

ADB

Asian Development Bank

**Trade Cooperation
Between
Kazakhstan and
the Kyrgyz Republic**

May 1999

The Asian Development Bank

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Trade Cooperation Between Kazakhstan and the Kyrgyz Republic

A Report from the
Kazakhstan-Kyrgyz Trade Cooperation Workshop
14 August 1998, Bishkek, Kyrgyz Republic

World Development Bank

May 1999



The views, conclusions, and recommendations presented here are those of the workshop delegates and sector consultants, and should not be considered to represent the official views of the respective governments of the Asian Development Bank or the Bank itself. In this publication, the term “country” does not imply on the part of the Bank any judgment as to the legal or other status of any territorial entity.

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Introduction

The Bank is encouraging regional cooperation among the Governments of the People's Republic of China (PRC), Kazakhstan, Kyrgyz Republic, and Uzbekistan through a regional technical assistance project: "Regional Economic Cooperation in Central Asia" (RETA 5707). The primary purpose is to help the four Governments identify and prioritize development projects that will increase trade and other types of economic cooperation, both among themselves and with neighboring trading partners.

The Bank has undertaken studies and extensive consultations with government officials to determine the potential for infrastructure investment and policy reform in three areas:

- energy;
- trade and payments systems; and
- transport and communications.

Projects in these sectors are designed to lay the foundation for economic growth in the region by promoting cross-border trade. The RETA is also designed to assist the countries of the region to develop a policy environment that will facilitate economic cooperation.

As a result of the regional initiative, the Governments of Kazakhstan and the Kyrgyz Republic have been discussing with the Bank a loan for the rehabilitation of the Almaty-Bishkek road. In addition to improvements in the road itself, the loan anticipates that both governments will move to establish and maintain a policy environment that eases the flow of cross-border trade. To set up such a conducive policy environment entails a continuing effort to establish and maintain best practices in accordance with generally accepted international standards.

As coordination of policy benefits from open discussion and the exchange of views, the Bank supported a workshop focusing on the trade cooperation issues associated with the planned highway rehabilitation.¹ The one-day workshop was held in Bishkek, capital of the Kyrgyz Republic, on 14 August 1998 at the Academy of Management of the President of the Kyrgyz Republic. It brought together government officials, traders, transporters, tourism specialists, and representatives of nongovernment organizations (NGOs) and multilateral donor organizations.

The Kazakh-Kyrgyz Border

International trade and other forms of economic cooperation are typically affected by a number of factors, including:

- economic policy that can sometimes present barriers to trade;
- exchange rates;
- physical infrastructure for transport and communication; and
- noneconomic factors such as national historical and cultural ties.

The borders between many of the countries of Central Asia are of recent origin. The policy environment found at these borders, as it affects trade and traffic, differs from place to place.

The border between Kazakhstan and the Kyrgyz Republic is one of the more open borders of the subregion. Yet it, too, offers opportunities to encourage further economic cooperation and cross-border trade and traffic.

Before the breakup of the former Soviet Union, the internal borders offered no barriers to the trade conducted under the auspices of a vast centrally planned economy. Following independence in 1991, the Central Asian republics began to develop the means to maintain their national sovereignty. This entailed establishing mechanisms to monitor and regulate cross-border transactions.

For a brief period in 1995, Kazakhstan and the Kyrgyz Republic both began developing extensive control facilities along their common border. If continued, this process might have discouraged cross-border trade. But an executive agreement reversed this worrisome development in late spring 1995, when the two states agreed on a common framework that would maintain their sovereignty while not discouraging mutually beneficial trade and cooperation.

The agreement between Kazakhstan and the Kyrgyz Republic should be seen in the context of other international treaties and agreements to facilitate economic cooperation.² While such agreements are usually necessary conditions for cooperation, they are rarely sufficient. Often they are not matched with firm implementation.

The 1995 executive agreement was a significant step towards establishing a well-regulated common border. While there remain problems that need addressing, serious border policy incompatibilities largely have been eliminated. For these reasons, the Kazakhstan-Kyrgyz border is generally regarded as the most cooperative and open border in the Central Asian subregion.

Since the signing of the 1995 agreement, Kazakhstan and the Kyrgyz Republic have put in place a further series of bilateral arrangements to ease cross-border trade and traffic. The two countries, for example, have addressed trade barriers such as inconsistently applied customs or tariff regulations or bribery of public officials.

