

**The Kyrgyz Republic**

**The Kyrgyz Republic  
Data Collection Survey on Investment  
Opportunity for Business Development**

**Final Report**

JICA LIBRARY



1218487 [5]

**November 2014**

**Japan International Cooperation Agency (JICA)**

**Daiwa Institute of Research Ltd.**

KG
JR
14-002



## Abbreviations

ASEAN	Association of South - East Asian Nations
BOI	Board of Investment
CAD	Computer Aided Design
CAGR	Compound Average Growth Rate
CBTA	Cross Border Transportation Agreement
CIS	Commonwealth of Independent States
CMT	Cut Make and Trim
E/D	Embarkation/Disembarkation
EU	European Union
F/S	Financial Statement
FAOSTAT	Food and Agriculture Organization stat
GDP	Gross Domestic Product
ICT	Information and Communication Technology
IMF	International Monetary Fund
IT	Information Technology
JICA	Japan International Cooperation Agency
JNTO	Japan National Tourist Organization
KATO	Kyrgyz Association of Tour Operators
KPI	Key Performance Indicator
KSSDA	Kyrgyz Software and Services Develops Association
LNG	Liquefied Natural Gas
MBA	Master of Business Administration
MRP	Machine Readable Passport
NSC	National Statistical Committee of the Kyrgyz Republic
OECD	Organisation for Economic Co-operation and Development
OEM	Original Equipment Manufacturing
OJT	On-the-Job Training
PET	Polyethylene Terephthalate
SPA	Speciality store retailer of Private label Apparel
TSA	Tourism Satellite Account
UAE	United Arab Emirates
UNCTAD	United Nations Conference on Trade and Development
UNWTO	United Nations World Tourism Organization
WTO	World Trade Organization

## Table of contents

Summary .....	1
1. Selection of promising industries(initial macro data-based selection) .....	2
2. Narrowing down promising industries by sector.....	3
Chapter 1 Key features of survey .....	9
1. Background to survey .....	9
2. Aims of survey .....	10
3. Survey implementation conditions .....	11
Chapter 2 Potentially Promising Industries Determined through Macroeconomic Analysis ...	14
1. Features of the Kyrgyz economy .....	14
2. Selection of promising industries .....	18
3. Primary and secondary industry sectors that passed preliminary selection based on macro-economic analysis.....	19
4. Tertiary industry sectors that passed preliminary selection based on macro economic analysis .....	28
Chapter 3: Business Environment in Agriculture and Livestock Industries .....	30
1. Introduction.....	30
2. Overview of Agriculture and Livestock Industries.....	30
3. Supply and Demand of Agricultural Products.....	31
4. Promising Business Model Candidates.....	40
Chapter 4: Business Climate in Manufacturing Industry .....	47
1. Characteristics and promising sectors of the manufacturing industry .....	47
2. Garment industry .....	50
3. Meat-processing industry.....	62
Chapter 5 Business Environment Surrounding the Service Industry.....	69
1. Current Situations of the Service Industry in Kyrgyz Republic .....	69
2. Tourism-related industry .....	75
3. IT Industry .....	87
4. Transport Subsector .....	92
Chapter 6 Investment Approaches by Japanese Companies .....	97
1. Advantages and disadvantages regarding the Kyrgyzstan business environment for Japanese companies .....	97
2. Important concerns when considering overseas business expansion and interest in the Kyrgyzstan market.....	98
3. Results of a questionnaire collected from seminar participants in Japan.....	108
4. Corporate images of Japanese companies considering business operation in Kyrgyz, based on questionnaire results, and solutions for related issues .....	115
Chapter 7 Investment promotion challenges .....	117
1. Investment Law .....	117
2. Kyrgyz Republic sustainable development strategy .....	118

3. How public institutions view the Kyrgyz investment climate: The World Bank's "Doing Business" survey .....	119
4. Identifying issues through local interviews.....	121
5. Specific examples of improvement measures .....	123
Chapter 8 Policy measures for the support of Japanese companies .....	138
1. Thinking on support for Japanese companies in the Kyrgyz Republic.....	138
2. Current situation and issues to be resolved .....	139
3. Practical support plans .....	140

## List of Figures

Figure 1-1. Order of operations .....	13
Figure 2-1. Primary industry share of nominal GDP & per capita GDP (2012).....	15
Figure 2-2. Trade balance, exports and imports .....	16
Figure 2-3. Selection of promising industries .....	18
Figure 3-1. Climate in Bishkek (normal value).....	31
Figure 3-2. Changes in the Producer Price of Wheat.....	33
Figure 3-3. Changes in the Producer Price of Maize .....	34
Figure 3-4. Changes in the Producer Price of Potatoes .....	34
Figure 3-5. Changes in the Producer Price of Cabbages and Other Brassicas .....	35
Figure 3-6. Changes in the Producer Price of Carrots and Turnips .....	36
Figure 3-7. Changes in the Producer Price of Beef Cattle (Meat live weight).....	37
Figure 3-8. Changes in the Producer Price of Chicken (Meat live weight) .....	37
Figure 3-9. Changes in the Producer Price of Sheep (Meat live weight).....	38
Figure 3-10. Changes in the Producer Price of Milk .....	39
Figure 3-12. Changes in the Number of Livestock.....	42
Figure 4-1. Composition of the employed population (2011) .....	48
Figure 4-2. Trends in production value of the textile and sewn products industry .....	50
Figure 4-3. Trends in the export and import value of apparel and accessories .....	51
Figure 4-4. Comparison with apparel exports of neighboring countries (2012) .....	52
Figure 4-5. Trends in the export and import value of fiber for textiles and rags .....	55
Figure. 4-6. Trends in the import and export value of yarn for fabrics and textile products .....	56
Figure 4-7. Trends in production value of the processed food industry .....	63
Figure 4-8. Meat production .....	64
Figure 4-9. Trade balance for processed meat products.....	65
Figure 4-10. Balance of trade for meats.....	66
Figure 5-1. Changes in Service Trade Balance in Kyrgyz Republic .....	70
Figure 5-2. Change in the number of foreign visitors and tourism-related revenue of Kyrgyz Republic. ....	76
Figure 5-3. Change in the balance of travel (tourism) trade of Kyrgyz Republic .....	77
Figure 5-4. Change in the number of persons engaged in tourism-related industry (left) and the number of operating bodies (right) .....	77
Figure 5-5. Tourism-related revenue (left) and the number of foreign visitors and tourism-related revenue per capita (right).....	81
Figure. 5-6. Changes in IT Service Trade Balance in Kyrgyz Republic .....	88
Figure. 5-7. Changes in the Amount of Cargo Transport by Infrastructure Type .....	93
Figure 7-1. Investment Promotion Agency organization chart and headcount .....	129

## List of Tables

Table 2-1. Overview of Central Asian countries .....	15
Table 2-2. Export Specialization Coefficients of Kyrgyz Exports by Product .....	17
Table 2-3. List of promising industries after preliminary selection (primary and secondary industries) .....	20
Table 2-4. List of promising industries for preliminary selection (primary and secondary industries) .....	21
Table 2-5. Changes in share of nominal GDP by industry .....	28
Table 2-6. List of promising industries after preliminary selection (tertiary industries) .....	29
Table 3-1. Supply and Demand of Major Agricultural Products in the Kyrgyz Republic (2005) .....	32
Table 3-2. Supply and Demand of Major Agricultural Products in the Kyrgyz Republic (2010) .....	32
Table 3-3. Major Agricultural Products of the Kyrgyz Republic – their Producer Prices and Competitiveness against Kazakhstan .....	41
Table 3-4. Farmland Per Capita and Sheep Meat-related Statistics in Countries with a Large Population and Economy .....	43
Table 3-5. Promising Business Model Candidates and Examples of Foreign Company Involvement .....	46
Table 4-1. Nominal GDP and industry composition ratio .....	47
Table 4-2. Selection of promising industrial sectors (manufacturing industry) .....	49
Table 4-3. Ranking of nations exporting and importing apparel (2012) .....	53
Table 4-4. Country of origin rankings for apparel imports in Russia and Kazakhstan (2012) .....	54
Table 4-5. Import value and main importers of fibers and fabrics (2012) .....	56
Table 4-6. Processed meat production .....	64
Table 4-7. Number of companies engaged in food processing .....	65
Table 4-8. Importers and exporters of processed meat products .....	66
Table 5-1. Share of GDP by Industries in Kyrgyz Republic (unit: million KGS) .....	69
Table 5-2. Service Trade Balances of Kyrgyz Republic and neighboring countries as well as those of the ASEAN countries .....	71
Table 5-4. Selection of Promising Subsectors out of Kyrgyz Republic's Service Industry .....	75
Table 5-4. Number of visitors by country, access status .....	85
Table 5-6. Transportation Conditions Concerning Cargo Transport to Bishkek (per one 40Ft container) .....	95
Table 5-7. List of Plans for Improvement of Maintenance and Construction of Logistics Infrastructures .....	96
Table 6-1. Advantages and disadvantages regarding the investment environment in Kyrgyz .....	98

Table 6-2. Important concerns for Japanese companies when considering overseas business expansion, based on interview results (by industry).....	99
Table 6-2. Overview of Seminar in Japan.....	108
Table 6-3. Breakdown of Seminar Participants in Japan .....	109
Table 6-3. Breakdown of Responses regarding “Business Environment in Kyrgyz” .....	110
Table 6-4. Breakdown of Responses to “Your Intention for Overseas Operations” (Regions of Interest) .....	112
Table 6-5. Breakdown of Responses to “Your Intention for Overseas Operations” (Background and Important Considerations regarding Overseas Operations)..	113
Table 7-1. Investment Law.....	117
Table 7-2. World Bank investment climate rankings (2014).....	120
Table 7-3. Near-term and longer-term challenges .....	122
Table 7-4. Division of responsibilities among government agencies, business associations, and private enterprises in improving the business climate.....	135
Table 8-1. Positive and negative factors affecting the overseas development of small and medium-sized enterprises.....	140



## Appendix

Appendix 1	Minutes of Meetings
Appendix 2	State organization
Appendix 3	Materials of the seminar “Challenges for Kyrgyzstan’s economic development and business opportunity for Japanese companies” held in Sapporo, Tokyo and Osaka.
Appendix 4	The Kyrgyz Investment Guide

## Summary

This study report is a compilation of the results of information gathering and confirmation surveys conducted from February until October of 2014 regarding investment potential aimed at developing businesses in the Kyrgyz Republic. The study had the following two objectives:

1. Gathering information about the investment environment and analyzing competitive advantages
2. Formulating an investment promotion strategy and identifying issues related to its practical implementation

In addition to this survey report, we prepared the "The Kyrgyz Investment Guide" as a reference for Japanese companies and other foreign investors as they begin to do business in Kyrgyzstan. The guidebook contains information about Kyrgyz politics, society, economy, industries, taxation system, investment incentive system and other relevant information. Below is the guidebook's table of contents. For more information on each subject, please see the attached "The Kyrgyz Investment Guide."

Chapter 1 Overview of Kyrgyzstan	Chapter 4 Establishing companies, etc.
1. Basic information	1. Types of companies
2. Geography	2. Establishing a company
3. Historical background	3. Branches and agencies of foreign corporations
4. Political system and social conditions	4. Registering a branch or agency
Chapter 2 Kyrgyz economy, industry and trade	5. Investment laws
1. Economy	Chapter 5 Taxation and investment incentives
2. Industry	1. Taxation system
3. Trade	2. Investment incentives
Chapter 3 Kyrgyzstan's financial system	Chapter 6 Investment environment
1. The central bank	1. Labor
2. Banks	2. Public infrastructure
3. Brokerages	3. Logistics
4. The commercial banking sector's credit balance and profitability	4. Intellectual property
5. Procurement of foreign capital and settlement practices	5. Environmental regulations
6. Financial services for foreigners	6. Litigation and arbitration
	7. Business practices

# 1. Selection of promising industries(initial macro data-based selection)

We started by using macroeconomic indicators to identify Kyrgyz industries with evident potential, then further refined our selections in each sector. In the second chapter of this report, we outline the basic thought processes that informed our initial selections.

In the case of primary and secondary industries, we based our initial selections on trade statistics. We started by calculating the trade specialization coefficient for each one, then, after comparing these in the form of a matrix with the values of neighboring country imports (as a proxy for market size), we identified 1) industries that would have to compete with third countries for their neighboring countries' demand, and 2) industries with strong export growth potential given the necessary structural reforms in Kyrgyzstan. We also took account of the scope for "generating fresh demand (development of potential customers)" and "boosting supply" as part of our selection process. In the initial stage, we selected 6 and 17 sectors from primary and secondary industries respectively.

In the case of tertiary industries, we compensated for the absence of trade statistics by using each industry's GDP and international balance of payment figures (services account). However, given the small number of tertiary industries, we defined our selections simply as "government-related" and "other," reflecting the limited involvement of private companies and our decision to exclude sectors the nature of whose business was difficult to define precisely.

## List of promising industries after preliminary selection

	Primary industries	Secondary industries	Tertiary industries
1	Meats and meat products	Beverages	Commerce
2	Dairy products and birds' eggs	Fibers and scraps for use in textiles	Hotels and restaurants
3	Grains and grain products	Plastics (before forming)	Transport and telecommunications
4	Fruits and vegetables	Plastics (after forming)	Financial services
5	Sugars, sugar products and honey	Leather and leather products; furs	Real estate and business services
6	Coffee, tea, cocoa, and spices	Rubber products	Government-related
7		Wood and cork products (excluding household furniture)	Education
8		Thread and fibrous products used in textiles	Healthcare
9		Non-ferrous metals	
10		Metal products	
11		Engines	
12		Other industrial machinery or components	
13		Electric machinery	
14		Road vehicles	
15		Furniture and components	
16		Clothing and accessories	
17		Footwear	

## 2. Narrowing down promising industries by sector

### (1) Agriculture and livestock

We used the following approach to identify promising agriculture and livestock sectors.

- a) To ascertain the current state of Kyrgyzstan's agriculture and livestock sectors and evaluate their ability to compete, we took the overall market (supply and demand) for agricultural products and key producer prices and compared them with those of Kazakhstan, which we treated as typical of Kyrgyzstan's nearest neighbors. Based on the results, we concluded that vegetables such as cabbage and rape had the capacity to compete, similarly carrots and turnips. Potatoes and milk also looked to have potential.
- b) As Kyrgyzstan is a landlocked country with correspondingly high logistical costs, we also took the view that products for which the costs of transportation could potentially be reduced, in other words products with a high price per unit weight, might also be worth considering. We consequently turned our attention to farm animals such as cows and sheep, and, from the standpoint of markets and retail outlets, we also included mutton and lamb.

### Promising business models

Having identified a number of promising products as outlined above, we turned our attention to potentially effective business models.

#### Candidate A: Exports of mutton and lamb to the Gulf countries

We based our definition of a promising market on the following four criteria which we then used to narrow down the list of potential target markets.

- (a) Population and market must be a reasonable size
- (b) Must have high per capita GDP and the potential for purchasing power growth
- (c) Per capita agricultural land area must be less than global average, indicating scope for agricultural imports
- (d) Must be a demand for (4) mutton and lamb but domestic supply-side must be limited

Results highlight potential of Gulf countries such as Saudi Arabia and Qatar as export destinations.

#### Candidate B: Increasing the value-added element of vegetables

The value-added element of vegetables such as cabbages, carrots, and turnips, which have a shorter growing season than fruit, could be increased and exports to neighboring countries secured, but if the focus is to be on vegetables, then consideration must also be given to the medium to longer term production environment.

#### Candidate C: Increasing the value-added element of dairy products

By boosting the value-added element of dairy products, which have a competitive edge over their Kazakhstan equivalents, both exports and domestic market sales could be

increased.

#### Candidate D: Industrial machinery leasing

Agricultural machinery is in short supply in Kyrgyzstan and 90% of the current supply (based on the number of registered units) is obsolescent, having already been in use for 20 years or more. Agricultural machinery leases are available from agricultural banks but funds are insufficient to ensure that the demand is not currently being met, thereby creating business potential in this area.

#### (2) Manufacturing

To identify the most promising sectors, we narrowed the field down by reference to 1) the presence or otherwise of a manufacturing base (history of manufacturing, sufficient existing companies, adequate workforce), 2) the supply of materials (plentiful domestic supply or availability of low-cost imports), 3) exports (scale of exports, export specialization coefficient, growth potential), 4) the import substitution effect (scale of imports, export specialization coefficient), 5) the job creation effect (labor intensity), and 6) the level of specialist knowledge and skills required. Based on our results, we selected the textile and apparel industry, and the meat packing industry.

##### a) Textiles and apparel

Textiles and apparel was one of Kyrgyzstan's major industries in Soviet times and although it lost momentum following the collapse of the Soviet Union, from 2000 onwards it has been regaining its status as one of the country's major industries, helped by the strong growth of clothing exports (mainly to Russia and Kazakhstan). Processing on commission based on material and designs specified by the customer is a widespread practice. However, the upstream end of the value chain is absent with the result that the industry is dependent on China among others for its raw materials. Problems to be resolved include plant layouts that are inefficient from the standpoint of mass production, obsolescent machinery, and a shortage of labor. Looking ahead, one possibility would be to improve plant layouts and press ahead with mechanization to enable the mass production of small-lot orders, making Kyrgyzstan the apparel OEM center of central Asia. By also taking advantage of its continuing ready access to the large Russian and Kazakhstan markets to increase its share of those markets, and by targeting the European market in the medium to long term, a steady increase in customer numbers should also be on the cards.

##### b) Meat packing

Kyrgyzstan has an active meat packing industry and strong demand from the industry for the plentiful domestic supply of livestock products for use as raw materials has made it one of the country's most important industries. Imports of meats and similar processed products have increased rapidly since the mid-2000s, tipping the account into deficit. In 2010, moreover,

Kazakhstan and others suspended the import of Kyrgyz meat products, citing the growing incidence of disease transmitted by farm animals, with the result that exports are currently at a low ebb. There are thus two main scenarios for the future growth of Kyrgyzstan's meat packing industry, namely to continue targeting the domestic market or alternatively to look to the Kazakhstan and Russian markets. Requirements for the production of processed meat products for export that meet other countries' import standards will include the introduction of legal provisions for the commercial slaughter of animals, traceability based on systems for the registration and management of individual farm animals, the more widespread use of vaccines and the like to prevent the spread of infectious diseases, the establishment of processing facilities that meet international standards, and the training of specialists in the management of production technology and hygiene.

### (3) Services

To identify the most promising service sectors, we narrowed the field down by reference to the 1) fluctuation range of their GDP composition ratio, 2) GDP growth rate, 3) trade balance, 4) size of their work force, 5) job creation effect, and 6) ability to attract foreign currency. Based on our results, we found the hotel & restaurant and transport & telecommunications industries to be relatively high scorers in each of our six chosen categories. In the hotel & restaurant industry, we focused on tourism, which has connections both with the hotel & restaurant industry itself and with the commercial sector in areas such as retailing, while in the transport & telecommunications industry, we focused on IT, given its potential to attract foreign currency.

#### (a) Tourism

We evaluated key countries, including Kyrgyzstan's near neighbors, based on the number of visitors from each, the fluctuation rates of these numbers, their access by air, and their economic levels. In addition to Kazakhstan, Russia, Uzbekistan, and Tajikistan, we then also identified Turkey, Europe (Germany, the United Kingdom, and France), South Korea, and China as short-term targets. In the case of Kyrgyzstan's four nearest neighbors, the aim would be to boost their unit value with the help of the food-service industry among others. The aim would also be to establish effective key visuals and appeals to attract visitors from Turkey and China, which have direct flight connections with Kyrgyzstan, and from Europe and South Korea, which also benefit from relatively easy access.

#### (b) IT

With a view to developing its IT industry, the Kyrgyz government is preparing the IT sector business environment. As part and parcel of this process, the government enacted its High-Tech Park legislation in 2011 to provide tax-related incentives.

Under the terms of the Kyrgyz constitution, Kyrgyz is the official language and Russian is one of the official languages. Many Kyrgyz people are fluent in Russian, which suggests there should be ample potential for Russian language ability to be put to good

use in the field of BPO. In the short term, Russia- and Kazakhstan-oriented call center and telephone sales operations could be promising areas. Once the requisite know-how has been acquired, expansion into business process outsourcing, whereby aspects of business management are undertaken on a subcontract basis, should also be possible.

### 3. Japanese corporate sector trends

As part of this process, seminars on the Kyrgyz business environment were held in July 2014 in Sapporo, Tokyo, and Osaka. The seminars attracted a total of 88 interested parties, 33 of them from private companies. The mere fact of attendance at one or other of the seminars suggests an interest in Kyrgyzstan and a questionnaire on the subject showed roughly half of those from private companies to have attended out of a prior belief that Kyrgyzstan could be a source of business opportunities for their companies. Approximately one in three of the private company respondents their companies were either "actively considering entry to Kyrgyzstan" or else "would like to know more."

On the other hand, interviews with individual companies, particularly large companies, revealed an almost complete dearth of interest in Kyrgyzstan. When weighing the possibility of expanding their operations overseas, the main considerations for large companies are as outlined below. Different companies have different priorities, of course, and the points below should not be seen as universally applicable.

#### Food processing

- From the consumer market standpoint, population size is important
- Income levels must be sufficient to enable the recognition of added value on the "product quality" front
- In the case of raw material procurement, the key factor for generic produce is "price" while that for specialty produce is the "supply-side setup"

#### Food packaging

- Presence or otherwise of packaging recycling systems
- Recognition by the target country population of the value-added element in packaging
- Raw material procurement environment in manufacturing centers (prices, quality, delivery times)

#### Machinery

- Presence or absence of customers, also market size and growth potential
- Distance from, and access to, Japanese or other nearby warehousing facilities
- Presence or absence of local companies with the ability to repair manufacturing plant
- Presence or absence of incentives that could reduce the costs of entry

#### Precision instruments (labor intensive)

- Personnel cost levels
- Diligence of the national
- Time and costs of transportation to Japan or key export destinations

#### Tourism

- Existence or otherwise of impressive key visuals with the power to impress
- Existence or otherwise of sightseeing data that could be used for marketing

#### 4. Issues in promoting investment

Local interviews highlighted issues that will need to be addressed including those listed below which will need to be prioritized by the government.

Reform of the tax system to encourage corporate business investment – higher corporation tax rates and the introduction of tax breaks for investment -

- Unification of the sales and value added taxes
- Increase from current corporation tax rate of 10%
- Formulation of tax incentives to attract overseas companies (tax reductions and exemptions)
- Reduced tax on investment when factories transplanted from urban to suburban areas
- Simulations of above tax system reforms and explanations to companies and the people

Elimination of high rates of interest on borrowing

- Agreement with central bank on need for further increase in minimum capital
- Agreement with central bank on need to analyze private banks' profitability (expense ratios)
- Training of finance professionals (overseas training courses, etc)
- 

Shift in favor of one-stop service

- Publication of flow Figure indicating procedure for the establishment of a company (using website)
- Investment seminars in countries where outward investment is on the increase (China, United Kingdom, Kazakhstan)
- Training for investment promotion agencies of other countries.

Enhancement of English-language information

- Translation into English of legal and regulatory requirements for the establishment of a company, payment of taxes, labor, etc
- Publication of above materials on the internet



#### Collection of immigration-related information

- Introduction of immigration cards following the introduction of relevant legal and regulatory provisions
- Gathering of information from major travel companies to ascertain the sort of information that will be needed for marketing purposes
- Preparation of statistical materials and publication on the internet (including English-language versions)

## Chapter 1 Key features of survey

### 1. Background to survey

Kyrgyzstan, a landlocked country of around 5.64 million people, is one of five central Asian countries that gained their independence from the former Soviet Union. However, a comparison of these five countries' per capita GDP, based on the IMF figures for 2013, shows Kyrgyzstan (USD 1,280) trailing far behind Kazakhstan (USD 12,843) and Turkmenistan (USD 7,112), both of which have benefited from economic growth fueled by the development of their natural resources. Apart from gold, Kyrgyzstan has no major natural resources and this, combined with a small population due to geographical conditions such as its mountainous terrain, has prevented it from developing the key industries that would have been needed to drive economic growth.

As a result, the Kyrgyz economy has structural problems, the worst of which is a chronic current account deficit. The main underlying factor is the country's trade deficit, which in 2012 (IMF estimate) stood at USD 2.7 billion, equivalent to more than 40% of its nominal GDP for the year (USD 6.5 billion). And as the country has no valuable exports other than gold to offset its dependence on imports for its main industrial products, its structural imbalances are as yet unresolved.

At the same time, urbanization has been slow with the result that 65% of the population still lives in rural areas (2012, World Bank). Given, moreover, the political differences that exist between the north and south, if the country is to Figure a course of stable democratic development, it must be based on balanced economic growth, the primary objective of which must at all times be to increase the value-added element of the agricultural and livestock, and related industries, in which most of the population are engaged, and to boost productivity.

In light of the two points outlined above (the trade deficit and agriculture-based economy), Kyrgyz society must "foster the emergence of export-oriented businesses in a balanced social context," a point which is recognized both in the IMF's Article IV Consultation and in the continuous development strategy outlined by Kyrgyzstan's National Council for Sustainable Development. Both these sources recognize that export business must be based on private sector activity both at home and abroad.

If businesses are to be based on private sector activity, the following three preconditions must be met. Kyrgyzstan currently has issues to address in all three areas.

#### Precondition A An enterprise must have clearly evident potential

Issue: Analysis undertaken to date of the investment potential of modern Kyrgyzstan has been neither comprehensive nor objective. The establishment of contact organizations and databases is incomplete and Japanese business's awareness of Kyrgyzstan remains limited.

Precondition B There must be leading business entities with the technologies to make the most of Kyrgyzstan's business potential

Issue: On the home front, Kyrgyz companies tend not to be competitive with the result that foreign inward investment will be needed to make them more so. The shortage of raw material processing technologies (in the food industry, for example) is also serious enough to ensure that companies that meet the standards necessary to export to the country's nearest neighbors are few and far between.

Precondition C Factors damaging to business must be limited in number

Issue: Kyrgyzstan's transition to a market economy is progressing and the overall investment environment is in no way inferior to those of its neighbors but major obstacles remain in the shape, for example, of the country's electric power supply and its customs clearance procedures (World Bank Doing Business 2014).

Kyrgyzstan will need to resolve these problems.

## 2. Aims of survey

Our project has two main objectives.

- (1) To gather investment environment-related information and analyze areas of advantage  
In pursuit of these objectives, our main aim will be to analyze the country's investment-related systems and implementation and to provide the resulting information to Japanese companies. Under the heading of the investment environment, we will also include our analysis of Kyrgyz industries with business potential. By offering clarification in these areas, we will be looking to provide a platform for both domestic and foreign companies wishing either to start a new business or to develop an existing one in Kyrgyzstan (thereby fulfilling Precondition A). By including areas in which Kyrgyz domestic technologies are inadequate, we will also be looking to encourage Japanese companies to enter the market and, in so doing, to enable the country's business potential to be used to better effect (thereby fulfilling Precondition B). We will also be looking to gather the information needed to achieve our second objective, namely "(2) To formulate an investment promotion strategy and identifying issues related to its practical implementation."
- (2) To formulate an investment promotion strategy and identifying issues related to its practical implementation  
By holding interviews with local government agencies and companies, we will look to identify possible obstacles to the promotion of investment and to demonstrate how these

might be overcome.

By achieving the objectives outlined at (1) and (2) above, it should be possible to meet Preconditions A, B, and C above. This should in turn enable the establishment of conditions necessary for the development of business in Kyrgyzstan, thereby taking the first step towards developing Kyrgyzstan's export business and reforming its economic structures.

The following additional observations concerning this project are made in light of the current situation in Kyrgyzstan and its origins.

- (a) Kyrgyzstan is seen as central Asia's "model student" of democracy and it is for this reason important that it should also achieve a level of economic prosperity and political stability that befits its status as a model. To ensure a balance of development between rural and urban settings and between the north and south of the country, it will in our view be of particular importance to develop the sorts of agricultural and livestock industries and light industries in which the bulk of the population with the lowest incomes are engaged.
- (b) Kyrgyzstan is the most pro-Japanese of the central Asian economies and it would be desirable if we could further strengthen the good relations between our two countries. We have undertaken this project to encourage the active involvement of technology-rich Japanese companies in Kyrgyzstan such that their technologies might eventually be transferred and grassroots exchange promoted.
- (c) Bearing in mind that Kyrgyzstan will likely have an ongoing need for Japanese support, we will also continue to gather information on policy issues unrelated to investment.

### 3. Survey implementation conditions

#### (1) Order of operations

Our program of operations will be divided into two main segments (an "investment environment survey" and an "investment promotion strategy"), each of which will be implemented in five distinct steps with the following ends in view.

"To identify attractive investment environments for foreign companies that will in turn create additional employment opportunities" and "to identify industries that will be effective in stimulating growth of the economy as a whole"

"To make proposals that take account of the risks to Kyrgyzstan's fiscal management such that "while any short-term increase in the country's income, outgoings, and foreign exchange gains may not be large, the policy effects will not take too long to appear, and

while the projects themselves may not pose much risk and may, indeed, take some years to turn profitable, they should in the interim be expected to boost exports"

To analyze the strengths and weaknesses of the Kyrgyz investment environment. To evaluate enterprises based on their characteristics and to select and analyze industries for which the Kyrgyz environment would be more attractive than that of other countries as a base from which to manage such an enterprise

When surveying the investment environment (preparing our investment guide), to identify "investment-related issues traceable to systemic problems common to every industry" and "investment-related issues characteristic of particular industries"

## (2) Preparations of investment guide

Our investment guide contains information on the political situation in Kyrgyzstan, on its economic and industrial trends, and on its legal and tax systems that could constitute a useful reference for Japanese companies and, indeed, for any foreign company considering entry into Kyrgyzstan. We based our guide on information obtained in interviews with Kyrgyz government agencies and economic organizations, law firms, financial institutions, and private companies, together with a wide range of legal and regulatory system-related source materials which we also managed to obtain.

By interviewing various Kyrgyzstan-related organizations and private companies, we were able to obtain up-to-date and as yet undocumented information while at the same time gaining an insight into the underlying thought processes. With the help of this information, we have sought to prepare an investment guide at once objective and in no way biased in favor of Kyrgyzstan that should be of use to any company considering investing in Kyrgyzstan.

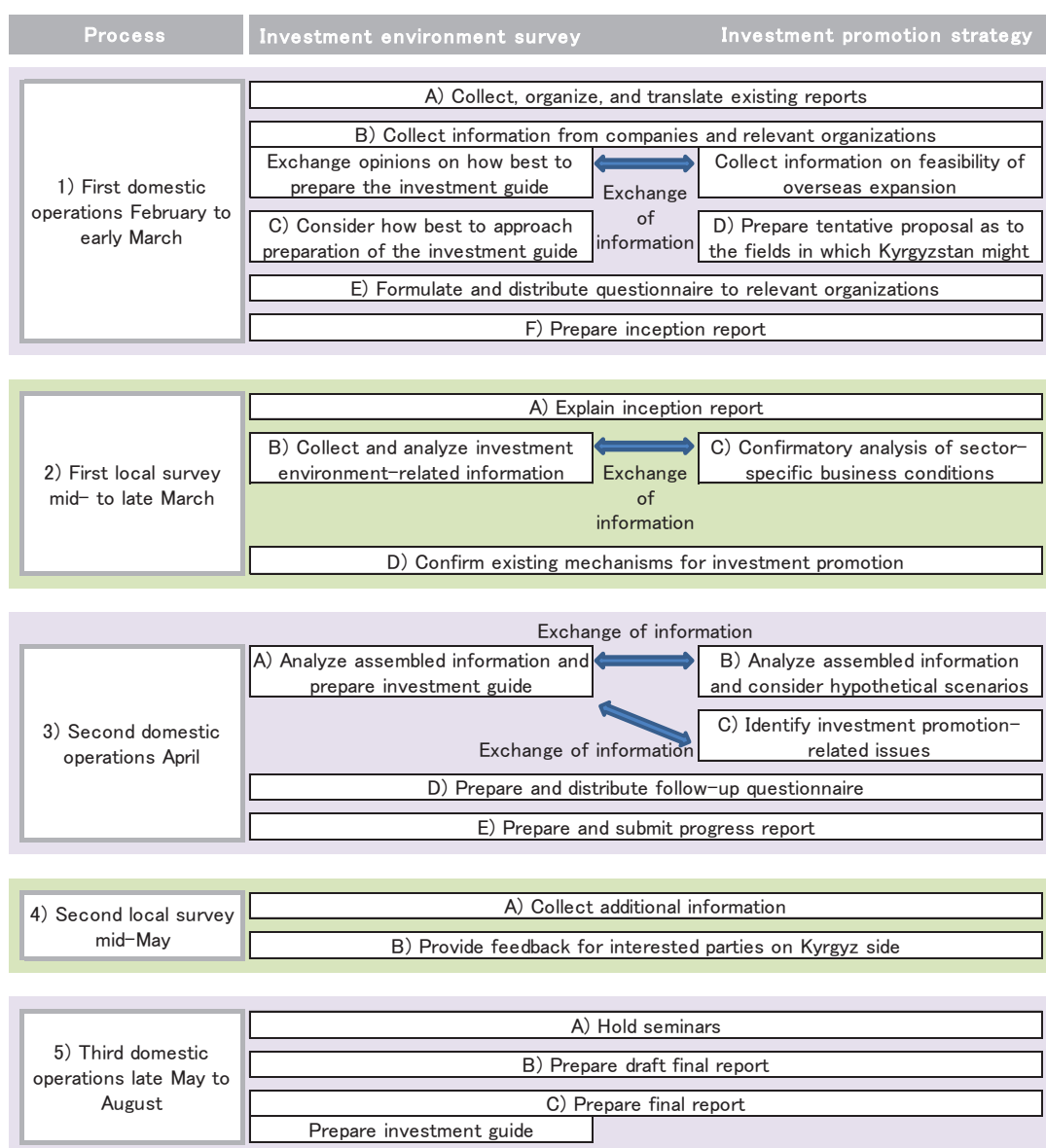


Figure 1-1. Order of operations

## Chapter 2 Potentially Promising Industries Determined through Macroeconomic Analysis

### 1. Features of the Kyrgyz economy

With a population of around 5.6 million, Kyrgyzstan is the least populous of the five nations of central Asia. Although its economic growth rate is high, the scale of the economy and income levels shown by per capita GDP are lower than those of surrounding countries. According to IMF statistics, during the ten years from 2003 to 2013, Kyrgyzstan's nominal GDP grew at an annual pace of 14.7% and per capita GDP more than tripled. Despite this increase, however, Kyrgyzstan's per capita GDP (USD 1,280) was the second lowest among the five nations, higher only than that of Tajikistan (USD 1,045) and still only about one tenth the level of Kazakhstan (USD 12,843), the country with central Asia's highest per capita GDP (Figure 2-1).

Two features of the Kyrgyz economy are a high proportion of primary industries underpinning GDP and a downward trend in the balance of trade.

The primary industry share of Kyrgyzstan's nominal GDP in 2012 was 20.2%, the 26th highest among 101 comparable countries (World Bank). However, if we look at worldwide trends, we can see that income (per capita GDP) tends to rise with the development of an economy's industrial (manufacturing) and service sectors. Therefore, in order to increase income levels in Kyrgyzstan, the country must aim to create more added value, either by 1) industrializing and/or shifting towards a service-based economy, or by 2) generating increased added value as an agricultural country.

Currently the trade environment is deteriorating. According to IMF data, in the past the trade balance had been roughly in balance (with a slight trade deficit), but from 2004 imports began rapidly expanding, led by petroleum products and other mineral fuels as well as automobiles and other transportation equipment. The trade deficit ballooned from about USD 100 million in 2003 to USD 4.3 billion in 2013 (Figure 2-2). In addition, Kyrgyzstan's agricultural and industrial products are not very competitive internationally. In most product categories except for "raw materials other than foods," imports exceed exports (Figure 2-2).

Table 2-1. Overview of Central Asian countries

	Population (Millions)	Land area (1,000 km <sup>2</sup> )	Nominal GDP (bil USD)	Per capita income (USD)
Kazakhstan	17	2,725	220	12,843
Turkmenistan	6	488	41	7,112
Uzbekistan	30	447	56	1,868
Kyrgyzstan	6	200	7	1,280
Tajikistan	8	143	8	1,045
Total (average)	67	4,003	333	4,981
Reference values	0		0	
Japan	127	378	4,902	38,491
China	1,361	9,597	9,181	6,747
Russia	143	17,098	2,118	14,819

Note: Land area figures are from 2012; all others are from 2013.

Source: Compiled from IMF and UN data.

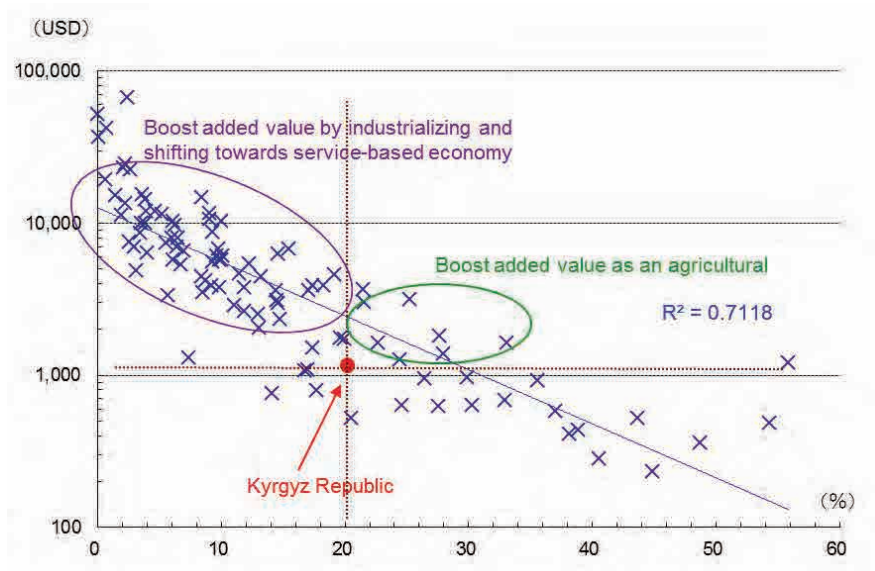


Figure 2-1. Primary industry share of nominal GDP & per capita GDP (2012)

Source: Compiled from IMF and World Bank data.



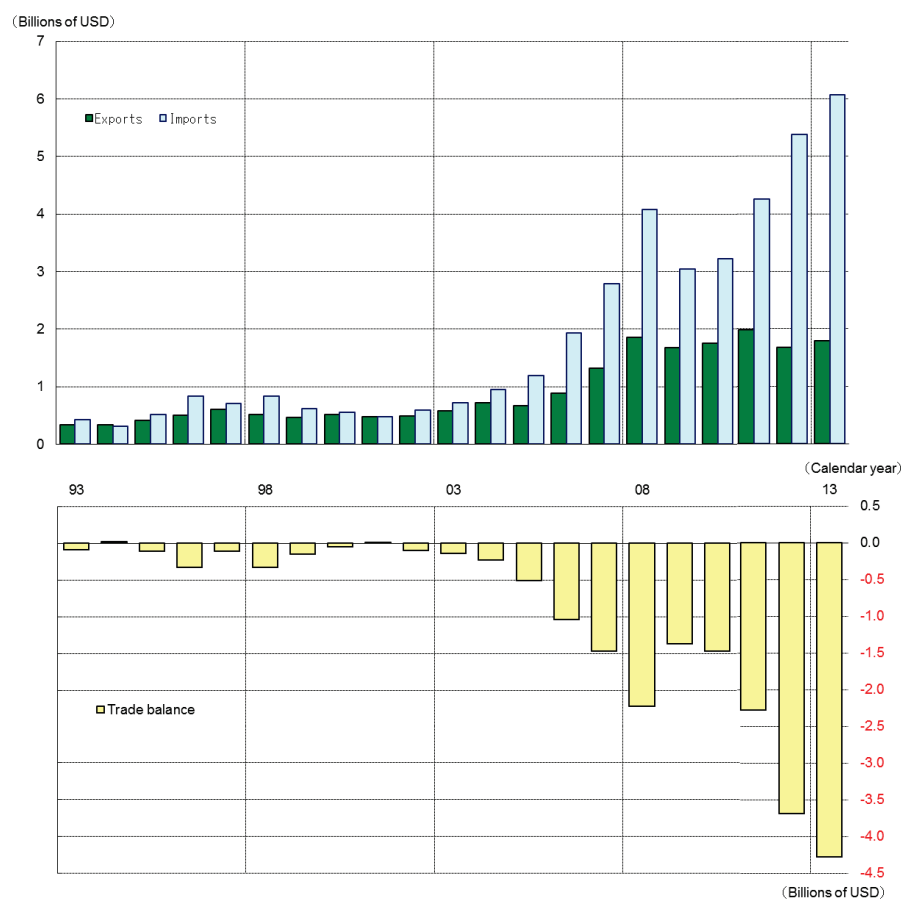


Figure 2-2. Trade balance, exports and imports

Source: Compiled from IMF data.

Table 2-2. Export Specialization Coefficients of Kyrgyz Exports by Product

(Calendar year)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Export specialization coefficient	0.01	-0.11	-0.10	-0.13	-0.24	-0.42	-0.36	-0.37	-0.28	-0.29	-0.37	-0.48
Food & Animals	-0.28	-0.18	-0.10	-0.11	-0.29	-0.24	-0.11	-0.06	0.01	-0.10	-0.30	-0.39
Live animals	0.53	0.29	0.32	0.91	1.00	#N/A	0.91	0.99	0.92	0.96	0.93	0.82
Meats and meat products	-0.87	-0.68	-0.75	-0.79	-0.88	-0.88	-0.90	-0.92	-0.91	-0.80	-0.91	-0.63
Dairy products and bird's eggs	0.60	0.73	0.79	0.68	0.63	0.50	0.39	0.33	0.36	0.47	0.38	0.28
Seafood and seafood products	-1.00	-0.98	-0.98	-0.91	-0.88	-0.98	-0.88	-0.87	-0.89	-0.94	-1.00	#N/A
Grains and grain products	-0.80	-0.79	-0.67	-0.93	-0.93	-0.92	-0.92	-0.90	-0.84	-0.74	-0.92	-0.91
Fruits and vegetables	0.69	0.76	0.64	0.54	0.35	0.54	0.74	0.81	0.83	0.73	0.67	0.63
Sugars and sugar products, honey	-0.44	-0.50	-0.17	0.02	-0.33	-0.65	-0.55	-0.88	-0.95	-0.84	-0.68	-0.93
Coffee, tea, cocoa, and spices	-0.92	-0.50	-0.56	-0.70	-0.66	-0.73	-0.66	-0.86	-0.82	-0.64	-0.79	-0.87
Animal feed	0.04	-0.79	-0.98	-0.71	-0.92	-0.95	-0.90	-0.98	-0.97	-0.95	-0.94	-0.96
Other food products	-0.95	-0.92	-0.91	-0.94	-0.61	-0.24	-0.27	-0.33	-0.43	-0.62	-0.81	-0.84
Beverages and tobacco	0.31	0.17	-0.19	-0.37	-0.39	-0.51	-0.54	-0.65	-0.32	-0.34	-0.50	-0.70
Beverages	-0.78	-0.87	-0.89	-0.65	-0.54	-0.89	-0.88	-0.90	-0.72	-0.77	-0.77	-0.88
Tobacco	0.46	0.47	0.18	-0.12	-0.27	-0.23	-0.25	-0.36	0.01	-0.01	-0.25	-0.54
Inedible raw materials	0.65	0.65	0.61	0.60	0.54	0.49	0.33	0.26	0.36	0.58	0.49	0.35
Raw hides and fur pelts	0.53	0.62	0.69	0.69	0.64	0.88	0.87	0.90	0.79	0.86	0.80	0.58
Seeds, nuts and kernels for oil production	0.50	-0.56	0.01	0.88	0.22	0.63	0.55	0.65	-0.14	0.57	-0.48	-0.49
Gums (including synthetic rubber)	-0.90	#N/A	#N/A	0.25	#N/A	0.24	#N/A	-0.60	0.10	-0.31	0.51	-0.91
Lumber and cork	-0.73	-0.87	-0.90	-0.86	-0.90	-0.89	-0.98	-0.97	-0.99	-0.96	-1.00	-0.97
Pulp and used paper	0.17	-0.78	-0.66	0.28	0.03	0.96	0.93	0.13	0.97	#N/A	0.64	#N/A
Fiber and scraps for use in textiles	0.85	0.83	0.83	0.80	0.79	0.78	0.71	0.66	0.79	0.76	0.79	0.83
Unrefined minerals, fertilizers	-0.36	-0.29	-0.70	-0.53	-0.56	-0.52	-0.51	-0.50	0.17	0.67	0.21	-0.18
Metallic ores and metal scrap	0.77	0.72	0.79	0.92	0.94	0.75	0.54	0.48	0.81	0.89	0.91	0.87
Other mineral or plant-derived raw materials	0.59	0.80	0.59	0.43	0.58	0.45	0.36	0.57	0.62	0.63	0.51	0.06
Mineral fuels and related materials	-0.27	-0.45	-0.49	-0.58	-0.65	-0.58	-0.40	-0.34	-0.22	-0.60	-0.51	-0.64
Coal, coke, and charcoal briquettes	-0.88	-0.92	-0.96	-0.97	-0.99	-0.98	-0.80	-0.70	-0.92	-0.94	-0.85	-0.67
Petroleum and petroleum products	-0.83	-0.55	-0.59	-0.72	-0.74	-0.62	-0.42	-0.12	-0.29	-0.68	-0.67	-0.72
Natural gas and gas products	#N/A	#N/A	#N/A	-0.98	-0.98	-0.97	-0.97	-0.98	-0.99	-0.99	-0.99	-0.99
Electric current	0.73	0.53	0.97	0.99	1.00	1.00	1.00	1.00	1.00	0.99	1.00	1.00
Animal and vegetable oil, fats and waxes	-0.81	-0.93	-0.99	-0.99	-0.96	-0.99	-0.97	-0.99	-0.96	-1.00	-0.99	-1.00
Animal oils and fats	#N/A	-0.53	-0.38	-0.77	-0.63	-0.41	-0.41	-0.33	-0.66	-0.92	-0.90	-0.80
Vegetal fats	-0.90	-0.99	-0.99	-0.99	-0.96	-0.99	-0.97	-0.99	-1.00	-1.00	-1.00	-1.00
Processed fats and waxes	0.06	-0.48	-0.98	#N/A	-0.95	-0.94	-0.94	-0.93	-0.43	-0.90	-0.64	-0.94
Chemical products	-0.72	-0.72	-0.81	-0.80	-0.91	-0.81	-0.80	-0.83	-0.71	-0.39	-0.74	-0.80
Organic compounds	-0.93	-0.25	-0.33	-0.90	-0.93	-0.31	-0.71	-0.87	-0.93	-0.85	-0.88	-0.85
Inorganic compounds	-0.31	-0.18	-0.16	-0.30	-0.71	-0.53	-0.48	-0.50	-0.28	0.75	0.10	-0.05
Dyestuffs, tanning agents and colorants	-0.95	-0.86	-0.91	-0.79	-0.88	-0.89	-0.81	-0.92	-0.87	-0.71	-0.75	-0.78
Pharmaceuticals	-0.99	-0.99	-0.99	-0.97	-0.98	-0.96	-0.97	-0.97	-0.95	-0.98	-0.95	-0.99
Essential oils, fragrances and cosmetics	-0.88	-0.95	-0.95	-0.96	-0.91	-0.98	-0.96	-0.97	-0.95	-0.88	-0.93	-0.96
Fertilizers	-1.00	-0.92	-0.98	-1.00	-0.99	-0.67	-0.92	-0.97	-0.98	-0.99	-0.48	-0.62
Plastics (before forming)	-0.98	-0.96	-0.98	-0.98	-0.97	-0.96	-0.93	-0.93	-0.85	-0.96	-0.72	-0.77
Plastics (after forming)	-0.90	-0.74	-0.94	-0.94	-0.80	-0.80	-0.91	-0.93	-0.88	-0.92	-0.89	-0.92
Other chemical products	-0.69	-0.83	-0.83	-0.88	-0.73	-0.60	-0.37	-0.49	-0.76	-0.84	-0.82	-0.80
Products by raw material	-0.44	-0.29	-0.20	-0.25	-0.25	-0.33	-0.29	-0.43	-0.64	-0.59	-0.42	-0.55
Leather and leather products, furs	0.76	0.99	0.99	0.99	0.99	1.00	0.99	0.99	0.99	0.98	0.93	0.98
Rubber products	-0.96	-0.95	-0.98	-0.94	-0.89	-0.95	-0.85	-0.76	-0.43	-0.75	-0.28	-0.48
Wood and cork products (excluding furniture)	-0.94	-0.94	-0.96	-0.98	-0.93	-0.95	-0.95	-0.95	-0.96	-0.99	-0.98	-0.98
Paper and paper products	-0.96	-0.88	-0.80	-0.75	-0.79	-0.78	-0.69	-0.66	-0.62	-0.69	-0.70	-0.74
Textile and fiber products	-0.31	-0.48	-0.27	-0.37	-0.34	-0.40	-0.28	-0.73	-0.69	-0.67	-0.51	-0.74
Non-metallic mineral products	0.19	0.28	0.58	0.56	0.48	0.39	0.43	0.24	-0.66	-0.53	-0.59	-0.34
Iron and steel	-0.68	-0.83	-0.89	-0.85	-0.98	-0.84	-0.88	-0.91	-0.98	-0.63	-0.48	-0.57
Non-ferrous metals	-0.10	0.18	0.19	0.02	-0.18	0.00	-0.20	-0.10	0.17	0.22	0.47	0.28
Metal products	-0.66	-0.37	-0.69	-0.75	-0.72	-0.80	-0.79	-0.75	-0.75	-0.72	-0.42	-0.68
Machinery and transport equipment	-0.20	-0.39	-0.48	-0.52	-0.54	-0.69	-0.59	-0.71	-0.56	-0.52	-0.61	-0.53
Engines	0.21	-0.34	-0.57	-0.07	-0.74	-0.64	-0.72	-0.63	-0.59	-0.31	-0.54	-0.23
Specialized machinery	-0.70	-0.86	-0.70	-0.83	-0.80	-0.77	-0.65	-0.84	-0.78	-0.77	-0.78	-0.72
Metal processing equipment	0.91	0.89	0.76	0.69	0.02	-0.21	-0.02	-0.31	0.22	-0.49	-0.43	-0.66
Other industrial machinery or components	-0.43	-0.31	-0.51	-0.45	-0.68	-0.46	-0.54	-0.74	-0.42	-0.67	-0.67	-0.65
Office equipment and computers	-0.92	-0.89	-0.87	-0.99	-0.94	-0.96	-0.78	-0.71	-0.96	-0.92	-0.96	-0.91
Telecommunications and audio equipment	-0.63	-0.78	-0.94	-0.97	-0.98	-0.97	-0.89	-0.97	-0.89	-0.83	-0.90	-0.96
Electric machinery	0.40	0.13	0.11	0.13	0.04	-0.18	-0.18	-0.30	-0.18	-0.09	-0.34	-0.63
Road vehicles	-0.16	-0.15	-0.54	-0.65	-0.45	-0.73	-0.46	-0.69	-0.53	-0.52	-0.53	-0.43
Other transport equipment	-0.78	-0.29	-0.69	-0.54	0.36	-0.58	-0.76	-0.66	-0.54	-0.25	-0.78	0.03
Miscellaneous manufactured items	-0.52	-0.45	-0.15	0.01	-0.05	-0.03	0.07	-0.28	-0.11	-0.03	-0.18	-0.41
Assembled buildings, sanitary, heating/cooling, or lighting equipment, etc.	-0.79	-0.74	-0.78	-0.68	-0.58	-0.70	-0.78	-0.79	-0.71	-0.88	-0.67	-0.82
Furniture and components	-0.88	-0.84	-0.80	-0.66	-0.30	-0.54	-0.65	-0.59	0.44	-0.51	-0.68	-0.75
Handbags and travel goods	-0.55	-0.61	-0.46	-0.80	-0.64	-0.67	-0.58	-0.91	-0.92	-0.91	-0.91	-0.94
Clothing and accessories	-0.54	-0.36	0.09	0.55	0.57	0.59	0.83	-0.04	0.26	0.33	0.12	-0.14
Footwear	-0.85	-0.94	-0.82	-0.63	-0.70	-0.65	-0.41	-0.85	-0.80	-0.81	-0.77	-0.94
Other specialized or scientific equipment	-0.75	-0.71	-0.11	-0.82	-0.32	-0.94	-0.83	-0.84	-0.63	-0.92	-0.70	-0.78
Photographic equipment, optical equipment and clocks	-0.84	-0.81	-0.98	-0.73	-0.74	-0.68	-0.64	-0.45	-0.78	-0.88	-0.96	-0.96
Other miscellaneous manufactured items	-0.19	-0.13	-0.06	-0.13	-0.05	-0.16	-0.23	-0.29	-0.55	-0.63	-0.64	-0.61
Items subject to special handling	1.00	1.00	0.98	#N/A	0.98	-0.40	-0.51	-0.34	-0.20	0.82	0.82	0.59
Coins (excluding gold coins)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	-0.94	#N/A	-0.96	-0.96
Gold (excluding monetary gold)	1.00	1.00	1.00	#N/A	0.99	0.94	0.98	0.94	0.99	1.00	1.00	0.81
Other												

Note: Green indicates a positive export specialization coefficient; red indicates a negative one. The closer the value is to +1 or -1, the darker the color.

Source: Compiled by Daiwa Institute of Research based on UNCTAD data.

## 2. Selection of promising industries

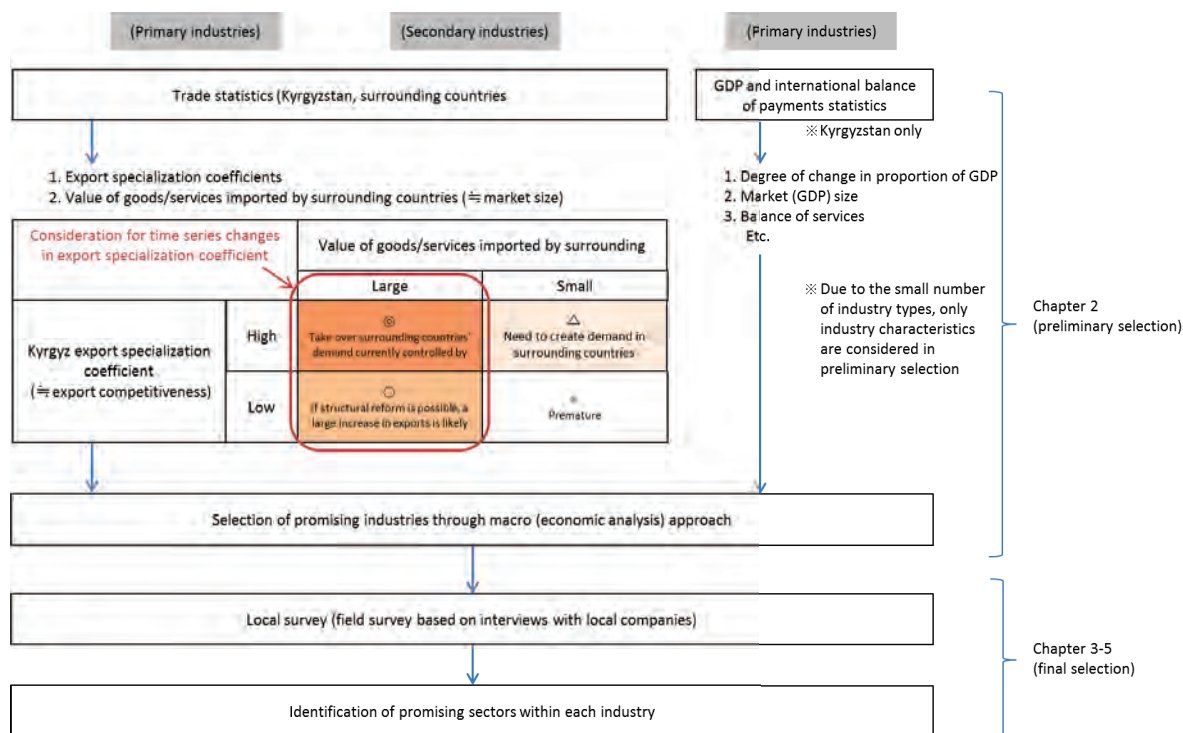


Figure 2-3. Selection of promising industries

Figure 2-3 shows the process by which this study selected promising industries. Selection was performed in two stages. Preliminary selection based on analysis using macroeconomic statistics was used to narrow the field to about 10 types of businesses within each industry. In the final selection, we selected one to three promising industries based on field study of businesses and institutions related to the industries identified in the preliminary selection. The following explains the process of preliminary selection (refer to Chapters 3-5 for selection processes used for each industry).

Regarding primary industries (mainly agriculture) and secondary industries (mainly manufacturing), we selected noteworthy industries based on trade statistics. In order to increase per capita GDP and acquire foreign currency in landlocked Kyrgyzstan, it is necessary to improve the nation's trade balance by exporting to surrounding countries goods that can be shipped relatively cheaply, and by strengthening import replacement industries.

Regarding the potential for exports to surrounding countries (Russia, Kazakhstan, Uzbekistan, Tajikistan and Turkmenistan), we made inferences about the competitiveness of each industry sector based on the trade statistics of surrounding countries. Specifically, we used the value of trade (exports + imports) and export specialization coefficients ( $[\text{exports} - \text{imports}] \div [\text{exports} + \text{imports}]$ ). For example, if an industry has a high value of trade but an export specialization coefficient close to  $-1$ , we see that there is not enough supply capacity within the country to

meet domestic demand, so people depend on imports.

Next, we found Kyrgyzstan's export specialization coefficient for that industry and compared it to the coefficients of neighboring countries. Based on the absolute value of Kyrgyzstan's coefficient and its trend over time (from 2001 to 2012), we derived (1) industries in which demand from surrounding countries should be taken over from a third nation (large-scale market, high export competitiveness) and (2) industries in which there is significant room for import expansion if Kyrgyzstan can implement structural reforms (large-scale market, low export competitiveness).

In addition, we identified industries that are notable either for their "potential for new demand creation (customer development)" —because Kyrgyzstan already has high export competitiveness but demand from surrounding countries is low—or for "room for expansion of supply" because Kyrgyzstan already has high export competitiveness but lacks adequate production capacity. Industries for which Kyrgyzstan's import volumes are high while its export specialization coefficient is low are factors in expanding the nation's trade deficit, and were added to the list of notable industries from the standpoint of whether or not imports should be replaced with domestic production.

Since tertiary industries primarily consist of service businesses that are not covered by trade statistics, we based our selection on such factors as fluctuation range of their GDP composition ratio, GDP size, and the contribution of changes in the balance on services.

### 3. Primary and secondary industry sectors that passed preliminary selection based on macro-economic analysis

Table 2-3 shows the results of preliminary selection of primary and secondary industries. For each of the 54 market sectors analyzed, Table 2-4 shows development potential, problems, and current status based on trade statistics. Furthermore, the final selection names "meat and meat products," "dairy products" and "vegetables" among the primary industries, and "clothing (sewing businesses)" among secondary industries. The processes by which these final candidates were selected are explained in Chapter 3 (primary industries) , and Chapter 4 (secondary industries).

Table 2-3. List of promising industries after preliminary selection (primary and secondary industries)

No	Broad category	Intermediate category
3	Agriculture	Meats and meat products
4	Agriculture	Dairy products and birds' eggs
6	Agriculture	Grains and grain products
7	Agriculture	Fruits and vegetables
8	Agriculture	Sugars, sugar products and honey
9	Agriculture	Coffee, tea, cocoa and spices

No	Broad category	Intermediate category
12	Beverages	Beverages
16	Raw materials	Fibers and scraps for use in textiles
26	Chemical products	Plastics (before forming)
27	Chemical products	Plastics (after forming)
29	Products by raw material	Leather and leather products; furs
30	Products by raw material	Rubber products
31	Products by raw material	Wood and cork products (excluding furniture)
33	Products by raw material	Thread and fibrous products used in textiles
36	Products by raw material	Non-ferrous metals
37	Products by raw material	Metal products
38	Machinery and transport equipment	Engines
41	Machinery and transport equipment	Other industrial machinery or components
44	Machinery and transport equipment	Electric machinery
45	Machinery and transport equipment	Road vehicles
48	Miscellaneous manufactured items	Furniture and components
50	Miscellaneous manufactured items	Clothing and accessories
51	Miscellaneous manufactured items	Footwear

Note: The left-hand "No." column shows the number assigned to each sector in Table 2-4. Shaded items indicate sectors that survived the final selection process.

Table 2-4. List of promising industries for preliminary selection (primary and secondary industries)

Line	Broad category	Intermediate category	Analysis of current status/ Questions	Possibilities (ideas for improvement)	Issues / criteria necessary for determi	Line
1	Agriculture	General	What is the self-sufficiency ratio and how much has it changed over time?	Increasing the self-sufficiency ratio is desirable, but is it a good idea to promote export-oriented cultivation? Would like to clarify reasons for doing (or not doing) so.	How should we define "self-sufficiency ratio"?	1
2	Agriculture	Live animals	Export specialization coefficient (ESC) of +0.82 in 2012, up from +0.53 in 2001. Trade value is de minimus (USD 9 million). All other countries have import surpluses.		Surrounding countries have small trade volumes; not clear whether there is potential for mass trade	2
3	Agriculture	Meats and meat products	ESC -0.63 in 2012, up from -0.83 in 2001. Trade value almost USD 100 million. In surrounding countries (including Russia) ESC almost always ranges from -0.95 to -1.00.	Neighboring countries are not meeting their domestic demand. Kyrgyzstan also has an import surplus, but in some price ranges might have potential to export to meet neighboring countries' demand.	What are neighboring countries' import standards? What is needed for mass production in terms of equipment, raw materials, capital, etc.?	3
4	Agriculture	Dairy products and birds' eggs	ESC declined from +0.60 in 2001 to +0.28 in 2012. Trading value a bit more than USD 50 million. ESC in surrounding countries (including Russia) almost always ranges from -0.85 to -1.00.	Neighboring countries are not meeting their domestic demand. Kyrgyzstan is already an exporter, but why is its ESC declining? Trading volume among neighboring countries is about half that of meat products, but perhaps there is an opportunity to take up neighbors' demand.	What are neighboring countries' import standards? What is needed for mass production in terms of equipment, raw materials, capital, etc.?	4
5	Agriculture	Seafood and seafood products	ESC could not be measured in 2012. Based on 2001 ESC of -1.00, it seems that fish and other marine life cannot be harvested. Trade value is USD xx million. Tajikistan and Uzbekistan are importers (about -0.88). ***** ??? USD xx million: ●億ドル [or +100 million]	None in particular	None in particular	5
6	Agriculture	Grains and grain products	ESC declined from -0.80 in 2001 to -0.91 in 2012. Trading value almost USD 200 million. Kazakhstan (+0.81) and Russia (+0.70) are exporters. Ather neighboring countries are importers ranging from -0.97 to -1.00. Second largest trading volume following "fruits and vegetables."	We infer that Kazakh and Russian wheat and potato prices are lower, but from the standpoint of decreasing Kyrgyzstan's trade deficit, it seems necessary to enable stable procurement from domestic sources.	Imposing duties on imported products is not tenable because it would create a spike in domestic inflation. It could also lead to political and/or social problems. Need to analyze causes for price gap between local and Russian/Kazakh products.	6
7	Agriculture	Fruits and vegetables	Slight decline in ESC from +0.69 in 2001 to +0.63 in 2012. Trade value USD 200 million plus. Other exporters are Uzbekistan (+0.96, USD 1.25 billion) and Tajikistan (+0.47, USD 60 million). Other regional countries are mostly import-dependent with ESCs ranging from -0.88 to -0.93. This is Kyrgyzstan's biggest agricultural trade sector in terms of monetary value.	Trade value is much smaller than Uzbekistan's, but since surrounding countries are mostly importers, perhaps there is a chance to capture some of that demand.	Since these products are perishable, we imagine there will be questions about the stability of production volumes, prices, and other aspects of the supply framework. Must ascertain differences between Kyrgyz and Uzbek products.	7
8	Agriculture	Sugars and sugar products; honey	ESC declined from -0.44 in 2001 to -0.93 in 2012. Trading value USD 90 million. Other countries were also net importers (-0.64 to -1.00). Trading value for the entire region, including Kyrgyzstan, is about the same as for meat products. Why did Kyrgyzstan's import dependence increase?	Did Kyrgyz import dependence increase because of a problem with domestic production capacity or because cheap imported products from outside Central Asia replaced local products? Given the level of trading value, might it be worthwhile to take a look at the Kyrgyz business style?		8
9	Agriculture	Coffee, tea, cocoa, and spices	ESC declined slightly from -0.92 in 2001 to -0.87 in 2012. Trading value USD 110 million. Other nations are also completely import-dependent (-0.62 to -0.99). Except for Russia, trading values are the same as for meat and sugars.	Along with economic development, coffee consumption has been rising. Coffee beans are imported, but how about doing the roasting and other processing within Kyrgyzstan?		9

Line	Broad category	Intermediate category	Analysis of current status/ Questions	Possibilities (ideas for improvement)	Issues / criteria necessary for determination	Line
9	Agriculture	Coffee, tea, cocoa, and spices	ESC declined slightly from -0.92 in 2001 to -0.87 in 2012. Trading value USD 110 million. Other nations are also completely import-dependent (-0.62 to -0.99). Except for Russia, trading values are the same as for meat and sugars.	Along with economic development, coffee consumption has been rising. Coffee beans are imported, but how about doing the roasting and other processing within Kyrgyzstan?		9
10	Agriculture	Animal feed	ESC declined sharply, from +0.04 in 2001 to -0.96 in 2012. Trading value USD 5 million. Tajikistan and Uzbekistan have similar ESCs. Why did Kyrgyzstan stop being able to meet its own feed needs?	So long as low-cost, high-quality feed is available, we see no reason to include this among the top choices given the tiny scale of the market.		10
11	Agriculture	Other food products	ESC declined from -0.95 in 2001 to -0.84 in 2012. Trading value USD 80 million. All of the other countries are basically importers only, with ESCs of -1.00.	Since it is difficult to determine which items are included, we believe it is fine to assign lower priority for the time being.		11
12	Beverages	Beverages	ESC was -0.88 in 2012, down from -0.78 in 2001. Trading value USD 70 million. Uzbekistan was an exporter (+0.35), but the other countries were net importers. Turkmenistan (-0.99) and Kazakhstan (-0.85) in particular were almost entirely dependent on imports. Trading value for each country was less than USD 100 million, except Kazakhstan (USD 300 million) and Russia (USD 3.1 billion).	In our view the situation suggests that local manufacturers are strong. It would be especially difficult to export a product that such as commodity water that is expensive to transport relative to its unit price. It might be good to aim to market beverages at advanced countries by emphasizing beneficial effects if it's possible to make premium products.	How would they distinguish their product from existing branded waters like Volvic, Vittel and Evian? Can they establish a stable supply system? Can they procure low-cost PET or other packaging materials?	12
13	Raw materials	Raw hides and fur	ESC in 2012 (+0.58) was little changed from 2001 (+0.53). Trading value USD 21 million. Other countries are similarly net exporters. But in all cases trading value is minimal.	Judging from the product characteristics and trading value, this is a low-priority sector.		13
14	Raw materials	Wood and cork	ESC declined from -0.73 in 2001 to -0.97 in 2012. Trading value USD 65 million. Russia's ESC was +0.96, but all others were completely import-dependent (-0.99 to -1.00).	Judging from the product characteristics and trading value, this is a low-priority sector.		14
15	Raw materials	Pulp and used paper	It was not possible to measure ESC for 2012 (no trading value). This represents deterioration from 2001, when ESC was +0.17. Among other countries, Uzbekistan and Russia had high ESCs of +0.80 while Tajikistan had a low ESC of -0.75. The only country with trading value of more than USD 100 million was Russia (USD 1.3 billion).	We don't know whether or not there are any paper factories in Kazakhstan, but we imagine that household paper products are probably imported. Because the paper manufacturing would address domestic demand and entail a high capitalization ratio (due to need for a lot of electricity), it is considered low-priority.		15
16	Raw materials	Fiber and scraps for use in textiles	ESC was little changed from 2001 (+0.85) to 2012 (+0.83). Trading value USD 50 million. Russia is a net importer (-0.90) but other countries export almost all production: Kazakhstan (+0.46), Tajikistan (+0.99) and Turkmenistan (+1.00). Turkmenistan and Uzbekistan have especially large trading values of almost USD 2 billion each.	The reason Kyrgyzstan's ESC is somewhat lower than that of neighboring countries may be that domestic sewing plants import fiber from overseas. From the standpoint of adding value, rather than expanding exports, perhaps the key to this area may be the degree to which Kyrgyzstan can supply domestic sewing plants. It is also important to check on the status of cash-based sales by farming families, for example to find out whether they are selling cheaply because they want cash income for daily use.	Confirm destinations of exported fiber  Existence of primary and/or secondary processors in Kyrgyzstan	16
17	Raw materials	Unrefined minerals, fertilizers	ESC improved somewhat from -0.36 in 2001 to -0.18 in 2012. Trading value of USD 40 million. Other countries are net importers with trading values of under USD 100 million, except for Kazakhstan (+0.89) and Russia (+0.15).	Since this category is related to natural resources, we suppose it is a low-priority area.		17



Line	Broad category	Intermediate category	Analysis of current status/ Questions	Possibilities (ideas for improvement)	Issues / criteria necessary for determination	Line
18	Raw materials	Metallic ores and metal scrap	ESC improved from +0.77 in 2001 to +0.87 in 2012. Trading value USD 160 million. Turkmenistan (+0.87) and Kazakhstan (+0.78) had high ESCs while Russia, Uzbekistan and Tajikistan had low ones of around -0.5. Trading values of Tajikistan and Uzbekistan were a little over USD 300 million, while those of Kazakhstan and Russia were larger, with each around USD 5.0 billion.	Since roughly half of Kyrgyzstan's mining and industrial output consists of metal products, one might think there would be a lot of scrap, but it is unclear whether this pertains to scrap gold. However, we believe it would be better to focus on improving metal product yields rather than selling metal as scrap.		18
19	Raw materials	Other animal or plant-derived raw materials	ESC deteriorated from +0.59 in 2001 to +0.06 in 2012. Trading value was USD 10 million. Turkmenistan had the highest ESC of +0.85 and trading value of USD 260 million.	Judging from the product characteristics and trading value, this is a low-priority sector.		19
20	Chemical products	Organic compounds	ESC improved a bit from -0.93 in 2001 to -0.85 in 2012. Trading value a negligible USD 8 million. Tajikistan and Turkmenistan import almost all of these products. Uzbekistan's ESC was about -0.66, while Russia's was +0.24. Trading value is relatively low.	Judging from the product characteristics and trading value, this is a low-priority sector.		20
21	Chemical products	Inorganic compounds	ESC improved a bit from -0.31 in 2001 to -0.05 in 2012. Trading value USD 60 million. ESCs of Turkmenistan, Uzbekistan and Kazakhstan were high at over +0.80. Russia's was +0.45. Tajikistan's was low at -0.88. Trading volumes were high: even Tajikistan's was just under USD 200 million; Turkmenistan USD 650 million, Uzbekistan USD 870 million, Kazakhstan USD 3.6 billion and Russia USD 6.5 billion.	We need a bit more information since we don't know how inorganic compounds are being used. Since trading value is large, perhaps there is already market participation.		21
22	Chemical products	Dyestuffs, tanning agents and colorants	ESC improved a bit from -0.95 in 2001 to -0.78 in 2012. Trading value USD 32 million. Other countries also had low ESCs ranging from -0.70 to -0.98. Trading values were about 20% of those of inorganic compounds.	Judging from the product characteristics and trading value, this is a low-priority sector.		22
23	Chemical products	Pharmaceuticals	ESC was unchanged: -0.99 in 2001 and again in 2012. Trading value just under USD 200 million. Except for Kazakhstan (-0.80), other countries also imported almost exclusively (-0.91 to -1.0). Trading value was just under USD 600 billion for Uzbekistan, USD 1.3 billion for Kazakhstan, and USD 13.8 billion for Russia.	Based on the nature of pharmaceutical products and trends in generic companies, we suppose it will be hard to imagine Kyrgyzstan becoming a big player in the generics market.		23
24	Chemical products	Essential oils, fragrances and cosmetics	ESC declined somewhat from -0.88 in 2001 to -0.96 in 2012. Trade value USD 90 million. Other countries are also net importers. Trading value less than half that of pharmaceuticals.	There is demand from surrounding countries, but even looking at the big picture, so long as the amount is small it is hard to conceive of a fragrance manufacturer building a factory in this country.		24
25	Chemical products	Fertilizers	ESC improved from -1.00 in 2001 to -0.62 in 2012. Trading value was USD 70 million. Russia (+0.99) and Uzbekistan (+0.94) were net exporters. Turkmenistan (-1.00) only imported. Kazakhstan's ESC was -0.2 while Tajikistan's was -0.3. Uzbekistan's exports were valued at a significant USD 500 million.	Kyrgyzstan seems to be exporting a certain amount of fertilizers, but if we consider their effect on production volumes etc. of agricultural products, we wonder if this area should be a candidate for particular attention.	It is necessary to understand how to distinguish fertilizers (by price or quality).	25



