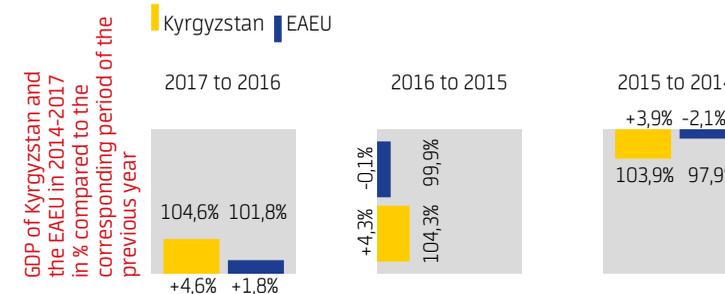
Industrial production in Kyrgyzstan and the EAEU in 2014-2017, % compared to the corresponding period of the previous year

In 2017, there was a very rapid growth in the production of meat and meat by-products (+1.1%), butter (+31.6%), cereals

economic development of the Kyrgyz Republic for 2016", p. 1 http://mineconom.gov.kg/Docs/Macroeconomic%20policy%20department/Itogi_SER_2016.pdf

²⁶ Publication "Social and Economic Situation of the Kyrgyz Republic for 2017", p. 80, Tab. 8 <http://www.stat.kg/media/publicationarchive/039fcb9e-485a-4537-b658-e0b023939589.pdf>

²⁷ Analytical review of EEC "On the main socio-economic indicators of the EAEU", p.1 http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/econstat/Documents/Indicators201612.pdf



(+13.1%), motor gasoline (+38.3%), fuel oil (+19.1%). In fact, the country restored its sugar production (an increase of 50%). In 2017, the situation with milk (+6.5%) and flour (+23.1%) production changed for the better²⁸.

Also, in 2017, there were high development rates of Kyrgyzstan mining industry, which is much higher than the EAEU average rates (+3.1%), (production growth is 1.8 times higher), including production of crude oil and gas condensate (+21.7%), and electricity generation (+17.8%).

The consumer goods industry is experiencing considerable growth, while the main consumers are residents of Kazakhstan and Russia. With an increase of sales in the country, the need for qualified personnel has grown substantially.

According to the National Statistical Committee of Kyrgyzstan²⁹, the growth in the average number of workers employed annually in industry has resumed in

²⁸ Analytical review of EEC "On the main socio-economic indicators of the EAEU" http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/econstat/Documents/indicators201712.pdf

²⁹ Publication "Industry in the Kyrgyz Republic 2011-2015", Table 3 <http://stat.kg/media/publicationarchive/a2f50872-b761-4e3e-afd5-cc946c2c18a.pdf>

2015 after a long period of decline (by 2.1%, including mining – by 17.4%, and manufacturing – by 1.7%), and reached 129 thousand.

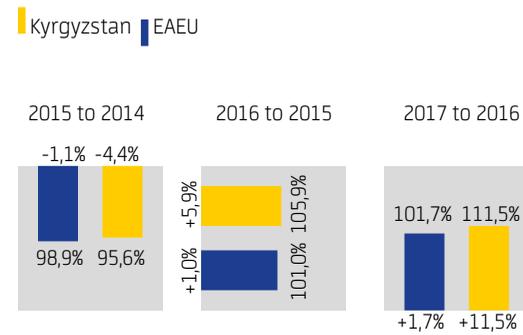
Positive growth in agricultural production is observed.

According to the National Statistical Committee of Kyrgyzstan, rice production in the country increased by 15.4% in 2016 (by 7.0% in 2015), barley – by 12.2% (by 1.9 times in 2014), corn – by 1.1% (by 15.4% in 2014), leguminous crops – by 1.0% (by 7.3% in 2015). After the downturn in previous years, the growth of agricultural production of sugar beet (by 3.8 times), grapes (by 1.5 times), raw cotton (by 18.1%), fruit and berries (by 14.4%), vegetables (by 1.6%) were resumed in 2016. In 2016, the number of bee colonies increased by 4.8%, the number of rabbits increased by 4.3%, horses – by 3.9%, and cattle – by 2.4%.³⁰

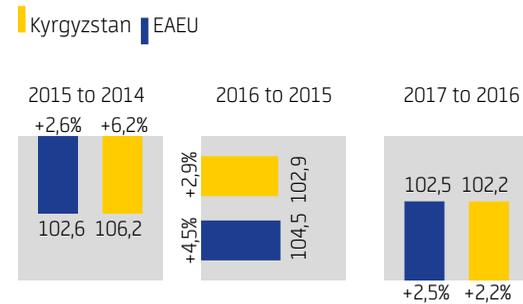
In 2017, there was a significant increase in tobacco production (3.3 times), raw cotton (+25.4%), melons (+9.2%), eggs (+8.7%), milk (+2.1%) and wool (+1.9%), compared to 2016.

³⁰ Publication "On harvesting of crops in 2016", pages 16-36 <http://stat.kg/media/publicationarchive/d3bcbad0-f062-462f-9051-7cb462c26db9.pdf>

Industrial production in Kyrgyzstan and the EAEU in 2014-2017, % compared to the corresponding period of the previous year



Production of agricultural products in Kyrgyzstan and the EAEU in 2014-2017, % compared to the corresponding period of the previous year



Growth in livestock and poultry production to slaughter (+1.7%) is provided due to an increase in the number of livestock and poultry (in live weight)³¹.

An important feature of positive changes in Kyrgyzstan's agricultural sector is the increase in the economic efficiency of agricultural enterprises, which resulted in the return to productivity growth. So, labor productivity increased by 2.9% in 2014, and fell slightly (by 0.2%) in 2015, but was at a level exceeding the 2013 indicator (273.0 thousand soms/person in 2015 and 265.9 thousand soms/person in 2013)³².

Due to the increase in economic activity of market entities in Kyrgyzstan, the volume of traffic using various modes of transport is growing³³. The growth in freight turnover

³¹ Publication "Social and economic situation of the Kyrgyz Republic in January-December 2017", p. 92-94 HYPERLINK "http://www.stat.kg/media/publicationarchive/039fcb9e-485a-4537-b658-e0b023939589.pdf"

³² Publication "Agriculture of the Kyrgyz Republic 2011-2015", p. 20 http://stat.kg/media/publicationarchive/ca2196d5-09ea-46ae-bf23-1a80255b391a.pdf

³³ EAEU Statistical Yearbook 2017, p. 262, p. 266 http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/econstat/Documents/Stat_Yearbook_2017.pdf

of road transport is due to the liberalization of the Union transport services market. Following the road transport, the figures for freight transportation by rail and passenger air transportation are improving. The passenger turnover growth is ahead of the indicators across the EAEU.

In 2016, the proportion of the population below the poverty line declined significantly (to 25.4%). Over the past decades, this indicator did not fall below 30.6%.

The unemployment rate fell³⁴ in 2016 by 0.4 percentage points compared to the 2015 level and reached 7.2% of the economically active population.

Economic growth is seen in all sectors of the economy, and the growth rate in the sectors is above average across the Union due to the opportunity opened for the Kyrgyz business to work freely on the Eurasian economic space.

One of the favourable factors that influenced the economic growth was the restoration of economic growth in the EAEU countries, Kyrgyzstan's main trading partners.

Foreign and mutual trade of Kyrgyzstan

The accession to the EAEU has also affected the volume of the country's foreign trade. Improving the foreign economic environment contributed to the growth of exports, while higher domestic demand contributed to an increase in imports.

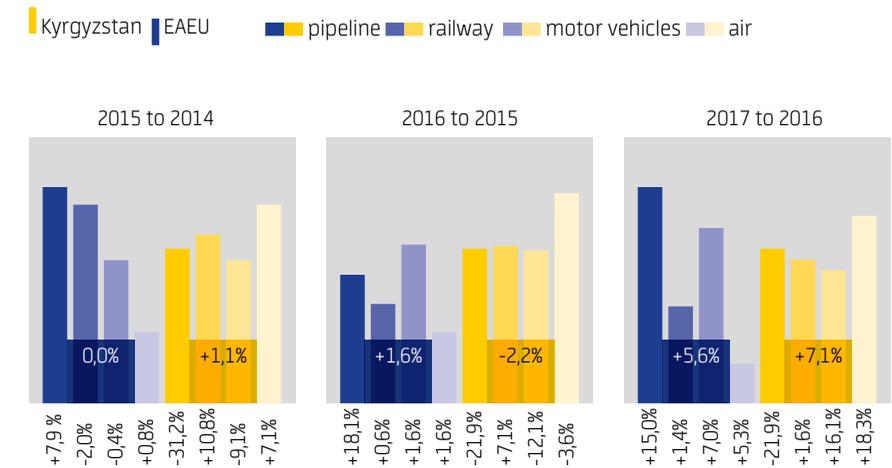
Since 2016, Kyrgyzstan's foreign trade turnover with third countries has been growing, while its volume has increased by 10.7% in 2016, including exports - by 5.0%, and imports - by 13.7%. In 2017, the turnover continued to increase with 10.1% growth, while exports increased by 8.6%, and imports - by 10.8%.³⁵

At the same time, the structure of Kyrgyzstan's exports to the EAEU Member States is diversified or more "healthy" than

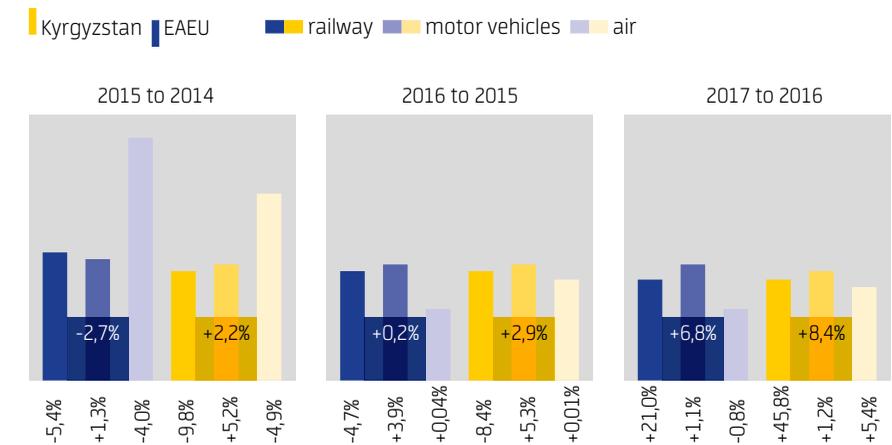
³⁴ The EEC socio-economic statistics. Labor market. The unemployment rate (according to ILO methodology) http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/econstat/Pages/labor_market.aspx

³⁵ Analytical materials of EEC "On the results of the EAEU external and mutual trade" for 2015, 2016 and 2017 http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/analytics/Pages/default.aspx

Freight turnover in Kyrgyzstan and the EAEU in 2014-2017, % compared to the corresponding period of the previous year



Passenger turnover in Kyrgyzstan and the EAEU in 2014-2017, % compared to the corresponding period of the previous year



exports to third countries. The share of machines and equipment in mutual trade is higher than in foreign trade, while the share of goods with higher added value, such as textiles, textile products and footwear, is much higher.

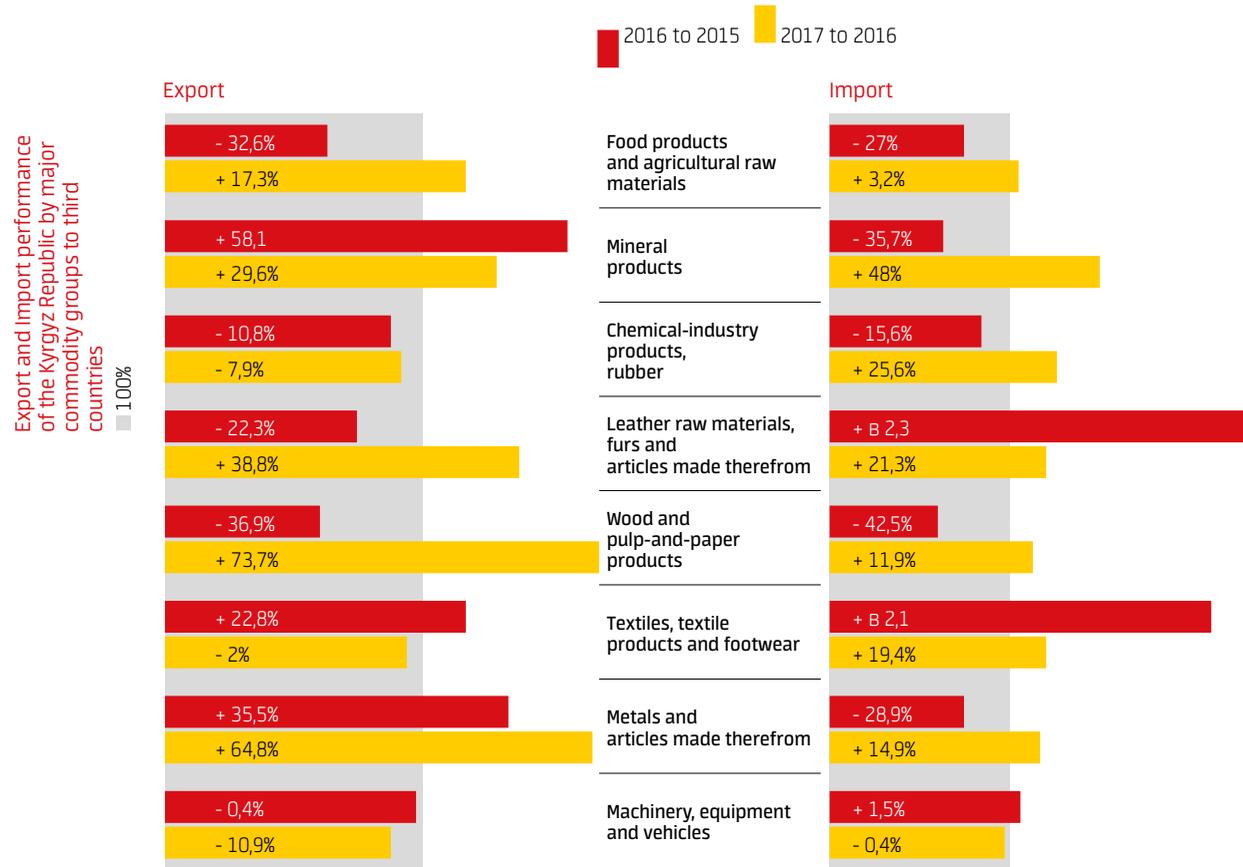
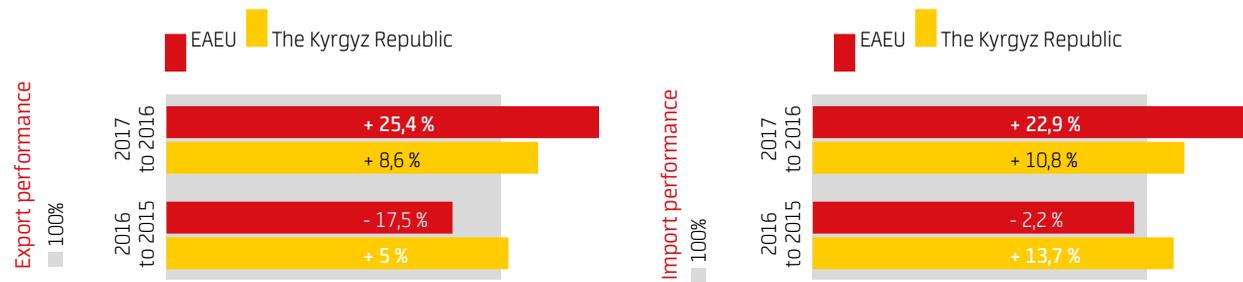
Moreover, Kyrgyzstan's trade with its partners in the Union is growing faster than the foreign trade with third countries. In 2016, the growth of mutual trade (increase in the number of export operations) reached 9% (an increase to 447.2 million USD)³⁶ and by

27% in 2017 (to 568 million USD).³⁷ In this case, exports to third countries increased by 5% in 2016 and by 8.6% in 2017.

