

POLICY BRIEF



Kyrgyzstan and the Eurasian Economic Union: A Partnership with Obstacles

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Key Points:

- Two years and a half ago Kyrgyzstan joined the Eurasian Economic Union. The main reasons for accession were dependence on Russian and Kazakh markets as well as the large number of Kyrgyz labor migrants working in Russia and sending remittances home on a regular basis. Moreover, Russia offered an attractive package of compensations and concessions to make accession more attractive and facilitate the transition period.
- So far results are mixed. While FDI has increased and the situation of Kyrgyz labor migrants has improved, the desired economic boost and modernization have not materialized yet. Furthermore, overall export has declined and trade with China, Kyrgyzstan's largest trading partner, went down. This is due to poor preparations on the Kyrgyz side, difficulties to implement the requirements of the Union, but also a general economic slow-down in the Eurasian region and a diplomatic conflict with Kazakhstan.
- To profit from Eurasian integration in the future, the Kyrgyz government has to invest more resources in the implementation of technical regulations and the establishment of laboratories. Moreover, it has to support small and medium-sized businesses in the difficult transit period. In the long run, the Kyrgyz economic model needs to be transformed and should no longer rely on re-export and remittances, but on its own production and labor force instead. The creation of jobs and the diversification of export structures are crucial in this regard.
- Last but not least, the Kyrgyz government should invest in the education and training of experts on Eurasian integration to be placed both at the domestic level as well as at the supranational level at the Eurasian Economic Commission in Moscow to lobby Kyrgyz interests more efficiently.

Introduction

In August 2015, Kyrgyzstan joined the Eurasian Economic Union (EAEU), the youngest of all regional organizations on the former territory of the Soviet Union. The Union came into existence in January 2015, following the establishment of the Customs Union (CU) in 2010 and the Single Economic Space (SES) in 2012. The official purpose of the EAEU is regional economic integration among the post-Soviet states through the establishment of a common market, the coordination of economic policies, a common external tariff and the realization of the four freedoms, that is free movement of goods, labor, capital and services.

Whereas the CU and the SES were limited to its founding states Russia, Kazakhstan and Belarus, the EAEU also comprises Armenia and Kyrgyzstan. Kyrgyzstan announced its intention to join the EAEU for the first time in 2011, but only signed the Treaty on Accession to the EAEU in December 2014. Public debate on Kyrgyzstan's accession was controversial as large economic losses were expected due to high asymmetries in member states' economic development and adaptive difficulties on the Kyrgyz side. Moreover, membership in the EAEU would halt the profitable re-export of Chinese goods.

Kyrgyzstan's first two years of membership in the EAEU show mixed results. The desired economic boost and increase in agricultural exports to EAEU member states failed to appear. To the contrary, accession to the EAEU has notably restrained Kyrgyzstan's re-export business model. Moreover, Kyrgyzstan experienced spill-over effects from economic crisis in Russia and Kazakhstan. Cheap Russian and Kazakh agricultural products undermined Kyrgyzstan's comparative advantage. An ongoing conflict with Kazakhstan and the unilateral closing of the common border led to a decline in Kyrgyz exports. Last but not least, the country is still struggling with the implementation of the EAEU's technical standards. On the positive side, EAEU membership works as an accelerator for improved product standards and food safety, which could in the long run also facilitate Kyrgyzstan's trade with the European Union (EU). Furthermore, former President Almasbek Atambaev managed to negotiate a favorable compensation package, including direct financial help and the establishment of the Russian-Kyrgyz Development Fund, which provides cheap credits for small and medium-sized enterprises in Kyrgyzstan. Eventually, the situation of Kyrgyz labor migrants in Russia has significantly improved.

