**world trade institute**

Presented at the

EU-LDC Network Conference

8-10 October 2002

in

Chiang Mai

By

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# Effects for the Kyrgyz Republic after Joining the WTO

**Preliminary Draft Not for Quotation**

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* The views expressed in this paper are those of the author and should not be construed as representing the official position of the World Trade Institute or any other organization.

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**ABSTRACT**

The present paper shares some of the author's thoughts on WTO accession after several years of observing and analyzing the WTO as an institution, a set of agreements and a place where countries meet to battle it out with one another in pursuit of their own jealously protected national interests. The present paper also presents some of the author's thoughts after spending a good part of the last twelve months involved with several countries in Central Asia who have recently acceded to the WTO (as is the case with the Kyrgyz Republic) and others who are at various stages of their WTO accession negotiations (such as Kazakhstan and Uzbekistan).

This paper will put the Kyrgyz accession into perspective in the light of what other countries have agreed upon when joining the WTO and attempt to answer the question as to whether the Kyrgyz Republic had such a bad accession relative to other countries after all.

The paper then looks briefly at whether accession seems to have made much of an impact, economically on the Kyrgyz Republic.

Finally the paper discusses some of the grievances that were expressed (with regard to WTO accession) to the author during his numerous trips to the Kyrgyz Republic in 2002.

The paper is concluded with some personal reflections of the author.

A section entitled **Further Reading** has been included for those who would like to delve into the subject matter of the present paper in more depth.

An **Annex** contains economic data on the Kyrgyz Economy for the years directly preceding and following Kyrgyzstan's accession to the WTO.

## I. PUTTING THE KYRGYZ ACCESSION INTO PERSPECTIVE

On December 20, 1998, the Kyrgyz Republic became a Member of the World Trade Organization[1]. It was the first former Soviet Republic to do so and has since been followed by others such as Latvia (10 February 1999)[2], Estonia (13 November 1999)[3], Lithuania (31 May 2001)[4], Georgia (14 June 2000)[5], and Moldova (26 July 2001)[6]. Armenia is set to join literally any day now and will most likely do so before the end of December 2002[7].

The accession of the Kyrgyz Republic was the fastest to date[8] and has often been criticized as being carried out in a manner that left little time or room for the conceptualization or implementation of a strategic policy of trade liberalization.

Just as trade liberalization is, in reality, all about protection, accession to the WTO should ideally be about the candidate country identifying which sectors of its economy it can likely compete in the world market with, and then pursuing a negotiating strategy that should enable it to gain the protection that sector needs from outside competition for a limited period of time.

It can be argued, quite credibly, that this sort of reflection did not take place with the Kyrgyz Republic's accession and that the emphasis was much more on getting in as quickly as possible. Certainly Kyrgyzstan's schedule of commitments on goods contains bound tariff rates that never seem to exceed 20%[9]. Furthermore, on agricultural products, arguably belonging to one of the most strategically important sectors in the Kyrgyz economy, the Kyrgyz did not avail themselves of the possibility of a special safeguard measure on a single

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[1] See Report of the Working Party on the Accession of the Kyrgyz Republic to the WTO (WT/ACC/EST/28) available at www.wto.org, last visited on December 3, 2002.

[2] See Report of the Working Party on the Accession of Latvia to the WTO (WT/ACC/LVA/32) available at www.wto.org, last visited on December 3, 2002.

[3] See Report of the Working Party on the Accession of Estonia to the WTO (WT/ACC/EST/28) available at www.wto.org, last visited on December 3, 2002.

[4] See Report of the Working Party on the Accession of Lithuania to the WTO (WT/ACC/LTU/52) available at www.wto.org, last visited on December 3, 2002.

[5] See Report of the Working Party on the Accession of Georgia to the WTO (WT/ACC/GEO/31) available at www.wto.org, last visited on December 3, 2002.

[6] See Report of the Working Party on the Accession of Moldova to the WTO (WT/ACC/MOL/37) available at www.wto.org, last visited on December 3, 2002.