While growth in mutual trade in 2016 was due to 2.4-fold increase in the supply of mineral products (25.8% of the total volume of exports of the Kyrgyz Republic in mutual trade), foodstuffs and agricultural raw materials by 2.9% (24.4%), chemical products - 1.5-fold (5.2%), in 2017, growth was explained by an increase in the volume of supplies of textile, textile products and footwear - which

³⁶ ECE statistics according to the 2016 updated data http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/tables/intra/Documents/2016/12_180/201612_1.pdf#view=fitV

³⁷ EEC express information "On the Outcomes of External and Mutual Trade of the EAEU" for 2017 http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/analytics/Documents/express/December2017.pdf



doubled (35.6% of the total volume of exports of Kyrgyzstan in mutual trade), food products and agricultural raw materials -1.3-fold (25.7%), i.e. the trade growth was seen in categories showing economic growth in the country, while a decrease in the volume of trade in mineral products by 1.5% (20%) was recorded.

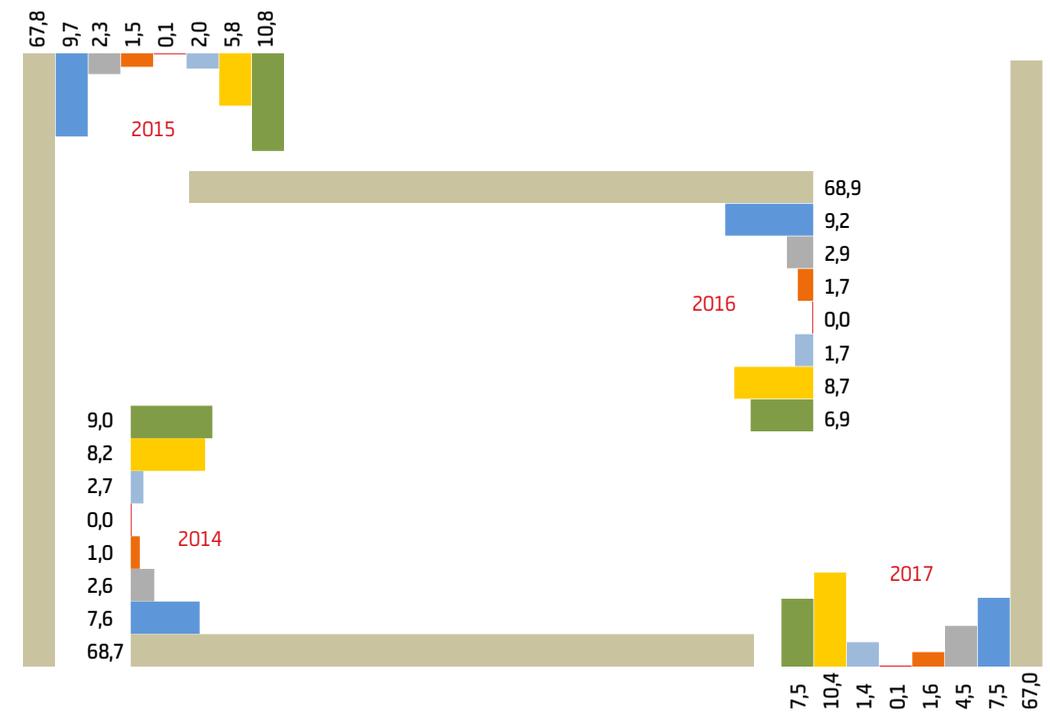
The most significant growth in supply is observed with regard to the following goods:
 to the Russian Federation: some types of

dairy products (cheeses, cottage cheese, milk and cream); vegetables (tomatoes, onions, carrots and beets); fruit (dried fruits); juices; plastic products (pipes, pipes and fittings); knitted garments; equipment for heat treatment of materials, household electric heaters and electric stoves, communication equipment and parts thereto, etc.;

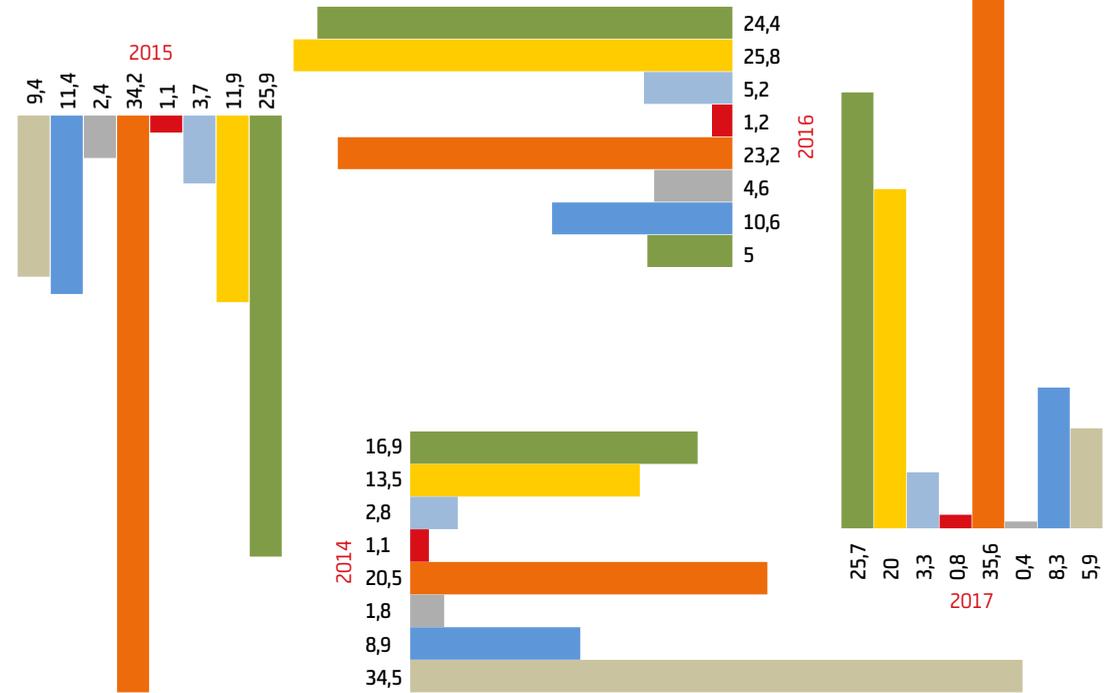
to the Republic of Kazakhstan: butter, cheese, cottage cheese, onion, dried vegetables, sugar confectionery, pipes,

Structure of Kyrgyzstan's exports to third countries¹ % in 2014-2017

¹ EEC statistics: time series: "Foreign and mutual trade in the EAEU goods" http://www.eurasiancommission.org/ru/act/integr/_l_makroec/dep_stat/tradestat/time_series/default.aspx



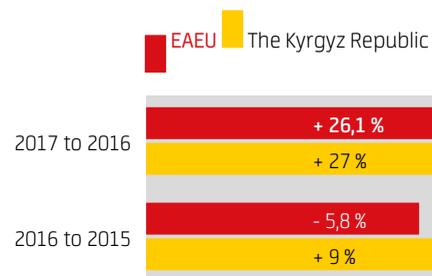
Structure of Kyrgyzstan's exports to the EAEU Member States % in 2014-2017



At the same time, despite concerns about possible reduction in imports due to the use of the SCT OF THE EAEU, the import of textiles, textiles, and footwear to Kyrgyzstan increased 2.1-fold in 2016 (33.8% of the total volume of Kyrgyzstan imports from third countries), cars, equipment and vehicles – by 1.5% (28.7% of total imports). The fall in the volume of imports has still affected the chemical-industry products by 15.6% (13.4%), foodstuffs and agricultural raw materials by 27% (6.7%), metals and articles made from them by 28.9% (5.4%). In 2017, the volume of sales of Kyrgyzstan's goods to the foreign market increased by 8.6% compared to 2016 due to the growth in supplies of precious metals by 3% (58.5% of the total volume of Kyrgyzstan's exports to third countries), mineral products – by 29.6% (10.4%), food products and agricultural raw materials – by 17.3% (7.5%). In 2017, the country's imports increased by 10.8% in comparison with 2016. Purchases of textiles, textile products and footwear have increased by 19.4% (36.4% of the total volume of imports of Kyrgyzstan from third countries), chemical products – by 25.6% (15.1%), food products and agricultural raw materials – by 3.2% (6.2%), metals and products made from them – by 14.9% (5.6%). The indicator for cars, equipment and vehicles declined by 0.4% (25.8%).

plastic hoses and fittings, garments and clothing accessories of leather and knitwear, synthetic fabrics, polished glass, mirrors, etc.; to the Republic of Belarus: knitwear and textile garments.

In 2017, positive trends associated with growth and the diversification of Kyrgyzstan's trade with the other EurAsEC Member States, have continued. The proportion of trade with the EAEU Member States in the total trade volume of Kyrgyzstan in 2017 was 38.6%, and 37.2% at the end of 2016. The largest share in the mutual trade of Kyrgyzstan with the EAEU countries was with Kazakhstan (52.3%



in exports, and 31.7% in imports) and Russia (46.2% in exports, and 63.8% in imports).

The trade growth and the improvement of its structure in 2016 and 2017 shows that the Kyrgyz Republic has experienced a quantitative effect from integration within the EAEU similar to that experienced by the "Troika" States in 2010-2013.

Concurrently with the increasing trade turnover, the revenues to the country's

budget from foreign economic activity are growing, in particular from the import customs duties distributed among the EAEU Member States, VAT and excise duties. Over the period from January to June 2017, this indicator rose by 14.5% compared to the same period in 2016.

Reduction of revenues from foreign economic activity in 2015 was associated with a reduction in the volume of imports of Kyrgyzstan (January-August 2015 – minus 28.2% from 1.8 billion USD in the same period of 2014 to 1.3 billion USD), in general for 2015 – minus 27.8% from 4.3 to 3.1 billion USD) and a reduction in the volume of imports of the EAEU (minus 33.3%, from 3.1 to 2.1 billion USD).

Free movement of labor

Migrant workers in Kyrgyzstan have experienced the first positive effects of labor market liberalization. Other measures are planned to remove barriers.

According to the State Migration Service at the Government of Kyrgyzstan for 2017, more than 700,000 citizens of the country are in labor migration, more than 640,000 of which are in Russia, 35,000 in Kazakhstan, 5,000 in South Korea, 30 thousand people are in Turkey, and more than 20 thousand people in other countries of the far abroad (Europe, USA, Middle East, Asia).

The reduction in illegal migration from Kyrgyzstan to Russia is a good sign. Thus, the total number of Kyrgyzstan citizens violated the migration rules with no entry to the country was 194 thousand people in 2014, which is about 39% of the total number

Change in the volume of trade in some types of goods of the Kyrgyz Republic with the States of the Customs Union in 2017, %

to Russia

4.2-fold tomatoes
3.6-fold grapes
3.8-fold sugar confectionery
2.7-fold yarn of synthetic fibers
4-fold sports textile suits
3.5-fold other footwear
8.5-fold polished glass

to Kazakhstan

4.2-fold tomatoes
8.8-fold dried vegetables
2.3-fold sugar confectionery
5.2-fold paints and varnishes
2.4-fold printed books and brochures
3.5-fold men's knitted outerwear
4-fold hosiery products
2.3-fold sugar confectionery
3.6-fold non-alloy steel wire
2.8-fold pumps, compressors, fans
2.3-fold sugar confectionery
8.7-fold prefabricated building structures

to Belarus

1.7-fold dried beans
7.4-fold sweaters, half-wolves, cardigans, knitted waistcoats
2.1-fold sports knitted suits
3.7-fold textile men's clothing
2.9-fold women's textile blouses

to Armenia

by 7.4 thousand dollars dried beans with no earlier deliveries

Change in the volume of trade in some types of goods of the Kyrgyz Republic with the States of the Customs Union in 2016, %

to Russia

3.3-fold dried beans
7.2-fold women's knitted and textile blouses
by 84.3% shoes with uppers of genuine leather
by 48% dried fruit, a mixture of nuts or dried fruits

to Kazakhstan

5-fold ores and concentrates of precious metals
by 29.3% plastic containers
2.1-fold women's knitted blouses
2.6-fold men's knitwear
8.7-fold footwear with a top from a genuine leather

to Belarus

by 3.4-fold products of animal origin (other)
2.6-fold dried beans

of workers from the country in Russia. This number was reduced to 118 thousand people by the end of 2015, and the number of Kyrgyzstan citizens in this category was reduced to 106 thousand people at the beginning of 2017, and up to 77 thousand people at the end of the year, and that is a very noticeable result.³⁸

Accession to the Union ensured a significant simplification of the procedure for

³⁸ According to the State Migration Service at the Government of the Kyrgyz Republic

Kyrgyzstan's citizens staying in and taking up employment for throughout the EAEU, including in Russia, where the procedure for entry into the country for the employment purpose changed for all foreigners including citizens of the CIS countries since the beginning of 2015 with the entry into force of amendments to the Administrative Code. Changes did not relate to workers from the EAEU Member States.

Because of these changes, as well as the work on market liberalization within the Union, workers from Kyrgyzstan, have the following advantages over citizens from other countries, including the CIS:

The period during which a citizen of Kyrgyzstan must be registered for migration was extended up to 30 days (for citizens of other States it remained the same – 7 days). Workers from Kyrgyzstan do not need to register a license for work (for example, in Moscow its cost is about 5 thousand rubles a month). The procedure for obtaining a license includes passing a Russian language test, legislation and the history of Russia, as well as obtaining two medical certificates.

Workers from Kyrgyzstan, as well as their family members, have the right to social security (social insurance), which is similar to the right for citizens of the state of employment. Social security (social insurance) includes compulsory insurance in case of temporary disability and maternity, compulsory insurance against accidents at work and occupational diseases, and compulsory medical insurance (while labor

migrants from the CIS countries have the right to receive ambulance medical care only). The children of workers from the EAEU have the right to attend pre-school institutions and receive education in accordance with the legislation of the state of employment.

Since January 1, 2017, workers from the EAEU countries, including workers from Kyrgyzstan, can be covered by compulsory health insurance (CHI) in accordance with Order No. 803n of the Ministry of Health of the Russian Federation dated October 27, 2016.

Citizens of Kyrgyzstan, as well as workers from the other Union countries, do not need

citizens of other States the first 6 months from the day of employment (30% in Russia).

Citizens of Kyrgyzstan, as well as citizens of the other Union States, are exempted from indirect taxes when importing goods for personal use, including vehicles, in the other Union States.

Workers from the EAEU have the opportunity to work not only under a labor contract, but under a civil-law contract as well, which significantly expands their possible scope of employment.

The term of stay in the country of employment is determined by the term of the concluded labor or civil-law contract.

the number of arrivals in 2014 was 544,956, including 182,105 legally employed, which was 33% of the total number of arrivals;

the number of arrivals in 2015 was 562,403 people, including 270,088 legally employed, which was 48% of the total number of arrivals;

the number of arrivals in 2016 was 593,760, including 365,045 legally employed, which was 61% of the number of arrivals.³⁹

The number of migrants who arrived in 2016 increased slightly (by 31 thousand), however, the number of migrant workers increased by 95 thousand, which may indicate that some of the employees have legalized their activities. The proportion of employees from the total number of visitors increased from 33% in 2014 to 61%.