This policy brief takes stock of Kyrgyzstan's membership in the EAEU, exploring problems, challenges and opportunities. The brief argues that there were sound reasons for Kyrgyzstan's accession to the EAEU, not least the country's strong dependence on Russia and the lack of alternatives. However, in order to benefit from membership, Kyrgyzstan has to step up its efforts in modernizing its economy and implementing EAEU standards. Moreover, the government needs to devote more resources to lobby its interests at the Eurasian Economic Commission (EEC) in Moscow. At the same time, the conflict with Kazakhstan needs to be resolved urgently as it is highly detrimental to Kyrgyz economic interests.

The Eurasian Economic Union

Since the collapse of the Soviet Union in 1991 more than 20 regional organizations came into existence in the post-Soviet region. The most remarkable one is the EAEU with an in-

tegrated market of 183 million people and a GDP of US US US \$2.2 trillion.¹ The core of the EAEU is the Customs Union with its four freedoms. Since its formation in 2015, member states managed to introduce a unified customs tariff towards third countries, adopt an EAEU customs code and eliminate customs controls at internal borders. The speed of implementation is due to an efficiently working commission, which was given supranational competences in the sphere of external trade.

The Union's institutional design differs from other post-Soviet regional organizations in several regards. Besides the two governing bodies, the Supreme Eurasian Economic Council and the Eurasian Intergovernmental Economic Council, there is a Eurasian Court, which enables member states and private parties to appeal against the actions of business partners or decisions taken by EAEU bodies. The Court's rulings have direct effect and are legally binding. The most remarkable institutional novelty of the EAEU, however, is its permanent regulatory organ, the Eurasian Economic Commission (EEC). The EEC disposes of wide-reaching competences and can initiate and draft policies, adopt decisions, monitor the implementation of international treaties, frame strategic plans and may even conclude international treaties on behalf of the EAEU.² Most importantly, the ten members of the board of the commission take their decisions independent from member states governments' interests by qualified majority or consensus. Decisions by the EEC are directly binding in all member states. It is particularly noteworthy that Russia can now be outvoted by the others as all member states are equally represented and have two votes. Russia's dominant position in the preceding commission of the CU was guaranteed by weighted voting, with Russia having the majority of votes. The new system favors smaller member states like Kyrgyzstan and Armenia.

The EAEU is one of the foremost priorities in Russia's foreign policy and was conceptualized and implemented at the top of the Russian government. Many experts are of the opinion that the EAEU is a means to strengthen Russia's regional and global influence. Moreover, the EAEU allows Russia to keep its neighboring states in its orbit of influence by creating new interdependencies and shielding them away from EU influence.³ Membership in the EAEU does not allow for the simultaneous conclusion of deep and comprehensive free trade agreements with the EU, thus compelling a choice between Eurasian or European integration.

Kyrgyzstan's Accession to the Eurasian Economic Union

Kyrgyzstan is one of the few post-Soviet states that participates in almost all post-Soviet regional organizations. Among others, it is a member of the Commonwealth of Independent States (CIS), the Shanghai Cooperation Organization (SCO) and the Collective Security Treaty Organization (CSTO).

Former president Atambaev announced Kyrgyzstan's intention to join the EAEU in 2011, but the Treaty on Accession was only signed three years later, in December 2014. It took half a year more to negotiate the technical details of accession, before Kyrgyzstan joined the Union in August 2015. Between 2011 and August 2015, Atambaev and his advisors nego-

¹ EAEU, "Facts and Figures", 2016.

² EAEU, "Treaty on the Eurasian Economic Union", 2014.

³ See, for example, Zagorski, "Caught between the Economy and Geopolitics", 4-7; or Pozo-Martin, "The Eurasian Economic Union: ambitions".

tiated the best possible terms of membership as well as compensations for expected economic losses resulting from accession.⁴ Some experts believe that Kyrgyzstan was pushed into the EAEU by Russia, which continues to exert great leverage on the country.⁵ However, Kyrgyzstan did not have much choice as the country is highly dependent on Russian and Kazakh goods, labor, financial and energy markets. In 2015, according to the Kyrgyz State Migration Service, 700,000 Kyrgyz citizens worked abroad, the majority of them in Russia.⁶ Other estimates vary between 600,000 and one million Kyrgyz labor migrants (approx. one third of the Kyrgyz workforce).⁷ In 2016 remittances added to approximately 30% of Kyrgyzstan's GDP, making the country one of the top-five remittance receivers in the world.⁸ The need to legalize its labor migrants in Russia is therefore one of the most frequently mentioned reasons why Kyrgyzstan joined the EAEU.