Line	Broad category	Intermediate category	Analysis of current status/ Questions	Possibilities (ideas for improvement)	Issues / criteria necessary for determi	Line
26	Chemical products	Plastics (before forming)	ESC improved a bit from -0.98 in 2001 to -0.77 in 2012. Trading value almost USD 60 million. Turkmenistan had a high ESC of +0.71 but all other countries were net importers. Except for Russia, every country's ESC improved. Trading values were: Turkmenistan USD 500 million, Uzbekistan USD 400 million, Kazakhstan USD 600 million, and Russia a large USD 6.4 billion.	When we think of plastics before forming, we imagine pellets used for making PET, but as of this writing we don't have a clear picture. Nevertheless, we believe that in landlocked Kyrgyzstan, plastics before forming will be more competitive than goods manufactured from plastic. Still, from an international standpoint this should mean general-use products so the key will probably be how cheaply they can be made.	Confirm product images.	26
27	Chemical products	Plastics (after forming)	ESC was little changed from -0.90 in 2001 to -0.92 in 2012. Trading value USD 46 million. All other countries were also net importers. Even Turkmenistan, which exported plastics before forming, was a near total importer with ESC of -0.99 when it came to plastics after forming. Trading values were about half those of plastics before forming.	Plastic products after forming are probably used domestically. Since Kyrgyzstan's ESC was -0.92, the country is depending on imports for almost all domestic plastic products. In order to increase the competitiveness of household-use items, we imagine it will be necessary to improve this index, i.e. to enable procurement from domestic sources.	Die technologies	27
28	Chemical products	Other chemical products	ESC declined from -0.69 in 2001 to -0.80 in 2012. Trading value was USD 53 million. Overall, other countries were also net importers. Trading value was about the same as for plastic products after forming.	Judging from the product characteristics and trading value, this is a low-priority sector.		28
29	Products by raw material	Leather and leather products; furs	ESC in 2012 was +0.98, up from +0.76 in 2001. However trading value was a small USD 15 million. Tajikistan and Uzbekistan both had ESCs exceeding +0.90, but both had trading values of under USD 100 million.	This area is competitive but might not be suitable for mass marketing. However, Kyrgyz's trading value for "raw hides and fur pelts" is over USD 20 million. Depending on the destination, we wonder if Kyrgyzstan might be able to supply more leather products by increasing the degree of processing that it offers.		29
30	Products by raw material	Rubber products	ESC improved greatly, from -0.96 in 2001 to -0.48 in 2012. Trading value was over USD 100 million. Other countries were also net importers. Kyrgyzstan's stands out for improvement in its ESC. This is a fairly large market, with trading value of USD 160 million for Turkmenistan, USD 260 million for Uzbekistan, USD 670 million for Kazakhstan, and USD 5.2 billion for Russia	Check on reasons for Kyrgyzstan's improvement. Even if Kyrgyzstan won't start making car or bike tires, one idea might be to research possibilities for becoming a supplier to other countries, since demand for rubber products increases along with economic development.	Don't rubber products use lots of electricity? Won't transport costs be high?	30
31	Products by raw material	Wood and cork products (excluding furniture)	ESC was little changed, from -0.94 in 2001 to -0.98 in 2012. Trading value was USD 70 million. Russia had roughly even balance of trade, while other countries were almost entirely importers with ESCs ranging from -0.91 to -1.00. Although they have lumber resources, they are unable to process them. Trading values for Kyrgyzstan, Tajikistan, and Turkmenistan were all under USD 100 million. Uzbekistan's was USD 170 million, and Kazakhstan's about USD 400 million.	Kyrgyzstan's ESC for raw lumber and cork materials was also extremely low. Despite the proximity of mountains, so far it has been almost exclusively an importer. It could be that importing is cheaper given the small quantities involved, but if competitiveness can be increased perhaps it can export.	Clarify manufacturing costs	31

Line	Broad category	Intermediate category	Analysis of current status/ Questions	Possibilities (ideas for improvement)	Issues / criteria necessary for determination	Line
32	Products by raw material	Paper and paper products	ESC improved from -0.96 in 2001 to -0.74 in 2012. Trading value USD 80 million. Other countries are also net importers.	Even if we look at the pulp and used paper that are raw materials for this category, we surmise that domestic supply capacity is limited. We suppose priority is low since products would address domestic demand and unit price is low relative to weight.		32
33	Products by raw material	Thread and fibrous products used in textiles	ESC declined from -0.31 in 2001 to -0.74 in 2012. Trading value was USD 160 million. Turkmenistan and Uzbekistan's ESCs were around +0.65. Other countries were net importers: Tajikistan (-0.68), Kazakhstan (-0.94), and Russia (-0.88). Trading values were just under USD 300 million for Tajikistan, USD 900 million for Turkmenistan, USD 1.3 billion for Uzbekistan, USD 700 million for Kazakhstan, and a large USD 7.0 billion for Russia.	Competitiveness is improving both upstream (fiber—most likely sheep's wool) and sewing (downstream), but we understand that productivity is low for intermediate materials. In the case of OEM, imports tend to rise as customers specify particular materials, so we will confirm the situation by talking with downstream sewing businesses. If this area can become competitive, perhaps it might drive growth in sewing businesses.		33
34	Products by raw material	Non-metallic mineral products	ESC declined from +0.19 in 2001 to -0.34 in 2012. Trade value of USD 140 million. Other countries are net importers except Uzbekistan (+0.26), whose ESC improved by 1 point over the course of 10 years.	We put this category on hold for the time being since we have no idea what kind of products it represents.		34
35	Products by raw material	Iron and steel	Slight improvement in ESC from -0.68 in 2001 to -0.57 in 2012. Trading value USD 290 million. Kazakhstan and Russia were net exporters but Tajikistan, Turkmenistan and Uzbekistan were almost completely importers. Since nearby Kazakhstan produces USD 9.0 billion worth of these metals, we surmise that Kyrgyzstan imports from Kazakhstan.	We assume that almost all production is by means of electric furnaces. We have heard that if construction demand increases, these products will be supplied from Turkey. Since this business is dependent on equipment, it is low-priority.		35
36	Products by raw material	Non-ferrous metals	ESC improved from -0.10 in 2001 to +0.28 in 2012. Trade value USD 50 million. Other countries were net exporters except Turkmenistan (-0.87). Countries with especially high ESCs were Tajikistan (+0.95), Kazakhstan (+0.94) and Uzbekistan (+0.90). Those with the largest trading values were Tajikistan (USD 700 million), Uzbekistan (USD 2 billion) and Kazakhstan (USD 7 billion).	Large-scale market in neighboring countries.		36
37	Products by raw material	Metal products	ESC was virtually unchanged, -0.66 in 2001 and -0.68 in 2012. Trading value just under USD 200 million. Surrounding countries were all net importers. Those with the largest trading values were Turkmenistan (USD 600 million), Kazakhstan (USD 1.6 billion) and Russia (USD 11.8 billion).	Large-scale market in neighboring countries.		37
38	Machinery and transport equipment	Engines	ESC declined from +0.21 in 2001 to -0.23 in 2012. Trading value USD 50 million. Except for Russia (-0.31) ESCs ranged from -0.83 to -0.96, indicating almost complete dependence on imports. This is a decent size market, with trading values of USD 260-830 million for Turkmenistan, Uzbekistan and Kazakhstan.			38

Line	Broad category	Intermediate category	Analysis of current status/ Questions	Possibilities (ideas for improvement)	Issues / criteria necessary for determi	Line
39	Machinery and transport equipment	Specialized machinery	ESC virtually unchanged: -0.70 in 2001 and -0.72 in 2012. Trading value USD 200 million. Other countries virtually total importers. Tajikistan had very little trading value, but Turkmenistan and Kazakhstan each had USD 800 million, while Uzbekistan had USD 700 million.			39
40	Machinery and transport equipment	Metal processing equipment	Large decline in ESC from +0.91 in 2001 to -0.66 in 2012. Trade value USD 7 million. Kazakhstan also had a small market, valued at USD 240 million.	Given the small size of the market, we feel it is fine to ignore this area to a certain extent.		40
41	Machinery and transport equipment	Other industrial machinery and components	ESC worsened from -0.43 in 2001 to -0.65 in 2012. Trading value was USD 150 million. There is a large market among other countries: Turkmenistan USD 1.1 billion, Kazakhstan USD 800 million, Uzbekistan USD 2.8 billion, but it is almost entirely based on imports, with each country's ESC ranging from -0.85 to -0.98.	Industrial machinery is considered to cover a wide range, but since ESC is relatively good in the engines sector, we wonder if Kyrgyzstan might be able to expand into surrounding countries. However, it is unclear whether there are companies in this region that are large enough to establish a base in Kyrgyzstan. There is a need for research to determine whether Kyrgyzstan offers sufficient distribution and tax advantages to warrant making it a marketing hub.		41
42	Machinery and transport equipment	Office equipment and computers	ESC virtually unchanged from -0.92 in 2001 to -0.91 in 2012. Trading value USD 30 million. Except for Russia and Kazakhstan, trading values for surrounding countries were under USD 100 million. All had negative ESCs, with those of Russia, Uzbekistan, and Turkmenistan in particular under -0.90.	Given the scale of the market and the nature of these products, we suppose it is fine if this sector is low-priority.		42
43	Machinery and transport equipment	Telecommunications and audio equipment	ESC declined from -0.63 in 2001 to -0.96 in 2012. Trade volume just under USD 100 million. Trading volumes for other countries (Turkmenistan USD 300 million, Uzbekistan USD 200 million and Kazakhstan USD 1.4 billion) show that there is demand, but we suppose this is probably for smart phones. Almost every country had an ESC of under -0.90.	Given the scale of the market and the nature of these products, we suppose it is fine if this sector is low-priority.		43
44	Machinery and transport equipment	Electric machinery	Steep decline in ESC from +0.40 in 2001 to -0.63 in 2012. Trade volume USD 230 million. This market is large, with trading volume for Turkmenistan at USD 570 million, Uzbekistan USD 610 million, and Kazakhstan USD 23.8 billion. Except for Uzbekistan (-0.29) and Russia (-0.73), all the countries had negative ESCs between -0.85 and -0.90. Why did Kyrgyzstan's ESC drop?	If we look at other countries, we see that Chinese products have taken electric machinery markets by storm. Is there any possibility of attracting Chinese companies and exporting from Kyrgyzstan to the rest of Central Asia?	Since most components probably cannot be procured, Kyrgyzstan will probably have to depend on imports from China. Get a grasp of the distribution and customs situation at the Chinese border. Potential for special economic zone. Electric power situation. Need to understand labor market, etc.	44
45	Machinery and transport equipment	Road vehicles	ESC deteriorated, from -0.16 in 2001 to -0.43 in 2012. Trade volume almost USD 1.0 billion. This is an extremely big market as shown by trading volumes for Tajikistan (USD 150 million), Turkmenistan (USD 670 million), Uzbekistan (USD 1.89 billion) and Kazakhstan (USD 3.26 billion). Surrounding countries are almost entirely import-dependent, with ESCs ranging from -0.96 to -1.00, except Uzbekistan (-0.65).	Regarding passenger cars, based on each country's annual unit sales, it is unlikely that there is sufficient demand to inspire an automaker to have an assembly plant. Toyota indirectly owns one production line in Kazakhstan. Production has not yet started, but before Kazakhstan becomes a supply base for surrounding countries, we must consider whether Kyrgyzstan can make a similar attempt.	Lead time required for component procurement? Supply of stable electric power? Access to surrounding countries and various other questions.	45

Line	Broad category	Intermediate category	Analysis of current status/ Questions	Possibilities (ideas for improvement)	Issues / criteria necessary for determi	Line
46	Machinery and transport equipment	Other transport equipment	Big improvement in ESC: from -0.78 in 2001 to +0.33 in 2012. Trade value USD 70 million. Other countries have negative ESCs. Market scale is small within the broad category of "machinery and transport equipment."	We'd like to know why the ESC improved and to what degree there is potential for mass marketing.		46
47	Miscellaneous manufactured items	Assembled buildings; sanitary, heating/cooling, or lighting equipment, etc.	ESC declined from -0.79 in 2001 to -0.92 in 2012. Trade value USD 20 million. Other countries also have small trade values and negative ESCs.	Nothing in particular		47
48	Miscellaneous manufactured items	Furniture and components	Slight improvement in ESC, from -0.88 in 2001 to -0.75 in 2012. Trading value USD 40 million. The only countries with trading values over USD 100 million were Turkmenistan (USD 100 million), Kazakhstan (USD 500 million) and Russia (USD 3.5 billion). Virtually across-the-board importation with ESCs ranging from -0.84 to -0.99.	Although the market is small, it is surprising that furniture in this region is all imported. Despite the distinction between wooden and steel furniture, etc., since there are companies looking for production bases that combine production technologies and low-cost labor, we wonder if it's worth considering whether Kyrgyzstan has any chance in this area.	Get a grasp of where other countries are importing from. Check on existence of major furniture manufacturers, etc. Kyrgyzstan's labor productivity.	48
49	Miscellaneous manufactured items	Handbags and travel goods	ESC worsened from -0.55 in 2001 to -0.94 in 2012. Trade value USD 9 million. Other countries also had small trade values and most ESCs ranged from -0.90 to -1.00.	Given the nature of these products, we wonder if Kyrgyzstan couldn't capture a mass market as a production base.		49
50	Miscellaneous manufactured items	Clothing and accessories	ESC improved from -0.54 in 2011 to -0.14 in 2012. Trade value was USD 400 million. There is a suitable size market with trading values in other countries of USD 300 million (Tajikistan), USD 400 million (Turkmenistan), USD 600 million (Uzbekistan), USD 2.0 billion (Kazakhstan) and USD 12.8 billion (Russia). Turkmenistan (+0.63) and Uzbekistan (+0.81) were exporters, while Kazakhstan (-0.98) and Russia (-0.96) were almost completely dependent on imports.	How much export demand can Kyrgyzstan grab from competitors Turkmenistan and Uzbekistan? Kyrgyzstan is a net exporter of raw materials for sewn products, so why is it still an importer of clothing?	Need to ascertain lead times, price ranges, etc. by serving Turkmenistan's and Uzbekistan's major sewing product categories.	50
51	Miscellaneous manufactured items	Footwear	Somewhat of a decline from -0.85 in 2001 to -0.94 in 2012. Trade value just under USD 100 million. In other countries, too, trade value was just one third to one quarter of trade value for clothing. Uzbekistan's ESC of -0.05 shows a rough balance, but other countries imported virtually across the board, with ESCs ranging from -0.90 to -1.00.	Is there any chance of a production shift from China or Southeast Asia? We have heard that because footwear material is thicker than that used for clothing, the needle cannot pierce the material without stable electric power.		51
52	Miscellaneous manufactured items	Other specialized or scientific equipment	ESC virtually unchanged: -0.75 in 2001 and -0.78 in 2012. Trade value USD 40 million. Other countries are also importers. Monetary values for Turkmenistan (USD 170 million), Uzbekistan (USD 180 million) and Kazakhstan (USD 780 million).	Given the nature of these products, we wonder if Kyrgyzstan couldn't capture a mass market as a production base.		52
53	Miscellaneous manufactured items	Photographic equipment, optical equipment and clocks	Some deterioration in ESC, from -0.84 in 2001 to -0.96 in 2012. Trade value USD 7 million. Other countries had ESCs of less than -0.85. Except for Russia, trade values were all less than USD 100 million.	None in particular		53
54	Miscellaneous manufactured items	Other miscellaneous manufactured items	ESC declined from -0.19 in 2001 to -0.61 in 2012. Trade value USD 100 million. Other countries were also net importers but with relatively small trade values.	None in particular		54

4. Tertiary industry sectors that passed preliminary selection based on macro economic analysis

Preliminary selection of promising industries among the tertiary industries was conducted based on GDP statistics for each industry and international trade balance statistics (balance on services). Tertiary industries consist of nine industries including commerce, transportation and telecommunications (see Table 2-5). Since there are few business types, the only business types that we ruled out in our preliminary selection were those with limited participation from private companies and those with business content that is difficult to identify, such as "Government-related" and "Other."

Furthermore, in the final selection, we chose "Tourism" corresponding to hotels and restaurants, and "IT industry" including transportation and telecommunications. The processes by which these sectors were selected are explained in chapter 5 (Table 2-6).

Table 2-5. Changes in share of nominal GDP by industry

(Millions of KGS)	2000		2013		2003 to 2013	
	Amount	Pct. of total	Amount	Pct. of total	Growth	(Change in share)
GDP: Gross Value Added (GVA)	60,802	100.0%	299,792	100.0%	13.1%	(+0.0%)
GDP: Value Added: Primary Activity	22,344	36.7%	53,157	17.7%	6.9%	(-19.0%)
GDP: Value Added: Secondary Activity (SC)	19,084	31.4%	79,968	26.7%	11.7%	(-4.7%)
GDP: GVA: Mining and Quarrying	352	0.6%	2,437	0.8%	16.1%	(+0.2%)
GDP: GVA: Manufacturing	11,831	19.5%	46,736	15.6%	11.1%	(-3.9%)
GDP: GVA: Electricity, Gas and Water Supply	4,167	6.9%	7,150	2.4%	4.2%	(-4.5%)
GDP: GVA: Construction	2,734	4.5%	23,645	7.9%	18.1%	(+3.4%)
GDP: Value Added: Tertiary Activity (TA)	19,374	31.9%	166,667	55.6%	18.0%	(+23.7%)
GDP: GVA: Trade and Repair Services	7,906	13.0%	56,456	18.8%	16.3%	(+5.8%)
GDP: GVA: Hotels and Restaurants	484	0.8%	5,099	1.7%	19.9%	(+0.9%)
GDP: GVA: Transport and Communication	2,414	4.0%	33,274	11.1%	22.4%	(+7.1%)
GDP: GVA: Financial Activities	81	0.1%	1,692	0.6%	26.3%	(+0.4%)
GDP: GVA: Real Estate, Renting and Business Services	1,891	3.1%	14,319	4.8%	16.8%	(+1.7%)
GDP: GVA: Government	2,491	4.1%	17,740	5.9%	16.3%	(+1.8%)
GDP: GVA: Education	2,065	3.4%	19,581	6.5%	18.9%	(+3.1%)
GDP: GVA: Health Care and Social Services	1,317	2.2%	12,033	4.0%	18.6%	(+1.8%)
GDP: GVA: Other Community, Social and Personal Service Activities	725	1.2%	6,473	2.2%	18.3%	(+1.0%)

Source: National Statistical Committee of the Kyrgyz Republic.

Table 2-6. List of promising industries after preliminary selection (tertiary industries)

Sector	Change in share of GDP	Economic scale	Contribution to balance on services	
Commerce	○	○	△	} Tourism
Hotels and restaurants	×	×	○	
Transportation and telecommunications	○	○	Transport X / Telecom ○	} IT
Financial services	×	×	×	
Real estate and business services	△	△	—	
Government-related	△	△	—	
Education	○	△	—	
Healthcare	△	△	—	

Note: Shaded items indicate sectors that survived the final selection process.

## Chapter 3: Business Environment in Agriculture and Livestock Industries

### 1. Introduction

The initial results of promising items selected from each industry in Kyrgyzstan using statistical data are as shown in Chapter 2. Of these items, “live animals,” “meats and meat preparations,” “dairy products and avian eggs,” and “fruits and vegetables” were selected as promising items relating to agriculture and livestock industries<sup>1</sup>.

In this chapter, the Study Team will examine promising business model choices, taking into consideration matters such as the business environment, competition, and challenges in agriculture and livestock industries in the Kyrgyz Republic. In doing so, the Study Team will comprehensively consider the analysis performed, based on statistical data such as FAOSTAT, compiled by the Food and Agriculture Organization of the United Nations, and information obtained through interviews<sup>2</sup> conducted during the field survey, in addition to the statistics compiled by the National Statistical Committee.

### 2. Overview of Agriculture and Livestock Industries

#### (1) Nature Surrounding Agriculture and Livestock Industries

The Kyrgyz Republic, which is part of Central Asia, lies between latitudes 39 and 43 degrees north. With most of the land being covered by the Tian Shan mountain range and its branch, the Alatau Mountains, about 90% of the country is of harsh mountain terrain that is more than 1,500 meters above sea level.

The climate in the Kyrgyz Republic varies slightly by region – while the foothill region in the north is relatively warm, the Fergana Valley in the southwest is subtropical and gets hot and dry during summer, for example. In general however, the Kyrgyz Republic experiences a dry, continental climate.

For example, looking at the climate (normal value<sup>3</sup>) in the capital Bishkek, shown in Figure 3-1, while the average temperature in July is 25.0 degrees Celsius, it is down to 2.2 degrees Celsius below zero in January. In addition, the annual precipitation is only 462.1mm and there are many sunny days throughout the year.

By its nature, agriculture and livestock industries is highly dependent on a given natural environment. As described above, the Kyrgyz Republic has topographic constraints in land use,

---

<sup>1</sup> Given the current situation where horses, sheep, and goats are pastured extensively by the livestock industry in the Kyrgyz Republic (pasture land accounts for more than 40% of the national land), this chapter uses the expression “agriculture and livestock industries” as a general term for the agriculture and livestock industries in the Kyrgyz Republic.

<sup>2</sup> To date, two field studies – the first one from March to April 2014 and the second one in May 2014 – have been carried out to conduct interviews with entities such as the Kyrgyz government, private companies (farms, pastures, etc.), educational institutions, and the embassies of Middle Eastern countries located in Bishkek.

<sup>3</sup> A normal value is a mean temperature over a 30-year period, starting from a year ending with 1. It is updated every 10 years. The current normal value is the mean of observed temperatures between 1981 and 2010.

in addition to limited precipitation. Therefore, the percentage of the country area<sup>4</sup> accounted for by farmland is merely 7.0%<sup>5</sup>. On the other hand, since the Kyrgyz Republic is endowed with conditions suitable for putting livestock to grazing, 48.3% of the country area is used as pasture land<sup>6</sup>.

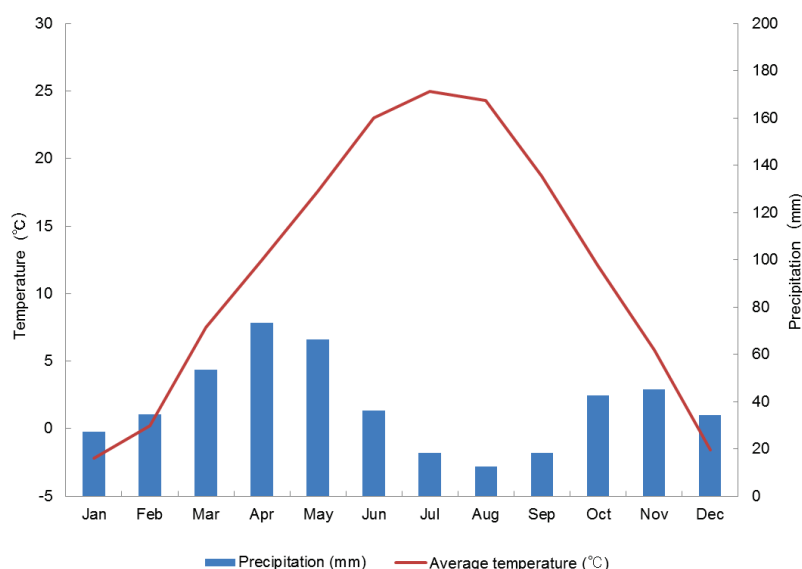


Figure 3-1. Climate in Bishkek (normal value)

Source: Prepared by the Study Team based on the “*Normal Values in Global Observation Points*” page of the Japan Meteorological Agency website

### 3. Supply and Demand of Agricultural Products

Tables 3-1 and 3-2 show the state of supply and demand for major agricultural products in the Kyrgyz Republic in 2005 and 2010. Looking at the trends in agricultural trade by category, we can see that while grains, meats, and eggs tend to be imported, the net export volume<sup>7</sup> of potatoes, fruits and vegetables, and milk has increased from 2005 to 2010.

<sup>4</sup> The country area includes inland water (815,000ha). The land area of the Kyrgyz Republic is 19,180,000ha (FAOSTAT).

<sup>5</sup> The area for farmland (arable land and permanent crops) as of 2011 was 1,351,000ha (FAOSTAT). It is equivalent to 6.8% of the land area.

<sup>6</sup> The area for permanent meadows and pastures is 9,258,000ha (FAOSTAT). It is equivalent to 46.3% of the land area.

<sup>7</sup> In this chapter, the amount obtained by subtracting the volume of imports from exports of a given item is referred to as “net exports” and the amount obtained by subtracting the volume of exports from imports of a given item is referred to as “net imports.”



Table 3-1. Supply and Demand of Major Agricultural Products in the Kyrgyz Republic (2005)

	Item	Grains (tons, in thousands)	Potatoes (tons, in thousands)	Fruits and Vegetables (tons, in thousands)	Meats (tons, in thousands)	Milk (tons, in thousands)	Eggs (millions)
Supply	Opening inventory	1,049	915	136	4	34	9
	Production	1,667	1,141	823	182	1,198	318
	Import	247	0	1	13	6	1
	Total	2,964	2,057	959	199	1,238	328
Demand	Consumption in products and as raw materials	869	491	16	-	95	6
	Loss	55	8	14	-	1	0
	Export	23	1	30	0	35	1
	Personal consumption	983	736	672	194	1,083	311
	Closing inventory	1,035	821	228	5	25	10
	Total	2,964	2,057	959	199	1,238	328

Source: National Statistical Committee

Note: The total value might not add up to match the total because the figures were rounded off to the nearest whole number.

Table 3-2. Supply and Demand of Major Agricultural Products in the Kyrgyz Republic (2010)

	Item	Grains (tons, in thousands)	Potatoes (tons, in thousands)	Fruits and Vegetables (tons, in thousands)	Meats (tons, in thousands)	Milk (tons, in thousands)	Eggs (millions)
Supply	Opening inventory	1,654	712	293	5	39	15
	Production	1,584	1,339	969	188	1,360	373
	Import	436	1	9	100	34	57
	Total	3,674	2,052	1,271	292	1,433	445
Demand	Consumption in products and as raw materials	1,087	507	56	0	132	7
	Loss	64	62	16	0	2	0
	Export	78	266	183	86	157	-
	Personal consumption	992	505	779	201	1,103	412
	Closing inventory	1,454	712	237	5	39	25
	Total	3,674	2,052	1,271	292	1,433	445

Source: National Statistical Committee

Note: The total value might not add up to match the total because the figures were rounded off to the nearest whole number.

First, looking at agricultural products that tend to be imported, the net imports of grain increased from 224,000 tons in 2005 to 358,000 tons by 2010. In addition, the net imports of meats, which were 13,000 tons in 2005, modestly increased to 14,000 tons by 2010. Meanwhile, although the import and export of eggs were balanced in 2005, the imports exceeded exports by 57 million eggs by 2010.

Next, looking at agricultural products that tend to be exported, the net exports of potatoes increased from 1,000 tons in 2005 to 265,000 tons by 2010. The net exports of fruits and vegetables also went from 29,000 tons in 2005 to 174,000 tons by 2010. The net exports of milk increased from 29,000 tons in 2005 to 123,000 tons by 2010.

### (3) Producer Prices of Major Agricultural Products

Though agricultural products for human consumption should be discussed carefully, we

can tentatively assume that while products less competitive than ones from neighboring countries would likely be imported, more competitive items would likely be exported. Therefore, taking Kazakhstan as a typical neighboring country, the Study Team will compare recent trends with producer prices<sup>8</sup> related to major agricultural products<sup>9</sup>.

#### a) Grains

Here, as typical grains, we will discuss wheat and corn, which are commonly grown in the Kyrgyz Republic.

First, the producer price of wheat in the Kyrgyz Republic has been higher than in Kazakhstan throughout the 2005-2011 period. The smallest price difference in recent years was seen in 2010, when the producer price was 155.7 dollars per ton in the Kyrgyz Republic and 148.2 dollars per ton in Kazakhstan (a difference of 7.5 dollars per ton). However, with the exception of 2010, the price difference has been trending within the range of 27.6 dollars per ton (2009) and 165.5 dollars per ton (2008) (Figure 3-2).

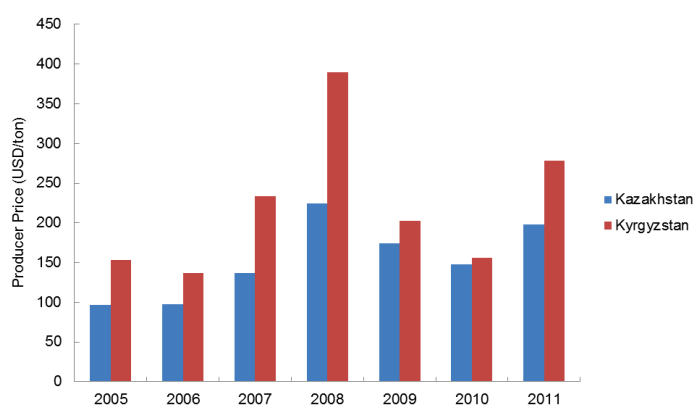


Figure 3-2.Changes in the Producer Price of Wheat

Source: Prepared by the Study Team based on FAOSTAT

Similar to wheat, the producer price of maize has been higher in the Kyrgyz Republic than in Kazakhstan throughout the 2005-2011 period. The recent smallest price difference was observed in 2010 when the producer price was 165.5 dollars per ton in the Kyrgyz Republic and 153.0 dollars per ton in Kazakhstan (a price difference of 12.5 dollars per ton). However, with the exception of 2010, the price difference has been trending within the range

<sup>8</sup> A producer price is the sales price of the producer (a price established by adding a profit margin to the cost of production). For example, we can expect the profit for the producer of high-quality, in-demand agricultural products to increase. However, FAOSTAT does not reflect price differences arising due to quality. For this reason, there is a limitation to discussing the competitiveness of a particular item based solely on the producer price. This is to be noted as an indicator.

<sup>9</sup> Ideally, we should compare prices with other Central Asian countries; however, statistical data is not easily available. Here, the Study Team decided to compare the Kyrgyz Republic to the Republic of Kazakhstan because this study defines the northern part of the Kyrgyz Republic, namely, Bishkek City and its surrounding areas (Chuy, Issyk-Kul, and Talas Provinces), as the business target area, and the majority of this northern area borders Kazakhstan.

of 14.8 dollars per ton (2005) and 138.2 dollars per ton (2008) (Figure 3-3).

These suggest that grains produced in the Kyrgyz Republic are not sufficiently competitive because the producer prices have been higher than in Kazakhstan in recent years.

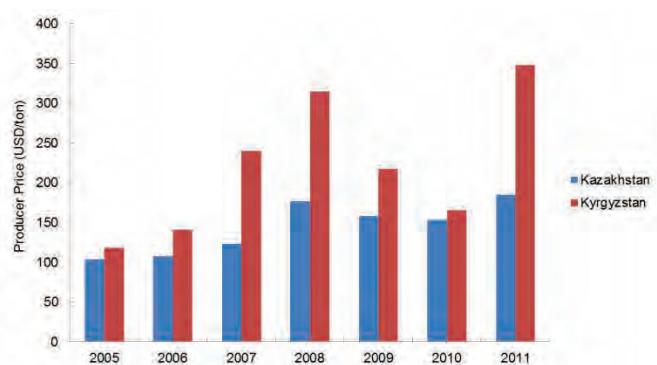


Figure 3-3.Changes in the Producer Price of Maize

Source: Prepared by the Study Team based on FAOSTAT

#### b) Potatoes

Looking at the producer price of potatoes, it has been lower in the Kyrgyz Republic than in Kazakhstan during this period, with the exception of 2006. The price difference has been trending within the range of 8.1 dollars per ton (2007) and 107.0 dollars per ton (2008). In 2006 however, the producer price in the Kyrgyz Republic exceeded Kazakhstan's by 27.2 dollars per ton (Figure 3-4). Therefore, it seems that potatoes produced in the Kyrgyz Republic are relatively competitive because the producer price has tended to be lower than Kazakhstan's in recent years.

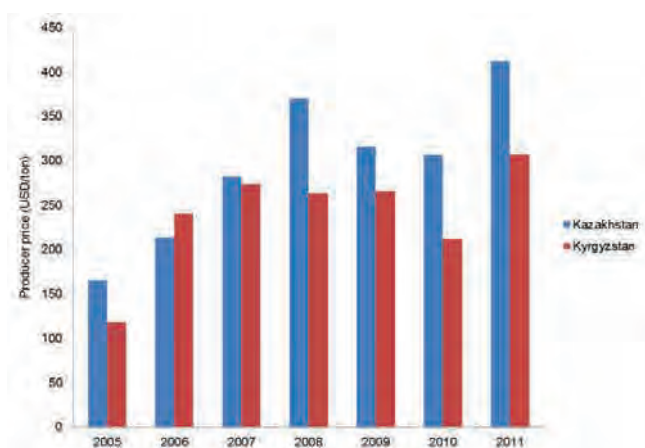


Figure 3-4.Changes in the Producer Price of Potatoes

Source: Prepared by the Study Team based on FAOSTAT

### c) Fruits and Vegetables

Here, we will discuss cabbages and other brassicas, and then carrots and turnips as typical fruits and vegetables grown in the Kyrgyz Republic. As a note, the only fruit currently listed in FAOSTAT that is comparable between the Kyrgyz Republic and Kazakhstan is grapes. Due to factors such as ease of keeping the fruit fresh, fruit trade in Asia is generally centered on apples<sup>10</sup>; while, grapes are likely to be traded as processed products. Given this background, we do not compare the Kyrgyz Republic and Kazakhstan regarding the producer prices of fruits here.

Now, looking at the producer price of cabbages and other brassicas, with the exception of 2011 and 2005, the price in the Kyrgyz Republic was lower than in Kazakhstan. The price difference has been trending within the range of 10.9 dollars per ton (2007) and 136.9 dollars per ton (2008). In 2005 and 2011 however, the price was higher in the Kyrgyz Republic by 33.7 dollars per ton and 13.3 dollars per ton, respectively.

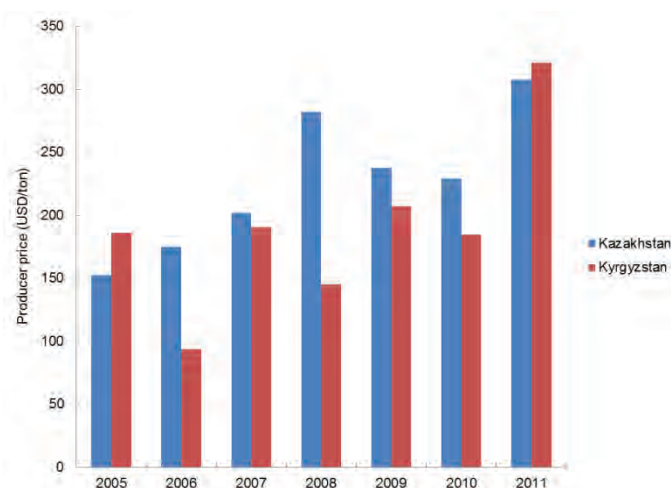


Figure 3-5.Changes in the Producer Price of Cabbages and Other Brassicas

Source: Prepared by the Study Team based on FAOSTAT

<sup>10</sup> Takumi Narita. (2013) “Trends in Fruit Trade in Asia” *2013 Fall Conference Report Abstract Collection by the Japanese Society of Regional and Agricultural Development*. p. 24-27.

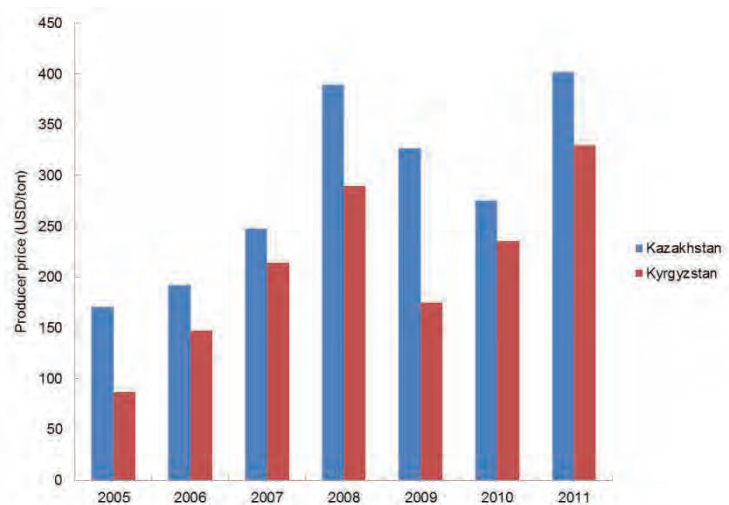


Figure 3-6.Changes in the Producer Price of Carrots and Turnips

Source: Prepared by the Study Team based on FAOSTAT

The producer price of carrots and turnips has been lower in the Kyrgyz Republic than in Kazakhstan throughout the 2005-2011 period. The smallest price difference in recent years was observed in 2007, when the price was 214.0 dollars per ton in the Kyrgyz Republic and 247.9 dollars per ton in Kazakhstan (a difference of 33.9 dollars per ton). However, with the exception of 2007, the price difference has been trending within the range of 40.1 dollars per ton (2010) and 151.7 dollars per ton (2009) (Figure 3-6).

Based on these, it seems that vegetables produced in the Kyrgyz Republic have a certain level of competitiveness because the producer price has been trending lower than in Kazakhstan.

#### d) Meats

For meats, we will discuss beef cattle, chicken, and sheep as typical items<sup>11</sup>.

First, looking at the producer price of beef cattle, it has been higher in the Kyrgyz Republic than in Kazakhstan, with the exception of 2010, and the price difference has been trending within the range of 56.4 dollars per ton (2006) and 688.4 dollars per ton (2011). In 2010 however, the price in the Kyrgyz Republic was lower than in Kazakhstan by 42.3 dollars per ton (Figure 3-7). Therefore, it seems that beef cattle raised in the Kyrgyz Republic is not sufficiently competitive because the producer price has tended to be higher than in Kazakhstan in recent years.

Next, looking at the producer price of chicken, it has been higher in the Kyrgyz Republic than in Kazakhstan throughout this period, with the exception of 2005. The price difference has been trending between 52.2 dollars per ton (2006) and 1,262.9 dollars per ton (2009). In 2005 however, the price in the Kyrgyz Republic was lower than in Kazakhstan by 46.9

<sup>11</sup> Currently, FAOSTAT only lists the prices of live weight as producer prices of meats comparable between the Kyrgyz Republic and Kazakhstan; therefore, we will discuss meats in terms of live weight prices here.

dollars per ton (Figure 3-8). As described, the producer price of chicken in the Kyrgyz Republic has been higher than in Kazakhstan in recent years, implying that it is not sufficiently competitive.

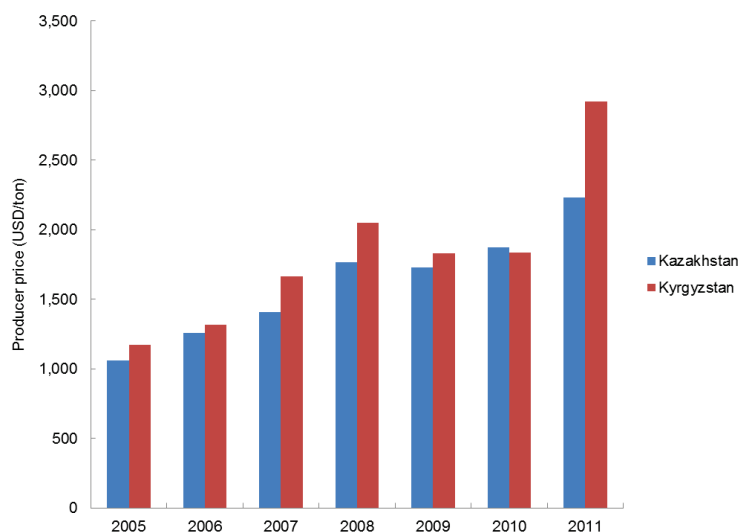


Figure 3-7.Changes in the Producer Price of Beef Cattle (Meat live weight)

Source: Prepared by the Study Team based on FAOSTAT

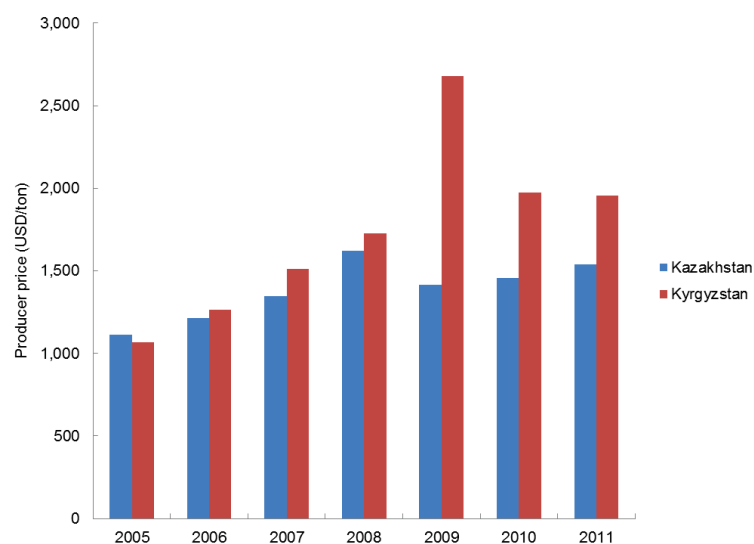


Figure 3-8.Changes in the Producer Price of Chicken (Meat live weight)

Source: Prepared by the Study Team based on FAOSTAT

Next, the producer price of sheep has been higher in the Kyrgyz Republic than in Kazakhstan throughout this period. The smallest price difference in recent years was seen in 2010, when the producer price was 1,839.6 dollars per ton in the Kyrgyz Republic and

1,684.6 dollars per ton in Kazakhstan (a difference of 155.0 dollars per ton). Excluding 2010, the price difference has been trending within the range of 165.2 dollars per ton (2005) and 623.5 dollars per ton (2011) (Figure 3-9).

These figures show that the producer prices of livestock (beef cattle, chicken, and sheep) in the Kyrgyz Republic have trended higher in recent years than in Kazakhstan. Therefore, it seems that livestock is not sufficiently competitive.

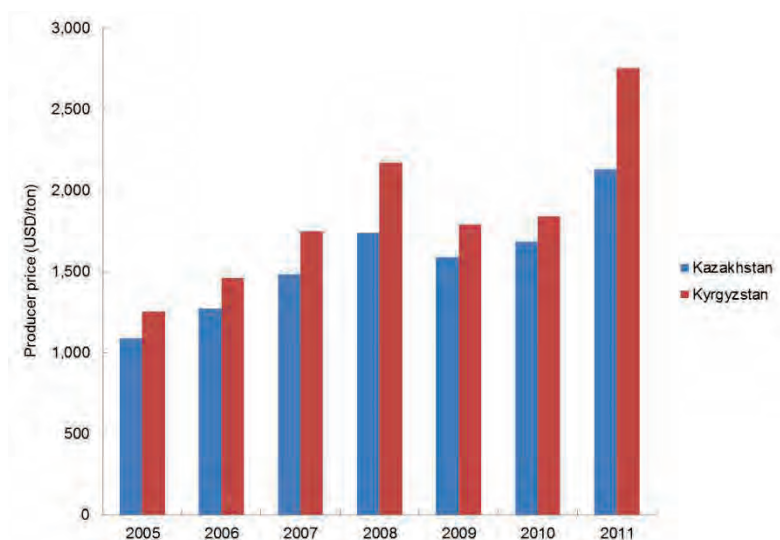


Figure 3-9.Changes in the Producer Price of Sheep (Meat live weight)

Source: Prepared by the Study Team based on FAOSTAT

#### e) Milk

The producer price of milk has been lower in the Kyrgyz Republic than in Kazakhstan, with the exception of the period 2007-2009. The price difference during the period when the price in the Kyrgyz Republic was lower than in Kazakhstan (from 2005 to 2006 and from 2010 to 2011) ranged between 20.9 dollars per ton (2005) and 100.7 dollars per ton (2011). On the other hand, during the period in which the price in the Kyrgyz Republic was higher than in Kazakhstan (from 2007 to 2009), the price difference ranged from 8.0 dollars per ton (2008) to 24.4 dollars per ton (2009) (Figure 3-10). Compared to the price difference during the period when Kyrgyzstan's price was higher than Kazakhstan, the price difference was relatively larger during the period when milk produced in the Kyrgyz Republic was cheaper than in Kazakhstan. Therefore, it seems that milk is relatively competitive.

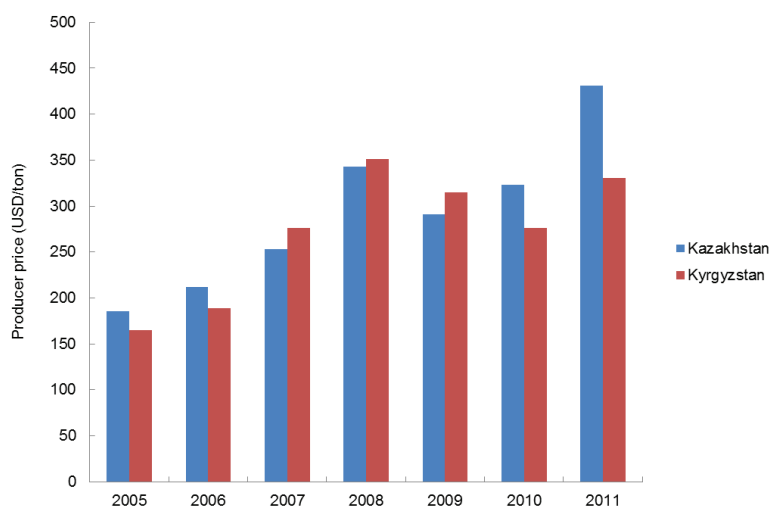


Figure 3-10.Changes in the Producer Price of Milk

Source: Prepared by the Study Team based on FAOSTAT

#### f) Eggs

In terms of eggs, we will discuss chicken eggs as a typical product. The producer price of chicken eggs has been higher throughout the 2005-2011 period in the Kyrgyz Republic, as compared to Kazakhstan. The smallest price difference in recent years was seen in 2008, when the price was 2,278.1 dollars per ton in the Kyrgyz Republic and 2,090.8 dollars per ton in Kazakhstan (a difference of 187.3 dollars per ton). Excluding 2008, the price difference has been trending within the range of 211.5 dollars per ton (2007) and 625.4 dollars per ton (2011) (Figure 3-11). Therefore, it seems that the competitiveness of chicken eggs is not sufficient.

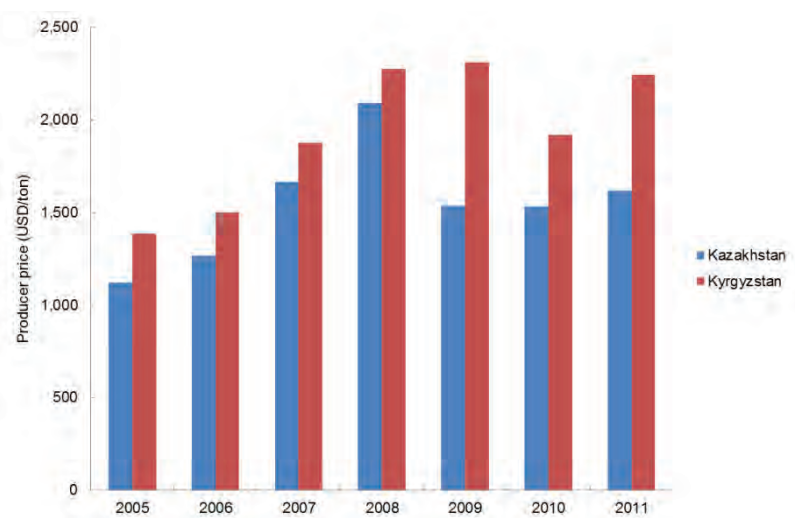


Figure 3-11.Changes in the Producer Price of Eggs

Source: Prepared by the Study Team based on FAOSTAT



#### 4. Promising Business Model Candidates

##### (1) Viewpoints in Selecting Promising Business Models

Section 2 of this chapter examined the competitiveness of Kyrgyz agricultural products against Kazakh agricultural products. Table 3-3 shows the summary of the examined results. As it indicates, cabbages and other brassicas, as well as carrots and turnips, are the products with a certain level of competitiveness against Kazakh products, and potatoes and milk are relatively competitive products<sup>12</sup>. Meanwhile, wheat, maize, beef cattle, chicken, sheep, and chicken eggs are not sufficiently competitive against Kazakh products.

Since the Kyrgyz Republic is a landlocked country to begin with, there is a geographical constraint that requires long-distance transportation to access major markets. Therefore, in order to efficiently obtain foreign currency by promoting exports, it is necessary to reduce relative transportation costs. In other words, it is necessary to consider what should be done in order to select products with a high price per weight, target a market where these products can be supplied under the most favorable conditions, and add further value. It may also be possible to establish a business by expanding the market from the neighboring markets including Kazakhstan.

Looking at the producer prices in 2011 with this background in mind, we can see that the prices of cabbages and other brassicas as well as carrots and turnips, the products with a certain degree of competitiveness against Kazakhstan, are at levels slightly over 300 dollars per ton. In contrast, products with a producer price higher than 2,000 dollars per ton include beef cattle, sheep, and chicken eggs (Table 3-3).

However, of beef cattle, sheep, and chicken eggs, chicken eggs are excluded from the promising agricultural product candidates in this study because they face challenges such as storage. Based on this background, we will consider livestock such as beef cattle and sheep for what follows.

---

<sup>12</sup> Here, we are considering both the Kyrgyz Republic and Kazakhstan, based on the results of the producer price comparison. For this reason, if potatoes are efficiently grown on a large scale in Kazakhstan in the future, for example, the possibility that potatoes grown in the Kyrgyz Republic lose their competitiveness cannot be completely denied.

Table 3-3. Major Agricultural Products of the Kyrgyz Republic – their Producer Prices and Competitiveness against Kazakhstan

Product	Producer Price (USD/ton)		Competitiveness against Kazakhstan
	2005	2011	
Wheat	154	279	×
Corn	118	348	×
Potatoes	118	307	△
Cabbage and other brassicas	186	321	○
Carrots and turnips	87	330	○
Beef cattle (livestock)	1,174	2,922	×
Chicken (livestock)	1,065	1,957	×
Sheep (livestock)	1,251	2,751	×
Milk	165	330	△
Chicken eggs	1,387	2,244	×

Source: Prepared by the Study Team based on FAOSTAT

Note 1: Under “Competitiveness against Kazakhstan,” ○ denotes “consistently competitive,” △ denotes “relatively competitive,” and × denotes “not competitive enough.”

## (2) Potential with Livestock Production

The chronological changes in the amount of each major livestock in the Kyrgyz Republic are shown in Figure 3-12. The numbers declined for several years from 1991, the year in which the country was independent of the Soviet Union, because of the destabilized domestic situation. They plummeted for all types of livestock, particularly from 1992 to 1995. In contrast to this trend, there were some types of livestock that began gradually increasing from the late 2000s. Among them, the number of sheep increased significantly from 2.97 million in 2005 to 4.49 million in 2012 (1.5 times the number in 2005). Since this level is about half of 9.23 million, the number of sheep being raised in 1992, it seems that there is room for further increasing the number, as long as the markets and sales channels are sufficiently secured.

On the other hand, the number of beef cattle being raised reached 1.37 million in 2012, the highest level since 1992, even though the level of increase in recent years still falls short of the increase in the number of sheep. Therefore, in order to further increase the number of beef cattle in a quick and efficient manner, it is probably necessary to construct new barns and streamline the feed production and supply system, while securing the markets and sales channels at the same time.

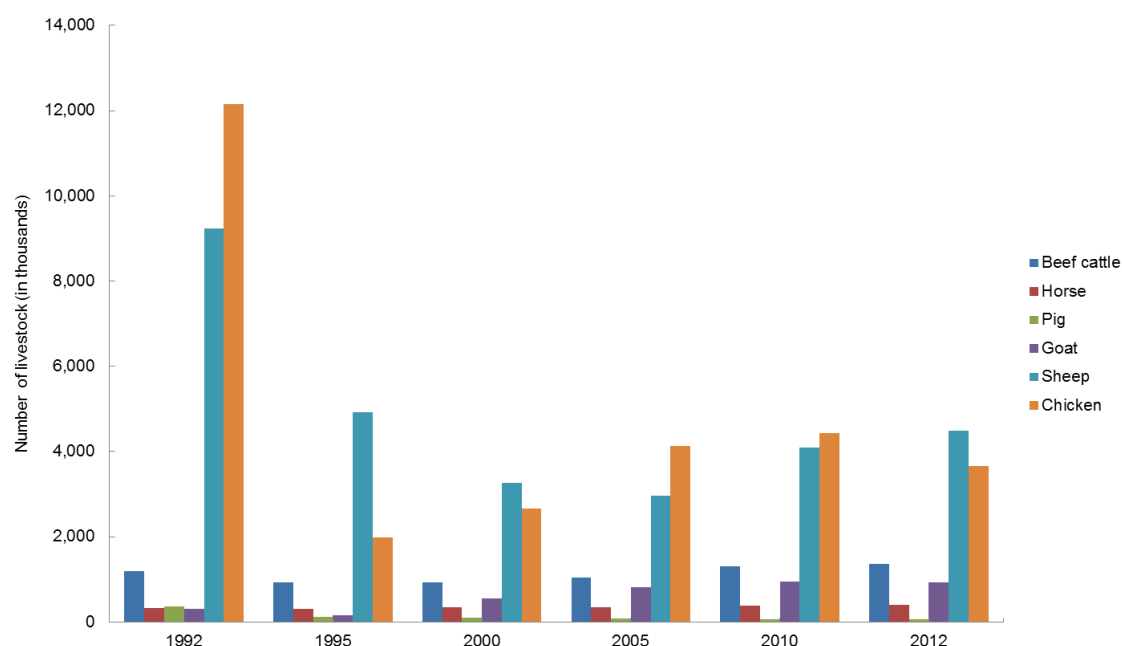


Figure 3-12.Changes in the Number of Livestock

Source: Prepared by the Study Team based on FAOSTAT

### (3) Potential for Exporting Livestock Products

Assuming there is room for increasing the number of sheep being raised in the Kyrgyz Republic, it is necessary to identify promising markets where sheep meat can be sold and develop a production system to meet the needs of the identified market.

With that in mind, we can assume the following four points as conditions that a promising market (candidate countries to export to) for sheep meat in the Kyrgyz Republic might require: 1) the population is relatively large and there is a certain market size, 2) GDP per capita is relatively high and a certain level of purchasing power can be expected, 3) farmland per capita is below the world average<sup>13</sup> and there is potential demand for imported agricultural products, and 4) the domestic supply is limited, although there is demand for sheep meat.

Of these, the Study Team extracted countries that meet three conditions: the population is more than 20 million, GDP per capita is more than 20,000 dollars, and farmland per capita is below the world average. Table 3-4 summarizes the consumption and domestic production of sheep meat in these countries.

<sup>13</sup> The world average of farmland per capita, calculated based on FAOSTAT, was 0.22ha in 2011.

Table 3-4. Farmland Per Capita and Sheep Meat-related Statistics in Countries with a Large Population and Economy

	Population (in thousands)	GDP per capita (USD)	Farmland per capita (ha/person)	Sheep and goat meat consumption per capita (kg/person/year)	Sheep meat production per capita (kg/person/year)
Germany	82,652	45,208	0.15	0.90	0.48
Italy	61,070	37,031	0.15	1.20	0.78
Japan	127,000	46,175	0.04	0.20	0.00
South Korea	49,512	22,388	0.03	0.10	0.00
Saudi Arabia	29,369	23,594	0.12	6.20	3.46
United Kingdom	63,738	38,945	0.10	4.70	4.61

Source: Prepared by the Study Team based on FAOSTAT and IMF's World Economic Outlook Database

Note 1: The population data is as of 2014. GDP per capita, farmland per capita, sheep and goat meat consumption per capita, and sheep meat production per capita are as of 2011.

Note 2: Sheep and goat meat consumption per capita is listed as "Food Supply" in FAOSTAT. Here, we assume that the entire amount of supply is consumed.

Note 3: Sheep meat production per capita was calculated by dividing the amount of "Meat, Sheep" production in a given country by its population in 2011.

There were six countries that met the above three conditions: Germany, Italy, Japan, South Korea, Saudi Arabia, and the United Kingdom. Among these, the countries where sheep and goat meat consumption per capita is more than 4.00kg per person per year are Saudi Arabia (6.20kg per person per year) and the United Kingdom (4.70kg per person per year).

The amount of sheep meat production per capita in Saudi Arabia and the United Kingdom is 3.46kg per person per year and 4.61kg per person per year, respectively. When the gap between supply and demand of sheep meat in these countries is calculated, the supply in Saudi Arabia is short by 2.74kg per person per year and short by 0.09kg per person per year in the United Kingdom. Since the population of Saudi Arabia is 29.37 million, their domestic supply for the entire country is short by 80,471 ton. Meanwhile, since the population of the United Kingdom is 63.74 million, their domestic supply for the entire country is short by 5,736 ton. Therefore, considering a strategy to have Saudi Arabia as the primary candidate for the key market for sheep meat produced in the Kyrgyz Republic and to develop similar markets would probably be a reasonable choice.<sup>14</sup>

Incidentally, it has been noted that one of the underlying factors for the political turmoil in North Africa and the Middle East since December 2010 was a sharp rise in food prices.<sup>15</sup> Since some of the Gulf countries maintain unique social systems, they struggle to provide a stable supply of daily necessities, including groceries.

For example, Saudi Arabia began turning the desert into farmland around 1980 by

<sup>14</sup> The Study Team visited the Embassy of Saudi Arabia and the Embassy of Qatar in the Kyrgyz Republic during the field survey to verify the potential in exporting sheep meat produced in the Kyrgyz Republic. It indicated that, although there are currently issues such as ensuring food safety, which includes the development of certification systems and meeting the halal requirements, sheep meat has the potential to be a promising export item in the future, if the added value can be increased by producing sheep meat organically.

<sup>15</sup> Tetsuro Shimizu. (2011) "Changing Food Supply and Demand in Africa and the Middle East: Increasing Import Dependency of Food" *Finance for Agriculture and Forestry*. Vol. 64 No.7, p. 3.

developing irrigation systems that utilize groundwater and, at one point, were actually exporting grains to the neighboring countries. However, in 2008, the Saudi Arabian government decided to stop producing wheat in phases by 2016 because the depletion of groundwater resources had gradually become an issue.<sup>16</sup>

In fact, it has been reported that, in response to the sharp rise in international prices of grain in recent years, the Gulf countries such as Saudi Arabia and Qatar have become engaged in activities to ensure food security, by taking the money from the abundant oil and investing it in agricultural projects in countries such as Sudan<sup>17</sup>. It can be said that these pieces of information suggest the possibility of positioning the Kyrgyz Republic as a potential new supplier of food for the Gulf countries. Although there are challenges to overcome, such as ensuring food safety, as long as they are addressed steadily, the potential to export sheep meat to the Gulf countries, such as Saudi Arabia and Qatar, will increase in the future.

#### (4) Promising Business Model Candidates

Based on the discussion thus far, promising business model candidates (Choices A through E) and examples of involvement by foreign company are summarized in Table 3-5.

Business model choice A envisions assisting exporting sheep meat (lamb) produced in the Kyrgyz Republic to the Gulf countries. As described earlier, this model can be positioned as a business model with full potential in the future. That being said, a recently conducted study<sup>18</sup>, which focused on promoting the exports of agricultural products, has listed the following five key challenges (risk factors) with the domestic value chain of meats and processed meat products: unstable meat production, inadequate meat processing facilities, inadequate cold chain system, limited production scale, and weak market competitiveness. Of these, unstable meat production and limited production scale are issues likely to be attributed to the production scale. However, this is probably a difficult issue for a foreign company to be involved with, considering the historical background<sup>19</sup> in which numerous small independent farmers emerged as a result of dismantling the collective farm system of the Soviet era after independence and distributing the farmland to the citizens. It has also been pointed out that many of those small independent farmers started raising livestock in order to effectively utilize the farmland that was allocated to them after the collapse of the Soviet Union<sup>20</sup>. On the other hand, issues such as inadequate cold chain system and inadequate meat processing facilities are areas in which foreign companies can become involved by providing facilities and equipment for meat processing, for example.

---

<sup>16</sup> Previously cited reference. Tetsuro Shimizu (2011) p. 14.

<sup>17</sup> Miki Hatanaka. (2008) "Analysis of Recent Trends and Topics: GCC Strengthens Agriculture Investment for Food Security." *JCCME News*. August-September issue, p. 23-28.

<sup>18</sup> Hokkaido Intellect Tank, Overseas Merchandise Inspection Co. Ltd, and Japan International Cooperation Agency (JICA). (2013) "Kyrgyz Republic, Data Collection Survey on Export Promotion of Agriculture Products and Strengthening of Farm Management: Final Report" p. 23.

<sup>19</sup> Deloitte Touche Tohmatsu and Japan International Cooperation Agency (JICA). (2007) "The Study on Effective Management of Agriculture and the Processing Industry in the Kyrgyz Republic: Final Report" p. 4.

<sup>20</sup> Previously cited reference. Hokkaido Intellect Tank, Overseas Merchandise Inspection Co. Ltd, and Japan International Cooperation Agency (JICA). (2013). p. 23.

In this case, however, it will probably be necessary to meet the halal requirements, such as slaughtering in accordance with the Islamic tradition and disinfecting without using alcohol, and have a certification system<sup>21</sup>.

Business model choice B is an effort to help further increase added value in vegetable production. As discussed in Section 2 of this chapter, vegetables such as cabbages, carrots, and turnips produced in the Kyrgyz Republic have a certain degree of competitiveness against the neighboring Kazakhstan (Table 3-3). The recently conducted study<sup>22</sup> on promoting the export of agricultural products also states that because there is still relatively more room for exporting fruits and vegetables than other agricultural products produced in the Kyrgyz Republic, and there is also high demand in neighboring countries such as Russia and Kazakhstan, there are opportunities to fulfill such a need and enter these niche markets. While it takes years for fruits to be ready for harvesting after seeding, vegetables can be planted and harvested in a short period of time.

Therefore, as a business model choice that assumes the involvement of a foreign company, we can envision considering the needs of neighboring countries and providing vegetable seeds that could potentially add value. However, local seed production will probably require a medium- to long-term plan since there are currently many challenges (risk factors) with the environment for vegetable seeds that have been produced<sup>23</sup> in the Kyrgyz Republic.

Business model choice C is for assisting the efforts to increase the added value of dairy products. As already mentioned, milk produced in the Kyrgyz Republic is considered a relatively competitive item against Kazakhstan (Table 3-3). In fact, it has been reported that the demand for milk and dairy products in the Kyrgyz Republic has increased significantly and the export volume is also trending upwards<sup>24</sup>.

On the other hand, certification to prove the breed, health, and quality of dairy cattle has been raised as an issue (risk factor) in the process of production<sup>25</sup>. Of these, forms of assistance such as providing equipment and instrument for milking facilities can be envisioned as opportunities for foreign companies to participate.

---

<sup>21</sup> Aliev Management Consultants and Japan International Cooperation Agency (JICA) (2011). *Industry Profile: Food Processing Sector of Kyrgyzstan Beverage, Dairy and Meat Products*. p. 59.

<sup>22</sup> Previously cited reference. Hokkaido Intellect Tank, Overseas Merchandise Inspection Co. Ltd, and Japan International Cooperation Agency (JICA). (2013). p. 43.

<sup>23</sup> Japan International Cooperation Agency (JICA) (2012) “*Research Report on the Project for Improvement of Seed Production Technologies of High Quality Seeds for Export in the Kyrgyz Republic*” p. 11-15.

<sup>24</sup> Aliev Management Consultants and Japan International Cooperation Agency. (2012) *Basic Study: Export of Agriculture Products from the Kyrgyz Republic*. p. 7.

<sup>25</sup> Previously cited reference. Hokkaido Intellect Tank, Overseas Merchandise Inspection Co. Ltd, and Japan International Cooperation Agency (JICA). (2013) p. 25-27.

Table 3-5. Promising Business Model Candidates and Examples of Foreign Company Involvement

	Business Model Choice	Example of foreign company involvement
Choice A	Assistance for exporting meat to the Gulf countries	Providing equipment and instruments for meat processing facilities
Choice B	Assistance for increasing added value to vegetable production	Providing seeds
Choice C	Assistance for increasing added value to dairy products	Providing equipment and instruments for milking facilities
Choice D	Agricultural machinery leasing business	Providing agricultural machinery
Choice E	Development and production of specialty products (OVOP)	Importing and selling specialty products

Source: Prepared by the Study Team

Agricultural machinery leasing business is envisioned as business model choice D. Agricultural machinery can lead to efficient farming in a wide range of fields because it is not limited to a particular crop. There is a shortage of agricultural machinery in the Kyrgyz Republic; compared to the required 154,002 units of agricultural machines as of 2013, there are only 49,572 registered units. Furthermore, it has been noted that approximately 90%, or 44,579 units, of these registered units are agricultural machines that were put introduced over 20 years ago<sup>26</sup>. In response, agricultural machinery leasing was started in the Kyrgyz Republic in 2002, playing a certain role in introducing agricultural machinery<sup>27</sup>. Under these circumstances, an agricultural bank called Aiyl Bank, a financial institution with a wide network in rural areas in the Kyrgyz Republic, began agricultural machinery leasing business in 2011. However, there has been a challenge in meeting the demand due to the lack of funds<sup>28</sup>. Private companies planning to lease agricultural machinery will be required to make own choices with these risks.

Business model choice E is an effort to import and sell specialty products developed and produced in rural area in the Kyrgyz Republic. As part of the One Village One Product (OVOP) movement supported by Japan, a project called “Community empowerment in Issyk-Kul Oblast Project” was launched in 2007 to develop, produce, and export products such as felt handicrafts<sup>29</sup>. While there are challenges (risk factors) with rural area in the Kyrgyz Republic, aspects such as shifting to mass production, it seems there is potential for developing, importing, and selling various specialty products.

<sup>26</sup> Task Co., Ltd., Katahira & Engineering Inc., and Japan International Cooperation Agency (JICA). (2014) “*The Kyrgyz Republic, Data Collection Survey on Agricultural Mechanization: Final Report*” p. 14.

<sup>27</sup> Maurizio Guadagni and TuriFileccia. (2009) *The Kyrgyz Republic: Farm Mechanization and Agricultural Productivity*. p. 51-53.

<sup>28</sup> Previously cited reference. Task Co., Ltd., Katahira & Engineering Inc., and Japan International Cooperation Agency (JICA). (2014) p. 57.

<sup>29</sup> Ministry of Foreign Affairs of Japan. (2014) “*Japan’s Official Development Assistance White Paper 2013: Japan’s International Cooperation*” p. 122.



## Chapter 4: Business Climate in Manufacturing Industry

In Chapter 2, titled “Candidates for promising industrial sectors derived from a macro-economic analysis,” we conducted a primary selection of promising industry sectors in Kyrgyz Republic. In the current chapter, in addition to conducting a secondary selection of promising sectors in the manufacturing industry, we will overview the two industry sectors selected (garment and meat-processing).

### 1. Characteristics and promising sectors of the manufacturing industry

#### (1) Overview of the manufacturing industry

According to Kyrgyzstan’s National Statistical Committee (NSC), in 2012, the nominal GDP of the country’s manufacturing industry stood at KGS37.6 billion (around JPY75.2 billion), accounting for 13.9% of the overall GDP. The composition ratio in 2002 was 14.3%, a decrease of 0.3% points over a decade. Likewise, looking at the composition ratio of the employed population in 2011, it was roughly 21% for the secondary industry and a mere 8% for the manufacturing industry. Viewed in terms of both GDP and the employed population, the composition ratio of the manufacturing industry is low, and it can be said that manufacturing industry in Kyrgyz Republic is far from being adequately developed.

Table 4-1. Nominal GDP and industry composition ratio

(In million som)	2002		2012		2002→2012	
	Value	Composition Ratio	Value	Composition Ratio	CAGR	Change
Nominal GDP	68,810	100.0%	269,723	100.0%	14.6%	0.0%
Primary Industry	25,930	37.7%	51,720	19.2%	7.1%	-18.5%
Secondary Industry	16,064	23.3%	68,920	25.6%	15.7%	2.2%
Mining	363	0.5%	2,725	1.0%	22.3%	0.5%
Manufacturing	9,834	14.3%	37,623	13.9%	14.4%	-0.3%
Electricity, Gas, Water	3,287	4.8%	8,407	3.1%	9.8%	-1.7%
Construction Industry	2,579	3.7%	20,166	7.5%	22.8%	3.7%
Tertiary Industry	26,817	39.0%	149,083	55.3%	18.7%	16.3%

Source: National Statistical Committee of the Kyrgyz Republic (NSC)



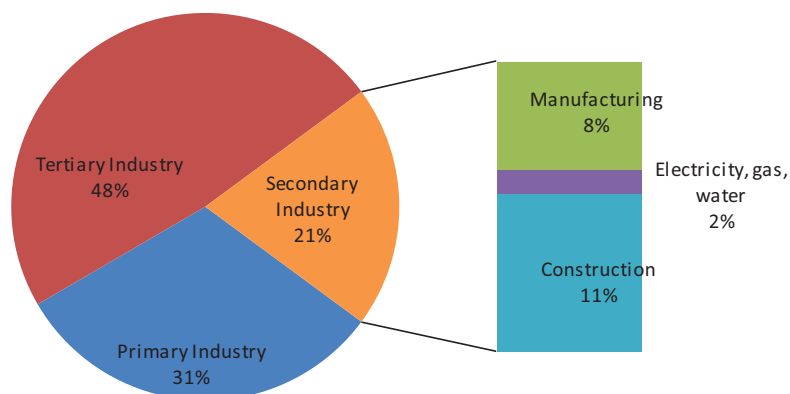


Figure 4-1. Composition of the employed population (2011)

Source: National Statistical Committee of the Kyrgyz Republic (NSC)

## (2) Relatively promising industry sectors within the manufacturing industry

While the manufacturing industry is inadequately developed, in order to find relatively promising industrial sectors within the industry, according to the industry sectors of the primary selection, we conducted an examination based on the following six criteria. Note that the evaluations were ultimately separated based on the degree of importance of each criterion and the characteristics of each industrial sector.

(i) Presence/absence of industry foundations (is there any history? are there many companies/professionals?), (ii) Material procurement scenario (are materials abundantly available domestically, or are they available at low-cost from overseas?), (iii) Exports (value of exports, coefficient of export specialization, growth), (iv) Import substitution effect (value of imports, coefficient of import specialization), (v) Employment generation effect (degree of labor intensity), and (vi) Standard of requisite specialist knowledge and skills.

Based on the above, we have identified garment and meat-processing as the two industry sectors in manufacturing industry of the Kyrgyz Republic with a relatively high level of promise. However, these are not necessarily the only two promising industrial sectors. Here are the specific reasons why we believe garments and meat-processing show promise.

Table 4-2. Selection of promising industrial sectors (manufacturing industry)

Broad categories	Intermediate categories	Evaluation criteria						Overall evaluation
		(1) Presenc e or absence of industry foundati ons	(2) Issues related to raw material procureme nt	(3) Export competi tiveness	(4) Import substituti on effect	(5) Employment generatin g effect	(6) Skills required	
Agriculture	Meat & processed meat	○	○				○	○
Agriculture	Dairy products & eggs	○	○				○	
Agriculture	Cereals & processed cereals	○	○		○		○	
Agriculture	Fruits & vegetables	○	○				○	
Agriculture	Sugar, processed sugar, & honey	○	○		○		○	
Agriculture	Coffee, tea, cocoa, & spices				○		○	
Beverages	Beverages	○	○		○		○	
Raw materials	Fabrics, textiles, & rags			○			○	
Chemical products	Plastics (pre-molded)						○	
Chemical products	Plastics (molded)						○	
Products by raw material	Leather, processed leather, & furs					○	○	
Products by raw material	Rubber products						○	
Products by raw material	Wood products & cork products (excluding furniture)				○		○	
Products by raw material	Yarn for fabrics & textile products				○	○	○	
Products by raw material	Non-ferrous metals		○	○			○	
Products by raw material	Metallic products				○		○	
Machinery & shipping machinery	Motors					○		
Machinery & shipping machinery	Other industrial machinery & components				○	○		
Machinery & shipping machinery	Electrical equipment				○	○		
Machinery & shipping machinery	Road vehicles			○	○	○		
Miscellaneous goods	Furniture & parts	○				○	○	
Miscellaneous goods	Clothes & clothing accessories	○	○	○	○	○	○	○
Miscellaneous goods	Footwear				○	○	○	

Source: Created by a research group on the basis of interviews in each industry

Due to historical circumstances, the fundamentals for the garment industry already exist to a certain extent (such as companies, materials, customers, sales channels, and ratings/visibility at sales destinations), which makes this industry easier to tackle rather than starting business from scratch. Since 2000, exports have expanded rapidly, and the industry is expected to earn more foreign currency. Furthermore, being a typical labor-intensive industry, it can be expected to generate a certain level of employment (employment generating effect). Advanced knowledge and skills in fields such as mechanical engineering are not required, and hence the garment industry offers employment opportunities even to the impoverished younger generation (particularly women) in rural areas (poverty reduction effect). Further, in Kyrgyz Republic, labor and electricity costs are relatively cheap compared to neighboring countries, such as Kazakhstan. Hence, it is possible to create low-cost products (cost-competitiveness).

In case of the meat-processing industry, there is abundant domestic husbandry of livestock, which forms the raw material. High value-added products such as ham and sausage can be manufactured. Furthermore, large consumer markets for meat products exist in neighboring countries such as Russia. Currently, there is a high dependence on imports, and since future economic growth will coincide with increased domestic consumption of processed meat products, domestically oriented production will enable improvement of the trade balance (import substitution effect).

## 2. Garment industry

### (1) Overview

#### (a) Historical background

The textiles and garment industry has thrived since the Soviet era. Bishkek and its suburbs were home to major factories during that period. During the Second World War, more factories were relocated to Kyrgyz Republic from the Soviet Union. Although 80% of textile companies manufactured cotton and wool fabrics (cloth), few garment companies manufactured apparel. After the collapse of the Soviet Union in 1991, the economy shifted from a planned economy to a free economy, and all public corporations were privatized. During this period, inadequate capital expenditure caused a decline in quality, resulting in decreased competitiveness. Many textile companies went bankrupt and the textile and garment sector stagnated. The number of black-market companies engaging in unregistered business also increased. However, since 2000, the value of apparel exports has increased considerably, and the garment industry has rapidly recovered as one of key industries of Kyrgyz Republic.

#### (b) Market size

According to Kyrgyzstan's National Statistical Committee (NSC), in 2012, the domestic output of the textile/garment industry stood at KGS9.48 billion (around JPY18.9 billion), which accounted for 9% of overall manufacturing. The value of production in 2012 was an 11% rise over the previous year, with three successive years of growth.