The number of workers from Kyrgyzstan increased against the backdrop of reduced migration flows to the Russia from countries outside the Union. Thus, the flow of migration

2014 were 2,240.7 million USD (2,189.5 million USD of which were from Russia); in 2015, they fell to 1,686.5 million USD (1,631.5 million USD of which were from Russia). However, this decline is associated with a fall in value of the national currency relative to the US dollar. In 2016, a growth is observed even in the dollar equivalent – 1,993.9 million USD (1,943.6 million USD of which were from Russia).⁴¹ Thus, according to the National Bank of the Kyrgyz Republic, it was 2,288.09 million USD for 11 months of 2017, which is 20% more than for the same period in 2016.

These figures are largely associated with the fact that it is much easier for employers to hire workers from countries that are subject to the provisions of the Treaty on the EAEU.

It is worth noting the role of cross-border remittances of individuals to the Kyrgyz economy. Such remittances are estimated to be close to 30% of the country's GDP and

FOR REFERENCE:

Today migration in Kyrgyzstan affects more than 3 million people and will remain a significant economic and social factor in the foreseeable future. Each fourth household (26%) has at least one migrant worker. That is why the country's entry into the EAEU has had a tangible positive impact in labor migration.

to undergo the procedure of qualifications/skills recognition when applying for a job. Mutual recognition of education certificates in the absolute majority of specialties is

Migrants from other countries can stay in the country for a certain time only (for example, in accordance with the validity of a license or work permit in the Russian Federation).

| Name of inpayment | 2013 r. | Share | 2014 r. | Share | 2015 r. | Share | 2016 r. | Share | 2016/15 growth rate |
|-------------------|---------|--------|---------|--------|---------|--------|---------|--------|---------------------|
| Total | 101,9 | 100,0% | 119,4 | 100,0% | 128,4 | 100,0% | 130,7 | 100,0% | 101,8% |
| Value-added tax | 30,1 | 29,5% | 32,7 | 27,4% | 33,2 | 25,9% | 39,3 | 30,1% | 118,4% |
| Excise tax | 4,1 | 4,0% | 6,3 | 5,3% | 7,8 | 6,1% | 9,1 | 7,0% | 116,7% |
| Customs duties | 11,9 | 11,7% | 13,8 | 11,6% | 9,7 | 7,6% | 13,8 | 10,6% | 142,3% |

ensured. The exception is legal, pedagogical, medical and pharmacological activities.

Workers from the EAEU Member States start paying personal income taxes at a rate similar to the residents (which is 13% in Russia) starting from the first month, while the rate of the tax for slightly differs for the

There are no quotas when concluding employment agreements with employers.

Statistical indicators on the number of Kyrgyz citizens who arrived and worked legally in Russia for the period from 2014 to 2016 (before and after joining the EAEU) are as follows:

Individual income tax rates (NDFL) in the EAEU

| Country | NDFL of the EAEU resident | NDFL of the EAEU non-resident |
|------------|---------------------------|--|
| Armenia | 24,4 – 36% | 24,4-36% |
| Belarus | 13 % | 13% |
| Kazakhstan | 10% | 10% with no tax deductions (Paragraph 1 Article 158 and Article 161 of the Tax Code) |
| Kyrgyzstan | 10% | 10% |
| Russia | 13% | 30% |

to Russia from Uzbekistan decreased by 46%, and by 15% from Tajikistan in the period from 2014 to 2016. For example, due to the tightening of migration legislation and the ban on entry for hundreds of thousands of Tajik citizens, money transfers from Russia to Tajikistan in 2015 are almost down to a third of what they were in 2014.

It is important to note that the cross-border remittances⁴⁰ to Kyrgyzstan in

exceed budget revenues in nominal terms.

For example, cross-border transfers of individuals in 2016 reached 29.4% of the country's GDP, and exceeded the country's budget revenues as well (102.3% of the consolidated budget).

transfers of labour migrants, since they cover all transfers between individuals irrespective of their residency and employment status. The use of the indicator of cross-border remittances is justified by the fact that there are various family and social ties between people within the Union that persist even after the change of citizenship and are not limited to the relations within the framework of labour migration.

⁴¹ According to the National Bank of the Kyrgyz Republic

³⁹ According to the statistics of the Ministry of Internal Affairs of Russia, the Directorate-General for Migration

⁴⁰ Cross-border remittances have a broader concept than

Incomes of the consolidated budget of the Kyrgyz Republic, billion soms

| | |
|---|--|
| Labor Migrants of the CIS countries | Workers of the Union Member States |
| When applying for a job, it is necessary to: - purchase health insurance; - undergo a physical examination; - pass a Russian language test, history and legislation of the Russian Federation; - acquire a license for the right to work. | Employment without regard to restrictions on protection of the national labor market. Workers do not need to obtain licenses. Working on the basis of labor and civil law contracts. |
| No certificate of registration is needed in accordance with Russian law subject to the existence of bilateral treaties.. | No registration certificate is needed for up to 30 days. |
| The term of temporary stay is determined by the license term. | The term of temporary stay is determined by the validity of the labor or civil law contract. |
| Emergency medical care (urgent and in the form of immediate relief) is provided free of charge. Migrants purchase health insurance at their own expense. | Emergency (urgent and in the form of immediate relief) is provided to workers (family members) in the same manner and under the same conditions as to citizens of the Russian Federation – free of charge, regardless of availability of the medical certificate. National regime in the field of social security (social insurance, CHI membership, etc.). The work experience (including insurance) is important for social security purposes. |
| Migrants pay income tax (get a license) in advance. | The income of workers is subject to tax on an equal basis as the income of the citizens of the Russian Federation (from the first day of work). |
| Acknowledgement of diplomas and qualifications in accordance with the Russian Federation legislation. | Express acknowledgement of diplomas and qualifications. |
| No pension contributions, no pension rights, no export of pensions. | Workers' Pension Benefit Agreement for workers of the Member States is being developed, and provides for the pension rights for workers, pension contributions payment, and the export of pensions. |

The existing preferences have also contributed to the fact that Kyrgyz citizens find higher-paid and more prestigious jobs than before joining the EAEU.

Before joining the EAEU, when there were significantly more obstacles to working in Russia, and many Kyrgyz citizens sought to renounce Kyrgyz citizenship and acquire Russian citizenship. Now, there is no need for this since the conditions for work have become favourable.

As part of ensuring the free movement of the workforce, many issues remain to be resolved. Work is actively being carried out to

EAEU countries to fully enjoy the right to have, preserve and exercise the pension rights acquired by them in the course of their work in the Union Member States.

Further work on the draft of another international treaty – the Agreement on the procedure for entry, exit, transit of workers of the EAEU Member States.

With these plans implemented, the citizens of Kyrgyzstan will enjoy even greater benefits from joining the Union.

The availability of the social security systems to workers of the EAEU Member States guaranteed by the Union Treaty made it possible to implement equal workers' rights with citizens of the state of employment.

This allowed them to be employed anywhere in the EAEU, minimizing their social risks and thereby creating conditions for the development of a unified labor market, which is one of the main goals of the Eurasian Economic Union.

Thus, Kyrgyzstan's entry into the EAEU had a positive impact on labor migrants from the country to other Union countries, in particular in Russia. The figures indicate the legalization of a large number of workers, in general, their number is growing, remittances to Kyrgyzstan are growing as well. Furthermore, the work conditions have become much better. The difference in comparison with citizens of other countries of the post-Soviet space is significant, which has already led to the significantly increased proportion of Kyrgyz citizens among labor migrants.

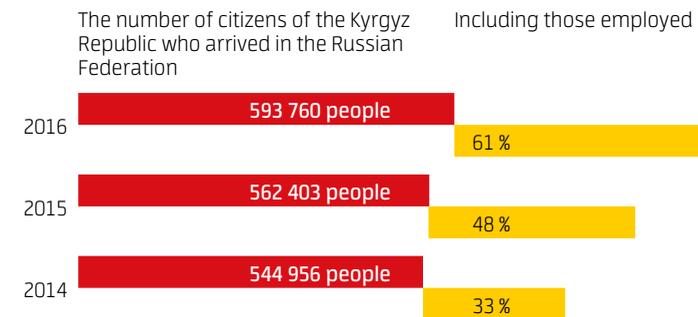
In the future, the growth in the number of joint ventures of the countries in Kyrgyzstan could create new workers.

New business environment

Over the past two years, Kyrgyzstan has significantly advanced in reforming its business environment.

A whole raft of modern supranational legislation based on the best international practices has been originated in key areas of the country's economy, including those focused on export development.

The determination to maximize the benefits of competition of national jurisdictions within the EAEU helped improve the quality of governance within the country



identify and remove barriers to the formation of the unified labour market of the EAEU.

Furthermore, the Road Map to address exceptions and restrictions in the domestic market of the EAEU for 2018-2019⁴² included an exception related to the mutual recognition of certificates of higher degrees and scholarly titles in the Union.

Currently, the EEC is working with the Union Member States on the following issues:

The issue of extending the compulsory medical insurance system to family members of the EAEU Member States' workers in the Russian Federation.

Removal of the prohibition on entry of citizens of the EAEU Member States into other EAEU Member States in case there are three or more administrative offenses.

Further work on the draft Workers' Pension Benefit Agreement for the EAEU Member States allowing the citizens of the

⁴² Order of the Eurasian Intergovernmental Council No. 17 dated October 26, 2017

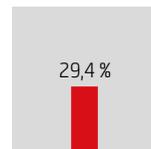
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--------------------------|---------|---------|---------|---------|---------|---------|---------|
| Total | 1 257,8 | 1 699,0 | 2 023,1 | 2 269,4 | 2 240,7 | 1 686,5 | 1 993,9 |
| Belarus | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Kazakhstan | 35,5 | 41,5 | 34,1 | 25,6 | 20,2 | 65,8 | 3,5 |
| Russia | 1 163,3 | 1 594,9 | 1 944,3 | 2 216,2 | 2 169,3 | 1 565,7 | 1 940,1 |
| Total EAEU | 1 198,7 | 1 636,5 | 1 978,4 | 2 241,8 | 2 189,5 | 1 631,5 | 1 943,6 |
| % of GDP | 25,0 | 26,4 | 29,9 | 30,6 | 29,3 | 24,4 | 29,4 |
| % of consolidated budget | ... | 96,3 | 104,1 | 106,8 | 99,5 | 81,6 | 102,3 |

and provide a greater focus by the state on business.

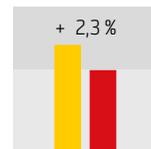
So, when eliminating the administrative barriers, there are only two procedures necessary for business registration. The number of regulatory authorities was reduced from 21 to 13. To support newly established enterprises, it is now proposed

When exporting and importing goods, performing work, rendering services in mutual trade of the Kyrgyz Republic with other EAEU Member States, double indirect taxation has been eliminated.

Kyrgyz exporters are more competitive in the Union countries compared to the producers from third countries due to:



Excess of cross-border transfers of individuals over revenues of the consolidated budget of the Kyrgyz Republic in 2016



■ Cross-border transfers of individuals
■ Consolidated budget revenues

to release them from inspections for 3 years, to halve the number of sanitary-and-epidemiologic inspections, and to limit the duration of the control check to 1 day.

In the context of integration with the EAEU, the fiscal policy has been focused on liberalization since 2015, it includes reducing the tax burden by phasing out the sales tax. The base rates of the main taxes are lower in Kyrgyzstan than in Russia, Belarus and Armenia, which should contribute to sustainable economic growth.

- the principle of non-discrimination in mutual trade between the EAEU Member States;
- exemption from indirect taxes of goods, which are imported into one EAEU Member State from another the EAEU Member State in connection with their transfer within one legal entity.

While earlier VAT was levied by customs when goods were crossing customs borders, with Kyrgyzstan's accession to the Union, the administration of VAT and excise duty

on goods imported from the EAEU Member States is carried out by the tax authorities. At the same time, when VAT is paid to business, a delay of 50 calendar days (a tax credit) is granted.

There are positive changes in the administration of taxes.

A new tax regime was created in Kyrgyzstan's agricultural sector, especially in the field of agricultural products processing and agricultural machinery production. The government of the country has actually exempted the entities involved in this economy sector from all taxes. A great deal of attention is paid to measures for state support of agricultural producers, including provision of preferential loans to farmers and leasing of agricultural machinery.

The tax policy within the "Concept of Fiscal Policy in the Kyrgyz Republic for 2015-2020" aimed at stabilizing the economy, providing the growing budget revenue, has made it possible to increase incomes administered by the tax authorities with the receipts of taxes from the EAEU by 11.3%, while the revenues in 2016 reached 67 billion soms, which is 6 billion soms more than in 2015.

Improving the business climate in Kyrgyzstan is also facilitated by the measures taken to facilitate the access of enterprises to financial resources. In particular, a new finance system based online on warehouse contents is being introduced. Thus, goods in the warehouse can be deemed as a pledge for obtaining a bank loan by agricultural producers. Furthermore, the "Guarantee Fund" was created to facilitate lending to small and medium-sized businesses. Its main task is to provide entrepreneurs with guarantees on bank loans, leasing agreements with insufficient collateral.

Investment attractiveness

In Kyrgyzstan, there is a tendency to improve the investment climate and increase the investment attractiveness of the country's economy for both investors from third countries and from the EAEU.

According to the National Statistics Committee of the Kyrgyz Republic, foreign

investment increased by 10.2% as of the end of 2016 in comparison to the level of the beginning of the year and reached 7.9 billion USD⁴³.

Leading investors in Kyrgyzstan's economy are China (26.2% of the total amount of accumulated foreign investment, 9.8% growth in 2016), Russia (15.9%, with 41.2% increase), Great Britain (7.4%, 8.1% decrease), Canada (6.1%, 31.9% increase), Turkey (3.1%, 5.7% decrease) and Kazakhstan (3.0%, 37.2% decrease).

The share of accumulated investments from the EAEU in the total accumulated foreign investment in Kyrgyz economy in 2016 reached 19% (1% annual growth).

In 2016, the structure of accumulated foreign investment changed in a positive way: the proportion of foreign direct investment increased. This may be indicative for the attractiveness of investing to participate in the management of some enterprises located in Kyrgyzstan, while the interest in such enterprises is in gaining income from participation in their activities.

In 2016, the Kyrgyz economy received 5.3 billion USD of foreign investment (excluding outflows), 814.0 million USD of which are foreign direct investment. After the boom in foreign direct investment in 2015, when their inflow increased by 2.2 times, foreign direct investment slightly decreased in 2016, but, despite this, the total investments exceeded the level of 2014 by 12%.⁴⁴

Total direct foreign investment from the EAEU Member States have grown faster than the total foreign investment into the economy.

In 2015, it increased compared to the previous year 6.3-fold (2.2-fold compared with all countries), and fell 1.8-fold in 2016 (1.9-fold compared with all countries). With regard to the level of 2012, direct investments from the EAEU Member States in 2016 increased by 530%, and only by 37.8% from all countries of the world. The share of direct allied investments in the total volume

⁴³ Compilation "Investments in the Kyrgyz Republic 2012-2016" <http://stat.kg/media/publicationarchive/30bad37d-e376-42a8-9bab-1cd78b1317d0.pdf>

⁴⁴ Compilation "Investments in the Kyrgyz Republic 2012-2016", p. 161 <http://stat.kg/media/publicationarchive/30bad37d-e376-42a8-9bab-1cd78b1317d0.pdf>

of all direct investments is rapidly rising (10.1% in 2012 to 38.7% in 2016).