Another, though not frequently cited reason for accession is Chinese influence. China has long overtaken Russia as Kyrgyzstan's main trade partner with mutual trade adding to approx. one third of Kyrgyzstan's overall trade with the world.⁹ Moreover, China is also actively engaged in transport and infrastructure projects through its Belt and Road Initiative. China has been investing in projects such as the Datka-Kemin energy transmission line, the Bishkek-Torugart road or a new road connecting the north and the south of the country. The Export-Import Bank of China became Kyrgyzstan's largest creditor in 2016 with outstanding credits of USD US \$1.3 billion, which accounts for almost 40 % of external public debt.¹⁰ Many Kyrgyz are afraid of too much Chinese influence. Membership in the EAEU thus provides a kind of shelter. Moreover, Kyrgyzstan has traditionally maintained close relations with Russia ever since independence and is one of Moscow's closest allies. Russia is not only the main security guarantor of the country maintaining an air base in Kant, but also one of the most active donors financing numerous development projects, granting cheap credits and regularly writing off Kyrgyz debts.

Not everyone in Kyrgyzstan was happy about accession to the EAEU because of expected economic losses and adaptation difficulties. Many business associations complained that President and government did not consult businesses, which were the ones to suffer most from accession. Most Kyrgyz politicians and experts followed the argumentation that there was no alternative for the country. During a speech at the National Council for Sustainable Development in 2014, Atambaev said himself that "we are choosing the lesser of two evils. We have no other option".¹¹

⁴ Fumagalli, "Kyrgyzstan's Turbulent March towards the Eurasian Union".

⁵ Kudaibergenova, "Eurasian Economic Union integration in Kazakhstan and Kyrgyzstan", 2016.

⁶ State Migration Service under the Government of the Kyrgyz Republic, „Obsor migratsionnoj situatsii v Kyrgyzskoj Respublike“, 2016, <http://ssm.gov.kg/reports/view/2> (accessed 10.12.17).

⁷ See, for example, 24.kg: https://24.kg/ekonomika/70068_skolko_deneg_pereveli_kyrgyzskie_migranty_narodinu_v2017_godu/ (accessed 12.12.17), or knews.kg: <http://knews.kg/2016/07/trudovaya-migratsiya-kuda-edut-i-zachem/> (accessed 12.12.17).

⁸ The World Bank. Data. The Kyrgyz Republic. 2016. <https://data.worldbank.org/country/kyrgyz-republic> (accessed 02.08.17).

⁹ European Commission, Trade in goods with Kyrgyz Republic, 2017.

¹⁰ Asylbek kyzy and Damir Esenaliev, "Eurasian Economic Union policies and practice in Kyrgyzstan", 2017.

¹¹ Atambaev, Alamzbek: Speech at the National Council for Sustainable Development. Bishkek, 2014. <http://tass.ru/mezhdunarodnaya-panorama/1534233> (accessed 20.07.17).

In any case, Russia provided Kyrgyzstan with convincing incentives for accession. In comparison to the other EAEU member states Kyrgyzstan got the highest amount of concessions and compensations. Among other things Kyrgyzstan was granted a two-years transition period to implement the EAEU's technical regulations and standards, which expired in August 2017. Moreover, Russia provided US \$200 million to build necessary infrastructure in Kyrgyzstan, in particular laboratories for export certification. Russia also promised to finance the construction of two much needed hydropower plants: Kambar-Aty-1 and GES. Those plants, however, have not been built until today.¹² Also Kazakhstan promised US \$100 million direct financial help to support the modernization of Kyrgyzstan's customs and border infrastructure. This money, however, was never released due to the ongoing conflict between the two countries. In November, former president Atambaev even signed a parliamentary resolution cancelling the agreement under which Kyrgyzstan would have received the US \$100 million in aid from its northern neighbor.