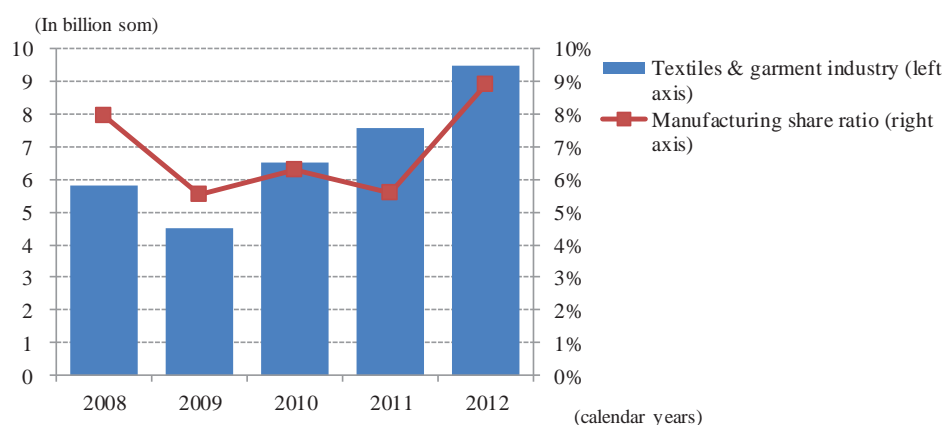


Figure 4-2. Trends in production value of the textile and sewn products industry

Source: National Statistical Committee of the Kyrgyz Republic (2013)

#### (c) Trade

According to the United Nations Commodity Trade Statistics Database (UN Comtrade), the value of apparel and accessories exports stood at USD5.69 million in 2002. Over the past ten years, the compound average growth rate (CAGR) has soared to 39%, with the

value reaching USD156 million in 2012. At just over 80%, the value of exports accounted for the majority of domestic output in 2012 (note: various statistical sources were used in the calculations). The reason behind the sector's rapid growth was the promotion of free trade with accession to the WTO in 1998, the possibility to import and utilize low-priced raw materials from China, and the introduction of a simplified tax system (which will be discussed later). The export volume is only one-third that of Belarus, although the growth rate is much higher.

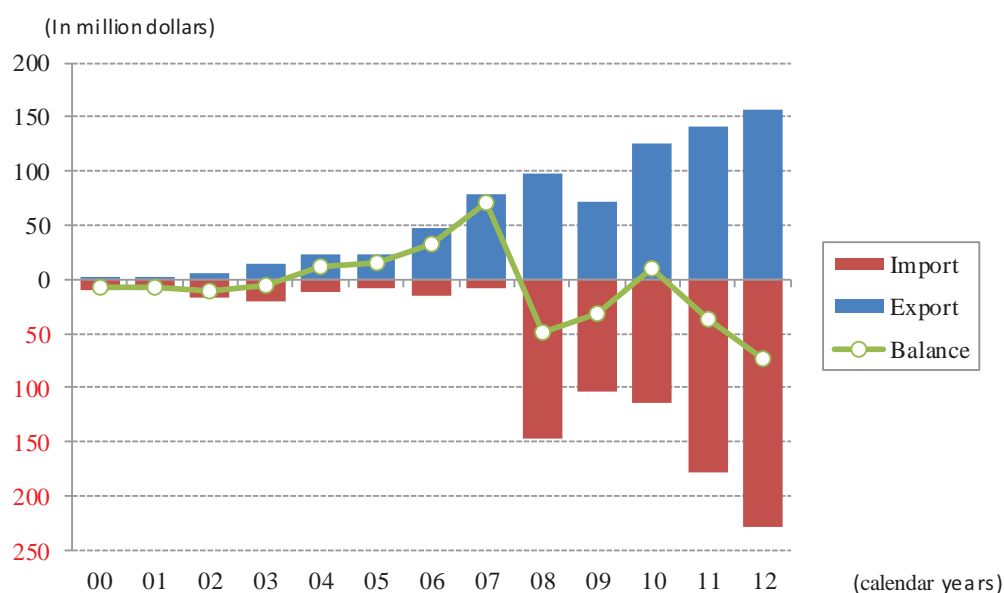


Figure 4-3. Trends in the export and import value of apparel and accessories

Note: Total value of apparel and accessories comprising only stockinette stitched or crocheted items (HS.61), and apparel and accessories excluding stockinette stitched or crocheted items (HS.62)

Source: Prepared on the basis of UN Comtrade database

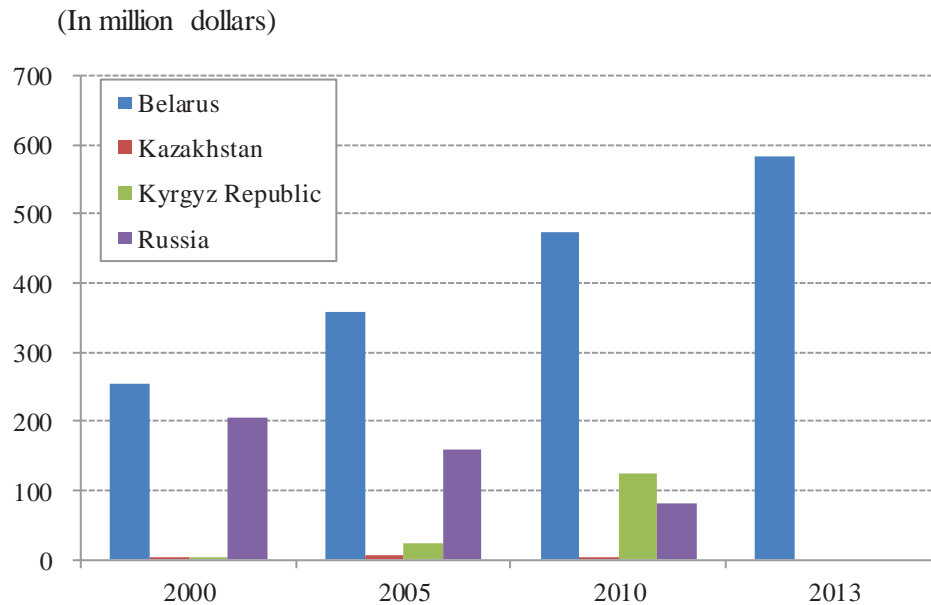


Figure 4-4. Comparison with apparel exports of neighboring countries (2012)

Note: Total value of apparel and accessories comprising only stockinette stitched or crocheted items (HS.61), and apparel and accessories excluding stockinette stitched or crocheted items (HS.62)

Source: Prepared on the basis of UN Comtrade database

The main destinations for exporting apparel are Russia and Kazakhstan. Until 2011, more than 90% of exports were destined for Russia. However, exports to Kazakhstan topped the list in 2012. The value of exports to Kazakhstan increased rapidly due to a customs union formed in 2010 between Kazakhstan, Russia, and Belarus. The agreement meant that the import duty (and the price of imports) for importing from outside the region rose for Kazakhstan. On the other hand, since the import duty from Kyrgyz Republic remained unchanged due to a free-trade agreement, Kazakhstan switched its country of origin for imports to Kyrgyz Republic, which was now relatively cheap<sup>30</sup>.

Interviews revealed that garments from Kyrgyz Republic enjoy a certain level of competitiveness in Russia. The garments are popular owing to the value-for-money they offer, distinguishing them from rival low-cost Chinese products.

The main importers of apparel are China and Turkey, and the value of imports has increased considerably since 2009.

<sup>30</sup> It is also possible that this resulted from the formation of the customs union, which meant that statistical processing of the value of imports to countries in the customs union was conducted more accurately.

Table 4-3. Ranking of nations exporting and importing apparel (2012)

	Export	Value(USD)	Composition Ratio		Import	Value(USD)	Composition Ratio
1	Kazakhstan	80,645,656	52%	1	China	191,691,345	84%
2	Russia	75,077,159	48%	2	Turkey	29,740,322	13%
	Others	357,984	0%		Others	7,996,702	3%
	Total	156,080,799	100%		Total	229,428,369	100%

Source: Prepared on the basis of UN Comtrade database

In terms of clothing imports, share of Kyrgyz Republic in the key markets of Russia and Kazakhstan is still low, at around 1% and 10%, respectively. However, considering that products from Kyrgyz Republic are valued, there is a potential for the share to expand.

Nevertheless, exporters are over-focused on Russia and Kazakhstan at the moment, and it is fair to say that distribution channels to other countries are yet to be developed.

Table 4-4. Country of origin rankings for apparel imports in Russia and Kazakhstan (2012)

	Country	Apparel & accessories 1	
		Value	Composition Ratio
1	China	1,563,521,526	38%
2	Belarus	390,322,836	10%
3	Kazakhstan	343,439,035	8%
4	Turkey	276,549,288	7%
5	Bangladesh	207,140,742	5%
6	Italy	207,101,804	5%
7	Uzbekistan	182,760,037	4%
8	Serbia	107,844,043	3%
9	Ukraine	78,791,616	2%
10	India	75,467,909	2%
19	Kyrgyz Republic	25,601,423	1%
	Others	641,223,494	16%
	Total	4,099,763,753	100%

	Country	Apparel & Accessories 2	
		Value	Composition Ratio
1	China	1,682,628,964	41%
2	Kazakhstan	368,321,494	9%
3	Belarus	338,252,506	8%
4	Turkey	263,627,215	6%
5	Italy	230,967,280	6%
6	Vietnam	166,536,236	4%
7	Bangladesh	147,970,776	4%
8	India	108,129,901	3%
9	Indonesia	70,667,637	2%
10	Morocco	61,923,091	2%
12	Kyrgyz Republic	51,174,269	1%
	Others	607,049,913	15%
	Total	4,097,249,282	100%

Kazakhstan's imports (2012)

	Country	Apparel & Accessories 1	
		Value	Composition Ratio
1	China	111,748,400	45%
2	Russia	37,430,020	15%
3	Turkey	28,724,400	12%
4	Bangladesh	12,022,800	5%
5	Italy	8,189,700	3%
6	Kyrgyz Republic	6,737,200	3%
7	Uzbekistan	6,402,100	3%
8	India	4,033,600	2%
9	Belarus	3,976,100	2%
10	Vietnam	1,782,200	1%
	Others	24,883,900	10%
	Total	245,930,420	100%

	Country	Apparel & Accessories 2	
		Value	Composition Ratio
1	China	175,120,700	44%
2	Kyrgyz Republic	58,756,100	15%
3	Russia	47,848,260	12%
4	Turkey	26,847,300	7%
5	Italy	13,049,000	3%
6	India	11,389,200	3%
7	Bangladesh	11,203,100	3%
8	Vietnam	4,530,200	1%
9	Morocco	3,785,400	1%
10	Belarus	2,987,960	1%
	Others	38,259,000	10%
	Total	393,776,220	100%

Note: Apparel and accessories 1 is only stockinette stitched or crocheted items, and apparel and accessories

2 excludes stockinette stitched or crocheted items

Source: Prepared on the basis of UN Comtrade database

## (2) Market structure

### (a) Current status and value chain issues

The central value chain for apparel can broadly be divided as follows: a) spinning (yarn-making), b) textiles manufacture, c) garment (clothing manufacture), and d) distribution and sale.

#### ① Spinning (yarn-making)

Spinning is the process of making yarn from fibers. Generally, the raw materials for the fibers are sourced from natural fibers from plants and chemically synthesized chemical

fibers. In the case of natural fibers, sheared wool from animals such as sheep and cotton fibers from plants such as raw cotton are laid parallel, braided, and linked together to make yarn (cotton yarn and woolen yarn).

Within Kyrgyz Republic, cotton is cultivated in the southern provinces of Osh and Batken. However, since the quality and productivity of raw cotton is low, and there are almost no spinning factories, the majority of it is not made into yarn but, instead, exported. Likewise, within the country, many sheep are sent to graze, but the species are mixed, and the wool is of low quality. Hence, sheep are almost exclusively reared for the high profit-margin product of meat and exported, instead of being used for yarn-making.

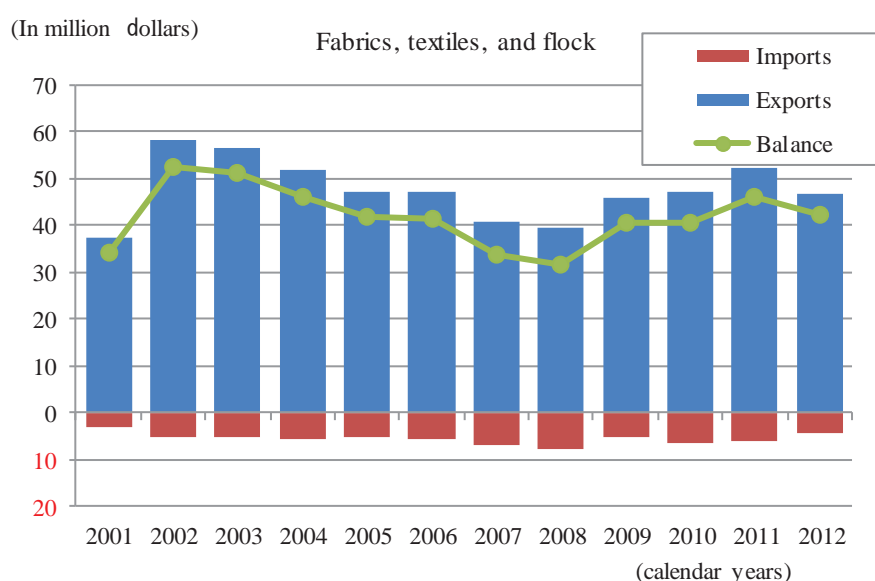


Figure 4-5. Trends in the export and import value of fiber for textiles and rags

Source: UNCTAD

## ② Textile manufacture

Textile manufacturing can be divided into the process of manufacturing cloth by entwining yarn into warp and weft, and the process of dying cloth. In Kyrgyz Republic, the domestic textile industry is almost non-existent, which makes it difficult to procure indigenous production, and the majority of raw materials used in sewing such as yarn and cloth depend on imported goods. Fabrics from chemical fibers, cotton textiles, woolen fabrics, and silk fabrics are imported, with chemical fibers and fabrics accounting for the greatest share. In 2012, the value of imports reached USD82.66 million. As China is a major country of origin for importers, with chemical fiber fabrics at just over 90%, cotton fabrics at 80% and woolen fabrics at 50%.

Many companies in Kyrgyz Republic normally purchase imported cloth at bazaars in the capital of Bishkek, such as the Dordoy Bazaar and the Madina Bazaar. However, although not statistically high-ranked, much Turkish and Korean cloth is seen, and, while



more expensive than Chinese products, it is apparently of better quality.

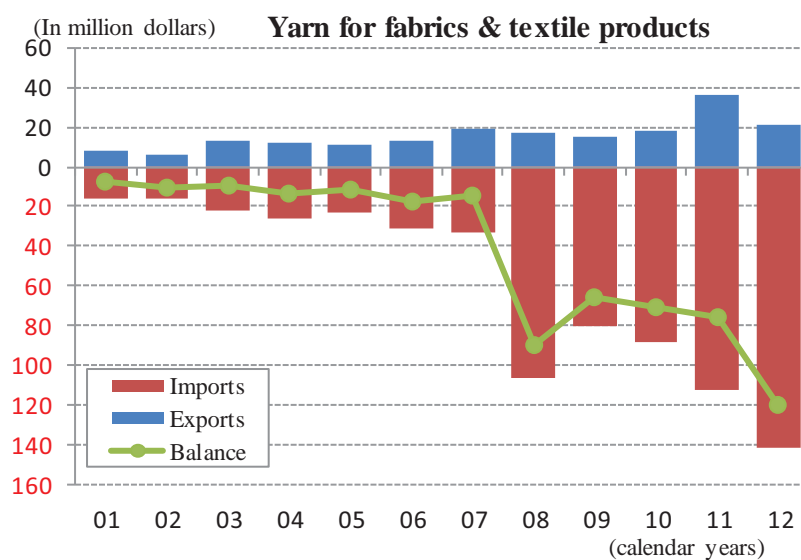


Figure. 4-6. Trends in the import and export value of yarn for fabrics and textile products

Source: UNCTAD

Table 4-5. Import value and main importers of fibers and fabrics (2012)

Item	Import Value (USD)	Composition Ratio	Main Importers
Chemical fibers (short fibers) and fabrics thereof	62,594,963	59%	1. China (91%), 2. Belarus (5%)
Chemical fibers (long fibers) and fabrics thereof	20,069,522	19%	1. China (81%), 2. Turkey (16%)
Cotton and cotton fabrics	7,826,340	7%	1. China (80%), 2. Turkey (7%)
Felt/non-bonded textiles and products thereof	5,533,065	5%	1. Russia (37%), 2. China (30%), 3. Turkey (10%)
Fiber products for industrial textiles, etc.	5,494,439	5%	1. Russia (47%), 2. China (37%), 3. Ukraine (9%)
Special fabrics, etc.	1,590,486	2%	1. China (72%), 2. Turkey (21%)
Wool and fabrics thereof	1,198,031	1%	1. China (50%), 2. United Kingdom (33%)
Stockinette stitched goods and crocheted goods	960,658	1%	1. Other Asian countries (50%), 2. Turkey (40%)
Other fibers for plant-based textiles and fabrics thereof	402,203	0%	1. Bangladesh (100%)
Silk & silk fabrics	44,783	0%	1. Japan (80%), 2. China (9%)
Total	105,714,490	100%	

Source: UN Comtrade



Image 4-1: Bazaars dealing in cloth

Source: Research group photography

### ③ Garment (apparel manufacture)

Apparel production consists of several processes, including garment design, cutting cloth, sewing (machine sewing), finishing (embroidery and attaching labels), and packaging. In Kyrgyz Republic, commissioned processing is practiced using customer-specified cloth and designs, and generally, it is a processing trade that re-exports products (CMT: Cut, Make, and Trim). This is because an overwhelming majority of companies are small-scale or minuscule with no brand strength. In contrast, some companies produce their own clothing brands, and some distribute their brands at their own outlets (specialty store retailer of private label apparel, or SPA).

In terms of products, women's wear, including blouses, coats, and furs, as well as stockings are produced. The products are considered as primarily women's wear as generally females are more interested in apparel and fashion and have greater relevant needs than males. Notably, there is no production of jeans or footwear.

As mentioned earlier, the main sites for purchasing raw materials such as cloth and yarn are bazaars. In some cases, they are purchased by brokers. At the bazaars, although low-cost China-manufactured cloth is available, the lack of high-quality cloth is identified as a problem. Hence, some of the companies interviewed even visit overseas trade shows and inspect the actual cloth before entering into purchase agreements.

With regard to the sewing factories, inefficiencies were observed due to spatial disjuncture of the work processes. For example, in some cases, the processes are split over several floors of a building or separated into smaller buildings, and significant transit is required to proceed to the next process. As a result, there are very few or no companies geared toward the mass-production of a narrow range of products, as seen with large-scale OEMs (Original Equipment Manufacturings). In order to decrease costs through mass-production, a factory layout enabling smooth coordination between the processes is required.



Image 4-2. A workroom for the machine-sewing process

Source: Research group photography

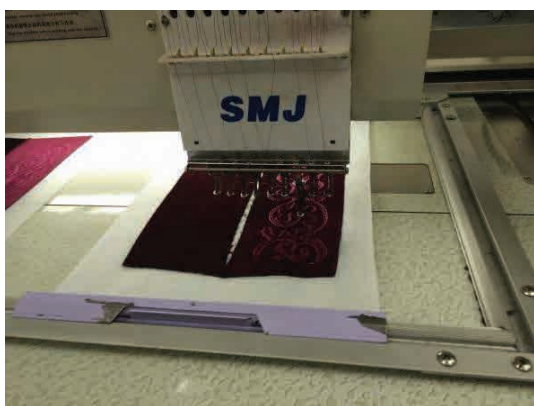


Image 4-3. Process of embroidery

(Left) Machine used for embroidery; (Right) manual embroidery

Source: Research group photography

Several obsolete and aging sewing machines from the erstwhile Soviet Union era are still in use, and this is one of the reasons behind the large-scale decline in productivity. For example, in an interview with one company, the production capacity of spinning machines currently in use compared with the latest Japanese spinning machines was revealed to be 10:1. Procuring funds is an obstacle in the introduction of latest machinery. Essentially, garment companies in Kyrgyz Republic are almost entirely small-scale or tiny corporations, which in many cases lack the funds for capital expenditure. Furthermore, due to the high interest rate of banks (15–20%), capital expenditure using loans risks financial pressure. Hence, some companies conduct capital expenditure only using cash reserves, and this is one factor in the delay of mechanization.

Likewise, much of the work process is manual, leading to a higher loss ratio as excess cloth is discarded after cutting. Improving efficiency in such areas to raise productivity

would also possibly increase the uniformity of quality.



Image 4-4. Spinning machine in use since the former Soviet Union era

Source: Research group photography

#### ④ Distribution and sale (including logistics)

The majority of domestically produced garments are exported via wholesalers. These products are exported to the key exporting nations of Kazakhstan and Russia primarily by rail, and also by truck and aircraft. Between Bishkek and Russia, it takes one week by train and five days by truck. However, trucks are used when importing cloth from China, while aircraft are used for imports from Korea, and trucks or aircraft in case of Turkey. A railway line to Turkey is being planned.

BIEK Cargo, established in 2001, is the company primarily responsible for logistics in the garment sector. BIEK Cargo is said to be responsible for the majority of apparel exports from Kyrgyz Republic to Russia.

Further, some of the garment manufactured are also distributed to places within Bishkek City, such as the Dordoy Bazaar, which is considered the largest bazaar in central Asia. Customers from Kyrgyz Republic as well as neighboring countries such as Kazakhstan, Russia, and Tajikistan (both wholesale and retail) flock to the bazaar for purchasing apparel.

Other than exports and distribution at bazaars, there are companies that distribute some of the apparel they produce (own-brands) at their own outlets (specialty store retailer of private label apparel, or SPA), although they are few in number.

### (3) Labor supply and technical level

According to National Statistical Committee (NSC) of Kyrgyz Republic, around 63,000 people are employed in the textiles and garment sector (2012), accounting for a 54% share in the manufacturing industry. This demonstrates the significance of the textiles and garment industry in terms of generating employment in the Kyrgyz Republic. However, according to an interview with the Textile Industry Association, there are supposedly 3,000 garment companies who employ over 300,000 people. In Kyrgyz Republic, there are still several companies operating without official registration, although their numbers are decreasing. Thus, it is believed that the number of personnel actually engaged in the industry greatly exceeds the statistics. Furthermore, women account for over 80% of workers engaged in the garment sector. Most workers reside in the suburbs of Bishkek, and some commute from other areas. According to an interview with the Association of Enterprises of Light Industry Kyrgyz Republic (REGPROM), 70% of workers have not been educated in garment, and even personnel who are university and technical school graduates receive on-the-job training (OJT) at companies.

The garment industry is expanding. There are many garment companies that operate chiefly in the spring and summer, which leads to a shortage of personnel, and competition to recruit workers. Hence, the turnover rate is high. Furthermore, as the Kyrgyz speak Russian, there is also the issue of outflow of labor to countries with higher wage levels, such as Russia and Kazakhstan.

The garment industry is labor-intensive, and the general ratio of labor costs within the overall costs is high. According to an interview with the Association of Enterprises of Light Industry Kyrgyz Republic, average labor costs incurred in hiring in this sector are KGS3,000–5,000 a week, and around KGS20,000 a month (about JPY40,000). Compared with neighboring Kazakhstan, Russia, and Belarus, labor costs are low, and hence Kyrgyz Republic enjoys an advantage in labor costs.

### (4) Competitive environment

Kyrgyzstan's competitors in the garment industry include China and Belarus. China's productivity and cost-competitiveness are high due to low labor costs and the utilization of new machinery. Market share of Kyrgyz Republic could be possibly expanded by avoiding direct competition with China, attempting to differentiate on the merits of design and quality, and by appealing to different target market segments within the same country.

Likewise, Belarus' value of clothing exports is expanding rapidly, and in 2010, it was three times that of Kyrgyz Republic. The raw material of cloth is domestically procurable in Belarus, which is one of its strengths. However, labor costs in Belarus are higher than in Kyrgyz Republic (per capita GDP is USD5,820). Similarly, Belarus' factories are aging and the machinery used is old as well. Hence, it is opined that products are of better quality in Kyrgyz Republic.



(5) Relevant legislation and systems

(a) The patent system

In 2005, a simple taxation system called the “Patent System” was introduced in the garment industry. This is a taxation mechanism based on the number of machines installed regardless of the number of products manufactured. For example, for every 10 sewing machines, a sum of KGS2,000 (around JPY4,000) is levied each month. For an additional 10 machines, a sum of KGS1,000 is levied. The deadline for patent payment can be decided freely based on the order volume. We gathered that the introduction of this tax system has reduced the burden of tax paid under the former system, and has led to a decrease in corruption.

(b) Intellectual property

Recently, the increase in counterfeit Chinese apparel labeled “Made in Kyrgyzstan” and sold in the Kazakh and Russian markets has caused problems in Kyrgyz Republic. Products made in Kyrgyz Republic generally sell at a higher price. The Kyrgyz parliament has discussed proposed countermeasures to the counterfeit goods, but changes in the administration risks delaying any possible countermeasures. With alteration to the tariff rate, textiles and apparel are now under the same tariff rate (see c. Customs), which means customs officials can no longer inspect the contents of such shipments.

(c) Customs tariff

As for import tariffs, as of August 2012, USD0.35/kg is levied on both cloth and apparel (weight tax.) Previously, tariffs had been levied at USD0.20/kg on cloth and USD0.28/kg on apparel, but standardization now enables smooth passage through customs at international borders. On the other hand, since the contents cannot be inspected, it has led to an increase in counterfeit goods from China. As a countermeasure, the government is currently planning to set the tariff rate for cloth at USD0.30/kg and for apparel at USD0.45–50/kg.

Kyrgyz Republic is considering joining the Customs Union of Belarus, Kazakhstan, and Russia. However, if it does so, imported cloth may be subject to the common tariff (ad valorem tax) of the customs union, which is higher than the current weight tax. As seen above, in Kyrgyz Republic, almost no cloth is produced domestically and the country relies on imported goods. Consequently, higher tariff rates will lead to elevated raw material prices and higher prices of the apparel goods that become the final product, thereby decreasing the cost-competitiveness of products from Kyrgyz Republic.

(6) Promising business model candidates

The production formats within the garment industry can be classified as (a) OEM production, (b) own brand production, and (c) SPA (specialty store retailer of private label apparel).

CMT (Cut, Make and Trim) is the general format of business among garment industry in Kyrgyz Republic. Currently, in view of the circumstances that (1) many companies use this format, (2) compared with Russia and Kazakhstan, relatively low-priced labor can be utilized, and (3) no special design or brand strength is required, it is undoubtedly realistic for the majority of minuscule companies to aim small-scale OEM. If factory layouts are improved and mechanization progresses in achieving a small-batch system of mass-production, it is conceivable that Kyrgyz Republic can aim to become a garment OEM hub in Central Asia. On the other hand, making OEM high value-added is problematic and limits potential profits. Hence, it is thought to be a rather weak driver of long-term national growth.

(b) With own brand production, differentiation in design and quality aspects can be planned, and this is a conceivable method of manufacturing high value-added apparel (cases of (c) “direct sales” are also included here). In a labor-intensive industry such as garments, the ratio of labor costs among the overall costs is high. Although Kyrgyz Republic may have an advantage in terms of labor costs when compared with Kazakhstan and Russia, its competitiveness is weak when compared with countries such as China. Hence, in the short term, a scenario is conceivable wherein Kyrgyz Republic will continue to increase its share of the major markets of Russia and Kazakhstan to which it has favorable access; in the mid- to long-term, it will also target the European markets and continue to acquire clients. One anticipated risk is that there are only a very small number of large companies with their own brands. Thus, it will take time to develop the brand strength of companies and train or secure highly skilled personal such as designers. Furthermore, amidst the battle with rival countries such as Belarus that are directing efforts toward textiles and garment, if participation in the customs union can be achieved, the price of imported raw materials will increase, and it is possible that international competitiveness will decrease.

In terms of participation of Japanese corporations in garment industry in Kyrgyz Republic, conceivably one area is the sale of sewing machinery, considering there is a need to replace obsolete machinery and for mechanization in Kyrgyz Republic. In terms of machinery, we can cite cloth cutters with Computer-Aided Design (CAD) installed and devices to increase the yield ratio. In case of distributing machinery, there is the advantage of initial investments being contained more than during the establishment of manufacturing hubs. On the other hand, since there are many small-scale companies, it must be kept in mind that it is necessary to secure multiple sales destinations in order to maintain profitability and find companies wishing to expand their business; furthermore, shipping costs from Japan will be high.

### 3. Meat-processing industry

#### (1) Overview

##### (a) Production value of processed-meat products

According to National Statistical Committee (NSC) of Kyrgyz Republic, in 2012, the value of production in the meat processing industry had increased 11% from the previous year to KGS21.1 billion (around JPY42 billion), accounting for 20% of the manufacturing industry overall output. As seen in Chapter 3, agriculture and stock-raising industry in Kyrgyz Republic is thriving, and the meat processing industry, which utilizes the domestically abundant raw materials of agricultural and livestock produce, is becoming one of crucial sectors in Kyrgyz Republic. As representative examples of the food processing industry, in this section, we will have an overview of the meat processing industry, which is thought to be relatively promising.

Looking at the production volume of different types of meat, beef is highest, followed by mutton/lamb, horsemeat, pork, and chicken. However, sheep are highest in terms of the number of animals reared. According to data collected in 2005, the percentage of meat processed was small (at 1.9%), and going by the data, we can surmise that the majority of meat is not consumed as processed food but as unprocessed meat.

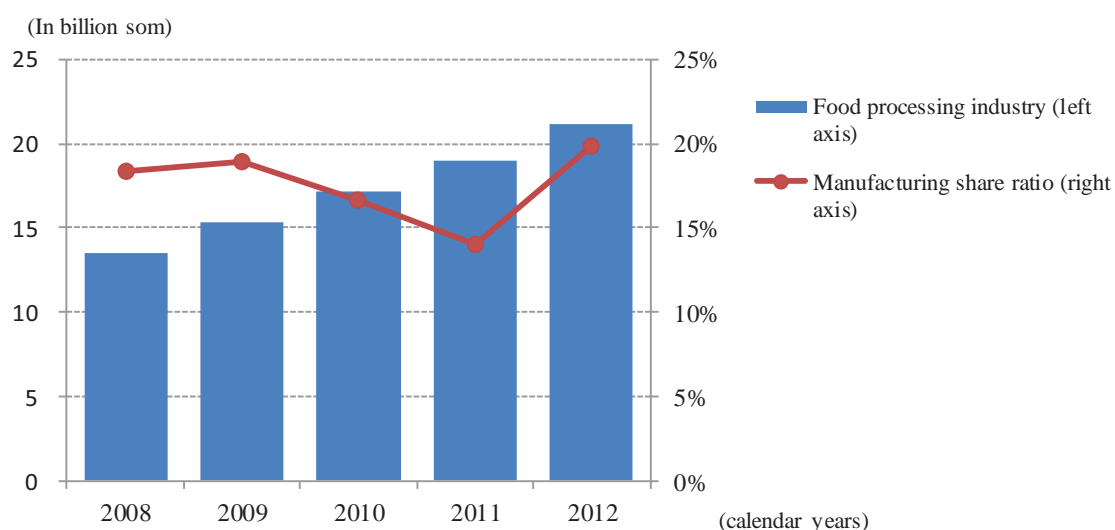


Figure 4-7. Trends in production value of the processed food industry

Source: National Statistical Committee of the Kyrgyz Republic (2013)



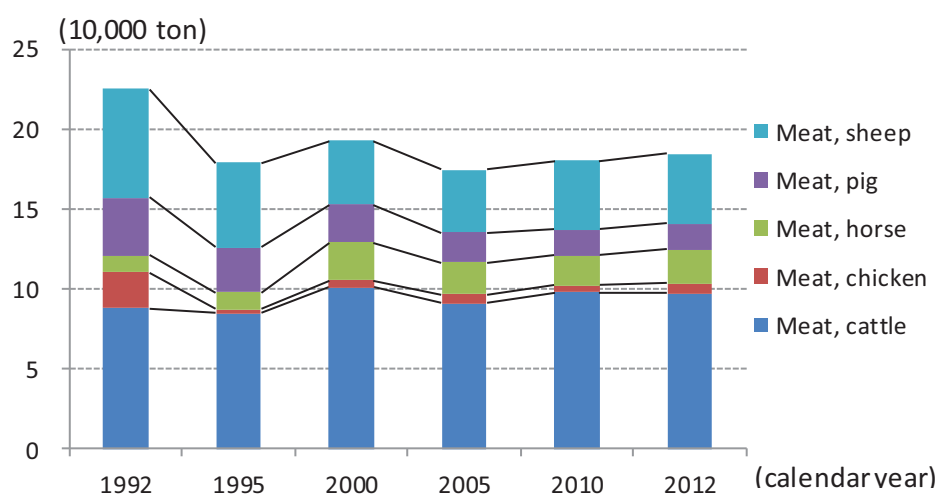


Figure 4-8. Meat production

Source: FAOSTAT

Table 4-6. Processed meat production

	2002	2003	2004	2005
Total meat production (tons)	200,400	193,600	188,300	195,700
Processed meat production (tons)	3,202	5,244	4,683	3,756
Percentage of processed meat	1.6%	2.7%	2.5%	1.9%

Source: Prepared on the basis of BISNIS materials (2007) (original source: National Statistical Committee)

Although the data is slightly old, as of 2007, a total of 7,025 companies, comprising 404 companies and 6,621 individual business operators, were engaged in the processed food industry. Of these, the highest number was of companies processing cereals, such as wheat (Source: USA BISNIS report). Other companies were engaged in meat-processing, processing sausages, ham, and frozen foods.

Table 4-7. Number of companies engaged in food processing

Sub-sectors	No. of companies	No. of individual business operators
Dairy processing	2.5%	3.7%
Meat processing	5.9%	3.6%
Fruit & vegetable processing	8.7%	1.4%
Cereal processing	30.9%	73.3%
Total number of food-processing companies	404	6,621

Source: Prepared on the basis of BISNIS materials (2007) (original source: Ministry of Agriculture)

(b) Trade

In the early 2000s, there were almost no exports of meats and processed-meat products in Kyrgyzstan. From the mid-2000s, however, imports increased greatly, creating a trade deficit. In 2012, exports to the United Arab Emirates increased, and now the trade balance for processed-meat products is improving. However, due to the outbreak of an infectious disease among livestock in 2010, countries such as Kazakhstan placed a ban on imported meat products from Kyrgyzstan.

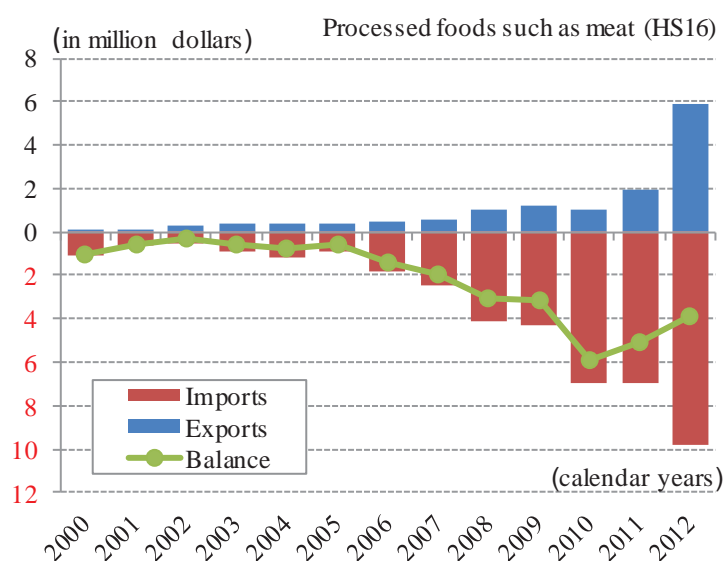


Figure 4-9. Trade balance for processed meat products

Source: UN Comtrade database

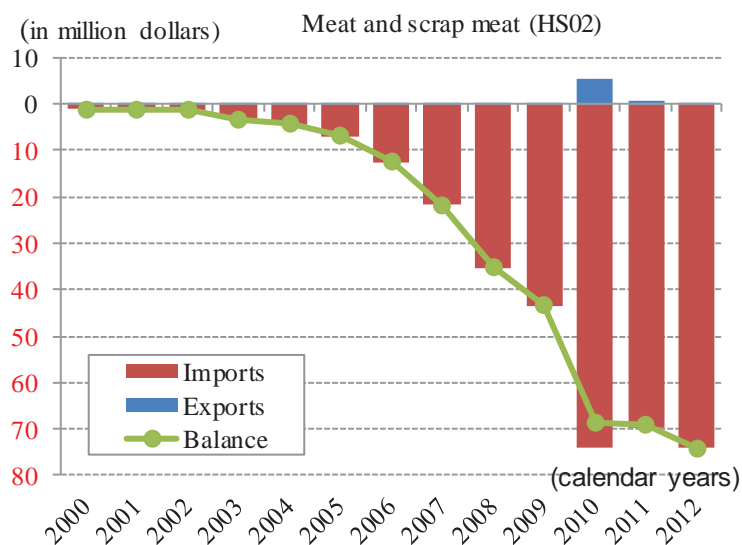


Figure 4-10. Balance of trade for meats

Source: UN Comtrade database

Table 4-8. Importers and exporters of processed meat products

	Exports (2012)	Value (USD)	Composition Ratio		Imports (2012)	Value (USD)	Composition Ratio
1	UAE	4,329,716	73%	1	Canada	2,075,123	21%
2	Russia	1,184,942	20%	2	Kazakhstan	2,059,735	21%
3	Mongolia	93,236	2%	3	Latvia	1,826,327	19%
4	Tajikistan	73,850	1%	4	Russia	1,602,146	16%
5	Turkey	69,204	1%	5	Brazil	649,019	7%
	Others	180,808	3%		Others	1,558,564	16%
	Total	5,931,756	100%		Total	9,770,914	100%

Source: UN Comtrade database

## (2) Market structure

### ① Current status and value chain issues

The value chain of meat processing can broadly be divided into three categories:

- Livestock production and slaughter
- Processing
- Distribution and sale

### ② Livestock production and slaughter

In the meat processing industry, the raw material (meat) is not purchased directly from farmers. Instead, purchasing is carried out through a broker. Livestock such as cows, sheep, and chicken produced by livestock farmers are first presented live at wholesale markets where they are purchased by brokers. They are then sold to another broker, and after slaughtering at an abattoir, they are sold to food processing companies. Ordinarily, therefore, multiple mediating brokers are involved in this trade. If the second broker is

physically distant from the processing company, there may also be a third broker. According to an interview with a food processing company in Bishkek, this distance covered is apparently an average of 150 kilometers. The reason for having multiple brokers is to facilitate the control of distribution. These processes are completed within a day.

As mentioned above, outbreak of infectious diseases among livestock is creating problems in Kyrgyz Republic. Domestically, there are no abattoirs certified by official institutions and there are cases where processing takes place under unhygienic conditions. In addition, vaccines to curb the outbreak of diseases are insufficient or inadequately managed. For the abattoirs to be run hygienically, legislation must be formulated to regulate commercial abattoirs. Furthermore, approximately 40% of domestic livestock are reportedly not vaccinated, and hence appropriate measures must be implemented. Likewise, the livestock are not individually registered or data-controlled, and it is difficult to trace the cause of problems when they arise.

### ③ Processing

Meat purchased from brokers is processed into products in factories by meat processing companies. The main meat-related products manufactured in Kyrgyz Republic include sausages, cured meats, and frozen foods. In terms of mechanical equipment, semi-automated machines are common; these are manufactured in various countries such as China, Russia, Turkey, Germany, and Italy. When products are to be distributed domestically, there are particularly no major problems with processing. In contrast, in the case of processing meat for export to neighboring countries such as Kazakhstan, the products are required to meet quality and hygiene standards of the export destination. Currently, not a single meat processing company in Kyrgyz Republic meets these requirements (although one company is currently preparing to do so).

### ④ Distribution and sale

The processed products are sold in domestic supermarkets, bazaars, butcher's shops, and cafes. If distributed nationwide, they are sold through distributors in each province. The companies apparently send managers to visit the stores, who note the kind of products and quantities required, and then provide products according to demand.

As for the main export destinations, in 2010, the UAE accounted for 58%, Kazakhstan 20%, and Russia 19%. Following Kazakhstan's ban on imports from Kyrgyz Republic, the UAE accounted for 73% of the export market, while Russia accounted for 20% as of 2012.

## (3) Promising business model candidates

In terms of growth of meat processing industry in Kyrgyz Republic, the following options are conceivable: (a) continued targeting of the domestic market, or (b) focusing

on export markets such as Kazakhstan and Russia. In relation to (a), it is thought that the consumption of meat products will rise in conjunction with rising income levels, and an expansion of the market scale is anticipated. In terms of risks, added to the fact that the domestic market is relatively small, there are a small number of competing meat processing companies (around five local companies). As for (b), Kyrgyz Republic is currently preparing to join the customs union, and, if it is successful, major markets such as Russia and Kazakhstan will become more accessible. One anticipated ensuing risk is the existence of major non-tariff barriers. In other words, due to the outbreak of infectious diseases and the inadequate hygiene control system, or for protecting their national meat processing industries, it is possible that neighboring governments will either not permit the import of processed meat products, or they will impose regional or quantitative restrictions. In order to meet the admission criteria for exporting processed meat products to other countries, at the very least, (1) a hygiene control system must be put in place for the raw materials (meat) at the top of the value chain, and (2) a hygiene control system must be introduced conforming to the criteria of the companies' export destinations (such as the Hazard Analysis and Critical Control Point, or HACCP). In order to achieve (1), it will be necessary to formulate legal provisions related to commercial slaughter, achieve traceability by implementing a system to register and control individual livestock, and curb the outbreak of infectious diseases through the proliferation of vaccines. To achieve (2), the provision of processing facilities satisfying international criteria will be required in addition to training specialists in production technology and hygiene control. If the above challenges can be overcome, it is conceivable that the meat processing industry could become a high-growth industry within food processing.

## Chapter 5 Business Environment Surrounding the Service Industry

### 1. Current Situations of the Service Industry in Kyrgyz Republic

#### (1) Current Situations of the Service Industry

The service industry accounts for more than 50 % share of the GDP of Kyrgyz Republic. Among the subsectors of the service industry, Commercial activities, Transport, Communication and Education subsectors have larger component shares. Since Kyrgyz Republic is a country with poor natural resources, the growth potential of the Communication subsector is expected to be high. And, in 2003, the ICT Council was established with the President of the Kyrgyz Republic participating as a member with an aim to formulate effective policies for reinvigorate the country's IT industry through the capacity building of human resources, etc.

As for the overall balance of the service trade, the country once achieved a trade surplus in 2007 but thereafter has been chronically suffering from a deficit trend. The deficits of the transport subsector have contributed to such a chronic deficit trend of the service industry as a whole. On the other hand, the travel (tourism) subsector has been consistently maintaining a surplus trend, and the computer and IT services subsector has also been on a surplus trend since 2007.

Table 5-1. Share of GDP by Industries in Kyrgyz Republic (unit: million KGS)

	2000		2005		2010		2013		Annual growth rate
Primary industries	22,344		28,739		38,459		53,157		6.9%
Secondary industries	19,084		20,147		57,759		79,968		11.7%
Tertiary industries	19,374	Component ratio	41,077	Component ratio	101,569	Component ratio	166,667	Component ratio	18.0%
Commercial activities	7,906	41%	18,002	44%	35,180	35%	56,456	34%	16.3%
Hotels and Restaurants	484	2%	1,351	3%	2,762	3%	5,099	3%	19.9%
Transport and Communication	2,414	12%	6,618	16%	18,894	19%	33,274	20%	22.4%
Financial activities	297	2%	2,251	5%	8,574	8%	1,692	1%	14.3%
Real estate	1,892	10%	2,814	7%	10,671	11%	14,319	9%	16.8%
Government	2,491	13%	4,660	11%	12,448	12%	17,740	11%	16.3%
Education	2,065	11%	3,854	9%	9,654	10%	19,581	12%	18.9%
Health care and Social services	1,317	7%	2,065	5%	5,678	6%	12,033	7%	18.6%
Miscellaneous	725	4%	1,198	3%	4,979	5%	6,473	4%	18.3%
Financial intermediation services	-215	-1%	-1,735	-4%	-7,271	-7%	-	-	-

Source: Data by the National Bank of the Kyrgyz Republic

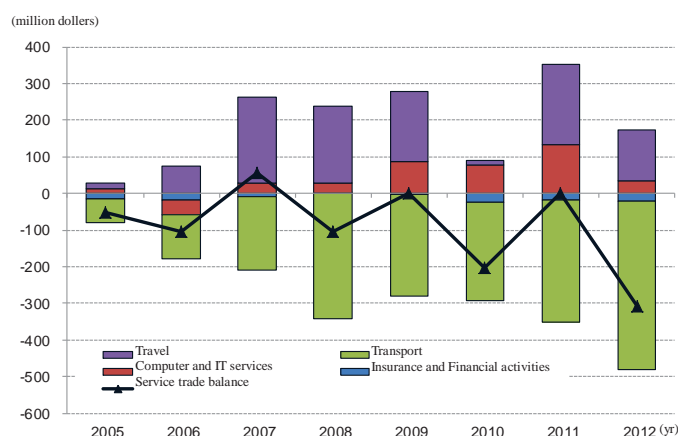


Figure 5-1. Changes in Service Trade Balance in Kyrgyz Republic

Source: Data by the World Bank

The comparison of the service trade balances of the Central Asian countries including Kyrgyz Republic with those of Turkey and the ASEAN countries shows that the Central Asian countries have been suffering from a deficit trend while Turkey and the ASEAN countries have been on a surplus trend.

Kazakhstan, Tajikistan and Russia have been chronically suffering from deficits. Kazakhstan once achieved surplus in the field of travel business but the statistics for 2012 shows that every subsector is posting a deficit. Tajikistan is enjoying a favorable balance of trade in the field of IT services but the trade balance of the service sector as a whole is in red. As for Russia, although the transport subsector is maintaining a favorable balance of trade, the deficit of the service sector as a whole has been expanding.

On the other hand, Turkey has been maintaining a surplus trend in the service trade as a whole thanks to the massive surpluses in the field of travel (tourism) and transport. And each of the ASEAN countries has been maintaining a favorable balance of the service trade due to the characteristics of their industries. In Philippines, the IT services outsourcing industry and the call center industry have been growing, and the massive surplus achieved in the field of IT services has contributed greatly to the overall balance of the service trade. In Cambodia, the surpluses in the field of travel (tourism) have been expanding to make considerable contribution to the overall balance of the service trade. The Cambodian government has been aggressively implementing measures for attracting tourists to the country's tourist sites most of which are the world heritages as well as measures to invite foreign investments. As a result, the number of foreign visitors to the country for both sightseeing and business purposes is on a rise. In Laos, though the magnitude of the overall amount of the service trade is not considerable, every field except the financial field has been turning profits and the service trade as a whole has been maintaining a surplus trend. Through the examination of trade balances by industries with respect to those countries enjoying favorable trade balances, it has been revealed that each such country is making the most of the characteristics and merits of their industries and the trade surpluses

achieved in the more competitive fields work to compensate for deficits resulting from other less competitive fields.

Table 5-2. Service Trade Balances of Kyrgyz Republic and neighboring countries as well as those of the ASEAN countries

(Million dollars)

	2008	2009	2010	2011	2012
Kyrgyz	▲ 103.9	▲ 0.9	▲ 202.0	0.9	▲ 308.4
Kazakhstan	▲ 7,028.6	▲ 6,075.9	▲ 7,298.1	▲ 6,772.2	▲ 8,040.7
Tajikistan	▲ 319.2	▲ 146.9	▲ 125.4	▲ 134.8	▲ 139.0
Russia	▲ 19,173.0	▲ 15,851.9	▲ 24,581.4	▲ 32,043.4	▲ 45,152.5
Turkey	19,489.0	19,345.0	17,438.0	21,088.0	23,471.0
Philippines	2,852.0	3,145.0	4,328.0	5,572.0	4,190.0
Cambodia	695.7	665.6	627.7	847.1	948.6
Laos	257.2	244.1	231.3	200.6	217.9

Source: Data by the World Bank

## (2) Criteria for the Selection of Promising Business Sectors

With respect to each of the business sectors comprising the service industry, assessments were made to determine their comparative growth potential in accordance with the following criteria: [1] width of change in the share of GDP, [2] GDP growth rate, [3] trade balance, [4] the number of workers, [5] job creation effect and [6] foreign currency earning effect. In addition to these six criteria, other characteristics of the respective business sectors were taken into consideration in order to assess the growth potential of each business sector from a broader perspective.

### ① Width of Change in the Share of GDP

Examination of the widths of change in the share of GDP of the respective subsectors shows that Transport and Communication, Education, Hotels and Restaurants come in this order in terms of the magnitude of the width of the change. With regard to the transport and communication subsector, the existence of several large-scale bazaars in Kyrgyz Republic, large volumes of inflows and outflows of goods from or to neighboring countries because of its role as a base of intermediate trade, and the expansion of the IT services industry may be pointed out as the reasons behind that.

### ② GDP Growth Rate

As for the annual growth rates of the respective subsectors during the years from 2000 to 2013, Transport and Communication, Hotels and Restaurants, and Education come in this order in terms of the magnitude of the growth rate. The growth of the transport and communication subsector is attributable not only to the increase in the quantity of materials but also to the expansion of IT software exports. The hotels and restaurants subsector has been expanding due to the increase in visitors to Kyrgyz Republic. As for the education



subsector, the fact that more families are investing in the education of their children may be pointed out as a major contributing factor. Conventionally the literacy rate and the education standards have been rather high in Kyrgyz Republic<sup>31</sup>, and now more students chose to study at international schools or abroad. However, either private tutoring schools or culture lessons for children are not yet common in Kyrgyz Republic.

### ③ Trade Balance

When it comes to the service trade balance, the deficit in the transport subsector is a major contributing factor to the overall deficit trend. On the other hand, the travel (tourism) subsector has been consistently maintaining a surplus, and the IT services subsector is also in surplus thanks to the excess of exports over imports.

### ④ The Number of Workers

The number of workers employed in the service sector in Kyrgyz is higher in the order of Commercial activities, Education and Transport and Communication. As for the commercial activities subsector, there are several businesses most of which are bazaar operators and their businesses are expanding. In the case of a large-scale bazaar, various types of operations are involved such as a bazaar operating company, companies managing each area, container handling companies, tenant retailers, carriers in charge of intra-bazaar transport, money changers, domestic and international freight carriers, accommodation facility operators and restaurant businesses (including food wagon vendors selling food within the premises of a bazaar). The transport subsector is employing larger number of people since the intermediate trade is thriving in Kyrgyz.

### ⑤ Job Creation Effect

In the hotels and restaurants subsector, new entrants of a hotel and/or a restaurant may lead to the creation of new jobs, and the entrants of a hotel and/or a restaurant chain may lead to further job creation effect. Since this subsector is rather close to the consuming public, jobs there are so-called everyday professions and, therefore, recruiting is easier compared to other industries. However, since jobs at hotels and restaurants accompany direct interactions with consumers, it would be necessary to promote hospitality education of the workforce.

In the transport and communication subsector, especially in the field of the IT software development, shortages of qualified human resources are the serious problem facing the industry.

As for the skill development of people already working in the industry, projects for developing and improving skills of working population are already in action under the support not only from private enterprise organizations but also from foreign countries. HERVETAS, a development organization anchored in Switzerland is working on the project for the capacity building of human resources in the field of tourism (T/STAR) in

---

<sup>31</sup> Adult (15 years or old) literacy rate: 99.2% (2009), Primary school attendance rate: 88.5% (2009) [data by the Ministry of Foreign Affairs of Japan]

Issyk-Kul. The project provides training to people from private companies in the field of tourism-related industries, and the number of people receiving trainings from the project amounts to some 500 annually. Meanwhile, a Japanese development organization, JICA has provided, under a technology cooperation project, supports such as the establishment of the operation system of the National IT Center, the skill improvements of the trainers and the quality control of the training courses.

And now the Center is being operated independently of the support from JICA. In addition, since 2003, at the Kyrgyz Republic-Japan Center for Human Development which was initiated as a JICA project, not only trainings and cultural exchange events to help people learn Japanese, but also trainings for the capacity development of business persons through quasi-MBA courses as well as trainings specifically tailored to the needs of individual enterprises have been provided.

#### ⑥ Foreign Currency Earning Effect

The hotels and restaurants subsector is a central component of the tourism-related industry and higher foreign currency earning effect may be expected from the subsector. Meanwhile, in the field of IT development, outsourcing business with foreign companies is currently the major earner and, thus, it is expected that IT services exports will lead to the acquisition of more foreign currency. As for other subsectors of the service industry, their mainstreams are domestic demand oriented businesses and, thus, it is difficult to expect foreign currency earning effects from those subsectors.

#### ⑦ Required Skills

Levels of skills and technologies required of workers are considered high in the fields of Financial activities, Real estate, Government, Education, and Health care and Social services. However, it is evident that efforts for the development of expertise, the adoption of sophisticated technologies and the invention of imaginative and original ideas may also lead to favorable impacts on the profitability and growth in other subsectors.

In view of the above, in this chapter, the hotels and restaurants industry, the tourism industry accompanying a certain level of commercial activities (such as retailing) and the IT industry as one component of the transport and communication subsector have been selected as comparatively promising business areas. Since the transport industry assumes an important role to play in the future economic development of Kyrgyz since it plays a connecting role between wide range of industries, the present situations in Kyrgyz and relevant measures under implementation by the Kyrgyz government in the field of transport will also be examined in this chapter.

The tourism industry (more specifically, hotels and restaurants business) has been exhibiting relatively high GDP growth rates and the trade balance is already on a surplus trend. And, through the improvement of the level of services aimed at foreigners, the foreign currency earning effect may be further enhanced. In addition to such effect, the

development of the tourism industry may lead to the development of not only central urban areas of the country but also the rural areas. Especially as for the job creation effect, the White Paper on Tourism (2007) compiled by the Japan Tourism Agency revealed, as the results of its simulation, that the scale of job creation effect expected of the tourism industry is in no way inferior to that resulting from the establishment of manufacturing plants. Meanwhile, the importance of the MICE industries is growing, and, therefore, it would be instrument to create a system for aggressively promoting conferences and events held under the sponsorship of the local economy organizations such as the CIS, the Shanghai Cooperation Organization and the Eurasian Economic Community by making the most of its magnificent scenic beauty described as “Swiss in Central Asia”.

In the IT industry, the service trade has been consistently maintaining a surplus trend (while the transport subsector is suffering from chronic deficit). The mainstream of the software development industry is the outsourcing business with customers in foreign countries and, thus, Kyrgyz Republic may count on the industry’s foreign currency earning effect. In addition, the IT industry has been working actively to secure talented human resources and develop their skills and, therefore, the job creation effect is considerable. Further, the fact that the official language of Kyrgyz Republic is Russian and people are well acquainted with the cultures and customs of the former Soviet Union nations may work as competitive advantages for the industry.

Table 5-4. Selection of Promising Subsectors out of Kyrgyz Republic's Service Industry

Category	Width of changes in share of GDP(%point)		GDP growth rate		Trade balance (2012)	No. of workers (2011)		Job creation effect	Foreign currency earning effect	Required skills	Total
Commercial activities	-6.9%	8	16.3%	6	-	345.9	1	○	△		0
Hotels and Restaurants	0.6%	3	19.9%	2	in surplus	86.5	6	○	○		5
Transport and Communication	7.5%	1	22.4%	1	in surplus	147.2	3	○	○		4
Financial activities	-0.5%	5	14.3%	8	in surplus	17.7	9	△	△	High	-6
Real estate	-1.2%	6	16.8%	5	-	56.0	8	△	△	High	-5
Government	-2.2%	7	16.3%	7	-	102.6	4	-	-	High	-3
Education	1.1%	2	18.9%	3	-	177.1	2	△	△	High	0
Health care and Social services	0.4%	4	18.6%	4	-	78.5	7	△	△	High	-4
Other services	-	-	-	-	-	88.3	5	-	-		
Category	Remarks										
Commercial activities	Various kinds of businesses resulting from the operation of bazaars. Foreign capital is already in the retailing field through the deployment of outlets under the chain system.										
Hotels and Restaurants	The number of foreign visitors reaches more than 2.4 million per annum. However, in some areas the operation throughout the year is not possible. Concerns remain with respect to hospitality.										
Transport and Communication	Several cases of investment by foreign capital. It is indispensable to overcome the current situations where imports are in excess over exports in order to solve the trade deficit of the country. IT-related exports are in surplus.										
Financial activities	Opening accounts with banks is not yet common practice. The interest rates are so high that loans are not accessible for ordinary people.										
Real estate	In the capital there has been a rush to build more condominiums. However, some critics say it's already reached an excessive supply situation.										
Government	-										
Education	In spite of high demands for studying abroad and at international schools, culture lessons and private tutoring schools are not yet common.										
Health care and Social services	Most of the health care facilities are publicly-operated facilities build during the Soviet era.										
Other services	Demands are expected to increase in the fields of automobile service business, daily-life-related service business and entertainment business.										

NOTE 1: Width of change in the share of GDP and Annual growth rate were calculated based on the data from 2000 through 2013.

NOTE 2: Total scores were calculated with +1 for a column highlighted red and -1 for a column highlighted blue.

Source: GDP data by the National Bank of the Kyrgyz Republic; trade balance data by the World Bank; data on the number of workers by the National Statistical Committee.

## 2. Tourism-related industry

### (1) Current status

The tourism-related industry is not classified in the GDP Statistics by Industry, but according to the data released by the Bureau of Statistics, total GDP/GVA of industry related to tourism in 2012 was 14.3 billion som, which was about 5% level of total GDP of Kyrgyz Republic. GDP/GVA of hotel/restaurant industry in 2013 indicated in the GDP Statistics by Industry was 5.1 billion som. Annual growth rate from 2000 to 2013 was about 20%.

The number of foreign visitors dropped significantly in 2009 and 2010 when the domestic situation worsened, however, after 2011, it marked a record high for two consecutive years, and marked more than 2.4 million in 2012. By country, most of foreign visitors are from Kazakhstan, followed by Russia and Uzbekistan. The number of visitors from Kazakhstan exceeded 1.6 million in 2012 that accounted for about 70% of total foreign visitors. On the other hand, the number of visitors from countries other than these

top 3 countries accounted for less than 10% of the total.

The change of tourism-related revenue followed a similar pattern to the increase/decrease of the number of visitors and it was 690 million dollars in 2011. According to the survey of Kyrgyz Association of Tour Operators (KATO), the breakdown of amount spent by sightseeing tourists is (1) Accommodation: 37%, (2) Transportation expense: 26%, (3) Meal expense: 21%, (4) Souvenirs, shopping: 10%, and (5) Admission of facilities, etc.: 7%.

In the service trade balance, the balance of travel (tourism) sector has been running a surplus since 2005. Although the domestic situation deteriorated in 2010 and the number of visitors and tourism-related revenue decreased, it maintained a trade surplus.

Behind the trade surplus, there is a fact that the number of inbound visitors exceeded the number of outbound travelers. The number of Kyrgyz Republic citizen who traveled to foreign countries was 1.2 million in 2012.

World Travel and Tourism Council (WTTC) forecasts in its "Travel & Tourism Economic Impact 2013 KYRGYZSTAN" that, while the GDP of tourism industry was 8.3 billion som in 2012, which accounted for 3.0% of total GDP, it will increase by 2.6% over previous year in 2013. Further, it forecasts that the GDP of tourism industry will increase by 5.1% annually until 2023 and will expand up to 13.9 billion som.

According to the research by the Council on the impact on employment in tourism industry, the 58,000 people (2.5% of total) engaged in tourism industry in 2012 will decrease by 0.7% over the previous year in 2013. But by 2023, it forecasts that it will increase by 0.7% annually to 61,000 people (2.4% of total). Investment in 2012 was 3.5 billion som (5% of total), which will increase by 2.3% over previous year in 2013. It will increase by 3.5% annually, up to 5.1 billion som (3.5% of total) by 2023.

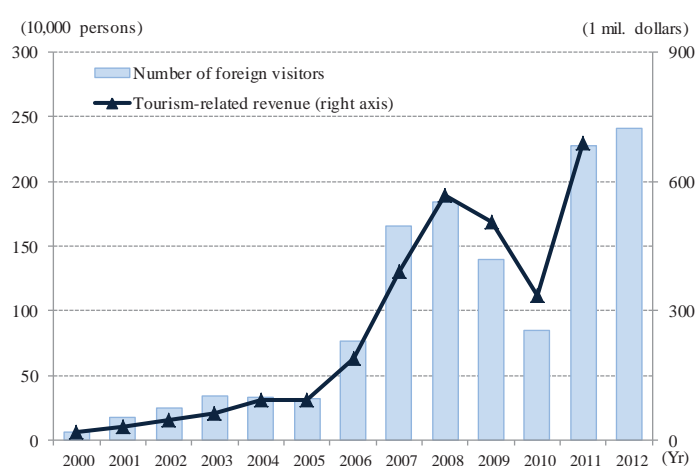


Figure 5-2. Change in the number of foreign visitors and tourism-related revenue of Kyrgyz Republic.

Source: National Statistical Committee of the Kyrgyz Republic, World Bank

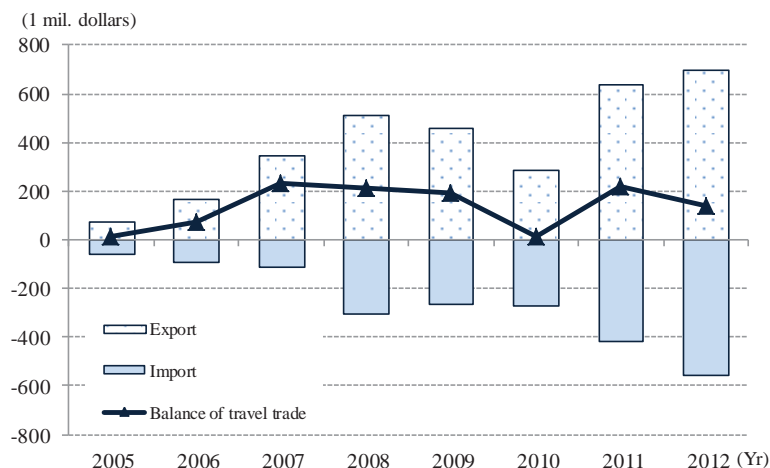


Figure 5-3. Change in the balance of travel (tourism) trade of Kyrgyz Republic  
Source: World Bank

According to the data released by the Bureau of Statistics, the number of hotels registered as corporation was 147 (2012), 2 hotels less than previous year. As for the foreign hotels, Hyatt Hotel has advanced to Bishkek. Regarding the recuperation facilities (sanatorium, etc.), more than 2,000 facilities were identified including government-run facilities.

The number of persons engaged in the tourism-related industry is on the decline generally, but the number of operating bodies has increased in all categories since 2008. The number of travel companies has continuously increased for 5 years after 2008, but it was heard that the price competition has begun among them as they deal similar tour products.

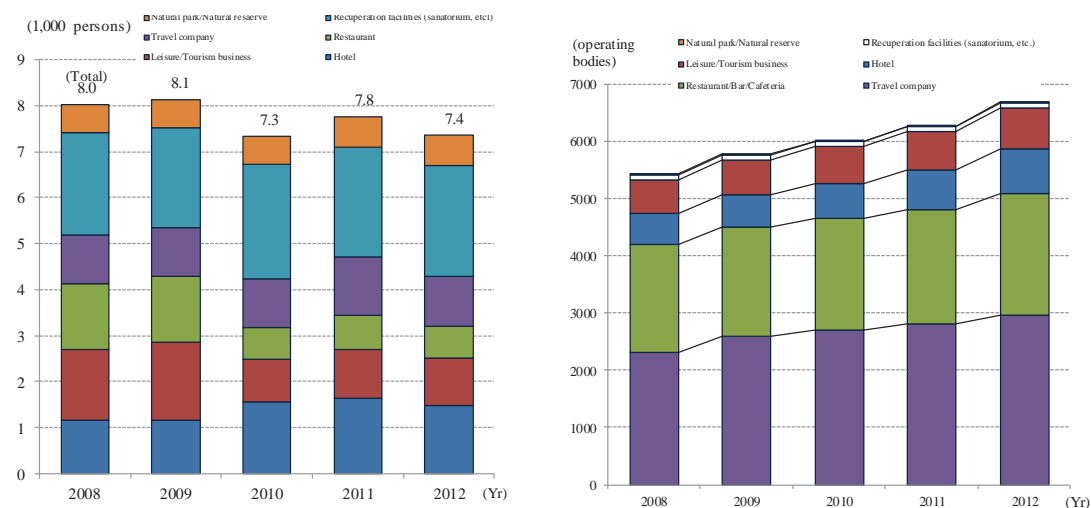


Figure 5-4. Change in the number of persons engaged in tourism-related industry (left) and the number of operating bodies (right)  
Source: National Statistical Committee of the Kyrgyz Republic

In 2012, for all hotels in the country, the occupancy rate was 31%, and the capacity operation rate was 19%. In Bishkek City, it was 40% and 24% respectively, and in Issyk-Kul Province, it was 18% and 16% respectively. It should be noted however that, according to the hearing to the travel companies, there are many small-sized lodging facilities in Issyk-Kul Province and the condition of small-scale accommodation facilities are not included in this statistics. Also, in the area around the Lake Issyk-Kul (especially lakeside), 3 months of summer are the best season, and many lodging facilities and restaurants do not open in winter season.

Kyrgyz Association of Tour Operators (KATO), private sector group, was established in 1993 with 38 corporations and educational institutions registered as its members. The Association is functioning as the mediator of the private sector enterprises and the government. When they drew up a bill for the new measures to grant 44 countries visa-free stay of less than 60 days, the Association actively participated in the discussion and offered opinions. When there is a large scale event such as international conferences, the Association and the government cooperate in their effort to make it successful.

## (2) Challenges

There are two issues for the tourism industry to challenge; (1) Understanding of the actual condition of tourism-related market and of evaluation by other countries, and (2) expansion of tourism-related revenue.

### ① Understanding of the actual condition and of evaluation by other countries

#### a) Inadequate/insufficient statistical information of tourism-related data

According to the hearing with Issyk-Kur provincial government, current method to take statistics is mainly based on the report from the accommodation facilities. However, because accommodation facilities have no legal obligation to submit reports, they have to ask for cooperation of each accommodation facilities and it is difficult to grasp the in-coming travelers who do not use accommodation facilities, or those who have just passed through the country.

According to the hearing with the travel companies and others, most of the answers were that foreign visitors who came for sightseeing were few. However, with regard to the actual condition (purpose of visit), there is no consistency even with the numbers released by the government, therefore, what's happening now is that the travel companies are doing marketing or running business based on the "feeling" of each of them. By understanding what's really going on, measures for industrial promotion can be developed and finely-tuned responses can be taken.

The following is the data example of the number of foreign visitors obtained from the field survey.

The research conducted by Kyrgyz Association of Tour Operators (KATO) shows



that the number of foreigners visited for sightseeing was 365,000 in 2013. Among them, 300,000 were from Russia/Kazakhstan, and most of them visited Lake Issyk-Kul area. The rest 60,000-65,000 were from "distant foreign countries" and visited Kyrgyz as a part of their tour to touch the Silk Road culture.

From the hearing survey to Issyk-Kul provincial government, it was found that about 70% of foreign visitors to Kyrgyz have visited Issyk-Kul Province.

During the hearing with Travel Company A, some said that the number of foreign visitors was about 2 million in total. Among them, they assumed that the sightseeing visitors from "distant foreign countries" were 200,000, of whom 20,000 were tour participants and 5,000-10,000 were backpackers.

During the hearing with Travel Company B, some said that most of the foreign visitors should be Bazar shoppers. Migrant workers who travel from Tajikistan to Russia often use Osh Airport in coming and going to Russia, and many of them temporarily enter into Kyrgyz. Most of the visitors from Russia/Kazakhstan visit the Lake Issyk-Kul. Visitors from "distant foreign countries" visit Kyrgyz as a part of their Silk Road tour.

Japanese travel companies assume that about half of all visitors are sightseeing travelers.

The numbers released by Kyrgyz government (2012)<sup>32</sup>, which are used for each export strategy, indicate that there were around 2 million business travelers, 800,000 sightseeing visitors from CIS countries, about 52,000 from Europe, about 30,000 from Asia, and about 10,000 from North America and Australia.

According to the data released by Kyrgyz Statistics Bureau, the number of foreign visitors in 2012 was 2.406 million in total, among which about 2.2 million were from Russia, Kazakhstan and Uzbekistan.

As observed above, there are various opinions and data even for the overall number of foreign visitors, and there is no consistency with the numbers released by government.

In addition, some travel company questions about the statistical strategy currently used by Kyrgyz Republic (report from accommodation facilities).

When foreign travel companies make a plan for tour products or consider a country as a tour destination, they need to understand the actual condition of the subject country. As it stands now, resources are very scarce to sustain the scheme to make tour products or to advertise to travelers because of the existence of multiple data of the number of visitors, insufficient information on the details of purpose of visitors, number of days to stay, the mode of transportation to enter into the country, accommodation facilities to use, etc.

---

<sup>32</sup> National Export Strategy of the Kyrgyz Republic 2013-2017 Sector Export Strategy Tourism (P51 to 87)



b) Need consideration to create a “key visual” of Kyrgyz tour industry

In order to vitalize the tourism industry, it requires creation of a "key visual" of tourism and to create an image that cannot be seen in other regions. If you depict Kyrgyz Republic as "Switzerland of Central Asia," tourists would choose to visit Switzerland. Under existing conditions, Kyrgyz is too weak to create a "key visual" by itself. In the hearing with Japanese travel companies, opinions were heard that Kyrgyz is a little-known country even within the tourism industry and its image is not clear. From the results of the hearing, it can be said that the points of tourism resources might be (1) Nomadic culture, (2) Silk Road, (3) Nature (high mountains, lakes, etc.). However, differentiation is difficult because the similar elements are scattered in other countries/regions such as Mongol, China, and Siberia of Russia in addition to the Central Asian countries. For instance, seen from Japan, Mongol exudes an image of nomadic culture, Silk Road is in China, and the world's highest clarity of the lake is in Siberia (Lake Baikal). So, it requires creation a unique image by combining several elements such as "Nomads exotic culture in the beautiful nature."

② Tourism-related revenue is relatively low compared to neighboring countries and ASEAN countries

The tourism-related revenue of Kyrgyz Republic was 690 million dollars and 221 dollars per capita in 2011. Those of neighboring countries' situation was; Kazakhstan: 1.52 billion dollars in total, 364 dollars per capita (2011), Tajikistan: 40 million dollars in total, 217 dollars per capita (2011), and Uzbekistan: 120 million dollars in total, 124 dollars per capita (2010). Those of ASEAN region were; Cambodia: 1.79 billion dollars in total, 621 dollars per capita (2011) and Laos: 410 million dollars in total, 231 dollars per capita (2011). (See Figure 5-5)

Cambodia recorded more than 1.3 billion dollars (531 dollars per capita) of tourism-related revenue when the number of foreign visitors was about 2.5 million (2010). Cambodian government has been actively promoting to the world its number-one sightseeing spot in Cambodia, Angkor Wat, and has been actively attracting business investments in hotels and restaurants including foreign-affiliated ones as well as direct flight from major cities of each country.

However, it is not appropriate to apply the Cambodian tourism industry promotion policy to other countries and expect for potential effect from that policy, because, in Cambodia, the admission fees for antiquities have a great impact on the tourism-related revenue. However, it may be feasible for Kyrgyz Republic to have spillover effects through the vitalization of tourism-related industry, such as acquisition of foreign currency, creation of jobs, and development of local cities. As Kyrgyz Republic already has a record of receiving more than 2.4 million foreign visitors, it could anticipate an increase in tourism-related revenue by upgrading and improving nearby facilities, infrastructure and services.

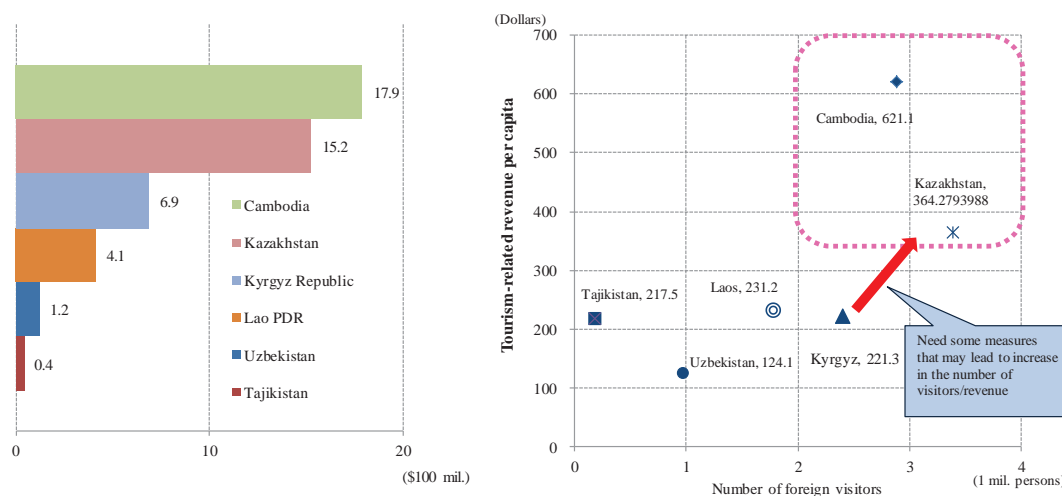


Figure 5-5. Tourism-related revenue (left) and the number of foreign visitors and tourism-related revenue per capita (right)

Note: The numerical values for Uzbekistan are 2010 data.

Source: World Bank, National Statistical Committee of the Kyrgyz Republic

One of the factors for relatively low tourism-related revenue is that most of the foreign visitors are from neighboring countries. Foreigners who visit Kyrgyz Republic are mainly from Kazakhstan followed by Russia and Uzbekistan, and the 2012 statistics shows that the number of visitors from these top three countries accounted for more than 90% of total. According to the hearing with a local travel company, visitors from neighboring countries often drive (private cars) to visit the area around the Lake Issyk-Kul, and stay at sanatoriums, cottages, or guest houses. Also, as many tourists and backpackers bring in their daily items such as food, etc. it was heard that the tourists do not spend a lot of money in Kyrgyz Republic.