Accumulated foreign direct investment reached 4 billion USD by the end of 2016⁴⁵, which is 17.5% more than in the previous year. Countries that increased their direct investments into the economy of Kyrgyzstan

interested in the areas of commodity production and delivery of products to the consumer, as well as the financial sector.

The biggest part (251.2 million USD or 30.9% of all foreign direct investment) of the total foreign direct investment in 2016 was sent to manufacturing industries. Then to

Basic tax rates in the EAEU Member States*

* Differentiated value



at the highest rates by the end of 2016 were China (31.9% of total foreign direct investment or 1.3 billion USD, an increase of 14.6%), Russia (25.0% or up to 992.0 million dollars, an increase of 43.4%), Canada (10.8% or 428.7 million USD, an increase of 31.7%), Turkey (4.1% or 163.0 million USD, an increase of 18.7%), Kazakhstan (3.8% or 150.4 million USD, an increase of 13.8%) and the Netherlands (1.4% or 54.5 million USD, an increase of 26.2%).

The breakthrough growth of direct investments from the Union Member States shows that investors from the EAEU Member States are more likely to see the advantages offered by the single market of the Eurasian Economic Union than the partners from third countries. Besides, this may indicate the restoration of past (traditional) and the emergence of new cooperative links between enterprises of Kyrgyzstan and other Union States.

According to the structure of foreign investment by types of economic activity, the share of investments channelled into manufacturing, transport and financial activities is growing. This allows us to determine the positive changes in the sectoral orientation of foreign investors in the Kyrgyz economy, which are increasingly

⁴⁵ Compilation "Investments in the Kyrgyz Republic 2012-2016", p. 151 <http://stat.kg/media/publicationarchive/30bad37d-e376-42a8-9bab-1cd78b1317d0.pdf>

financial intermediation and insurance (178.7 million USD or 22.0%), electricity, gas, steam and air conditioning supply (122.3 million USD or 15%), mineral resources mining (54.3 million USD or 6.7%).

The foreign investments, such as grants and technical assistance to Kyrgyzstan, (accumulated indicator) reached 296.9 million USD as of the end of 2016, which is 2.3 times more than in the previous year.

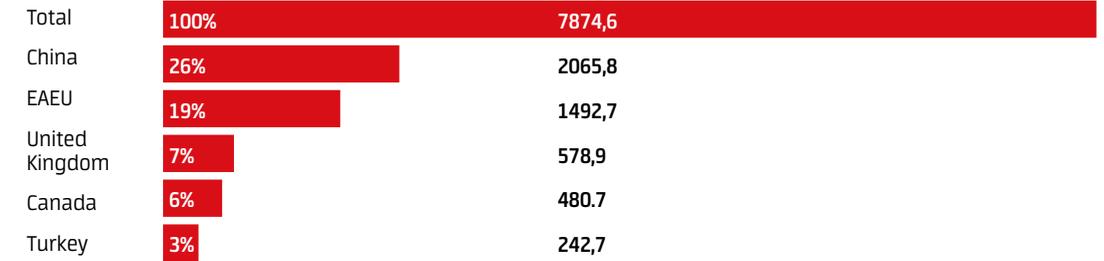
The grants and technical assistance were most actively provided to Kyrgyzstan by Russia (the growth of accumulated investments in the form of grants and technical assistance as of the end of 2016 was 3.3 times higher than in the end of the previous year, i.e. up to 77.3 million USD), China (3 times growth, up to 49.8 million USD), Kazakhstan (2.5 times growth, up to 0.5 million USD), and the United States (38.1% increase, up to 17.4 million USD).

Compared to 2014, the accumulated grants and technical assistance to Kyrgyzstan increased by 147 million USD, including from Russia - by 75.4 million USD, China - by 49.6 million USD, the United States - by 9.4 million USD, and Kazakhstan - by 0.5 million USD⁴⁶.

Russian Investment Projects in the Kyrgyz Republic are being implemented mainly in

⁴⁶ According to the updated data of the National Statistical Committee of the Kyrgyz Republic

Foreign investments in the economy of the Kyrgyz Republic in 2016, million US dollars



the financial intermediation and insurance sector, and the energy sector⁴⁷.

The receipt of Russian investments in the financial intermediation and insurance sector is mainly due to the proceeds to the authorized capital of the Russian-Kyrgyz

offers two main products: direct financing and financing of small and medium-sized businesses through commercial banks.

Funds are allocated for the acquisition, renovation, modernization and expansion of fixed assets. Priority is given to the

FOR REFERENCE:

50.4% out of the total volume of accumulated foreign investments in 2016 were direct (47.3% in 2015), 45.6% - other (50.3% in 2015), 3.8% - grants and technical assistance (1.8% in 2015), while the share of portfolio investment did not change and remained at the level of 0.6%.

Development Fund, which has become an important element in the adaptation of Kyrgyz economy to its functioning within the EAEU.

Currently, the authorized capital of the Fund is 500 million USD.

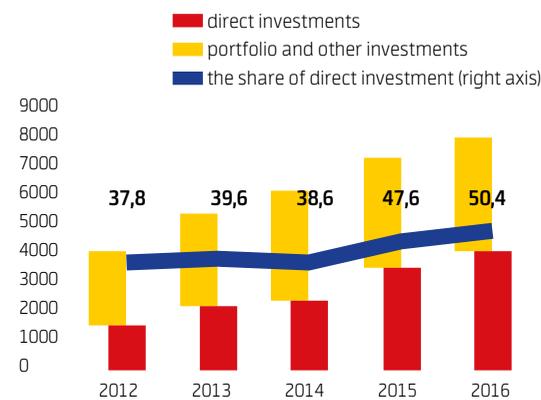
development of the agro-industrial complex, the garment and textile industry, the mining and metallurgical industry, transport, housing construction, and infrastructure.

Large companies can count on loans above 1 million USD from 4% to 7% per annum for a period of 5 to 15 years, depending on the industry. At the same time, the company's own contribution should be at least 15% of the project amount, and the collateral should be at least 120% of the collateral value. For example, the reconstruction of international airports "Manas" and "Issyk-Kul" at 12.4 million USD, restoration and modernization of two sugar factories at 15.5 million USD, construction of a factory for the production of knitted fabrics in Tokmak for a total of 7.5 million USD.

The representatives of small and medium-sized businesses can count on up to 1 million USD at 5% per annum in USD or 12% per annum in soms for a period of up to 5 years. In this case, the grace period is 12 months. Collateral is in accordance with the requirements of the partner bank.

Thanks to credit resources of the Russian-Kyrgyz Development Fund in the amount of 7.5 million USD, a new production of cotton knitted fabric has been launched. About 9.5 million USD was needed for the construction

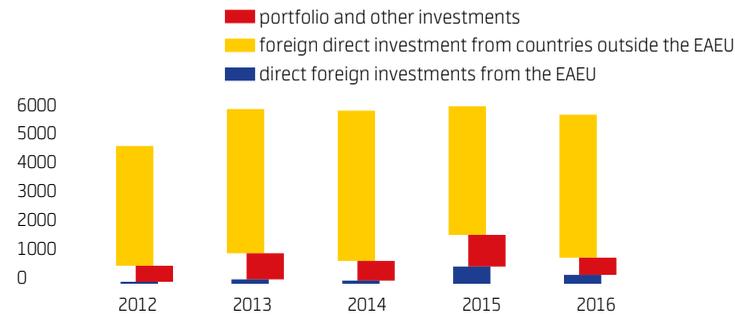
Foreign investments in the economy of the Kyrgyz Republic million USD



Over two years of work, the Fund has financed 767 projects for a total amount of 248 million USD, 31 projects of which are large-scale businesses, and 736 are small and medium-sized business projects. The Fund

⁴⁷ According to the Trade Mission of Russia in Kyrgyzstan

The inflow of foreign investments into the economy of the Kyrgyz Republic (outflow excluded) million US dollars



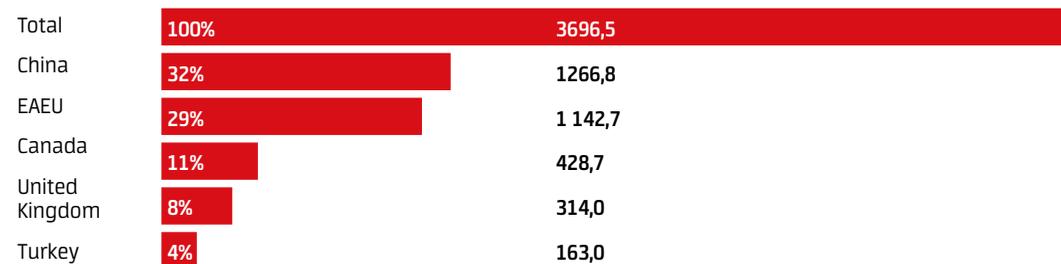
of the factory. Besides, the funds of the Russian-Kyrgyz Fund made it possible to equip the sugar production plant (about 10 million USD), to produce the canned fruits and vegetables in the Chui region (about 3.9 million USD), including other projects that are being implemented.

The energy sector is mainly supported with investments of the Russian company

of gas stations, oil tank farm, vehicles, as well as in the maintenance of fixed assets of 208 million USD in total for the period from 2006 up to and including 2015.

Gazprom Neft Asia, LLC is a 100% subsidiary of Gazpromneft, PJSC, and the largest operator in the wholesale and retail markets of oil products and liquefied natural gas in Kyrgyzstan. The company manages

Accumulated foreign direct investment in the economy of the Kyrgyz Republic in 2016, million US dollars



Gazprom, PJSC, which, in accordance with the intergovernmental agreement between the Russian Federation and the Kyrgyz Republic on cooperation in transportation, distribution and sale of natural gas in Kyrgyzstan dated July 26, 2013, shall invest in the modernization and reconstruction of the country's gas infrastructure at least 645 million USD within 5 years.

Furthermore, in 2008, Gazprom, PJSC was granted licenses for the right to use subsoil for the purpose of geological oil and gas exploration within the licensed areas of Kugart and East Mailisu IV area for seven years. The gravity prospecting and seismic exploration was initiated at both sites at the end of 2015 (at least 100 million USD).

Gazpromneft, PJSC (Russia) was investing in the construction, purchase, reconstruction

7 oil depots, 100 filling stations, 1 liquefied natural gas base, 130 car fleet units, and 5 laboratories.

Gazpromneft-Aero Kyrgyzstan, LLC is a subsidiary of Gazpromneft-Aero, JSC (St. Petersburg). The main activity is supply of fuel for TS-1 jet engines and filling of aircraft at the Manas international airport. The company's storage with a volume of 8,000 m3 is located on Manas airport. The company is working on representation in the Kyrgyz market.

RN-Kyrgyznefteprodukt, CJSC is a subsidiary of NK Rosneft, OJSC, and is one of the largest operators in the retail and wholesale market of petroleum products in Kyrgyzstan, with a retail network of 24 filling stations in the city of Bishkek, and one of the largest and most modern oil storage facilities

in the Chui region. The company plans to implement a large-scale investment program aimed at building new and modernizing existing gas station complexes.

Vostok-geologodobycha, OJSC (Russia, part of the Russian Platinum group of companies) won a tender for the right to use the gold-bearing deposits of the Dzherui gold deposit (Talas region) on May 4, 2015. According to the tender terms, the company paid the full cost for the right to develop the

and Development: "Commissioning of the second unit of Kambaratinskaya HPP-2", "Second phase of rehabilitation of the Toktogul HPP", financing of agricultural machinery supplies to Kyrgyzstan, and "Improving the Bishkek-Osh road" project.

Investments of the Republic of Belarus in Kyrgyz Republic⁴⁹ are represented mainly as loans allocated in accordance with the Agreement between the Government of the Republic of Belarus and Ayil Bank, Open Joint-

FOR REFERENCE:

The Russian-Kyrgyz Development Fund was established in accordance with the Agreement between the Government of the Russian Federation and the Government of the Kyrgyz Republic on November 24, 2014.

deposit of 100 million USD and registered its subsidiary in Kyrgyzstan – Alliance Altyn, LLC. The amount of financing involved for the implementation of the project is up to 200 million USD. The field development is planned to be started in 2018.

Rosatom State Nuclear Energy Corporation implements the "Recultivation of the territories of the EAEU Member States exposed to uranium mining operations" interstate project to conduct remediation works at the tailings ponds of the uranium ore and rare earth element ores mining and processing industries (its estimated cost is 14.5 million USD). It is also working on projects for the mini-HPP supply and the construction of the Nuclear Medicine Center in Bishkek.

Astra Solar Technology, LLC, Kyrgyzstan, in cooperation Khimprom, JSC (Novocheboksarsk) and Khevel, GC (JV Renova and Rosnano), Russia, are implementing a modernization project on production of monocrystalline ingots and plates at the Kyrgyz Chemical and Metallurgical Plant (KKhMZ, OJSC, Chui region, village of Orlovka). Russian investments in the plant for the production of monocrystalline ingots and plates for the solar energy market amounted to 6 million USD, while it is planned to expand production and investments up to 15 million USD.

Russia finances the following projects through the Eurasian Fund⁴⁸ for Stabilization

Stock Company dated May 27, 2016 on terms of issuing loans for the purchase of goods produced by Belarus in Kyrgyzstan.

According to national statistical services, there are 438 enterprises with Kazakhstan's investments in Kyrgyzstan. In turn, there are 526 Kazakh-Kyrgyz joint ventures in Kazakhstan.

Independent rating agencies' data confirms improvement of Kyrgyzstan's business environment.

At the same time, in terms of a number of indices, the change in Kyrgyzstan's position is better than in some other EAEU Member States.

In the "Global Competitiveness Index" ranking of the World Economic Forum, Kyrgyzstan climbed 9 points (from 111th to 102nd place), partly due to the "development of the financial market" indicators (+10 points), and the "level of technological development" (+15 points).

Armenia, Kyrgyzstan and Russia improved their rankings in the global competitiveness rating, while the Kazakhstan's position deteriorated by 4 points. Belarus is not represented in this rating. All the EAEU countries included in the study improved their rankings in the "health and primary education" indicator.

Russia and Tajikistan. The Fund was established to overcome negative crisis consequences, ensure long-term sustainability and promote integration of the economies of the Fund's member countries.

⁴⁹ According to the website of the Embassy of Belarus in Kyrgyzstan http://kyrgyzstan.mfa.gov.by/ru/bilateral_relations/trade_economic/

According to the Human Development Index of the United Nations Development Program, despite the decrease by 1 point (from 49 to 50) through the EAEU, Kyrgyzstan retained its previous position in the 120th place, and despite the growth of the index values from 0.662 to 0.664.

According to the Report, the EAEU Member States have demonstrated both an increase and a decrease in comparison with the previous year: Armenia (a 1 point increase from 85 to 84, an increase in the index from 0.741 to 0.743), Belarus (a decrease by 1 point from 51 to 52, a decline in the index from 0.798 to 0.796), Kazakhstan (the same 56th place, despite an improvement in the index from 0.793 to 0.794), and Russia (a decrease of 1 point from 48 to 49, a decline in the index from 0.805 to 0.804).

According to the global innovation index, Kyrgyzstan showed an 8 points increase from 103rd to 95th place, partly due to the growth in such indicators as “infrastructure” (+6 points), “market development” (+4 points), “business development” (+20 points), and “knowledge and technology development results” (+9 points).