Last but not least, in November 2015 Russia created and financed the Russian-Kyrgyz Fund of Development (RKFD), whose main objectives are the improvement of economic cooperation and the modernization and development of the Kyrgyz economy. Russia provided the RKFD with US \$500 million share capital and US \$500 million borrowed capital to provide financing services for small- and middle-sized companies in Kyrgyzstan. At the moment, there are about 722 projects with an overall credit frame of US \$ 226 million mostly in housing and infrastructure, the textile and food industry, in agriculture as well as in trade and transport.¹³ One of the biggest achievements of the fund was to put pressure on the Kyrgyz financial market and decrease overall interest rates.

Not only did Kyrgyzstan have little choice but to join the EAEU given its dependence on the Russian labor and goods market and the amount of financial aid the country receives from Russia. But also the pledged measures of compensation did certainly play a role in convincing the Kyrgyz government to become a member of the Union despite a series of expected problems due to economic asymmetries between member states.

Trade Patterns in Kyrgyzstan

Kyrgyzstan is the weakest member state of the EAEU. It's economy largely depends on remittances and on foreign financial aid. In 2015 remittances made up approx. 30% of the Kyrgyz GDP and 12% of the GNI.¹⁴ Besides, the Kyrgyz economy is based on agriculture, contributing approx. 15% to its overall GDP, and services, resulting in almost 56% of its GDP. The share of services is so high, because this figure also comprises the re-export of Chinese products to other post-Soviet states. Due to its low tariffs and simple import regulations, Kyrgyzstan became the main transit hub for Chinese products in the region. In comparison to other EAEU member states, industry only contributes a very small share to the GDP. Kyrgyzstan has a pronounced trade deficit as its imports much more than it

¹² Sharsheev, "Анализ основных результатов членства Кыргызстана в ЕАЭС", 2016.

¹³ Russian-Kyrgyz Fund of Development. About Us. Bishkek. http://rkdf.org/ru/o_nas (accessed 13.12.17).

¹⁴ The World Bank. Data. The Kyrgyz Republic. 2016. <https://data.worldbank.org/country/kyrgyz-republic> (accessed 02.08.17).

exports, with a ratio of 74% to 37% of the overall GDP.¹⁵ The country's main export commodities are cotton, wool and garments as well as gold, mercury and uranium. In 2016, 31% of Kyrgyzstan's exports were directed to EAEU member states. When it comes to import, Kyrgyzstan obtains 47% of all goods from EAEU members. In 2016, the country mainly exported to Switzerland, Kazakhstan, Russia, Uzbekistan and Turkey, in the given order. Its main import partners were Russia, China, Kazakhstan, the EU and Turkey. China has replaced Russia as the main trading partner, accounting for 29,1% of Kyrgyzstan's total trade in 2016. Since independence, Russia's economic importance has been steadily decreasing, but it still belongs to Kyrgyzstan's top five trading partners. Trade with Russia constituted 17,8% and trade with Kazakhstan 14,8% of Kyrgyzstan's overall trade with the world in 2016.¹⁶

Assessing Two Years and a Half of Membership in the EAEU

Two years and a half after accession to the EAEU, results are mixed and many of the desired positive effects have not materialized yet. Mainly, the Kyrgyz government was hoping that membership in the EAEU would boost the country's economic development, lead to higher revenues from export and push the implementation of international standards that would help the country to export beyond the EAEU. Half of the EAEU's technical regulations are harmonized with international standards and their implementation could thus also help Kyrgyzstan to benefit from its EU GSP+ status.¹⁷ Moreover, there were hopes that EAEU membership would help Kyrgyzstan to transit from an economy that is based on re-export to an economy that relies on its own production, services and digitalization.