### (3) Measures and policies

As measures to vitalize tourism industry, there are 6 points as mentioned below. The purpose of the measures is divided into 2 categories, [A: Increase the tourist consumption] and [B: Increase the number of visitors]

#### ① Upgrading of statistical data to understand actual conditions [Purpose A/B]

Introduction of immigration card is effective to obtain visitors' detailed data. It is advisable that the contents of the card include the purpose of visit, duration of visit, accommodation (name of hotel, etc.) in addition to the passport information. By collecting and analyzing the data at borders (at the time of immigration clearance), the tourism-related industry promotion measures can be made more specific and effective.

Also, by having the collected data published, travel companies, passenger transportation, hotel industry, restaurant industry, retailers, etc. will be able to implement their

management policies more effectively based on the visitors' data.

As for the tourism statistics, United Nations World Tourism Organization (UNWTO) is working to develop a mechanism for the worldwide standardization and for international comparability. In this approach, they have incorporated an account that provides systematically organized data of tourism economics called TSA (Tourism Satellite Account), which is now being introduced by many countries including OECD member countries.

In Japan, foreigners entering Japan are asked to fill in ED cards, which are collected, but the contents of the cards are only scanned and filed, and they are not reflected in statistics (used only when a crime takes place)<sup>33</sup>. The source of statistics data mainly used at present is the data read from the records in IC chips that are equipped in the passport at the immigration. When a passport is not equipped with IC chips, an immigration officer manually input at the time of immigration examination (MRP/name, gender, birth date, nationality, expiration date). Also, JNTO<sup>34</sup> has conducted a questionnaire survey<sup>35</sup> and Ministry of Finance and Bank of Japan have conducted surveys on consumer's buying behavior of foreign visitors<sup>36</sup>. Further, along with the enactment of Basic Act for Promoting a Tourism-Oriented Country (2006) and the formulation of Basic Plan for Promoting a Tourism-Oriented Country (2012), upgrading of statistics related to tourism is underway<sup>37</sup>.

It is unrealistic to upgrade detailed and eclectic statistics at one time, but in the long run, it is desirable to use TSA and build a framework that enables study and implementation of concrete measures for tourism industry.

## ② PR activities on tourism resources toward creation of key visual

As Kyrgyz Republic is not known very well, it needs to take proactive action in order to become recognized by the world. In the hearing to Japanese travel companies, there were opinions that they had only a vague image of Kyrgyz Republic itself and it is not clear what kind of tourism resources and appeal points they have, e.g. foods.

In Kyrgyz Republic tourism industry, countries other than former republics of the Soviet Union are categorized as "distant foreign country." Among those "distant foreign countries", it may be effective to select a country which income level is especially high and which tourists increase motivation to spend during tours as the target of PR activity, in order to increase the number of visitors and the tourism-related revenues. Also, as the geopolitical risk is low compared to neighboring countries, actively holding international conferences and events may help raise its international profile.

---

<sup>33</sup> Policy Research Institute for Land, Infrastructure, Transport and Tourism "Research on the scheme of statistical information relating to foreign tourists"

<sup>34</sup> Japan National Tourist Organization

<sup>35</sup> "Survey of Foreign Tourists to Japan---Visiting sites, etc."

<sup>36</sup> "Consumption Trend Survey for Foreigners Visiting Japan " conducted in 2002

<sup>37</sup> Office of Director in charge of Tourism Economy, Japan Tourism Agency "Outline and Use of Tourism Statistics" March 22, 2013

For the short-term benefit, it is effective to attract the attention of people by appealing that it is a part of the Silk Road, which was applied and registered as the World Heritage Site in 2014, and conduct a round tour that includes neighboring countries. Not only with China and Kazakhstan, which jointly applied for UNESCO recognition as a World Heritage Site, but also collaboration with Uzbekistan may achieve some positive results. Uzbekistan has been promoting tourism centering on the ancient capital Samarkand, which has already been registered as the World Heritage Site. In Kyrgyz Republic, the riches of Nature still abound such as the Lake Issyk-Kul and Tian Shan, and there are many places that people can feel the culture of nomad. Both Kyrgyz Republic and Uzbekistan are on the Silk Road and located in a part of Central Asia, therefore, by actively advertising tours of these two countries (ancient city + culture), it could be possible to increase a certain level of effect.

Since 2010, UNWTO has been carrying out a project to strengthen the Silk Road Brand and to promote tourism development of neighboring countries.

In the medium- and long-term, it needs to improve appealing power of existing tourism resources. Especially for the Lake Issyk-Kul., it needs to seek improvement of surrounding area facilities, enhancement of natural protection regulation, and complete control of them. It will also be effective to encourage cooperation with other regions in the country (Naryn Province, etc.). Whatever the case, it will need to develop human resources who will engage in upgrading of the transportation infrastructure and in the tourism industry.

③ Upgrading of aviation infrastructure and domestic transportation infrastructure  
[Purpose B]

To improve accessibility from a place other than neighboring countries will help Kyrgyz Republic to become one of the choices of travel destination. Kyrgyz government has been promoting activities and proposing air carriers to introduce a new route that go through Kyrgyz Republic in addition to direct flights. Also, as a short-term measure, it may be effective to improve transportation means to travel around the country and from neighboring countries by operating long-distance buses and building limited highways. Particularly, upgraded domestic transportation infrastructure will encourage foreign visitors to visit not only to Bishkek, capital city, but also to several other regions such as Issyk-Kul Province in the northeast region. It will also promise a certain effect such as increase in the length of stay, vitalization of regional towns and cities, etc.

④ Improvement of hospitality of entire tourism-related industry [Purpose A]

In order to increase tourists from advanced countries and tourism-related revenue, it needs to have tourist facilities including accommodation facilities of a certain level. Especially in local region, sanitation must be improved. In the hearing to a Japanese travel company, there was an opinion that "the service level of local site" is the point to focus

attention when they make planning tour products. Especially when a tour conductor cannot escort the tour arranged by a travel company, it is the level of service provider who directly contact with customers that affects the evaluation of the tour product itself. To improve the service level of tour guides, of restaurants and hotels is an important measure to attract wealthy class travel customers.

⑤ Upgrading of service in languages other than Russian [Purpose A/B]

In order to increase visitors from "distant foreign countries", it is preferable to provide services in languages (English) other than Russian. Human resource development activities have already started, such as schools to develop human resources for tourism industry and faculty of tourism in universities, etc. were established. Universities are members of KATO who offers part-time jobs to students who work during their long vacations. In Kyrgyz Republic, many students experienced studying abroad, so the human resources who can do business in English are increasing, but English is not used in many retailers and restaurants. Further improvement of interpreters, signs and menus in restaurants written in English is expected in the future.

⑥ Reinstallation of Eco-post [Purpose A]

It needs to secure funds to conserve nature and to implement tourism promotion measures. To reinstall Eco-post that had been in place until 2013 may become one of the effective ways. It is advisable to get rid of the slipshod management system that caused its abolishment, and to make a new system together with the local government.

It will also be useful to collect some fee from foreign visitors (accommodation facilities users). In Japan, people are sometimes asked to pay "bathing tax" when they use hot springs.

(4) Target selection and promising business model

Table 5-4 shows the target visitors (country) selected based on the record of the number of visitors, change rate since 2008, air access status, and economic level. It will be advisable to target at Turkey, Europe (Germany, UK and France), South Korea and China in addition to 4 countries (Kazakhstan, Russia, Uzbekistan and Tajikistan) as a short-term target countries.

As for these 4 countries, Kazakhstan, Russia, Uzbekistan and Tajikistan, from which it already has a record of receiving a lot of visitors, it is expected that (1) the purpose of trip for many of them are not sightseeing, (2) even sightseeing tourists are not necessarily be highly motivated to spend money (actually Kyrgyz domestic consumption are small), therefore, the business model targeting visitors from these 4 countries may be effective to

focus on business with which you can anticipate increase in consumption, such as restaurant industry regardless of the purpose of visits to Kyrgyz Republic.

In addition to Turkey and China, from which direct flights are in service, and Europe, which access environment is relatively well, business targeting South Korean tourists may also be effective. The access from European countries to Kyrgyz Republic is available through Istanbul or Moscow, and the flight hours to these 2 transit points are relatively short, about 3 to 4 hours. Also, the wealthy class of high income nations, Europe, South Korea and China, is expected to spend a lot of money for leisure time.

In the medium- and long-term, PR activities that highlight the pleasant climate of Kyrgyz Republic are effective for south-eastern Asia and the countries in Southern Hemisphere, and these countries can be good targets, too. As can be seen in Table 5-4, visitors from India have increased 2.5 times in the last 5 years. However, at present, wealthy class is few in numbers in Southeast Asia, and the access from Southern Hemisphere (Australia) to Kyrgyz Republic requires changing flights twice (through Dubai, Shanghai to Moscow, Istanbul), so there are too many problems to select countries as short-term targets and only a limited effect is expected.

Table 5-4. Number of visitors by country, access status

Country name	Number of visitors	Rank	Rate of increase	Rank	Access	Economic level	Score
Kazakhstan	1,675.6	1	127.2%	3	Direct flight	Higher middle income country	3
Russia	364.6	2	78.0%	5	Direct flight	High income country	4
Uzbekistan	158.6	3	-72.0%	26	Direct flight	Lower middle income country	2
Tajikistan	72.1	4	-67.0%	25	○	Lower middle income country	2
China	24.1	5	7.1%	21	Direct flight	Higher middle income country	2
Turkey	18.4	6	13.6%	13	Direct flight	High income country	3
U.S.A.	16.7	7	24.6%	8		High income country	3
Germany	11.7	8	13.6%	12	○	High income country	3
South Korea	5.6	9	19.1%	9		High income country	3
U.K.	4.2	10	27.3%	7	○	High income country	4
France	3.9	11	8.3%	20	○	High income country	2
Azerbaijan	3.6	12	176.9%	1		Higher middle income country	1
Ukraine	3.5	13	9.4%	19		Higher middle income country	0
India	2.8	14	154.5%	2	△	Lower middle income country	1
Japan	2.3	15	15.0%	11		High income country	1
Switzerland	2.1	16	10.5%	17	○	High income country	2
Pakistan	2.0	17	11.1%	16	△	Lower middle income country	0
Iran	1.9	18	-48.6%	24	○	Higher middle income country	1
Australia	1.7	19	13.3%	14		High income country	1
Belarus	1.3	20	18.2%	10		Higher middle income country	1
Israel	1.1	21	10.0%	18	○	High income country	2
Italy	1.1	22	0.0%	22	○	High income country	2
Georgia	1.0	23	42.9%	6	○	Lower middle income country	2
Poland	1.0	24	0.0%	22	○	High income country	2
Austria	0.9	25	12.5%	15	○	High income country	2
Turkmenistan	0.4	26	-89.5%	27	○	Higher middle income country	1
Sweden	0.4	27	100.0%	4	○	High income country	3

Source: World Bank, National Statistical Committee of the Kyrgyz Republic, Travel Math website

As promising business models to be created based on the actual conditions, problems, and measures and policies, let us give 3 examples as follows.

① Business that provides services with high added value

Under present circumstances, there are few facilities that can be a target of tourism consumption in Kyrgyz Republic. For example, accommodation facilities and restaurants that are running business within or around ski resort facilities are very simple and few in number. Major brand hotel advanced in Kyrgyz republic is only one, Hyatt, and there are few hotels comparable to that level. It needs to have hotels equipped with high hospitality in order to proactively hold international conferences and events and to increase visitors with business purposes in the future.

Also, more than 2.4 million foreigners are visiting Kyrgyz Republic a year, and there are many citizens who have lived in foreign countries such as having worked in foreign countries or study abroad. For that reason, the demand is high for services that are already in other countries but not in Kyrgyz Republic. So the business that provides high-value-added products targeting the foreign visitors, people who have experience of living in foreign countries and wealthy class, such as restaurants (including fast food), hotels, taxis are promising.

② Operation of facilities making good use of off-season periods (training facilities)

In the area around the Lake Issyk-Kul in the northeast of Kyrgyz Republic, the best sightseeing season is limited to only 3 months in summer, and many accommodation facilities and restaurants don't open in winter season. One example of measures for such facilities to open year-round is given by KATO, etc., that is, to provide better sports-related facilities and attract needs for altitude trainings. As there are more sunny days throughout the year in Kyrgyz Republic, and as the Lake Issyk-Kul is located at 1,600m above sea level, it is a suitable environment for athletes to do their workouts. Although training facilities (swimming pools, gymnasiums, etc.) have not been developed at present, it was heard that it has received a certain level of praise as an area to do workouts from neighbor countries, so a certain level of demand can be expected.

③ Running of long-distance bus

As a part of transportation infrastructure, introduction of long-distance bus for tourists can be one of the promising business models. Marshrutka, one of the major public transportation modes in Kyrgyz Republic that runs throughout the country at a moderate price, is a converted minivan with cramped seats and is not operating on time. Introduction of motor coaches for a regularly-operated bus service might produce an effect such as domestic consumption increase in Kyrgyz Republic and the people might feel the traffic between Bishkek and Issyk-Kur easier. Also, it is effective to operate long-distance bus that



runs between neighboring countries. For example, by running a bus from Almaty to Issyk-Kul through Bishkek, demand can be anticipated from the visitors from Kazakhstan (sightseeing or business purposes) or from "distant foreign countries," which flight route is not easily accessible. However, under present circumstances, it takes time for vehicles to cross the border<sup>38</sup>, therefore, it requires the improvement of a system such as simplification of clearance procedures for vehicles permitted by both governments.

As a precedent of international long-distance bus, let us introduce the situation in Cambodia. In Cambodia, long-distance bus is run using the CBTA<sup>39</sup> system. There are 4 main routes; Phnom Penh-Bangkok, Siem Reap-Bangkok, Phnom Penh-Ho Chi Minh, and Siem Reap-Ho Chi Minh. In Cambodia, after the operation of long-distance bus gained momentum, not only the number of immigration by land routes but also the ratio of immigration to total number of visitors have increased<sup>40</sup> (from 690,000 people in 2008, 32.5% to 2,110,000 people in 2013, 50.3%). The bus that runs between Thailand is often used by sightseeing tourists from Europe and North America, and the bus between Vietnam is used by not only foreigners for sightseeing but also by Vietnamese who visit Cambodia for work.

Kyrgyz Republic shares a common border with Kazakhstan, which has larger economy and population than that of Kyrgyz Republic, and the people have already been frequently traveling between those countries. Also, between countries with which it shares common borders, flow of goods for commercial purpose have been made very actively, so the flow of people must be active, and the user demand for long-distance bus must be very high. In addition, compared with the construction of high-speed railway, etc., the introduction of long-distance bus can curb costs. It could meet the needs of users with the bus fares, too.

### 3. IT Industry

#### (1) Current Situations

##### ① Overview

The total GDPGVA of the IT sector and the Transport sector for the year, 2012 is 33.2 billion KGS and has been increasing by 22.4 % per annum since 2000. The service trade balance of the IT services field plunged into deficit in 2006 but has been maintaining surplus since 2007. Meanwhile, the aggregate amount of exports and imports was in excess of one billion dollars in 2013 reaching record high level. Winning orders from other countries for IT outsourcing including software development has been increasing and the overall scale of the IT outsourcing market itself is also expanding. Most of the Kyrgyzstan people are fluent in Russian, but customers are not limited to Russian-speaking countries

---

<sup>38</sup> According to the hearing to a Japanese travel company, it takes about 5 to 6 hours for vehicles to clear immigration.

<sup>39</sup> Cross Border Transportation Agreement: Intergovernmental agreement related to the smoother cross-border transportation in Mekong region. It was signed by China, Vietnam, Cambodia, Laos, Thailand, and Myanmar in 2007.

<sup>40</sup> Ministry of tourism Cambodia "TOURISM STATISTICS TOURISM 2013"



but they have customers in wide range of countries including Russia, Kazakhstan, the U.S., Europe and Japan. There are some companies developing cellular phone software on a contract basis for Japanese companies.

Some 1,000 people (engineers) are working in the IT industry in Kyrgyz Republic. There are about 30 to 40 companies (teams) engaging in IT-related business affairs<sup>41</sup>. The sales scale of the software development companies alone reaches around 100 million dollars.<sup>42</sup>

Twenty IT companies are joining in the Kyrgyz Software and Services Developers Association (KSSDA), a private industry organization. The KSSDA participated in the formulation process of a bill for the “High Tech Park Act”. The organization has set ambitious goals that four billion dollars of gross sales will be achieved in the IT industry as a whole and the number of IT engineers will be increased to the level of 50 thousand by 2030.

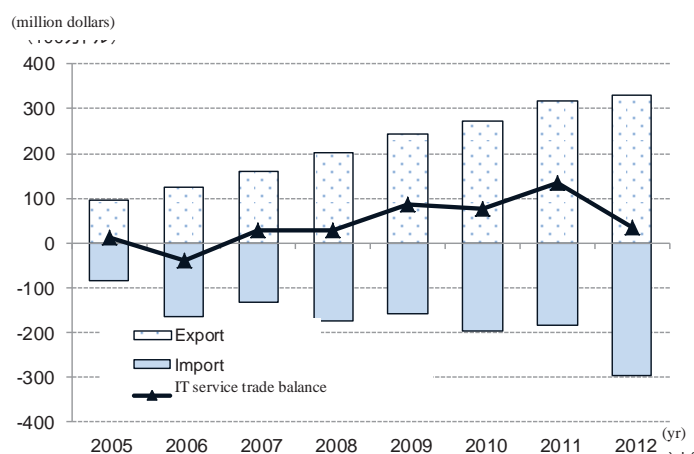


Figure. 5-6. Changes in IT Service Trade Balance in Kyrgyz Republic

Source: Data by the World Bank.

## ② Preferential Treatment

With an aim to acquire greater international competitiveness in the field of IT, the Kyrgyz government has been working on the improvement of the business environment.

In 2011, the “High Tech Park Act” was passed by the Parliament so that the IT industry could benefit from the preferential treatments under the Act. Employees or sole proprietors of the companies that have acquired registrations under the Act are only required to pay 5 % of income tax and social fund contributions and are exempted from the payment of all other direct taxes including local tax. Meanwhile, companies are required to pay 1 % of their sales amount as corporate tax (but exempted from the payment of corporate income tax). Under these preferential treatments the IT industry can reduce necessary expenses and such cost reduction is expected to lead to their increased competitive advantage in

<sup>41</sup> According to the interview with the President of the Kyrgyz Software and Services Developers Association.

<sup>42</sup> According to the interview with the President of the Kyrgyz Software and Services Developers Association.

acquiring orders from overseas customers, thus resulting in the activation of the country's IT industry.

(2) Issues to be Addressed

As issues that the IT industry should address to, the following four items may be pointed out: [1] the capacity development of human resources, [2] the correct understanding of the current situation of “the IT industry of Kyrgyz Republic” and the establishment of appropriate goals, [3] the publicity surrounding “the IT industry of Kyrgyz Republic”, [4] the improvement of the communications infrastructures.

① Capacity development of human resources

In every field of the IT industry, the number of engineers is insufficient and their skill levels are not satisfactory<sup>43</sup>. In Kyrgyz there are four universities with a department providing courses for teaching knowledge and skills necessary for students to acquire an employment in the IT industry. Every year some five hundred students graduate from the universities, but only around one hundred students enter IT-related companies<sup>44</sup>. Further, according to the interviews with the IT companies, the contents of the programs offered by the universities are not enough for students to acquire satisfactory level of IT skills, and, therefore, they have been implementing internship programs and allowing students working part-time at their companies with an aim to foster future IT engineers and to secure necessary human resources.

② Correct understanding of the current situation of “the IT industry of Kyrgyz Republic” and Establishment of appropriate goals

The goals and targets held up by the KSSDA were those established in 2008 and, thus, fail to correctly reflect the up-to-date situations surrounding the industry. As for targets relating to the number of engineers, they originally expected to increase the number gradually during the period between 2008 to 2030, and they planned at that time to secure necessary workforce out of one million of migrant workers and one million of working population whose monthly wages were 100 dollars or less. The number of workers in the Kyrgyz Republic's IT industry once plunged due to a political change, etc., and it is said that the number may have barely returned to the level of 2008. As seen above, although the KSSDA recognizes that the business environment has changed dramatically, they have failed to figure out what is actually going on in their industry.

③ PR activities for “the IT industry of Kyrgyz Republic”

---

<sup>43</sup> According to the interview with the President of the Kyrgyz Software and Services Developers Association.

<sup>44</sup> According to the interview with the President of the Kyrgyz Software and Services Developers Association.

At present, it is not widely known that many foreign companies are outsourcing IT operations to Kyrgyzstan companies. Therefore, in order to improve the recognition of Kyrgyz as an experienced outsource partner, it is necessary to appeal the fact that Kyrgyzstan companies have won many outsourcing orders from customers in foreign countries. In addition, it would be instrumental to point out the fact that the official language of Kyrgyz Republic is Russian and that the country is best suited for doing business with companies in Russian-speaking countries. Further, it would be necessary for the Kyrgyz government to conduct researches to figure out what kind of services are needed by the countries and companies that are potential customers for the IT industry and what kind of support the government can provide in order to promote business in the field of IT and to put such support measures into implementation.

#### ④ Improvement of the communication infrastructures

In the interviews with concerned parties in Kyrgyz Republic, it was pointed out that the development of the communication infrastructures would be indispensable in order to win more outsourcing deals with customers in foreign countries that will accompany the transfer of large amount of data.

### (3) Specific Measures

#### ① Capacity development of human resources

As for measures implemented by the private sector, companies are trying to develop and secure human resources through the internship programs conducted under their initiatives. In addition, an event called “IT LAB”<sup>45</sup> is held in order to provide opportunities for students to experience development work for varying periods of three months to six months. On such occasions recruiting activities are also conducted. As for supports from foreign countries, Japan (JICA) participated in the project for the capacity development of IT professionals (the National IT Center) from 2004 to 2008 in response to the request from the Kyrgyz government. JICA provided technical supports in connection with the establishment of the operational system of the National IT Center, the improvement of the teaching skills of the lecturers, the formulation and improvement of the training courses and the establishment of the quality control system of such courses.

In spite of the efforts as mentioned above both by the private sector and by the public sector, the development and securement of human resources still remains as a major issue facing the industry. Further, in the field of capacity development of human resources and the securement of workforce, coordinated efforts between the public and the private sectors have not been promoted aggressively. As measures for addressing to such situation, active cooperation between the KSSDA and the National IT Center would work to promote the efficient and effective development of human resources. More specifically, jointly held

---

<sup>45</sup> Held under the sponsorship of the SOROS FUND MANAGEMENT and the Open Society Foundations.

events and personnel exchanges (helping persons who successfully completed the courses offered by the IT Center to find a job) may be pointed out.

As one example of similar efforts by other countries, some of measures by the Indian government are introduced below. In India, about ten percent of people working at domestic organizations<sup>46</sup> are IT engineers and the number reaches nearly three million<sup>47</sup>. However, also in India, the capacity development of the engineers is still one of the issues facing the country. In order to address to such situation surrounding the capacity development of human resources, in addition to the capacity development programs implemented by higher educational organizations, various efforts have been put into place such as capacity development programs specifically formulated by the industry organizations in accordance with required levels of skill, prep schools focusing on job hunting and IT trainings conducted by private companies. In addition, the system for certifying competencies of engineers has been introduced to promote the standardization of skills, and the human resources information database has been constructed and managed under the partnership of the public and private sectors with an aim to promote the stable supply of IT human resources. Further, as long-term goals till 2020<sup>48</sup>, India has set such goals as the expansion of the export percentage of the IT industry, the increase in the number of human resources with master's degree, and the growth in the percentage of female workers.

## ② Correct understanding of the current situation of “the IT industry of Kyrgyz Republic”

In the interviews with the KSSDA, the limitation of their financial resources was pointed out as one of the reasons for no current situation survey so far. It would be desirable that the public sector and the private sector will cooperate to conduct surveys to figure out correctly the present situations surrounding the industry and learn about efforts and measures by other countries, and then formulate appropriate goals and targets and implement specific measures to achieve such goals and targets. Meanwhile, it would be necessary to introduce such activities for promoting the utilization of the preferential treatments (under the High Tech Park Act).

## ③ PR activities for “the IT industry of Kyrgyz Republic”

It would be instrumental to publicize the Kyrgyz Republic's IT industry through the participation in such events that attract IT software development companies around the world. Attentions should be directed to the fact that Kyrgyz Republic has succeeded in winning orders for outsourcing operations not only from Russia and Kazakhstan but also from the U.S. and Japan, and also the favorable business environment where IT companies

---

<sup>46</sup>“Knowledge Professionals”, NASSCOM

<sup>47</sup> “The Labour Situations in India”, the Japan International Labour Foundation

<sup>48</sup> ‘PERSPECTIVE 2020’ Outlines Transformation Roadmap for The Indian Technology and Business Services Industries, NASSCOM

can enjoy preferential treatments under the “High Tech Park Act” and relatively cheap labour should be highlighted.

#### ④ Improvement of the communication infrastructures

In the interview with the IT Association, the development of IT infrastructures was pointed out as one of the issues to be addressed. However, in the interview with a telecommunications company, it has been revealed that the company had already conducted a verification research of relevant facilities as a preparatory stage for the actual introduction of the facilities for large-volume data transfer. The telecommunications company told us that they were making necessary preparations including the improvement of government-owned infrastructures in order to accommodate for the expected demands for large-volume data transfer.

Accordingly, it is necessary for the IT Association to gather information about the current situations of the IT infrastructures improvement efforts by telecommunications companies in order to promote the mutual exchange of information so that appropriate improvements of relevant facilities will be implemented.

#### (4) Promising Business Model

In light of the current situations as described above and the issues facing the industry as well as the measures addressing to such issues, business process outsourcing business with Russian-speaking world would be pointed out as one promising business model. The Russian-speaking world consists of fifteen countries and holds the population of around 280 million people. In terms of the scale of a linguistic area, it is small compared to the English-speaking world, but businesses taking advantage of the fact that the official language of Kyrgyz Republic is Russian would be promising. Such businesses as call center operations for handling inquiries, etc. and telemarketing operations in Russian toward potential Russian and Kazakhstan customers taking advantage of the Kyrgyzstan people’s fluency in Russian as well as their familiarity with the mentality of Russian and Kazakhstan people are considered to be good choices in the near future. If they succeed in accumulating knowhow and expertise through those operations, their business chances would further expand to the field of business process outsourcing services including the provision of indirect operations.

Meanwhile, in the IT sector, the more the ICT will permeate among governmental organizations, the more demands for IT services would be generated and, therefore, it would be possible to develop new businesses making the most of their accumulated experiences in the field of outsourcing business with foreign companies.

### 4. Transport Subsector

#### (1) Current Situations

Kyrgyz Republic is part of the Silk Road and because of its geological advantage Kyrgyz Republic has played a role as an intermediary connecting China, Kazakhstan, Turkey and Europe. Its large-scale bazaars (markets) such as the Dordoi Bazaar in Bishkek and the Karasuu Bazar in Osh are said to be important trade points on the Silk Road and people engaging in wholesale business in Kyrgyz exceeds 0.3 million.

Examination of the changes in the amounts of cargo transport within Kyrgyz Republic shows that the cargo amount once plunged in 2009 but reached to record highs in 2012 and 2013. The amount of cargo transport in 2013 was 2.68 billion tonne - km and 52 % of which was transported by truck and 37 %, by rail. Since Kyrgyz Republic has no access to sea and the railroad infrastructures are not well developed, truck transport holds a larger share of the domestic cargo transport. It should be noted that most of the hard infrastructures in Kyrgyz Republic were developed during the Soviet era and, due to its aging, maintenance of those infrastructures is now a pressing need for the country.

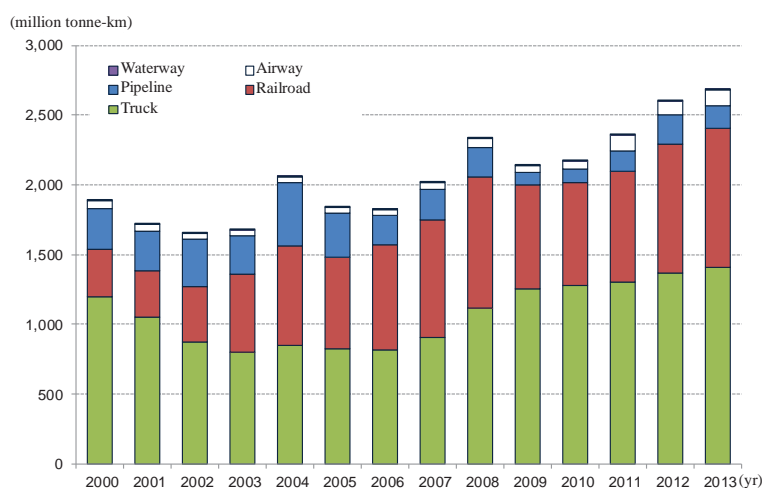


Figure. 5-7. Changes in the Amount of Cargo Transport by Infrastructure Type

Source: Data by the National Statistical Committee of the Kyrgyz Republic.

There are many transport companies in Kyrgyz Republic that are providing international logistics services. And many of them carry cargos not only from neighboring countries such as Russia, Kazakhstan and China but also from distant countries such as Europe and Turkey. In operating long-distance international logistics, those companies have been trying to improve the efficiency by establishing warehouses in Europe and China and by entering into business collaboration agreements with European companies. Meanwhile, some of the companies providing domestic logistics service have introduced trucks equipped with a refrigerator, and some companies have outsourcing contracts with sole proprietors running a cargo transport business with 20 to 30 trucks and use such small-scale transport companies in order to cope with fluctuating cargo volume.

Since Kyrgyz Republic is a landlocked country and the volume of export cargo is not large, cargo freight charges are rather high in the country.



Table 5-6. Transportation Conditions Concerning Cargo Transport to Bishkek (per one 40Ft container)

Sent from	Means	No. of days required	Freight (except for charges)
Yokohama	ship+railroad	25 to 30 days	8,000 to 11,000 dollars
Hambourg	truck	15 to 20 days	about 8,000 euro
China	railroad	about 3 weeks	about 9,000 euro
Moscow	truck	7 to 10 days	about 5,000 euro
	railroad	10 to 15 days	4,500 to 4,700 dollars

Source: Information obtained through the interviews with transport companies located in Kyrgyz Republic

Though there are many companies engaging in cargo transport and some companies have substantial transport facilities, little have established a cold chain or have warehouses ensuring storage of cargo in proper environment. Therefore, periods of shortage of stock and those of oversupply repeat in a cycle especially in the cases of fresh food and dairy products. Meanwhile, it is said that ill-paved roads have contributed to the deterioration of the quality of products (especially green groceries). Through the interviews with local logistics companies conducted as part of the field survey, it has been revealed that they have no choice but to depend on truck transport since the railroad network in Kyrgyz Republic is not well developed and that they are hoping the road pavement conditions will be further improved while some progresses can be seen.

It seems that the transport companies have been trying to establish their own logistics network through their own efforts such as the introduction of special vehicles in the areas where roads are not in good conditions.

## (2) Measures Planned by the Government

In the export strategy developed by the Kyrgyz government (the National Export Strategy of the Kyrgyz Republic 2013-2017), the following measures for overcoming bottleneck issues and achieving efficiency in the transport and distribution industry are presented: [1] the improvement of trade banking, [2] the management and analysis of information concerning trade, [3] the improvement of quality control of products, [4] the smooth processing of custom-house business. Meanwhile, in the national development strategy formulated by the government (the National Sustainable Development Strategy For the Kyrgyz Republic For the period of 2013-2017), a plan for the construction and maintenance of the logistics infrastructures (roads, airports and railroads) (see Table 5-3) is presented.



Table 5-7. List of Plans for Improvement of Maintenance and Construction of Logistics Infrastructures

No	Type	Project name	Total cost (MilUSD)	Implementation time frames
1	Road	Construction and reconstruction of roads in Bishkek (10 items)	30.0	2013
2	Road	Procurement of road vehicles and equipment:	9.6	2013
3	Motorway	Rehabilitation of the Taraz-Talas-Suusamyr motorway	22.1	2013-2016
4	Motorway	Rehabilitation of the Bishkek-Naryn-Torugart motorway	154.1	2013-2016
5	Motorway	Rehabilitation of the Osh-Batken-Isfana motoreay	148.2	2013-2017
6	Motorway	Implementation of the rehabilitation project for the Isfana-Sulukta-Khujand motorway	40.0	2015-2016
7	Motorway	Rehabilitation of the Bishkek-Osh motorway	120.0	
8	Airport	Reconstruction of Batken, Isfana, Jalal Abad airports	10.0	2014
9	Airport	Modernization of the Air Traffic Control System (ATC)	28.5	2013-2014
10	Airport	Modernization and acquisition of navigational equipment for the "Manas", "Osh" and "Issyk Kul" Airports	11.3	2013-2014
11	Railway	Feasibility study for a railroad branch that connects the North and the South	3.0	2014
12	Railway	Feasibility study on the construction of the "China-Kyrgyzstan-Uzbekistan" railway	3.5	2013
13	Railway	Construction of the "China-Kyrgyzstan-Uzbekistan" railway	1,500.0	2015-2016

Source: Data from the National Sustainable Development Strategy For the Kyrgyz Republic  
For the period of 2013-2017

## Chapter 6 Investment Approaches by Japanese Companies

Chapter 6 examines future investment approaches and considerations that should be taken by Japanese companies by reviewing the advantages and disadvantages regarding the Kyrgyzstan business environment for Japanese companies as well as referring to the results of interviews with Japanese companies and the results of a questionnaire distributed through our investment seminar. Section 1 explains the “advantages and disadvantages regarding the Kyrgyzstan business environment for Japanese companies”. Section 2 describes “important concerns when considering overseas business expansion and interest in the Kyrgyzstan market”, based on interviews with Japanese companies. Section 3 provides the “results of a questionnaire collected from seminar participants in Japan”. Section 4 describes the “corporate images of Japanese companies considering business operation in Kyrgyz, based on questionnaire results, and solutions for related issues”.

### 1. Advantages and disadvantages regarding the Kyrgyzstan business environment for Japanese companies

We collected local information and conducted a fact-finding survey in Kyrgyz to learn about the “economic scale and growth prospects” and “logistics and procurement” (refer to Sections 2 and 3 later), which are important concerns for the Japanese companies considering starting overseas operations, the “people (labor force), properties (facilities) and money (taxation, etc.)”, which will be required in the actual business activities, and “investment regulations”, which affect the feasibility of incorporation. Based on the collected information and survey results, we have summarized advantages and disadvantages regarding the business environment in Kyrgyz (Table 6-1).

In general, the advantages of the Kyrgyzstan business environment include (1) high economic growth rate and being close to countries with large markets, (2) relatively low labor and electricity costs compared with its neighboring countries, and (3) few regulations on market entry by foreign companies. On the other hand, there are also disadvantages such as (1) small economic scale and population, (2) high logistics costs due to its nature as a landlocked country, and (3) various complex procedures.

Table 6-1. Advantages and disadvantages regarding the investment environment in Kyrgyz

	Advantage	Disadvantage
Economic scale, Logistics/procurement, Competitiveness	■ High economic growth rate	■ Small economic scale
	■ Low competitiveness (with few large companies)	■ High logistics costs due to its nature as a landlocked country
	■ Being near Russia and Kazakhstan (countries with large markets)	■ High dependency on many imported raw materials
Labor force	■ Low labor costs	■ Low population
	■ Russian is spoken	■ Outflow of skilled people to overseas
Facilities	■ Low electricity costs	■ Unstable electricity supply
	■ Unrestricted money exchanging	■ High interest rate costs
	■ Unrestricted money transfers	
Taxation	■ Low corporate tax rates	■ Sales tax imposed
		■ Complex taxation procedures
Investment regulations	■ Few investment regulations (100% foreign capital allowed)	■ Complex permission/licensing procedures

## 2. Important concerns when considering overseas business expansion and interest in the Kyrgyzstan market

In this survey, we interviewed leading companies from Japanese industries with high technological capabilities and strong global competitiveness, regarding their interest in the Kyrgyzstan market and what they are concerned about in terms of expanding their business to Kyrgyz. The target industries in this survey include seven manufacturing sectors ([1] food, [2] packaging materials, [3] apparel, [4] machinery, [5] metalworking, [6] automobile parts, and [7] medical equipment) and one service sector ([8] tourism). Based on the interview results, Table 6-2 summarizes what the Japanese companies are concerned about when considering overseas business expansion, by industry. It should be noted, however, that as such concerns in global strategies vary depending on each company, the content of the following table cannot necessarily be generalized.

Table 6-2. Important concerns for Japanese companies when considering overseas business expansion, based on interview results (by industry)

Category	Important concerns when considering overseas expansions	Destination	Industry	Sales	Question topic	Main regions for expansion
Food processing	<ul style="list-style-type: none"> <li>■ The size of population is important from the perspective of consumer markets.</li> <li>■ It is important to know whether the population has an income level that allows for added value to "quality".</li> <li>■ In the procurement of raw materials, importance is placed on "price" for general-purpose products, and on "supply system" for special materials.</li> </ul>	A	Food	Over 100 billion yen	Potential fruit producer and supplier	China, Southeast Asia, India, Europe, North America
		B	Food	Over 100 billion yen	Attractive producer of mineral water	Southeast Asia
Food packaging	<ul style="list-style-type: none"> <li>■ Availability of a recycling system for packaging materials</li> <li>■ Whether or not the people of the target country are aware of added value to packaging materials</li> <li>■ Raw material procurement environment in terms of a manufacturing center (pricing, quality, delivery dates)</li> </ul>	C	Packaging	Over 100 billion yen	Attractive export center for food packaging materials	—
		D	Packaging	Over 50 billion yen	Attractive export center for beverage packaging materials	Southeast Asia
Machinery	<ul style="list-style-type: none"> <li>■ Presence/absence of customers, or market scale and growth rate</li> <li>■ Distance and access from Japan or nearby warehouses</li> <li>■ Availability of any regional enterprise that repairs manufacturing machines</li> <li>■ Availability of any preferential treatment that can reduce business expansion costs</li> </ul>	E	Apparel	Over 10 billion yen	Potential distribution center for the apparel industry	—
		F	Machinery	Over 100 billion yen	Attractive power tool market	World
		G	Metalworking	Over 50 billion yen	Potential mold-making center and sales market	China, South Korea, Southeast Asia
		H	Automobile parts	Over 100 billion yen	Potential distribution center for automobile parts	China, Southeast Asia, America
Precision equipment (labor-intensive)	<ul style="list-style-type: none"> <li>■ Low personnel costs</li> <li>■ Whether or not the people are industrious</li> <li>■ Time and costs required to transport products to Japan or other major destinations</li> </ul>	I	Medical equipment	Over 50 billion yen	Potential production center for medical equipment	China, Southeast Asia
		J	Medical equipment	Less than 10 billion yen	Potential production center for medical equipment	China, Southeast Asia
Tourism	<ul style="list-style-type: none"> <li>■ Availability of impressive key visuals</li> <li>■ Availability of tourism data that can be leveraged for marketing</li> </ul>	K	Tourism	Over 100 billion yen	Initiatives required to promote tourism	America, Europe, the whole Asia

## (1) Food

### [Food Company A]

#### 1. Interest in Kyrgyz

To be honest, we have no interest in Kyrgyz and it is not even on the list of the markets to which we may consider expanding our business in the future either. From the viewpoint of a food manufacturer, the country's small population is disadvantageous. Company A has yet to reach some of the larger markets that have a population of approximately 100 million each (e.g. Vietnam). As we determine an investment amount for each region based on its scale of consumption, we are not planning to make investment into Kyrgyz, which has a small population.

#### 2. Points of consideration other than the population for Company A to consider business expansion

One of the possible reasons to consider our market expansion would be, for example, countries included in the Chinese package (economic bloc).

Another possibility is to see a particular country as a good export center for our products. In such a case, the country must have accumulated enough historical know-how of each producing center. For Company A, agricultural products are "industrial materials" and it is mandatory to secure a certain quantity of each product.

In terms of food "export", a local specialty of a particular country alone will be difficult to sell successfully. The product must also provide added-value such as "craftsmanship", "high purity" or "manufacturing advantages". For instance, products such as "honey", "oil" and "sugar" have stable quality, which can be treated as industrial products (i.e. they can be standardized). On the other hand, "juice", "mayonnaise" and other similar products are highly dependent on consumers' tastes and also significantly affected by the food culture of each region. In the case of a local specialty, it is important to determine whether there is any difference from the food culture of its consuming region. Kyrgyz seems to want to sell honey to Japan as an export product. The key to success may be to have anyone understand what differences exist between the food culture of Japan and that of Kyrgyz.

#### 3. Attraction of Kyrgyz by participating in the Customs Union

When "it is close to a massive consuming center but difficult to share certain standard values", companies sometimes launch their overseas operations in its neighboring countries as a general principle. China, for example, is an extremely large market, but their way of thinking about contracts and other matters is very different, which makes it a difficult country to do businesses in. Business expansion to Taiwan or Hong Kong is an effective way to tackle such an issue.

As for Kyrgyz, important conditions may be (1) whether the Russian market will be a challenging market for Japanese companies, and (2) Kyrgyzstan business practices are similar to Japanese ones.

#### 4. Company A's "image of an ideal manufacturing center"

The conditions for an ideal manufacturing center include (1) raw material, packaging and other materials can be procured, even using the import option, and (2) laws, regulations and customs operation are easy to understand and convenient. Regarding (2), a strong focus is placed on not only tariffs, but also barriers such as customs procedures, procedures related to food regulations and halal certification.

Malaysia, for instance, has a small population of 20 to 30 million with an accordingly small market. As, however, the country has the second-most strict halal certification system in the world, following Saudi Arabia, it can be an attractive manufacturing center that will open up to the Islamic world.

#### 5. Burden of infrastructure costs to food manufacturers

Japanese food manufacturers do not have the extra budget to cover local infrastructure costs overseas. Therefore, unless an automobile company or electric machinery manufacturer has already made its way to the target country and built roads and other infrastructure beforehand, it is rather difficult for food manufacturers to operate business there.

#### 6. Incentives for Japanese food manufactures to assist local farmers

If there is little hope for much local consumption and exportation, Company A may resort to offering technical assistance, from cultivation to processing, as a corporate contribution to Kyrgyz. It should be noted that this will also raise the question: Who can pay the assistance fees?

Company A has once provided some technical assistance as part of a JICA project. Unfortunately, its management cost alone exceeded the project budget and it was not worth the effort.

## [Beverage Company B]

### 1. Interest in Kyrgyz and background

At the moment, Company B has no plan to expand overseas operations to Kyrgyz.

Company B and other intermediate-processing companies want to avoid any export with low profitability and high logistics cost. Therefore, they tend to open plants near the locations where there are a large number of consumers or ordering clients.

### 2. “Water” as a growth driver

Although it is unknown whether this is also the case in Kyrgyz, Japanese manufacturers do not see mineral water as a potential growth driver, at least. Except some famous brands such as Danone’s Volvic and Evian, and Nestle’s Vittel, there are no other mineral water products that can be globally successful. At a Carrefour store in China, for example, 500-ml bottles of water were sold at a surprisingly low price.

Also in Japan, 2-L bottles of water are sometimes sold more cheaply (88 yen) than 500-ml bottles (125 yen). Nonetheless, “water” alone has no added value that can lead to successful business.

### 3. Beverage categories and market growth

The beverage market expands starting from low-value-added products such as water to tea and juice. Since juice products can allow for taste differentiation and creation of more added values, they can serve as growth drivers (compared with water).

From consumers’ point of view, however, it is rather delicate to determine how much awareness and support “Kyrgyzstan water” and “Kyrgyzstan fruit juice” can achieve on the market. If it can be launched as a private brand and sold at 10 yen per bottle, “water” may still win the competition.

### 4. Conditions for opening a future plant on a new market

Select a location with well-established basic infrastructure including electricity, gas and water. In that sense, we believe that industrial parks are favorable locations.

### 5. Idea of “technical licensing”

For Company B, technical licensing provides no advantages.

Many ASEAN countries have high-growth markets of 1 billion to 10 billion yen. Instead of earning small amounts of money by offering technical licensing, the company is planning to dig deeply into the ASEAN markets for the next three years or so.

## (2) Packaging materials

## [Food Packaging Company C]

### 1. Interest in Kyrgyz and background

At the moment, Company C has no interest in Kyrgyz. It also has no plan to expand overseas operations.

However, Company C is recently considering the possibility of providing technical assistance in the future. The company’s present goal is to increase its market share in Japan, but it is hard to achieve a large share above a certain level. This means that there is only limited room for domestic growth. With an eye toward such a future, Company C is expecting to send Japanese plant managers overseas and has already started providing them with language courses.

## 2. Reasons for no overseas operations

The largest reason is that the company feels uncertain whether any foreign countries have an equivalent to the Japanese “culture of dinnerware”. In Japan, the company strives to develop the products that “will appeal to housewives” by creating the design that demonstrates coolness in summer or makes ingredients stand out, for example. It has traditionally developed food tray products to attract consumers.

In some countries, however, people may think “Food trays should be in single color such as white or black”, “Prepared food can be put in a bag or wrapped in newspaper”, “Prepared food does not have to be divided into separate compartments by item, and everything can be mixed together in a single container”, etc. Company C’s products will not appeal to such countries.

## 3. Environment required to establish a food packaging material plant

Low electricity bills, the ability to procure cardboard (paper board), the ability to procure gloves (for sterilization and for backyard work), etc.

# [Beverage Packaging Company D]

## 1. Interest in Kyrgyz and background

Although Company D is presently operating business on some foreign markets, it has no needs to start a Kyrgyzstan operation.

Generally speaking, the production of glass bottles requires a large capital investment, thus, there are high barriers to market entry. The best strategy for Company D would be to form an alliance with an existing company in the target country and enter its market through technical licensing, rather than the greenfield strategy (to set up a business from scratch). Regarding capital participation, Company D is not considering it in the initial stage, because it will require both parties to share the same idea and expectations.

Company D is currently focused on the ASEAN markets, which especially offer attractive features such as large young populations and expected future growth in income levels.

## 2. Concept of an ideal production center for glass bottles and the requirements of the production center

As glass bottles incur the risk of product damage, they are basically produced and consumed locally.

When building a production center, there are two important concerns: (1) securing raw materials, and (2) securing fuels.

The glass production requires “silica sand” and “limestone”. Company D imports them from Australia and its plants in China and Japan can accommodate incoming vessels. Therefore, the key conditions will be how close it is to the areas that produce such materials and how easily they can be imported. Glass production is related to ceramic engineering, thus setting up a glass plant resembles setting up a cement plant.

In glass production, it is vital to procure fuels such as heavy oil and LNG. Since melting furnaces need to be maintained at 1,600°C, they require a number of energy sources. Coal is not used so often.

## 3. Sense of values in bottle caps on overseas markets

Overseas, especially in the ASEAN countries, people are much concerned about the prices of bottle caps. In Indonesia, 500 ml of water is sold at 10 yen. As the selling price is low, the cost of a cap must also be kept down inevitably. For these reasons, local cap manufacturers can compete better on that market, although their technological capabilities are low.

## 4. The investment environment that the company hopes foreign governments to improve

The company wants the governments to sign a tax agreement to avoid double taxation. As for transfer pricing taxation, some parts can be avoided through the company’s internal efforts. Even if there are not enough traces, it is believed that no excessive payment requests will be received, as long as the company complies with the arm’s-length principle (the condition to even out the interdependency and various competition criteria between the concerned parties, or the fact that these are implemented).

In some countries, there seem to be a number of incomprehensible withholding taxes.

### (3) Apparel

#### [Sewing Machine Company E]

##### 1. Interest in Kyrgyz and background

Company E manufactures products in the plant located at its Japanese head office and has no plan to establish an overseas production center at present.

Regarding technical assistance, on the other hand, the company may be able to cooperate, if its conditions are met. In the past, Company E provided technical assistance to the apparel industry (mainly cashmere) in Mongolia. If there is any possibility that knitted wear manufacturers in Kyrgyz will become Company E's clients in the future, that will be an incentive for the company to provide technical assistance.

##### 2. Reason why Kyrgyzstan knitted wear is heavy

It is probably a material problem. In Japan, high-quality yarn is used to produce lightweight yet warm knitted wear. Kyrgyzstan companies probably do not think consumers are seeking for that level of quality knitted wear.

##### 3. The company's view of the Kyrgyzstan knitted wear industry

Unless they are subcontractors of major fast fashion companies, they probably need to build a production structure that targets domestic consumption first (by introducing small knitting machines and total knitting systems). In many cases, manufacturers of knitted wear for domestic use can do fine, even if they do not have many knitting machines.

When they are about to complete the construction of a mass-production structure, they can participate in subcontractor competitions, for example, and clear certain criteria such as low prices, short delivery periods, mass production and high quality. After that, they will be able to receive orders from fast fashion companies.

### (4) Machinery

#### [Machinery Manufacturer F]

##### 1. Interest in Kyrgyz and background

Company F sells products in Kyrgyz via its branch in Almaty, Kazakhstan. In Kyrgyz, it has a local distributor. As the Almaty branch was set up only recently, sales on the Kyrgyzstan market is still small. For that reason, the company is not planning to open a sales center in Kyrgyz for a while.

##### 2. How the company selects new markets (for sales)

Company F already operates business in 160 countries worldwide. Its selection criteria are not necessarily the size of population or economic level. For example, the company foresaw business chances in a certain European country of small population, as its currency was fixed to Euro with very little risk of exchange fluctuation, and a construction boom had begun there several years earlier.

Even if a certain country has a market potential, the company does not necessarily give precedence to that country for overseas operations upon the judgment of its existing branch network.

##### 3. Important elements of a new market (for sales)

When considering a new overseas operation, Company F focuses on [1] logistics/customs, [2] telecommunications, [3] laws, [4] languages, and [5] educational level. [1] Logistics/customs, in particular, is very important.



4. [1] Logistics/customs

In logistics/customs dealings, customs officers may ask Company F about its products: “How is this going to be used?”, and “Which product is it going to be used for? And which part of it?” As a result, it sometimes takes a long time to receive import permits. In fact, some products required six months before import permits were granted. In those cases, Company F submitted detailed drawings and explained them to customs officers. But it was very hard to get them to understand.

5. [3] Laws

The worst scenario will be an ambiguous legal system. In some country, the company upgraded its office of resident representatives to a local branch, and then to a local corporation. During those processes, however, there was no local person who could answer necessary questions such as “Where is the officer in charge?”, “Which laws are the required documents based on?”, and “Are the documents requested by relevant organizations really necessary?”. Constant repetitions of “Well, I don’t know” would be a real problem.

6. [4] Languages

In terms of the linguistic environment, English translations of laws and data are required at least.

(5) Metalworking

[Metalworking Company G]

1. Interest in Kyrgyz and the company’s policy for overseas operations

At the moment, Company G has no plan or interest in operating business in Kyrgyz. The company starts considering overseas operations, only if its client in the vehicle industry makes such a request. Due to product characteristics, its competitors are either Japanese companies with high technological capabilities or local companies with low technological capabilities. Traditionally, Company G started overseas operations to prevent its major clients from placing orders with competitors, or before local companies eventually gained higher technological capabilities and became threats to the company.

2. Request to governmental organizations in the target country

The company will welcome any preferential treatment to keep the initial investment cost down, including waved or reduced corporation taxes, subsidies, land/building offers, etc.

3. Funding

While this depends on the financial market of the target country (interest rates, etc.), the company expects the parent company will invest 50% (capital) and the remaining 50% will be borrowed locally. However, it is not possible to borrow money in regions like Kyrgyz, where the interest rate is nearly 20%.

4. Reasons for no mold-making business overseas

Within the vehicle industry, the cycle of metal molds is 2 to 3 years. Metal molds are changed, when a car undergoes a minor change. Basically, once they are made, there is no further demand. For this reason, mold-making factories suffer unstable operating rates.

On the other hand, consumer goods such as PET bottles have a shorter product cycle, and there is high demand for new metal molds.

However, the technical level of metal molds for beverage bottles is too low to provide added values. Therefore, Company G is reluctant to fall into price competition and not engaged in overseas operations.

## (6) Automobile parts

### [Automobile Parts Company H]

#### 1. Interest in Kyrgyz and the company's background of overseas operations

At the moment, Company H has no interest in starting operations in Kyrgyz (production/sales).

In principle, the company does not operate business overseas, unless a finished car manufacturer, which is its major client, requests it to do so.

#### 2. The company's view of Kyrgyz in relation to the automobile parts industry

Toyota has reportedly started an operation in Kazakhstan. The allowable locations of suppliers are probably within the 200 to 300-km radius. 1,000 km will be too far, especially for large parts. However, it may be acceptable for small parts such as screws and electronic parts.

Basically, orders can be received, as long as the company excels competitors over [1] quality, [2] delivery date, and [3] price. However, the physical distance is very disadvantageous, as delivery dates are often set to short periods in Japan. Moreover, a distance that enables day visits is recommendable, as clients sometimes visit the plant to perform inspections or to give instructions for mass production.

#### 3. Characteristics of F/S in emerging countries

Regarding F/S, we believe that investments can be recouped sooner in emerging countries than in advanced countries. When considering starting overseas operations, it is more important to determine whether the economic and political environments are stable or unstable, than whether the interest rate is low or high.

## (7) Medical equipment

### [Medical Equipment Company I]

#### 1. Interest in Kyrgyz

At the moment, Company I has no plan to set up a production center in Kyrgyz. As its major products require labor-intensive processes, the regions where the labor cost is low are advantageous to a certain extent. However, the company's main clients are hospitals in Japan and Kyrgyz will be less efficient than Southeast Asian countries in terms of the logistics cost of products transported to Japan and the overall lead time. For these reasons, there seem to be no advantages in building a production center in Kyrgyz.

#### 2. Background of overseas operations

Although Company I used to manufacture its products in Japan, it started overseas operations in order to improve its product price competitiveness. Therefore, the company's main focus is to ship the products manufactured in the overseas centers back to Japan (for Japanese clients).

#### 3. Allowable transportation costs in landlocked countries

The proportion of the transportation cost of Company I's products in their unit cost is only few percent. Although we cannot generalize this, even a country where the labor cost is so low that the manufacturing cost can be kept low has no attraction as a new overseas center, if it offsets the transportation cost. For example, if the cost of transportation between Kyrgyz and Japan is eight times of the same cost between Singapore and Japan, it is not worth establishing a center in Kyrgyz because of the total cost.

#### 4. The potential to enter the Russian market

We believe that such potential is high. In fact, we already sell products there via trading companies. In terms of setting up a production center, however, it seems rather difficult from the perspective of the need to secure labor force, a medical equipment market (in an economically developing country) and low labor costs (in an emerging country).

## [Medical Equipment Company J]

### 1. Interest in Kyrgyz and background

The current production centers of Company J are located in the Mekong region in Southeast Asia. The next expansion is expected to be in Myanmar. Therefore, the company has no plan to start business in Kyrgyz at the moment.

To become a production center, Kyrgyz may have two very difficult issues, the language and people's sense of values. As for the language issue, the ideal environment would be to enable smooth communications with the Japanese side in Japanese. In that sense, cities such as Dalian in China, where there are a number of Japanese-speaking workers, are attractive. The sense-of-value issues include the mentality of employees, their ideas about product creation, communication skills within the company, etc. Judging from Vietnam and Soviet, which believe in the concept of industry-driven countries, Kyrgyzstan people may also be respectful to manufacturing industries.

### 2. Important concerns as a production center

As one way of thinking when it comes to a production center, Company J places greater importance on whether the target city is capable of guaranteeing the quality level required by the company, than the costs. For this reason, the company is more respectful to an approach with a strong focus on product creation than a commercialism-oriented approach.

In an extreme sense, "easy-going cities are not suitable", because Company J's work requires great perseverance.

### 3. Future approach for expanding production centers

For the time being, Company J will focus on the expansion of production centers in Southeast Asia. If it needs to consider developing more production centers, it might choose regions within EU as candidates for the expansion in order to support its European clients.

## (8) Tourism

### [Tourism-related Company K]

#### 1. Interest in Kyrgyz and what should be done by the Tourism Ministry of Kyrgyz

At the moment, Company K has no plan to expand its business to Kyrgyz. Unless there is clear information regarding how many Japanese tourists visit the country each year, whether their purposes are sightseeing or business, etc., Company K is unable to identify any product needs.

The Tourism Ministry of Kyrgyz and tourist associations will probably need to start collecting and analyzing basic data first. Some useful ways to do so include preparing a questionnaire card used to ask visitors about the purposes of their visits and other information during immigrations procedures, understanding how many arrivals are made at hotels, and utilizing cards.

#### 2. Important basic information required to plan promotional campaigns

Detailed data that can illustrate the “current situation” is required in order to speculate the potential for the tourism industry and also set future goals. Such data should reveal which countries the tourists come from and what purposes they have (sightseeing/business), for example. Judging from the fact that the number of visitors to Kyrgyz is 2.5 million people, tourists probably account for only 50%.

In order to increase the number of tourists, it is important to determine “Which countries and what types of consumers should be targeted” and measure the effect of each campaign in terms of increasing the number of tourists.

Such determination and measurement will be based on the basic information that indicates the current situation. Without the basic information, we cannot carry out target evaluations. For instance, if an investment of 100 million yen into a promotional campaign brought in about 100 new tourists, it is not unknown what should be the base for judging whether the campaign was successful or a failure.

#### 3. Will it be good to target Japanese tourists?

While the Kyrgyzstan government might target Japan all of a sudden, the effect would be very small due to an unfavorable KPI (key performance indicator). A greater effect could be expected by targeting Russians and people in the CIS countries, who feel a stronger affinity for Kyrgyz. This is off the topic, but the number of Russian visitors in the Middle East is increasing. Since many Russians love drinking, their alcohol consumption in the visiting countries also seems high.

#### 4. Important “key visuals”

A 10-year plan is needed to grow a tourism industry.

If they say “Kyrgyz is Switzerland in the Central Asia” to the question “What is your key visual?”, Japanese tourists will go to the real Switzerland. Kyrgyz has to realize that it lacks major tourist attractions.

In Japan, many local governments also list “hot springs” and “delicious food” as key visuals targeting foreign tourists. However, they usually do not have any other attractions with a strong impact that can compete with branded hot springs or food. Some prefectural governments with weak key visuals seem to tie up with each other or combine Tokyo into their tourism sets. These strategies may help increase the number of tourists.

### 3. Results of a questionnaire collected from seminar participants in Japan

As part of this survey, we held a seminar on the business environment in Kyrgyz (July 7, 2014: Sapporo, July 9: Tokyo, July 11: Osaka). Kyrgyz has a number of institutional, technological and funding issues for economic development and is seeking for investments from foreign companies. The purpose of the seminar in Japan was to present the point of view that the current situation of Kyrgyz may be able to produce business opportunities for Japanese companies. In the seminar, the Kyrgyzstan Embassy in Japan gave a talk on “Cooperative Relationship between the Kyrgyz Republic and Japan”. After that, other speakers delivered “Issues concerning Economic Development in Kyrgyz and Business Chances for Japanese Companies” and “Activities and Networks of Kyrgyz Republic – Japan Center” (Table 6-2).

Table 6-2. Overview of Seminar in Japan

Sapporo Site	
1 Opening Address	Shinichiro Futami Manager of Citizen Participation and
2 Guest Speech "Cooperative Relationship between the Kyrgyz Republic and Japan"	Chonmurunov Timur Third Secretary, Kyrgyzstan Embassy in Japan
3 "Issues concerning Economic Development in Kyrgyz and Business Chances for Japanese Companies"	Hiroyuki Kaneko Director of Asian Business Development Group,
4 "Activities and Networks of Kyrgyz Republic – Japan Center"	Muneo Takasaka Co-manager of Kyrgyz Republic – Japan Center
5 Q&A Session	
Tokyo Site	
1 Opening Address	
2 "Overview of the Kyrgyz Republic"	Rysbek Moldogaziev Kyrgyzstan Ambassador Extraordinary and
3 "Issues concerning Economic Development in Kyrgyz and Business Chances for Japanese Companies"	Hiroyuki Kaneko Director of Asian Business Development Group,
4 "Activities and Networks of Kyrgyz Republic – Japan Center"	Muneo Takasaka Co-manager of Kyrgyz Republic – Japan Center
5 "JICA's Small-to-Medium Business Support"	Kazuya Otsuka Small-to-Medium Business Support Investigation
6 Q&A Session	
7 Closing Address	
Osaka Site	
1 Opening Address	Rysbek Moldogaziev Kyrgyzstan Ambassador Extraordinary and
2 JICA's Private Sector Partnership Scheme	Motonori Tsuno Manager of JICA Kansai International Center
3 "Overview of the Kyrgyz Republic"	Toru Date Honorary consul at Honorary Consulate of the
4 "Kyrgyz Republic in Central Asia"	Misato Nomura (formerly Japan Overseas Cooperation Volunteer)
5 "Investment Potentials in Kyrgyz"	Nurbek Maksutov Deputy Executive Director of International
6 "Issues concerning Economic Development in Kyrgyz and Business Chances for Japanese Companies"	Hiroyuki Kaneko Director of Asian Business Development Group,
7 "Activities and Networks of Kyrgyz Republic – Japan Center"	Muneo Takasaka Co-manager of Kyrgyz Republic – Japan Center
8 Q&A Session	

The seminar participants included private enterprises, research institutions, consulting companies, public organizations, individuals, students, etc. Of all, 88 participants answered our questionnaire about their interest in Kyrgyz, attractive business environment, and the information they might focus on when considering overseas operations. This section presents the results of the responses collected from the private enterprises that may be potential major investors to Kyrgyz in the future. However, it should be noted that the number of seminar participants from the private sector was small (33 people), the following trends do not represent the entire Japanese corporate world.

The fact that they participated in the seminar means that they already had some kind of interest in Kyrgyz. About half of the private enterprises that participated in the seminar see business chances in Kyrgyz. One in every three enterprises answered that they were “considering business operation in Kyrgyz” or “want to consider it”. The questionnaire results revealed relatively strong interest in doing business in Kyrgyz.

Table 6-3. Breakdown of Seminar Participants in Japan

		Total	Sapporo	Tokyo	Osaka
<b>Total</b>		<b>88</b>	<b>30</b>	<b>39</b>	<b>19</b>
Private enterprises	(Subtotal)	33	9	15	9
	Agriculture, forestry, fisheries	0	0	0	0
	Manufacturing	10	5	2	3
	Construction	3	3	0	0
	Utilities	0	0	0	0
	Service	4	0	1	3
Research institution		4	1	2	1
Consulting company		20	7	9	4
Public organization		10	5	4	1
Individual		13	4	6	3
Student		5	2	2	1

(1) Business environment in Kyrgyz

Regarding Questions 1 to 3, a number of the seminar participants answered “Kyrgyz will provide business chances” (all: 39%, private enterprises: 46%). Question 2 “Profits may probably be gained even from the Kyrgyzstan market alone” asked the respondents if their business would target the domestic market or export. Their responses were divided almost evenly into Yes and No. Regarding Question 3 “The main purpose will be to export to neighboring countries”, on the other hand, a number of private enterprises in the Osaka seminar, in particular, gave negative responses.

As for Question 4 “Attractive country as a logistics center”, a number of private enterprises in Osaka gave negative responses just like Question 3. Among all of the private enterprises, there were more negative responses (11) than positive responses (6).

Regarding Question 5 “Attractive country for business costs (wages, electricity and taxes)”, almost half of the private enterprises agreed. Especially in the Tokyo seminar, none of the 13 private enterprises disagreed.

As for Question 6 “Kyrgyz’s participation in the Customs Union will be attractive”, a number of private enterprises (43%) agreed. However, there were gaps among the seminar sites: the majority agreed in the Tokyo seminar, while pros and cons were even in the Osaka seminar.

It can be said that a number of opinions from the private enterprises in Osaka indicated that although they saw business chances in Kyrgyz, they did not regard the country as an attractive export/logistics center to access the members of the Customs Union and Central Asian countries.

Table 6-3. Breakdown of Responses regarding “Business Environment in Kyrgyz”

[1] Kyrgyz will provide business chances to your company.

	All				Sapporo				Tokyo				Osaka			
	All		Private enterprises		All		Private enterprises		All		Private enterprises		All		Private enterprises	
I think so.	27	39%	13	46%	10	38%	2	50%	11	38%	8	50%	6	43%	3	38%
Neither.	36	52%	12	43%	13	50%	1	25%	16	55%	7	44%	7	50%	4	50%
I don't think so.	6	9%	3	11%	3	12%	1	25%	2	7%	1	6%	1	7%	1	13%
Total	69	100%	28	100%	26	100%	4	100%	29	100%	16	100%	14	100%	8	100%

[2] Profits may probably be gained even from the Kyrgyzstan market alone.

	All				Sapporo				Tokyo				Osaka			
	All		Private enterprises		All		Private enterprises		All		Private enterprises		All		Private enterprises	
I think so.	18	25%	6	23%	5	17%	0	0%	9	30%	4	27%	4	29%	2	29%
Neither.	38	52%	16	62%	14	48%	3	75%	16	53%	9	60%	8	57%	4	57%
I don't think so.	17	23%	4	15%	10	34%	1	25%	5	17%	2	13%	2	14%	1	14%
Total	73	100%	26	100%	29	100%	4	100%	30	100%	15	100%	14	100%	7	100%

[3] The main purpose of your operation in Kyrgyz will be to export to neighboring countries.

	All				Sapporo				Tokyo				Osaka			
	All		Private enterprises		All		Private enterprises		All		Private enterprises		All		Private enterprises	
I think so.	29	39%	6	22%	12	41%	2	50%	13	42%	3	20%	4	27%	1	13%
Neither.	30	40%	10	37%	13	45%	1	25%	13	42%	8	53%	4	27%	1	13%
I don't think so.	16	21%	11	41%	4	14%	1	25%	5	16%	4	27%	7	47%	6	75%
Total	75	100%	27	100%	29	100%	4	100%	31	100%	15	100%	15	100%	8	100%

[4] Kyrgyz will be an attractive country as a logistics center.

	All				Sapporo				Tokyo				Osaka			
	All		Private enterprises		All		Private enterprises		All		Private enterprises		All		Private enterprises	
I think so.	20	27%	6	22%	9	31%	1	25%	7	23%	4	27%	4	27%	1	13%
Neither.	36	48%	12	44%	15	52%	2	50%	17	55%	8	53%	4	27%	2	25%
I don't think so.	19	25%	9	33%	5	17%	1	25%	7	23%	3	20%	7	47%	5	63%
Total	75	100%	27	100%	29	100%	4	100%	31	100%	15	100%	15	100%	8	100%

[5] Kyrgyz will be an attractive country for business costs (wages, electricity and taxes)

	All				Sapporo				Tokyo				Osaka			
	All		Private enterprises		All		Private enterprises		All		Private enterprises		All		Private enterprises	
I think so.	37	58%	11	48%	17	71%	1	50%	14	56%	7	54%	6	40%	3	38%
Neither.	20	31%	9	39%	6	25%	1	50%	10	40%	6	46%	4	27%	2	25%
I don't think so.	7	11%	3	13%	1	4%	0	0%	1	4%	0	0%	5	33%	3	38%
Total	64	100%	23	100%	24	100%	2	100%	25	100%	13	100%	15	100%	8	100%

[6] Kyrgyz's participation in the Customs Union will be attractive.

	All				Sapporo				Tokyo				Osaka			
	All		Private enterprises		All		Private enterprises		All		Private enterprises		All		Private enterprises	
I think so.	32	48%	10	43%	13	52%	1	50%	14	54%	7	54%	5	33%	2	25%
Neither.	27	41%	10	43%	10	40%	1	50%	10	38%	5	38%	7	47%	4	50%
I don't think so.	7	11%	3	13%	2	8%	0	0%	2	8%	1	8%	3	20%	2	25%
Total	66	100%	23	100%	25	100%	2	100%	26	100%	13	100%	15	100%	8	100%



(2) Intention for overseas operations

Regarding the private enterprises' intention for overseas operations, Questions 1 to 3 represent the characteristics of the target country/region. In Question 1 "Considering starting business in the Central Asia", 11 out of the 20 private enterprises responded that they were considering it, and four respondents said that they were already in operation there. For the question "Specific countries under your consideration" (multiple answers allowed), their interested countries included Kazakhstan (11 companies), Kyrgyz (9 companies), Uzbekistan (4 companies), Tajikistan (3 companies) and Turkmenistan (2 companies). The results indicate that Kazakhstan and Uzbekistan are popular. Of all the three seminar sites, Tokyo recorded the largest number of responses.

Major countries in other regions such as Asia and Russia which were popular among the private enterprises were Indonesia (8 companies), Vietnam (7 companies) and Myanmar(6 companies).

Table 6-4. Breakdown of Responses to "Your Intention for Overseas Operations" (Regions of Interest)

[1] You are considering or want to consider business operation in the Central Asia.

	All		Sapporo		Tokyo		Osaka	
	All	Private enterprises	All	Private enterprises	All	Private enterprises	All	Private enterprises
Yes	27	11	11	2	11	6	5	3
No	16	5	9	-	2	2	5	3
Already in operation	6	4	1	-	4	3	1	1
Total	49	20	21	2	17	11	11	7

[2] Specific countries in the Central Asia under your consideration (multiple answers allowed)

	All		Sapporo		Tokyo		Osaka	
	All	Private enterprises	All	Private enterprises	All	Private enterprises	All	Private enterprises
Kyrgyz	18	9	8	1	8	6	2	2
Kazakhstan	18	11	7	2	9	7	2	2
Uzbekistan	6	4	1	-	5	4	-	-
Tajikistan	5	3	1	-	3	3	1	-
Turkmenistan	4	2	1	-	2	2	1	-

[3] Specific countries in other regions under your consideration (multiple answers allowed)

	All		Sapporo		Tokyo		Osaka	
	All	Private enterprises	All	Private enterprises	All	Private enterprises	All	Private enterprises
China	4	2	2	1	2	1	-	-
Russia	11	4	7	1	4	3	-	-
Belarus.	-	-	-	-	-	-	-	-
Turkey	5	4	1	1	4	3	-	-
India	2	1	-	-	2	1	-	-
Belarus	-	-	-	-	-	-	-	-
Pakistan	-	-	-	-	-	-	-	-
Sri Lanka	-	-	-	-	-	-	-	-
Thailand	9	4	4	1	2	2	3	1

Vietnam	10	7	3	1	4	4	3	2
Indonesia	10	8	2	1	7	6	1	1
Philippines	3	2	1	-	1	1	1	1
Malaysia	6	4	4	2	2	2	-	-
Cambodia	3	1	3	1	-	-	-	-
Myanmar	7	6	3	2	3	3	1	1
Laos	2	2	1	1	1	1	-	-
Others	3	-	2	-	1	-	-	-

Regarding what is behind the private enterprises considering overseas operations (Question 4, multiple answers allowed), 15 companies answered “Expansion to a new market”, which significantly outnumbered “Reduction in production costs” (4 companies) and “Request from your client” (3 companies). This indicates that their major reason for overseas operations is to expand sales.

Also according to the results of their responses to “Local information and conditions required to consider overseas operations” (Question 5, multiple answers allowed), there seem to be three characteristic points evident when private enterprises make the actual decisions.

The first point is that they tend to place importance on the scale and growth potential of the target country, as you can see in their responses: “Economic scale” (13 companies), “Economic growth rate” (12 companies) and “Population” (9 companies). The second point is the conditions related to export to Japan, such as “Customs infrastructure” (11 companies), “Days required for transport to Japan” and “Cost of transport to Japan” (7 companies each), etc. The third point is related to the concerns that may affect the labor productivity (unit labor cost), including “Educational level” (9 companies) and “Labor cost” (8 companies).

Table 6-5. Breakdown of Responses to “Your Intention for Overseas Operations” (Background and Important Considerations regarding Overseas Operations)

[4] Background of your intention for overseas operations (multiple answers allowed)

	All		Sapporo		Tokyo		Osaka	
	All	Private enterprises	All	Private enterprises	All	Private enterprises	All	Private enterprises
Request from your client	8	3	4	-	2	2	2	1
Expansion to a new market	29	15	11	2	10	8	8	5
Reduction in production costs	6	4	-	-	3	1	3	3
Others	8	5	1	-	4	3	3	2

[5] Local information and conditions required to consider overseas operations (multiple answers allowed)

	All		Sapporo		Tokyo		Osaka	
	All	Private enterprises	All	Private enterprises	All	Private enterprises	All	Private enterprises
Economic scale	23	13	9	2	9	7	5	4
Economic growth rate	23	12	8	1	9	6	6	5
Population	15	9	6	2	4	2	5	5
Population composition	3	-	2	-	1	-	-	-
Main language	6	-	3	-	3	-	-	-
Religion	6	2	2	-	3	2	1	-

Educational level	16	9	1	-	10	5	5	4
Labor cost	20	8	7	-	7	4	6	4
Ease of dismissal	1	-	1	-	-	-	-	-
Electricity cost	4	1	3	-	1	1	-	-
Electricity stability	12	4	6	-	2	1	4	3
Raw material procurement environment	10	3	5	-	4	3	1	-
Customs infrastructure	21	11	9	2	7	6	5	3
Days required for transport to Japan	14	7	6	1	5	4	3	2
Cost of transport to Japan	15	7	5	-	5	4	5	3
Corporate tax rate	12	4	3	-	7	3	2	1
Incentives for investment	7	1	3	-	2	1	2	-
Individual income tax rate	-	-	-	-	-	-	-	-
Value-added tax rate	7	2	4	1	1	-	2	1
Local interest rate cost	8	2	3	-	3	1	2	1
Unrestricted money transfer	13	4	6	1	3	1	4	2
Agreements with Japan	14	6	6	1	5	3	3	2
One-stop contact system	8	4	1	-	3	2	4	2
Availability of a Japanese business association	4	2	1	-	3	2	-	-
Medical and other information about daily life	4	2	-	-	3	1	1	1
Others	3	1	1	-	1	-	1	1

4. Corporate images of Japanese companies considering business operation in Kyrgyz, based on questionnaire results, and solutions for related issues

Not many Japanese companies are aware of the potentiality of the Kyrgyzstan market. This is also true to all of the Central Asian countries. For example, according to the 2013 “Survey Report on Overseas Business Operation of Japanese Manufacturing Industry” by the Japan Bank for International Cooperation, Japanese manufacturers are expanding their overseas business operations. However, the top 20 countries/regions of the medium-term potential business partner countries/regions included nine ASEAN countries and four other Asian countries/regions. On the other hand, Russia was the only country on the list (the 9th place) selected from the Russia/CIS region. The Japan Bank for International Cooperation has conducted the survey since 1989; therefore, it has a long history as a questionnaire-based survey targeting Japanese manufacturers with well-established overseas operations. The 2013 survey (the 25th survey) targeted about 1,000 companies. As a result, the survey is believed to illustrate the trends among major Japanese manufacturers.