Apart from Kyrgyzstan, only Armenia improved its rankings among the EAEU Member States, while the remaining Union Member States showed a fall in the ranking compared to the previous year. Armenia – a 1 point increase from 60 to 59, including that due to the growth of the indicator “market development” (+32 points); Belarus – a 9 points decrease from 79 to 88, nevertheless, the improvement in positions was noted in terms of “business development” (-16 points); Kazakhstan – a 3 points decrease from 75th to 78th place, nevertheless, there was an increase in terms of “market development” (+12 points), “business development” (+9 points) and “results in the field of creativity” (+4 points); Russia – a 2 points decrease from 43 to 45 place, nevertheless, growth was observed in terms of indicators “market development” (+3 points), “business development” (+4 points), and “results in the field of creativity” (+4 points).

Regarding the “Doing business” rating, according to the Report-2018, the positions

of the EAEU Member States are as follows:

- Armenia – 47th place,
- Belarus – 38th place,
- Kazakhstan – 36th place,
- Kyrgyzstan – 77th place,
- Russia – 35th place.

Taking into account the updated values of the indicator of distance to frontier, all the EAEU Member States improved their position⁵⁰.

In comparison with the previous year, Kyrgyzstan improved the indicators of distance to frontier on the following sub-indices: “registering a business” (from 92.92 to 92.94), “obtaining construction permits” (from 76.74 to 76.85), “connectivity to electric grids” (from 44.05 to 44.19), “obtaining loans” (from 70 to 75), and “resolution of insolvency” (from 37.21 to 37.67).

Infrastructure transformations

The first results of Kyrgyzstan’s membership of in the EAEU are significant changes in the customs infrastructure. The work on its modernization began even before the country’s accession (within the framework of the Road Maps) and continued after accession, including through the material and technical assistance to Kyrgyzstan from Russia.

Modernization affected the following checkpoints (places of movement of goods and vehicles) in the Kyrgyz section of the Union customs border:

- air border checkpoints: Manas-Airport and Osh-Airport;
- railway checkpoints: Kara-Suu, Shamaldysay, Kyzyl-Kiya and Jalal-Abad;
- car checkpoints: Torugart, Irkeshtam, Kyzyl-Kiya, Kairagach, Kyzyl-Bel, Karamik, and the modernization of automobile checkpoints Dostuk, Bor-Dobo is planned.

The Unified Automated Information System of the State Customs Service at the

⁵⁰ Due to changes in the rating methodology, the World Bank annually publishes updated data on the new methodology for the previous year, which allows the changes in ranking to be assessed. The peculiarity of the Report-2018 is that the positions of the countries on the new methodology were not recalculated, i.e. it is incorrect to compare the changes in the ranking of countries and the data of the previous report. In this regard, World Bank experts recommend assessing the dynamics of the change based on the distance to frontier, which was also recalculated for the two previous years

Global Competitiveness Index

Factors of growth for the Kyrgyz Republic in 2016 - 2017

- + 0.2 p. infrastructure
- + 0.1 p. macroeconomic stability
- + 0.5 p. health and elementary education
- + 0.2 p. development of the financial market
- + 0.4 p. level of technological development
- + 0.2 p. the size of the market

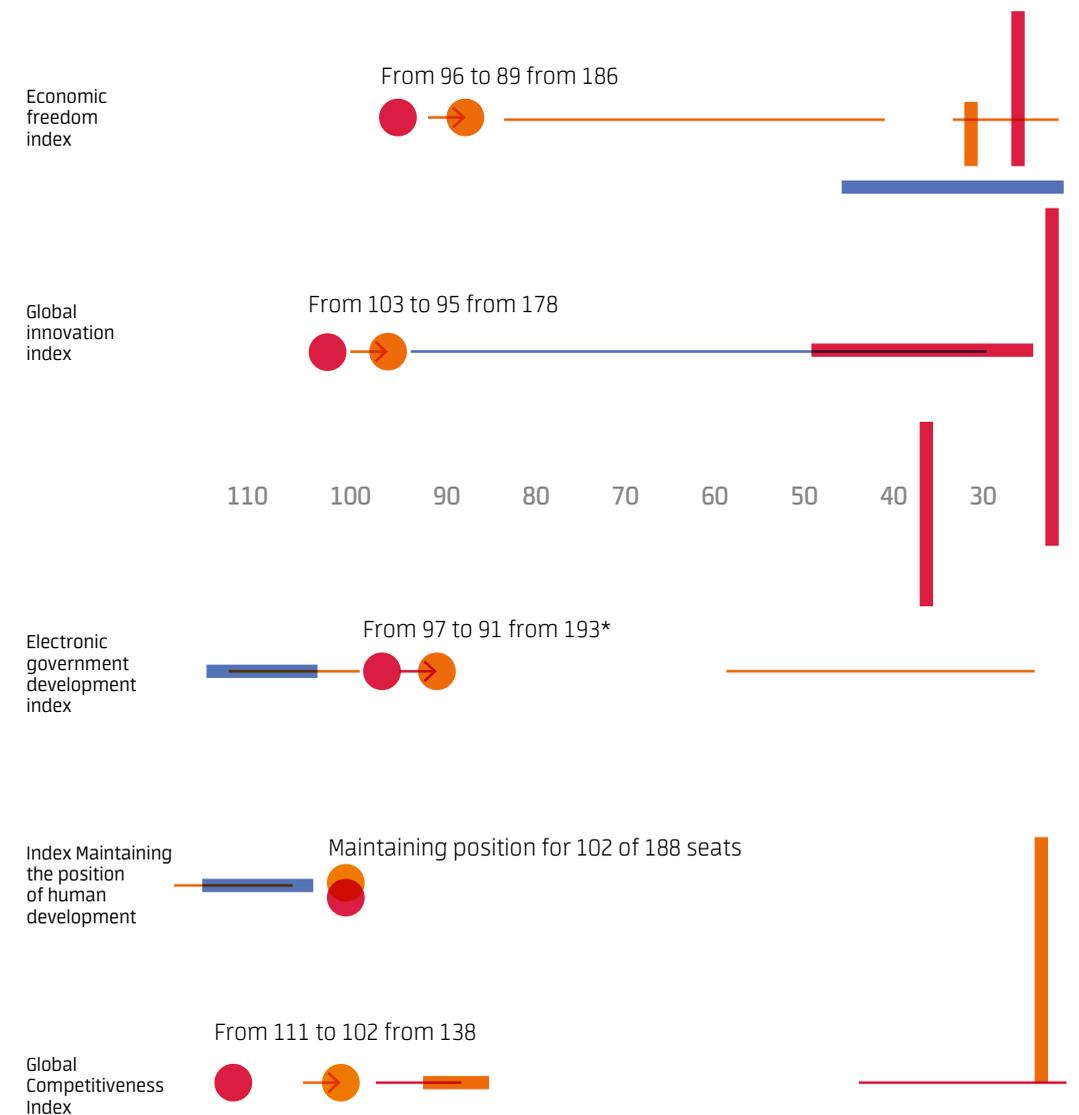
“Doing Business”
Changing in indicator values from the leading indicator the EAEU countries, according to the reports “Maintenance business-2017” and “Doing business-2018»

Factors of growth for the Kyrgyz Republic in 2016 - 2017

- + 0.11 p. obtaining permit building
- + 0.14 p. connection to electric networks
- + 5,00 p. getting a loan
- + 0.46 p. resolution of insolvency

Positions of the Kyrgyz Republic in international rankings in 2017 (compared to 2016)

*indicator 2018 compared to 2016



| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---------------------|------|------|------|------|------|------|------|------|
| Number of countries | 139 | 142 | 144 | 148 | 144 | 140 | 138 | 137 |
| Armenia | 98 | 92 | 82 | 79 | 85 | 82 | 79 | 73 |
| Kazakhstan | 72 | 72 | 51 | 50 | 50 | 42 | 53 | 57 |
| Kyrgyzstan | 121 | 126 | 127 | 121 | 108 | 102 | 111 | 102 |
| Russia | 63 | 66 | 67 | 64 | 53 | 45 | 43 | 38 |
| EAEU * | 64 | 67 | 66 | 63 | 53 | 45 | 44 | 40 |

*The EAEU ranking is calculated as a weighted average value in proportion to the contribution of the Member State to the total GDP of the Union

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---------------------|------|------|------|------|------|------|
| Number of countries | 188 | 188 | 188 | 188 | 188 | 188 |
| Armenia | 85 | 84 | 84 | 85 | 85 | 84 |
| Belarus | 53 | 52 | 50 | 51 | 51 | 52 |
| Kazakhstan | 63 | 62 | 57 | 55 | 56 | 56 |
| Kyrgyzstan | 123 | 123 | 121 | 121 | 120 | 120 |
| Russia | 54 | 53 | 48 | 48 | 48 | 49 |
| EAEU* | 55 | 54 | 49 | 49 | 49 | 50 |

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---------------------|------|------|------|------|------|------|------|------|
| Number of countries | 132 | 125 | 141 | 142 | 143 | 141 | 128 | 127 |
| Armenia | 82 | 69 | 69 | 59 | 65 | 61 | 60 | 59 |
| Belarus | - | - | 78 | 77 | 58 | 53 | 79 | 88 |
| Kazakhstan | 63 | 84 | 83 | 84 | 79 | 82 | 75 | 78 |
| Kyrgyzstan | 104 | 85 | 109 | 117 | 112 | 109 | 103 | 95 |
| Russia | 64 | 56 | 51 | 62 | 49 | 48 | 43 | 45 |
| EA3C* | 64 | 59 | 55 | 65 | 52 | 52 | 47 | 50 |

*The EAEU ranking is calculated as a weighted average value in proportion to the contribution of the Member State to the total GDP of the Union

| | 2016 | 2017 | 2018 | 2018 |
|------------|---|-------|-------|---------|
| | Distance to frontier (New Zealand, according to the Report -2018) | | | ranking |
| Armenia | 70,44 | 71,92 | 72,51 | 47 |
| Belarus | 71,14 | 74,51 | 75,06 | 38 |
| Kazakhstan | 69,95 | 74,38 | 75,44 | 36 |
| Kazakhstan | 65,09 | 65,16 | 65,70 | 77 |
| Russia | 73,68 | 74,69 | 75,50 | 35 |
| EAEU | 73,21 | 74,61 | 75,44 | 35 |

Note: The table indicates the change in distance to frontier values of the EAEU Member States relative to the previous year, where ■ - growth of values.

Government of the Kyrgyz Republic was created and is now operating.

The infrastructure was modernized and the control system was established in the sector of sanitary, phytosanitary and veterinary measures. The necessary part of the work was done by the Kyrgyz party even before accession to the Treaty on the EAEU. After that, the work was continued on the equipping the checkpoints with the necessary equipment.

The testing (research) laboratories of the State Sanitary and Epidemiological Service (laboratory of the Department for Disease Prevention and State Sanitary and Epidemiological Surveillance of the Ministry of Health of the Kyrgyz Republic (Bishkek) and a laboratory for the southern region in the city of Osh) have been modernized.

New equipment costing 2.6 million USD (by means of the Russian grant) was delivered to key veterinary laboratories in Bishkek and Osh.

To date, investigations can be conducted in these laboratories and products certified according to the EAEU requirements. All specialists working in laboratories have passed the necessary training in special centers in the EAEU Member States.

In addition, four zonal centers of veterinary diagnostics and expertise are under construction in Batken, Balykchi, Karakol and Talas. 12 inter-district veterinary

laboratories are being repaired with 175 million soms invested in 2017.

Since November 2017, veterinary laboratories in Kyrgyzstan are ready for full-time work.

Kyrgyzstan has also the infrastructure necessary to ensure the application of the standards of the EAEU technical regulations. A number of testing laboratories are equipped. Funds are provided for their modernization by Russian financing.

A transition to the EAEU technical regulations took place: 16 of the EAEU technical regulations came into full force as of January 1, 2017, and 18 technical regulations (including 8 on food safety) entered into force as of August 12, 2017 in terms of the transition period. One technical regulation is coming into force on August 12, 2019.

The implementation of these technical regulations in the country will allow a single legal framework to be established for ensuring product safety, eliminating technical barriers, and provide protection of the customs territory from unsafe and falsified products.

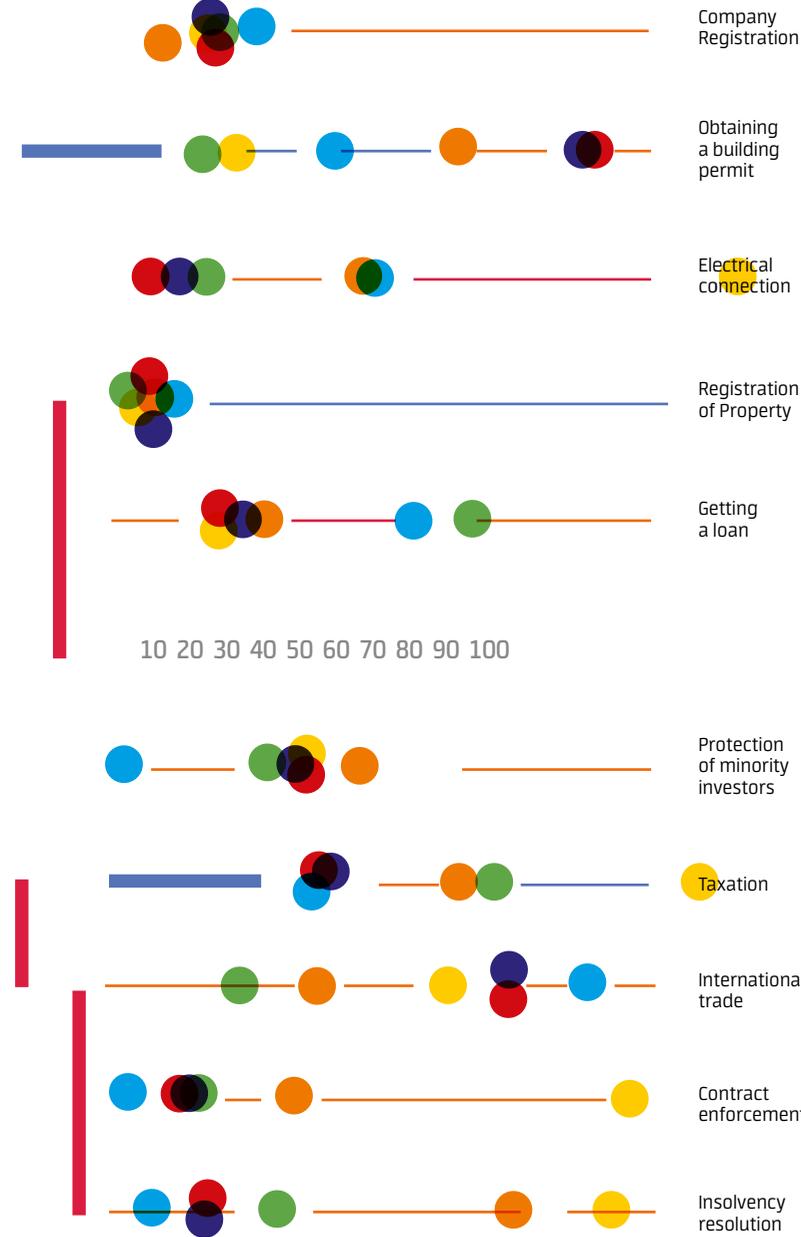
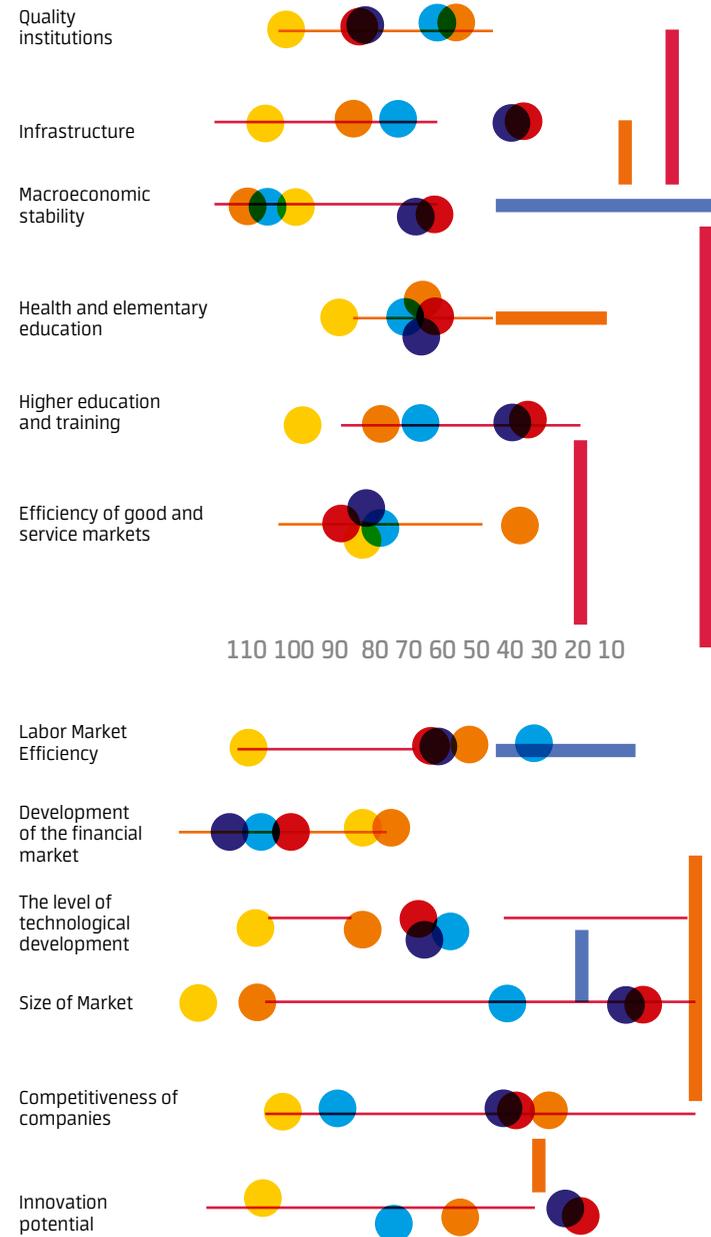
Dialogue with business