Positive effects of EAEU membership mainly concern foreign direct investment and the situation of Kyrgyzstan's labor migrants. In 2015 FDI contributed to 17% of the GDP as compared to only 5% in 2014.¹⁸ The share of FDI from EAEU member states has increased from 75,6% in 2014 to 84,7% of all foreign investments in 2016. Moreover, accessing the Union allowed Kyrgyz citizens to work in any EAEU member states, granting them equal employment opportunities and official registration. As opposed to officials from non-member states, they no longer need to apply for work permits and pass Russian language exams.¹⁹ Moreover, academic degrees and qualifications are recognized across all member states.²⁰ Before many Kyrgyz migrants worked illegally in Russia without any security and in constant danger of being expelled. At a press conference after a state visit to Russia in June 2017, President Atambaev said: "What has been in 2012 and what is now is like the sky and

¹⁵ *ibid.*

¹⁶ European Commission, "Trade in Goods with Kyrgyz Republic", 2017, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113409.pdf (accessed 03.08.17).

¹⁷ The Special Incentive Arrangement for Sustainable Development and Good Governance (GSP+) grants vulnerable lower-middle income countries full removal of EU customs tariffs on over 66% of product tariff lines. In the Kyrgyz case, it is approx. 6000 product lines that can be exported to the EU without tariffs. However, Kyrgyzstan cannot really profit from this status yet as it fails to meet international product standards.

¹⁸ Worldbank, "Country Profile Kyrgyzstan", 2017, <http://databankworldbank.org/data/Views/Reports/ReportWidgetCustom.aspx?ReportName=CountryProfile&Id=b450fd57&tbar=y&dd=y&inf=n&zm=n&country=KGZ> (accessed 12.11.17).

¹⁹ Starostin, "Freedom of Movement of Labour Resources in the EAEU up to 2025", 2017.

²⁰ Ivanchak, "Legal regulation of EAEU Migrant Workers", 2015.

the earth, they (the migrants) transformed from slaves into normal people. Only because of that it was worse to accede the Eurasian Economic Union”.²¹ Between 2015 and 2016 remittances have increased by 22% to a record high of US \$1.6 billion.²² In the same time, Tajikistan and Uzbekistan have experienced a decline in remittances. Moreover, in 2015 the number of Kyrgyz labor migrants in Russia increased by 1,5% whereas the number of Tajik migrants decreased by 13,7%.²³

While foreign direct investment has increased and Kyrgyz migrant workers in Russia have profited from Kyrgyzstan’s membership in the EAEU, Kyrgyz exports continue to decline, the desired modernization of the economy failed to appear and compliance with the Union’s standards and regulations still poses a major challenge. It has to be reckoned though that Kyrgyzstan is still in the phase of transition and adaptation and it is therefore difficult to predict long-term effects of accession. Moreover, some of the negative effects are related to economic crisis in Russia and Kazakhstan, which has also taken its toll on the Kyrgyz economy.²⁴

Many experts argue that Kyrgyzstan was not ready yet for accession as its economy and infrastructure were not developed enough for competition with the other member states of the EAEU. The small country would be overstrained by EAEU requirements.²⁵ Moreover, the Kyrgyz government did not prepare well for accession. Neither had the country invested in the improvement its export structures nor had it facilitated the implementation of international standards in line with the EAEU technical regulations. In the next section, problems and challenges related to Kyrgyzstan’s membership in the EAEU will be discussed.

Problems and Challenges

One of the greatest challenges for Kyrgyzstan so far has been the implementation of and compliance with the Union’s standards and technical regulations. Since its establishment, the EEC has adopted 44 technical regulations to govern and harmonize internal and external trade and to ensure similar standards across member states.²⁶ In order to fully access the Union’s internal market, member states have to comply with those regulations. Kyrgyzstan was granted a two-years transition period for regulations concerning meat, dairy and clothing, which expired in August 2017.²⁷ Implementation is especially difficult in the sanitary, phytosanitary and veterinary sectors as Kyrgyzstan fails to ensure the absence of dangerous animal diseases, regular vaccination and compliance with the World Organization’s for Animal Health (OIE) standards for slaughtering. Moreover, there is a lack of animal identification and traceability.