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Symbolic of the steps taken, in May 1996 in the city of Georgievka, on the border between Kazakhstan and the Kyrgyz Republic, Prime Ministers from both countries participated in a ceremony to celebrate the removal of trade barriers. The following May a new regulatory framework for customs relations between Kazakhstan and the Kyrgyz Republic was put in place.³

As another example of the development of an environment supportive of cross-border trade and traffic, in April 1996, President Askar Akaev of the Kyrgyz Republic and President Nursultan Nazarbaev of Kazakhstan signed a package of 20 documents related to mutual relations between the countries, including a treaty of perpetual friendship.⁴ Further, in June 1997 the State Customs Committees of Kazakhstan and the Kyrgyz Republic signed an agreement standardizing procedures on customs inspection of commodities conveyed across the two states' common border.⁵

	1994	1995	1996
A. Exports (million US dollars)			
1. Kazakhstan exports to the Kyrgyz Republic	60	73	135
2. Kyrgyz Republic exports to Kazakhstan	61	28	119
B. Composition of Trade			
1. Kazakhstan exports to the Kyrgyz Republic	Petroleum, coal, wheat, nonferrous metals, chemicals and plastics, machinery		
2. Kyrgyz Republic exports to Kazakhstan	Electricity, antimony, sulfur, tobacco, ores and scrap, textiles		

Source: Asian Development Bank, *Regional Economic Cooperation in Central Asia*, July 1998.

Workshop Objective

The objective of the Bishkek Trade Cooperation Workshop was to provide a forum for specialists from government, the private sector, and international and nongovernment organizations to discuss how the policy environment at the Kazakh-Kyrgyz border affects general trade, traffic, and economic cooperation. The workshop sought to identify any continuing policy impediments to trade and promote discussion of policy modifications that might address these problems.

The agenda of the forum included discussion regarding:

- how border, customs, tax, and other forms of trade regulation may be simplified, standardized, or made more transparent. Issues such as trade documentation, inspection, visa issuance, registration and immigration, and vehicle licensing and operation were discussed;
- how to encourage the development of “client-based” regulatory institutions — public institutions that see their purpose as trade encouragement and not just trade regulation;
- how to encourage the development of service industries important to trade, specifically those relevant to trade along the Almaty-Bishkek Highway; and
- how the establishment of policies relating to third country-trade are affected by the institutional environment at the Kazakh-Kyrgyz border.

The agenda was focused on the proposed road rehabilitation project, which would improve the transit corridor between the two countries’ major population centers — Bishkek and Almaty.

Main Issues of Discussion

The workshop was structured in three parts, as follows:

- the first was devoted to the presentations by Government representatives from the Kyrgyz Republic;
- the second consisted of working group sessions; and
- the third was the integration session.

The presentations outlined the achievements and problems of inter-state trade cooperation. The Government representatives noted improvement in trade flows over the year, but pointed out that the overall Kyrgyz trade balance continues to be substantially negative. Central to the Kyrgyz Republic Government's perspective was the fact that the country is landlocked, so trade routes to international markets depend crucially on regional neighbors.

This creates special pressures and incentives for policy harmonization in the subregion. The Kyrgyz representatives chronicled the steps taken by the Government to develop a policy environment conducive to Kazakh-Kyrgyz trade and in accordance with international standards.

The workshop participants then divided into two working groups:

- **working group A** was tasked with discussing the main policy impediments in the areas of customs, tax, quality inspection, and transborder arrangements; and
- **working group B** was tasked with discussing broad infrastructure and policy issues affecting trade including licensing, insurance, and freight, and tourism.

The working groups listed the aspects of the policy environment that continued to present impediments to expanded traffic and simplified trade restrictions. They made concrete policy recommendations to combat these problems.

In the working group sessions, participants pointed out that the key problems of economic interaction in the subregion are in the sphere of policy implementation.

The countries of the subregion have adopted legislation eliminating double taxation, harmonized tax and customs legislation, signed cooperative customs agreements, and generally adopted the necessary legal infrastructural changes. But implementation continues to lag behind the development of the fundamental legal and administrative structures. Kyrgyz Republic participants called for greater attention to the development of indigenous administrative capacity and greater heed to the problems of unreported income, white-collar crime, and official corruption.