The integration of Kyrgyz business into the system of relations with the representatives of the business circles of the EAEU was a meaningful step. The Union of Industrialists

Fig. 16. The Eurasian Economic Union and Member States in international rankings

GLOBAL COMPETITIVENESS INDEX¹

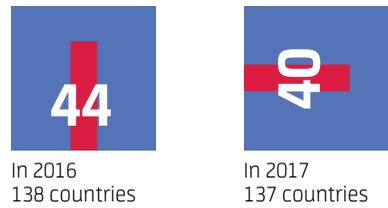
In 2017, the EAEU² situated 40 place in the ranking of 137 economies. Compared with 2016, there was an increase by 4 positions (from 44 to 40 place).



DOING BUSINESS

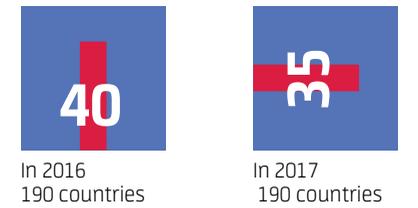
In the rating "Doing Business - 2018", the EAEU ranks 35th place of 190 economies. Compared with the previous year, according to the indicator of distance from the front line, all the countries of the EAEU improved their positions.

EAEU



According to the Global Competitiveness Index for 2017, the EAEU occupies the highest positions in the sub-indices "size of market" (11 place), "higher education and professional training" (35 place), "infrastructure" (39 place).

EAEU



² The position of the EAEU is calculated as the weighted average of the positions (indices, subindexes) of the Union Member States in proportion to the contribution of the Member States to the total GDP of the integration association.

¹ The Republic of Belarus isn't included in the Index of global competitiveness.

and Entrepreneurs of Kyrgyzstan joined the EAEU Business Council, which unites the key business associations of the Union Member States and actively interacts with the EEC, expressing the consolidated position of the business community.

The communication channel between business and the Union supranational governing body is the Advisory Council for the EEC and the EAEU Business Council interaction. Business circles' representatives along with representatives of national authorities of the Union Member States, and the expert community have the opportunity to share the work of sectoral advisory committees established at the EEC, where key issues are discussed.

The dialogue of the Commission and the business communities of the Member States facilitates focused and substantive work to remove barriers, exemptions and restrictions in the domestic market. Kyrgyzstan has actively been engaged in these activities. Thus, Kyrgyzstan initiated consideration of more than 15 different obstacles during 2016 to the first half of 2017. Some of the obstacles have already been removed, for example, the barrier associated with Kazakhstan preservation of quarantine phytosanitary control (supervision) on the Kazakh-Kyrgyz section of the state border. Certain obstacles that have a significant impact on the functioning of the Union internal market are included in the Road Map for the elimination of exemptions and restrictions for 2018-2019. For example, this is a restriction associated with failure of the EAEU Member States hallmarks to be acknowledged in mutual trade in jewelry in the Union, as well as the identification by the EAEU Member States of the checkpoints to clear the importation of goods transported in accordance with the Customs Convention on the International Transport of Goods under Cover of the TIR Carnet dated November 14, 1975.

The Commission is making efforts to eliminate the remaining barriers within the EAEU on a systematic basis.

On March 31, 2017, the EEC White Paper was published on the EEC website. This EEC report contains a list of obstacles in the EAEU

internal market and describes plans for their removal.

In total, the White Paper has 60 obstacles in the Union internal markets agreed by all Member States. 17 of them are exemptions, 34 are restrictions, and the remaining 9 are barriers.

Barriers should be understood as obstacles that do not conform to the EAEU's law. Restrictions are obstacles which may arise in the absence of legal regulation of economic relations, the development of which is provided for by the Union law. Exemptions are the exceptions (deviations) provided for by the EAEU law on non-application by the EAEU Member State of general rules for the functioning of the Union internal market.

Within the Union, there is the "Functioning of Internal Markets" data portal (www.barriers.eaeunion.org), which allows direct contact to be made with the Commission on obstacles.

To answer questions from citizens and businessmen on the issues related to the functioning of the EAEU, a special reference service was set up in the Ministry of Economy of Kyrgyzstan.

Along with the obvious advantages for the Kyrgyzstan economy that opened along with the country's accession to the large Eurasian family, the results of the first two years of Kyrgyzstan's membership in the EAEU allow us to consider certain points that require our attention.

At the same time, it must be assumed that a number of so-called technical problems were solved (mostly in customs and related areas) in the first months after Kyrgyzstan's accession to the EAEU. The bureaucracy of Kyrgyzstan and its partners in the Union managed to adapt quickly to the work taking into account the country's membership in the EAEU.

Nevertheless, integration is not a static process and it has certain issues that require special attention at each stage of integration.

In particular, there is a lack of significant progress in establishing a unified foreign trade regime for the supply of white sugar from Ukraine. As of January 1, 2015, all the EAEU Member States, with the exception

of Kyrgyzstan, in the framework of the CIS Free Trade Agreement dated October 18, 2011, applied exemptions from the free trade regime with respect to white sugar originating from Ukraine (duties worth 340 USD per ton are levied).

Kyrgyzstan has a lot to do to complete the work on equipping the external border of Kyrgyzstan in accordance with the Union standards on time (in accordance with the Treaty on the Accession).

One of the constraining factors for the development of Kyrgyzstan's livestock products export to the EAEU market is the preservation of veterinary control in the Kyrgyz-Kazakh section of the state border.

A number of sensitive issues are being positively addressed.

From December 1, 2017, the issue of applying a unified railway tariff for the transportation of goods to/from the southern regions of Kyrgyzstan through Kazakhstan and Uzbekistan, as well as from/ in the northern part of Kyrgyzstan to/from the southern regions of the country, was resolved.

According to the Ministry of Economy of the Kyrgyz Republic, the retention of a number of important competences in this area at the national level may have a negative impact on increasing the time of the state border crossing by cargo carriers, which in some cases leads to damage of goods. In general, this adversely affects certain sectors of the economy, especially transport, industrial and agricultural production.

In this regard, the Kyrgyz party supports the expansion of the possibilities for supranational regulation of the movement of goods within the single customs territory of the Union and granting to the Eurasian Economic Commission additional competencies for prompt response and assistance to Member States in resolving disputes.

At the same time, a key purpose of the Eurasian Economic Union, is creation of optimal conditions for the sustainable economic development of the Member States, and it enables the parties to find compromise solutions faster at the bilateral

level for disputes not governed by the Union law.

So, for example, the Kazakh party introduced a regime of enhanced border control in the Kyrgyz-Kazakh section of the state border from October 10 to December 2, 2017. The issue of the transit of goods on the Kyrgyz-Kazakh border was promptly resolved as a result of the agreements reached between the President of Kyrgyz S.Sh. Jeenbekov and the President of Kazakhstan N.A. Nazarbayev.

Ensuring macroeconomic stability is one of the factors of increasing integration effects for the Kyrgyz economy. In particular, it draws attention to the fact that, with the maximum permissible value of the debt of a state-controlled sector as 50% of GDP, Kyrgyzstan's was 57.1% in 2015, and 61.2% in 2016. In 2016, the excess of the budget deficit of the general government in percentage of GDP was above the threshold (3%), with 4.6% in Kyrgyzstan.

According to expert estimates, the Kyrgyz Republic needs to continue its work, including in the following areas:

■ Improving the structure of the economy and ensuring macroeconomic stability. The Kyrgyzstan economy is vulnerable to external shocks in energy markets and food markets due to the country's inadequate supply of its own energy sources. It has a significant share of mineral resources in its import structure, and agriculture has an important role in the national economy. In this regard, it is necessary to continue work on introducing structural changes in the economy, liquidating the technological gap, considering that the Kyrgyz economy has a high growth potential.

■ Development of the business climate. Kyrgyzstan needs to maintain a high level of investment in fixed assets due to high depreciation of fixed assets and maintain the positive trend in this area: by the end of 2016, the annual investments in fixed assets increased 3-fold compared to 2010 and reached 133 billion soms (1.9 billion USD). It is advised to continue the policy on reducing business costs (increasing the openness of the national economy to implement investment projects and carry out business,

reducing the cost of real estate registration, developing a system of guarantee funds, developing mechanisms for public-private partnerships, conducting activities to attract foreign investors, etc.).

■ Modernization and innovative development.

The processes of modernization and innovative development in Kyrgyzstan are slow due to the lack of stable financing, a shortage of skilled labor and competencies. The level of innovations introduction by the country's enterprises remained low and is insufficient to ensure stable economic growth. There is no actual system of support and commercialization of innovations in the country.

At the same time, there is a sufficiently high potential: labor productivity in 2010-2016 in Kyrgyzstan increased by 16.9% to 7,857 USD per employee, and the growth rate exceeded the world average dynamics (10.8%), although the indicator in absolute terms remains below the world average (32,732 USD).

In this regard, it is necessary to intensify work on borrowing the most successful experience of other EAEU Member States to stimulate activities aimed at innovative development and modernization of the national economy.

■ Financial market development.

It is necessary to make credit resources more available for the population and business (weighted average lending rates for individuals for long-term loans were 28.1% at the end of 2016, for legal entities - 21.1%).

■ Activation of work on introduction of resource saving and energy efficiency practices.

In comparison with other EAEU Member States, the policy of resource saving and energy efficiency improvement in Kyrgyzstan is at the initial stage of development. At the same time, while some action was taken in this direction in 2010-2014, the work really started in 2015-2016. The objective of intensification of activities in the field of energy conservation is enshrined in the Medium-Term Strategy for the Development of the Electric Power Industry of the Kyrgyz Republic for 2012-2017.



The first results of Kyrgyzstan's participation in the integration project are actively and openly discussed within the country with the participation of all parties concerned: government, business and expert community representatives. In particular, during Kyrgyzstan's chairmanship in the bodies of the Union in 2017, a number of major conferences were held in the country:

■ International Economic Forum on "Development of the Economic Belt of the Silk Road – Intensification of Cooperation" (April 25, 2017, Bishkek);

■ Meeting of the Presidium of the Business Council for the EAEU Cooperation with the EAEU Business Council (April 25, 2017, Bishkek);

■ Conference on "New Opportunities of the EAEU Market for Regional Development" with the support of the Asian Development Bank (June 1-2, 2017, Osh; June 8-9, 2017, Bishkek);

■ 4th Economic Forum, "Issyk-Kul-2017" (August 22, 2017, Cholpon-Ata) with the participation of all members of the EEC Council, the Chairman of the EEC T. S. Sargsyan, Minister of Economy of the Kyrgyz Republic A.O. Kozhoshev, and the representatives of business circles and business associations of the EAEU Member States, countries of the near and far abroad, in particular, China and Singapore;

■ Round Table on "Eurasian Integration: Current Issues of Transport and Infrastructure Development" (August 2, 2017, Bishkek), which summed up the results of the two-year participation of Kyrgyzstan in the Unified Energy System, and outlined the problematic issues, and identified promising areas in the field of transport;

FOR REFERENCE:

- 5th International Forum, "Anti-Counterfeit-2017" (September 14-16, 2017, Bishkek);
- Round Table in the framework of the Gaidar readings, "Interaction of the Eurasian Economic Union and the Belt and Road Initiative" (September 25, 2017, Bishkek);
- International Conference on "Results of the Presidency of Kyrgyzstan in the Eurasian Economic Union: New Vectors for

experts of the Government and government bodies of Kyrgyzstan, members of the EEC Collegium, Heads and experts of the EEC units, representatives of business associations and large commercial structures connected with business relations with partners from the Union countries, and representatives of international organizations, economists, analysts from Kyrgyzstan and other countries.

On November 20, 2017, the EAEU Court issued an advisory opinion stating that a uniform tariff applies to the carriage of goods if the railway departure and destination points are in the EAEU Member States and the consumer of the railway transport service is an economic entity of the Union Member State, while both the number of intermediate territories of the EAEU Member States, and the fact of transit through the third countries is of no importance, especially when the transportation of goods by transit is due to the peculiarities of the location of the railway communication routes.

the Development of Eurasian Integration in Economy and Security" (September 26, 2017, Bishkek).

Among the activities on discussion of the first results of the country's participation, the specialized Round Table on "Kyrgyzstan in the Eurasian Economic Union: Results, Questions, Prospects", organized on July 20, 2017 in Bishkek by the Eurasian Economic Commission with the support of the Government of the Kyrgyz Republic took place.

The Round Table became a platform for professional discussion of the leaders and

A number of analytical materials have recently been published in the country, which attempted to analyse the impact of Eurasian integration on the country's economic development, and the prospects for Kyrgyzstan from further deepening integration within the EAEU. In particular, an analytical study on the impact of the country's participation in the EAEU on the economy and the social sector is being prepared upon the request of the Ministry of Economy of the Kyrgyz Republic, with the support of the Asian Development Bank.

The period of Kyrgyzstan's adaptation to the conditions of the EAEU came at an economically uneasy time, since the entire Union experienced an economic downturn since 2014.

The EAEU became a kind of "safety cushion" for Kyrgyzstan's economy closely connected to its partners in the Union, and would certainly have felt the influence of crises in neighboring countries more without the EAEU.