²¹ News Agency 24.kg, “Алмазбек Атамбаев о российских военных базах, ЕАЭС и Верхненарынском каскаде”, 2017.

²² Asylbek kyzy and Esenaliev, “Eurasian Economic Union policies and practice in Kyrgyzstan”, 2017.

²³ Vinokurov, “Eurasian Economic Union: Current state and preliminary results”, 2017: 67.

²⁴ Khitakhunov et al., “Eurasian Economic Union: present and future perspectives”, 2017.

²⁵ For example, Sharshiev, “Анализ основных результатов членства Кыргызстана в ЕАЭС”, 2016.

²⁶ See <http://www.eurasiancommission.org/ru/act/textreg/deptexreg/tr/Pages/reglaments.aspx> for an updated list of technical regulations.

²⁷ Until August 2019 Kyrgyzstan is still allowed to distribute products not fulfilling the EAEU standards on its domestic market, but not to other EAEU member states anymore.

Especially Kazakhstan has been complaining that Kyrgyz products did not fulfill food quality and safety standards and has thus re-introduced veterinary and phytosanitary control at its borders. Many Kyrgyz experts, however, suspect that these measures are meant to protect the Kazakh market from the influx of cheaper Kyrgyz agricultural products and low-cost Chinese goods re-exported through Kyrgyzstan.²⁸ The conflict escalated in October in the run-up to the Kyrgyz presidential elections, when Kazakhstan's president Nazerbayev appeared to endorse the main opponent of Atambaev's chosen successor and Atambaev responded with harsh rhetoric and unsubstantiated accusations. As a consequence, Kazakhstan intensified security and customs border controls and eventually closed the border completely, which led to miles long truck traffic jams on the Kyrgyz side of the border. The conflict seems to be resolved now after Nazerbayev and Kyrgyzstan's new president Jeenbekov had agreed on a road map, but seriously thwarted EAEU principles.

Moreover, Kyrgyzstan is lacking operational laboratories and control bodies recognized by the EEC to certify Kyrgyz products for export to EAEU states. Despite Russian financial help of US \$200 million for export and customs infrastructure, there is still an acute lack of laboratories in the more remote areas of Kyrgyzstan, forcing exporters to travel to Bishkek or to Almaty to receive certification. According to experts, the responsible Department on the Prevention of Diseases and Sanitary and Epidemiologic Surveillance under the Ministry of Health is lacking trained staff and expertise.

Another obstacle is supply and storage. First of all, there is a high level of heterogeneity in agricultural production in Kyrgyzstan as many farmers base their production decision on current market prices instead of analyzing demands and long-term developments in their export destinations. Supply is thus highly unstable and most farmers are not able to provide large amounts of goods at a certain point of time as agreed with buyers beforehand. Second, there is a lack of warehouses and logistic centers enabling export in bulk. This makes it difficult for Kyrgyz farmers to compete with their colleagues in the other EAEU member states.

Another problematic aspect of EAEU membership is the imposition of higher tariffs towards non-member states. The EAEU's common external tariffs are largely based on Russian tariffs pre-accession.²⁹ While Belarussian tariff levels were similar to the Russian ones, custom fees in Kazakhstan, Armenia and Kyrgyzstan increased significantly after accession.³⁰ This was especially problematic for Kyrgyzstan, which used to re-export Chinese goods to its neighbors on a massive scale. It was feared that higher tariffs would put an end to the country's re-exporting activities and thus result in price increases for consumer goods.³¹ And indeed did Chinese imports go down from 56% of Kyrgyzstan's total imports to 38% in 2016.³² However, given Russia's recent WTO accession, it is expected that the common external EAEU tariff will fall significantly during the next years to be in line with WTO regulations.³³

²⁸ Zuenko, "The Eurasian Gap: Winners and Losers of the Economic Union", 2016.