Working Group Recommendations

Working Group A

Working group A made nine recommendations for the improvement of the policy environment. These involved the preparation of a package of legislation, policies, international agreements in customs, trade and services, and the coordination of law enforcement, including the enforcement of existing legislation.

Listed below are the recommendations.

1) Development and implementation of a system of coordinating customs and other official organizations between Kazakhstan and the Kyrgyz Republic.

At present, the customs agencies in each of the two countries are administered as separate agencies from tax and transportation ministries. While this offers an important measure of institutional autonomy, it also results in a lack of policy coordination within each state and complicates interstate policy coordination. The group recommended that a task force studies measures to achieve greater coordination between tax and customs collection agencies.

2) Development of an organization to provide backup information on legal and financial matters for the customs services.

The working group concluded that many of the policy coordination problems result from insufficient administrative capacity. A unit or agency that could provide legal and financial information necessary to customs officers would assist in increasing transparency and reducing arbitrary decision-making.

3) Steps should be taken to address deficiencies in the implementation of the value-added tax (VAT).

VAT is a tax on the selling price of manufactured or assembled items less the cost of the materials and expenses used in their production. It is typically levied on the difference between a firm's gross sales receipts and the amount that the firm pays for the materials, supplies, and services that it buys from other firms. Some members of the working group maintained that VAT, as presently implemented, was complicated, cumbersome, burdensome, and given to arbitrary interpretation. Other members of the group, however, emphasized that VAT could be designed to become an administratively efficient and reasonably equitable tax system. The group was united on working to increase public understanding of the purposes and mechanisms of VAT. Recommendations listed below reinforce the Group's sense that improvements in the VAT system are needed.

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4) **An interstate agreement on customs duties.**

Many of the current problems result from shippers' and transporters' insufficient understanding of the differing customs duties, VAT, and transshipment duties. Greater policy simplification would reduce the administrative burdens on the private sector.

5) **Training of government officials involved in the administration of VAT.**

Specifically, the group supported the development of an accelerated training program for public sector employees directly or indirectly involved in revenue generation, particularly civil servants in tax, customs, and law enforcement.

6) **Publication of a periodic bulletin on VAT covering issues of regional interest.**

The group recommended that this could provide regular and reliable information on the harmonization of VAT, particularly with respect to the Russian Federation.

7) **Holding regular seminars for customs officials with participation from business people and entrepreneurs.**

Customs officials interact with transporters and less regularly with business people in an environment that is often characterized by hostility. During discussions on client-based ethics, customs officials considered ways to encourage client-based approaches to simplifying problems of customs administration. Regular communication was suggested as one path to develop mutual understanding among the providers and users of customs services.

8) **Unification of procedures for truck transportation.**

The idea of a single system of customs documentation, similar to that adopted in the European Union, was discussed. It was recommended that a task group be formed to consider the development or adoption of such a system of documentation within the CIS.

9) **Development of an effective payments and settlements system, especially in Uzbekistan, which does not have a convertible currency.**

The macroeconomic effects of this nonconvertible and currently overvalued currency on regional trade were discussed. It was suggested that Uzbekistan should adopt a system of payments that would promote trade and reduce the potential for illegal and corrupt trade practices.

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Working Group B

Working group B made four major recommendations for the improvement of the policy environment.

1) Development of a modern information system and the means for technical review and oversight of the customs service.

While many customs-related and public finance-related tasks are computerized, collection of information regarding the functioning of the customs and taxation systems continues to be manual. The working group recommended the development of a computerized information management system for customs and public finance agencies.

2) Reduction in the number of customs posts inside the Kyrgyz Republic.

The group suggested that customs procedures for transporters are not and cannot be well administered at the physical borders, but rather these should be conducted at customs ports of entry (customs terminals). A more efficient system could be designed and the simplification of the system could be achieved through the consolidation of ports of entry.

3) Integrating the posts of various agencies (e.g., police, customs, and tax).

These government functions could be combined at the consolidated ports of entry.

4) The genuine implementation of international treaties, involving finishing the construction of the roads, training customs officials, and improving infrastructure.

The group noted that the international agreements in place for promoting regional trade, and, in particular, trade between Kazakhstan and the Kyrgyz Republic, were adequate. The group noted, however, that implementation of these international agreements required further attention.