Outside the Union, the consequences for the country's economy would have been more significant, and emerging from the crisis would have taken longer.

In many respects, Kyrgyzstan managed to make positive progress in key macroeconomic and socio-economic indicators already in 2016 due to the first integration effects, while the growth rate of most of them in the real sector is higher than the average in the Union (GDP – plus 4.3 %, industrial production – plus 5.9%, agriculture – plus 2.9%). In 2017, the trend continued.

The results are noticeable in all sectors of integration. Kyrgyzstan gained the most noticeable advantages from free movement of labor, goods and services, which affected, in particular, the growth of remittances to Kyrgyzstan from Kyrgyz workers in EAEU the territory (1.9 billion USD in 2016, almost 30% of GDP and 102.3% of the country's revenues), an increase in the volume of export and import transactions (the figures relating to partners in the Union is higher than those with the rest of the countries, which is the result of the Kyrgyzstan's accession to the Union single market of more than 180 million people), and an increase in the share of services in the country's GDP structure.

Kyrgyzstan skillfully uses the import substitution policy pursued by the Russian Federation and, using the competitive advantages as the EAEU member, occupies niches that were previously firmly held by suppliers from the EU countries and a number of Western States that imposed economic sanctions on Russia.

The quality of customs infrastructure (checkpoints, laboratories) has improved significantly, and the investment attractiveness of the country has increased.

The quality of management and transparency of legislation regulating foreign economic activity of the country are improving, which can be seen in various international ratings.

The provision of gratuitous material and technical assistance to Kyrgyzstan from Russia, and the activities of the Russian-Kyrgyz Development Fund are of great importance.

Kyrgyz business is built into the system of business relations on the scale of the Union through national associations and is participating more in the decision-making in the supranational authority of the Union, the EEC.

The EEC site, as well as other bodies of the Union, facilitates rapid and effective resolution of economic issues in Kyrgyzstan's relations with its partners in the Union.

The results achieved during the review period demonstrate a systematic approach in the work of the Government, the main direction of which was and is creation of an attractive environment for business development and inflow of investments, and the support of domestic production and exporters for the promotion of Kyrgyz goods to the EAEU market.

The intensification of interaction within the Union also pushes bilateral cooperation activities that do not include integration, but whose intensification became possible due to the general predictability of the country's economic course.

* The speech of the Minister of Economy of the Kyrgyz Republic A. Kozhoshev at the "Kyrgyzstan in the EAEU: results, questions, prospects" roundtable on July 20, 2017, Bishkek.

The Eurasian Economic Union and the Kyrgyz Republic: prospects for economic development

5

Kyrgyzstan has chosen Eurasian economic integration and links its economic development with the prospects for deepening integration within the Union.

As a full-fledged member of the association, the Kyrgyz Republic has equal rights and opportunities with other Union Member States to implement their own initiatives and influence the future of the entire economic union.

In case of disputes on implementation of the Treaty, and international treaties within the Union and (or) resolutions of the Union bodies, Kyrgyzstan may resolve such problems in the Court of the Eurasian Economic Union.

Thus, the Kyrgyz party is actively involved in amending the main document of the Union – the Treaty on the EAEU. A number of amendments were introduced in respect of labor migration, transport, goods transit, and in the public procurement regulation sector. Representatives of Kyrgyzstan national delegation participate in the discussion of proposals from other Union Member States.

Moreover, at the beginning of 2017, Kyrgyzstan, which was presiding in the Union's bodies, identified the priorities for the development of the integration association. The Union supranational governing body, the Eurasian Economic Commission, was focused on their implementation.

The specific advantages for the country's economy will be even more visible as four freedoms are secured within the Union, and the remaining exceptions and restrictions are eliminated, and the common commodity markets, which are still regulated by national rules, are formed.

In terms of free movement of goods, in addition to the immediate steps to remove veterinary control at the Kazakhstan border and joint work with the Union partners to eliminate exemptions and restrictions on the domestic market, a promising direction for the development of the EAEU, which is able to have a positive impact on economic growth and the economy of Kyrgyzstan in future, will be the formation of the Union common markets for energy resources (electricity, gas, oil and oil products).

The functioning of the EAEU common electric power market will result in undoubted benefits for its members, including price stabilization and improving the reliability of energy supply, the growth of public welfare, the cumulative GDP growth of the EAEU countries due to synergistic effect.

In the future, the volumes of mutual electricity trade with the EAEU countries will increase for Kyrgyzstan with the transit potential of its electric power system. Moreover, with its rich hydro resources, Kyrgyzstan has great potential for the development of "green energy".

A significant impetus to the development of the economy of Kyrgyzstan will be the formation of the Union common markets for gas, oil and oil products, which should begin to operate no later than January 1, 2025⁵¹.

The oil supply at affordable and transparent prices will be the most powerful factor for the development of other interconnected sectors of the Kyrgyz economy, and will ensure domestic stabilization of fuel prices with fluctuations in world oil prices and oil products, and guarantees for bringing budget revenue, which, in turn, will lead to the progressive development of the economy, the implementation of social and defence programs.

The country has long-term opportunities to feed five oil refineries. In turn, this will positively affect the development of the social sector, as new jobs will be created, and the well-being of the population and the revenues of the state budget will increase.

The direct economic effect from the EAEU common gas market for the consumers of Kyrgyzstan is 3.6 million USD per year. Due to a reduction in domestic gas prices in the country due to partial equalization of prices with the rest of the EAEU countries within the overall market and expansion of supply (gasification and multiplier effect for the economy due to the development of gas-intensive industries), wholesale prices are expected to decrease for various categories of consumers by 41% to 64%.

Furthermore, there is a possible increase in investments in the gas industry of the Kyrgyz Republic by 0.5-1 billion USD due to the planned gasification of regions. According to the investment program of PJSC Gazprom, it is expected that gas in Kyrgyzstan will be supplied to about 400 settlements in 7 regions, and the level of gasification in Bishkek will reach 74%.

There is good potential for cooperation in the development of the general market of medicines for Kyrgyzstan. According to the EEC estimates, due to the increase in

⁵¹ Programs of establishment of a common gas market of the Union and the Program for the establishment of Common Oil and Oil Products Markets of the Union in accordance with Article 104 of the Treaty on the Union shall be approved by the Supreme Eurasian Economic Council before January 1, 2018.

domestic production within the Union, the reduction in the import of medicines from third countries is expected by more than 30% with a good potential for Kyrgyzstan in this area⁵².

Kyrgyzstan can receive tangible dividends from the implementation of measures to create a single market for alcohol and tobacco products of the Union, and harmonization of excise rates.

It is assumed that the agreements regulating the principles of the tax policy of the EAEU Member States in excise duties on alcohol and tobacco products should enter into force simultaneously with the Agreement on Regulation of the Alcohol Market within the Union. The documents are intended to create conditions for a single market of excisable products of the EAEU by harmonizing (converging) excise rates on alcohol and tobacco products within the next 5 years.

According to the experts, these steps will provide Kyrgyzstan with favorable conditions for the development of legal producers and will minimize the volume of illegal products and uncontrolled cross-border trade.

Given the large share of the service sector in the country's GDP (about 50%), Kyrgyzstan will be actively involved in ensuring free movement of services and transferring the maximum number of the economy sectors to a single market.

This opens up significant opportunities for companies and specialists from Kyrgyzstan specializing in rare and high-tech services.

Thus, the supply and receipt of services from Kyrgyzstan to the EAEU countries will be possible by 2025 under the national regime, i.e. without the application of quantitative measures, taking into account the most-favored nation treatment without any restrictions, exceptions and additional requirements, except for individual cases. The biggest benefit is the release of the service provider from the re-registration of a legal entity in another state. First of all, it will allow IT companies to cover new markets.

Also, Kyrgyzstan's expectations of the emerging common market of financial

⁵² Compared to 2012

The EAEU unified market of services is being created in stages. 18 plans to liberalize the service sectors were approved in 2016. At the end of the transition periods (2017-2021, but no later than January 1, 2025 for Kazakhstan), the single market will cover 3/5 of services in the EAEU. Within such a market, a full national regime is in place for suppliers and service recipients, with mutual recognition of permits, professional qualifications and provision of services without additional registrations, licenses and establishment of branches or representative offices. This means that any company, any entrepreneur from the EAEU Member States will be able to carry out activities in the entire Union in the same way as in their own country.

* The Decision of the Supreme Eurasian Economic Council dated December 26, 2016 No. 23 "On approval of liberalization plans for the service sectors specified in the Decision of the Supreme Eurasian Economic Council dated October 16, 2015 No. 30"

services of the Union by 2025 are high. One of the most important principles will be the provision of non-discriminatory access to investors from the EAEU for the financial markets of the EAEU Member States, ensuring guaranteed and effective protection of rights and legitimate interests of financial services consumers. The most important condition for the functioning of the common financial market of the EAEU countries will be mutual recognition of licenses in the banking and insurance sectors, and in the services sector in the securities market.

Great potential for Kyrgyzstan is in cooperation with the Eurasian Development Bank (EADB) to implement socially significant investment projects in key sectors of the national economy.

The first project implemented in Kyrgyzstan for the EADB provided financing for purchases of fuel (coal, fuel oil, natural gas) for Bishkek CHP (a credit line of 30 million USD for a period of 2.5 years). The project enabled the fuelling of the only large power plant in the northern part of the country that generates electricity for mitigation of its shortfall in winter and low-water years, and is the only heat station that provides heat supply to Bishkek.

At the same time, projects have been financed in such sectors of the Kyrgyz economy as industry, agriculture, and small and medium-sized businesses.

Obvious economic dividends ensure cooperation with the Eurasian Fund for Stabilization and Development. The Fund has already approved and is now implementing projects in the field of hydropower and transport infrastructure:

- rehabilitation of the Toktogulskaya HPP (Phase 2) by 100 million USD;
- reconstruction of the Bishkek-Osh highway section, phase IV for 60 million USD;
- financing of agricultural machinery supplies to Kyrgyzstan for 20 million USD;
- commissioning of the second hydropower unit of Kambaratinskaya HPP-2 for 110 million USD.

In the future, it is planned to implement the third phase of the Toktogulskaya HPP reconstruction project.

The continuation of the full-scale work of the Russian-Kyrgyz Development Fund will contribute to the revitalization of the main sectors of the Kyrgyz economy.

Given the great importance of the advantages for the country's economy from the free movement of labor, Kyrgyzstan will continue to improve supranational legislation in this area, acting as a driver among other partners in the Union.

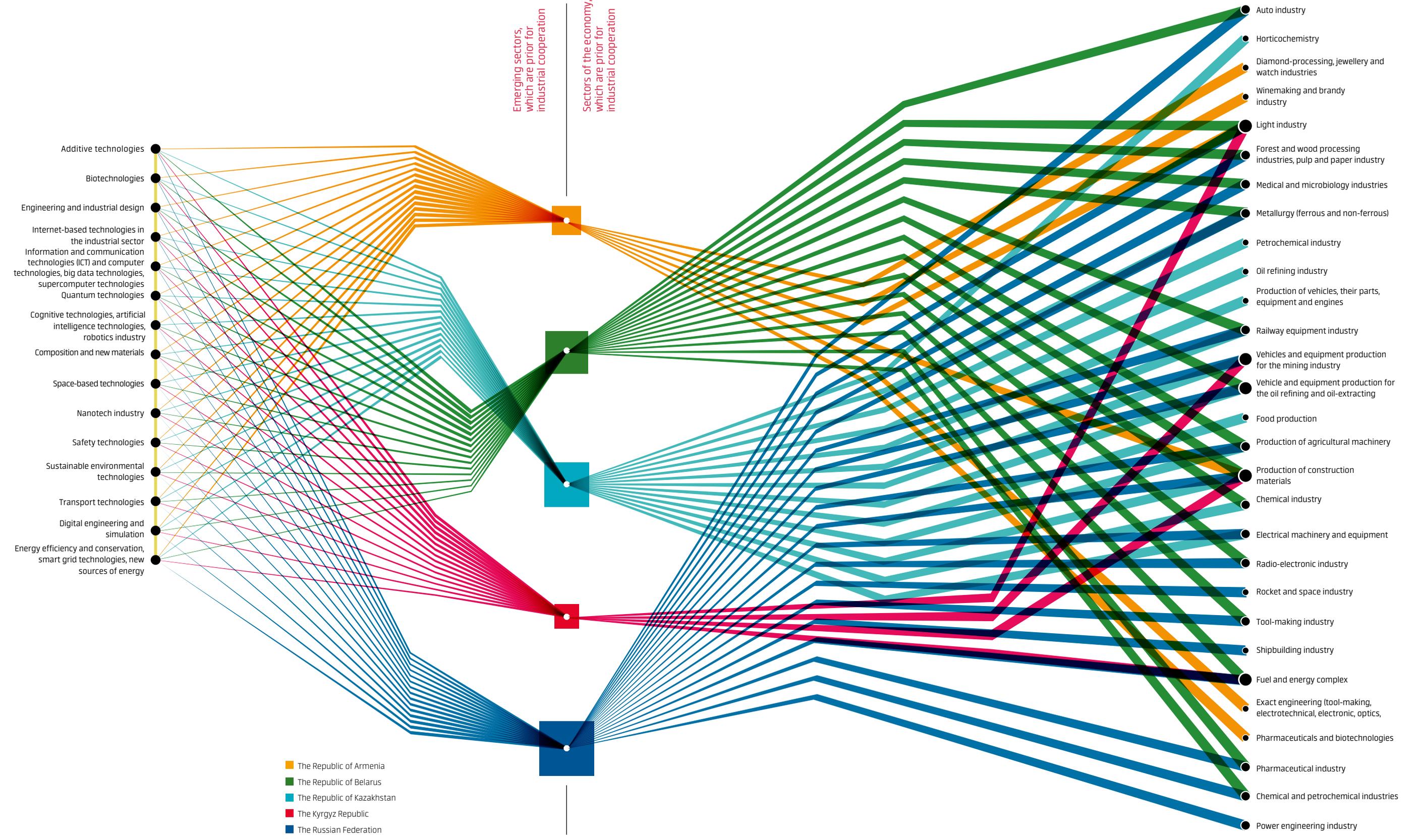
According to the speech of the Chairman of the Supreme Eurasian Economic Council of the President of the Kyrgyz Republic A. Sh. Atambaev to the Heads of state of the Eurasian Economic Union Members in January 2017, Kyrgyzstan is interested in increasing the number of sectors and industries in which a unified economic policy will be implemented.

The country is focusing on strengthening cooperation in all industrial sectors and creating more joint ventures.

Kyrgyzstan considers it important to cooperate on implementation of the Basic Directions of Industrial Cooperation within the EAEU, the formation of technological platforms in the scientific and technical, innovation and production sectors, along

Emerging sectors,
which are prior for
industrial cooperation

Sectors of the economy,
which are prior for
industrial cooperation



with the introduction of modern energy saving and energy efficiency technologies, renewable and alternative energy sources. At the same time, each of the Union Member States has identified priority economic activities to implement the Basic Directions of Industrial Cooperation.

The Kyrgyz Republic determined the production of construction materials; machinery and equipment for the mining industry; fuel-energy complex and light industry as priority types of economic activity for industrial cooperation.

In its activities within the Union, Kyrgyzstan takes into consideration its goals and objectives defined in the Basic Guidelines for the Economic Development of the Eurasian Economic Union until 2030. In particular, one of the expected effects of the EAEU participation could be a 13% increase in GDP of all Member States by 2030. In addition, integration cooperation should have a decisive influence in import substitution, including due to the reorientation of consumers to the competitive products of domestic producers, and this can ensure the growth of mutual trade up to 80%.