Of all the major companies in Japan that we visited during our survey, only one company sells its products in Kyrgyz through an agent. A number of companies responded that the main focus of their global strategies would remain to be on Southeast Asia for a while.

Although the questionnaire distributed in our seminar in Japan targeted only a small number of respondents, the companies which answered that they were considering expanding their business in Kyrgyz or Kazakhstan or had already done so outnumbered those which answered that they were not considering it. From this reason, we believe that middle-ranking and small-to-medium Japanese companies will go to Kyrgyz before major companies.

Middle-ranking and small-to-medium companies tend to have fewer overseas personnel, less capabilities to collect local information and less financial standing (capital strength) than major companies. In addition, regarding the “logistics and customs” issues, which Japanese companies place great importance on, Kyrgyz, as a landlocked country, faces the burden of higher costs. With the above business environment in mind, Daiwa Institute of Research presents three examples of the way Japanese companies should operate business in Kyrgyz.

(1) Solutions for “local personnel”

One of the medium-term measures for local personnel issues is to employ a foreign student studying in Japan at the Japanese head office, and eventually deploy them as the president of the local subsidiary. Interviews with governmental organizations often require a Russian-speaking interpreter. It is also quite common to find only Russian speakers even among the staff in the tourism-related industry, including hotels and taxis. While an increasing number of young Kyrgyzstani speak English, the “Russian-speaking” factor is advantageous as one of the characteristics of the Kyrgyzstan business environment. Employing Kyrgyzstan students studying in Japan can minimize the communication risk in Kyrgyz as well as the governance risk.

In the above approach, however, it may take a long time to train the personnel to acquire technical, accounting and other skills. It is also left with the resignation risk: after the student goes back to Kyrgyz, they may start their own business by utilizing the learnt skills.

(2) Solutions for “capital strength”

In Kyrgyz, the current interest rate on loans is as high as 18%. The high interest rate cost will delay the business to move into the black and also impact the payout period significantly.

We have also heard that even if a company wants to borrow a fund for capital investment from a local commercial bank, the assessment process takes so long that the bank does not loan the fund for a long time.

To minimize such a debt burden, a Japanese company may want to [1] contribute the amount invested by the Japanese company by donating the actual asset of (second-hand) machinery, or [2] establish a joint venture with a local company to reduce the debt burden.

Recently, we visited several manufacturers in Kyrgyz and every company was seeking for highly productive facilities, which Japanese companies have. The “highly productive facilities” are not necessarily state-of-the-art facilities. For example, a local major sewing company obtained a “second-hand machine at the time” in the early 90’s through Japanese assistance and is still using that machine.

Establishing a joint venture with a local company will require good communications with the top management of the partner. This approach is believed to have considerable advantages in winning clients in Kyrgyz, Russia, Kazakhstan and other countries, and also employing personnel in Kyrgyz.

(3) Measures against “logistics costs”

Possible measures against the high logistics costs include [1] targeting the domestic market of Kyrgyz and neighboring countries including Russia and Kazakhstan for selling products to control the “packing and transport costs” (an item of “selling and general administrative expenses” in the income statement), and [2] manufacturing small-variety mass-production products such as food packaging materials to control the raw material purchasing cost (a material cost of the “cost of sales” in the above-mentioned statement).

Any country in the Central Asia, including Kyrgyz, faces the burden of high logistics costs. However, this also means that there are very few major companies operating business in the region, thus the competitive environment is slow. According to a plastic container manufacturer relocated from Kazakhstan to the free trade district in Kyrgyz, the manufacturer receives many inquiries from Russia and Kazakhstan due to slow competition with only a small number of competitors, although the company is not particularly engaged in special sales efforts.

## Chapter 7 Investment promotion challenges

In Chapter 7 we will identify the issues that are critical to Kyrgyzstan's promotion of investment by both domestic and foreign companies, and we will also take a look at specific strategies that should be adopted. Section 1 provides an overview of the underlying Investment Law that investors should be aware of when considering investing in the Kyrgyz Republic. Section 2 identifies what is covered in National Strategy of Sustainable Development for the Kyrgyz Republic for the period 2013-2017, which was drafted in January 2013. Section 3 identifies the problems in Kyrgyzstan's investment climate and the areas where it comes up short when compared with neighboring countries, based on the World Bank's Doing Business 2014 survey. Section 4 identifies, based on local fact-finding conducted for this survey, the challenges faced in promoting investment and the challenges faced when seeking to attract companies from foreign countries, and compares these to the issues identified in Section 3 and the issues identified in Section 4. Section 5 raises specific improvement measures that the Kyrgyz government should take in the near term, in view of these issues.

### 1. Investment Law

Kyrgyzstan's basic law governing foreign investment is the Law of the Kyrgyz Republic 'On Investments in the Kyrgyz Republic' ("Investment Law"). This law went into effect on March 27, 2003, and has subsequently been amended in 2004 (No. 76), 2006 (No. 144), 2008 (No. 127 and No. 231), and 2009 (No. 141, No. 222, and No. 284). The Investment Law has 25 articles in five chapters.

Table 7-1. Investment Law

Chapter 1	General provisions	(Article 1 - Article 3)
Chapter 2	Legal guarantees for investors	(Article 4 - Article 12)
Chapter 3	Government support for investors and investment	(Article 13 - Article 14)
Chapter 4	Labor-related laws and regulations pertaining to investors	(Article 15 - Article 17)
Chapter 5	Miscellaneous provisions	(Article 18 - Article 25)

The Investment Law was enacted to improve the investment environment and promote investment by providing a fair and equitable legal environment for investors and by guaranteeing the protection of investments.

The Investment Law provides that there is no difference in the treatment of domestic and foreign investors, that there will be in principle no expropriation of investments by the government, that profits may be freely taken out of the country and repatriated, that currencies may be freely exchanged, and that both Kyrgyzstan nationals and foreign workers may be freely

employed. It also provides that even if a law restricting foreign exchange is passed in the future, that law will not apply to foreign investors. The Investment Law does not contain any mention of areas where investment is restricted. At the same time, the Law of the Kyrgyz Republic "On Licenses and Permits," which went into effect on October 19, 2013, specifies 65 business areas for which a license must be obtained (including seven areas that use limited national resources) and 38 activities for which a permit must be obtained for business processes. However, this law also does not establish any restrictions on foreign investment. Kyrgyzstan's Investment Law and investment-related policies can be generally characterized as being very open and liberal for foreign investment, thanks to the lack of discrimination between local and foreign investors and few restrictions.

## 2. Kyrgyz Republic sustainable development strategy

On January 21, 2013 the Kyrgyz government unveiled its National Strategy of Sustainable Development for the Kyrgyz Republic for the period 2013-2017 ("Development Strategy"). The Development Strategy acknowledges that Kyrgyz Republic currently faces the following circumstances:

- (1) While it was one of the first countries in Central Asia to transition to a market economy after becoming independent in 1991, the Kyrgyz Republic lacks the kind of industry that could serve as a foundation for economic growth.
- (2) Lacking in natural resources, the Kyrgyz Republic has been unable to achieve consistent economic growth.
- (3) The Kyrgyz Republic has the highest poverty rate in the Commonwealth of Independent States (CIS).
- (4) Reforming the education and health care/medical systems and fighting corruption by improving the legal framework have become urgent tasks.
- (5) In recent years, the unemployment and economic disparity between the capital of Bishkek, and rural areas has been widening and ensuring sustainable economic growth has become an issue.

In order to resolve these issues, the following five priorities have been established:

- (1) Ensuring sustainable economic growth and macroeconomic stability
- (2) Improving the business environment and investment climate
- (3) Developing the financial sector
- (4) Developing strategic economic sectors (agriculture, energy, mineral resources, transport & communications, tourism & services)
- (5) Promoting local economic development

Because this sustainable development strategy requires a real administration tool for this



time period, the Kyrgyz government has also unveiled The Kyrgyz Republic Sustainable Development Program 2013-2017. One objective of this program is to improve the Kyrgyz Republic investment climate. The specific focus of the initiatives up to 2017 will be (i) improving government investment policy efficiency; (ii) implementing mechanisms to promote and support investment.

The Development Strategy's objectives for 2013-2017 are to become an even stronger democratic state, build a political system that will be stable over the long term, bring about robust economic growth, and expand the national income.

As specific numerical targets, the objectives for the key quantitative indicators of macroeconomic stability for 2013-2017 are to achieve annual economic growth of 7% and to raise nominal GDP to KGS 630 billion and per-capita GDP from USD 1,200 to USD 2,500, or the level of a middle-income country by 2017. The strategy also assumes single-digit inflation of 5-7% from 2015 onwards. The target for foreign debt is 60% of GDP.

The Kyrgyz Republic aims to create 350,000 jobs during this five-year period, and it also hopes to boost the average wage from the current KGS 11,500 to KGS 26,000 by 2017. The government has also established the goal of raising the country's ranking in the World Bank's annual "Doing Business" report so that it places among the top 30 countries, or, at minimum, among the top 40, making it the highest rated country among the CIS.

### 3. How public institutions view the Kyrgyz investment climate: The World Bank's "Doing Business" survey

#### (1) Kyrgyzstan's investment climate versus neighboring countries

The World Bank's Doing Business 2014 survey uses 10 criteria, such as "starting a business" and "dealing with construction permits" to compare investment climates, and then it ranks the 189 countries. Kyrgyzstan's overall ranking is 68, the second highest ranking among the five Central Asian countries. This puts it below Kazakhstan, which is ranked 50, but above Russia, which is ranked 92 (Table 7-2).

When compared with other former Soviet states, the Kyrgyz business climate compares favorably in five areas: (1) Starting a Business, (2) Dealing with Construction Permits, (4) Registering Property (5) Getting Credit, and (6) Protecting Minority Investors. On the other hand, it comes up short in four areas: (3) Getting Electricity, (7) Paying Taxes, (9) Enforcing Contracts, and (10) Resolving Insolvency.

If we examine how the Kyrgyz Republic compares against other countries in terms of the components of each of the areas where it comes up short ((3) Getting Electricity, (7) Paying Taxes, (9) Enforcing Contracts, and (10) Resolving Insolvency), when it comes to (3) Getting Electricity (2014 rank: 180) the high cost of getting electricity connected to a factory (including inspections and deposits) is an issue. Likewise, when it comes to (7) Paying Taxes (rank: 127),



the large number of procedures and the long amount of time required are issues, for (9) Enforcing Contracts, (rank: 170), the high cost per contract is an issue, and for (10) Resolving Insolvency, the long amount of time required, the high cost, and the recovery rate are issues.

Table 7-2. World Bank investment climate rankings (2014)

		1	2	3	4	5	6		8	9	10	11		12	13	14	15	16	17		18	19
	No Topic	Kyrgyz Republic	Kazakhstan	Uzbekistan	Turkmenistan	Tajikistan	Russian Federation	Average of former Soviet states	Vietnam	Cambodia	Myanmar	Laos PDR	CLMV average	Thailand	Singapore	Brunei Darussalam	Malaysia	Indonesia	Philippines	ASEAN 6 average	China	Japan
	Overall ranking	68	50	146	n.a.	143	92	100	99	137	182	159	144	18	1	59	6	120	108	52	96	27
1	Starting a business	12	30	21		87	88	48	109	184	189	85	142	91	3	137	16	175	170	99	158	120
2	Dealing with construction permits	66	145	159		184	178	146	29	161	150	96	109	14	3	46	43	22	99	38	185	91
3	Getting electricity	180	87	173		186	117	149	156	134	126	140	139	12	6	29	21	121	33	37	119	26
4	Registering property	9	18	136		78	17	52	51	118	154	76	100	29	28	116	35	101	121	72	48	66
5	Getting credit	13	86	130		159	109	99	42	42	170	159	103	73	3	55	1	86	86	51	73	28
6	Protecting investors	22	22	138		22	115	64	157	80	182	187	152	12	2	115	4	52	128	52	98	16
7	Paying taxes	127	18	168		178	56	109	149	65	107	119	110	70	5	20	36	167	131	72	120	140
8	Trading across borders	182	186	189		188	157	180	65	114	113	161	113	24	1	39	5	54	42	28	74	23
9	Enforcing contracts	70	27	40		39	10	37	46	162	188	104	125	22	12	161	30	147	114	81	19	36
10	Resolving insolvency	132	54	63		81	55	77	149	163	155	189	164	58	4	48	42	144	100	66	78	1

Source: Prepared by the Investigation Group based on World Bank data.

## (2) Improving investment climate of the Kyrgyz Republic

Among the evaluation criteria, there has been a marked improvement in (1) Starting a Business and (2) Dealing with Construction Permits. As for (1) Starting a Business, both the number of procedures and the number of days required have decreased. If we compare the results from the 2008 survey (before the improvement began) and the 2014 survey, the number of procedures has been reduced from 9 to 2, and the number of days has been reduced from 21 to 8 days. For (2) Dealing with Construction Permits, the number of procedures has been reduced from 22 to 12, and the number of days has been reduced from 395 to 142 days.

There are also some signs of improvement in the four areas where the Kyrgyz Republic is behind. For example, in (3) Getting Electricity, the number of days needed to get electricity connected has been cut from 247 days in the 2012 survey to 159 days in the 2014 survey. Likewise, in (7) Paying Taxes, the number of procedures has been reduced from 75 (2010 survey) to 51. However, the amount of time needed has increased from 202 hours (2010 survey) to 210 hours. As a result, the reduction in the number of procedures to pay taxes has not been enough to improve the investment climate.

When it comes to (8) Trading Across Borders, there has been no significant change in either the

number of procedures or the amount of time required. Transportation costs have risen. But this is true not only in the Kyrgyz Republic, but also in Kazakhstan, Tajikistan, and Uzbekistan. As a result, there has been no significant change in the evaluation criteria for (8) Trading Across Borders for the Kyrgyz Republic.

#### 4. Identifying issues through local interviews

In our first local survey (March 22 - April 5) and in our second local survey (May 15 - 29) we interviewed representatives of local government agencies and local companies. Through these interviews we identified both general challenges and challenges for specific business areas, and we arranged these into short-term and longer-term challenges. Our private sector interviews were concentrated in those industries that are seen as very important to the Kyrgyzstan economy from the standpoint of their contributions to nominal GDP, the number of workers in each industry, and economic growth. These are: agriculture, food processing, garment manufacturing, tourism, transportation & telecommunications (including IT), and retail business.

The previous section discussed how the Kyrgyz Republic compares unfavorably to neighboring countries in terms of (3) Getting Electricity, (7) Paying Taxes, (9) Enforcing Contracts, and (10) Resolving Insolvency. But from the standpoint of private companies, when it comes to promoting investment, the most significant issues are poor tax incentives and high interest costs. In the World Bank survey the Kyrgyz Republic ranks 13 in terms of (5) Getting Credit. However, the main components of these evaluation criteria are areas such as whether there are credit bureaus and the extent of their coverage and the legal rights of lenders and borrowers. It does not cover areas such as the level of interest rates, collateral ratios, and review periods. In fact, when we talked to local private companies, they expressed their dissatisfaction. For example, they told us that when they are seeking credit for the purchase of additional equipment, banks take more than six months to conduct the credit review, and that interest rates are in the lofty 18% range.

Furthermore, in 2014 the government established the Investment Promotion Agency to attract foreign companies, but when we talked to local public institutions they revealed some issues concerning the future of an agency designed to attract foreign companies (see the following section). When we discussed the characteristics of the Kyrgyz market with leading Japanese companies that are technologically advanced and that are competitive on the international stage, with respect to the question of policies that can be expected to bear fruit in the near term, they suggested measures that should be taken for tourism.

Table 7-3. Near-term and longer-term challenges

Business area	Near-term challenges	Longer-term challenges
All business area		<ul style="list-style-type: none"> <li>- Insufficient fiscal resources for economic policy</li> <li>- High bank lending rates</li> <li>- Need for mechanisms to disseminate rules and ensure that they are observed (there are some laws that do not carry any penalties)</li> <li>- Tax system overhaul</li> <li>- Investment tax incentives</li> <li>- Corruption</li> </ul>
Meat exports	<ul style="list-style-type: none"> <li>- Ensuring sufficient amount of feed</li> <li>- Better feed (improving feed methods)</li> </ul>	<ul style="list-style-type: none"> <li>- Lowering transport costs</li> <li>- Better livestock</li> <li>- Improving husbandry facilities (and processing facilities)</li> <li>- Establishing certification system to ensure food safety and inspection agency</li> <li>- Establishing inspection system for halal certification</li> </ul>
Milk production for dairy products	<ul style="list-style-type: none"> <li>- Ensuring sufficient amount of feed</li> <li>- Better feed (improving feed methods)</li> </ul>	<ul style="list-style-type: none"> <li>- Better livestock</li> <li>- Organizing farmers</li> <li>- Barn maintenance</li> <li>- Establishing certification system to ensure food safety and inspection agency</li> </ul>
Regional specialties production	<ul style="list-style-type: none"> <li>- Developing markets</li> </ul>	<ul style="list-style-type: none"> <li>- Organizing farmers</li> <li>- Stabilizing production volumes</li> <li>- Addressing minimum lot sizes</li> </ul>
Fresh produce production	<ul style="list-style-type: none"> <li>- Improving productivity by fertilizing appropriately</li> </ul>	<ul style="list-style-type: none"> <li>- Organizing farmers</li> <li>- Establishing certification system to ensure food safety and inspection agency</li> </ul>
Garment manufacturing	<ul style="list-style-type: none"> <li>- Equipment is becoming obsolete and old, and productivity is low</li> <li>- Rampant Chinese-made counterfeit goods</li> </ul>	<ul style="list-style-type: none"> <li>- Small size of companies makes it difficult to handle mass production</li> <li>- Many unregistered companies (bad work environment, unpaid taxes)</li> <li>- Hard to get credit due to high borrowing rates</li> <li>- Labor shortages (especially in the spring &amp; summer, workers &amp; managers)</li> <li>- High employee turnover and lack of high-quality raw materials (e.g. cloth, cotton)</li> <li>- Lack of upstream/midstream value chain (e.g. irrigation, quality seed, and spinning/dyeing technologies)</li> </ul>
Dairy processing	<ul style="list-style-type: none"> <li>- Underdeveloped quality management systems</li> <li>- Lack of funding (to build quality management systems)</li> </ul>	<ul style="list-style-type: none"> <li>- Low per-head milk yield</li> <li>- Disease epidemics among livestock (cattle) due to lack of vaccine infrastructure</li> <li>- Nonexistent livestock registration (making follow-up research impossible)</li> </ul>
Meat processing (including frozen foods)	<ul style="list-style-type: none"> <li>- Lagging in mechanization (automation) of processing plants</li> <li>- Lack of refrigeration at the retail level (summer)</li> </ul>	<ul style="list-style-type: none"> <li>- Inadequate legal framework for commercial slaughter</li> <li>- Disease epidemics among livestock due to lack of vaccine infrastructure</li> <li>- Nonexistent livestock certification (making follow-up research impossible)</li> <li>- Lack of certified hygienic slaughter facilities</li> <li>- Lack of laboratories meeting international standards to conduct testing/analysis</li> </ul>
Fresh produce processing (including beverages)	<ul style="list-style-type: none"> <li>- Poor quality of secondary materials that can be obtained domestically</li> <li>- Lack of refrigerated trucks (degradation during transport)</li> </ul>	<ul style="list-style-type: none"> <li>- Inadequate processing technology (mass production, flash freezing, small packaging, maintaining freshness)</li> <li>- Hard to ensure steady supply of raw materials (needed for large scale production)</li> <li>- Lack of food processing professionals</li> <li>- Large number of individual farmers are not working in cooperation with others (e.g. contract non-compliance)</li> <li>- Excessive government intervention</li> <li>- Inadequate organic certification/institutions</li> </ul>
Tourism	<ul style="list-style-type: none"> <li>- Inadequate immigration data</li> <li>- Poor hospitality level of workers</li> <li>- Lack of foreign-language (English) learners</li> <li>- High operating costs (need for energy conservation measures)</li> </ul>	<ul style="list-style-type: none"> <li>- Facilities not utilized well in off-season</li> <li>- Transportation infrastructure improvement (possibly increase the number of companies specializing in passenger transport)</li> <li>- Ease restrictions on land use by foreign companies (hotels, restaurants)</li> </ul>
IT industry (software development)	<ul style="list-style-type: none"> <li>- Few engineers (build framework for developing personnel)</li> <li>- collaboration with universities, IT centers</li> <li>- Lack of PR for track record in software development</li> <li>- Regular state-of-the-industry assessments and goal-setting (most recent version dates to 2008)</li> </ul>	<ul style="list-style-type: none"> <li>- Business incubator using hi-tech parks</li> </ul>
Retail	<ul style="list-style-type: none"> <li>- Rigorous inventory &amp; quality management</li> </ul>	<ul style="list-style-type: none"> <li>- Warehouse utilization</li> <li>- Implement IT for order processing and inventory management</li> </ul>
Transportation	<ul style="list-style-type: none"> <li>- Deregulation of settlement systems (overseas remittances)</li> </ul>	<ul style="list-style-type: none"> <li>- Increase volume of exports</li> </ul>
Insurance	<ul style="list-style-type: none"> <li>- Laws that specify insurance coverage obligations for certain industries do not provide for penalties</li> </ul>	<ul style="list-style-type: none"> <li>- Instill the need for insurance coverage</li> </ul>

Source: Prepared by the Investigation Group based on interviews.

## 5. Specific examples of improvement measures

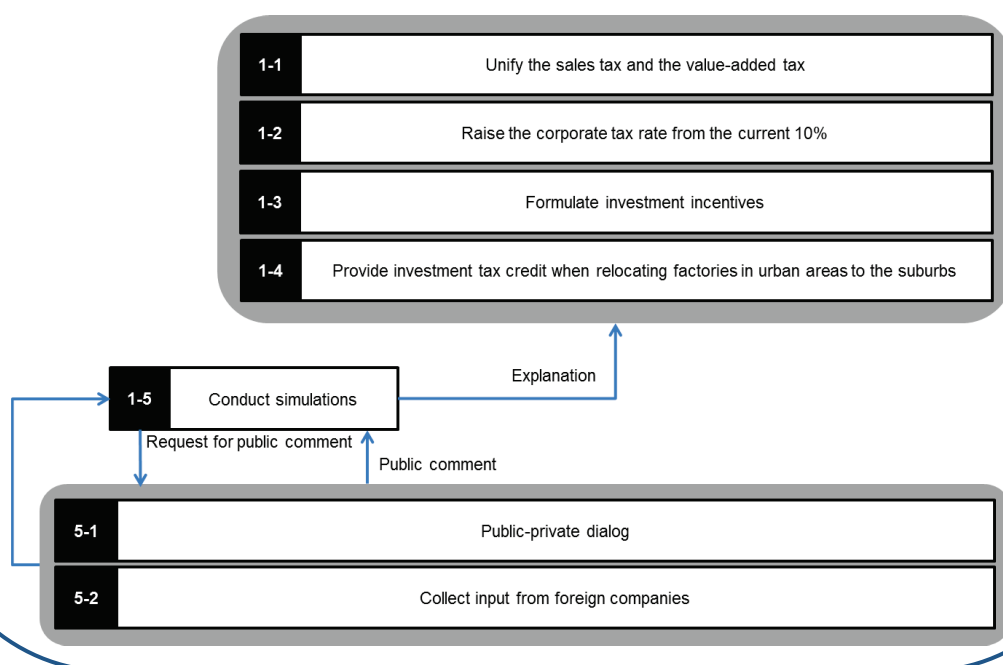
The challenges outlined above include challenges that should be addressed by individual companies, challenges that should be addressed on an industry-wide basis, and challenges that should be addressed through government policy. Here, we will review the challenges where the government can become involved in order to spur investment and the measures that should be taken.

### (1) Overhauling the tax system to promote corporate investment

#### *Raising the corporate tax rate and introducing tax breaks for investment*

##### Priority Measures

- 1-1. Unify the sales tax and the value-added tax
- 1-2. Raise the corporate tax rate from the current 10%
- 1-3. Formulate investment incentives (corporate income tax breaks) to encourage companies to come from other countries
- 1-4. Provide investment tax credit when relocating factories in urban areas to the suburbs
- 1-5. Conduct tax reform simulations and explain to businesses and the public



First of all, we believe that it is necessary to review the tax system for Kyrgyz companies.

Point 1 is the elimination of the coexistence of a sales tax and value-added tax. In the Kyrgyz Republic, although companies pay a value-added tax, they must also pay a sales tax of 1.5% (trading businesses) or 2.5% (non-trading businesses) on the sale of goods, or sales derived from the product of labor or services. Although companies shoulder only the burden of the sales tax (consumers bear the burden of the value-added tax), it would be better to unify the sales tax and the value-added tax because of the number of procedures for paying taxes and small amount of revenue collected from the sales tax.

Point 2 is raising the corporate tax rate. Raising the corporate tax rate increases the burden on companies. However, because the sales tax has been imposed within the same country, the effective tax rate is higher. For example, even for a company whose taxable income from sales is 10% (non-trading business), if a sales tax (2.5%) is imposed the effective tax burden is 35%.

Point 3 is formulating investment incentives to encourage companies to come from other countries. It is especially necessary for the Kyrgyz Republic to attract export companies in order to improve its trade balance. Up to now, it has granted companies that move into export processing zones preferential treatment for import duties and customs procedures. We think that more companies will come from foreign countries if the Kyrgyz Republic grants a 5-10 year corporate income tax exemption to companies that export at least 70% of their sales. Even though the government will not be able to collect corporate taxes while the incentive is in effect, personal income taxes will probably rise due to greater employment opportunities within the country and, moreover, revenue from the value-added tax will probably also rise as income growth stimulates personal consumption.

Point 4 is providing an investment tax credit when relocating factories in urban areas to the suburbs, from the standpoint of using urban areas more effectively and increasing plant productivity. In the Kyrgyz Republic, there are many buildings in urban areas that are used as factories. Production processes are divided by floor, and as a result work-in-process accumulates at the location of each process, and this hurts overall productivity. The Kyrgyz Republic needs to establish investment tax incentives that promote new investment and at the same time spur the relocation of factories to the suburbs.

If factories are relocated to the suburbs, it will be possible to redevelop the sites as IT centers. For example, in the Philippines buildings in the city center can be designated individually as buildings that are eligible for corporate tax breaks, and when a company moves into one of these buildings it can enjoy these tax benefits.

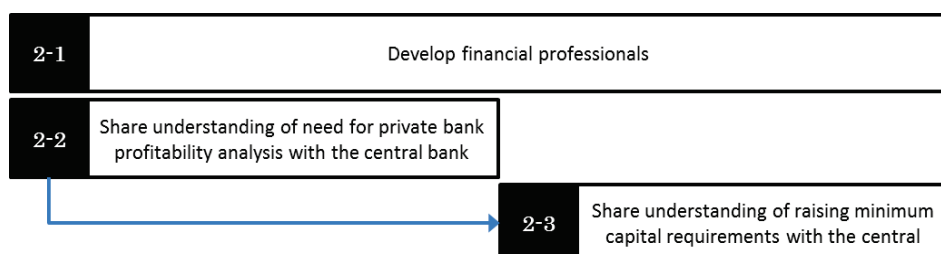
Lastly, the government must, as a priority measure, conduct simulations of these tax reforms and explain these tax reforms to companies and the general public and engage in dialog. Generally speaking, businesses will resist an increase in the tax burden, so the government will

have to engage in a continued effort to communicate with private enterprises and consumers through vehicles such as public comment opportunities.

## (2) Eliminate high borrowing rates

### Priority Measures

- 2-1. Develop financial professionals (e.g. send individuals to developed countries for training)
- 2-2. Share understanding of need for private bank profitability analysis with the central bank
- 2-3. Share understanding of raising minimum capital requirements with the central bank



When we talked with local private companies, many companies told us that even when they wanted to make new capital investments, they could not invest because borrowing rates are so high that it would hurt profitability. The Kyrgyz Republic Sustainable Development Program 2013-2017 report, issued in December 2013, cites (i) the small proportion of long-term loans and (ii) high loan interest rates as challenges on the financial front. Lately the borrowing rate in the Kyrgyz Republic has been 18-20% for large companies and 20-25% for small and medium-sized enterprises. Ordinarily, inflation tends to occur in countries experiencing rapid economic growth and as a result in many cases it becomes necessary to tighten the policy interest rate. However, in the case of the Kyrgyz Republic, interest rates are far above even the inflation rate and this may be stymieing new investment that would increase productivity. This same program has a stated goal of lowering the average lending rate to 16.5% by 2017. However, neither the government nor the central bank can set maximum loan rates, and as a result rates are effectively left up to competition among the commercial banks.

With loan rates above 18% and the deposit rate—which is the cost of funds for banks—at 4.0% (as of May 2014), the loan-to-deposit spread, or margin, is above 10%. In this kind of environment, it appears that loan rates are not declining because either (i) the principle of competition among banks is not working or (ii) it is hard to narrow the loan-to-deposit spread any further because of the banks' high expense ratios.

In the case of the Kyrgyz Republic, there are already 24 commercial banks, so it is hard to imagine that the former is true. On the other hand, there are quite a few banks that have little capital and as a result there might be banks that need a sizeable loan-to-deposit spread. If this is the case, the minimum amount of capital necessary to obtain a banking license should be raised even further from KGS 600 million (the current requirement is KGS 200 million, but this is slated to be increased to KGS 600 million in 2017-2018). The minimum capital regulation is under the jurisdiction of the central bank, and therefore this is not something that the government is directly involved in. Nevertheless, the central bank plays an advisory role for the government budget and the two closely collaborate. Therefore, they can expeditiously share their understanding of issues.

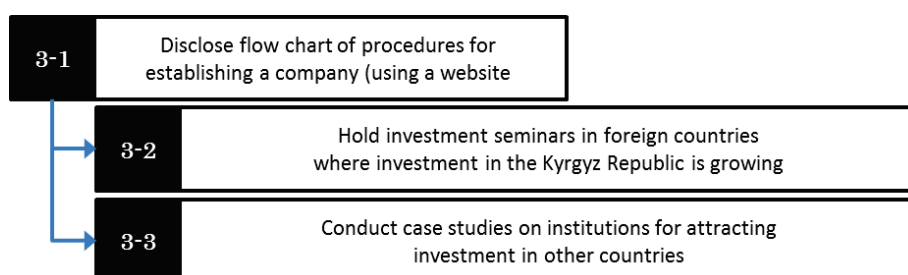
It would appear that improving the expense ratio is becoming a challenge for banks with a certain level of capital. We have not analyzed the profits of individual banks. However, the general public's access to financial services is not terribly good and the volume of overseas remittances is not very large. Therefore, we would expect that the mainstay for banks is interest income from loans rather than fee income from activities such as foreign exchange and remittances. If this is the case, it should be possible to improve the banks' loan review capabilities based on the credit information they have already accumulated on businesses and individuals, and thereby (i) ascertain the appropriate interest rates for loan opportunities and (ii) shrink bad debt allowances by reducing the risk of loans souring. To achieve this, the banks will have to develop personnel with a high level of expertise in finance. They will have to design training opportunities such as sending individuals to Japan, Europe, and America for training, and pairing up with banks and regional banks in those countries for Twinning Programs to provide training through field work experience.

(3) Transfer authority to the Investment Promotion Agency

Priority Measures

(Create track record of supporting delegation of authority to Investment Promotion Agency)

- 3-1. Disclose flow chart of procedures for establishing a company (using a website)
- 3-2. Hold investment seminars in foreign countries where investment in the Kyrgyz Republic is growing (China, UK, and Kazakhstan)
- 3-3. Conduct case studies on institutions for attracting investment in other countries



Chapter 3 of the Investment Law covers "Government support for investors and investment" and provides for a state agency that will promote investment and provide support and protection for investors. The following functions have been established for this agency:

- 1) Facilitating contact between government agencies and investors
- 2) Preparing and publishing information about investment possibilities and investment conditions
- 3) Responding to inquiries from potential investors on legal and economic issues for specific activities as well as other problems
- 4) Providing information and necessary support for obtaining permits and licenses
- 5) Actively supporting and protecting investors and potential investors when they encounter illegal acts or interference in their interactions with government agencies and other institutions
- 6) Providing recommendations to improve the investment climate to government agencies
- 7) Conducting presentations on The Kyrgyz Republic and engaging in negotiations and discussions concerning investments with foreign investors
- 8) Implementing measures to ensure the performance of Kyrgyz obligations in connection with investment agreements, holding events to promote international cooperation, and conducting research and taking advantage of international experience
- 9) Providing advice to government agencies on investment-related policy already in existence or in the planning stages
- 10) Holding investment planning competitions in cooperation with relevant government



ministries and agencies

- 11) Carrying out other activities associated with investment promotion and supporting/protecting investors

The rules for the Investment Promotion Agency under the Kyrgyz Republic Ministry of Economic Affairs went into effect on March 18, 2014, setting the stage for the establishment of the Investment Promotion Agency under the Ministry of Economy of the Kyrgyz Republic, whose mission is to promote direct investment in collaboration with various government agencies, local governments, business associations, and private organizations. Under these rules, the Investment Promotion Agency performs the following functions:

- 1) Providing consulting on investment programs and holding various types of meetings, seminars, exhibitions, and presentations
- 2) Preparing and distributing materials on the Kyrgyz investment climate and business environment to potential investors
- 3) Providing assistance to Kyrgyz companies scouting for foreign investors and seeking to enter investment agreements with foreign investors
- 4) Providing support for foreign investors
- 5) Preparing and promoting public-private partnerships
- 6) Disseminating information for investment promotion
- 7) Establishing access to potential investors and participating in negotiations to secure investments
- 8) Scouting investors based on the priorities of the investment strategy
- 9) Reviewing investment deals from the standpoint of economic feasibility and regional development

Under the rules, the agency director is nominated by the minister of economy and appointed by the prime minister. The deputy director is nominated by the director and appointed by the minister of economy. The agency has a staff of 21 people, who are not civil servants.

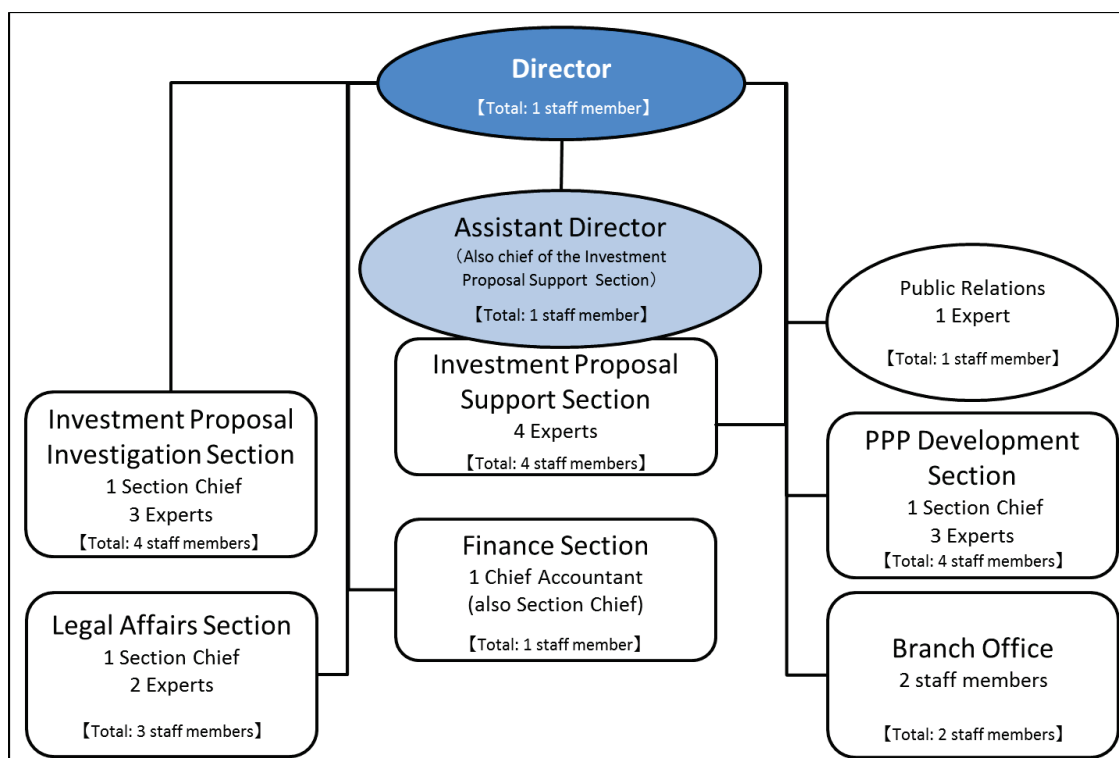


Figure 7-1. Investment Promotion Agency organization chart and headcount  
Source: Ministry of Economy materials.

In this survey we interviewed the Ministry of Economy twice (in March and May 2014) about the Investment Promotion Agency. The first interview in March was conducted immediately after the order to create the Investment Promotion Agency was issued, along with the rules. At that time, the Investment Promotion Agency was to be established within about one month. When we subsequently interviewed the Ministry of Economy again in May, the agency had not yet been established. The rules for employee salaries had been approved, and the next steps were hiring the employees and deciding an office location. Because of this, it was not possible to check the agency's actual working organization or its procedures, but according to the Ministry of Economy the agency was set to begin operating within two weeks. Initially the government had considered delegating the authority for various procedures to the agency, but ultimately it was decided that at the outset it would focus its work mainly on providing information. The plan is to eventually be able to offer one-stop services for investment by assigning personnel from various relevant ministries to the agency so that investment procedures can be integrated. The agency began operating at the beginning of September 2014.

For foreign companies, the establishment of a one-stop service where they can get advice on a wide range of issues from establishing a company to business licenses, labor, tax registration, and building factories would be a positive development. The establishment of just such a

one-stop service is a topic covered in the Kyrgyz Republic Sustainable Development Program 2013-2017 (approved December 2013), and the fact that the government is taking steps to improve the investment climate should be lauded. However, the rules for the Investment Promotion Agency under the Kyrgyz Republic Ministry of Economic Affairs, which went into effect in March 2014, do not include the delegation of authority for the initially envisaged one-stop service. Here, as challenges for the future, we will take a look at measures that will make the Investment Promotion Agency more user-friendly for foreign companies.

Firstly, for the agency to become highly effective in attracting investment, it will have to do more than simply provide information, so it will be necessary to transfer the authority to issue various types of licenses to the agency. The government should transfer issuing authority, which is currently divided among the Ministry of Justice (establishing a company and tax registration), the Ministry of Economy (issuing business licenses for industry and service businesses), and the Ministry of Agriculture to the new agency for attracting investment. The "review" functions would remain in the original ministries, but they should share review progress information.

To make this kind of organization a reality it will be necessary to accumulate a track record, as an agency charged with attracting investment, of successfully matching foreign investors and Kyrgyz companies and to build a consensus that it is necessary to make it more convenient for companies moving into the Kyrgyz Republic. To accumulate such a track record it will be essential to actually attract investment from foreign countries. To do this, the agency will have to do things such as conducting seminars in countries like China, the UK, and Kazakhstan, which have been boosting their investments in the Kyrgyz Republic in recent years, and sharing materials, such as a flow chart of the procedures necessary to expand into the Kyrgyz Republic and English-language documents, via its website as a mean of more proactively appealing to companies in other countries.

From the earliest stages it must also conduct research on the business platforms and work flows at investment agencies in countries that have a record of attracting foreign investment, and use this information to strengthen its own platform in light of circumstances in the Kyrgyz Republic.

Many Japanese companies have expanded overseas, so lessons can probably be learned, and future challenges understood, from the initiatives undertaken in other countries that are focused on providing one-stop service. For example, the Board of Investment of Thailand's investment promotion departments are divided by industry (five groups) so that companies have a point of contact for inquiries that matches their industry. Thanks to this framework, not only is there a unified point of contact between companies and the Board of Investment, but this also allows the Board's employees to accumulate expertise in industry-specific procedures, helping them to perform their work efficiently. The Philippines boasts a one-stop service, but in reality there are

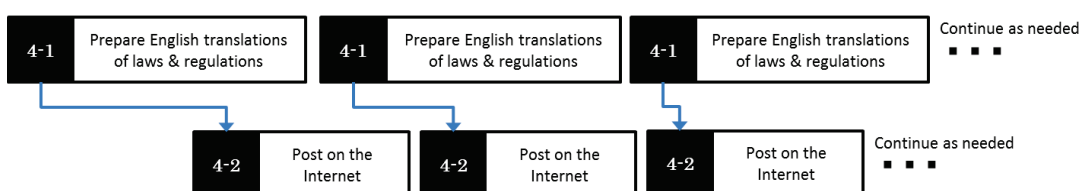
cases in which it is necessary to visit various agencies to complete procedures. On the other hand, Thailand and Indonesia have established one-stop capabilities by either granting the investment agency authority so that it can approve investments or by having the relevant ministries set up desks at the Investment Promotion Agency so that all procedures can be completed in one location. In Vietnam, depending on the size of the investment, the industrial park's management committee is responsible for registering an investment and issuing the investment certificate (for a business moving into an industrial park; for other locations the people's committee at the provincial level is responsible for this), and this simplifies the investment approval process and other investment-related procedures. As part of this kind of case study, we believe that it would be useful for employees of Kyrgyzstan's investment agency to actually travel to other countries and participate in training sessions and workshops. However, before this training is conducted the Kyrgyz Republic should adequately review in advance what it expects to learn from the other country, after carefully checking the differences in the number and skill level of personnel in the country where the training is to take place and in the Kyrgyz Republic. On the other hand, although some of the former Soviet countries have established investment promotion agencies and these agencies are involved in activities such as providing information and offering advice to investors, we have found that it can be difficult just to get an appointment with these agencies.

#### (4) Improving availability of English-language information

##### Priority Measures

4-1. Prepare English-language versions of laws concerning forming a company, paying taxes, and labor.

4-2. Post these materials on the Internet



One of the measures for improving the investment climate contained in the Kyrgyz Republic Sustainable Development Program 2013-2017 is "developing and disseminating information." For example, the report discusses surveying the Kyrgyz Republic's advantages in terms of industry and geography on an annual basis; creating a consolidated database of investment projects currently under way and projects planned for the future; and providing access to

potential investors through the Internet. The same program expresses a policy of developing and disseminating information in multiple languages, but it does not discuss a priority order for the languages.

Nevertheless, according to the results of a survey given at investment seminars conducted as part of this study, there are a certain number of Japanese companies that believe that the availability of official English-language versions of laws and ordinances is a positive factor when they are considering expanding into a foreign country. Furthermore, increasing the volume of available English-language information is important for not only Japanese companies, but also for foreign companies from outside Russian-speaking areas who are considering investing in the Kyrgyz Republic.

Laws enacted by the Kyrgyz parliament are promulgated in both Kyrgyz and Russian. As a result, it is difficult for entrepreneurs from outside Russian-speakers areas to understand the country's laws, and even if the Kyrgyz Republic created an attractive investment climate these foreign investors would probably not notice.

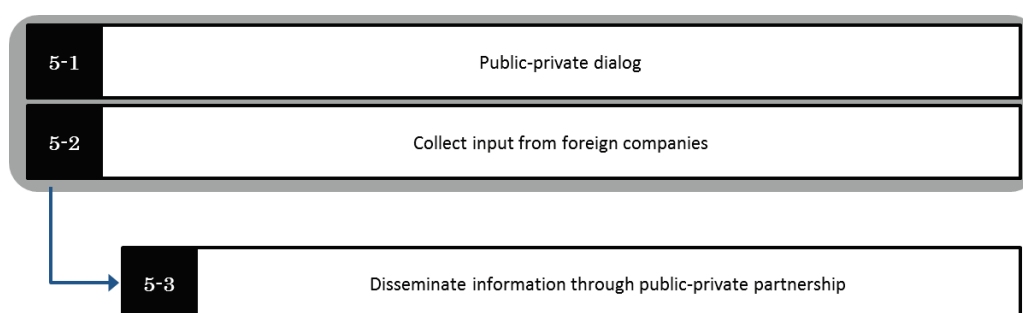
The Kyrgyz Republic does not necessarily need to prepare official English-language versions of all of its laws, but it should prepare official English-language versions of laws that a foreign company should review when expanding into the country, such as laws concerning foreign investment, companies, labor, and taxes. Expanding and improving English-language information is essential if Kyrgyzstan wants to be appealing to Japanese, European, and American companies.

The Investment Promotion Agency has already established a website (<http://www.invest.gov.kg/>). The site has a link that should transfer users to an English-language version, but as of August 2014 only the Russian-language version can be viewed, and the link to an English-language version is not available. With the help of GIZ, a German organization, the Ministry of Economy has prepared a publication that provides an overview of the Kyrgyz investment environment (ИНВЕСТИРУЙ В КЫРГЫЗСКУЮ РЕСПУБЛИКУ) and this document is posted on the website, but only in Russian. There is already an English version of this publication ("Invest in the Kyrgyz Republic"). It is unfortunate that even though there is an English version it has not been posted, and meanwhile, the information is growing stale. It would be better, for example, to post, as soon as possible, a link to the publication that would be accessed by clicking the link for the English-language version of the website, with a note that only the publication is available in English.

## (5) Strengthening public-private partnerships

### Priority Measures

- 5-1. Expand the dialog between private companies, including small and medium-sized enterprises, and the government
- 5-2. Solicit requests and opinions from foreign companies expanding into the Kyrgyz Republic
- 5-3. Disseminate information through government, private sector (business associations and companies) working in partnership



As the government develops the investment/business climate, there must be public-private partnerships among government agencies, business associations, and private enterprises. By having business associations solicit an understanding of issues and needs from the standpoint of the private companies that are the players in the business world based on their practical experience, and then having the government incorporate this information when designing and improving policy, the Kyrgyz Republic should be able to implement measures that are even more effective in improving the investment/business climate. (See Table 7-4 for a specific division of responsibilities.) Public-private partnerships take various forms, but they are important forums for the kind of exchange of ideas and discussion that helps bring about improvements in the investment/business climate. The Business Development and Investments Council Under the Government of the Kyrgyz Republic was established in 2007 as a forum for public-private discussion. Its members, including the first vice-prime-minister, Ministry of Economy, 36 business associations, two international organizations, and the secretariat, meet four times each year.

There are two aspects of public-private partnerships, partnerships with Kyrgyz companies, including small and medium-sized enterprises, and partnerships with foreign companies. The partnerships with Kyrgyz companies could gather information and work towards formulating measures to address issues confronted by companies doing business in Kyrgyzstan, such as simplifying various procedures and improving transparency. The partnerships with foreign

companies could likewise gather information and work towards formulating measures concerning the challenges encountered by foreign companies doing business in Kyrgyzstan, such as issues for foreign resident staff and other labor matters, as well as other areas needing improvement when compared with other countries. In any event, it is extremely difficult to gather opinions from individual companies one at a time, so business associations like chambers of commerce and industry organizations play an important role.

There are a variety of business associations in the Kyrgyz Republic, starting with the Chamber of Commerce. The Chamber of Commerce of the Kyrgyz Republic has about 700 members, mostly small and medium-sized enterprise. Another organization is the International Business Council, which has about 140 members, mostly major corporations and foreign companies. There are also other active groups such as an organization for young executives and various industry organizations. These business associations support the development of appropriate legal systems and infrastructure, and also work towards realizing industry interests.

At the same time, many of Kyrgyzstan's business associations are struggling for funds because membership numbers are languishing and they have been unable to convince members to agree to dues increases. There are some organizations that provide consulting to individual members for a fee, but it is difficult for most organizations to conduct various kinds of surveys or provide high-quality services, so this is not an effective means of generating revenue. Furthermore, business associations have not made much progress in developing personnel who can present valid proposals to the government, and this is a challenge when trying to stimulate public-private dialog. In view of these issues, JICA has begun offering country-specific training on the topic of "strengthening business associations" for employees Ministry of Economy in the Kyrgyz Republic and business associations. The training is slated to be offered in Japan three times from 2014 to 2016, and the first session was already held in June-July 2014. For this training, we will plan and conduct tours of business associations within Japan, with the aim of accomplishing the goals of building an effective platform for public-private dialog between business associations and the Ministry of Economy and expanding the services for member companies. Going forward it will be necessary for returnees and relevant agencies to continue to exchange ideas and information and work to refine this training.

In countries where there are many Japanese companies, there are public-private joint initiatives and conferences involving the Japanese companies that have expanded into those countries and local government agencies, and these serve as examples of public-private partnerships involving foreign companies that are aimed at developing the investment/business environment. These public-private partnerships are happening in Vietnam, Myanmar, Cambodia, Laos, and other countries. Through them, Japanese companies are raising a broad range of issues concerning tax policy, use of foreign national staff and obtaining visas for these people, infrastructure development, and customs procedures, and proposing the improvements that they



would like to see. The resulting improvements made by the governments are helping to develop the investment environment in those countries. Besides Japan, the chambers of commerce from various countries also work with the chambers in countries where companies are investing to push government agencies to improve the business climate.

In the Kyrgyz Republic, as of 2012 there were 2,601 companies that were at least partly foreign capitalized (included wholly foreign-owned companies). Turkey accounted for the highest number of these companies (242), and the other countries with at least 100 companies in the Kyrgyz Republic were China (239), Russia (181), and Kazakhstan (164). The number for any one country is fairly small, so it would be inefficient to pursue activities such as the kind of public-private joint initiatives described above on a country-by-country basis. Instead, we think that it would be more effective for such initiatives to span all countries. We can envision an organization in which the newly established Investment Promotion Agency would serve as the secretariat, and opinions gathered from the subgroups for each country would be collected by the main organization, which would be used in discussions with the government. It would be important to regularly assess progress by examining the kinds of initiatives being pursued to resolve issues, and whether there has been any improvement. Additionally, because there would be no point in improving the investment/business climate if this information does not reach investors, it would be necessary for government agencies and business associations to take initiative in transmitting this information to foreign investors in other countries.

Table 7-4. Division of responsibilities among government agencies, business associations, and private enterprises in improving the business climate

1) <u>Government agencies</u>
<ul style="list-style-type: none"> <li>- Solicit understanding of issues and needs from standpoint of business associations and private enterprise</li> <li>- Prepare proposals for improvement and ask business associations and private enterprises to review these proposals</li> <li>- Disseminate information about the improved systems and operations to Kyrgyz business associations, private enterprises, and foreign investors via websites and various types of briefings and presentations</li> <li>- Share information about the kinds of issues that are being addressed through initiatives and improvements</li> </ul>
2) <u>Business associations</u>

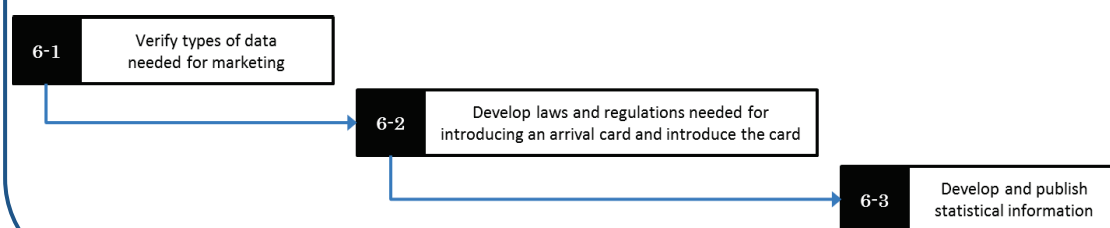


<ul style="list-style-type: none"> <li>- Solicit understanding of issues and needs from standpoint of member companies and summarize this information</li> <li>- Analyze measures to address needs and issues and propose these to government agencies</li> <li>- Review and offer opinions on various improvement measures prepared by the government</li> <li>- Collect information about various industry trends by conducting member surveys and share this information with investors</li> </ul>
3) <u>Private enterprises</u>
<ul style="list-style-type: none"> <li>- Share understanding of issues and needs concerning institutions and operations gained in the course of doing business</li> <li>- Lend cooperation for surveys on industry trends and other subjects. Provide information about specific examples.</li> </ul>

#### (6) Information-gathering at time of immigration

##### Priority Measures

- 6-1. Verify types of data needed for marketing by talking to major travel companies
- 6-2. Introduce arrival card and develop laws and regulations needed for introducing the card
- 6-3. Develop statistical information and publish on the Internet (including English-language version)



When we interviewed major tourism-related companies in Japan, we were told that basic data is essential for promoting tourism. Generally, in other countries when a foreign national enters the country, they fill out an arrival card for immigration that contains information such as (i) the purpose of the visit (tourism, business, educational, other), (ii) the intended length of stay, (iii) the cities to be visited, and (iv) the intended accommodations (address). Tourism statistics are compiled based on the information obtained. However, the Kyrgyz Republic does not currently have such a system. Because of this, as one means of further promoting the tourism industry in the Kyrgyz Republic, the country should introduce an arrival card and use this to gather basic data and compile tourism statistics. To introduce an arrival card, it will be necessary to (i) identify and develop the necessary laws and regulations and (ii) create a department at the stage

when the relevant laws and regulations are being coordinated that will be responsible for compiling arrival card data and a work flow for the means of disclosing this information.

When we talked with major travel agencies that plan travel products, we were told that when it comes to gathering this kind of basic data, specifying the types of information needed for marketing is an essential prerequisite.

The Kyrgyz Republic Sustainable Development Program 2013-2017 calls for introducing an arrival card as one of the measures for the tourism industry. Therefore, we believe that the Kyrgyz government also has a certain level of understanding of the need to gather this basic data. However, when we talked to the Ministry of Culture, Information and Tourism for this survey, we were unable to obtain information about a specific timeline for introducing an arrival card. Therefore, we think that the planning for this should begin as soon as possible.

## Chapter 8 Policy measures for the support of Japanese companies

### 1. Thinking on support for Japanese companies in the Kyrgyz Republic

In its support for the Kyrgyz Republic, Japan's main aim has been to foster the country's economic growth and eradicate poverty by strengthening its exports and promoting business activity. In its Country Assistance Policy for the Kyrgyz Republic (December 2012), for example, the Japanese Ministry of Foreign Affairs singled out "help in achieving the ongoing, balanced economic growth that will enable democracy to take root" as its key commitment, while in the JICA Country Analytical Work for the Kyrgyz Republic (formulated in February 2013), JICA identified the "promotion of agriculture and business" and the "establishment of transportation infrastructure" as its primary objectives. And in looking to foster business and investment within the broader context of the "promotion of agriculture and business," JICA's attention has not been confined to agricultural products alone but has been extended to incorporate areas such as the training of business personnel and administrators who will themselves contribute to the growth of small and medium-sized enterprises.

In recent years, an area of growing importance in the context of Japan's assistance to developing nations has been the tendency to look beyond the more traditional avenues of public sector institutions and to offer development assistance in partnership with private sector companies. In its "Public-private partnership for the promotion of faster growth" (April 2008), in which it formulated a new approach to ODA, the Japanese government announced that from that point on assistance would be based on closer cooperation with Japanese business. With this in view and recognizing the importance of private sector growth in the reduction of poverty in developing countries, Japan's public and private sectors would forge meaningful partnerships (to reduce the risks and costs to Japanese companies and, in so doing, to enable the realization of sustainable synergies, etc) and would work together on shared overseas policy objectives with a view to stimulating faster growth. In light of the above, JICA has itself formulated a "basic approach to the establishment of links with the private sector" with the help of which it "is looking to engineer a win-win-win situation for developing countries, private companies, and ODA by entering into closer partnerships with private sector companies and businesses, and by taking urgent steps to prepare the way and provide support for private companies looking to establish their businesses in developing countries. More specific suggestions include the creation of a system to accentuate the role of cooperative ventures across a range of private sector businesses, enabling closer communication with private sector companies and organizations, and obtaining a clear understanding of their needs.

Looking back on the approaches to support adopted by the Japanese government and JICA to date, it seems inevitable, within the context of our support for the program of agriculture and business development in the Kyrgyz Republic as in other developing countries, that we should look to achieve the win-win-win outcomes outlined above for developing countries (the Kyrgyz Republic), private

companies, and ODA (JICA) by strengthening our cooperative ties with Japanese private sector companies. Based on this study, we look next at ways in which we may be able to offer support to Japanese companies through the medium of JICA projects.

## 2. Current situation and issues to be resolved

Companies looking to develop new business and investment opportunities in the Kyrgyz Republic are currently fairly limited in number. When, during the course of this study, we held investment seminars at three different venues in Japan, although we managed on each occasion to attract a reasonable turnout, we found the majority of Japanese companies to be far more interested in the bigger economies of Europe and the US, China, and Southeast Asia. At bottom, in fact, we found that Japanese companies have only a minimal awareness of the Kyrgyz Republic and have relatively few opportunities to learn about the sorts of investment opportunities the Kyrgyz Republic has to offer or about the businesses that exist there. At the same time, however, there are certainly a number of companies interested in opening up sales channels in the Kyrgyz Republic for agricultural machinery and the like, and by providing these companies with information on investment opportunities and other business-related information, it should not be impossible to encourage more Japanese companies to make inroads into the Kyrgyz Republic.

Since the number of companies entering the Kyrgyz Republic from Japan is currently extremely limited, it is difficult at this point to be certain just what obstacles and problems they might face. As part of a "survey of international cooperation in the overseas development of small and medium enterprises" (March 2013), however, the Organization for Small and Medium Enterprises and Regional Innovation has drawn up a list of what it considers to be the positives and negatives implicit in overseas development. These are summarized in Table 8-1 below. If we start by assuming, given the size of the Kyrgyz economy, that it will likely prove more readily accessible for small and medium-sized enterprises than for large ones, then look to the positive and negative factors cited in the table to identify those aspects of JICA projects through which help might be provided, we may well find ways in which we could support Japanese companies, particularly small and medium-sized companies, looking to extend their operations into the Kyrgyz Republic.

Of the positive and negative factors listed in Table 8-1, those areas in which JICA could potentially offer support have been marked with '○.' Similarly, factors that individual companies might be expected to deal with themselves, together with exogenous factors beyond the bounds of risk control and in respect of which JICA would be unable to offer assistance, have been marked with '×.'

Table 8-1. Positive and negative factors affecting the overseas development of small and medium-sized enterprises

Problems of overseas development	Factors conducive to successful overseas development
<ul style="list-style-type: none"> <li>○ Securing reliable staff</li> <li>○ Dealing with local legal and tax systems, etc</li> <li>× Cash flow when starting up overseas</li> <li>× Protecting intellectual property rights</li> <li>× High staff turnover rates</li> <li>× Rising staff costs</li> <li>○ Training local staff</li> <li>○ Finding local customers</li> <li>○ Inconsistent product quality</li> <li>× Understanding local culture</li> <li>× Exchange rate risk</li> </ul>	<ul style="list-style-type: none"> <li>× Good relationship with partners</li> <li>× Local check by company head</li> <li>○ Understanding local risk factors</li> <li>× Employing staff that have studied in Japan</li> <li>○ Meeting reliable people</li> <li>× Mutual understanding with local staff</li> <li>× Local staff settling in</li> <li>× Ongoing localization of business operations</li> <li>○ Securing local customers</li> <li>× Understanding local society and culture</li> </ul>

Source: Compiled from the Organization for Small and Medium Enterprises and Regional Innovation's "Survey of international cooperation in the overseas development of small and medium enterprises" (March 2013)

### 3. Practical support plans

Given the importance of providing Japanese companies with investment and business information and of understanding the positives and negatives cited in Table 8-1, we turn now to five specific measures on which JICA will be looking to base a program of practical support.

#### (1) Investment promotion campaign and business matching

To raise Kyrgyzstan's profile in Japan and excite latent investor interest by disseminating information on Kyrgyz investment opportunities and the country's business environment, one useful approach would be to provide for ongoing publication on the JICA website of the investment guide prepared on the basis of our present study, to distribute it to interested companies, and to hold investment seminars on a continuous basis to familiarize interested parties with the Kyrgyz business environment.

#### (2) Creation of a system for the dissemination of information through the Kyrgyz Republic-Japan Center for Human Development

Given the importance of "securing reliable staff" and "finding local customers," as cited among

the problems of overseas development in the Organization for Small and Medium Enterprises and Regional Innovation's "Survey of international cooperation in the overseas development of small and medium enterprises," we must look to create a database of the local business and personnel-related information accumulated through business courses already run by the Japan Center and to formulate it in such a way as to make it readily distributable in the event of direct consultations with individual companies. The effect of this approach would be to create a bridge for Japanese companies with an interest in the Kyrgyz Republic until such time as they are actually ready to invest.

### (3) Formation and strengthening of relations with interested organizations

#### 1) Tie-up with Ministry of Economy, Trade and Industry's (METI) Global Human Resources Development Internship Dispatch Program

Responding to a call from METI, JETRO, in conjunction with the Overseas Human Resources and Industry Development Association (HIDA), have introduced an internship program the object of which is to select Japanese private company employees and students for dispatch as interns to government organizations, business organizations, and private companies in developing countries and, in so doing, to train them for roles as intermediaries between Japan and the destinations to which they are dispatched. The program provides for two types of applicant, one list-based, the other suggestion-based, this latter being dispatched to government organizations or private companies that they themselves have cultivated in the developing country in question (following documentation-based screening and an interview). The program thus enables Japanese companies to familiarize themselves with local legal and tax systems together with business customs and the like. For its part, JICA could potentially use its Japan Center networks of local people and businesses to identify interested companies and organizations after which, following one-to-one consultations with Japanese companies, it might recommend their use of this program. Since local businesses will be selected by JETRO and HIDA, whose responsibility it is to manage this project, they must understand in advance that they will need to satisfy these organizations' selection criteria and be in sectors to which Japanese companies are interested in dispatching interns.

#### 2) METI business matching project for the development of central Asian industries

Following a request from METI, Japan Association for Trade with Russia & NIS(ROTOBO) has undertaken the responsibility for inviting manufacturing sector companies from the economies of central Asia to Japan to engage in business matching events with Japanese companies. The aim is to provide support for central Asian industrial and business groups with an interest in visiting Japan to find business partners and to encourage more active exchanges with Japanese companies. In 2012, ROTOBO was successful in arranging for four Kyrgyz apparel manufacturing companies to visit Japan. For its part, JICA could, for example, work through its Japan Center to identify interested Kyrgyz companies and help ROTOBO with the preparation of application forms.

#### (4) Use of investment promotion and export trade advisors

The Kyrgyz government has called for the dispatch of investment promotion advisors to provide support for investment promotion institutions and export trade advisors for Kyrgyzstan's Single Window system. However, the TOR on which such advisors' activities would be based should probably require that Japanese companies be encouraged to invest only after their needs have been fully investigated, that proposals to the Kyrgyz government should be based on these needs, and that companies should first be provided with information and offered opportunities for consultation based on their needs. Given the extremely small number of Japanese companies that have established themselves in the Kyrgyz Republic to date, however, it will likely prove highly difficult for advisors based in the Kyrgyz Republic to establish precisely what Japanese companies' particular needs might be. For the time being, therefore, a more realistic approach would probably be to evaluate the needs of European and US companies already established in the Kyrgyz Republic and then use these to identify approaches and suggestions of potential benefit to Japanese companies. As for the provision of information to Japanese companies, the Kyrgyz Republic is currently on the point of entering into a customs union, a move that could result in changes in its business and investment environment, and it is the gathering and timely transmission of information of this sort that could be of particular use to Japanese companies considering a move into the Kyrgyz Republic. To enable investment promotion advisors to cope with areas in Table 8-1 such as "dealing with local legal and tax systems, etc" and "understanding local risk factors," therefore, it would be preferable if matters such as the gathering and dissemination of information relating to local laws, business risks, and the like could be incorporated into the advisors' TOR.

#### (5) Provision of business courses for Japanese companies' joint venture partners

For technical cooperation projects within the meaning of the Project for Capacity Development of Business Persons through Kyrgyz Republic-Japan Center for Human Development, fee-based business courses are provided for local Kyrgyz entrepreneurs and companies to boost their business competence. More specifically, the courses on offer comprise "practical management courses" for those looking to acquire general management expertise and hands-on skills, and "management improvement courses" for individual company managers and employees in search of customized training. Given the above, one way in which it is thought Japanese companies looking either to establish joint ventures with local Kyrgyz companies or to outsource production to local companies might benefit from the insights already gained from "management improvement courses" would be to use them as models for the creation of customized courses to familiarize local businesses with their precise needs. The Vietnam-Japan Center actually accepts Japanese companies' local employees into business courses to train them in Japanese corporate management practices. This could help resolve the problems of "training local staff" and "inconsistent product quality" cited in Table 8-1 but while recognizing the need for a system for the provision of courses finely tuned to meet Japanese

companies' needs, we must also give careful consideration to the financial implications of offering courses of this sort.



## Appendix1 Minutes of Meetings

No.	Organization
01	Parliament
02	Government Apparatus
03	Ministry of Finance
04-01	Ministry of Economy
04-02	Ministry of Economy (Customs)
04-03	Ministry of Economy (IPA)
05-01	Ministry of Agriculture and Melioration (Minister)
05-02	Ministry of Agriculture and Melioration
06	Ministry of Culture , Information and Tourism
07	Ministry of Justice
08	Ministry of Health
09	State Customs Service
10	Sanatoriums
11	National Bank of the Kyrgyz Republic
12	Single Window Center for Foreign Trade
13	Agribusiness Competiveness Center
14	Issyk-Kul State Administration

## 01 Parliament

Date & Time	May 21, 2014 (Wed.)	15:00 - 16:15
Interviewee	Jogorku Kenesh (Parliament of the Kyrgyz Republic)	
	Head of Legal Expertise Department	Mr. Aibek Akmoldoev
Interviewer	Daiwa Institute of Research Ltd.	
	Asian Business Development Division	Recorded by Masahiro Nakamura
	Business Research Team	
Interpreter	Mr. Omurbek Zhanakeev	

### 1. Responsibilities of the Organization

The Parliament is responsible for the examination and assessment of the drafts of laws submitted to the Parliament.

### 2. Law System (Priority) and the Number of Laws of the Kyrgyz Republic

In Kyrgyz laws dominate regulations and rules established by executive orders issued by the President and those by the government. Therefore, in the event where any executive order is not in compliance with any of the laws, the operation of such an order may be suspended.

In Kyrgyz, there are about 700 laws governing basic matters and in total there are 3,500 laws in place.

The text of a law is prepared in the Kyrgyz and Russian languages.

### 3. Amendment and Formulation of Laws

The legislative system of Kyrgyz is a single-chamber system (100 seats), but it is necessary to obtain authorizations from the Parliament in three steps before a law finally becomes enacted: the first step is an authorization for the concept of a law proposed and at this stage discussions will center around why the law is necessary; the second step is an authorization for the specific contents of the bill, and at this stage the contents of the bill will be examined in details; and then after acquisition of the second authorization, the third and final authorization is to be obtained. A bill that succeeded in obtaining the second authorization will likely obtain the third authorization without much difficulty. It should be noted here that there should be an interval of at least ten days after an authorization of the former stage.

The number of votes necessary for the enactment and amendment of a law is 51 % and two thirds for the amendment of the Constitution (It is unknown whether such numbers are of participating delegates or of the whole delegates).

In general, the authorization for the amendment of an existing law is likely to be obtained within a shorter period, as compared with that for a new law.

There are three ways for proposing a bill: the first is to collect at least 10,000 signatures (It is known whether the basis for the number is the electorate or the whole nation); the second is that the government proposes a bill; the third is that a parliament member proposes a bill.

### 4. Law Reviewing Service

The private company, TOKTOM is providing software for reviewing electronic documents (a pay software). When a law is amended, the contents of such amendment will be immediately reflected.

5. Laws Relating to the Delegation of Power in connection with One Stop Service

To begin with, when it comes to One Stop Service, the Ministry of Justice not the Ministry of Economy should be the competent authority. The Ministry of Justice has a one stop service function where services such as registration of a company, tax registration, social insurance, etc. are provided through a single counter. It should be noted that a one-man company established by a single person is to be registered with the Statistic Bureau (? , State Committee) which is a separate organization from the Ministry of Justice.

It is after the completion of the procedures for company registration that the involvement of the Ministry of Economy begins. More specifically, if, after the completion of company registration, the company obtains the registration as an “investor” with the Ministry of Economy, it will be able to receive from the Ministry advice and support in relation with relevant procedures in accordance with the business category of the company. In the event where the company has a registered capital of at least 500 thousand dollars, then the Ministry of Economy will automatically acquire from the Ministry of Labor a long-period working visa effective for three to five years for the representatives of the company.

END

## 02 Government Apparatus of Kyrgyz Republic

Date & Time	April 3, 2014 (Thur.)	9:30 - 10:30
Interviewee	Mr. Joomart Jumabekov (Chief, Agro-Industry Complex and Ecology Unit)	
Interviewer	Research Group: Kaneko, Takada Interpreter: Saikal	

1. (Allocation of Roles with the Ministry of Agriculture) The Government Apparatus is an organization under the Cabinet and is responsible to monitor the activities of the Ministry of Agriculture (an administrative organ) as well as to formulate a plan and draft a bill in the field of the agriculture in Kyrgyz (including the forestry and livestock industry).
2. (Fundamental Policies of Agriculture) In Kyrgyz agriculture is considered as an important industry. There are considerable needs for development but it holds a lot of potentials. After the collapse of the Soviet Union, the divisional cooperation system during the Soviet era collapsed, leading to a serious problem of insufficient “quantity” of food being available. However, now the problem of such insufficiency in “quantity” has been almost overcome. After the resolution of the “quantity” issue, the government policies have shifted to place emphasis on 1) the safety of food and 2) the promotion of export. Also in the new Cabinet, the promotion of export will be a priority issue.
3. (Measures to Address Issues in the Field of Export) The Kyrgyz government is intending to focus their efforts on 1) the acquisition of relevant international certifications such as HACCP; 2) the aggregation of overcrowding petty farmers (e.g. the establishment of the model of an agricultural cooperative association); and 3) the construction of logistic centers. There is recognition that human resources development (education) is the role to be fulfilled by the government.
4. (Movements Seen in Agricultural Production) In the lowland areas such as the Chui Province and the Talas Province, many of the farmers there used to grow wheat, but now they are producing various types of agricultural products in response to market demands. The production of vegetables has grown in the Chui Province and in Talas Province the production of beans has been expanding.
5. (Relation between Farmers and Food Processing Companies) The cases of contract culture of agricultural products are rarely seen in Kyrgyz, and, in general, middlemen are taking part in the supply chain at several stages, resulting in higher costs. Therefore, there is a plan to construct logistic centers to improve the efficiency of the supply chain of agricultural products.
6. (Issues to be Addressed in the Field of Food Processing Industry) Many of the manufacturers of the food processing industry in Kyrgyz have inherited equipment and facilities built during the Soviet era. While the processing plants constructed during the Soviet era are, in general, of medium to large-scale facilities, the farmlands have been considerably subdivided into small-scale farms after the collapse of the Kolkhoz and Sovkhoz system. As a result, the scale of farmers has become smaller and the number has increased. Therefore, the processing companies have been forced to procure raw material from an increased number of suppliers, resulting in more burden on the side of the companies. In addition, variances among raw materials procured are seen in terms of quantity, quality and price, resulting in the inefficiency of processing. From the perspective of improved efficiency of the raw material procurement, it would be necessary to enlarge the scale of the operation of farmers.

7. (Situations Faced by Farmers) Following the collapse of the Kolkhoz and Sovkhoz system, there now are overcrowding many petty-scale farmers. Although it is necessary to introduce advanced cultivation methods satisfying international standards in order to produce agricultural products with higher value added, it would be difficult for such petty-scale farmers to spare from their present agricultural revenues for receiving lecturers on new cultivation methods. While trainings on cultivation methods are being provided under international supports, such efforts do not cover all the farmers.
8. (Cultivation of Organic Farm Products) In light of conditions surrounding the country, it has been concluded that focus of the efforts should be placed on the production of organic farm products. However, areas where conditions are met are limited, and there still are many issues to be addressed. One example of such efforts is organic farming of raw cotton. It is said that one thousand farmers are growing raw cottons by adopting organic practices and after acquiring certification from a Swiss certification organization they are now exporting raw cotton to Germany. In addition to this case, there is a plan to export organically grown apricots in the future.
9. (Issues to be Addressed in the Field of Livestock Industry) At present, it is not possible to export livestock products to neighboring Kazakhstan because of the outbreak of livestock illness in Kyrgyz. It is necessary to standardize the varieties of livestock and introduce appropriate disease control measures (fostering veterinarians and enhancing infection prevention laboratories).
10. (Issues Concerning Imported Food) There has been growing concern over food safety especially in connection with food imported from China. Therefore it is necessary to tighten regulations on food additives. In addition, it would be important to establish a certification system from the viewpoint of the protection and development of domestic manufacturers.
11. (PPP Projects Under Consideration) Discussions are now under way with regard to the possibilities of constructing feed mills and logistic centers under the scheme of a PPP project. The plan for the construction of feed mills has born out of the experience of the mass mortality of livestock suffered mainly in the southern part of the country due to the lack of feed stock caused by long and severe winter three years ago. Although, at present, there has been constructed one feed mill (including a storage house) in the northern part of the country and another in the southern part, more facilities need to be constructed under the scheme of a PPP project. As for logistic centers, discussions are now under way about a plan for constructing logistic centers for edible meat and those for greengroceries (vegetables and fruits). (It seems that the Kyrgyz government is intending a scheme where the government will provide land without compensation and the operation and management of the facilities will be entrusted to local companies)
12. (Miscellaneous) The event called “AioAgro”(“Aio” means village and “Agro” means agriculture) is to be held under the sponsorship of the Cabinet Office and the Ministry of Agriculture during the period from May 14 (Wed.) to May 16 (Fri.). The similar event was held last year and at that occasion it attracted 40 companies including foreign-capital ones and five thousand people. It is said that the second-stage research is expected in the middle of May, participation from Japan will be more than welcome if circumstances permit..

END

### 03 Ministry of Finance

Date & Time	May 20, 2014 (Tues.)	14:30 - 16:00
Interviewee	Ministry of Finance	
	Name unknown since no name card was available	
Interviewer	Daiwa Institute of Research Ltd., Asian Business Development Division	
	Hiroiyuki Kaneko	Recorded by Hideaki Kasai
	Masahiro Nakamura	
Interpreter	Ms. Ivarat	

#### 1. Tax System of Kyrgyz

About thirty percent of the national income is from added value tax. At present in Kyrgyz, two taxes of value added tax and sales tax are simultaneously levied. The tax reform program for the period between 2014 through 2020 is under preparation. As part of the program tax will be unified into either value added tax or sales tax.