²⁹ Tarr, "The Eurasian Economic Union of Russia, Belarus, Kazakhstan, Armenia, and the Kyrgyz Republic: Can It Succeed Where Its Predecessor Failed?", 2016.

³⁰ Khitakhunov et al., "Eurasian Economic Union: present and future perspectives", 2017.

³¹ Zuenko, "The Eurasian Gap: Winners and Losers of the Economic Union", 2016.

³² OEC, "Kyrgyzstan", 2017.

³³ Tarr, "The Eurasian Economic Union of Russia, Belarus, Kazakhstan, Armenia, and the Kyrgyz Republic: Can It Succeed Where Its Predecessor Failed?", 2016.

Prognoses that Kyrgyzstan's trade figures would increase significantly after accession to the EAEU have proven wrong so far. Both Kyrgyzstan's trade with other EAEU members as well as with the rest of the world declined. According to the National Statistical Committee, in 2015 foreign trade decreased by 23,7% in comparison to 2014.³⁴ In 2016, trade with the other member states of the EAEU decreased by 19% compared to 2015. In general, Kyrgyzstan's GDP decreased by 2.3% during the first half of 2016.³⁵

However, the decline in trade was not only caused by EAEU membership, but by a combination of factors. Besides difficulties accessing the markets of the other EAEU member states, Kyrgyzstan was affected by economic crisis in Russia and Kazakhstan. Sanctions combined with a sharp decline in oil prices led to recession in Russia, creating spill-over effects on the other Eurasian states. Total EAEU exports decreased by 25.8% from 2014 to 2015 and only amounted US \$45.4 billion in 2015 as compared to US \$57.4 billion in 2014.³⁶ As the Russian ruble fell significantly, the Kazakh National Bank decided to depreciate the Tenge to maintain parity with the ruble. As a result, Kazakh and Russian products became cheaper compared to Kyrgyz products. Instead of profiting from the expected cost advantage, Kyrgyz producers had to deal with fierce competition from Kazakhstan and Russia³⁷. Economic crisis also resulted in lower remittances in 2014 and 2015, which had an effect on domestic purchasing power. It is therefore difficult to state how much of the decline in trade can be traced back to EAEU membership.

Last but not least, Kyrgyzstan has so far not made good use of the possibility to influence decision-making in the EEC in Moscow. The fact that decisions are taken by consensus or by absolute majority in the board of the commission favors smaller member states. However, Kyrgyzstan is significantly weaker represented at the middle management level in the commission than the other member states. Moreover, while other member states have whole ministries or large departments to deal with Eurasian integration, in Kyrgyzstan the department for Eurasian Integration at the Ministry of Economy (MoE) disposes of less than ten staff members. Lobbying Kyrgyz interests and influencing the decision-making process before decisions are taken is therefore difficult. The small department at the MoE has no capacities to comment on all proposals and legal texts coming from the commission on a daily basis.

Despite all of these problems, Kyrgyz people still have a very positive attitude towards Eurasian integration. According to the 2015 Eurasian Integration Barometer, 86% of all Kyrgyz are in favor of the EAEU, as compared to 80% in Kazakhstan and 78% in Russia. In 2016, the percentage dropped to 81%, but is still at a very high level as compared to 74% in Kazakhstan and 69% in Russia.³⁸ This might be due to Kyrgyzstan's close ties to Russia. Russia is perceived as a friendly neighbor, security guarantor and benevolent hegemon that finances development projects and writes off Kyrgyz debts generously. Moreover, many Kyrgyz citizens might not be aware of problems related to EAEU as there is a lack of information in the media and scientific analysis of Kyrgyzstan's membership in the Union.