[7] This information was given upon request by the WTO Secretariat's Accessions Division.

[8] The application to join was submitted on February 13, 1996. Thus its accession negotiations were essentially concluded in just over 2 years. This is remarkably fast when compared with the protracted negotiations that accompanied the accession of the People's Republic of China, and when one considers the mountain of paperwork that a WTO accession inevitably involves.

[9] This compares with bound tariff rates on other countries' schedules that can sometimes exceed 300% as is the case for Switzerland on many tariff lines that have anything to do potatoes.

tariff line. This is an instrument that they would have been entitled to reserve the right to use under the Uruguay Round Agreement on Agriculture.[10]

When compared to say, the accession of Estonia, one does find that in the equally important sector of agriculture, the Estonians managed to negotiate bound maximum tariff rates of up to 69 % on a few products. However the Estonians also either neglected or were unable to get special safeguard measures on their most important products.

The truth of the matter is that getting into the WTO, i.e. negotiating accession, is a tough game and is not made any easier by those who are already Members and who are deciding under what conditions a new Member may join the club.

In addition to this, the technicalities of the multilateral trading system as embodied in the Uruguay Round agreements are extremely complex and the necessary expertise to develop a negotiating strategy and then put it into effect during accession negotiations is simply not very abundant in those countries seeking WTO Membership. One might even say such expertise is simply non existent outside a limited number of OECD countries.

Finally the advice that many if not all accession countries have been receiving has been provided by countries that are already Members of the WTO and who, at the same time as advising the applicant countries, are also negotiating with them and trying to gain the best outcome for their own constituencies. Thus one could argue that many, if not most accession candidates have received or are receiving advice that can simply not be considered as unbiased and completely in their own interests.

The accession of Kyrgyzstan was no different and thus it is hard to say with too much conviction that they negotiated a particularly bad accession when compared to others. When one compares the relatively levels of protection accession countries are required to enter the WTO with, to the levels of protection enjoyed by those Members who were already Contracting Parties to the GATT, there does seem to be a large dichotomy strongly in favor of those Members who never had to accede to the WTO under the arrangements that exist today.

However such a narrow view does blind one to the benefits that joining the WTO inevitably brings with it for transition economies. Indeed, one could argue that if there was no up-side to joining, countries simply wouldn't do it. Such benefits include forcing them to undergo far-reaching structural changes that better allow their economies to integrate into the global economy. They also become part of what is a rules-based system and thus in theory capable of better pursuing their interests in such a system.

Such a view also ignores the fact that much, if not the lion's share of economic literature on the subject of international economics comes out strongly in favor of the view that low

[10] By way of comparison, Switzerland has this possibility on more than 120 of its agricultural product tariff lines.

tariffs are good, and thus countries that enter the WTO with low tariff commitments are doing something that will ultimately benefit their economies.

## II. THE KYRGYZ ECONOMY BEFORE AND AFTER ITS ACCESSION TO THE WTO

Before 1998 the Kyrgyz economy seemed to be well on the way to prosperity with annual GDP growth rates of up to 9.9%.[11] The reforms initiated following independence in 1991 seemed to be taking effect and producing the kind of economic performance the drafters of those reforms had promised.

However, after 1998 many of the numbers, especially the figures on GDP growth and trade flows went south[12] and one can only speculate as to what extent joining the WTO might have been to blame and to what extent other factors such as the Asian financial crisis were the true cause of Kyrgyzstan's economic malaise.

Like in many other affected countries and regions, the Asian financial crisis was undoubtedly a major factor in the economic downturn experienced by Kyrgyzstan during and after 1998. However, it must also be said that after joining the WTO, the Kyrgyz Republic suffered numerous disadvantages in its traditional export markets such as Russia, Kazakhstan, and other Central Asian Republics. It is certainly no exaggeration to say that the disruptions suffered to its traditional trade flows were certainly not compensated, at least not in the short term, by new export markets which had opened up as a result of Kyrgyzstan's accession to the WTO.