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Notes

- ¹ The Kazakhstan-Kyrgyz Republic Trade Cooperation Workshop complemented others held as part of the Bank's Central Asian regional initiative, including: First Workshop on Economic Cooperation in Central Asia: Challenges and Opportunities in Transportation, held 5-6 February 1998 at the Bank's headquarters in Manila; Second Workshop on Economic Cooperation in Central Asia: Challenges and Opportunities in Energy, held 3-5 March 1998 at the Bank's headquarters; Third Workshop on Economic Cooperation in Central Asia: Issues in Cross-border Trade I, 30 March 1998, held in Urumqi, Xinjiang PRC; and Fourth Workshop on Economic Cooperation in Central Asia: Issues in Cross-border Trade II, 1-2 April 1998, held in Almaty, Kazakhstan. Information on these workshops is available from the Bank.
- ² The major international agreements in the region include: the Agreement on the Commonwealth of Independent States (CIS) of December 1991, which abolished the USSR and provided for economic and security cooperation among 11 former Soviet republics; the Agreement of the Interparliament Assembly of the CIS parliaments of December 1994, which endorsed coordination and harmonization of legislation relating to interstate relations of CIS partners; the Quadripartite Agreement, also of 1994, which announced the goal of establishing a customs union among Belarus, Kazakhstan, Kyrgyz Republic, and Russia; and the Central Asian Union, announced in July 1994, with the goal of establishing a common trade environment among Kazakhstan, Kyrgyz Republic, and Uzbekistan. A new phase in economic cooperation was initiated on 14 October 1998, when the Kyrgyz Republic Government signed the protocol of accession to the World Trade Organization (WTO). Kazakhstan also plans to join the WTO.
- ³ The "Agreement between the State Customs Committee of the Republic of Kazakhstan and the State Customs Inspection of the Kyrgyz Republic" established a framework for inter-agency cooperation across the border (*Asia: Ekonomika I Zhizn*, No. 23, 1997).
- ⁴ *Egemen Kazakhstan*, 4 September 1997.
- ⁵ *Asia: Ekonomika I Zhizn*, No. 23, 1997.

Summary of Recommendations

- Development and implementation of a system for coordinating the functions of customs and other official organizations.
- Development of organizations providing legal and financial information for officials of the customs service and related agencies.
- Steps to improve public understanding of the purposes and mechanisms of VAT as well as to improve the efficiency of administration.
- Drafting an interstate agreement on customs duties.
- Regular conduct of seminars for customs officials with participation from businesspeople, entrepreneurs, and public service organizations, including NGOs.
- Unification of procedures for truck transportation, including the adoption of a single system of customs documentation.
- Development of an effective payments and settlements system for interstate trade.
- Development of a modern information system and the means for technical review and oversight of the customs service.
- Consolidation of ports of entry, to reduce the number of customs posts inside the Kyrgyz Republic.
- Integration of the posts of various agencies involved in trade regulation (e.g., police, customs, and tax).
- Fuller implementation of existing international treaties, in particular, agreements relating to highways, interaction of customs officials, and public infrastructure.

ADB and Regional Economic Cooperation

The first article of the Bank charter notes that “the purpose of the Bank shall be to foster economic growth and cooperation” among its developing member countries. The Bank works not only with individual countries but also undertakes complementary programs that cut across national boundaries, particularly those that seek to encourage regional cooperation.

The goals of the Bank’s program for regional cooperation include

- encouraging trade and investment among countries;
- realizing and enhancing development opportunities;
- resolving or mitigating cross-border problems; and
- developing policies to meet common resource needs.

The Bank has a number of such programs, including

- Greater Mekong Subregion (GMS) comprising Cambodia, Yunnan Province of the People’s Republic of China (PRC), the Lao People’s Democratic Republic, Myanmar, Thailand, and Viet Nam; and
- East ASEAN Growth Area in Brunei Darrusalam, Indonesia, Malaysia, and the Philippines.

The most recent regional economic cooperation initiative involves three Central Asian republics: Kazakhstan, the Kyrgyz Republic, and Uzbekistan; and the Xinjiang Uygur Autonomous Region of the PRC. This initiative examines the need for infrastructure investment and policy reform in the energy, trade, and transportation sectors. This report describes one project in that program.



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