³⁴ Sharsheev, "Анализ основных результатов членства Кыргызстана в ЕАЭС", 2016.

³⁵ Schwartz, "Will Kyrgyzstan Leave the Eurasian Economic Union?", 2016.

³⁶ Vinokurov, "Eurasian Economic Union: Current state and preliminary results", 2017.

³⁷ Asylbek kyzy and Esenaliev, "Eurasian Economic Union policies and practice in Kyrgyzstan", 2017.

³⁸ EDB Center for Integration Studies, "EDB Integration Barometer 2016", 2016.

Conclusion and Recommendations: How to Make the Most out of Membership in the EAEU

Two years and a half after Kyrgyzstan has joined the Eurasian Economic Union, results are mixed. While FDI has increased and the situation of Kyrgyz labor migrants has clearly improved, the desired economic boost and modernization have not materialized yet. To the contrary, exports to EAEU member states have even decreased. Moreover, the collapse of the re-export business has severely harmed small- and medium-sized businesses and it will take much more time to transform Kyrgyzstan's economic model. Additionally, Kyrgyzstan was not well prepared to join the EAEU and despite a two-years transition period did not manage to meet EAEU requirements to freely export its products to other member states. Much of the economic losses of the past two years can, however, also be traced back to a general economic slow-down in the Eurasian region as well as to the conflict with Kazakhstan and the Kazakh decision to re-introduce border controls.

The future of Eurasian integration in Kyrgyzstan depends very much on whether Kyrgyz businesses in the long term profit from the Union's market and on whether the Kyrgyz economy as a whole succeeds in modernization. Only if Kyrgyzstan implements all technical regulations and standards and establishes enough laboratories to certify products for export will the country be able to exploit the full potential of the common market. Another important factor is the final resolution of the conflict with Kazakhstan and the elimination of trade barriers to enable the free flow of goods and labor. It remains to be seen how the Kyrgyz government makes use of the opportunities that membership in the EAEU provides and facilitates economic development and the diversification of the export structure. Relying on remittances and re-export is definitely not a sustainable economic model to generate development and progress. Instead, the focus should clearly lie on boosting Kyrgyzstan's own production, generating jobs to reduce the number of labor migrants in the long-run and to prevent further brain drain of young and qualified workers and on developing new business models, for example in the field of digitalization.

In order to profit from its membership in the EAEU, the Kyrgyz government should invest in the education of experts on Eurasian integration and place well-trained experts in its respective ministries. Moreover, the Department for Eurasian Integration at the MoE urgently needs to be expanded as the small number of employees is not able to handle the constant flow of documents, regulations and other legal texts coming from the EEC on a daily basis. With more staff both at the domestic level as well as at the commission in Moscow, Kyrgyzstan could lobby its own interests better and influence the decision-making process at supranational level much more efficiently. So far the country has, if at all, only been reactive and not proactive. Moreover, the Kyrgyz government should increase the number of laboratories to certify products for export all over the country and assign well-trained staff to the laboratories speaking both Russian and Kyrgyz. The MoE should publish official guides on technical regulations, their implementation and documentation requirements to support and assist producers, suppliers and exporters. At the same time, the country needs more researchers analyzing the effects of membership in the EAEU on the Kyrgyz economy and providing the government with sound recommendations for actions.

On a positive note, membership in the EAEU has not damaged Kyrgyzstan's relationship with the EU. Since the EU is Kyrgyzstan's fifth most important trading partner and a ma-

major source of investments and development aid, Kyrgyzstan should continue to develop its relations with the EU as a whole as well as with its member states bilaterally. Consequent implementation of EAEU regulations will also help Kyrgyzstan to profit from its GSP+ status and increase its exports to EU member states. Also China is a source for modernization as the Chinese are heavily investing in infrastructure and transport that will help to strengthen the country's transit potential. Combined with clear and simple customs regulations and security for investors, Kyrgyzstan could use its comparative advantage and strengthen its role as a major transit hub between Asian and Western markets.

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