The reasons for the Kyrgyz Republic suffering difficulties with its traditional export markets were political in nature rather than the economic result of joining the WTO. By being the first former Soviet Republic to join the WTO, the Kyrgyz Republic no doubt inspired a large amount of ill-will and discomfort on the part of such other regional players as Russia and Kazakhstan. These larger countries no doubt felt that they should take the lead and small former Republics like Kyrgyzstan should inevitably follow. Instead Kyrgyzstan had leapt into the fray and this move was certainly seen as rather impertinent. Such impertinence, it seems, could not be allowed to go unpunished.

By 2000/2001, with the effects of the Asian financial crisis receding, the Kyrgyz economy started looking much healthier and real GDP Growth rates of 5.2 % and more were starting to appear. The estimates for real GDP growth in 2001 exceeded 6%.

Again, it is hard to see whether accession to the WTO has been truly instrumental in helping Kyrgyzstan back to its feet, although one has little doubt that the WTO would like to think it has. In truth, many of the structural reforms the Kyrgyz Republic has been forced to undergo

[11] See Table 1 of the Annex attached to the present paper, which contains economic data courtesy of the ADB.

[12] Real GDP growth went from 9.9 in 1997 to 2.0 in 1998, a huge drop by any standard. Exports also started a downward trend from 1998. The same downward trend on imports started in 1999. See Table 2 in Annex 1 of the present paper for data on trade flows.

in order to implement its WTO commitments, as well as its commitments under various international aid and development programs initiated by such institutions as the EBRD, the ADB, the World Bank, the IMF, the UNDP, etc. have all played a role in helping the Kyrgyz Republic achieve improved economic growth.

## III. PROBLEMS TO BE TACKLED IN THE IMMEDIATE FUTURE

During several visits to the Kyrgyz Republic undertaken in spring and summer 2002, the author had the chance to meet and discuss Kyrgyzstan's accession to the WTO with a large number of government officials, academics, parliamentarians, as well as the men and women working in the international agencies listed above. Discussions were also held with expatriate business people living and working in the Kyrgyz Republic. What follows is a synthesis of what the author's discussions revealed.

One sentiment that constituted a recurring theme for most if not all meetings conducted was the perception that joining the WTO had resulted in a negative impact on Kyrgyzstan's balance of trade and had lead to a deterioration in its trade relations with its traditional export markets, Russia, Kazakhstan, Uzbekistan and Tajikistan (as alluded to above). This had only been partially redressed by a small increase in exports of certain products to WTO Member countries, such as gold to Germany. Strategically, the primary objective of Kyrgyz trade policy should be facilitating and accelerating the entry of its traditional trading partners (as enumerated above) into the WTO.

Another recurring theme of the meetings held was a certain anticipation of the benefits that would be incurred by means of the burgeoning Eurasian Economic Community, a customs union and free trade area currently taking shape between Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan. Indeed, this is just one of many regional initiatives that the Kyrgyz Republic is actively involved in. Seeing as most of Kyrgyzstan's trade is regional, it is of the highest strategic importance that the Kyrgyz Republic establish functional and harmonious trading relations with its regional trading partners as quickly as possible. Whether this is best achieved within the framework of some kind of regional cooperation effort or within the multilateral trading system of the WTO, is open for speculation.

Another subject which was repeated on several occasions was the fact that the Kyrgyz Republic will soon be confronted with the need to negotiate accession to the WTO Agreement on Government Procurement (GPA). The Kyrgyz Republic had agreed to do so as part of the package of obligations it entered into when acceding to the WTO. One could not help notice a certain degree of uneasiness, on the part of the Kyrgyz officials, to enter into the GPA. The government agency for public procurement feels itself to be insufficiently equipped to implement many of the obligations that the Kyrgyz Republic might incur under the GPA.