In the scenario where sales tax is abolished, reduction in tax income due to the abolishment will be made up for by tentatively raising the rate of value added tax. Specific plans are as follows:

In the year 2015: 14%

In the year 2016: 13%

In the year 2019: 12%

Value added tax and sales tax are to be paid by the 20th day of each month. There are separate tax payment forms for each of the taxes, and each tax should be paid separately with a form prescribed for that tax.

Personal income tax and social insurance premium are to be paid monthly. Meanwhile, corporate income tax should be paid in advance every quarter. Final adjustments are to be made at the end of the year.

The fiscal year starts from January 1 and ends on December 31. Foreign companies are also required to follow this fiscal year adopted in Kyrgyz (even if they are following a different fiscal year in their own countries).

As for the tax system, there is no (it is not possible to provide) preferential taxation incentive only for foreign-capital companies. Major taxes are corporate income tax (10%), value added tax (12%) and personal income tax (10%). Almost no tax is levied in the agricultural sector.

#### 2. Budget Bill

During May to June, the Ministry of Finance prepares a budget bill and submits it to the government. Then the bill is to be submitted to the Parliament by the end of September, and will be approved before the new year begins. The budget bill is prepared by adding up expected expenditures.

END

#### 04-01 Ministry of Economy

Date & Time	March 27, 2014 (Thur.)	15:30 - 17:00
Interviewee	Mr. Kanat Abdrahmanov (Head of Investment Promotion Unit) Mr. Nuradil Baidoletov (Investment Department/Senior Expert)	
Interviewer	Research Group: Kaneko, Kasai, Yoda, Ota, Takada Interpreters: Saikal, Maria	

1. The Ministry of Economy also oversees investments from outside the country into each of the sectors. Based on the mid-term plan for the period from 2013 through 2017, the Ministry has developed a policy required for the promotion of investments. Sectors of higher priority are mining and agriculture. The food processing industry is somewhat retrogressing as compared to the situation at the time when the country became independent, but more focus is going to be placed on the industry. Meanwhile, the service industry has been growing in these years. Emphasis is to be placed, especially, on the tourism industry taking advantage of the country's tourist attractions such as the great nature, mountain areas and the Issyk Kul Lake. (Although confirmation is necessary, more than two million people visit the country every year).
2. At present with an aim to join the Customs Union, Kyrgyz is having negotiations with the member countries. It is expected that, through joining the Union, Kyrgyz will have expanded market for its industries, and actually the Ministry of Economy has been receiving a lot of inquiries (about the investment environment in Kyrgyz) from various fields.
3. As for investments from outside the country, since there is no restriction on remittance of money, it is recognized that Kyrgyz's system is more advantageous (to foreign-capital companies) than those of other neighboring countries. Areas to which investments by foreign capitals are prohibited include the national defense industry but the number is limited. At present, the Kyrgyz government making preparations for the establishment of the Investment Promotion Agency (tentative name) functioning under the umbrella of the Ministry of Economy, and the new organization is expected to start within next three months. (After the launch of the Agency) the Ministry of Economy will be in charge of the formulation of strategies and the Investment Promotion Agency will be responsible for the execution of the strategies. The Investment Promotion Agency is expected to function as a one stop service center that will provide services such as market research and consulting. The roles of the Investment Promotion Agency have been examined by referring to the cases of other countries including Singapore and Ireland.
4. (From the viewpoint of the Ministry of Economy) as for the country's agriculture sector, the state farms were dismantled (large-scale farms have been divided into smaller ones) to be privately owned by many farmers after the independence. There are overcrowding many small-scale farmers and there is a recognition that a certain level of aggregation is necessary. In addition, it is also recognized as important to introduce agricultural products with higher value added. At present, most of the vegetables, fruits and meat produced in the country are exported as raw materials and as semi-finished-products to other countries. These situations are viewed as a problem to be addressed even by JICA, and the "One Village One Product" approach has been promoted.
5. Issues seen in the field of the food processing industry are complexly interrelated with each other. They include insufficient inspection organizations (in terms of both the number and the capacity) and insufficient distribution

centers (in terms of space and facilities). By referring to the cases of other countries, the Ministry is examining the possibility that the country will function as the hub of physical distribution in the region. Investigations are under way to see if the country will be able to provide distribution service in line with the international standards. The Ministry is intending to review its strategy on a periodic basis and make appropriate minor adjustments at each of such reviews.

6. As promising areas within the food processing industry, dairy products and vegetables may be pointed out. However, if dairy products are to be exported to Kazakhstan, 1) certifications necessary for customs clearance and 2) how long the quality of the products can be guaranteed will be pointed.
7. As for the apparel manufacturing industry, during the Soviet era intermediate materials were being produced within Kyrgyz, but now, regrettably, it is more efficient to purchase fabric materials from Chinese manufacturers. While Kyrgyz's joining the Customs Union is on the table for discussion, the establishment of an integrated manufacturing system from raw materials production through to final products production has emerged as a goal to be achieved by the country.
8. As for the tourism industry, there are such tourist attractions as the Issyk Kul Lake which is a summer tourism destination and skiing in mountain areas in winter. Simultaneous with efforts for building recognition of the country as a tourist destination, it would be necessary to improve and develop infrastructures such as hotels and transportation. In recent years several skiing resorts have been developed and they are having visitors from Switzerland, Europe, Kazakhstan, Russia, etc. Therefore, it may be safe to consider that there is a potential for growth in this area. The Ministry of Culture and Tourism has already formulated a development program for the Issyk Kul Province. Meanwhile, as can be seen from the fact that the government has put into realization the project titled "Sightseeing (within 60 days) Without Visa for 44 Countries" (including Japan) based on the draft prepared by the Ministry of Economy, the government sees the tourism industry as an important growth area.

END



#### 04-02 Ministry of Economy (Customs)

Date & Time	May 20, 2014 (Tues.)	9:00 - 10:30
Interviewee	Ministry of Economy of the Kyrgyz Republic	
	Head of the Customs policy division	Mr. Samat Kulmambetov
	and another person	
Interviewer	Daiwa Institute of Research Ltd., Asian Business Development Division	
	Hiroyuki Kaneko	Recorded by Hideaki Kasai
	Masahiro Nakamura	
Interpreter	Ms. Ibarat	

##### 1. Roles of the Ministry of Economy

The Ministry of Economy is responsible for the formulation of laws and regulations concerning customs, and the National Customs Service is responsible for the execution of such laws and regulations.

##### 2. Current Customs System in Kyrgyz

Kyrgyz has made adjustments to its customs system and tax system so that they come in line with the international standards when the country joined the WTO in 1998. No export duties are collected.

As for import duties, the tariff rate is 0 % for 50 % of goods imported. The maximum rate is 20%, and the average tariff rate is 5%. The country has adopted the most lenient customs system among five countries in Central Asian.

As for import duties, the country has adopted the following three tariff rates: 1) the rate applicable to CIS countries, 2) the rate applicable to the WTO member countries, and 3) the rate applicable to least developed countries.

##### 3. Customs Union

The road map for joining the Customs Union has already been developed and put on the table for discussion. However, the timing when the country actually joins the Union is not yet fixed.

Most of the trade of Kyrgyz is with the member countries of the Customs Union. About half of the export is to the member countries and almost all of the exports of needlework, agricultural products and light bulbs are to the member countries. Meanwhile, fuels, metals, wood, chemical products, and food such as butter, flour and sugar are imported mostly from the member countries.

After Kyrgyz's joining the Customs Union, only such tariff rates as adopted by the Customs Union will be applicable to all imports from countries other than the member countries, and it is expected that the existing tariff rates applicable to the WTO member countries will no longer be used. However, it is necessary to have negotiations with the WTO in this respect.

As for the export and import procedures, there will be no change after Kyrgyz's becoming the member of the Customs Union (No need for making adjustments to cope with Russian procedures).

Joining the Customs Union will lead to higher tariff rates for raw material imported from countries other than the member countries, resulting in more cost burden on manufacturers and producers. In order to cope with this issue, measures such as adjustments to value added tax system is planned to be introduced.

END

#### 04-03 Ministry of Economy (IPA)

Date & Time	May 23, 2014 (Fri.)	17:00 - 18:00
Interviewee	The Ministry of Economy of the Kyrgyz Republic	
	Head of Investment Promotion Unit	Mr. Kanat Abdrahmanov
Interviewer	Daiwa Institute of Research Ltd., Asian Business Development Division	
	Hiroyuki Kaneko	Recorded by Hideaki Kasai
	Masahiro Nakamura	
Interpreter	Ms. Ivarat	

##### 1. Establishment of One Stop Service Function

Based on the law put into enforcement on March 18, preparations for the establishment of the Investment Promotion Agency are under way with an aim for the initiation of the operation in June. The organization will be staffed with 21 persons in total and the Head of the Agency will be recommended by the Minister of Economy and then appointed by the Prime Minister. Meanwhile, the deputy Head of the Agency will assume the responsibilities of the secretary general of the organization and supervise the staff.

At present, discussions are under way about the level of compensations for the Agency staff, and such compensations level is expected to finalize in the first week of June. Following the decision, matters relating to the recruitment of the staff and the location of the office will be determined. It should be noted that the level of the compensations for the Agency's staff will be somewhat higher than those for ordinary government employees. One of the requirements for a person to be adopted as the Agency's staff is that he or she has good command of at least two languages. The office is to be accessibly located in the central area of Bishkek.

##### 2. Functions of Investment Promotion Agency

The investment policies are to be developed by the Ministry of Economy, and the Agency will be responsible for the implementation of such policies. The ultimate goal is that the ministries and agencies concerned will work in coordination with each other, and the Agency will provide a one stop service function including the acquisition of necessary licenses and the fulfillment of necessary procedures in relation of the employment of workers.

For the time being after the foundation, the Agency will provide information necessary for the execution of investments in Kyrgyz. More specifically, the Agency will provide support to help smooth paperwork with the Ministry of Justice as well as guidance to help the acquisition of a business license (It should be noted that the procedures for the incorporation of a business enterprise are to be with the Ministry of Justice).

It is planned that each of the ministers and agencies will be staffed with a person responsible for investment-related matters so that the procedures concerning investment matters will be processed smoothly.

About the web page established for the purpose of promoting investments (<http://www.invest.gov.kg>) comments have already been given. In the future it will be providing investment related information in five to seven languages (At present, languages can be selected among Kyrgyz, Russian and English, but it is said that no English information is displayed even if English language is chosen.)

### 3. Current Investment Procedures

Following the recommendations by the Ministry of Economy, the government has been gradually reducing the number of business areas for which the acquisition of a license is mandatory. In the past the acquisition of a license was a requirement in more than 600 business areas, but now only 101 areas require a license and this trend will be further promoted. When it comes to financial institutions, governing agencies such as the Central Bank is responsible for the issuance of a necessary license.

Procedures for the incorporation of a business enterprise are with the Ministry of Justice. In the past it took ten days to two weeks till the completion of the procedures, but now the period necessary for the incorporation procedures is three business days.

END

### 05-01 Ministry of Agriculture and Melioration (Minister)

Date & Time	April 1, 2014 (Tues.)	17:00 - 17:50
Interviewee	Mr. Aidaraliev Taalaibek Alimbekovich (Minister) Mr. Sandybaev Jenishbek Asylbekovich (Assistant of Minister)	
Interviewer	Research Group: Kaneko, Ota, Takada; Interpreter: Saikal	

1. (Background) We tried to coordinate an interview with Mr. Sydykov Talaibek (Head of the International Relations Division) and the Vice Minister of the Ministry of Agriculture to whom we had been introduced by the JICA Kyrgyz Republic Office, and we ended up meeting with the Minister of Agriculture (the minister of agriculture of the then-executing Cabinet since the new Cabinet was not officially inaugurated. It is said that before he took the office of the Minister of Agriculture in the former administration, he had been served as president of a seed-related industry organization).
2. At the beginning of the interview, Kaneko, the head of the research group briefly explained the intention of the “Data Collection Survey on Investment Feasibility for Business Promotion in the Kyrgyz Republic”, and he requested for cooperation from the Kyrgyz government in connection with a planned field research. In response to this request, the Agricultural Minister expressed gratitude for support extended to the country so far by the Japanese government (JICA) and articulated that the government was eager to introduce sophisticated technologies from Japan in the fields of agriculture and food processing.
3. (Efforts in the Fields of Agriculture and Food Processing) The Kyrgyz government has placed emphasis on the development of the export-oriented food processing industry and is aiming for the early realization. In Kyrgyz agriculture close to natural farming is being practiced, and it has attracted much attention from neighboring countries. However, at present, most of the agricultural exports still consist of raw materials or semi-finished products. In order to export products with higher value added, it is necessary to construct more food processing facilities for vegetables, fruits, meat and dairy products.
4. (Potential Export Markets) So far, CIS countries such as Russia and Kazakhstan have been the main export markets. However, it is said that in recent years, companies from China, Qatar, Saudi Arabia and Iran have visited the country to investigate into the possibilities of importing dried fruits, meat, dairy products, etc. from Kyrgyz to their countries. Therefore, it seems there are considerable potentials in these areas.
5. (Issues to be Addressed in Connection with Export) The major issues to be addressed in this field include the acquisition of ISO certifications concerning product safety (There are not enough infrastructures for that purpose such as laboratories, warehouses and logistic centers.), and large-scale investments are needed in this respect.
6. (Negotiations with Foreign Governments to Attract Investments) The Kyrgyz government is planning to send their delegations to Saudi Arabia and other countries during the period starting from April 20 till the middle of May with an aim to negotiate on various kinds of matters. It seems that on such occasions potential investments into Kyrgyz’s agriculture will be discussed.
7. (Issues Related to Agricultural Infrastructures) Irrigation facilities built 40 years ago during the Soviet era are still in use. And some 100 thousand ha of such facilities are in especially deteriorated conditions. There are abundant water resources in the country but there is a concern about the water supply service.
8. (Conservation of Breeds) The breeds (family lines) of livestock have not been conserved properly in the

country. Some of them have been getting mongrel, leading to the increased emergence of less productive breeds. Also in the field of agriculture, farmers need seeds with higher productivity.

9. (Movements of Foreign Countries) It is said that Korean, Indian and Chinese companies are considering on making investments in the field of agriculture and food processing in Kyrgyz. A Korean-capital company is now constructing a plant for processing potatoes in Karakol, and it is said that the processing center will be completed at the end of 2014. Meanwhile, at the end of June, a tomato processing plant under construction with Italian capital is expected to be completed, and another tomato processing plant is presently under construction with Chinese capital.
10. (Requests Related to the Seminar Scheduled in July) Is it possible to have several leading Kyrgyz companies visit Japan and make presentations in front of potential Japanese investors? It would be better to have businesspersons make presentations instead of government officials. Also it would be a good incentive for them if they will be able to have access to the Japanese latest technologies during their visit to Japan. ⇒ We are aware that there are such requests. However, since the sponsor of the seminar is JICA, we told them that we could not guarantee that their requests would be accommodated.

END

## 05-02 Ministry of Agriculture and Melioration

Date & Time	April 3, 2014 (Thur.)	14:00 - 15:00
Interviewee	Mr. Bolotbek Kurmanbekov (Head of Agrarian Policy and Investment Management)	
Interviewer	Research Group: Takada, Interpreter: Saikal Observer: Mr. Tabata (IC NET LIMITED)	

1. (Promising Areas) Agricultural products with high potentials include organic crops, dairy foods and edible meat.
2. (Food Processing) While 13 to 15% of agricultural products produced in Kyrgyz are processed at certain levels, most of edible meats are put into market as they are. During the Soviet era, in Kyrgyz, there were eight large-scale meat processing plants (or slaughterhouses?) across the country, but due to the aging equipments, some of them are out of operation .
3. (Export Potentials) In recent years, farm ministers from Qatar, Saudi Arabia and Iran visited Kyrgyz and showed interest in importing edible meat produced in Kyrgyz to their country. (Although any reference was not made with respect to the name of the partner country), it seems that discussions are under way about a plan to construct a meat logistics center in cooperation with Kyrgyzstan government. In this case the product transportation will be in the form of living sheep or sheep carcass and by air (it seems that there already exist several such cases). Sheep for export is of a different breed than that for domestic consumption (the one which was introduced to Kyrgyz from Turkmenistan and contains more fat). Qatar and Saudi Arabia have procured sheep meat from Syria, but they are worried about the confusions caused by the civil war in Syria and are looking for more reliable supply source that can assure stable supply of sheep meat of better eating quality. Although it is still at the stage of negotiations, there is a plan to export annually three million sheep in total (one million of which are to be fed with organic feed).
4. (Scheme under Consideration) The framework for support is being coordinated with the ministries of foreign affairs of the Saudi Arabian and Iranian governments. The Kyrgyz government is proposing a scheme where the government provides land and technical guidance to farmers so that it would be easier for petty-scale farmers to participate (as workers?) into the scheme. It looks like that support expected from Saudi Arabia will be out of the “King’s fund”.
5. (Farming of Sheep) In Kyrgyz there are many plateau areas that are suited for pastoral farming of sheep, and, therefore, it is possible to supply better quality meat. However, since grasses are not growing in those areas in the winter seasons from November through April, the amount of feed that can be secured during the winter will be a limiting factor for the number of sheep that can be fed. Cases of sheep farming under roof are seen in areas surrounding cities, but the facilities are becoming too old for use. It is necessary to introduce some measures addressing such situations.
6. (Utilization of Sheep’s Wool) During the Soviet era, farming of sheep of a breed suitable for wool production was seen in the country, but, after the collapse of the Soviet Union, it became difficult to maintain such a breed. Accordingly, the wool industry has declined and now wool processing is seldom seen in the country.
7. (Plan for Introduction of a New Breed) There is a certain plan to introduce a new breed with regard to large animals such as cattle. However, at present, there is no plan for introducing a new sheep breed under the leadership of the government. However, in the past ten sheep were introduced to the country from Australia, and

it is said that they are now being raised in the Issyk-Kul Province.

8. (Requests Concerning the Next Visit) We requested Mr. Bolotbek Kurmanbekov to provide us with information about the breeds of sheep at our next visit, and he consented on the request.
9. (Miscellaneous) Since Mr. Bolotbek Kurmanbekov is a smoker, Japanese cigarettes may be a good choice as a gift at our next visit.

END

## 06 Ministry of Culture, Information and Tourism

Date & Time	March 31, 2014 (Mon.) April 2, 2014 (Wed.)	8:30 - 9:15 13:00 - 13:30
----------------	---	------------------------------

Interviewee	The Ministry of Culture, Information and Tourism of the Kyrgyz Republic Department of Tourism	
	Deputy Minister	Mr. Chakiev Maksat Joldshbekovich

Interviewer (Research Group)	Daiwa Institute of Research Ltd.	
	Asian Business Development Division	Hiroyuki Kaneko Sanae Ota
	(Interpreter)	Ms. Maria

### 1. Statistical Data

Since the data that the Bureau of Statics has published are based on the relevant international standards, the government is using these figures. The data is about the number of visitors including those for business purposes who stayed in Kyrgyz for more than one night. The information published by the tourism industry association may be the statistical data that have been compiled by the companies under the supervision of the association (association members). It should be pointed out that the figures published by the association may include visitors for the purpose of sightseeing only.

### 2. Potential Destinations for Investment from Japan

Tourism industry is one of the four promising industries listed in the growth strategy published by the government. The legal system of Kyrgyz is more preferential to investors as compared to those of neighboring countries, and also the procedures for acquiring a license is not very complex. Investments from Japan will be welcomed.

Specific investment destinations include: 1) skiing resorts, 2) holding of conferences, 3) medical (health) related tourism, 4) sports facilities (targeted to athletes), and 5) resort (hotel) development.

### 3. Skiing Resort

A development strategy for promoting winter sports tourism has been submitted to the Parliament. In order for the success of the strategy, the development of skiing resorts will be necessary. Since about ninety percent of the land of Kyrgyz is mountain area, the country is best suited for the development of skiing resorts.

At present, 23 skiing resorts are registered with the association, and 18 of which are in business. Among such skiing resorts, the one in Karakol has been awarded the highest rating, and it was ranked by Forbes as one of the top ten skiing resorts in the world.

### 4. Holding of Conferences

Since the political conditions in Kyrgyz have been stable, public security is good, and the weather is mild, the country is best suited as a venue for international conferences as compared to the neighboring countries. However, the issue is that there are many hotels that are not meeting international standard. It is necessary to build hotels of a five-star level in Bishkek and Issyk Kul.



#### 5. Medical (Health) Tourism

Most of the users of the sanatorium facilities are visitors from Russia (the Siberia district). However, the existing facilities were built during the former Soviet era and have not received satisfactory maintenance so far. In addition to those resort facilities, there also are ethnic medical tour programs and tour programs where treatments are provided using traditional drinks. In some areas of the country, there are hot springs, and, therefore, it would be promising to invest into the development of such hot spring facilities as seen in Hokkaido.

#### 6. Sports Facilities (Targeted to Athletes)

Areas around the Issyk Kul Lake are elevated high above the sea level and the weather in the areas is mild. For those reasons, those areas are best suited as locations for high altitude training. And already, several countries (Germany, Uzbekistan and Russia) have chosen the areas as their training camp locations for their national teams (and negotiations are now under way with China).

However, since the training-related facilities there were built during the former Soviet era, it is necessary to develop to meet international standard.

#### 7. Resort (Hotel) Development

In Kyrgyz there are some 100 resorts and most of the visitors are from CIS countries. It is regarded by those people that the Issyk Kul Lake is more attractive than the Crimean Peninsula. However, it should be pointed out that most of the accommodation facilities there were built during the former Soviet era. Although the number of newly build hotels is on a rise, they are only of the level of three stars.

Since foreign nationals are not allowed to own land in Kyrgyz, investments accompanying land use in the case of the construction of a hotel should basically be a joint venture with a local company. However, if the scale of an investment satisfies relevant requirements, there is a possibility that a lease contract of up to 49 years is awarded. In Bishkek there is a hotel of the Hyatt brand, but it might be ranked as four stars level in accordance with international standards. Since there is no hotel of five stars level such as Hilton and Sheraton in the country, people sometimes have difficulty in finding an appropriate accommodation for government officials and VIPs.

#### 8. PR Activities Aimed at Visitors From Abroad

The idea of a campaign project called “Visit the Kyrgyz Republic” (something like “Yokoso Japan” project) has been approved by the government. At first it was planned that TV commercials were aired on BBC and EuroNews. However, due to the limited budget, the campaign has been launched online as the first step.

Meanwhile, Olympic-like events in the field of agriculture are to be held in the country this autumn, and at the moment fifteen nations are scheduled to participate in the event. In addition, a slogan for promoting the brand strategy for Kyrgyz is under consideration.

The annual budget for the project is about one million dollars, which is to be executed around the end of this year (At present, the project is being carried out within the budget for the last year).

#### 9. Improvement of Access (Airway) from “Distant Foreign Countries”

So far efforts for improving access to the country have been focused on CIS countries, but now the focus is shifting to Southeast Asia, West Europe and Arabic countries for the purpose of promotional activities. Recently the government has allowed citizens of more countries to enter into Kyrgyz without visa and this movement is also part of the project. Meanwhile, the “Open Air” project is now under way with an aim to attract more foreign-capital airline companies and to increase the number of cities with international air access through the expansion of the network of Pegasus Airlines (LCC). In addition to these efforts, intergovernmental negotiations are being promoted. By joining the United Nations and WTO, the Kyrgyzstan government has appealed internationally that the concept of Silk Road is still cherished in the country. In addition, the government is planning to put up a booth at the World Travel Fair events to be held in France, Germany and South Korea.

Negotiations are under way with the Pegasus Airlines about the introduction of a shuttle line connecting Tokyo and Istanbul by way of Bishkek as a transit point. Among “Distant Foreign Countries”, there are good possibility to increase visitors from Japan, South Korea and China.

#### 10. World Heritage Registration

For the purpose of handling communications and conducting negotiations with UNESCO, a specific department has been established under the umbrella of the Bureau of Cultural Affairs [we have been informed of the person in charge and the contact details]. Last year Manash (epic poem) was registered as an Intangible Cultural Heritage. In addition to the Sulaiman Range that has been already appointed as a World Cultural Heritage, applications for the registration of the Burana Tower, the Tash Rabat, etc. are to be filed in and after next year.

#### 11. Domestic Transportation Infrastructure

As for airways, at present, there are three flights per week between Bishkek and Osh and there is one flight per two weeks between Bishkek and Jalalabad. As for land routes, there is a plan for constructing an arterial road connecting Issyk Kul and Osh.

A railroad is to be constructed between Tashkent and Issyk Kul, and also there is a plan to construct a railroad connecting China and Europe by way of Kyrgyz (Uighur - Kyrgyz - Kazakhstan - Europe).

#### 12. Crossing National Boarder by Land Route (Effective Utilization of Almaty)

The idea to use the Almaty (Airport) is considered to be very effective. The present situation where crossing the border by land route is considerably time-consuming is due to inconveniences on the side of Kazakhstan, and there is a recognition that there is no problem on the side of Kyrgyz. The reason for the time-consuming immigration control at the side of Kazakhstan is that Kyrgyz is not a member of the Customs Union. If Kyrgyz joins the Customs Union in the future, the time for immigration control at the national boarder may be reduced.

Meanwhile, with Kazakhstan, negotiations are under way with regard to the potential operation of a sight-seeing vehicle (bus) between the two countries.

#### 13. Possibility of Elevating the Department to the Ministry of Tourism (In Order to Secure More Budget)

The budget for the Department of Tourism has just been raised from 130 thousand dollars to one million dollars, and it can be said that the present situations is much better than the past. The PR activities are being aggressively promoted in collaboration with a NGO specifically focused on the promotion of tourism.

END

## 07 Ministry of Justice

Date & Time	May 26, 2014 (Mon.)	13:00 - 14:00
Interviewee	Ministry of Justice of the Kyrgyz Republic	
	Chief specialist	Ms. Aisuluu Nabitaeva
Interviewer	Daiwa Institute of Research Ltd., Asian Business Development Division	
	Hideaki Kasai	Recorded by Masahiro Nakamura
Interpreter	Ms. Ivarat	

### 1. Contents of Responsibilities

The responsibilities of the Ministry of Justice mainly consist of the following three areas: 1) supervision of the incorporation of foreign-capital firms, b) preparation of documents to be submitted to other ministries and agencies, and c) registration of political parties. The head office in Bishkek is staffed with seven people and there are similar organizations in each of the provinces. At present, they receive ten visitors a day, most of whom are business people from companies in Turkey, Kazakhstan, South Korea and China.

### 2. Procedures for Company Registration and Tax Registration

In order for the incorporation of a business enterprise in Kyrgyz, as the first step, a person wishing to establish a company will be required to complete relevant procedures with the Ministry of Justice. A company registration certificate will be issued by the Ministry and a tax registration number will be automatically allocated to the certificate. There is no need to appear before the tax office for making tax registration.

It should be noted that if a foreign national makes investment of at least one share of capital into a company, it will be necessary to complete all relevant procedures for incorporation by appearing before the head office of the Ministry of Justice, not before any corresponding local organization. In the event where a foreign national makes additional investment into a pre-existing 100% Kyrgyz-capital company, it will be necessary to complete the procedures for "reregistration" by appearing before the head office of the Ministry (NOTE: liquidation procedures are not required in this case). Further, in the event where a foreign-national shareholder has made assignments for the benefit of a Kyrgyz national and the company has become a 100% Kyrgyz-capital company, then the "reregistration" procedures will also be necessary. In this case, it is possible to complete the procedures by appearing before a local agency of the Ministry.

Fees necessary for the preparation of relevant documents are 235 som (about 470 yen) in the case of the incorporation of a business enterprise, 245 som (about 490 yen) in the case of the liquidation procedures, and 10 som (about 20 yen) for the issuance of a company registration certificate.

### 3. Necessary Documents and Examination Period

(We are in receipt of materials providing explanation about necessary documents that is prepared in the Russian language.)

Although previously all companies were required to submit its corporate charter (presumably the articles of incorporation) to the Ministry, at present, the submission of a corporate charter is a requirement only for an organization falling under such business categories as banks, microfinance, nonprofit organizations such as NPOs and political parties.

The examination period is three business days in the case of an ordinary company, and ten business days in the case of a company falling under the business categories with regard to which the submission of a corporate charter is mandatory. These periods are formally provided for in the relevant law and actually all the examinations are completed in such periods.

### 4. Common Errors

Errors often seen in applications for the incorporation of a business enterprise include the following two: 1) insufficient list and 2) lack of necessary information. Most of such errors are simple mistakes and usually can be easily fixed for prompt reregistration.

After submission of an application for the incorporation of a business enterprise, the applicant will receive a notification by telephone from the Ministry of Justice. And then the applicant will appear, for example, before the service counter on the first floor of the head office of the Ministry to receive a certificate of company registration. However, if there is any error with the document filed by the applicant, then a letter explaining the reasons for rejection such as clerical errors and insufficiency of information will be provided to the applicant, thereby helping smooth reregistration.

### 5. Necessity of Obtaining a Provisional Business License

It is not necessary (or presumably not possible) to obtain a provisional business license from a competent authority before the incorporation of a company.

It is possible to obtain a business license only after the completion of the incorporation procedures.

### 6. Opening of a Corporate Account with a Bank

It is not necessary to open a corporate account with a bank before applying for the incorporation of a company. However, in the application form there is a column for entering the amount of the capital.

#### 7. Procedures in the Case of a Company Whose Representative is a Foreign National

It is necessary to submit the Russian translation of the information listed in the passport of the representative of the company with a seal attesting the certification by the notary public (\*) along with the application from for incorporation. In addition, it is necessary to attach the name card of the representative to the translation. In translating the above information into the Russian language, it is also necessary to provide the Russian description of the name of the representative.

If the visa issued to the representative is available, the copy must be attached. If there is no visa available, any document with a seal of the airport operator (e.g. 60-days visitor paper) will suffice. In such a case, it is necessary to submit the original passport. As for the renewal of a visa to a long-term one, it is necessary to separately take relevant procedures after the completion of the incorporation procedures.

\* Whether such certification by the notary public can be obtained at with Embassy of the Kyrgyz Republic in Japan is not certain and it is necessary to make an inquiry with the embassy. It would be possible to obtain such certification if Embassy of the Kyrgyz Republic in Japan has the function of notary public (this is only an opinion of the officer we interviewed).

#### 8. Liquidation Procedures

Among the procedures for liquidation, those with the Ministry of Justice will be the final-stage procedures. Prior to the procedures with the Ministry of Justice, problems concerning taxes (such as tax payment, taxes in arrears) and disputes related to dismissal of workers must be resolved.

The liquidation procedures with the Ministry of Justice are to be completed in seven business days.

It is not necessary for the representative of a company to remain within Kyrgyz during the execution of the liquidation procedures, but a deputy entrusted with the authority to make necessary decisions must be accessible within Kyrgyz. It should be noted that a power of attorney issued to the deputy must have certification seal by the notary public.

Errors often seen in connection with liquidation procedures include incomplete documents and mistakes in addresses (presumably of the head office of the company).

END

## 08 Ministry of Health

Date & Time	May 21, 2014 (Wed.)	13:00-14:30
Interviewee	Ministry of Health of the Kyrgyz Republic, Department of Diseases Prevention and State Sanitary and Epidemiological Surveillance (SSES)	
	Head of Department of non-infection diseases and sanitary surveillance	Ms. Bubuzhan Arykbaeva
Interviewer	Daiwa Institute of Research Ltd.	
	Business Research Team, Asian Business Development Division	Recorded by Masahiro Nakamura
Interpreter	Mr. Omurbek Zhanakeev	

### 1. Organizational outline of SSES

SSES is one of the departments of Ministry of Health. It consists of 3 sections; (1) Executives, Administration, (2) Infectious disease prevention, and (3) Non-infectious disease prevention and hygiene control. This time, we had an interview with the Head of Section (3).

In addition to the HQ in Bishkek, Section (3) has a bureau (center) in a local region. The Research Unit (expert) in the bureau is in charge of issuance of certificates to food makers.

Products covered by this section are processed food products (including half-finished products), while other agricultural products are under control of other section.

In Kyrgyz, there are 50 microbe/bacteria laboratories, 48 health laboratories and 3 virus research laboratories.

For imported processed foods, there are 2 inspection agencies, one in Bishkek and the other in Kara-Suu, an urban neighborhood of Osh in the south.

### 2. Classification of processed food subject to inspection

Almost all the processed foods are subject to inspection.

They are classified into 4 categories (Level 1 to 4) according to the risk (more detailed information in Russian language, will be sent to Nakamura by mail). The highest risk category includes milk, foods for children, etc.

### 3. Inspection of processed foods imported into Kyrgyz

In order to import the processed foods into Kyrgyz, it is required to bring samples into lab for analysis in advance, and to have certificates issued. Also, between some countries, there is a mutual agreement to permit imports for specific items if they have obtained inspection certificates in their own country, but such cases are rare. There is such agreement for some products between Kyrgyz and Kazakhstan, but it is not applied for most of the products.

### 4. Linking of inspection license (production lines and production items in plants)

The processed foods in Kyrgyz are subject to (1) inspection of the layout and production lines within a plant and (2) inspection of the commodities. Both inspections are made by the local bureau (center). Foods makers are not allowed to commence production unless they have passed the inspection related to the plant equipment of above (1) and are not allowed to distribute commodities within Kyrgyz unless they have cleared inspection of commodities of above (2).

5. Inspection of production items and Logo marks

There is a law that regulates labeling (logo marks) related to inspection. Previously, the mark was "KMC" that looked like a house, but it will be changed to a new mark from May 30, 2014. The new mark will look like a combined "T" and "R" which represents "Technical Requirement" (in Russian language actually).

The issuance of the mark is made by Kyrgyz Standard under jurisdiction of the Ministry of Economy, but physical inspections are under control of SSES. Physical inspections will be made once a year, but they plan to make it 4 times a year for high risk items.

6. Difference of inspection from other countries and the place to issue certificates

Compared to the inspection items and standards of Kyrgyz, other countries have set up more strict standards in general. As for the number of inspection items, for example, there are 20% to 30% more items in Russia than that of Kyrgyz. Accordingly, if a company wants to export products to Russia, it has to send a sample to a lab in Russia for an inspection.

7. Labeling of imported items

Processed foods that have cleared inspection in Kyrgyz must be labeled to proof that it has passed inspection. Practically, it can be made by attaching a seal.

However, labeling must be made in Kyrgyz language (It seems to have been changed recently)

8. Import license and Codex standard

Current situation is that the import license of Kyrgyz is not completely consistent with Codex standard. On this point, they plan to make them comply with the Codex over time.

END

## 09 State Customs Service

Date & Time	May 24, 2014 (Sat.)	17:00-18:30
Interviewee	State Customs Service	
	Chief Inspector	Mr. Rysbek Turganbaev
Interviewer	Asian Business Development Division, Daiwa Institute of Research Ltd.	
	Hiroyuki Kaneko	Hideaki Kasai
	Sanae Ohta	Recorded by Masahiro Nakamura
Interpreter	Mr. Omurbek Zhanakeev	

### 1. Outline of State Customs Service

Based on the Custom Code, they make customs collection (fiscal service and economy-related tasks) as well as checking of import and export commodities (legal work to check if the import/export of product is permitted). There are 1,275 officers throughout Kyrgyz.

In addition to the one in Bishkek, the bureau has 3 Border Posts at the border with Kazakhstan (Aktelek, Andijon, and Chaldybar), and offices in Issyk-Kul Province (Karkara), Naryn Province (Torugart), and in Balykchy. These are all for corporations. For individuals, there are 2 offices in Tokmok and Kenbulun.

### 2. Common trouble

There are many troubles related to classification of items to import. Major factors are that they (1) try to apply lower tariff rates by using code different from the one specified in the customs tariff code, and (2) try to classify the item into another in order to avoid the procedure for the certificate when export/import certificate from proper authority is required.

Kyrgyz uses HS Code. The first 4-6 digits reflect the same standard as that of Europe. The rest small digits reflect the classification unique to Kyrgyz. Basically, they use HS Code for all country, but to the products from China, code called "Tariff Code" is attached.

Troubles related to the classification of HS Code are frequently seen in the imported items from the private companies of China. Meanwhile, there is not really any problem for the import from Japan, EU, Singapore, and the government-run companies of China.

### 3. Entries and accompanying materials required for the export from Kyrgyz

To export from Kyrgyz, it is required to fill in the declaration form with its (1) purpose, (2) material, and (3) produce of Kyrgyz (issued by the Chamber of Commerce of Kyrgyz). The Law No. 8 of 2006 stipulates that the export product from Kyrgyz does not need to be standardized.

Also, based on the Law No. 961 promulgated on December 28, 2013, the accompanying documents related to export have been simplified. Producers (exporters) can export products by attaching the invoice, means of delivery (air cargo, rail cargo, vehicle cargo, etc.) together with HS Code of the products.

Of course, various forms of identification may be needed in accordance with the law and standards of the importing country.



4. Impact of MOU and customs tariff union related to the trade with neighbor countries

Currently, we have MOU with Kyrgyz, Russia and Kazakhstan that recognizes mutual authentication between these countries. Based on it, foods and other products that are distributed in Kyrgyz can be exported to Russia or Kazakhstan without obtaining certification from these countries.

However, Russia and Kazakhstan have already formed a customs tariff union, and now requesting Kyrgyz to apply the same distribution standards as that of the customs tariff union to the export items from Kyrgyz. Because of this, they have a lot of trouble at the site of customs clearance. For instance, there was a case that export of milk products from Kyrgyz to Kazakhstan was permitted at one time but not permitted at another time. It is not clear what has actually been done by Kazakhstan side.

5. Procedure to import products into Kyrgyz without inspection/test

Processed foods that can be imported into Kyrgyz need a Kyrgyz Standard certification issued by the Ministry of Economy of Kyrgyz. But for the items that have already obtained such certification, you don't need to obtain Kyrgyz Standard every time of customs clearing if it is included in the list of items and clearly stated in the agreement between the exporting company and the importing company.

Kyrgyz Standard needs to be updated every one or two years.

At present, some private companies of Kyrgyz can issue Kyrgyz Standard only for some items/fields by receiving authorization from the Ministry of Economy of Kyrgyz.

6. Authorities for each imported items

The authority of products related to animals and plants is the Ministry of Agriculture, products related to health such as soap, shampoo, etc. is the Ministry of Health, and that of other general products is the Ministry of Economy.

7. Single window and e-file

Single window is used only for the items under control of the Ministry of Economy. It was started from September 2013, and has brought benefits in some area. For example, drugstores in Kyrgyz can obtain certificates from medication supply section of the government. Also, Kyrgyz Standard certificates can be obtained for almost all the items under control of the Ministry of Economy except building materials and petroleum products.

Meanwhile, products related to health under the jurisdiction of the Ministry of Health and the products related to animals and plants under the jurisdiction of Ministry of Agriculture are not under control yet.

Trading companies have been switching application procedures from paper to e-file. With e-file, value-added tax and customs duties expenses can be automatically calculated if you complete the form, but you cannot make payment simultaneously with this system. Accordingly, you need to attach the certificate of payment at bank counters or through online banking when you receive the cargo.

8. Import declaration for periodically imported cargoes

The Article 298 of Custom Code stipulates that, if declared in advance, the import clearance procedures can be simplified for 6 months up to the quantity declared beforehand. In this case, 3 conditions must be met; (1) All the import items must be the same in their contents, (2) exported by the same company and (3) imported by the same company.

9. Method of payment of tariffs and value-added taxes on imported goods

Payment can be made by either cash, check or bank transfer. However, in the case of cash, payment must be made during weekday daytime hours (not available on holidays). For the case of bank transfer, the person who receives the cargo needs to bring the certificate of payment issued by the bank. Also, when you receive the cargo, the payment is confirmed by the custom service bureau.

There is ATM of Bank Elesca at the Border Post. Banking card (plastic card) of that bank is relatively convenient. Also, payments of rail cargo can be made in various manners at Bishkek Station.

10. Customs clearance procedures and the way to distinguish inbound/outbound cargoes to/from FEZ

Documents for the customs clearance procedures are the same whether or not it is for FEZ or not. However, the documents include entry item to indicate that it is for FEZ or not. At the time of import clearance, you don't need to pay the customs duties and value-added taxes if the cargo is bound for FEZ. To confirm if the cargo bound for FEZ is being delivered correctly, an inspector of the custom house at the border will ride in the truck to check it. In this case, you need 100 som (about 200 yen) per hour as an expense. On the other hand, if the cargo is inbound from FEZ, an inspector from FEZ will accompany.

As Kyrgyz has joined in the "Convention on International Transport of Goods Under Cover of TIR Carnets (TIR Convention)," inspector will not accompany if it is a member distributor's vehicle of IRU (International Road Transport Union).

11. Value-added tax and custom duties related to goods for domestic consumption in FEZ

In FEZ, 70% of production is requested to be exported but it is allowed to distribute within the country up to 30%. In this case, value-added tax (12%), etc. must be paid. However, companies that registered before 2000 are given remission from value-added tax payments for the domestic shipment of the cargo.

12. Increase of expenses related to file customs documents

About a year and a half ago, we introduced the uniform information system. Along with it, e-file has become available. The fee to turn in customs documents was raised from 500 som (about 1,000 yen) in 2013 to 1,000 som (about 2,000 yen) in 2014. However, actually, it seems to be about 800 to 1,000 som, due to the competition among customs clearing agents (\*).

The customs documents do not necessarily have to be prepared or turned in by the agents and companies can do it by themselves. In that case, however, the company has to register itself in the list of agents, therefore, it needs to apply by submitting documents that include company name, documents at the time of foundation, etc. No registration fee is required.

\* We found that it was 120 som 3 years ago during the hearing with another company. Even today, it seems that national revenue is 120 som and the rest goes to agents.

END

## 10 Sanatoriums

Date & Time	May 20, 2014 (Tues.)	11:30-12:10 (1) 13:30-14:30 (2)
Interviewee	(1) Jety-Oguz gorge (2) Tamga resort of Ministry of Defense	
Interviewer	Daiwa Institute of Research Ltd.	
	Asian Business Development Division	Sanae Ota
	Interpreter	Atanov

### 1. Jety-Oguz gorge

Government-run sanatorium. It can be used for health maintenance purpose (preventive care) and for other purposes, but most of people visit there for treatment purposes.

80% of visitors are Kyrgyz people but there are visitors from Russia, Kazakhstan, Germany, and Switzerland.

The main treatment method is using water spring from underground (hot spring). It has high level of salt and said to be good for head pain, joint pain, rheumatism, etc. It has private rooms with bathtubs, in which people bathe for a set period of time (by taking steps like 8, 10, 12 minutes) as instructed by the doctor (never stay in the bath too long). In addition, mud therapy and mineral water pool are available.

### 2. Tamga resort of Ministry of Defense

This facility was built by a Japanese who had been sent there as a prisoner of war after the World War II. It was built as a facility for armed forces and is still under control of the Ministry of Defense, so many of users are military personnel or ex-army persons.

The facility is in Tamga village, in which 125 out of 3,000 POWs who had been sent to Soviet Union were placed, and all of them returned alive to Japan. Mr. Yasushi Miyano is the only person who is alive today.

As the users have been decreasing, they run the facility for an only limited time (June 20 - Sept. 10). Capacity of the facility is about 500 guests and there are other accommodation facilities in the neighborhood. Today, people not related with the Ministry of Defense can also use the facility. Most of the foreigners are from Kazakhstan, Russia and other Central Asian countries. After the media publicity about the Japanese POW, Japanese visitors are increasing.

The treatment methods are mainly electric therapy and mud therapy. The facility has no hot spring but it uses the water processed for treatment, with which people can receive treatment similar to hot-spring treatment.

### 3. Comments

Both facilities use the buildings that were built in former Soviet Union times, but in Jety-Oguz, the maintenance of the building itself is not sufficient, hygienic conditions are poor, and the inside of facility is dark with medicine smell.

On the other hand, maintenance of the Ministry of Defense facility is completely made for both exterior wall and interior decorating. Although most of the furniture and fixtures look old, compared with those of Jety-Oguz, it gives an impression that they pay careful attention to hygiene.

END

## 11 National Bank of the Kyrgyz Republic

Date/Time	May 20, 2014 (Tues.)	11:00-12:40
Interviewee	National Bank of the Kyrgyz Republic	
	Head, Dealing Div., Monetary Operations Dept.	Mr. Karbozov Bakyt
	and other 7 persons	
Interviewer	Asian Business Development Division, Daiwa Institute of Research Ltd.	
	Hiroiyuki Kaneko	Hideaki Kasai
	Recorded by Masahiro Nakamura	
Interpreter	Mr. Omurbek Zhanakeev	

### 1. Independence of National Bank of the Kyrgyz Republic

National Bank of the Kyrgyz Republic was founded in 1992. The currency som was introduced in May, 1993. Since then, National Bank has been acting independently from the government, so it can be said that the "independence of National Bank" is high. Currently, National Bank is operating based on the National Bank Act enacted in 1997. National Bank can purchase securities issued by the government, but cannot offer loans to the government.

Regarding the relationship with the government, National Bank undertakes a role of adviser of the Ministry of Finance. Also, it is required to discuss the national budget by the ministerial order, and National Bank is positioned as the (policy) coordinating organization of the same Ministry. To the Ministry of Economy, it is in a position to give advices on the economic forecasting that are made by the same Ministry.

### 2. Financial policies and goals of National Bank

What National Bank places the most importance on is "price stability."

It aims to make consumer price increase rate +7% over previous year in 2015, and +5% over previous year in 2017. However, these figures are not reference-value of "inflation targets."

In order to stabilize the commodity prices, National Bank changes the policy interest rate or controls the increase in the money supply by adjusting the amount of base money supply.

As for the policy interest rate, it mainly uses "Discount Rate, 6%/year at present." However, deposit interest-rate of commercial banks is set in a wide range, from 1.5% to 9% (and it seems that the change of discount rate does not necessarily have influence on deposit interest-rate).

As for the latter, it controls the supply of base money or adjusts by placing loan restrictions (window guidance) on commercial banks. While they give window guidance with regard to the lending, they don't give window guidance with regard to the level of the interest rate on loans.

### 3. Point of view on the value of currency som

In trying to stabilize prices, the stability of the currency value is also an important factor. Kyrgyz depends on imports for 70% of its food and 100% of its fuel such as gasoline. For this reason, it needs to stabilize the value of currency som against Russia, Kazakhstan and China, which are their major trade partners.

National Bank publishes the reference value every day against dollar, euro, ruble (Russia), and tenge (Kazakhstan).

Currency som can be exchanged freely but as the economy of Kyrgyz is small, som value sometimes fluctuate significantly against the major currencies, and if that happens, it intervenes in the foreign exchange market.

They think that the foreign currency reserves (dollar) are sufficient. At present, it is 2.17 billion dollars, which is the level enough to support the import of more than 4 months.

### 4. Record of currency market intervention

Recently, currency som suffered a significant impact of the dollar shock in the beginning of 2014 when the currencies of newly developing countries dropped one after another due to the shrinking of the quantitative monetary easing of U.S. In order to stabilize som value that had been dropped about 11% since the start of the year, National Bank of the Kyrgyz Republic intervened with "dollar selling and som buying" in the scale of 200 million dollars in January-March quarter of 2014. After that, there was no intervention in April, but in May, when the value of som appreciated in an opposite manner, it intervened by "dollar buying and som selling" in the amount equivalent to 20 million dollars.

Dating back to before 2014, currency som depreciated by 10% around 2010 but stabilized thereafter and in 2013, remained plus or minus 4% throughout the year (rate against dollar). Foreign exchange market intervention was made only once in 2013 and the scale was small 14 million dollars ("dollar selling and som buying"). We can see how big the fluctuation was in 2014. The record of intervention is disclosed in the website of National Bank.

#### 【Reference】

Kazakhstan, the neighbor country of Kyrgyz, depreciated its currency tenge that were linked with US dollar by about 20% on January 11, 2014 due to the sharp decline of ruble of Russia, its neighbor country that forms a uniform economic bloc.

### 5. Supportive measures related to financial arrangement of private companies

Since 2 years ago, National Bank has been providing loans to commercial banks. And the government has been providing loans to farmers. Through these assistances, they are trying to improve the environment to make the lending easier for private enterprises.

As for the microfinance, the loan rates have been gradually lowered in these 2 to 3 years. It seems to be associated with the problem of collection rate of the loan.

#### 6. Banking license

To obtain a banking license in Kyrgyz, there are several means; (1) Single advance, (2) Joint venture, and (3) Change of name of the bank already obtained license. In either case, it requires capital of more than 600 billion som (about 12 million dollars) to obtain license (Note). In the case of above (2) Joint venture, if a foreign firm aims to acquire more than 10% of shares, they need permission of National Bank. It also requires permission again when the firm later tries to acquire 20% of shares.

Banking business is regulated by the Article 33 of Banking Act.

After obtaining banking license, a domestic investor must open the bank within 6 months. On the other hand, if it is a foreign investor, bank must be opened within 12 months.

(Note) Bank capital regulation is 200 million som at present, but it will apply 600 million som to all banks in some time between 2017 and 2018. Under current situation, only 4 banks out of total 24 commercial banks have capital of more than 600 million som.

#### 7. Profitability of banking sector, etc.

Most recent ROA of banking sector is 2.4%, ROE is 15.7%, and NPL (non-performing loan) rate is 5.4%. The overall deposit is 74 billion som and the amount of loan is 61 billion som.

The profitability is not too bad but 37% of all the money in circulation within the country is from overseas, and the domestic financing is vulnerable. The amount of loan remains at 32.8% of total nominal GDP.

#### 8. Monitoring of each bank

Quarterly report is the base. By dividing banks into 3 categories according to their size, we are monitoring banks; the larger the bank is, more strictly. The movements of money such as loans are being reported every day, and when the risk increases, National Bank issues a warning letter to encourage improvement.

Only a part of Basel Liquidity Rules is applied.

END

## 12 Single Window Center for Foreign Trade

Date & Time	March 26, 2014 (Wed.)	14:00-15:00
----------------	-----------------------	-------------

Interviewee	State Enterprise Single Window Center for Foreign Trade Under the Ministry of Economy of the Kyrgyz Republic	
	Head of Department	Mr. Karasartov Ulanbek
	Deputy Director General	Mr. Usenbaev Azamat

Interviewer (study team)	Daiwa Institute of Research, Ltd.	
	Asian Business Development Division	Hiroyuki Kaneko Hideaki Kasai Naoya Takada Hiroki Yoda Sanae Ohta
	(Interpreter)	Ms. Maria

### 1. Purpose of establishment and summary of activities

"Single Window Center" is an organization established in 2009. The purpose of establishment is to streamline the administrative procedures for international trade participants (especially for exporting companies). Based on the system developed within the investment framework of Asian Development Bank (ADB), it started to introduce "Single Window" system for Kyrgyz ministries from 2011. There are 11 ministries related to export and import in Kyrgyz and it took a year and a half to introduce this system for all of them. Currently, the system is actually used at 9 out of 11 ministries. The rest 2 ministries have not started using it yet due to specific circumstances in each organization, but they are currently under coordination including staff training. At present, they are updating the system and adding new functions. By using this system, companies can go through one-stop procedures of export and import and can obtain electronic documents. The procedures required to international trade participants are described through its portal site, of which this center is in charge.

## 2. Export promotion strategy

Kyrgyz government is currently developing export development strategy, which will be approved in July. In the export development strategy, 6 promising sectors are covered such as fruit/vegetable, meat/dairy product, and tourism. Further, it describes in detail about 4 sub-sectors including assistance areas such as simplification of trade processing, trade information service, improvement of related infrastructures, etc. In developing this strategy, this center was involved in the part of simplification of trade processing, trade information service and its promotion. As the new function of Single Window, "export promotion" was added.

Q: Is the export/import strategy the same as the export strategy announced by ITC (International Trade Center)?

A: Exactly. The export/import strategy was compiled with support of ITC consultants.

Q: Can you share the compiled material with us?

A: Please contact the Ministry of Economy as they are the implementing agency.

Q: What is promising export items of Kyrgyz?

A: As the purpose of this center is administrative procedures, we don't cover export items. This is just my personal opinion but I think that the organic agriculture will be investable as Kyrgyz is farming-centered country. I think the agriculture is more profitable than construction or manufacturing.

## 3. "Single Window" system

Q: How many applications do you have in a month?

A: We don't have any yet as we are testing the system at present (The system has not even been introduced yet in 2 ministries). And it is not mandatory to use the system. But we are currently encouraging large companies to use it. Large companies tend to use new IT technologies, but smaller businesses use conventional means as it is easy to understand.

Q: How many companies do you expect will use it?

A: About 300 companies. We will gradually increase the percentage of usage. The customs service has requested us to allow them to use the system.

Q: How much is the rate of use for current system?

A: We introduced the system in the 2nd Quarter last year and started to use it. There are 11,000 computerized documents while paper-based documents are 200,000. As it is not mandatory to use the system here in the center, many of the documents are still paper-based.

Q: What is the average time you take for processing?

A: As we have no direct hand in whether or not each ministry has introduced digitalized procedure, this is a question. But we plan to digitalize the procedures in each ministry in Phase 2.

## 4. Procedures at customs

Q: Does the computerized part of the center include the customs procedures?

A: Custom Service has its own system. The Single System and the customs clearance system are linked and can be used at the same time. We have obtained consent for the linkage 2 months ago.

Q: Is the system developer Kyrgyz company?

A: It is an agency from UK. There are companies that develop systems in Kyrgyz, too.



5. Export/Import of processed foods

Q: Is all the regulating authorities related to the export and import of processed food included in 11 ministries?

A: Depending on the commodity, supervisory ministries differ as well as its number, but the ministries that supervise the export and import of processed food are included in those 11. By the way, when you export one kind of commodity, you need 5 kinds of documents at a maximum. In the case of foodstuffs, it might take up to a month at longest as it requires laboratory test.

Q: What kind of trouble have you had in export and import procedures for processed food in the past?

A: As for the processed food, sometimes it was found at the time of export or import that they failed to pass the laboratory test because of not complying with the regulation of manufacture.

6. Free Economic Zone (FEZ)

Q: Do you have a plan to work together with Free Economic Zone (FEZ)?

A: We are currently discussing about it and will conduct a research. Meanwhile, Kyrgyz law limits the domestic sales of companies advanced into FEZ up to 30%. Companies in FEZ are also using Single Window. However, we don't know how many companies are using it, as there is no clear division between companies within FEZ and outside of FEZ.

7. Other comments

You might get useful information if you visit the ITC (International Trade Center).

END

### 13 Agribusiness Competiveness Center

Date & Time	March 31, 2014 (Mon.)	11:40-12:45
Interviewee	Mr. Almazbek Dorombaev (Director)	
Interviewer	Investigating team member: Takada, Interpreter: Saikal	

1. It was established under the Ministry of Agriculture in 2004 as an implementation unit of World Bank Project (Agribusiness Marketing Project), and after that, engaged in various projects with support from many countries.
2. The purpose of Agribusiness Marketing Project is to improve competitiveness of processed food industry (including productivity enhancement). It consists of Phase I (2005-2012) and Phase II (2013 and beyond); In Phase I, it conducted investigation from market research to export process on beans, etc. (They seem to have investigated on microfinance market also) in Issyk-Kul Province, Naryn Province, and Talas Province. In Phase II, it implemented the pilot project aiming to develop market for high-value-added commodities
3. In the JICA-sponsored "Project for Improvement of Elite Seed Production Techniques (Later, the project name was changed to: Project for Promotion of Exportable Vegetable Seed Production)," it provides elite seeds and teaches how to cultivate them targeting groups of 5 to 6 small farmers. It provides vegetable seeds (tomato, pepper, cucumber, onion, red beet, etc.). Separately from the JICA Projects, it also conducts projects to provide farmers groups with grain (wheat, barley, potato, alfalfa, etc.).
4. Seed projects are conducted in 150 locations throughout the country (participating farmers: about 2,500 farmers) based on 3 of each agricultural fields of 100 m<sup>2</sup> as one unit for vegetable, and 0.5ha as one unit for grain.
5. Also, in recent years, they have been participating in agriculture-related investment seminars sponsored by the Ministry of Agriculture, and promoting information exchange and building of a network with private/government agencies of Russia, Kazakhstan, China, Turkey, Germany, etc.
6. (Export situation of fruits and vegetables) With regard to vegetables, export of carrot and cabbage to Russia and Kazakhstan as well as export of potato (that became Kyrgyz brand?) to Uzbekistan seem to be active. As for fruits, such as apricot, apple, watermelon, melon, and prune are exported to Russia, Kazakhstan, Bulgaria, Turkey, etc.
7. (Point of view of the export of fruit and vegetable) The neighbor country Kazakhstan's total land area is broad and the field of grass covers more than half the land, therefore, it is suited to mass production of single product such as grain. Contrarily, Kyrgyz is occupied by mountain ranges, therefore, it is suited to the small lot production of many kinds of greengrocery (vegetable/fruit). As there is a problem that fruits and vegetables are spoiled rapidly, Kyrgyz is making sales in its strong area by making the neighbor country Kazakhstan as their major market.
8. (Case example of contract culture) There is a sugar factory in Kaında (Chui Province) and they seem to be engaged in the contract culture of raw material crop (beet) together with farm producer groups and individual farmers. They say that the contract consists of loose agreement, but the seeds and agricultural machines are provided by the factory and rough standard of purchase price is agreed in advance. According to the information obtained from GIZ later, GIZ supports this approach and KWS, a German seed company, is providing seeds).

END

## 14 Issyk-Kul State Administration

Date & Time	May 19, 2014 (Mon.)	12:00-13:00
	May 20, 2014 (Tues.)	08:30-09:50

Interviewee	Tourism/Investment Promotion Division, Issyk-Kul State Government
	Division Head

Interviewer	Daiwa Institute of Research Ltd.
	Asian Business Development Division, Sanae Ota
	Interpreter Atanov Aidjan

### 1. About Issyk-Kul Province

In Issyk-Kul Province, tourism and mining industries are active while there are agriculture and manufacturing. Especially, Lake Issyk-Kul is one of the famous sightseeing spots in Central Asia and it can be said that it is an area with potential of tourism industry on a global scale. Particularly, when UNWTO included it as one of countries subject to investigation of tourism industry promotion (10 countries) a year ago, the number of visitors increased. Many of them visit there for the summer and landscape. Also, many people visit there for the treatment of rheumatism, etc. It is said that the quality of water (hot spring) of Lake Issyk-Kul contains ingredients that have healing power.

### 2. Number of foreign visitors

The Eco-post was abolished last year, and partly for that reason, the number of visitors to the Lake Issyk-Kul seems to have accounted for about 70% of more than 3 million visitors in the country (2013), which is the number announced by the central government, although Issyk-Kul Province itself has no accurate statistics. While the accommodation facilities have obligation to report the number of their guest, we are aware of the need to improve the data collection system. The number of registration of hotels and restaurants is not known. In the future, not only Issyk-Kul but also surrounding provinces may need to be developed together.

### 3. Tourism industry

Tourism industry is particularly important for Issyk-Kul, but the visitors concentrate in the sightseeing season from May to September. Local residents are working really hard, but in order to develop the industry further, we need foreign investments and aids (without compensation, if possible) (Because central government has no budget). We are thinking to run facilities by combining the sanatorium with childcare institution (orphanage) in ongoing PJ, and it would be made even better if we can use Japanese technologies.

#### 4. Procedures for doing business in Issyk-Kul Province

When you file documents that clearly describe your business plans at the provincial government, and when the subject business plan is considered to be useful for the development of the province, government will provide full support in making preparations of land, means to procure construction materials, etc. You need no application forms.

However, you need to obtain permission to purchase land as well as building permission at the municipal office. In making investment, it is unadvisable to get loans as the interest rate is high in Kyrgyz.

As for industry-classified license, you need a license if you conduct survey of natural resources or run mining business, but don't need for agriculture and tourism business. You only have to turn in the material that explains business plan to the provincial government. When a cement manufacturing plant of China and potato-processing plant of South Korea advanced, they obtained appointments through the Ministry of Foreign Affairs.

Meanwhile, for restaurant business, you may need to take some actions as the hygiene control agency (Ministry of Health?) will visit you for inspection. The points of inspection are the quality of drinking water used, plumbing equipment, cooking equipment, food preservation system, etc. Also, those who provide food service must turn in their health certificates to their employers and employers must keep them in safe custody.

#### 5. Seminars in Japan

Rather than to answer your questions here, isn't it more useful to let Kyrgyz businessmen and Japanese investors have an interview during the seminars in Japan? They will be able to answer questions in more detail.

#### 6. Foreign companies doing business in Issyk-Kul Province

We don't know the exact number of foreign companies doing business in Issyk-Kul Province. There is more Turkish and Russian capital invested in restaurant business. Also, among Russian investors, there are persons who run sanatoriums and hotels, and it seems that the provincial government provides some arrangement for the land use, etc. (It was said that "they don't rent but purchased/owned"). Also, they pay land-related tax only (it seems that it is beyond control of the provincial government to grasp the profit tax and sales tax).

#### 7. Eco-post (Issyk-Kul fund)

We intend not to restart Eco-post that was abolished last year. It is the decision of the central government's council and it is impossible to reverse the decision. It would be difficult to create a new alternative system in the future, too. The reasons for the abolishment of Eco-post are (1) Corruption (Peculation by service officer) and (2) adverse opinion from foreigners. Currently, the main source of income of Issyk-Kul fund is money from mine developers and business owners of manufacturing plants. Hotels and restaurants operators have no obligation to pay to the fund.

8. What is needed to revitalize the tourism industry of Issyk-Kul Province

(1) Natural conservation, (2) Integration of recreation facilities/sanatorium systems, and (3) improvement of infrastructure.

(1) The tourism resource of Issyk-Kul is the spectacular nature, and by conserving nature, we can protect the environment that visitors are looking for. It is also necessary to protect the health of visitors. (2) Many recreation facilities are of Soviet Union era and are becoming older, so they need to be improved. Also the management system (for state-owned facilities) needs to be improved. (3) The need of infrastructure improvement ranges from water supply and sewerage systems, roads, railroad, to airport. As Kyrgyz government has a small budget, it needs foreign assistance. We want to attract infrastructure investment that will improve the environment of the province by giving preferential treatment with regard to the development conditions, etc.

In principle, we think it is important to have visitors return home with good image in their hearts. Quality of service varies widely depending on the accommodation facilities but there are many facilities that provide good services.

9. Policy decision-making

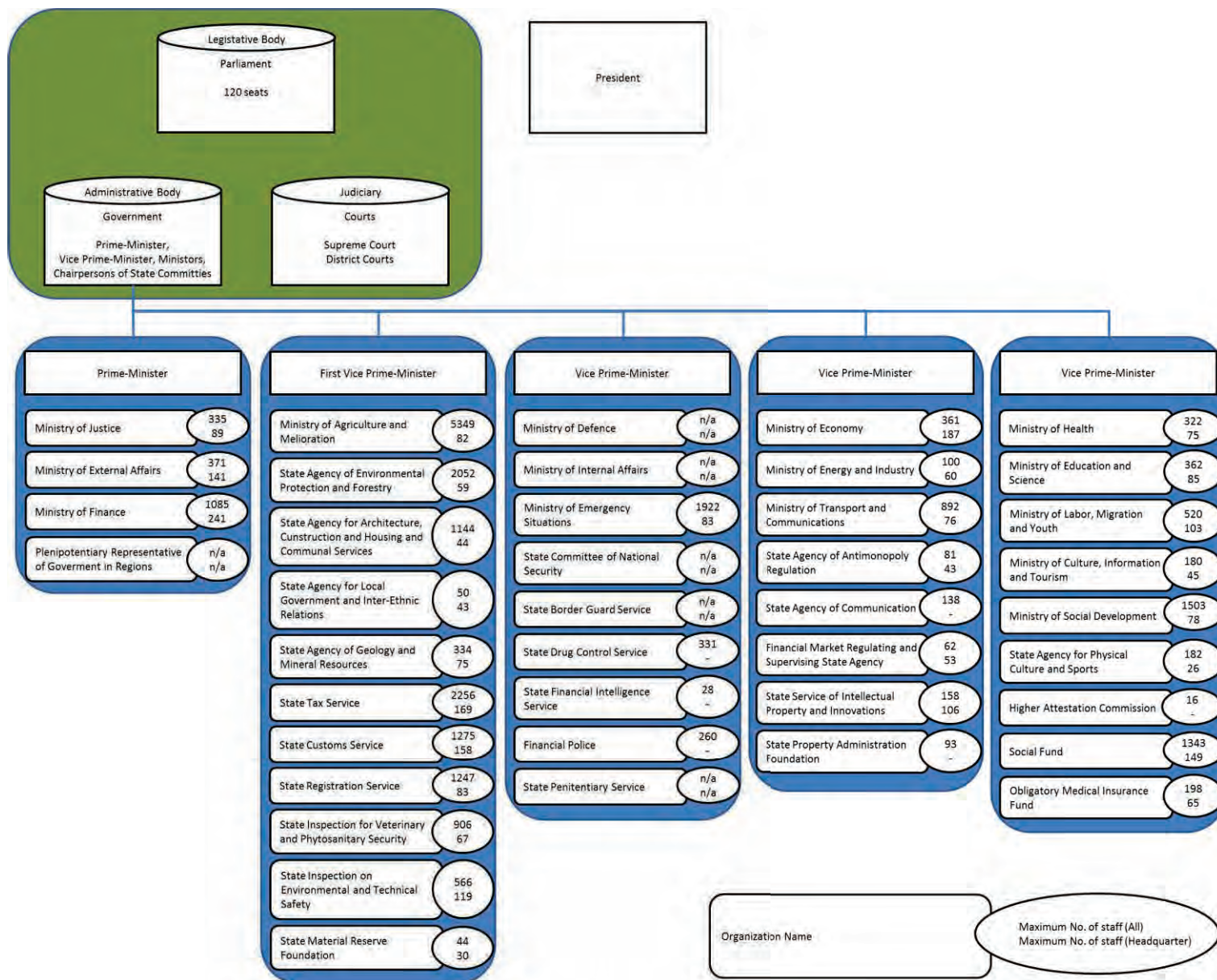
The provincial government has no right to make a decision on environmental control, and the provincial government can't impose restrictions on its own accord. Laws and regulations related to tourism industry are discussed by committees with participation of the Ministry of Culture and Tourism, Kyrgyz Association of Tour Operators, the representatives from the provincial government, etc. and submitted to the council.

10. Investment from Japan

So far, people have visited from Japan for various research purposes, but any concrete investment has not been transformed into actions. Reality is that even JICA projects have no tangible result. Investments into Issyk-Kul have been made by Turkey, China, and Russia, so we hope you could realize the investment from Japan, too.

END

## Appendix2 State organization





Appendix3 Materials of the seminar “Challenges for Kyrgyzstan’s economic development and business opportunity for Japanese companies” held in Sapporo, Tokyo and Osaka.

No.	
01	Invitation to the seminar (Sapporo)
02	Invitation to the seminar (Tokyo)
03	Invitation to the seminar (Osaka)
04	Questionnaire



2014 年 6 月 12 日

## 中央アジアの親日国、キルギス共和国の駐日大使が来道 札幌でビジネスセミナーを開催



（シルクロード遺跡ブラナタワー）



（キルギス国旗）

JICA は 7 月 7 日（月）、14:00 から北海道経済センターで「中央アジア・キルギス共和国ビジネスセミナー ～キルギスの経済発展の課題とビジネス展開の可能性～」を開催いたします（共催：キルギス日本人材開発センター／後援：駐日キルギス共和国大使館、在キルギス日本大使館（申請中）／協力：中小企業海外展開支援北海道会議等（予定））。

セミナーでは、駐日キルギス共和国大使館 特命全権大使リスベク・モルドガジエフ閣下から「キルギス共和国と日本との協力関係について」ご挨拶をいただく予定になっています。

キルギスは北海道とほぼ同じ約 550 万人の人口で、気候風土や産業（畜産業、観光業がさかん）も北海道によく似ています。キルギスでは「キルギス人と日本人とは古い兄弟」といわれおり、キルギス人は顔付きが日本人にそっくりです。

本セミナーが、キルギスと北海道の新たな協力関係を築くきっかけになることを願っています。

（セミナー詳細情報：<http://www.jica.go.jp/sapporo/event/2014/140707.html>）

（問合せ先）

JICA 北海道（札幌）市民参加協力課 中野

Tel. 011-866-8421 / Email: Nakano.Satoshi@jica.go.jp

# キルギスの経済発展の課題と ビジネス展開の可能性



## 7月9日（水）14:00-16:30

この度、国際協力機構（JICA）は、キルギスの経済発展上の課題と投資やビジネス環境の現状、そして今後の可能性などに関する調査を実施しました。キルギスは、旧ソ連の構成国でしたが、1991年の独立以降、市場経済化に向けた改革を進め、1998年には世界貿易機関（WTO）に加盟するなど、経済規模は小さいながらも、経済改革の努力を続けています。

しかしながら、経済発展のためには、依然として多くの制度的・技術的・資金的な課題が存在しているのも事実です。キルギス政府は、こうした課題の解決のためにも外国企業の投資を求めています。

本セミナーでは、キルギスの抱える様々な課題を紹介しつつ、その解決のために本邦企業の力が生かせないか、すなわち、一種の投資・ビジネス上のチャンスはないかという視点を提供します。また、キルギスの概況や投資・ビジネス環境も同時にお伝えすることで、未開拓のキルギス市場の可能性を紹介します。

14:00 開会挨拶

14:05 「キルギス共和国の概要」

駐日キルギス共和国大使館特命全権大使  
リスベク・モルドガジエフ氏

14:30 「キルギスの経済発展の課題と  
本邦企業のビジネスの可能性」

大和総研アジア事業開発本部部長  
金子 弘之氏

15:30 「キルギス日本センターの活動  
とネットワーク」

キルギス日本センター共同所長  
高坂 宗夫氏

15:45 「JICA の中小企業支援」

15:55 質疑応答

16:25 閉会挨拶

【主催】独立行政法人 国際協力機構（JICA）

【共催】キルギス日本人材開発センター

【会場】JICA 市ヶ谷ビル 6階 セミナールーム 600

【定員】80名（先着順）

【参加費】無料

【問合・申込先】JICA 地球ひろば 地球案内デスク

TEL:0120-767278 E-mail:chikyuhiroba@jica.go.jp

※ホームページからも申込可 <http://www.jica.go.jp/hiroba/>





# 中央アジア・キルギス共和国ビジネスセミナー

## キルギスの経済発展の課題と ビジネス展開の可能性

この度、国際協力機構(JICA)は、キルギスの経済発展上の課題と投資やビジネス環境の現状、そして今後の可能性などに関する調査を実施しました。キルギスは、旧ソ連の構成国でありましたが、1991年の独立以降、市場経済化に向けた改革を進め、1998年には世界貿易機関(WTO)に加盟するなど、経済規模は小さいながらも、経済改革の努力を続けています。しかしながら、経済発展のためには、依然として多くの制度的・技術的・資金的な課題が存在しているのも事実です。キルギス政府は、こうした課題の解決のためにも外国企業の投資を求めています。

本セミナーでは、キルギスの抱える様々な課題を紹介しつつ、その解決のために本邦企業の力が生かせないか、すなわち、一種の投資・ビジネス上のチャンスはないかという視点を提供します。また、キルギスの概況や投資やビジネス環境も同時にお伝えすることで、未開拓のキルギス市場の可能性を紹介します。

日 時：2014年 7月11日(金) 14:00～(13:30より受付開始)

会 場：大阪駅前第3ビル17階 1号室

定 員：100名 (定員になり次第締め切らせて頂きます)

参加費：無 料

主 催：国際協力機構(JICA)

共 催：キルギス日本人材開発センター

後 援：在京キルギス共和国大使館、在キルギス日本大使館(申請中)

**お申し込み方法**：下記項目をメールにて申し込み先にお送りください。(7月4日(金)締切)

(お申し込みいただいた個人情報は、本セミナーのご連絡及び確認以外には使用いたしません。)

- ・企業名・団体名等
- ・所在地、TEL、E-mail
- ・参加者所属・役職・氏名

### 【申込み・問い合わせ先】

JICA 関西国際センター JICA コラボデスク (グランフロント大阪コラボオフィス K812)

電話：090-6975-3771、Email: [jica-collabodesk-0711kyrgyz@prex-hrd.or.jp](mailto:jica-collabodesk-0711kyrgyz@prex-hrd.or.jp) 担当：酒井、杉村

主催者事務局：JICA 関西 業務第一課 電話：(078)261-0397

# アンケート

本日のセミナーへのご参加、ありがとうございました。以下のアンケートにご協力願います。

## 1. ご所属先

- ☐民間企業（農林水産業・製造業・建設業・公益業・サービス業[除く金融、コンサルティング]）  
☐研究機関 ☐金融機関 ☐コンサルティング企業 ☐公的機関 ☐個人 ☐学生

## 2. イベントを知ったきっかけ（複数回答可）

- ① メールマガジン： 大和総研・その他（具体名）  
 ② ホームページ： JICA・大和総研・その他（具体名）  
 ③ ツイッター： JICA・その他（具体名）  
 ④ Facebook： JICA・その他（具体名）  
 ⑤ JICA からのメール／電話によるご案内  
 ⑥ その他（具体的に）

## 3. セミナーに参加された動機（複数回答可）

- ① キルギスでのビジネスに関心がある（具体的に）  
 ② キルギスに学問的な関心があった  
 ③ キルギスにおける JICA 事業に関心があった  
 ④ 人脈形成の機会と感じた  
 ⑤ プレゼンテーションの内容に関心があった（具体的に）  
 ⑥ その他（具体的に）

## 4. セミナーの内容について

- ①セミナー全体への満足度 よい・ふつう・よくない  
 ②「日本センターの活動とネットワーク」の満足度 よい・ふつう・よくない  
 ③「キルギス経済発展の課題と本邦企業のビジネスの可能性」の満足度 よい・ふつう・よくない  
 ④セミナーではビジネスに役立つ情報が得られた 得られた・どちらでもない・得られなかった  
 ⑤セミナーに参加し、人脈形成につながった つながった・どちらでもない・つながらなかった  
 ⑥その他特筆すべき事項がありましたら、ご記入ください。

## 5. キルギスの事業環境について

- ① 貴社にとってキルギスでの事業チャンスはある そう思う・どちらでもない・そう思わない  
 ② キルギス一国を市場としても利益が得られそう そう思う・どちらでもない・そう思わない  
 ③ キルギス進出では、隣国への輸出がメインとなる そう思う・どちらでもない・そう思わない  
 ④ 中央アジアの物流拠点として魅力的である そう思う・どちらでもない・そう思わない



## Appendix4 The Kyrgyz Investment Guide



# **The Kyrgyz Investment Guide**

Japan International Cooperation Agency  
(JICA)

---

**2014**





---

## Introduction

This investment guide is based on the results obtained by a fact-finding team dispatched to Kyrgyzstan by the Japan International Cooperation Agency between February and October 2014 to evaluate the potential for investment in the further development of business in that country. During the course of their visit, the team conducted interviews with Kyrgyz government agencies and economic organizations, law firms, financial institutions, and private companies with the help of which they were able to assemble and check information, together with a wide range of legal and regulatory system-related source materials. The information they gathered on subjects ranging from the country's political situation, and current economic and industrial trends to its legal and taxation systems should prove useful as reference for Japanese and other foreign companies looking to make inroads into Kyrgyzstan.