Thus, according to the data of the EEC report on "Areas of the Economy with Integration Potential in the Eurasian Economic Union, and Measures Aimed at Its Use", the results of the valuation of the potential of Kyrgyzstan indicate significant opportunities for export development in the engineering and automotive sectors, especially within the heading "Parts and accessories of motor vehicles" (the expected growth in exports is 57%).

The country has a high potential for import substitution within the Union in the field of "steel structures from ferrous metals" (more than 20% of the volume of imports from the third countries).

Great prospects for Kyrgyzstan are opening up in the transport sector with the implementation of the Union coordinated transport policy, as approved by the Decision of the Supreme Eurasian Economic Council No. 19 dated December 26, 2016. Its implementation will allow restrictions to be removed by 2025 for all types of transport, and the creation of a common transport

space and a common market of transport services in the Union. This will provide Kyrgyz companies and citizens with equal conditions for access to the Union's transport services market, unimpeded movement of passengers, movement of goods and vehicles, which will lead to a reduction of the transport component in the final price of goods and increase population mobility.

Despite the decline in freight traffic in the Chinese direction, there is a steady growth of freight and freight turnover after the country's entry into the EAEU, which will ultimately lead to an increase in budget revenues, revenues of transport organizations and their effective development.

Creation of the "Europe-Asia" transport corridor passing through Kyrgyzstan holds great promise for the country.

On the EAEU market, light industry products (first of all, the garment industry) may be in demand.

In particular, by 2025, there are plans to create a sewing cluster based on several sewing technology parks (50 hectares of land in the village of Voенno-Antonovka of the Sokuluk district of the Chui region were allocated in April 2017 to establish a sewing technology park for 10 thousand jobs), and factories for the production of accessories and fabrics.

A significant integration effect is expected in the agricultural sector (primarily grapes and vegetables) with a share of replaceable imports to the "five" countries from third countries from 0.1% to 0.4%.

To develop the export potential of the agricultural sector by 2025, a network of trade and logistics centers will be established in the country that will be able to concentrate, calibrate, sort, store and conduct primary processing of agricultural products.

Kyrgyzstan has the flexibility to develop its own projects in information and communication technology, closely coordinating its steps with its "five" partners within the digital agenda of the Union up to 2025. Kyrgyzstan assumes that the digital technologies are a necessary component not only of the process of integration of

the Union countries among themselves, but also for the countries involved in large-scale processes of global digital transformation.

To do that, the "Taza Koom" digital transformation program is being implemented at the national level. It aims at building a world class digital infrastructure based on "green" technologies and clean energy, making Kyrgyzstan a regional hub for the digital Silk Road for digital business and digital innovation.

At the same time, not only does Kyrgyzstan feel the effects of participation in the integration association. The Union itself began to receive a number of undeniable dividends.

Actively developing the Union international cooperation opens up additional opportunities for Kyrgyzstan.

Thus, as part of the EAEU, Kyrgyzstan became a full party to a Free trade area Agreement with Vietnam, which now opens the way not only to the market of the country, but to other States in the region as well. In particular, Kyrgyzstan has the potential to increase exports to Vietnam of tobacco raw materials, alcoholic beverages, cattle meat, and dairy products.

In the future, the free trade areas created by the Union with Israel, Iran, Egypt, Singapore and Serbia will contribute to the growth of Kyrgyzstan's exports. The conclusion of such agreements will allow Bishkek to join the global production and supply chains, increase the competitiveness of domestic producers.

Kyrgyzstan obviously gains by participating in the negotiation process for concluding a non-preferential agreement on trade and economic cooperation between the EAEU and China. Kyrgyzstan's negotiating positions when discussing with the PRC of the conditions for the implementation of large joint infrastructure projects on its territory have been a priori strengthened by the authority of the entire Eurasian Economic Union.

Kyrgyzstan is actively involved in developing a list of joint investment projects that will be implemented as part of the steps to integrate the EAEU and the Silk Road Economic Belt. In particular, ten projects with

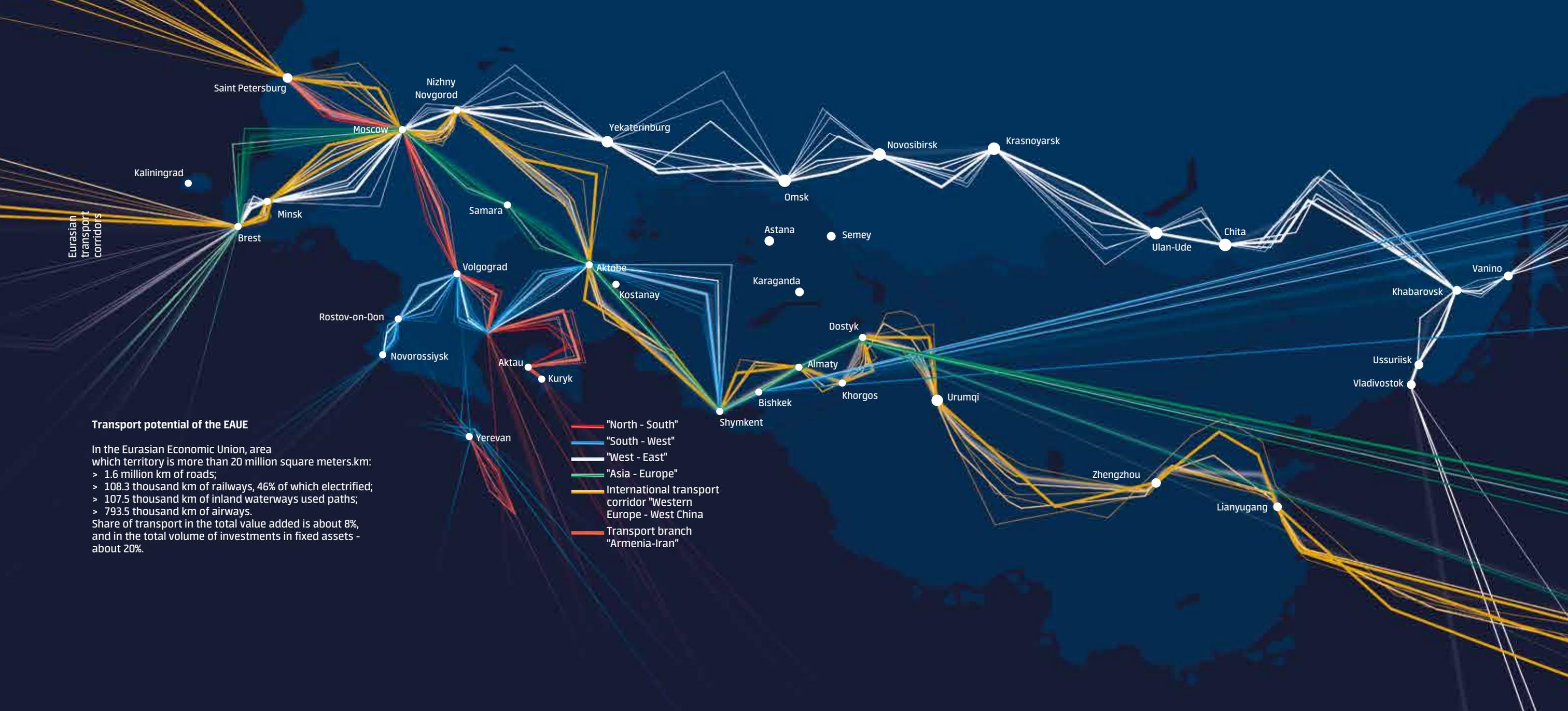
the participation of Kyrgyzstan are envisaged in the field of transport infrastructure, three of them in industry, two of them in energy, and one in agriculture and construction.

The EEC cooperation with foreign governments in the framework of memorandums is a convenient format, which effectively complements bilateral channels of cooperation. This format is especially relevant for Kyrgyzstan. Joint working groups established to implement memorandums of understanding between the EEC and foreign governments have proved to complement the mechanism of bilateral intergovernmental commissions. Taking into account that Kyrgyzstan does not have intergovernmental commissions with a large number of countries, the working groups created by the EEC become a unique platform for promoting Kyrgyzstan's products to foreign markets and attracting foreign investors to the country.

Within the framework of Eurasian integration, Kyrgyzstan's capabilities are increasing to withstand global challenges and threats. In this context, the conclusions and recommendations contained in the Report on the implementation of the main directions of integration within the Eurasian Economic Union are of considerable importance for the country.

Eurasian integration did not become an obstacle to deepening Bishkek's all-round interaction with Brussels. Economic interaction between the European Union and the Kyrgyz Republic is intensified as part of the implementation of the provisions of the 1999 Partnership and Cooperation Agreement, and the strategic document, "Strategy of a new partnership in action", which established a common foreign policy strategy for the EU countries in relation to the Central Asian region. The strategy envisaged cooperation and development of relations between Europe and Central Asia in the field of energy, combating terrorism and border protection, education, development of legislation and law, and protection of human rights.

In addition, in January 2016, Kyrgyzstan was granted the status in the EU's Generalized System of Preference (VSP+), which gives the country the privileged



Transport potential of the EAEU

In the Eurasian Economic Union, area which territory is more than 20 million square meters.km:

- > 1.6 million km of roads;
- > 108.3 thousand km of railways, 46% of which electrified;
- > 107.5 thousand km of inland waterways used paths;
- > 793.5 thousand km of airways.

Share of transport in the total value added is about 8%, and in the total volume of investments in fixed assets - about 20%.

- "North - South"
- "South - West"
- "West - East"
- "Asia - Europe"
- International transport corridor "Western Europe - West China"
- Transport branch "Armenia-Iran"

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transport services in the Union. This will provide Kyrgyz companies and citizens with equal conditions for access to the Union's transport services market, unimpeded movement of passengers, movement of goods and vehicles, which will lead to a reduction of the transport component in the final price of goods and increase population mobility.

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Creation of the "Europe-Asia" transport corridor passing through Kyrgyzstan holds great promise for the country.

access to the EU market, as well as additional sources of financing.

In fact, there is only one customs border between Kyrgyzstan and Europe, and that is the Belarusian-Polish border.

Thus, Eurasian economic integration can and should become an additional tool aimed at ensuring sustainable development of Kyrgyzstan and realizing the country's goals.

Thanks to the competitive advantages within the Eurasian Economic Union, the potential for sustainable economic development of the Kyrgyz Republic has significantly expanded. In particular, this was mentioned during the presentation of The EEC Report on the Achievements of Sustainable Development Goals in the EAEU at the UN site in the framework of the High-Level

Political Forum on Sustainable Development of the United Nations Economic and Social Council.

The country received universal instruments for its economic interests to be implemented both within the Union, and in the international arena. At the same time, the Kyrgyz Republic enjoys equal opportunities with other EAEU Member States to influence decisions taken by the Union.

The steps taken by the Union to ensure the free movement of goods, services, capital and labor without exemptions and restrictions, the formation of uniform markets for the goods of the EAEU, the creation of a system of cooperation ties are key conditions for the successful development of the Kyrgyz economy.

Conclusion

The analysis clearly shows that the choice in favor of the Eurasian economic project has become a logical continuation of Kyrgyzstan's participation since the 1990s in integration projects in the CIS space. Moreover, as a party to the Eurasian Economic Community (EurAsEC), Kyrgyzstan has enjoyed its right to join the Eurasian integration project "by default".

The choice was made in accordance with the national interests of Kyrgyzstan and was focused, first of all, on increasing the competitiveness of the national economy and growing well-being of citizens, including those working outside the country.

There were a number of objective indicators in favor of Eurasian integration. Hence, Belarus, Kazakhstan and Russia accounted for 25.4% of the country's exports and more than 47% of its imports in 2010.

The Eurasian project comes to be seen as the key to modernization of the economy and guarantee of sustainable development in the long term. This being stated, the benefits from Kyrgyzstan's participation became even more noticeable as the integration processes developed and deepened within the association.

Negotiations with the Kyrgyz Republic were the first precedent of the country's joining the Eurasian integration project being organized at the site of the Eurasian Economic Commission, which is a

supranational authority created for the first time in the history of our countries.

The accession became an important activity of the Eurasian Economic Commission, along with the preparation of the Treaty on the Eurasian Economic Union and steps to deepen integration in the period from 2012 to 2015.

The search for options for cooperation with the States which are applicants for membership in the Eurasian Economic Union revealed a format of interaction as a memorandum of understanding. Subsequently, this format, which allowed for a comprehensive interaction with the Kyrgyz government, became the basis for the development of the Union's international relations and the institutionalization of the EEC relations with foreign governments interested in cooperation with the Union.

As far as all sensitive issues are concerned, the Kyrgyz party was provided with suitable transition periods with acceptable solutions, while the mechanisms for providing material, technical and financial support were developed at bilateral levels for the adaptation of the country's economy to the conditions of functioning in the EAEU.

The EAEU has become a kind of "safety cushion" for Kyrgyzstan, whose economy is closely connected to its partners in the Union, and would certainly feel more influence of crises in neighboring countries without the

EAEU participation. Outside the Union, the consequences for the country's economy would have been more significant, and the way out of the crisis would have been longer.

In many respects, Kyrgyzstan managed to achieve positive figures in key macroeconomic and socio-economic indicators even by 2016 due to the first integration effects, while the growth rate of most of them in the real sector is higher than the average in the Union (GDP – plus 4.3 %, industrial production – plus 5.9%, agriculture – plus 2.9%). In 2017, the trend continued.

The results are noticeable in all areas of integration. Kyrgyzstan gained the most noticeable advantages from free movement of labor, goods and services, which affected, in particular, the growth of remittances to Kyrgyzstan from Kyrgyz workers in the territory of the EAEU (which is 1.9 billion USD in 2016 - almost 30% of GDP and 102.3% of the country's revenues), an increase in the volume of export and import transactions (the trend in their relations with partners within the Union is higher than in those with the rest of the countries, which is the result of Kyrgyzstan's accession to the Union's single market of more than 180 million people), and an increase in the share of services in the country's GDP structure.

As the EAEU Member, Kyrgyzstan has made significant progress in reforming the business environment. A whole cluster of modern supranational legislation based on the best international practices has been originated in key areas of the country's economy, including those focused on export development, which has already affected the improvement of the investment climate and the growth of the investment attractiveness of the country's economy for investors from third countries and the EAEU.

As a full member of the association, the Kyrgyz Republic has equal rights and opportunities with other Member States of the Union to implement their own initiatives and influence the future of the entire economic union. At the same time, Kyrgyzstan actively uses the mechanisms of business community participation in the discussion of key decisions within the EAEU and in removing barriers in the EAEU internal market, including the opportunities that the international activities of the Union open for the development of Kyrgyzstan's trade and economic relations with foreign partners.

Integration effects of participation of the Kyrgyz Republic in the Eurasian Economic Union are noticeable not only at the macroeconomic level, but are quite obvious for ordinary citizens of this country. Among other things, this is evidenced by the results of the survey conducted by the EADB in 2017, according to which 83% of the EAEU Member States have the highest level of support for Eurasian economic integration in Kyrgyzstan. At the same time, the proportion of respondents who declare a negative attitude towards the Union is declining.

As integration deepens, Kyrgyzstan will gain more obvious advantages of participation in the EAEU, in particular, within the framework of the plans outlined in the Treaty on the EAEU up to 2025 to deepen interaction in the various economy sectors. It is about such fields as energy, transport, industry, agriculture, etc.

All these steps ultimately aim at modernizing Kyrgyzstan's national economy in the new technological order and increasing the country's competitiveness both within the Eurasian Economic Union and on the world stage.

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