The view was also expressed that training would be needed for Kyrgyz officials in the areas of GATS and financial services regulations (this request from the National Bank), SPS and technical standards (this request from the Ministry of Agriculture as well as the national standards agency Kyrgyzstandard), tariff and non-tariff regulations (this request from Customs), enforcement of intellectual property rights (this request from Kyrgyzpatent). The Inter-Agency Committee on WTO stated that during its accession negotiations, the Kyrgyz Republic had been promised technical assistance and particularly training, but that there was a need for greater follow-though on these promises.

In the context of attracting greater foreign investment, the sentiment was expressed that the Kyrgyz Republic needed assistance in negotiating agreements with large multinationals.

There were repeated overtures that transit issues, particularly with regard to Kyrgyzstan's trade with Russia, were a problem involving Kazakhstan. It seems that the perception dominates in the Kyrgyz Republic that Kazahkstan is severely hampering the passage of Kyrgyz goods in all manner of ways. Indeed, anyone who drives from Bishkek to Almaty (and the author did several times), cannot but help notice the large number of trucks with Kyrgyz number plates that have been forced to pull over at random customs checkpoints. It seems that since China also entered the WTO, suspicions are rife that Kyrgyzstan is being used as a transit country for cheap Chinese goods to other countries in Central Asia.

The opinion was expressed that one major obstacle with regard to trade between the Kyrgyz Republic and Uzbekistan was the fact that the latter does not possess a fully convertible currency. This makes normal trade relations an impossibility between the two countries and will presumably only be rectified once Uzbekistan accepts the obligations of Article VIII of the IMF Articles of Agreement. Indeed, during my numerous visits to Uzbekistan this issue kept coming up. Everyone, however, seemed to feel that by the end of 2002 this will be done. Of course, without a fully convertible currency, it is hardly conceivable that Uzbekistan will be able to enter the WTO.

## IV. FINDINGS AND CONCLUSIONS

Much talk abounds about the benefits which will inevitably accrue to developing countries once they join the WTO. It has been stated that trade liberalization and accession to the WTO can act as a stimulant for economic growth, thereby reducing poverty, creating jobs and paving the way for economic prosperity.

Unfortunately, these claims are not supported by an abundance of well-foundered evidence. WTO accession is a subject that, aside for the accession of China, has been given very little attention by researchers and academics. This is a situation that needs to be remedied.

The Korean model is often cited as an example of how trade liberalization and the aggressive promotion of export industries and international trade can lead developing countries out of poverty and into economic growth. However, one must not forget that the "free trade" model followed by Korea (if one can even call it that), was one that was completely different to the free trade model WTO accession countries are being forced to accept now. There is thus little reason to expect the same outcome.

Accession to the WTO is a long and hard road to walk down. Moreover accession is not an end in itself, but is rather only the initial step in another long and hard road, namely that of a country defining , pursuing and where necessary defending its national trade interests in a multilateral forum where the odds are often stacked against the smaller players (as they inevitably are in the real world).

Nevertheless membership of the WTO must be a goal worth pursuing otherwise countries, such as the Kyrgyz Republic would not go to all the trouble.

It is essentially the responsibility of each country to make sure she gets the maximum benefit and utility out of being part of the multilateral trading system. Just like there is no such thing as a free lunch, there is no such things as a free ride at the WTO. There should be no misconceptions about this, just like there should be no misconceptions about the fact that the price of failure can be very high.

## FURTHER READING


### 1. The WTO and the Multilateral Trading System

Bhala, Raj, *International Trade Law: Theory and Practice* (Mathew Bender, & Company Inc. Danvers MA, 2000.)

Jackson, John H., *The World Trading System Law and Policy of International Economic Relations* (2nd edn, MIT Press, Cambridge MA, 1997).

### 2. WTO Accession

WTO Secretariat, *Accession to the World Trade Organization. Procedures for Negotiations under Article XII. Note by the Secretariat.* (WT/ACC/1), 25 March 1995, available at www.wto.org (last visited on December 5, 2002).