Kyrgyzstan is one of five central Asian countries once part of the former Soviet Union. When the country gained its independence in 1991, however, it embarked on a series of reforms aimed at democratization and the establishment of a market economy. In the 2014 edition of *Doing Business*, an annual publication in which the World Bank evaluates business conditions in countries and regions around the world, Kyrgyzstan was ranked 68th out of the 189 countries and regions evaluated. As a landlocked country, Kyrgyzstan is disadvantaged by high trade-related distribution costs, which detracts from its appeal from the standpoint of "international trade." The country's "electric power supply" is also considered problematic, burdened as it is by formalities that make securing a power supply a time consuming process. On the other hand, real estate registration, business startups, and investor protection are seen in a much more positive light, reflecting steps taken to make the country's domestic systems more foreign investor-friendly.

However, when evaluating a region's potential as a manufacturing base, based primarily on a low cost of labor, and/or as a market in terms, for example, of its overall size and of the growth of a consumer class, the focus of attention for most Japanese companies tends to be southeast Asia while very few have eyes for central Asia. Regardless, however, of this tendency to rank a region's development potential by reference to factors such as labor costs, market size, and cultural similarities, one of the main reasons why so little attention has thus far been paid to Kyrgyzstan and the other countries of central Asia is the huge dearth of information about them. A key aim of this guidebook, therefore, is to disseminate a range of basic information about Kyrgyzstan and its investment environment to a much wider audience. Following are the main advantages and disadvantages of Kyrgyzstan's investment environment.

## Advantages

- A high rate of economic growth and huge neighboring markets (Russia and Kazakhstan)

In the 10 years from 2003 to 2013, Kyrgyzstan recorded high annual growth of 14.7% along with increasing purchasing power as per capita GDP rose from around USD 400 to USD 1,200. As Kyrgyzstan is in the Russian language orbit, maintains close links with Russia, and borders on Kazakhstan, these regions make obvious target markets.

- Relatively low costs of labor and electric power

Kyrgyz labor costs are on the low side compared with those of its Russian and Kazakh neighbors. Electric power is also cheap, thereby enhancing the country's potential as a manufacturing center for the region.

## Disadvantages

- Small economy and population

The country's economy is small, limiting its attraction as a market in and of itself. Its small population also makes it difficult to see it as a major manufacturing center.

- High logistics costs

As a landlocked country, Kyrgyzstan's exports are limited, with the result that transportation is frequently one way only and vehicles have to return empty, making it difficult to reduce the costs of distribution.

To ensure the ultimate reliability of this guide, we took special care at the preparation stage to remain objective and to avoid any partiality in favor of Kyrgyzstan.

---

< Table of Contents >

Chapter 1. Overview .....	1
1. Fundamental features .....	1
2. Geography .....	2
3. History.....	4
4. Political system and social conditions .....	8
Chapter 2. Economy, Industry, and Trade .....	16
1. Economy .....	16
2. Industry .....	22
3. Trade .....	27
Chapter 3. Financial System.....	35
1. Central bank .....	35
2. Banks .....	37
3. Brokerages.....	38
4. Commercial banking sector credit outstanding and profitability.....	39
5. Funding situation and settlement practices .....	42
6. Financial services for foreign residents.....	43
Chapter 4. Establishing a company and other pre-requisites .....	45
1. Types of companies.....	45
2. Establishing a company .....	46
3. A branch or agency of a foreign corporation.....	47
4. Registering branches and agencies .....	47
5. Methods of investment (investment forms, investor protection) .....	48
Chapter 5. Tax system and preferential investment treatment .....	51
1. Tax system.....	51
2. Points to remember.....	60
3. Investment incentives .....	62
Chapter 6. Investment Environment .....	66
1. Labor .....	66
2. Public Infrastructure .....	72
3. Distribution .....	75
4. Intellectual Property .....	78
5. Environmental Regulations.....	81
6. Litigation and Arbitration .....	83
7. Business Practices .....	84

## <List of Charts>

Chart 1-1: Key features of Kyrgyzstan .....	1
Chart 1-2: Comparisons with neighboring countries and the countries of southeast Asia .....	2
Chart 1-3: Kyrgyz Republic national holidays (2014) .....	2
Chart 1-4: Central and eastern Asia .....	3
Chart 1-5: Regions of the Kyrgyz Republic .....	4
Chart 1-6: Year-round climates of Bishkek (left) and Sapporo (right) .....	4
Chart 1-7: Milestones in the history of the Kyrgyz Republic (1) .....	6
Chart 1-8: Milestones in the history of the Kyrgyz Republic (2) .....	8
Chart 1-9: Presidential powers .....	9
Chart 1-10: Government and prime ministerial powers .....	11
Chart 1-11: The 25th prime minister and his ministerial appointments (April 4, 2014) .....	11
Chart 1-12: Regional organizations and affiliations of the countries of central Asia and the Caucasus .....	15
Chart 2-1: Real GDP growth rate and per capita GDP .....	16
Chart 2-2: Government budget vs. nominal GDP .....	17
Chart 2-3: Revenue & expenditure .....	18
Chart 2-4: Foreign debt vs. nominal GDP .....	19
Chart 2-5: Foreign direct investment in Kyrgyzstan by country .....	20
Chart 2-6: Foreign direct investment in Kyrgyzstan by industry .....	20
Chart 2-7: International balance of payments .....	21
Chart 2-8: Primary industry share of nominal GDP & per capita GDP (2012) .....	22
Chart 2-9: Ratio of nominal GDP by Industry .....	23
Chart 2-10: Number and ratio of workers by industry .....	24
Chart 2-11: Retail sales .....	26
Chart 2-12: Trade balance, exports & imports .....	28
Chart 2-13: Reserves-to-imports ratio .....	28
Chart 2-14: Exports by product category .....	30
Chart 2-15: Imports by product category .....	31
Chart 2-16: Variances in trade statistics .....	32
Chart 2-17: Exports by trading partner .....	33
Chart 2-18: Imports by trading partner .....	34
Chart 3-1: Inflation and policy rate .....	36
Chart 3-2: Foreign exchange rate (vs. USD) .....	37
Chart 3-3: Commercial banks: number of branches and amount of capital .....	38
Chart 3-4: Commercial banking sector credit outstanding vs. nominal GDP .....	40
Chart 3-5: Commercial bank credit outstanding by industry .....	40
Chart 3-6: Banking sector ROA and nonperforming loan ratio .....	41
Chart 3-7: Policy rate, lending rate & deposit rate .....	42

---

Chart 3-8: Sample list of documentation needed for a foreign company to open a corporate account (Demir Bank).....	44
Chart 4-1: Main company types and their brief descriptions .....	45
Chart 4-2: Bilateral agreements concluded by the Kyrgyz Republic to promote and protect investment .....	49
Chart 5-1: Types of corporations in terms of tax administration .....	51
Chart 5-2: Taxpayers who pay tax through “withholding at source” and tax rates .....	52
Chart 5-3: Income not included in annual income .....	53
Chart 5-4: Expenses that can and cannot be deducted from taxable income for computing profit tax.....	53
Chart 5-5: List of taxable items with a tax rate other than 12% .....	55
Chart 5-6: Main commodity tax, taxable items and their tax rates .....	55
Chart 5-7: Types of subsoil usage tax and brief descriptions .....	56
Chart 5-8: Classification of taxable items and tax rates under property tax.....	57
Chart 5-9: Types of tax inspections .....	59
Chart 5-10: Countries with whom the Kyrgyz Republic has concluded a convention for the avoidance of double taxation.....	59
Chart 5-11 Organization chart of the Investment Promotion Agency under the Ministry of Economy of the Kyrgyz Republic.....	62
Chart 5-12 Investment promotion website .....	63
Chart 5-13: Expenses relating to entering the FEZ.....	64
Chart 5-14: List of trade agreements between the Kyrgyz Republic and neighboring countries .....	65
Chart 6-1: Changes in Population Structure.....	66
Chart 6-2: Changes and Comparison of Average Age in Each Country .....	67
Chart 6-3: Literacy Rate.....	68
Chart 6-4: Number of Educational Institutions and Students .....	69
Chart 6-5: Number of General Education Schools and Students by Language .....	70
Chart 6-6: Work Hours (Maximum) .....	71
Chart 6-7: Public Holidays of the Kyrgyz Republic .....	71
Chart 6-8: Average Monthly Income by Industry and Region (2013).....	72
Chart 6-9: Comparison of Electricity Rates .....	73
Chart 6-10: Comparison of Water Rates .....	73
Chart 6-11: Comparison of Gas Rates .....	73
Chart 6-12: Penetration of Communication Means .....	74
Chart 6-13: Per-Minute Rates for Fixed-line Calls (Kyrgyztelecom).....	74
Chart 6-14: Mobile Phone Usage Charge (MegaCom).....	75
Chart 6-15: Freight Volume by Type (2013) .....	75
Chart 6-16: Asian Highways Passing Through the Kyrgyz Republic.....	76
Chart 6-17: Cities Serviced by Flights from Bishkek and Osh .....	77
Chart 6-18: Air Freight Fees (1 kg) .....	78
Chart 6-19: Major Laws Related to Intellectual Property Rights in Kyrgyzstan.....	79

Chart 6-20: Number of Intellectual Properties Protected in Kyrgyzstan (1993 to the end of June 2014) .....	80
Chart 6-21: Key Laws and Regulations Related to Environmental Protection .....	82
Chart 6-22: International Agencies for Dispute Resolution.....	83
Chart 6-23: Major Business Practices in Kyrgyzstan .....	84

## Abbreviations

ADB	Asian Development Bank
AH	Asia Highway
ATM	Automated Teller Machine
CAREC	Central Asia Regional Economic Cooperation
CIA	Central Intelligence Agency
CICA	Conference on Interaction and Confidence-Building Measures in Asia
cif	Cost including Insurance and Freight
CIS	Commonwealth of Independent States
CSTO	Collective Security Treaty Organisation
DAC	Development Assistance Committee
EAEC	Eurasian Economic Community
ECO	Economic Cooperation Organization
EDI	Electronic Data Interchange
EIA	Environment Impact Assessment
EPA	Economic Partnership Agreement
FEZ	Free Economic Zone
fob	Free on Board
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GUAM	Georgia Ukraine Azerbaijan Moldova (4カ国名の頭文字)
HS	Harmonized Commodity Description and Coding System
ICSID	International Centre for Settlement of Investment Disputes
IFS	International Financial Statistics
IMF	International Monetary Fund
JETRO	Japan External Trade Organization
KGS	Kyrgyz Som
LLC	Limited Liability Company
NGO	non-governmental organizations
ODA	Official Development Assistance
ROA	Return on Asset
SAEPF	State Agency for Environment Protection and Forestry
SCO	Shanghai Cooperation Organisation
UAE	United Arab Emirates
UNCITRAL	United Nations Commission on International Trade Law
UNCTAD	United Nations Conference on Trade and Development
UPOV	Union internationale pour la protection des obtentions végétales
USD	United States Dollar
VAT	Value Added Tax
WTO	World Trade Organization



## The Kyrgyz Republic



Source: United Nations Cartographic Section

## Chapter 1. Overview

### 1. Fundamental features

Located in central Asia, Kyrgyz Republic is bordered by Kazakhstan to the north, Uzbekistan to the west, Tajikistan to the southwest, and China to the southeast.

Its capital, Bishkek, is on the same latitude as Sapporo in Hokkaido, Japan, but with limited precipitation due to its continental climate, it is drier than Sapporo. Kyrgyz Republic's climate also varies from region to region depending on altitude, ranging from temperate at lower elevations to subtropical in the south.

The country's population of approximately 5.6 million, small even by central Asian standards, is 75% ethnic Kyrgyz. There is no established religion, however, and it has a mixture of Islamic and Russian orthodox adherents, celebrating both Ramadan and the Russian orthodox New Year.

In political terms, it is a republic with a president as its head of state. Following two revolutions and the promulgation of a constitution in 2010, however, the president's powers are now significantly circumscribed. The country's prime minister has, in fact, ultimate control over the government, the country's highest organ, but from the people's standpoint the president is overwhelmingly perceived as the "representative" of the republic.

With a nominal GDP of USD 7.23 billion (USD 1,280 per capita), Kyrgyzstan had the second lowest income of the five central Asian countries in 2013, only Tajikistan faring worse. However, Kyrgyzstan also posted the fastest real growth of the five central Asian countries in 2013 with a rate of 10.5%.

**Chart 1-1: Key features of Kyrgyzstan**

Official name	Kyrgyz Republic
Land area	198,500km <sup>2</sup> (Ministry of Foreign Affairs Japan)
Population	5,644,000 (IMF: 2013)
Growth rate of population	1.1% (UN: 2010-2015 forecast)
Working population	2,344,000 (2007)
Economic growth (real rate)	10.5% (2013)
GDP (nominal)	USD 7.23 billion (IMF: 2013)
Per capita GDP(nominal)	USD 1,280.2 (IMF: 2013)
Capital	Bishkek (population: 854,000 in 2009)
Political system	Republic
Head of state	President Almazbek Atambayev (inauguration: December 1, 2011)
National assembly	Single-chamber system (fixed quorum: 120 seats)
Prime minister	Zhoomart Otorbayev (inauguration: April 4, 2014)
Language	Kyrgyz (official national language) and Russian (lingua franca)
Ethnic groups	Kyrgyz: 75%. Uzbek: 14.3%. Russian: 7.2%. Other: 3.5%
Religion	Islam (Sunni): 75%. Russian orthodox: 20%. Other: 5%.
Education	4 years (primary), 5 years (middle school), 2 years (high school), 4 or 5 years (university). Education compulsory up to middle school.
Average life expectancy	70.06 years
Median age	26.7 years
Currency	Kyrgyzstani som (USD 1 = KGS 51.8, as at July 29, 2014)
Climate	Most lowland areas: Temperate. Southern region: Subtropical
Japanese expatriate population	136 (October 2012)
Kyrgyz expatriates in Japan	246 (December 2013)

Source: IMF, CIA, United Nations, Japanese Ministry of Foreign Affairs.

**Chart 1-2: Comparisons with neighboring countries and the countries of Southeast Asia**

	Per capita GDP (USD)	Real GDP growth rate (%)	Nominal GDP (USD 1 billion)	Population (million)	Median age (years)	Land area (10,000 km <sup>2</sup> )
Kazakhstan	12,843	6.0	220	17.2	31.1	272.5
Turkmenistan	7,112	10.2	41	5.7	27.1	48.8
Uzbekistan	1,868	8.0	56	30.2	27.7	44.7
<b>Kyrgyzstan</b>	<b>1,280</b>	<b>10.5</b>	<b>7</b>	<b>5.6</b>	<b>26.7</b>	<b>20.0</b>
Tajikistan	1,045	7.4	8	8.1	24.0	14.3
Russia	14,819	1.3	2,118	142.9	41.9	1,709.8
Turkey	10,815	4.3	827	76.5	30.0	78.4
Mongolia	3,972	11.7	12	2.9	27.8	156.4
Vietnam	1,902	5.4	171	89.7	30.2	33.1
Laos	1,477	8.2	10	6.8	22.3	23.7
Cambodia	1,016	7.0	16	15.4	24.8	18.1
Myanmar	869	7.5	56	64.9	27.6	67.7

Source: Population, GDP: IMF, World Economic Outlook Database, April 2014. Median age of population: CIA-The World Factbook, May 2013. Land area: United Nations "Demographic Yearbook."

**Chart 1-3: Kyrgyz Republic national holidays (2014)**

Jan-1	New Year's Day
Jan-7	Russian Orthodox New Year
Feb-23	Fatherland Defenders Day
Mar-8	International Women's Day
Mar-21	Nooruz (old calendar new year)
May-1	Labor Day
May-5	Constitution Day
May-9	Victory Day
Jul-28	End of Ramadan*
Aug-31	Independence Day
Oct-5	Eid al-Adha*
Nov-7	Day of the Great October Socialist Revolution

Note: \* The dates of the Islamic festival days are determined each year by Kyrgyzstan's highest Muslim authorities in accordance with the solar calendar and may occasionally as a result be subject to last minute change.

Source: Compiled by reference to the website of the Japanese Embassy in Kyrgyzstan.

## 2. Geography

Kyrgyz Republic, a landlocked central Asian country bordered by China, Tajikistan, Uzbekistan, and Kazakhstan, has an area of 198,500 square kilometers, approximately half that of Japan. The nation's capital, Bishkek, is on the same latitude as Sapporo in Japan.

The country's terrain is mountainous with close to 70% accounted for by the Tien Shan and Pamir-Alai mountain ranges. The Tien Shan ranges in the northeast of the country include the country's highest mountain, Pobeda Peak (7,439 m), on its border

with China. The Pamir Alai range is a collective name for the Trans Alai and Alai ranges that run up from the border with Tajikistan. The highest peak in this range is Lenin Peak (7,134 m). The Kyrgyz Republic lies at a high altitude and has an average elevation of 2,750 m. Fully 94.2% of the country is at an elevation of 1,000 m or more and 40.8% is at upwards of 3,000 m. Despite being so mountainous, the country's forests account for no more than a small percentage of its overall area. In the northeast of the country, at an elevation of 1,600 m, stands the 6,250 km<sup>2</sup> expanse of Issyk Kul Lake, the world's second clearest lake (the world's clearest being Lake Baikal), known as "the pearl of central Asia".

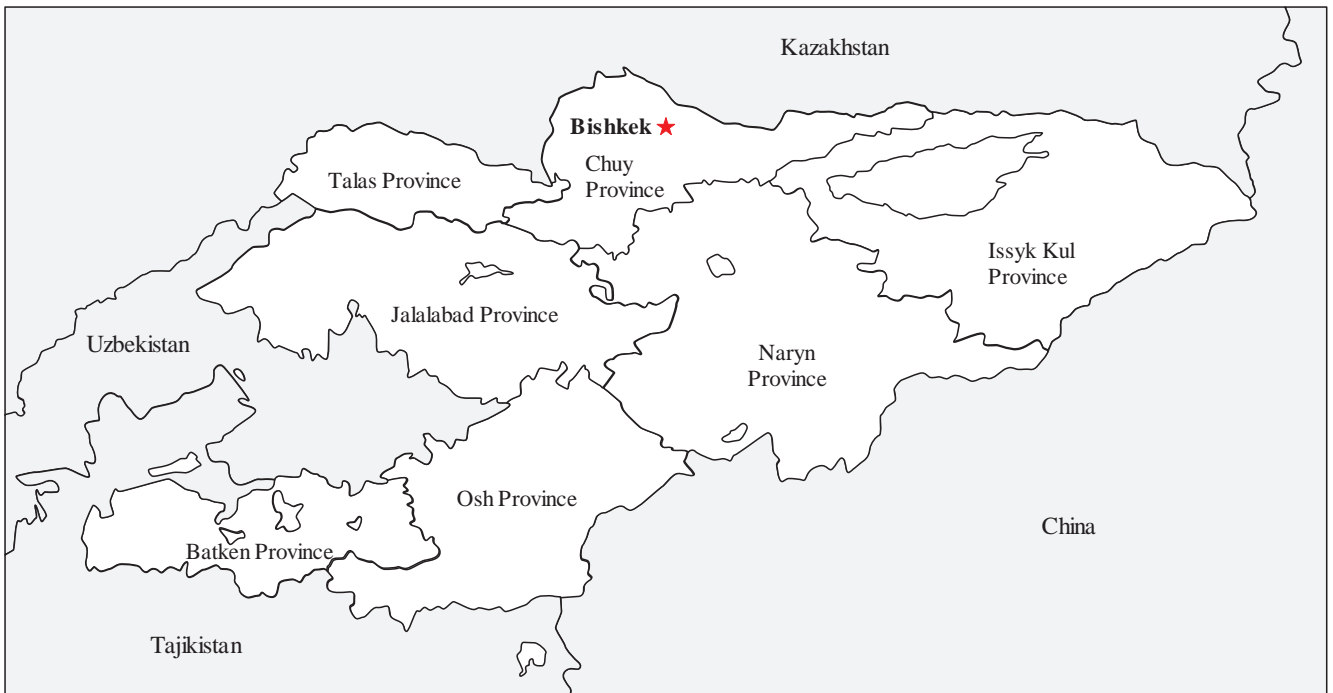
Kyrgyz Republic's continental climate is subject to extremes of temperature at both ends of the range. The country is reputed to enjoy some 300 or so clear days each year along with low levels of precipitation and humidity. However, the climate also varies widely by region depending on altitude. As a result, while most of the country's lower lying regions enjoy a temperate climate, the south is subtropical.

**Chart 1-4: Central and eastern Asia**



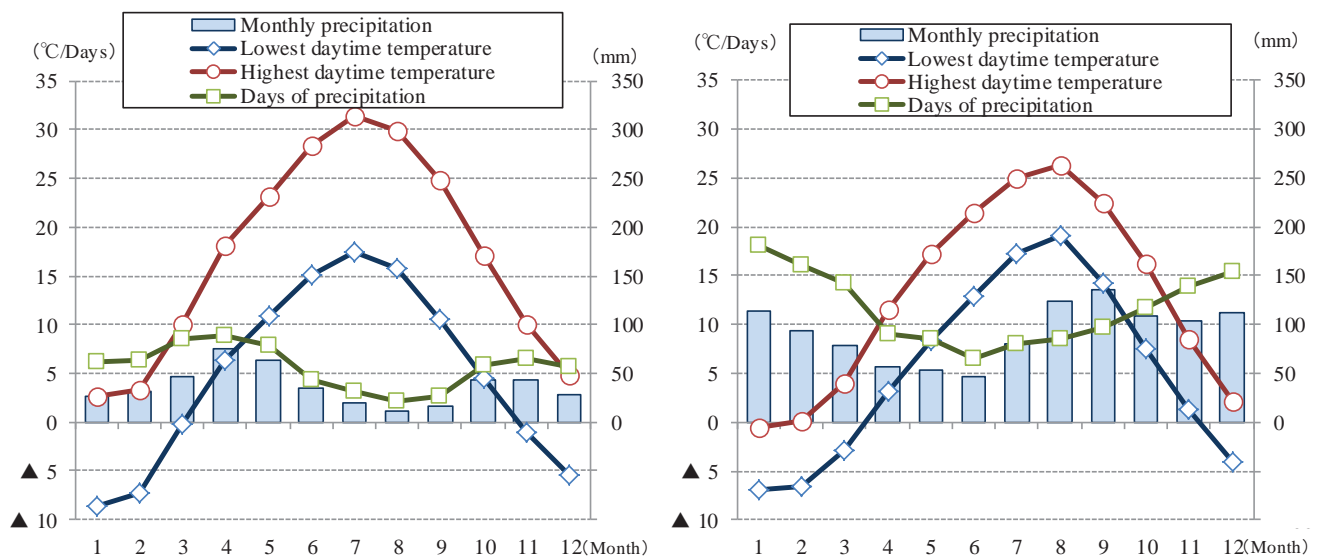
Source: Compiled using Sankakkei White, "World, and Japanese free maps"

Chart 1-5: Regions of the Kyrgyz Republic



Source: Compiled using Sankakkei White, World, and Japanese free maps.

Chart 1-6: Year-round climates of Bishkek (left) and Sapporo (right)



Source: Compiled by reference to World Meteorological Organization website.

### 3. History

The Kyrgyz people first appeared in central Asia in the 3rd century BC. They are thought to have originated from tribes that originally settled in the southern Siberian and central Asian region. In ancient times they also settled in northwest Mongolia. The Kyrgyz were first referred to as a nation in Chinese records dating from 201 BC. They were one of the strongest of the nomadic tribes that violated China's borders in the 4th and 3rd centuries BC and are said to have been one of the reasons for China's

---

decision to build the Great Wall.

In the 2nd century BC, the Han Ziang Qian set out for Daigesshi. On his return, he reported phenomena such as the Ferghana horse of Dayuan (Ferghana basin) to Emperor Wu. These movements marked the origin of the Silk Road. Some of the Kyrgyz people escaped the control of the Huns and moved to new lands along the shores of the Yenisei River and Lake Baikal, establishing what was later to be known as Kyrgyz Kahn country. This is said to be roughly when Kyrgyz culture was born and runic inscriptions carved into a stone memorial provide the first evidence of the Kyrgyz language. Things relating to historical events and to the culture and traditions of this period were subsequently recorded in the folk epic Manas and have been passed down through the ages since.

The period from 160 BC until the 5th century AD was the time of the Usun people when the Silk Road through the Tien Shan really started to open up. During this period, religions from Zoroastrianism to Buddhism, Christianity, and Shamanism existed peacefully side by side. The following centuries saw the rise and fall of many nations from the Kshan (1st-5th century), Turks (6th-7th century), Western Turks (7th-8th century), Turgen (8th century), and Kururk (8th-10th century) to the Karahan (10th-12th century). With the 13th century came the Mongol rulers and invasions by the armies of Tamerlane. This spelled the end of the lands of the Kyrgyz who from then until the 17th and 18th centuries were pressed into service in these same armies and fought to defend against attacks by the Kalmyk and Oirat Kahn. In the 15th and 16th centuries, however, the Kyrgyz also began to establish themselves in the Tien Shan and in the early years of the 17th century they finally moved into what is now Kyrgyz Republic.

Thereafter, in 1855 their lands were annexed by Russia and incorporated into a socialist system. As a mining, manufacturing and agricultural country involved in everything from nomadic herding to military service, Kyrgyzstan enjoyed the benefits of generous soviet assistance in maintaining high levels of education and introducing a rudimentary social security system. The 19th century saw the beginnings of migration by people from Russia and the Ukraine to Kyrgyzstan. This was followed by the arrival of waves of Dungan immigrants from China fleeing the aftermath of their unsuccessful uprising of 1862-1877. Racial tensions were said to have been "resolved" and the various ethnic groups lived in harmony in the lands of the Kyrgyz. In 1917-1918, Soviet authority was extended to these lands and in 1924 the Soviet Federation announced the establishment of the Kara-Kyrgyz Autonomous Oblast. This was followed in February 1926 by the establishment of the Kyrgyz Autonomous Soviet Socialist Republic.

In 1936, the country was elevated to a separate constituent republic of the Union Soviet Socialist Republics under the name Kyrgyz Soviet Socialist Republic. Subsequently, as the latter stages of Gorbachev's perestroika brought a weakening of Moscow's control, the republic's economy fell into serious difficulties and the country started to consider the possibility of transitioning to democracy.

In June 1990, the bloodletting occasioned by the Osh Riots, resulting from tensions between the Kyrgyz and Uzbeks, fostered growing resentment towards Russians in the country and subsequently led to an exodus of large numbers of Russians. This failure



to manage interracial friction also prompted a loss of confidence in the first secretary of the communist party who was subsequently replaced in October following election to the presidency of Askar Akayev, also then president of the Kyrgyz National Academy of Science.

**Chart 1-7: Milestones in the history of the Kyrgyz Republic (1)**

Date	Event
300,000 years ago	Early humans settle in the Tien Shan
3rd century BC	Kyrgyz people first appear in central Asia
201 BC	First appearance of Kyrgyz nation in early Chinese records
160 BC	Usun people move into the Tien Shan
2nd century BC	Zhang Qian sets out for Daigesshi. On his return, he reported phenomena such as the Ferghana horse of Dayuan (now the Ferghana basin) to Emperor Wu. This marks the origin of the Silk Road.
552	Türk Khan established
629	Genjo Sanzo heads for India, visiting Issyk Kul Lake and the Castle of Sand
751	Battle of Talas and spread of Islam through central Asia
840	Lands of nomadic Uigurs destroyed following arrival of Kyrgyz people. Establishment of Kyrgyz Khanate.
10th century	Creation (supposed) of Manas folk epic
10th-11th centuries	Flourishing of Kalyan in Tien Shan
13th century	Rule of Mongol empire
Late 15th - early 16th centuries	Growing presence of Kyrgyz peoples in Tien Shan
Late 18th - early 19th centuries	Rule by Kokand Khan
1855 - 1876	Annexation by Russian empire
1918	Establishment of Turkestan Autonomous Soviet Socialist Republic
1924	Following establishment of firm borders for peoples and republics of central Asia, Kara-Kyrgyz Autonomous Oblast formed within Russian Federation.
February-1926	Establishment of Kyrgyz Autonomous Soviet Socialist Republic
1936	Elevated by USSR to Kyrgyz Soviet Socialist Republic
October-1990	Accession of President Akayev

Source: Compiled from miscellaneous records.

Following a declaration of sovereignty in December 1990, on August 31, 1991 the Kyrgyz Republic declared itself an independent country. Thereafter, in 1992 it joined the United Nations (March), the IMF (May), and the World Bank (September), and in 1998 it became a full member of the global social and economic community when it became the first of the CIS countries to join the WTO.

In May 1993, it adopted a republican constitution and changed its name to the Kyrgyz Republic. In addition to naming Kyrgyz as the official language, the new constitution also set out a number of restrictions whereby, for example, the acquisition of land was prohibited, dual nationality was prohibited, and the supremacy of the Kyrgyz Republic was enshrined along with a number of other exclusive provisions. On May 10, the republic dispensed with the old Soviet ruble and introduced its own

---

currency in the shape of the som. In consequence, however, the republic found its supplies of Russian raw materials and energy restricted and was obliged to import what it needed from other countries. When its nearest neighbors also closed their borders with the republic and refused to accept settlement in the new internationally unpopular currency, the country's economy found itself in serious difficulty.

On advice from the IMF, the republic maintained the value its currency for approximately five years, allowing other currencies to fall against it and, in so doing, laying its bazaars open to inflows of foreign goods. After joining the WTO, moreover, comparatively low-priced Chinese products poured into the market, putting domestic manufacturers under heavy pressure. These developments are thought to have stemmed the growth of the republic's domestic industries.

The years from around 1995 onwards saw power increasingly centered in President Akayev's hands. A bill extending the president's term was voted down but Akayev put his opponents in the election of December 1995 under heavy pressure and was duly elected to a second term. Thereafter, in 1996, the president's powers were greatly increased following approval by referendum for a bill providing for the introduction of a new constitution. Factors such as the pressures brought to bear on anti-establishment mass media and on powerful politicians gave rise to growing human rights concerns and in October 2000 a presidential election was held. Although presidents were at the time permitted to serve no more than two terms, Akayev, already in his third term, was authorized by the constitutional court to stand for election yet again. His powerful opponent Kulov was subjected to investigation by a military court, which obliged him to discontinue his candidacy, and Akayev was elected once again. President Akayev was universally obliging on the diplomatic front and had a reputation for implementing policies to accommodate all tastes. In 2002 the arrest of Supreme Council member Beknazarov following strong criticism of the president's conclusion of a border demarcation agreement with China triggered demonstrations calling for Beknazarov's release and the president's resignation. Clashes between the police and demonstrators in Jalalabad Province ended in the deaths of five people. However, although Prime Minister Bakiyev resigned in May 2002 in an effort to resolve the situation, the opposing factions insisted that responsibility lay with the president and the situation remained volatile.

Further violent opposition, occasioned in March 2005 by nationwide Supreme Council elections, finally prompted Akayev to make good his escape to Russia in April of the same year. This was accompanied by the demise of the administration (Tulip Revolution).

In July 2005, Bakiyev was elected president but despite the formation of a new administration with Kulov as prime minister, democratization slowed to a snail's pace and Bakiyev soon came under attack. The ensuing political wrangling was in no way diminished by Kulov's resignation. In July 2009, Bakiyev was re-elected and this was followed by a landslide victory in Supreme Council election in December. Bakiyev looked to stabilize his power base but the concentration of wealth and power in his family's hands and the pressures, in some cases violent, put on his political opponents combined with factors such as rising energy bills to stoke further unrest, leading in April 2010 to gun battles between security forces and the masses. This tragic incident,



which led to the deaths of 86 people, prompted Bakiyev to flee to Belarus.

In June of the same year, steps were taken to stabilize the situation by holding a nationwide ballot to enable the people to express their approval or otherwise of the new constitution bill and of caretaker president Otunbayeva. Under the terms of the new constitution, a wide range of presidential powers would be transferred to the prime minister and the Supreme Council. The presidential election of October 2011 saw former Prime Minister Atambayev returned to power. The new constitution established a political system based the separation of powers and the question now was quite simply whether this could be maintained.

**Chart 1-8: Milestones in the history of the Kyrgyz Republic (2)**

Date	Event
December 15,1990	Name change to "Republic of Kyrgyzstan" announced and sovereignty declared
August 31,1991	Republic declared independent
May -1993	Name changed to "Kyrgyz Republic" and som introduced as nation's currency
1998	Joined WTO (first to do so among former soviet republics)
October-2000	Former President Akayev returned to power in presidential election
April-2005	Resignation of President Akayev following change of administration (Tulip Revolution)
July -2005	Election of President Bakiyev
July -2009	President Bakiyev re-elected
April-2010	Resignation of President Bakiyev following change of administration
June-2010	Nationwide ballot to allow people to express approval or otherwise of new constitution bill and of caretaker president Otunbayeva
October-2010	Kyrgyz Supreme Council election
October-2011	Kyrgyz presidential election, former prime minister Adambayev elected (took office in December)
August-2012	Resignation of Cabinet (new prime minister Omurbek Babanov)

Source: Compiled from miscellaneous records.

#### 4. Political system and social conditions

##### (1) Overview

In political terms Kyrgyz Republic is a republic. Its current constitution was adopted by the Supreme Council of the Kyrgyz Republic on June 27, 2010. In the wake of two revolutions, the republic became the first central Asian country to adopt a system of parliamentary democracy. The constitution identifies sovereignty, which, under the terms of the constitution, resides with the people, as the nation's sole source of power. It further provides for, among other things, the separation of powers between the legislature, executive, and judiciary, for political diversity based on a multiparty system, for protection of the rights and freedoms of the individual, and for the generation of profit for the public good.

##### (2) The president

As the head of state with powers defined by the constitution, the president of the Kyrgyz Republic embodies the unity of its people and the power of the state. His term

of office is six years after which he may not be re-elected. To be eligible for election to the office of president, a person must be a Kyrgyz national aged 35 or older but younger than 70 and must have been resident in the country for at least 15 years. While there is no limit on the number of people who may stand for election, only those with the signatures of at least 30,000 qualified voters can be registered as candidates. While in office, the president may not be a member of a political party and must relinquish any and all forms of political activity.

**Chart 1-9: Presidential powers**

Type	Authority
Legislative	To announce elections to the Supreme Council of the republic and to call an election before the end of the Council's term
	To announce Regional Council elections and to dissolve Regional Councils
	To sign and promulgate laws, or to send them back to the Supreme Council
	To call extraordinary meetings of the Supreme Council and to specify the agenda
Executive	To suggest candidates for supreme court judge to the Supreme Council
	To recommend the dismissal of a supreme court judge to the Supreme Council
	To appoint and dismiss regional court judges
	To appoint or, with the approval of Supreme Council, to dismiss the attorney general, and to appoint or dismiss the deputy attorney general
Military	To appoint or dismiss the heads and deputy heads of the Ministry of Defense and other government agencies with a role in the nation's security
	Commander in chief of the army
	To specify the make-up of, and to appoint or dismiss, the army's supreme command
	To lead the National Defense Council
Diplomatic	To introduce state-of-emergency legislation, to declare war, and to introduce martial law
	To negotiate and sign international agreements
Other	To sign instruments of ratification and accession
	To specify the make-up of the presidential office, to approve its rules, and to appoint its head
	To introduce candidates for governor of the national bank to the Supreme Council, and to appoint or dismiss the deputy governor and members of the board of governors
	To introduce candidates for the central election and national referendum implementation commissions to the Supreme Council
	To introduce candidates for the Board of Audit to the Supreme Council
	To appoint or dismiss the head of the Board of Audit
	To confer decorations, titles of honor, military titles, diplomatic titles, and other special titles
	To grant pardons

Source: Compiled by reference to the constitution of the Kyrgyz Republic.

### (3) Administration

The extent of the powers of the republic's highest administrative organ, the government, are set out in and after Article 83 of the constitution. The government itself comprises a prime minister, a deputy prime minister, various ministers, and the head of the Supreme Council, organized into ministries and a Supreme Council, all under the supervision of the prime minister.

The prime minister is appointed by the president based on a recommendation of the Supreme Council as to who they consider the best of a list of candidates presented for

---

consideration to the Council by the majority party or by a coalition of parties within fifteen working days of their first meeting following a general election. Orders for the appointment or dismissal of the prime minister or any other cabinet minister are announced by the president. In the absence of an order from the president, the prime minister and other ministers are deemed to have been so appointed.

A prime ministerial candidate must present his plans for government, for its structure, and for its personnel to the Council. In the event the Council rejects his plan and the structure and personnel are not confirmed, or if no party has a majority of seats, the president must choose one party to form a majority and call on them to support the chosen prime ministerial candidate. If the parties forming the Council can agree among themselves on the formation of a majority, then they may equally provide support for a prime ministerial candidate in this way. If the government's plans are not approved by either of these methods, the president may call a Supreme Council election before the end of its term. In the event that a coalition's majority party loses its dominant position in the Council, the formation of a government (choice of a prime minister) must start again from scratch.

The government may be called to account by way of a confidence motion provided at least one third of the Council's members agree on this course of action. Such a motion may thereafter be passed with the agreement of a simple majority of Council members. However, a confidence motion of this sort may not be brought before the Council less than six months before a presidential election. When the government's competence is called into question in this way, the president has the power either to dissolve the government or to disagree with the Council's decision. If the president disapproves of the Council's decision and it is put to the test and again approved by the Council within the following three months, the president must then dissolve the government.

The prime minister may not present a government confidence motion to the Council more than once a year. If the Council finds the government wanting, the president may dissolve the government within five working days or call for a Council election before its term is up. The prime minister, the government, and members of the government have the right to tender their resignations. Such resignations may be accepted or rejected by the president. In the event the prime minister resigns, the rest of the government must also resign. When a government minister either resigns or is dismissed, once this has been approved by the Council the prime minister must recommend a replacement to the president within five working days.

**Chart 1-10: Government and prime ministerial powers**

<b>Government powers</b>	
	To enforce the constitution and the law
	To implement domestic and external policies
	To take measures to enforce the law, protect the rights and freedoms of the people, preserve social order, and guarantee the prevention of crime
	To implement common policies with respect to society, the economy, and the nation's culture
	To formulate and implement a national development plan
	To undertake external economic activity and to ensure coordination between this and civil society
	To guide the activities of ministries, the Supreme Council, government agencies, and regional administrative bodies
	To rescind the decisions of ministries, the Supreme Council, and government agencies
<b>Prime minister's powers</b>	
	To lead the government, and to take personal responsibility before the Council for the government's actions
	To ensure that all government agencies act in conformity with the constitution and the law
	To negotiate and sign international agreements
	To sign government orders and determinations, and to ensure their implementation
	To appoint and dismiss the heads of government agencies
	To appoint and dismiss the heads of regional government agencies based on the recommendations of Regional Councils

Source: Compiled by reference to the constitution of the Kyrgyz Republic.

**Chart 1-11: The 25th prime minister and his ministerial appointments (April 4, 2014)**

Job	Name	Job	Name
Prime minister	Djoomart Otorbaev	Ministry of Youth, Labor and Employment	Aliyasbek Alymkulov
First Deputy Prime Minister	Tayirbek Sarpashev	Ministry of Transport and Communications	Kalykbek Sultanov
Deputy Prime Minister (Social Affairs)	Abdyrakhman Mamataliev	Ministry of Justice	Almambet Shykmamatov
Deputy Prime Minister (Economy and Investments)	Valery Dill	Ministry of Social Development	Kudaibergen Bazarbayev
Deputy Prime Minister	Elvira Sariyeva	Ministry of Finance	Olga Lavrova
Ministry of Culture, Information and Tourism	Kamila Talieva	Ministry of Agriculture and Land Reclamation	Taalaibek Aidaraliev
Ministry of Economic Affairs	Temir Sariyev	Ministry of Energy and Industry	Osmonbek Artykbaev
Ministry of Interior Affairs	Abdylda Suranchiev	Ministry of Foreign Affairs	Erlan Abdyldaev
Ministry of Health	Dinara Saginbaeva	Ministry for Emergency Situations	Kubatbek Boronov
Ministry of Education and Science	Kanatbek Sadykov	Ministry of Defense	Abibilla Kudaiberdiev

Source: Compiled by reference to the Kyrgyz government website, and the Japan-Kyrgyz Network for Investment Environment Improvement website.

#### (4) Legislation

The Supreme Council of the Kyrgyz Republic (hereafter, the "Council") consists of a single chamber with a fixed quorum of 120 members. The earlier twin-chamber organization was replaced following an amendment to the constitution in 2003. The number of Council members was subsequently increased from 75 to 90 on the adoption of a new constitution in October 2007 and was further increased to 120 when the new constitution of 2010 was adopted.

Under the terms of the constitution, the Council, as the highest representative body in the country, has the right to both legislate and oversee the law. Members are elected to the Council for five years on a proportional representation basis provided no single party may hold more than 65 seats. All Kyrgyz nationals of 21 years of age or older on the day of an election have the right to be elected.

The first meeting of the Council must be convened and opened by its oldest member no more than 15 days from the date on which the results of an election are confirmed.

---

Council members may not be prosecuted either for their actions as members or for anything they may say regarding the results of a vote in Council. Except in the case of a particularly serious crime, a member may, with the agreement of a simple majority of the Council, be held to account for criminal liability. Members may not combine a central government appointment with that of a local government agency. Members are also prohibited from undertaking any form of business activity or from becoming a member of the managerial or supervisory agency of a commercial organization.

A decision to undertake voluntary dissolution of the Council must be agreed by at least two thirds of the Council's members. Legislation may be proposed by (1) 10,000 voters (people's proposal), (2) a Council member, or (3) the government. Legislation may be accepted following three readings in Council. Such legislation must subsequently be approved by a majority of those present in the Council providing the number of votes is not less than 50. In the case of constitutional legislation or of legislation pertaining to border changes, said legislation must have at least three readings and must be approved by at least two thirds of all Council members. In the event of an emergency or of a state of war, constitutional legislation and legislation pertaining to border changes may not be approved.

#### (5) Administration of justice

Rules for the administration of justice are set out in and after Article 93 of the constitution. Judges are independent and subject only to the constitution and the law. Judges also have an inviolable right such that they may neither be bound over, arrested, investigated for a criminal offence, nor subjected to individual assessment unless actually caught in the act.

To become a Supreme Court judge, a person must be a Kyrgyz national between the ages of 40 and 70, educated to a high level in the law, and have at least 10 years experience in the legal profession. The position may not be held beyond the age of 70. Chief justices and associate justices of the Supreme Court are elected by Supreme Court judges for a three-year term. They may not be elected for two consecutive terms. To become a district court judge, a person must be a Kyrgyz national between the ages of 30 and 65, educated to a high level in the law, and have at least five years experience in the legal profession. Appointments are for a term of five years after which they may be called on by the president to continue in their position until they reach the statutory age limit. Chief justices and associate justices of a district court are elected by district court judges for a three-year term. They may not be elected for two consecutive terms.

The judicial branch of government comprises the Supreme Court and district courts. The Supreme Court functions as the constitutional council. Special courts may also be set up, but the establishment of provisional courts is prohibited.

Candidates for the position of district court judge are selected by the judge selection council. The judge selection council may be dissolved before the end of its term at the request of a Supreme Court judge and the approval of at least two thirds of the entire membership of the Supreme Council.

---

## (6) Diplomacy

In 1992, the year after gaining its independence from the Soviet Union, the Kyrgyz Republic joined the United Nations and the IMF. Thereafter, it also joined bodies such as the World Bank, and the Asian Development Bank (ADB), winning acclaim in the process as central Asia's "prize student." The republic has subsequently been proactive in transforming itself into a market economy and in October 1998 it became the first of the CIS nations to join the WTO. The constitution also provides for the renunciation of armed territorial expansion and of either invading or laying claim to foreign territory together with a more general rejection of militarization of any sort at the national level. At the same time, the republic has committed itself to do whatever it can to create a world fair for all and to resolve international disputes by peaceful means in a spirit of mutual cooperation. In its relations with other countries, while placing great importance on the maintenance of a good relationship with Russia, the republic has also made a clear commitment to "balanced diplomacy" inasmuch as it has also sought closer relations with other major countries such as China and the United States.

### i) Relations with Russia

The Kyrgyz Republic's objective has been to maintain a good relationship with Russia, its former colonial ruler. To this end, in December 2002 the republic concluded a peace and security agreement with Russia followed in October 2003 by an agreement for Russian troops to be stationed in Kant. The republic was also actively supportive of Russia in its bid to join the WTO. To this day, moreover, the people of Kyrgyzstan have great confidence in, and feelings of affinity with, Russia.

### ii) Relations with China

The ratification in 1999 of a national boundary agreement with China, in which control over the Bedel region was transferred to China, led eventually in May 2002 to serious political unrest in the republic but the territorial situation was quickly resolved following the conclusion in June of the same year of a friendship and cooperation treaty with China. The Kyrgyz Republic was also a founder member of the Shanghai Cooperation Organization. On the economic front, the republic relies heavily on China for imports of raw materials and manufactured goods, and Chinese goods make up much of what is on offer in the nation's bazaars.

### iii) Relations with the United States

Of the DAC member countries, the United States has been the biggest provider of ODA to Kyrgyz Republic. The United States assigns huge geopolitical importance to central Asia and had a particular interest in Kyrgyz Republic, which had progressed furthest of the central Asian nations towards democratization. As a focal point in the war on terror, in December 2001, the United States established an air base in Manas.

---

Following the subsequent transfer of US interest from Afghanistan to Iraq, however, the base was finally returned to the republic in July 2014.

iv) Relations with Japan

Following the establishment of diplomatic relations in January 1992, approximately one month after the emergence of Kyrgyz Republic as an independent republic, Japan has been an active provider of ODA and relations between the two countries have been progressing. In 2011, Japan was the republic's third biggest provider of ODA behind the United States and Germany. In 2004, the "Central Asia plus Japan" dialogue was established to provide a framework for talks and cooperation between the five central Asian republics, including Kyrgyz Republic, and Japan. In addition to discussions between foreign ministers and other senior officials, this has cleared the way for a range of other activity including the opening of an economic forum. Kyrgyz folklore actually suggests that the "Japanese and Kyrgyz peoples were once closely related" with the result that the people of Kyrgyz Republic are strongly pro-Japanese.

v) Relations with neighboring countries

Kazakhstan is important to Kyrgyz Republic not only as a trading partner and as the country that lies immediately between it and Russia, its erstwhile colonial ruler, but also because it readily absorbs migrant workers from Kyrgyz Republic.

At the same time, however, the border between them has also been the scene of boundary-related skirmishes. Out of a total of eight detached enclaves in central Asia, fully six, including two Tajik and two Uzbek enclaves, are located in Kyrgyz Republic. Discord has been particularly rife in the case of the Uzbek enclaves, actual clashes between the two countries having occurred most recently in 2010 and 2013. The Tajik enclave of Batken Province, a region in dispute between the two countries, is a source of ongoing tension.

**Chart 1-12: Regional organizations and affiliations of the countries of central Asia and the Caucasus**

	CIS	CSTO	CAREC	SCO	EAEC	Customs union	ECO	CICA	GUAM
Kyrgyzstan	○	○	○	○	○	Membership under negotiation	○	○	
Kazakhstan	○	○	○	○	○	○	○	○	
Turkmenistan	○Affiliated member		○				○Affiliated member		
Uzbekistan	○		○	○			○	○	
Tajikistan	○	○	○	○	○		○	○	
Russia	○	○		○	○	○		○	
Belarus	○	○			○	○			
Armenia	○	○				Membership under negotiation			
China			○	○				○	
Mongolia			○					○	
Afghanistan			○				○	○	
Pakistan			○				○	○	
Turkey							○	○	
Iran							○	○	
Ukraine	○								○
Moldova	○								○
Georgia	Seceded in 2009								○
Azerbaijan	○		○				○	○	○

Source: Compiled by reference to the Japanese Ministry of Foreign Affairs website.



## Chapter 2. Economy, Industry, and Trade

### 1. Economy

#### (1) Foreign investment helping fast economic growth

According to IMF data, Kyrgyzstan's nominal GDP grew at an annual pace of 14.7% during the ten years from 2003 to 2013. As a result, per capita GDP more than tripled from around USD 400 to more than USD 1,200 during this same timeframe.

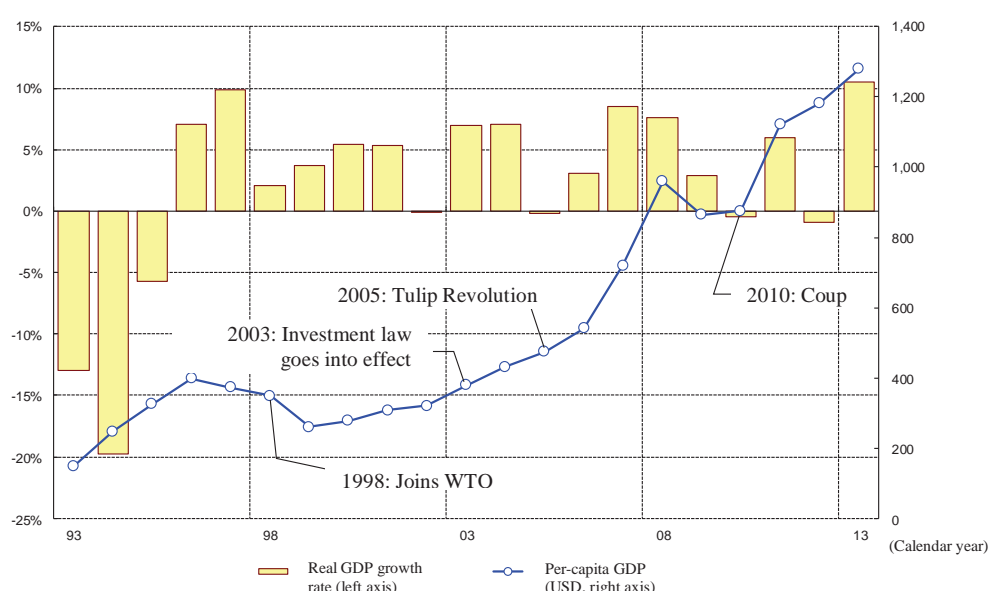
One factor behind this high growth is the increase in investment by foreigners starting in 2003-2004 after the Investment Law (Law of the Kyrgyz Republic No. 66, March 27, 2003) was enacted.

On the other hand, real GDP growth has fallen into negative territory every two or three years. But in the case of the Kyrgyz Republic, Rather than being due to the economic cycle, this negative growth has been largely due to political factors and specific industries (e.g. gold mining).

There were changes in government in 2005 and again 2010, and the president was replaced both times. The 2010 coup, in particular, led to widespread clashes in the south between Kyrgyz people and Uzbeks, and the deteriorating public security situation affected economic activity.

The negative economic growth in 2012 was caused by a major decline in production at Kumtor, the country's gold biggest mining company. That same year, there was a movement in parliament to review the system for issuing mine development licenses.

Chart 2-1: Real GDP growth rate and per capita GDP



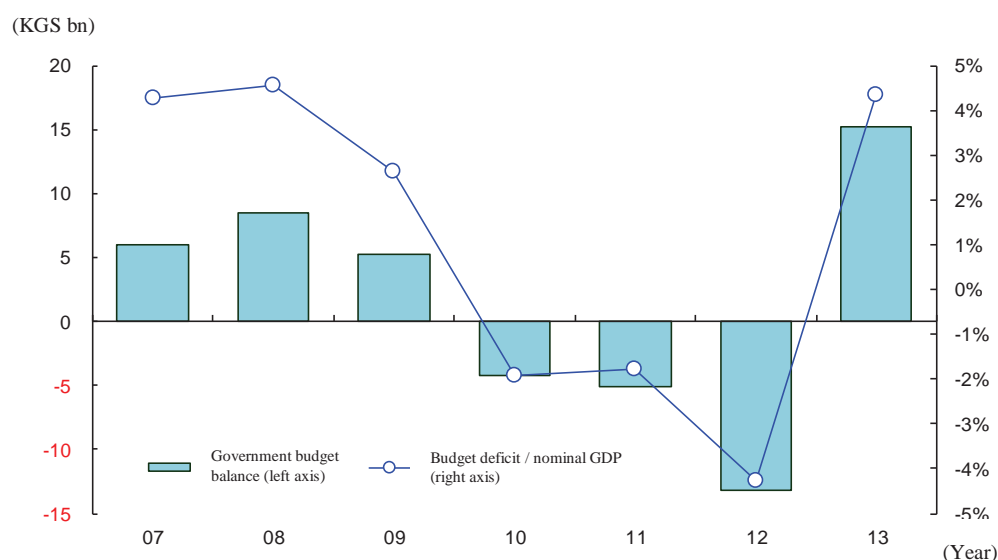
Source: Compiled from International Monetary Fund data.

## (2) Government budget and debt

Kyrgyzstan's fiscal situation had been deteriorating since 2009. However, in 2013 the fiscal balance returned to the black for the first time in four years after it raised the value-added tax—its biggest source of tax revenue—and cut back on spending in support of its economic policy (Chart 2-2).

However, in 2013 economic policy spending represented just 4.4% of total outlays, and this was below the Charts for 2008 (6.1%) and 2007 (9.0%). Going forward the government may once again increase spending on economic programs to keep the economy growing, so it is fair to say that there will be many challenges in stabilizing government finances.

**Chart 2-2: Government budget vs. nominal GDP**



Source: Compiled from Ministry of Finance of the Kyrgyz Republic data.

Tax revenue represents about 70% of revenue, non-tax revenue about 20%, and grants about 10%. Ordinarily, revenue is sensitive to the economic cycle. However, because of the small size of Kyrgyzstan's revenue (about JPY 200 billion in 2013) and the small portion of tax revenue represented by corporate income taxes (2.5% in 2013), the economic cycle has only a limited impact. The low corporate income tax rate (10%) is another factor that limits the effect of the economic cycle. Instead, public grants—which represent assistance from international organizations—and changes in the system of value-added taxes—which account for more than 40% of tax revenue—have the biggest effect on overall revenue (Chart 2-3).

On the expenditure side, changes in outlays related to economic policy have the biggest effect. For the four years from 2009 to 2012, in particular, these outlays represented about 20% of overall expenditures. As a result, there was a budget deficit in all of these years except for 2009, when the government received public grants totaling more than the Kyrgyz Som (here after, “KGS”) 10 billion (about JPY 20 billion).

**Chart 2-3: Revenue & expenditure**

(Budget year = calendar year)	Amount (KGS mn)							Pct. of total						
	07	08	09	10	11	12	13	07	08	09	10	11	12	13
Revenue	35,530	45,480	55,322	57,385	77,344	86,768	101,786	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
(Y/y chg)		(+28%)	(+22%)	(+4%)	(+35%)	(+12%)	(+17%)							
Tax revenue	26,545	35,925	36,098	39,365	53,017	63,911	72,842	74.7%	79.0%	65.3%	68.6%	68.5%	73.7%	71.6%
(Y/y chg)		(+35%)	(+0%)	(+9%)	(+35%)	(+21%)	(+14%)							
Personal income tax	2,323	3,930	5,657	6,339	8,403	11,232	11,813	6.5%	8.6%	10.2%	11.0%	10.9%	12.9%	11.6%
Corporate income tax	1,736	2,603	2,662	2,408	2,653	2,761	1,841	4.9%	5.7%	4.8%	4.2%	3.4%	3.2%	1.8%
Value added tax	12,702	16,540	13,467	14,602	20,353	25,769	30,083	35.7%	36.4%	24.3%	25.4%	26.3%	29.7%	29.6%
Excise taxes	1,448	1,575	1,669	1,689	2,187	2,827	4,090	4.1%	3.5%	3.0%	2.9%	2.8%	3.3%	4.0%
Customs duties	3,789	4,634	4,139	4,350	7,147	9,430	11,886	10.7%	10.2%	7.5%	7.6%	9.2%	10.9%	11.7%
Other tax revenue	4,547	6,643	8,504	9,977	12,275	11,892	13,130	12.8%	14.6%	15.4%	17.4%	15.9%	13.7%	12.9%
Non-tax revenue	7,195	8,155	9,061	10,997	15,655	17,249	19,755	20.3%	17.9%	16.4%	19.2%	20.2%	19.9%	19.4%
(Y/y chg)		(+13%)	(+11%)	(+21%)	(+42%)	(+10%)	(+15%)							
Grants	1,790	1,400	10,163	7,022	8,672	5,608	9,189	5.0%	3.1%	18.4%	12.2%	11.2%	6.5%	9.0%
(Y/y chg)		(-22%)	(+626%)	(-31%)	(+24%)	(-35%)	(+64%)							
Expenditure	29,481	36,944	50,034	61,583	82,394	100,019	86,601	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
(Y/y chg)		(+25%)	(+35%)	(+23%)	(+34%)	(+21%)	(-13%)							
General public services	4,220	6,754	8,333	8,192	10,121	10,907	10,775	14.3%	18.3%	16.7%	13.3%	12.3%	10.9%	12.4%
Defense and security	4,337	5,461	6,391	8,476	9,719	9,958	11,356	14.7%	14.8%	12.8%	13.8%	11.8%	10.0%	13.1%
Economic policy	2,657	2,243	8,008	10,802	15,370	22,229	3,842	9.0%	6.1%	16.0%	17.5%	18.7%	22.2%	4.4%
Environment	99	400	582	568	562	507	507	0.3%	1.1%	1.2%	0.9%	0.7%	0.5%	0.6%
Housing	1,710	2,303	2,442	2,504	2,893	3,442	3,547	5.8%	6.2%	4.9%	4.1%	3.5%	3.4%	4.1%
Public health	3,659	4,376	5,810	6,413	9,080	11,369	11,829	12.4%	11.8%	11.6%	10.4%	11.0%	11.4%	13.7%
Entertainment, culture and religion	995	1,131	1,382	1,560	2,234	2,432	2,686	3.4%	3.1%	2.8%	2.5%	2.7%	2.4%	3.1%
Education	8,022	9,617	11,498	11,994	18,231	21,686	21,702	27.2%	26.0%	23.0%	19.5%	22.1%	21.7%	25.1%
Social security	3,782	4,659	5,587	11,075	14,183	17,490	20,357	12.8%	12.6%	11.2%	18.0%	17.2%	17.5%	23.5%
Increase or decrease (excluding financial, net)	1,790	1,400	10,163	7,022	8,672	5,608	9,189							
Government budget balance	130	1,565	-2,923	-10,768	-13,538	-20,232	-2,346							

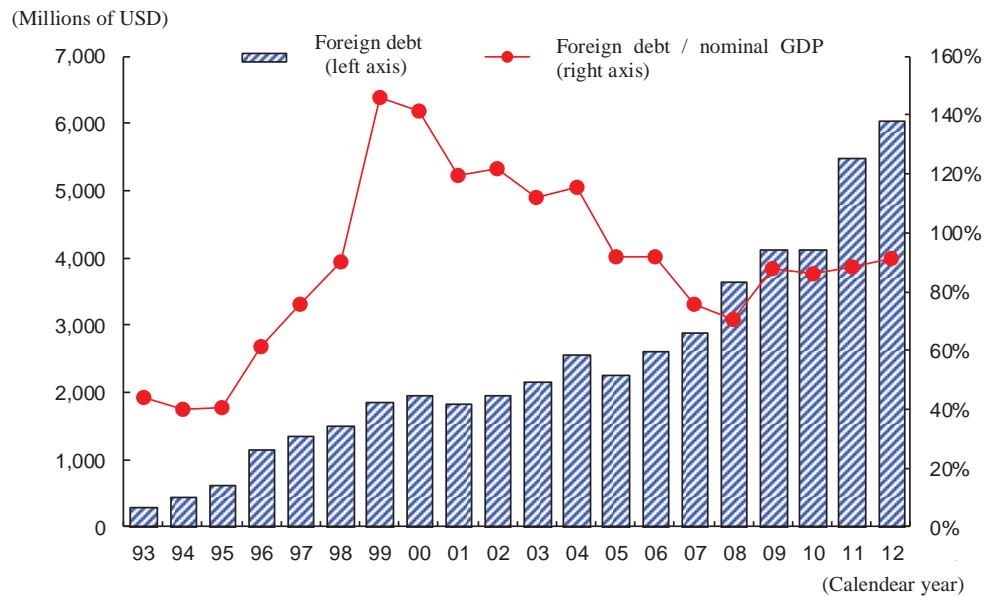
Source: Compiled from Ministry of Finance of the Kyrgyz Republic data.

### (3) Foreign debt

As of 2012 the Kyrgyz Republic had USD 6.03 billion in foreign debt. This was double the 2007 amount (USD 2.88 billion). Foreign debt is broadly divided into government and government-guaranteed debt and private-sector debt. The increase during this time was due in a large part to the private sector. Private-sector foreign debt grew USD 2.2 billion, and this is equivalent to about 70% of the total.

Nevertheless, we believe that this increase in foreign debt has had only a limited impact on Kyrgyzstan's creditworthiness. This is because the increase was reasonable in relation to the size of the economy, and the government-guaranteed portion grew at a modest pace. The ratio of foreign debt to nominal GDP was 1.40x in 1999, but it has been around 90% since 2009.

**Chart 2-4: Foreign debt vs. nominal GDP**



#### (4) Foreign direct investment and current account

Direct investment in the Kyrgyz Republic from other countries has been on an uptrend since 2003, when the Investment Law was enacted. Looking at statistics covering the period from 1995 to 2013, foreign direct investment averaged about USD 100 million a year until 2002. It began steadily growing in 2003 and in 2013 had grown to 10 times the size (USD 990 million).

Most foreign investment (1995-2013) has come from three countries: Canada (22.4% of the total), Kazakhstan (16.6%), and China (14.7%). Together, they account for 53.7% of the total foreign direct investment in the Kyrgyz Republic. Looking at investment from 2003 onwards, Kazakhstan had a conspicuous presence from 2006 until 2009, and this was true of Canada and China from 2010 onwards. China, in particular, accounted for 45% (USD 460 million) of total foreign direct investment in 2013.

On the other hand, three industry sectors accounted for nearly 80% of foreign direct investment (1998-2012). These were manufacturing (41.1% of the total), real estate & business services (19.3%), and financial services (17.4%). There is much mining-related business in Kyrgyzstan, typified by gold mining, but in GDP statistics and foreign direct investment data this activity is classified as manufacturing under metal processing.

Investment in financial services peaked in 2008 (USD 350 million), and by 2012 it had declined to just one-tenth that amount (USD 40 million). On the other hand, investment in manufacturing and real estate & business services has been steadily climbing.

It is impossible to know the investment trend in each industry by country because this data is not disclosed. However, it appears that most of the investment in manufacturing comes from Canadian companies, since many are involved in mining,

and working back from this we can deduce that much of the investment in real estate & business services is coming from Chinese companies.

**Chart 2-5: Foreign direct investment in Kyrgyzstan by country**

(Millions of USD)	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	Cumulative	Pct. of total
Overall total	96	153	86	136	109	90	90	116	147	176	210	336	437	866	661	666	849	591	993	6,807	100.0%
CIS countries	0	1	2	6	6	13	6	26	28	29	49	157	198	405	259	139	43	60	126	1,555	22.8%
Kazakhstan	0	0	1	4	1	0	1	6	13	16	40	137	183	361	213	41	24	34	55	1,133	16.6%
Russia	0	1	1	1	2	5	3	17	11	12	8	20	13	36	45	97	19	25	70	387	5.7%
Others	0	0	0	1	3	7	2	3	3	2	1	1	2	8	1	0	0	0	1	35	0.5%
Non-CIS countries	96	152	84	130	103	77	84	90	119	147	161	178	239	461	402	527	806	531	867	5,253	77.2%
Canada	92	127	31	9	5	7	13	13	31	47	26	9	6	96	81	205	446	133	153	1,528	22.4%
China	0	0	0	2	1	1	2	9	15	7	5	7	29	58	51	71	150	141	455	1,003	14.7%
UK	0	1	13	21	26	6	2	3	2	10	29	38	60	74	111	74	51	71	82	673	9.9%
Germany	0	1	1	2	16	10	22	9	6	9	36	53	29	48	8	12	43	33	6	344	5.0%
Turkey	1	11	18	15	23	12	16	13	25	23	16	13	17	13	38	8	5	22	18	308	4.5%
US	0	4	10	33	19	24	18	20	10	14	12	6	13	6	23	12	12	6	8	250	3.7%
Korea	0	-	0	14	1	0	4	8	7	9	0	1	3	24	12	18	2	28	15	144	2.1%
Others	3	8	10	35	12	18	6	16	23	29	36	51	82	143	78	128	98	98	131	1,003	14.7%

Source: Compiled from National Statistical Committee of the Kyrgyz Republic data.

**Chart 2-6: Foreign direct investment in Kyrgyzstan by industry**

(Millions of USD)	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	Cumulative	Pct. of total
Overall total	136	109	90	90	116	147	176	210	336	437	866	661	666	849	591	5,479	100.0%
Agriculture, forestry and fisheries	0	1	0	0	1	2	10	1	4	4	1	0	0	0	2	25	0.5%
Mining	2	4	5	4	5	12	10	24	56	55	8	6	1	28	28	247	4.5%
Manufacturing	28	56	44	51	53	73	93	95	141	135	241	167	331	490	255	2,252	41.1%
Public utilities	0	0	-	-	0	0	2	0	0	0	-	1	0	-	0	4	0.1%
Construction	21	12	5	0	2	5	6	12	9	13	49	21	5	5	3	168	3.1%
Trade	59	15	15	23	20	23	25	22	27	40	56	53	53	65	33	528	9.6%
Hotels & restaurants	1	0	11	7	5	2	1	2	2	3	2	5	8	4	2	54	1.0%
Transportation & telecommunications	8	1	3	2	8	5	7	5	9	13	18	22	13	40	9	163	3.0%
Financial services	5	2	2	0	6	4	11	41	62	113	345	237	35	48	42	952	17.4%
Real estate & business services	12	18	6	1	13	4	9	7	25	60	147	148	219	170	216	1,055	19.3%
Government-related	-	-	-	-	-	1	1	0	0	-	-	-	-	-	-	2	0.0%
Education	0	0	0	0	3	9	1	0	0	0	0	0	0	-	-	14	0.2%
Healthcare	0	0	0	0	0	5	1	0	1	0	0	0	-	-	0	8	0.1%
Others	0	0	1	0	1	1	0	1	0	1	0	0	0	0	0	6	0.1%

Source: Compiled from National Statistical Committee of the Kyrgyz Republic data.

The increase in foreign direct investment is also reflected in the international balance of payments. In 2009 and 2012, when the amount of foreign direct investment decreased from the prior year, the financial account component of the international balance of payments (direct investment) also decreased (negative numbers indicate a net inflow). This appears to be consistent with the trend seen in Charts 2-5 and 2-6 (Chart 2-7).

Looking at the international balance of payments, we can see that Kyrgyzstan's persistent trade deficit is being covered by remittances sent by workers who have gone to work outside the country (secondary income account) and direct investment from foreign countries (the "direct investment" component of the financial account). It is said that about 20% of Kyrgyzstan's working population has gone to work in Russia and Kazakhstan, so these remittances from abroad, in particular, are supporting the growth of the Kyrgyz economy.

**Chart 2-7: International balance of payments**

(Millions of USD)	2005	2006	2007	2008	2009	2010	2011	2012
Current account	-37	-286	-228	-708	-94	-312	-484	-1,431
Trade & services	-450	-967	-1,196	-1,977	-1,120	-1,399	-1,663	-3,348
Trade account	-419	-886	-1,276	-1,879	-1,120	-1,202	-1,669	-3,046
Exports	687	906	1,338	1,874	1,694	1,779	2,267	1,921
Imports	1,106	1,792	2,614	3,754	2,814	2,981	3,936	4,967
Services account	-31	-81	80	-98	0	-196	6	-302
Primary income account	-88	-48	-51	-207	-181	-305	-659	-144
Secondary income account	500	730	1,019	1,476	1,207	1,391	1,839	2,061
Capital transfer account	-21	-44	-75	-6	16	-11	64	166
Financial account	8	-146	-659	-298	-160	-369	-723	-784
(Direct investment)	-43	-182	-209	-377	-190	-438	-694	-372
(Portfolio investment)	-2	3	14	5	14	-27	0	-6
(Change in foreign currency reserves)	68	177	293	53	67	21	20	125
Net errors and omissions	66	184	-356	415	-82	-46	-304	481
(As pct of GDP)								
Current account	-1.5	-10.1	-6.0	-13.8	-2.0	-6.5	-7.8	-21.7
Trade & services	-18.3	-34.1	-31.4	-38.5	-23.9	-29.2	-26.8	-50.7
Trade account	-17.0	-31.3	-33.6	-36.6	-23.9	-25.1	-26.9	-46.1
Exports	27.9	32.0	35.2	36.5	36.1	37.1	36.6	29.1
Imports	44.9	63.2	68.7	73.0	60.0	62.2	63.5	75.2
Services account	-1.3	-2.9	2.1	-1.9	0.0	-4.1	0.1	-4.6
Primary income account	-3.6	-1.7	-1.3	-4.0	-3.9	-6.4	-10.6	-2.2
Secondary income account	20.3	25.7	26.8	28.7	25.7	29.0	29.7	31.2
Capital transfer account	-0.8	-1.5	-2.0	-0.1	0.3	-0.2	1.0	2.5
Financial account	0.3	-5.2	-17.3	-5.8	-3.4	-7.7	-11.7	-11.9
(Direct investment)	-1.7	-6.4	-5.5	-7.3	-4.0	-9.1	-11.2	-5.6
(Portfolio investment)	-0.1	0.1	0.4	0.1	0.3	-0.6	0.0	-0.1
(Change in foreign currency reserves)	2.8	6.2	7.7	1.0	1.4	0.4	0.3	1.9
Net errors and omissions	2.7	6.5	-9.4	8.1	-1.8	-1.0	-4.9	7.3

Source: Compiled from National Statistical Committee of the Kyrgyz Republic data.

## 2. Industry

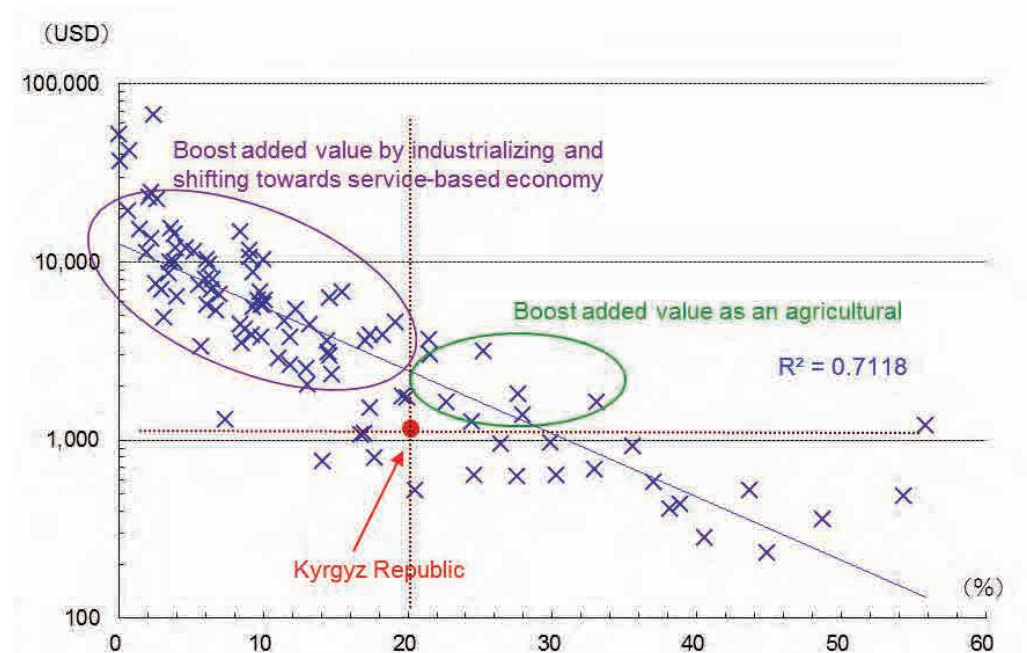
### (1) Kyrgyzstan's industrial mix in the global scheme

The Kyrgyz Republic is an agricultural country. The primary industry share of nominal GDP (2012, World Bank) is 20.2%, the 26th highest among 101 comparable countries.

However, because it has lagged in the development of its manufacturing and service industries, income is still low when viewed in terms of per capita GDP. Based on IMF data, in 2012 the Kyrgyz Republic ranked 141 among 174 countries in terms of per capita GDP.

As shown in Chart 2-8, to raise the level of income in the Kyrgyz Republic, the country will have to either 1) seek to raise added-value as an agricultural country or 2) aim to increase added-value by industrializing and shifting towards service-based economy.

**Chart 2-8: Primary industry share of nominal GDP & per capita GDP (2012)**



Source: Compiled from World Bank data.

### (2) GDP composition by industry

Looking at the ratio of nominal GDP by industry in 2013, agriculture represented 17.7% of GDP, industry (mining, manufacturing, public utilities, and construction) 26.7%, and services 55.6%, representing the largest component of GDP. Looking at the subcategories, the biggest contributors to GDP, in order, were 1) commerce (18.8%), 2) agriculture, forestry and fisheries (17.7%), and 3) manufacturing (15.6%).