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Vassiliev, Alexei (ed.), Central Asia: Political and Economic Challenges in the Post-Soviet Era (Saqi Books London, 2001).

Pomfret, Richard, *The Economies of Central Asia*, (Princeton University Press, Princeton, 1995).

### 4. Transition Economies

Fischer, Stanley, Ratna Sahay and Carlos A. Végh, Stabilization and Growth in Transition Economies: The Early Experience, in: The Jouranl of Economic Perspectives, Volume 10, Issue 2 (Spring 1996), 45-66.

Pomfret, Richard, "Reform Paths in Central Asian Transitional Economies", in: *Transition and Institutions: The Experience of Gradual and late Reformers*, edited by G.A. Cornia and V. Popov, Oxford: Oxford University Press (2001), pp. 55-77.

### 5. Kyrgyz Republic

Pomfret, Richard, *Poverty in the Kyrgyz Republic*, Working Paper 98-5, School of Economics Adelaide University, April, 1999.

### 6. Useful Websites

www.wto.org The World Trade Organization.

www.worldtradelaw.net comprehensive site for WTO dispute settlement and international trade law.

www.cid.harvard.edu/cidtrade/ The Harvard Global Trade Negotiations Home Page.

www.adb.org/KyrgyzRepublic/default.asp The ABD resources page for the Kyrgyz Republic.

www.ebrd.org The European Bank for Reconstruction and Development.

www.undp.kg The United Nations Development Program in Kyrgyzstan.

www.worldbank.org The World Bank.

## ANNEX: ECONOMIC DATA FOR THE KYRGYZ REPUBLIC

**Table 1. Gross Domestic Product; Population and Employment; calendar years 1996-2000**

| | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|
| GDP, current [a] (million soms) | 23,399.3 | 30,685.7 | 34,181.4 | 48,744.0 | 62,203.3 |
| GDP, constant [b] (million soms) | 23.2 | 25.5 | 26.0 | 27.0 | 28.4 |
| Population [c] (million persons) | 4.69 | 4.76 | 4.83 | 4.90 | 4.97 |
| Labor force (thousand persons) | 1,791 | 1,792 | 1,811 | 1,901 | 1,911 |
| Employed (thousand persons) | 1,651 | 1,689 | 1,705 | 1,764 | 1,767 |
| Unemployed (thousand persons) | 140 | 103 | 106 | 137 | 144 |
| Real GDP growth rate (%) | 6.9 | 9.9 | 2.0 | 3.8 | 5.2 |
| Implicit rate of inflation (%) | 35.6 | 19.3 | 9.2 | 37.3 | 21.3 |
| Population growth rate (%) | 1.5 | 1.5 | 1.5 | 1.4 | 1.4 |
| Labor force growth rate (%) | 2.9 | 0.1 | 1.1 | 5.0 | 0.5 |
| Employment growth rate (%) | 0.6 | 2.3 | 0.9 | 3.5 | 0.2 |
| Unemployed growth rate (%) | 40.0 | -26.4 | 2.9 | 29.2 | 5.1 |
| Unemployment rate (%) | 7.8 | 5.7 | 5.9 | 7.2 | 7.5 |

[a] GDP at current market prices; [b] GDP at constant 1990 market prices; [c] as of 1 July
Source: Key Indicators of Developing Asian and Pacific Countries, 2001, Asian Development Bank (ADB).

**Table 2. External Trade; calendar years 1996-2000 (million US dollars)**

| | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|
| Exports, fob | 505.4 | 603.8 | 513.6 | 453.8 | 504.5 |
| Imports, cif | 837.7 | 709.3 | 841.5 | 599.7 | 554.1 |
| Trade balance | -332.3 | -105.5 | -327.9 | -145.9 | -49.6 |

Source: Key Indicators of Developing Asian and Pacific Countries, 2001, Asian Development Bank (ADB).