While the component of agriculture, forestry and fisheries among GDP is still high when compared with other countries, when viewed from the standpoint of the country's changing industrial mix it has nonetheless been trending downwards. There



has been a conspicuous shift towards service industries (commerce, transportation & telecommunications, real estate & business services, education, and healthcare). Comparing the GDP composition in 2003 and 2013, there was a pronounced decrease in the agriculture, forestry and fisheries share (-19.3 percentage points), while there was an increase in the transportation & telecommunications share (+5.2 pp) and construction (+4.7 pp).

**Chart 2-9: Ratio of nominal GDP by Industry**

(Millions of KGS)	2003		2013		2003 → 2013	
	Amount	Pct. of total	Amount	Pct. of total	Annualized growth	(Change in share)
Gross Value Added (GVA)	76,082	100.0%	299,792	100.0%	14.7%	(+0.0%)
Primary Activity	28,199	37.1%	53,157	17.7%	6.5%	(-19.3%)
Secondary Activity (SC)	16,978	22.3%	79,968	26.7%	16.8%	(+4.4%)
Mining and Quarrying	410	0.5%	2,437	0.8%	19.5%	(+0.3%)
Manufacturing	11,133	14.6%	46,736	15.6%	15.4%	(+1.0%)
Electricity, Gas and Water Supply	2,989	3.9%	7,150	2.4%	9.1%	(-1.5%)
Construction	2,447	3.2%	23,645	7.9%	25.5%	(+4.7%)
Tertiary Activity (TA)	30,905	40.6%	166,667	55.6%	18.4%	(+15.0%)
Trade and Repair Services	12,725	16.7%	56,456	18.8%	16.1%	(+2.1%)
Hotels and Restaurants	1,236	1.6%	5,099	1.7%	15.2%	(+0.1%)
Transportation and Communication	4,514	5.9%	33,274	11.1%	22.1%	(+5.2%)
Financial Activities	501	0.7%	1,692	0.6%	12.9%	(-0.1%)
Real Estate, Renting and Business Services	2,353	3.1%	14,319	4.8%	19.8%	(+1.7%)
Government	3,876	5.1%	17,740	5.9%	16.4%	(+0.8%)
Education	3,354	4.4%	19,581	6.5%	19.3%	(+2.1%)
Health Care and Social Services	1,441	1.9%	12,033	4.0%	23.6%	(+2.1%)
Other Community, Social and Personal Service Activities	904	1.2%	6,473	2.2%	21.8%	(+1.0%)

Source: Compiled from National Statistical Committee of the Kyrgyz Republic data.

### (3) Number and ratio of workers by industry

The changing number of workers is another indication of the shift to a service-oriented industrial structure. Looking at the changing mix of workers in each industry from 2001 to 2011, the ratio of workers in agriculture, forestry and fisheries decreased 22.2 pp, while the ratio in industry and in service industries rose 10.6 pp and 11.6 pp, respectively. The number of workers in construction and commerce is surging thanks to ample employment opportunities.



**Chart 2-10: Number and ratio of workers by industry**

	Number of workers (in thousands)			Pct. of total		
	2001	2011	(Change)	2001	2011	(Change in ratio)
Overall total	1,787	2,278	491	100.0%	100.0%	
Primary industry	946	700	-245	52.9%	30.7%	(-22.2%)
Secondary industry	185	478	293	10.3%	21.0%	(+10.6%)
Mining	8	17	8	0.5%	0.7%	(+0.3%)
Manufacturing	112	173	62	6.2%	7.6%	(+1.4%)
Public utilities	21	39	17	1.2%	1.7%	(+0.5%)
Construction	44	249	206	2.4%	10.9%	(+8.5%)
Tertiary industry	656	1,100	443	36.7%	48.3%	(+11.6%)
Trade	194	346	152	10.9%	15.2%	(+4.3%)
Hotels & restaurants	15	87	72	0.8%	3.8%	(+3.0%)
Transportation & telecommunications	65	147	83	3.6%	6.5%	(+2.9%)
Financial services, real estate & business services	39	74	35	2.2%	3.2%	(+1.1%)
Public institutions	64	103	38	3.6%	4.5%	(+0.9%)
Education	146	177	31	8.2%	7.8%	(-0.4%)
Hospitals and social welfare	82	79	-4	4.6%	3.4%	(-1.1%)
Other services	52	88	36	2.9%	3.9%	(+0.9%)

Source: Compiled from National Statistical Committee of the Kyrgyz Republic data.

Next, we will present an overview of three sectors that represent a large share of nominal GDP: agriculture, manufacturing, retail (commerce). We will also look at tourism, which is one of the six sectors featured in Kyrgyzstan's National Export Strategy 2013-2017. The five other sectors discussed in this report are: 1) textiles, 2) fruits and vegetables (fresh and processed), 3) meat and meat products, 4) water, and 5) dairy products.

#### (4) Agriculture

Agriculture has been a leading Kyrgyz industry, but its importance is gradually diminishing due to the effects of the recent shift towards a more service-oriented economy. The number of workers in primary industries including agriculture declined by about 250,000 during the ten years from 2001 to 2011 (the number in all industries rose by about 500,000). Agriculture's share of GDP also shrank by about 20% from 37.1% in 2003 to 17.7% in 2013.

The tertiary industries that have risen to take the place of primary industries have been expanding thanks to a growing eagerness to consume that is being fueled by remittances from workers who have gone out of the country, and this is stimulating consumption. On the other hand the weakness in primary industries can be attributed to the fact that Kyrgyz agricultural products are not very competitive on international markets.

For example, when comparing producer prices to those in neighboring Kazakhstan, Kyrgyzstan prices are higher for grains such as wheat and corn.

The trade statistics for 2013 by product category show exports of USD 300 million and imports of USD 700 million, or net imports, for "food & live animals," a primary

---

industry category that is mainly agriculture. The main export item groups are "vegetables and fruits" (USD 200 million) and "dairy products and birds' eggs" (USD 50 million). The main import item groups are "cereals and cereal preparations" (USD 220 million), "meat and meat preparations" (USD 120 million), "sugar, sugar preparations and honey" (USD 100 million), and "coffee, tea, cocoa, spices, and manufactures thereof" (USD 100 million).

In its national export strategy for 2013 to 2017, the Kyrgyz government has named perishable food items such as vegetables and fruits and processed foods as priority sectors. However, their position in foreign markets is weak, whether for commercial or consumer use, because of issues such as access to huge consumer markets, maintaining and managing freshness, highly competitive neighboring countries like China and Kazakhstan, and the quality of packaging materials.

#### (5) Manufacturing

From 2003 to 2013, manufacturing nominal GDP grew at annualized rate of 15.4%, which was slightly better than the overall growth rate of 14.7%. Furthermore, the growth rate in 2003 (14.6%) was roughly the same as the growth rate in 2013 (15.4%).

Manufacturing accounted for 41.1% of investment from foreign countries from 1998 to 2012, so it has been driving investment.

According to industrial statistics (2012), metallurgical and metalwork products account for 50.75% of production output in the manufacturing sector, making this the biggest area. Furthermore, average monthly wages in this area (KGS 51,562.2) are about four times the all-industry average (KGS 13,581). On the other hand, food processing is the biggest area in terms of the number of companies (25.3%), while garment manufacturing is the biggest in terms of the number of employees (53.7%).

In its National Export Strategy (2013-2017), the Kyrgyz government named garment manufacturing as one of the six sectors with export potential. The main target markets for exports will be neighboring Kazakhstan and Russia, but there are many issues. For example, the companies are mostly small so it is difficult to accommodate large scale OEM production. Furthermore, the equipment is becoming obsolescent, and there is hardly any spinning or weaving (upstream processes), so raw materials will depend on imports.

#### (6) Retail

Kyrgyzstan's retail industry continues to grow at a fast pace, and nominal GDP and employment data make it apparent that retail is driving shift to a service-oriented economy (tertiary industry shift).

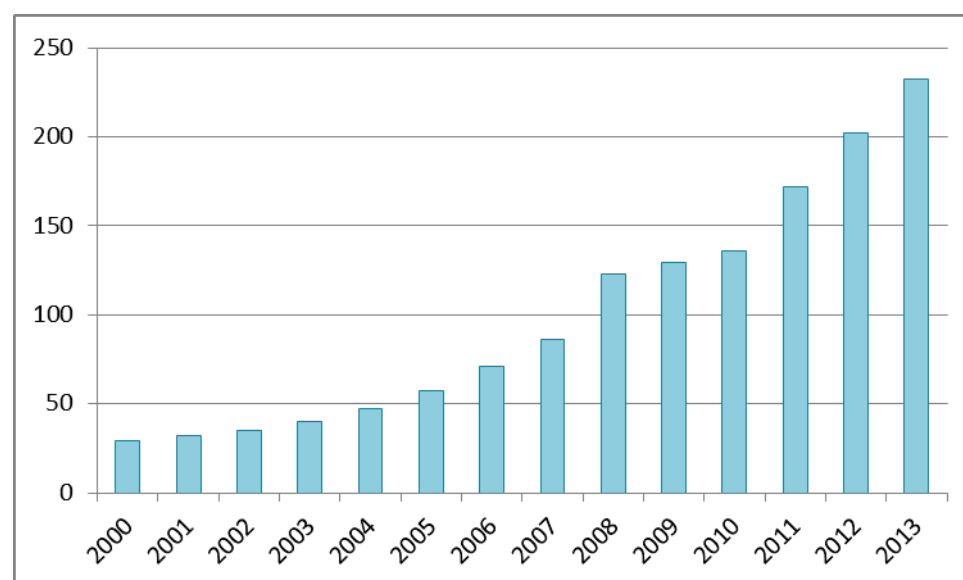
Retail sales grew approximately 80% in the four years from 2009 to 2013 to reach KGS 232.4 billion (about JPY 465.0 billion). The population of the Kyrgyz Republic is about 5.5 million, and 800,000-1,000,000 people live in the capital city of Bishkek. In urban areas, bazaars have presented the best opportunities to buy goods. However, in recent years shopping malls have been appearing in Bishkek, and more and more

people are buying through modern forms of retail like supermarkets.

In the 10 years from 2001 to 2011 about 490,000 jobs were added to the economy and about 150,000 of these new jobs, or about 30%, were in the commerce sector, which includes the retail industry.

Furthermore, commerce has grown to become the industry classification (intermediate classification or higher) that represents the largest share of Kyrgyzstan's nominal GDP. Commerce's share of nominal GDP rose from 16.7% in 2003 to 18.8% in 2013 to exceed the agriculture, forestry and fisheries share, which fell from 37.1% to 17.7% during the same 10 years.

**Chart 2-11: Retail sales**



Note: KGS bn.

Source: Compiled from National Statistical Committee of the Kyrgyz Republic data.

## (7) Tourism

Tourism is one of the six sectors featured in Kyrgyzstan's National Export Strategy 2013-2017.

The services account (travel) component of the current account has been running a roughly USD 100 million surplus on average since 2009. As a result, tourism has become an even more valuable means of acquiring foreign currency than remittances from workers (USD 30 million) who have gone out of the country. The services account (travel) remained in the black even in 2010, a year in which there was coup in Kyrgyzstan.

About 2.4 million people enter the Kyrgyz Republic each year. However, because the Kyrgyz Republic does not use immigration cards upon entry, even though it is possible to capture the nationality and length of stay of those entering the country using their passports, there is no basic data for analyzing other information (e.g.

---

purpose of visit, accommodations, and point of origin). When we talked to Kyrgyzstan's Ministry of Tourism and business organizations, we were told that most visitors come from Kazakhstan and Russia and that during the summer tourism season many people come to stay near Lake Issyk Kul in the eastern part of the Kyrgyz Republic.

On the other hand, there is no easy route to further expanding the country's tourism industry. In 2014, a corridor of the Silk Road in Central Asia was designated as a World Heritage Site based on an application jointly filed by the Kyrgyz Republic, China, and Kazakhstan. The Kyrgyz Republic is part of Central Asia and another country in the region, Uzbekistan, has a relatively large number of tourism assets including ruins. As a result it is hard for the Kyrgyz Republic to craft its own uniquely compelling tourism message.

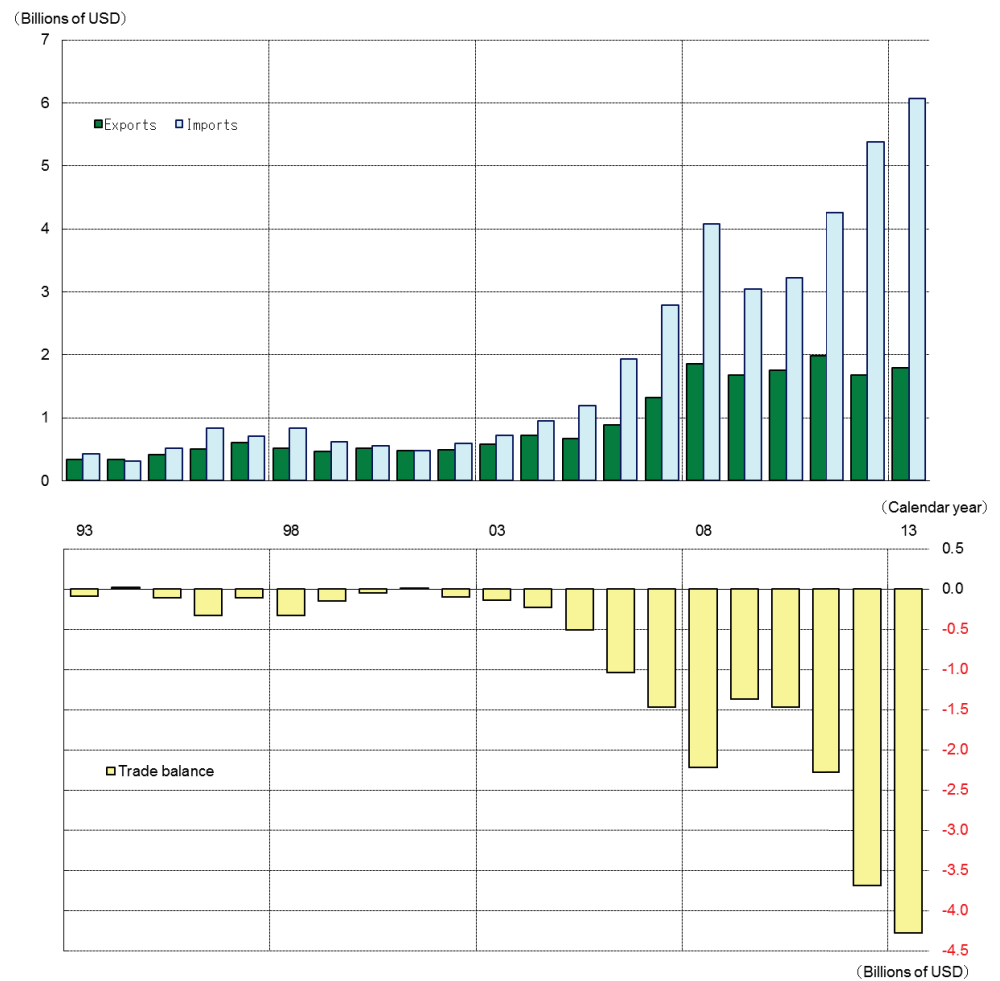
In fact, while the share of workers in tourism-related service industries (hotels and restaurants) within the overall economy is rising (from 0.8% to 3.8%), the industry's share of nominal GDP has remained roughly unchanged (from 1.6% to 1.7%).

### 3. Trade

#### (1) Trade account

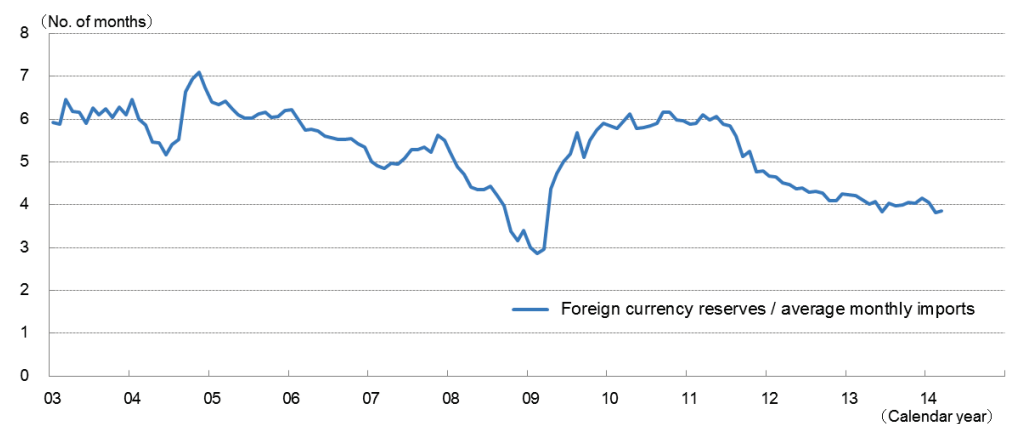
Kyrgyzstan's trade balance is deteriorating rapidly. According to IMF statistics, in the past the trade account had been roughly in balance (there was a slight trade deficit). However, imports started rapidly expanding in 2004, led by oil and other "mineral fuels, lubricants and related materials" as well as automobiles and other transportation equipment. The trade deficit ballooned from about USD 100 million in 2003 to USD 4.3 billion in 2013. As the trade deficit has expanded, foreign currency reserves have shrunk from the equivalent of 6 months' worth of average monthly imports (beginning of 2011) to about 4 months' worth (beginning of 2014).

**Chart 2-12: Trade balance, exports & imports**



Source: Compiled from IMF data.

**Chart 2-13: Reserves-to-imports ratio**



Source: Compiled from National Bank of the Kyrgyz Republic data.

## (2) Major export and import products

Kyrgyzstan's major exports are 1) vegetables and fruits (11.3% of exports in 2013), 2) gold (9.9%), and 3) petroleum, petroleum products and related materials (8.9%). It

---

doesn't have many exports of manufactured goods. Gold is greatly affected by mining volume and market conditions, so this is not a source of stable exports.

Exports of petroleum products and road vehicles (mainly automobiles) have been growing since 2011. However, imports of these same product categories have also been rising during the same timeframe, so it is hard to believe that the country's manufacturing companies are increasing their exports. Furthermore, if we look at the difference between exports and imports, petroleum products and road vehicles have both been contributing to Kyrgyzstan's expanding trade deficit since 2011. Comparing net exports in 2010 and 2013, the deficit in net exports of petroleum products expanded from USD 10 million to USD 1.17 billion, while the deficit in road vehicles expanded from USD 100 million to USD 520 million.

"Articles of apparel & clothing accessories" is a major export product category in the manufacturing sector, and imports in this category have exceeded exports since 2011. This is another factor behind the worsening trade balance.

Kyrgyzstan's major imports are: 1) petroleum, petroleum products and related materials (21.8% of imports in 2013), 2) road vehicles (11.1%), and 3) cereals and cereal preparations (3.6%). Agriculture occupies great importance in the Kyrgyz Republic, but it is still a net importer of grain. Its imports of machinery are also substantial.

**Chart 2-14: Exports by product category**

(Millions of USD / calendar year)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total value of exports	582 (100.0%)	719 (100.0%)	672 (100.0%)	794 (100.0%)	1,321 (100.0%)	1,856 (100.0%)	1,673 (100.0%)	1,673 (100.0%)	1,979 (100.0%)	1,894 (100.0%)	1,791 (100.0%)
Food & live animals	45 (7.8%)	67 (9.3%)	64 (9.6%)	116 (14.6%)	227 (17.2%)	349 (18.8%)	393 (23.5%)	393 (23.5%)	273 (13.8%)	268 (14.1%)	305 (17.0%)
Dairy products and birds' eggs	11	11	17	25	36	42	40	40	41	39	52
Vegetables and fruits	19	25	25	62	152	269	315	315	193	181	203
Beverages and tobacco	18 (3.1%)	16 (2.3%)	19 (2.8%)	15 (1.9%)	21 (1.6%)	20 (1.1%)	41 (2.4%)	41 (2.4%)	36 (1.8%)	21 (1.1%)	27 (1.5%)
Crude materials, inedible, except fuels	113 (19.4%)	125 (17.3%)	124 (18.5%)	137 (17.3%)	152 (11.5%)	147 (7.9%)	123 (7.4%)	123 (7.4%)	251 (12.7%)	238 (12.6%)	200 (11.1%)
Metalliferous ores and metal scrap	45	57	56	59	73	63	44	44	141	152	112
Mineral fuels, lubricants and related materials	60 (10.3%)	68 (9.4%)	65 (9.7%)	135 (17.0%)	321 (24.3%)	105 (5.6%)	73 (4.4%)	73 (4.4%)	326 (16.5%)	259 (13.7%)	250 (14.0%)
Petroleum, petroleum products and related materials	32	36	39	106	273	61	8	8	181	169	159
Electric current	27	31	26	29	45	37	63	63	143	82	88
Animal and vegetable oils, fats and waxes	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	1 (0.0%)	1 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)
Chemicals and related products	11 (1.9%)	13 (1.9%)	7 (1.1%)	19 (2.3%)	26 (2.0%)	26 (1.4%)	43 (2.6%)	43 (2.6%)	68 (3.4%)	56 (2.9%)	82 (4.6%)
Manufactured goods	74 (12.7%)	93 (12.9%)	97 (14.4%)	120 (15.1%)	194 (14.7%)	198 (10.7%)	100 (6.0%)	100 (6.0%)	267 (13.5%)	242 (12.8%)	221 (12.3%)
Rubber manufactures	0	1	1	1	2	6	17	17	37	29	23
Textile yarn and related products	13	12	11	13	19	16	15	15	36	19	24
Non metallic mineral manufactures	39	51	60	74	123	119	16	16	22	48	44
Iron and steel	2	3	2	4	5	4	3	3	53	60	47
Non-ferrous metals	10	10	4	6	10	9	9	9	35	27	22
Machinery and transport equipment	50 (8.6%)	55 (7.7%)	57 (8.5%)	71 (8.9%)	115 (8.7%)	104 (5.6%)	132 (7.9%)	132 (7.9%)	235 (11.9%)	388 (20.5%)	295 (16.5%)
Electrical machinery, apparatus and appliance	22	28	29	24	37	35	45	45	53	43	56
Road vehicles	12	12	14	14	28	25	38	38	135	247	157
Other transport equipment	1	1	1	5	3	5	4	4	3	35	21
Miscellaneous manufactured articles	43 (7.5%)	59 (8.2%)	58 (8.6%)	89 (11.2%)	133 (10.0%)	179 (9.6%)	215 (12.9%)	215 (12.9%)	248 (12.5%)	220 (11.6%)	231 (12.9%)
Articles of apparel & clothing accessories	24	40	34	59	97	140	182	182	214	186	191
Commodities and transactions	167 (28.7%)	222 (30.9%)	180 (26.7%)	92 (11.6%)	130 (9.8%)	727 (39.2%)	552 (33.0%)	552 (33.0%)	274 (13.9%)	203 (10.7%)	180 (10.1%)
Gold, non-monetary	160	220	167	87	111	264	140	140	214	131	178

Source: Compiled from UNCTAD data.

**Chart 2-15: Imports by product category**

(Millions of USD / calendar year)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total value of imports	717	941	1,108	1,931	2,789	4,072	2,974	2,974	4,261	5,373	6,069
	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)
Food & live animals	56	81	115	188	279	401	385	385	541	596	722
	(7.8%)	(8.6%)	(10.4%)	(9.7%)	(10.0%)	(9.8%)	(12.9%)	(12.9%)	(12.7%)	(11.1%)	(11.9%)
Meat and meat preparations	4	5	7	13	23	36	45	45	73	79	115
Cereals and cereal preparations	15	20	35	51	109	170	130	130	159	176	219
Sugar, sugar preparations and honey	15	23	28	52	42	49	61	61	96	86	104
Coffee, tea, cocoa, spices, and manufactures thereof	10	12	15	22	37	53	55	55	82	103	98
Beverages and tobacco	26	34	42	46	71	94	78	78	107	121	139
	(3.6%)	(3.7%)	(3.8%)	(2.4%)	(2.5%)	(2.3%)	(2.6%)	(2.6%)	(2.5%)	(2.3%)	(2.3%)
Crude materials, inedible, except fuels	27	30	36	46	75	88	57	57	83	114	117
	(3.7%)	(3.2%)	(3.3%)	(2.4%)	(2.7%)	(2.2%)	(1.9%)	(1.9%)	(2.0%)	(2.1%)	(1.9%)
Mineral fuels, lubricants and related materials	181	256	320	502	740	222	112	112	972	1,167	1,464
	(25.2%)	(27.2%)	(28.9%)	(26.0%)	(26.6%)	(5.4%)	(3.8%)	(3.8%)	(22.8%)	(21.7%)	(24.1%)
Petroleum, petroleum products and related materials	126	203	263	440	645	83	16	16	864	1,043	1,326
Gas, natural and manufactured	32	35	33	44	79	111	72	72	75	85	96
Animal and vegetable oils, fats and waxes	9	11	9	13	21	38	37	37	59	61	72
	(1.3%)	(1.2%)	(0.8%)	(0.7%)	(0.8%)	(0.9%)	(1.3%)	(1.3%)	(1.4%)	(1.1%)	(1.2%)
Chemicals and related products	104	137	157	178	256	305	271	271	453	543	609
	(14.4%)	(14.6%)	(14.2%)	(9.2%)	(9.2%)	(7.5%)	(9.1%)	(9.1%)	(10.6%)	(10.1%)	(10.0%)
Medical and pharmaceutical products	38	38	56	50	82	97	88	88	165	187	203
Essential oils for perfume materials and cleaning preparations	17	21	21	28	35	44	54	54	77	88	102
Manufactured goods	112	151	162	237	356	514	462	462	663	870	927
	(15.6%)	(16.0%)	(14.6%)	(12.3%)	(12.8%)	(12.6%)	(15.5%)	(15.5%)	(15.6%)	(16.2%)	(15.3%)
Textile yarn and related products	22	26	23	31	33	107	81	81	113	142	173
Non metallic mineral manufactures	10	14	21	32	48	72	79	79	86	95	110
Iron and steel	18	32	32	44	78	110	101	101	147	228	203
Machinery and transport equipment	143	180	200	408	490	646	491	491	971	1,354	1,442
	(19.9%)	(19.1%)	(18.0%)	(21.1%)	(17.6%)	(15.9%)	(16.5%)	(16.5%)	(22.8%)	(25.2%)	(23.8%)
Specialized machinery	35	41	64	94	117	149	137	137	129	179	213
Other industrial machinery and parts	13	14	20	32	54	92	50	50	83	126	138
Telecommunication and sound recording apparatus	16	23	26	89	93	100	45	45	125	96	120
Electrical machinery, apparatus and appliance	18	22	33	35	53	65	64	64	102	190	180
Road vehicles	42	65	40	103	116	153	133	133	432	663	676
Miscellaneous manufactured articles	59	59	65	97	118	317	271	271	388	501	557
	(8.2%)	(6.3%)	(5.8%)	(5.0%)	(4.2%)	(7.8%)	(9.1%)	(9.1%)	(9.1%)	(9.3%)	(9.2%)
Articles of apparel & clothing accessories	20	12	9	15	9	150	108	108	184	237	257
Commodities and transactions	1	0	2	216	382	1,448	809	809	25	47	18
	(0.2%)	(0.0%)	(0.2%)	(11.2%)	(13.7%)	(35.6%)	(27.2%)	(27.2%)	(0.6%)	(0.9%)	(0.3%)

Source: Compiled from UNCTAD data.



### (3) Trade statistics vary depending on the source

There are three sets of trade statistics for the Kyrgyz Republic: 1) the IMF's International Financial Statistics (IFS), the National Statistical Committee of Kyrgyz Republic's HS codes, and 3) the IMF's Direction of Trade Statistics (DOT, aggregate by country). Looking at the data for the 2003-2013 timeframe (Chart 2-16), the difference between the DOT (country aggregate) data and the IFS and HS code data has been widening since 2009.

Looking at exports and imports, the DOT Charts (country aggregate) for exports are lower than both the IFS and HS code data, while the opposite is true for imports. In the 2013 data, the DOT (country aggregate) Chart for exports is only about two-thirds the IFS Chart, and the DOT Chart for imports is 1.8x higher than the IFS Chart. The deviation is especially large for imports, and the Chinese data especially sticks out from 2009 onwards, when this variance started to grow.

The next section will discuss major trading partners, but readers should keep this in mind and exercise judgment when looking at the trends in the breakdown of data by country.

**Chart 2-16: Variances in trade statistics**

	Source	Description	03	04	05	06	07	08	09	10	11	12	13
Exports	① IMF	IFS (fob)	583	721	674	891	1,321	1,856	1,673	1,756	1,979	1,683	1,791
	② NSCK	HS Code	582	719	672	794	1,134	1,618	1,444	1,488	1,979	1,683	1,791
		Variance from ①	-0.2%	-0.3%	-0.3%	-10.9%	-14.1%	-12.8%	-13.7%	-15.2%	0.0%	0.0%	0.0%
	③ IMF	DOT (Country aggregate)	581	705	634	796	1,134	1,618	904	1,043	1,129	1,159	1,136
		Variance from ①	-0.3%	-2.2%	-6.0%	-10.7%	-14.2%	-12.8%	-46.0%	-40.6%	-42.9%	-31.2%	-36.6%
Imports	④ IMF	IFS (cif)	722	947	1,189	1,931	2,789	4,072	3,040	3,223	4,261	5,374	6,070
	⑤ NSCK	HS Code	717	941	1,101	1,718	2,417	4,072	3,040	3,223	4,261	5,374	6,070
		Variance from ④	-0.7%	-0.6%	-7.3%	-11.0%	-13.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	⑥ IMF	DOT (Country aggregate)	717	941	1,112	1,711	2,415	4,071	8,224	7,231	9,078	10,156	10,799
		Variance from ④	-0.7%	-0.6%	-6.5%	-11.4%	-13.4%	0.0%	170.5%	124.4%	113.0%	89.0%	77.9%

Note: NSCK= National Statistical Committee of the Kyrgyz Republic.

Source: Compiled from National Statistical Committee of the Kyrgyz Republic and IMF data.

### (4) Major trading partners

According to the IMF's Direction of Trade Statistics, Kyrgyzstan's main export partners are: 1) Kazakhstan (28.1% of exports in 2013), 2) Uzbekistan (27.9%), and Russia (11.1%), so nearby economic giants occupy the top spots.

Looking at the changes in the breakdown of its trading partners since 2009, there seems to be a shift underway from Russia to Kazakhstan. Russia's share of Kyrgyzstan's exports shrank 25.5 pp from 2009 to 2013, while Kazakhstan's increased 16.4 pp.

Kyrgyzstan's top sources of imports are: 1) China (51.7% of imports in 2013), 2) Russia (21.2%), and Kazakhstan (7.8%). In other words, the Kyrgyz Republic gets half of its imports from China, and the top three countries account for more than 80%

of total imports. When we talked to local sources, we were told that the Kyrgyz Republic imports a large volume of consumer goods from China.

**Chart 2-17: Exports by trading partner**

(Millions of USD)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Exports	581	705	634	796	1,134	1,618	904	1,043	1,129	1,159	1,136
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Advanced economies	177	167	75	248	282	602	42	21	29	44	39
	30.5%	23.7%	11.8%	31.1%	24.9%	37.2%	4.6%	2.0%	2.6%	3.8%	3.4%
Japan	0	0	0	1	2	3	0	0	2	1	1
	0.0%	0.0%	0.1%	0.1%	0.1%	0.2%	0.0%	0.0%	0.2%	0.1%	0.1%
France	0	0	1	0	0	108	21	4	1	1	1
	0.0%	0.0%	0.1%	0.0%	0.0%	6.7%	2.3%	0.4%	0.1%	0.1%	0.1%
Switzerland	118	102	28	208	226	440	0	0	0	0	0
	20.3%	14.5%	4.4%	26.1%	19.9%	27.2%	0.0%	0.0%	0.0%	0.0%	0.0%
Emerging and developing countries	403	538	558	548	852	1,016	862	1,021	1,100	1,115	1,097
	69.4%	76.2%	88.1%	68.9%	75.1%	62.8%	95.4%	98.0%	97.4%	96.2%	96.6%
Asia	25	41	38	43	65	47	48	69	98	87	64
	4.3%	5.8%	6.0%	5.4%	5.7%	2.9%	5.3%	6.6%	8.7%	7.5%	5.7%
China	23	39	27	38	62	44	44	63	89	80	57
	4.0%	5.6%	4.2%	4.8%	5.5%	2.7%	4.8%	6.1%	7.8%	6.9%	5.0%
Europe	224	303	331	413	642	859	713	834	861	882	873
	38.7%	42.9%	52.2%	51.9%	56.6%	53.1%	78.9%	80.0%	76.3%	76.1%	76.8%
Russia	97	138	134	154	235	310	331	352	253	178	126
	16.7%	19.5%	21.2%	19.3%	20.7%	19.2%	36.6%	33.7%	22.4%	15.4%	11.1%
Kazakhstan	57	87	116	163	205	184	106	151	220	303	319
	9.8%	12.4%	18.3%	20.4%	18.0%	11.4%	11.7%	14.5%	19.5%	26.1%	28.1%
Uzbekistan	16	15	17	28	86	232	203	258	289	301	317
	2.8%	2.1%	2.7%	3.5%	7.6%	14.3%	22.5%	24.7%	25.6%	26.0%	27.9%
Turkey	11	17	18	27	43	45	29	28	47	41	34
	1.9%	2.4%	2.9%	3.4%	3.8%	2.8%	3.2%	2.7%	4.2%	3.5%	3.0%
Middle East and North Africa	154	194	190	92	145	110	101	118	139	146	159
	26.5%	27.5%	29.9%	11.5%	12.8%	6.8%	11.1%	11.3%	12.3%	12.6%	14.0%
UAE	144	189	173	9	14	51	48	55	63	70	78
	24.9%	26.8%	27.3%	1.1%	1.3%	3.1%	5.3%	5.2%	5.6%	6.0%	6.9%
Afghanistan	6	0	12	75	118	46	40	51	57	60	63
	1.1%	0.0%	2.0%	9.4%	10.4%	2.8%	4.4%	4.9%	5.1%	5.1%	5.5%
Sub-Saharan Africa	0	0	0	0	0	0	0	0	2	0	0
	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%
Western hemisphere	0	0	0	0	0	0	0	0	0	0	0
	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other regions	0	1	1	0	0	0	0	0	0	0	0
	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Compiled from IMF data.

However, looking at the import breakdown for 2009 onwards, it appears that the Chinese share is decreasing gradually. From 2009 to 2013 China's share of imports decreased 18.2 pp, while the share of imports from Russia (+9.0 pp), Kazakhstan (+2.6 pp), and Turkey (+2.1 pp) has been increasing.

**Chart 2-18: Imports by trading partner**

(Million of USD)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Imports	717	941	1,112	1,711	2,415	4,071	8,224	7,231	9,078	10,156	10,799
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Advanced economies	168	203	235	365	392	946	430	468	744	893	792
	23.5%	21.5%	21.1%	21.4%	16.2%	23.2%	5.2%	6.5%	8.2%	8.8%	7.3%
Japan	12	12	12	13	18	130	28	40	88	79	111
	1.6%	1.2%	1.1%	0.8%	0.7%	3.2%	0.3%	0.6%	1.0%	0.8%	1.0%
Korea	12	25	28	24	39	83	110	115	156	178	180
	1.6%	2.7%	2.5%	1.4%	1.6%	2.0%	1.3%	1.6%	1.7%	1.8%	1.7%
US	48	45	67	98	96	120	57	86	113	160	117
	6.7%	4.7%	6.0%	5.7%	4.0%	2.9%	0.7%	1.2%	1.2%	1.6%	1.1%
Emerging and developing countries	548	738	872	1,345	2,023	3,126	7,795	6,764	8,334	9,263	10,007
	76.5%	78.5%	78.5%	78.6%	83.8%	76.8%	94.8%	93.5%	91.8%	91.2%	92.7%
Asia	84	88	112	257	373	756	5,785	4,548	5,408	5,628	5,638
	11.7%	9.3%	10.1%	15.0%	15.5%	18.6%	70.3%	62.9%	59.6%	55.4%	52.2%
China	78	80	103	246	356	728	5,750	4,509	5,366	5,581	5,584
	10.8%	8.5%	9.3%	14.4%	14.7%	17.9%	69.9%	62.4%	59.1%	54.9%	51.7%
Europe	448	632	732	1,057	1,612	2,321	1,980	2,186	2,884	3,594	4,316
	62.4%	67.2%	65.9%	61.8%	66.7%	57.0%	24.1%	30.2%	31.8%	35.4%	40.0%
Russia	176	294	379	652	979	1,492	1,000	1,073	1,248	1,797	2,285
	24.6%	31.2%	34.1%	38.1%	40.5%	36.6%	12.2%	14.8%	13.7%	17.7%	21.2%
Kazakhstan	171	203	174	200	312	377	430	465	559	798	841
	23.8%	21.6%	15.7%	11.7%	12.9%	9.2%	5.2%	6.4%	6.2%	7.9%	7.8%
Turkey	26	33	33	39	51	91	154	142	198	283	427
	3.6%	3.5%	3.0%	2.3%	2.1%	2.2%	1.9%	2.0%	2.2%	2.8%	4.0%
Uzbekistan	39	52	60	65	121	160	140	178	199	208	219
	5.5%	5.5%	5.4%	3.8%	5.0%	3.9%	1.7%	2.5%	2.2%	2.0%	2.0%
Middle East and North Africa	15	16	22	20	24	29	19	24	30	33	33
	2.0%	1.7%	2.0%	1.2%	1.0%	0.7%	0.2%	0.3%	0.3%	0.3%	0.3%
Sub-Saharan Africa	0	0	2	1	1	2	1	1	1	1	2
	0.1%	0.0%	0.2%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Western hemisphere	2	3	3	11	13	18	10	4	11	7	17
	0.2%	0.3%	0.3%	0.6%	0.5%	0.4%	0.1%	0.1%	0.1%	0.1%	0.2%
Other regions	0	0	5	0	0	0	0	0	0	0	0
	0.0%	0.0%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Compiled from IMF data.

---

## Chapter 3. Financial System

### 1. Central bank

#### (1) Role of the central bank

The National Bank of the Kyrgyz Republic (here after, "the central bank") was established in 1992 and currently operates under the Law of the Kyrgyz Republic on the National Bank of the Kyrgyz Republic, which went into effect in 1997. Based on this law, the central bank places the most emphasis on keeping prices stable. To keep prices stable, the central bank adjusts the policy interest rate and controls money supply growth by adjusting the supply of base money.

For interest rate policy, the central bank primarily uses the discount rate as its policy interest rate. Looking at the discount rate and the inflation rate (y/y changes in consumer prices) it appears that the central bank's adjustments of the interest rate lag slightly behind the inflation rate. (See Chart 3-1.)

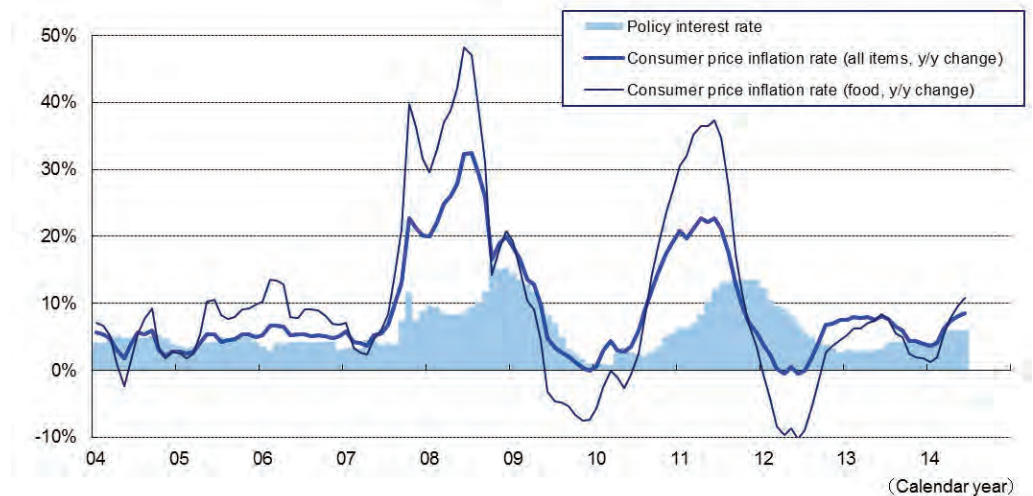
When it comes to the money supply, the central bank seeks to control the volume of the money in the market by monitoring the commercial banks and controlling lending activity through window guidance. The central bank divides the banks into three classifications based on their size, and it monitors the larger banks more strictly. The central bank uses the banks' quarterly financial reports in this monitoring. However, the banks also report the movement of money, such as loans, to the central bank each day, and when the central bank determines that risk is rising it issues a warning letter to urge corrective action.

The central bank does not give any particular instruction (guidance) concerning loan rates; rather, the principle of competition among banks is at play.

The central bank operates independently of the government, and it is fair to say that the central bank has a high level of independence. The central bank may purchase securities issued by the government but it may not extend loans to the government.

However, it does coordinate with government organizations. For example, when the national budget is being reviewed, the central bank is positioned as an organization that coordinates policy with the Ministry of Finance, and it also gives its opinion to the Ministry of Economy on the economic forecasts drawn up by the ministry.

Chart 3-1: Inflation and policy rate



Source: Compiled from National Statistical Committee of the Kyrgyz Republic and National Bank of the Kyrgyz Republic data.

## (2) Policy stance on foreign exchange

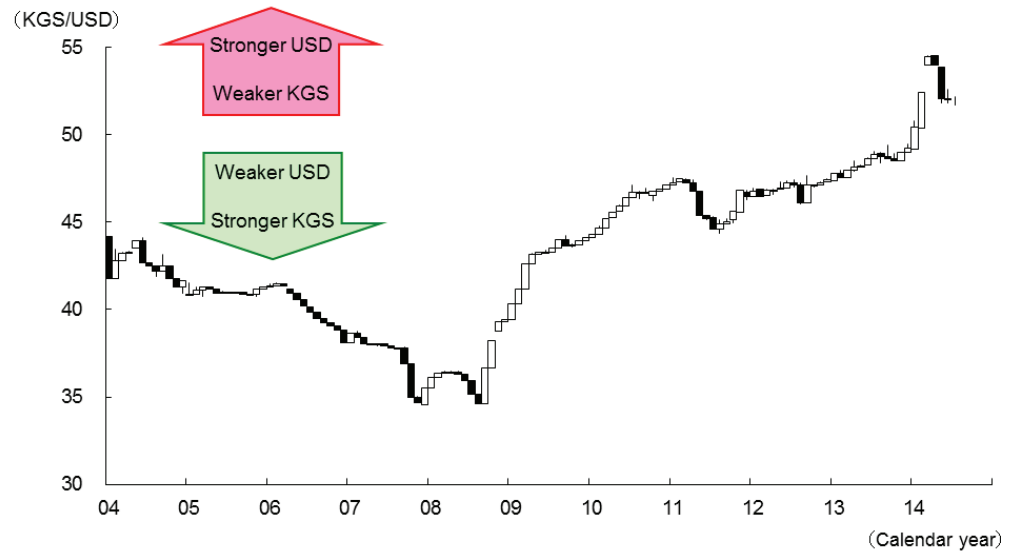
The Kyrgyz Republic introduced its currency, the som, in May 1993. When seeking to keep prices stable, keeping the value of the currency stable is also important. Kyrgyzstan relies on imports for some 70% of its food and 100% of its fuel, such as gasoline. Because of this, it must keep the value of its currency, the som, stable against the currencies of its major trading partners, Russia, Kazakhstan, and China.

The central bank publishes reference rates for the dollar, euro, ruble (Russia), and tenge (Kazakhstan) each day. The som can be freely exchanged, and this is an advantage. However, the small size of the economy also means that the currency is susceptible to becoming unstable. The central bank intervenes in the currency market when the value of the som swings wildly against major currencies.

In 2013 it intervened in the currency market only once, and the size of the intervention was small (it bought USD 14 million worth of som). However, in 2014 the currencies of emerging economies fell across-the-board (see note below) as the US tapered its quantitative easing, and the som also depreciated by about 10% against the US dollar compared to where it was in January. To stabilize the value of the som the central bank intervened from January to March by purchasing a total of USD 200 million worth of som. It did not intervene in April, but in May it intervened by purchasing USD 20 million worth of som because the som had appreciated. It appears that the central bank has ample foreign currency reserves (dollars) that it can use as a resource for intervention. When we visited the central bank in May 2014, we were told that it has foreign currency reserves of USD 2.17 billion, an amount that is equivalent to more than four months worth of imports.

Note: On January 11, 2014 Kazakhstan, one of Kyrgyzstan's neighboring countries, devalued its currency, the tenge, by about 20%. It did so because of the plunging ruble, which is the currency of the currency of neighboring Russia, with which it has formed an economic union.

Chart 3-2: Foreign exchange rate (vs. USD)



Source: Compiled from National Bank of the Kyrgyz Republic data.

## 2. Banks

As of July 2014, there were 24 commercial banks in Kyrgyzstan (including the Bishkek Branch of the National Bank of Pakistan), and 16 banks are at least partially foreign capitalized. There are 291 bank branches in the country. Most of the branches are in the capital of Bishkek (57) or in the southern city of Osh (54).

There are three ways of obtaining a banking license: 1) going it alone, 2) merging, or 3) changing the name from a bank that has already obtained one. With any of these methods, it is necessary to have at least KGS 600 million (about USD 12 million) in capital to obtain a license. (See note below.) In the case of a merger, the approval of the central bank is required when a foreign company acquires more than 10% of the shares. Approval is required again to acquire 20% of the stock (matters concerning the operation of banks are specified in Article 33 of the Law of the Kyrgyz Republic on Banks and Banking in the Kyrgyz Republic). Once a banking license is obtained, a branch must be opened within six months if the founder is a Kyrgyz national or within 12 months if the founder is foreign.

Note: The current capital requirement is KGS 200 million, but the KGS 600 million minimum amount is slated to apply to all banks starting 2017-2018.

**Chart 3-3: Commercial banks: number of branches and amount of capital**

No	Bank name	Licence date	Number of branches									Capital (KGS mn)
				Bishkek	Chui oblast	Issyk-Kul oblast	Naryn oblast	Talas oblast	Jalal-Abad oblast	Osh oblast	Batken oblast	
1	OJSC RK "AMANBANK"	1991/5	17	2	3	3	1	1	1	5	1	372
2	OJSC "Kazkommertsbank Kyrgyzstan"	1991/12	3	2	-	-	-	-	-	1	-	154
3	OJSC "Commercial bank KYRGYZSTAN"	1991/12	34	6	5	3	3	1	8	6	2	622
4	"Optima Bank" OJSC	1992/5	14	6	2	3	-	1	1	1	-	700
5	"KSB" CJSC	1992/5	-	-	-	-	-	-	-	-	-	242
6	OJSC Investbank "Issyk-Kul"	1993/5	6	2	-	2	-	-	1	1	-	271
7	OJSC "Capital Bank"	1995/10	1	-	-	-	-	-	-	1	-	310
8	CJSB JSCB "Tolubay"	1996/1	2	2	-	-	-	-	-	-	-	235
9	OJSC "RSK Bank" ("SSC Bank")	1996/7	51	3	8	7	5	4	10	9	5	1,244
10	CJSC "BTA Bank"	1996/11	14	2	2	3	-	-	2	4	1	1,000
11	CJSC "Demir Kyrgyz International Bank"	1997/5	7	4	-	-	-	-	1	2	-	133
12	OJSC "DOS-KREDOBANK"	1997/6	10	1	2	2	2	1	1	1	-	271
13	CJSC "Manas Bank"	1997/10	1	-	-	-	-	-	-	1	-	378
14	CJSC "EcolslamicBank"	1998/3	12	4	2	1	-	1	1	2	1	407
15	CJSC "Bank of Asia"	1998/11	7	3	1	1	-	-	1	1	-	271
16	OJSC "Kyrgyz Credit Bank"	1998/11	3	3	-	-	-	-	-	-	-	300
17	OJSC "BAKAI BANK"	1998/12	7	-	2	1	1	1	1	1	-	340
18	OJSC "Halyk Bank Kyrgyzstan"	1999/4	9	4	1	1	-	-	1	2	-	534
19	Bishkek branch of the National bank of Pakistan	2000/4	-	-	-	-	-	-	-	-	-	201
20	CJSC "Kyrgyz Investment and Credit Bank"	2001/7	14	3	2	1	1	1	2	3	1	953
21	OJSC "FinanceCreditBank KAB"	2005/12	6	-	1	1	1	-	1	2	-	300
22	OJSC "Ayl Bank"	2006/12	30	2	5	3	2	2	6	6	4	600
23	OJSC "Rosinbank"	2010/12	36	7	5	5	3	2	7	4	3	41
24	"Bai-Tushum" Bank CJSC	2012/11	7	1	-	1	1	1	1	1	1	715
Total			291	57	41	38	20	16	46	54	19	10,594

Note: Number of branches and amount of capital as of April 2014.

Source: Compiled from National Statistical Committee of the Kyrgyz Republic data.

### 3. Brokerages

The Kyrgyz Stock Exchange was established in 1994 as non-profit organization unaffiliated with the government. Under a US assistance program, Price Waterhouse served as a consultant and was involved in building the institution. It therefore basically hews to the rules of US stock exchanges.

As of July 2014, there were 15 listed common stock issues, 1 listed preferred stock issue, and 5 listed bond issues, for a total of 21 listed issues. The total market capitalization is about KGS 9.5 billion (about JPY 19 billion). Most recently, in April 2014 alcohol-producer Ayu LLC issued KGS 100 million (about JPY 200 million) of corporate bonds. The coupon rate was 14% and most of the buyers were individual investors.

The exchange's trading hours are Monday to Friday, 10:30 AM to 3:00 PM. Trades in listed securities are executed through local brokerages (there were 16 such brokerages as of May 2014).



---

Most Kyrgyz companies are privately held. In order to list shares on the exchange, the company must first file a registration with the government's State Service for Regulation and Supervision of the Financial Market ("SSRSFM"). The application is reviewed by the SSRSFM's Listing Committee before the applicant can become a public company.

Based on our interviews with the Kyrgyz Stock Exchange, the decision of whether to approve a listing is made after reviewing both numerical criteria and the company's attributes (e.g. company history). So far there are 16 public companies that are listed on the exchange, but more than 1,000 companies have listed with the SSRSFM, and of these 200 have become public companies. These 200 companies can be expected to be candidates for listing on the securities exchange in the future. There are more than 1,000 registered companies because in Kyrgyzstan, a company must be registered when shares are transferred.

#### 4. Commercial banking sector credit outstanding and profitability

##### (1) Credit growth mainly directed towards wholesale and retail sector

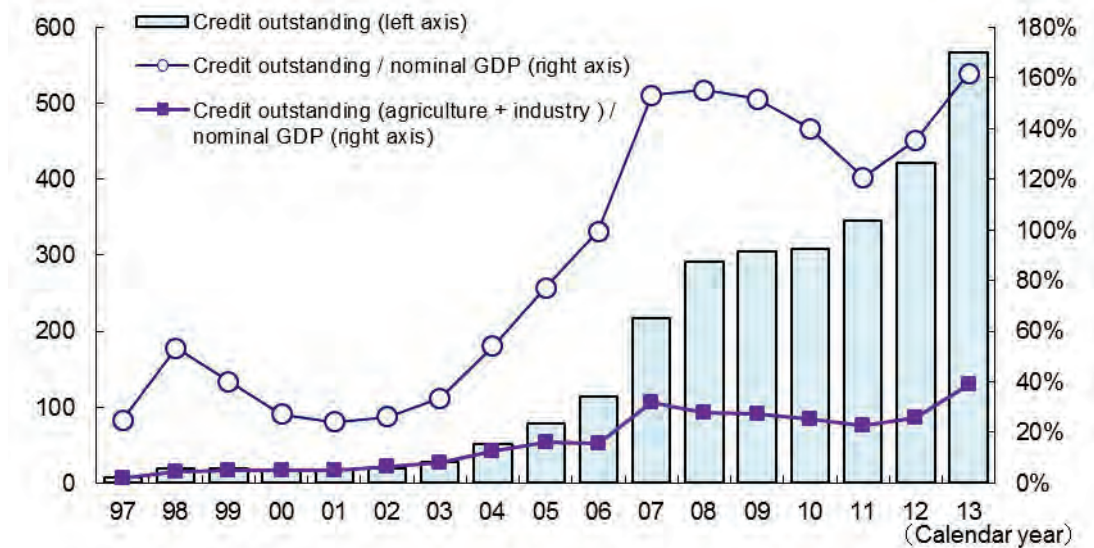
Despite the temporary slowdown in growth in the wake of the global financial crisis in the autumn of 2008, the amount of credit extended by the commercial banking sector has grown substantially since 2004. From the end of 2003 to the end of 2013, credit grew at an annual pace of 35%. As credit grew, it also represented an increasing share of nominal GDP, swelling from 34% at the end of 2003 to 162%.

However, most of the borrowers are in the wholesale and retail sector and lending to industry (manufacturing) and agriculture has been less remarkable. In 2013, the credit to "agriculture" and "industry" represented 39% of nominal GDP. When viewed in terms of the last 10 years this represents a substantial increase (it was just 8.1% in 2003), but the growth since 2007 (32%)—the highest point prior to 2013—has been limited.

The steep increase in credit to wholesalers and retailers is consistent with the shift from a primarily agriculture-based economic structure to a service-based economy over the last ten years. However, wholesalers and retailers use most of this money for purposes like acquiring land, erecting buildings, and for working capital (e.g. initial inventory), and the share of investment in things like machinery and equipment (as seen in manufacturing and agriculture) is fairly low (transportation and warehousing is included within "other"). Therefore, the improvement in productivity for the economy as a whole due to the growth in credit does not seem to be as great as that in manufacturing and agriculture.



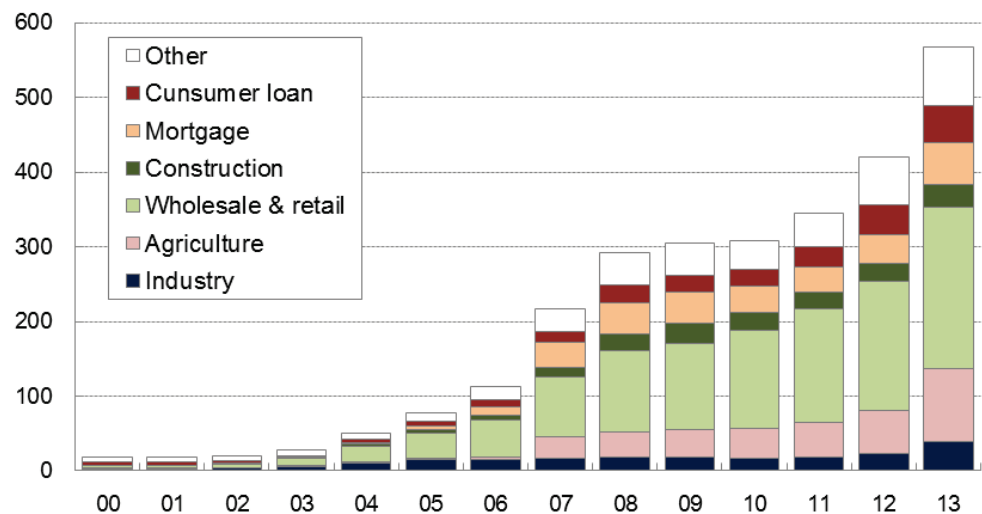
**Chart 3-4: Commercial banking sector credit outstanding vs. nominal GDP**



Note: KGS bn.

Source: Compiled from National Bank of the Kyrgyz Republic data.

**Chart 3-5: Commercial bank credit outstanding by industry**



Note: KGS bn.

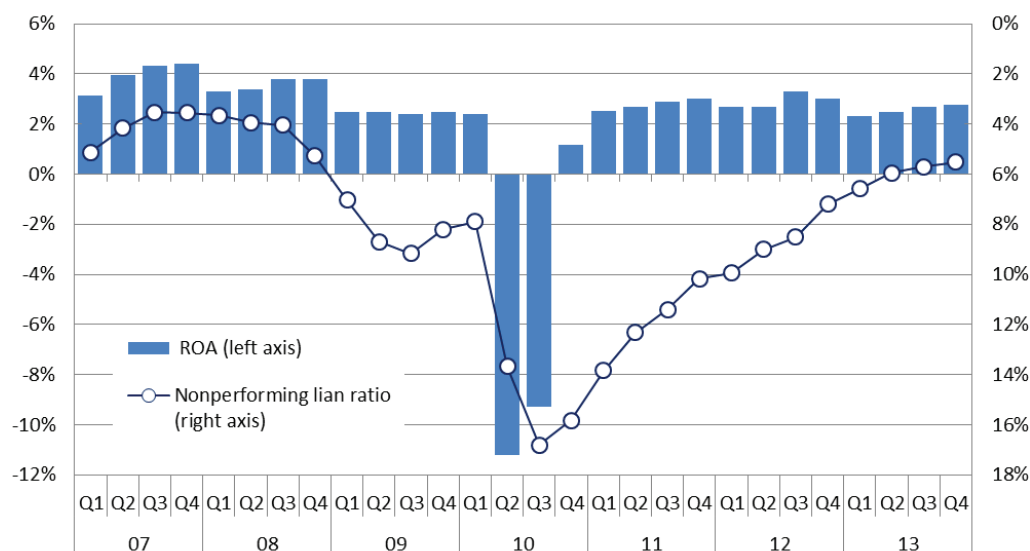
Source: Compiled from National Bank of the Kyrgyz Republic data.

## (2) NPL ratio and profitability back at pre-financial crisis levels

The banking sector's nonperforming loan (NPL) ratio rapidly deteriorated starting with the collapse of Lehman Brothers in the autumn of 2008. The NPL ratio was at 3.5-4.0% for the year before that, but by the autumn of 2009 (third quarter) it had jumped to 9.2%, and it soared to 16.8% in the third quarter of 2010. Return on assets (ROA), a measure of in the banking sector profitability, fell from 3.0-4.0% before the global financial crisis to the 2% level a year and a half later. Then, in the second and third quarters of 2010—when the NPL ratio soared—ROA plunged to -58% and -51%, badly damaging banking sector balance sheets.

Afterwards the NPL ratio gradually declined again as the economy improved. By the end of 2013 it had recovered to 5.5%, the same level where it was at the end of 2008. As their financial situation has improved, the banking sector's loan volume has also been growing.

**Chart 3-6: Banking sector ROA and nonperforming loan ratio**



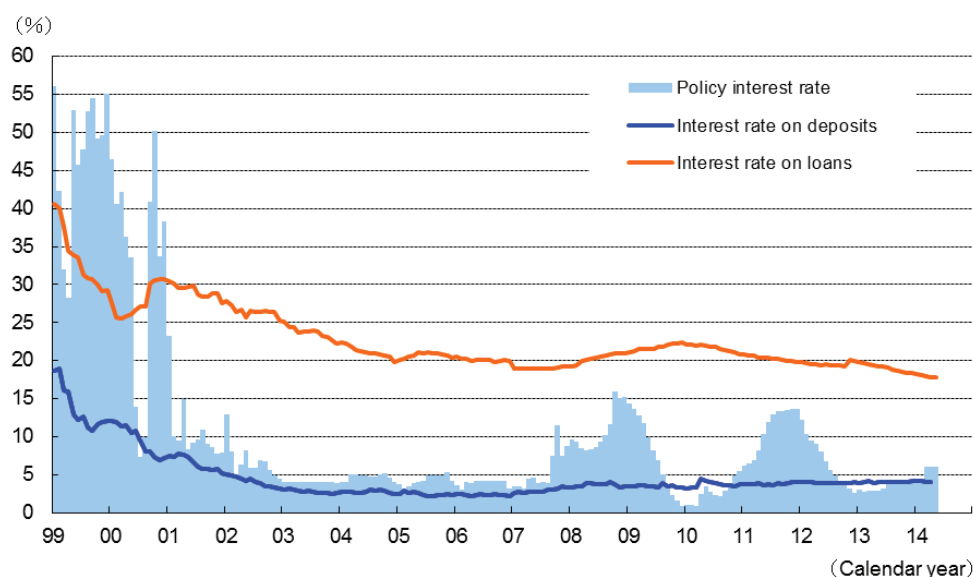
Source: Compiled from National Bank of the Kyrgyz Republic data.

### (3) Interest rate levels and loan-to-deposit spreads

Because the central bank closely monitors the inflation rate, it frequently adjusts the policy interest rate. However, the commercial bank deposit rates and loan rates do not change very much even when the policy rate changes. Deposit rates are relatively more easily influenced. Nevertheless, for the period from January 2004 to April 2014, the sensitivity of deposit rates (weighted average of commercial bank rates, change from prior month-end) to changes in the policy interest rate (change from prior month-end) was just 0.5%. In May 2014 the deposit rate was 4.0% and the loan rate was 17.8%.

The loan-to-deposit spread is narrowing. The loan rate, in particular, has been declining since the autumn of 2010, when the banks began disposing of their bad loans. The loan-to-deposit spread has narrowed by about 5.9 percentage points from 19.70% in January 2004 to 13.79% in April 2014.

**Chart 3-7: Policy rate, lending rate & deposit rate**



Source: Compiled from National Bank of the Kyrgyz Republic data.

## 5. Funding situation and settlement practices

We assembled information on the current funding environment based on interviews with the commercial banks and the central bank, which we visited in March and May 2014.

The term of most long-term loans to private companies is seven years. The term for small and medium sized enterprises is five years.

Loan limits vary depending on the commercial bank. One commercial bank will lend up to USD 1 million to a business. It also prohibits loans to businesses in high-risk areas as well as businesses involved in alcohol and tobacco.

The interest rate on som-denominated loans is 18-20% for major companies and 20-25% to small and medium sized enterprises. The rate for individuals is above 25%. The maximum interest rate on som-denominated loans set by the central bank is 33% (45% for microfinance).

The rate for dollar-denominated loans is 16-18%. The maximum interest rate on dollar-denominated loans set by the central bank is 20%.

An audit conducted by the central bank sometime around 2012 focused on the concern that there were many individuals who were using microfinance to borrow from multiple financial institutions. Partly due to guidance from the central bank, financial institutions are tightening their screening for loans to individuals.

One financial institution is rejecting 25% of the microfinance applications it receives. The reasons for this include: 1) insufficient income, 2) attempting to borrow from multiple financial institutions, and 3) applicant attributes failing to meet certain criteria. These criteria include items such as age (20-60 years of age), passport (unexpired), and address.

There is a credit information agency in Kyrgyzstan, so it is possible to research an

---

applicant's history for the past 10 years.

When it comes to making payments within the country, people do use checks. However, lately it has become possible to use online banking for gross remittance payments, and this has become a mainstream payment method.

Checks that are issued in Kyrgyzstan can be cashed, but those issued in other countries will not be cashed.

## 6. Financial services for foreign residents

What follows is information that we gathered from a local bank, Demir Bank, concerning overseas remittances and the procedure for a foreign national to open an account. These procedures can vary depending on the bank, and they may have also have changed since we gathered this information (May 2014), so it would be best to check in advance.

### (1) Opening a personal account and the services offered

It is relatively easy for a foreign national to open a bank account. At Demir Bank, the only requirements to open an account are: 1) a passport and 2) KGS 255 (about JPY 500). The account is created the following business day, and an ATM card is issued two business days later. There is no requirement for proof of residence, such as a resident's ID card, so even a traveler can open an account. ATM cards come with a credit function (VISA). One of the benefits of these cards is when they are presented at participating supermarkets, the cardholder receives a discount of several percent off the purchase price. It is possible to pick up the card at a branch other than the one where the application to open the account was submitted. As of May 2014, Demir Bank had ATMs in 60 locations in Kyrgyzstan.

There is a maintenance fee on personal accounts only if foreign currency is used. The account is free of charge if services are used only in the local currency (som). When opening an account, the customer can choose from among five foreign currencies (including the Japanese yen). For foreign currency accounts, there is a monthly charge of KGS 41 (about JPY 80) if any of the services are used during the month. There is also a 0.5% fee when dollars are withdrawn from an ATM. On the other hand, there is no fee on withdrawals made at a branch. The ATM withdrawal limit is KGS 60,000 or USD 1,200.

It is also possible to create an internet banking account. There are two versions at Demir Bank. One only allows balance inquiries, while the other also allows functions like domestic money transfers. There was no function for overseas remittances as of May 2014.

### (2) Opening a corporate account and the services offered

Numerous documents are required for foreign company to open a corporate account. However, if the necessary documents are presented, an account can be opened in two business days, so the process is quick. The documents needed to open an account

include a copy of the company's registration license and proof of the company's tax registration. (See Chart 3-8.)

Generally, when a foreign company is moving into a country, it provisionally opens a bank account before it completes the procedure for registering the establishment of a corporation (opening a provisional account). This is so that the authorities can see the account that will receive the capital that will be sent from overseas as part of the registration establishing the corporation. However, in Kyrgyzstan companies are not permitted to open a provisional account for the purpose of establishing the local company. This is because the Kyrgyz Ministry of Justice's procedure for establishing a corporation does not require an application for an account to receive the capital. As a result, foreign companies begin the process of opening a bank account after they have completed the process of registering the establishment of a corporation with the Ministry of Justice.

**Chart 3-8: Sample list of documentation needed for a foreign company to open a corporate account (Demir Bank)**

No	List of necessary documents
1	Original or copy of permission to establish a corporation (copies must be officially certified)
2	Copy of corporate registration certificate (issued by FEZ administrative association or ministry bureau)
3	Copy of the operating license
4	Documents showing authority to dispose the corporation's capital
5	Two officially certified copies of the signature and seal card
6	Copy of the passport of the individual who will have jurisdiction over the account
7	Copy of the tax registration card, copy of the social insurance fund notice, copies of other registrations issued by the Kyrgyz Republic government public institutions
8	Certificate from tax authorities showing that the taxpayer is registered
9	Latest balance sheet of the joint venture company

Source: Compiled from Demir Bank documents and interviews.

### (3) Foreign remittances

There is no need to obtain prior approval from the central bank when sending funds overseas. However, when sending more that USD 500,000, the purpose may be asked.

The amount and rate used for the fees for overseas remittances varies depending on the amount of the transfer. At Demir Bank, for remittances up to USD 5,000 there is a fixed charge (USD 30.60) and as well as a fee of 0.33% of the transfer amount. For remittances of more than USD 5,000 the fee varies depending on the amount and customer, and in some instances the Kyrgyz Ministry of Finance's Treasury Department may instruct the bank to lower the rate. It appears that the rate is reduced to about one-third the rate on remittances of up to USD 5,000 (0.33%).

## Chapter 4. Establishing a company and other pre-requisites

### 1. Types of companies

The fundamental laws that regulate the activities of corporations in the Kyrgyz Republic include the Civil Code, the Companies Act, and the Stock Corporation Act. Table 4-1 shows the main types of companies regulated under the Companies Act and the Stock Corporation Act, and their concepts. Of these, the most common types of companies are the limited liability company and the joint-stock company.

**Chart 4-1 : Main company types and their brief descriptions**

Company type	Description
Limited liability company	<ul style="list-style-type: none"><li>• Employees do not assume liability for the debts of the company and they bear risk with regard to losses resulting from company activities to the extent of the amount invested by the individual.</li><li>• Employees of a limited liability company that does not contribute the full amount to the chartered capital bear joint and several liability for the debts of the company to the extent of the unpaid capital contribution.</li></ul>
Joint-stock company	<ul style="list-style-type: none"><li>• Shareholders are not liable for the debts of the company and bear the risk for losses resulting from company activities to the extent of the value of the shares that they hold.</li></ul>
Partnership	<ul style="list-style-type: none"><li>• When the assets of the company are insufficient, the all property of partners indemnify the assets of the company.</li></ul>
Limited partnership	<ul style="list-style-type: none"><li>• A company with one or more employees with joint and several liability for company debts along with all of their assets.</li></ul> <p>Partners with unlimited liability and one more employee whose liability is limited by the amount invested in the chartered capital and who does not participate in the company's corporate activities.</p>

Source: Prepared by the Study Team from the translation of the Kyrgyz Republic Companies Act (provisional translation) by the International Cooperation Department, Research and Training Institute of the Ministry of Justice (2009) and the translation of the Kyrgyz Republic Stock Corporation Act (provisional translation) by the International Cooperation Department, Research and Training Institute of the Ministry of Justice (2008)

#### (1) Limited liability company<sup>1</sup>

A limited liability company (LLC) is the most common type of company in the Kyrgyz Republic. Its features are:

- Investors of an LLC are not liable for the company's debts. The investors' liability for business-related loss is limited to the extent of their investment.
- Structure and powers of an LLC's management are not regulated by laws, and hence can be quite flexible.
- Minimum capital requirement for an LLC is KGS1 (about JPY2, as of June 2014).

According to the law<sup>2</sup>, a corporation established as a one-person company is

<sup>1</sup> Kalikova Associates (2014), "Business in the Kyrgyz Republic: Legal Aspects" p. 28.

---

prohibited from becoming the single founder/investor of an LLC.

The upper limit for the number of investors in an LLC is 30. Should the number of investments exceed 30, the LLC must reorganize and become a joint-stock company within one year. If the LLC does not meet this requirement, it is liquidated by judicial proceedings.

## (2) Joint-stock company<sup>3</sup>

Shareholders of a joint-stock company are not liable for the company's debts and only assume liability for the company's business losses to the extent of the value of the shares that they hold in it.

There are two types of joint-stock companies: closed-type and open-type.

A closed-type joint-stock company is prohibited from public allocation of the issue of its own shares. In addition, the number of shareholders must be 50 or less. If the number exceeds 50, it becomes an open-type joint-stock company within one year. The shareholders of a closed-type joint-stock company have the priority to right of purchase when other existing shareholders of the same company intend to transfer their shares.

In contrast, an open-type joint-stock company can allocate an issue of its own shares to the public and shareholders can freely transfer their shares to third parties.

## 2. Establishing a company<sup>4</sup>

In the Kyrgyz Republic, one can acquire the necessary information from the Ministry of Justice or the Legal Affairs Bureau for registering a corporation. When registering a corporation, a branch, or an agency, the "one-stop shop" service can be used and a framework is in place for the registration procedure to be completed smoothly. The registration procedures are completed within three business days from the time the necessary documents are submitted.

Documents required to register a corporation are:

- Registration application
- Written resolution for the establishment of the corporation by the founders
- Extract from the register of the foreign corporation or, under the law of the foreign country, documents certifying that it is a lawful ongoing concern
- Copy of the representative's passport or certifying documents based on the Kyrgyz

---

<sup>2</sup> Article 128 of the Civil Code of the Kyrgyz Republic

<sup>3</sup> International Cooperation Department, Research and Training Institute of the Ministry of Justice (2008), translation of the Kyrgyz Republic Stock Corporation Act (provisional translation) p. 8.

<sup>4</sup> Kalikova Associates (2014) "Business in the Kyrgyz Republic: Legal Aspects" p. 29.



---

law

3. A branch or agency of a foreign corporation<sup>5</sup>

The following rights and obligations are granted by the laws of the Kyrgyz Republic for branches and agencies<sup>6</sup>:

- Opening of a bank account and payments through denominations of various currencies
- Employment of local labor
- Acquisition of foreign worker employment and labor permits
- Acquisition of the required approvals to purchase or rent real estate
- Conclusion and execution of contracts with domestic/foreign companies (payment in local/foreign currency)

In the Kyrgyz Republic, branches and agencies are subject to a number of limitations. For example, they are only permitted to conduct business when there is a parent company.

Moreover, the branches and agencies of foreign companies are not deemed to be corporations. The branches and agencies are authorized as assets of the corporation that founded them. They conduct business activities based on the approved company rules.

The functions of agencies are limited to being an agency of a foreign corporation, protecting profits and outcomes of transactions, and conducting other legal acts as an agency. In contrast, branches are granted the legal position of bearing all or some of the functions of a foreign corporation, including agency functions.

4. Registering branches and agencies<sup>7</sup>

All branches and agencies within the Kyrgyz Republic are required to register, excluding those within the Free Economic Zone (FEZ). The registration of a branch or an agency of a foreign corporation is done at the Kyrgyz Republic Ministry of Justice or the Legal Affairs Bureau. When registering a branch or an agency, foreign corporations are required to submit the following documents:

- Registration application
- Written resolution from the foreign corporation's decision-making body on the

---

<sup>5</sup> Chamber of Commerce and Industry of Kyrgyz Republic (2013) "Cost of Doing Business in Kyrgyzstan" p.13.

<sup>6</sup> The Law of the Kyrgyz Republic "On Business Partnership and Companies" dated November 15, 1996 (with the latest amendment as of January 19, 2009).

<sup>7</sup> Kalikova Associates (2014) "Business in the Kyrgyz Republic: Legal Aspects" p. 26-27.



---

establishment of the branch or agency

- A copy of the corporation registration (corporation re-registration) certificate
- Extract from the register of the foreign corporation or, under the law of the foreign country, documents certifying that it is a lawful ongoing concern
- Copy of the representative's passport or other certifying documents required by the Kyrgyz law

However, the opening of a branch or sub-branch of a foreign bank requires the approval of the National Bank of the Kyrgyz Republic. In this case, the following documents must also be submitted:

- Copies of the articles of incorporation of the branch or sub-branch (two copies)
- Copy of the register of the financial institution, foreign government institution, or international institution intending to establish the branch or sub-branch

## 5. Methods of investment (investment forms, investor protection)

Currently, the Kyrgyz Republic does not have a law on foreign investments<sup>8</sup>. However, as investment is an important and necessary condition for the development of the country's economy, investment legislation was passed, offering a system with high degree of freedom.

### (1) Investment legislation<sup>9</sup>

The basic law for investment is the Law on Investments<sup>10</sup>. Based on this law, foreign investors can receive the same treatment as is received by the domestic individuals and corporations. In this legislation, foreign investors are guaranteed a wide range of rights, including those required for exports, recovery of investments, and sending assets or information out of the country. Other aspects are also guaranteed, including protection for the accommodation of investments, compensation for losses suffered by investors, the uses of income, and freedom of financial transactions.

The Kyrgyz Republic has concluded bilateral agreements with countries shown in the table below to promote and protect investment:

---

<sup>8</sup> The former Law on Foreign Investments of 1991 was amended to become the Law on Foreign Investments of 1997 and is currently the Law on Investments of 2003.

<sup>9</sup> Kalikova Associates (2014) "Business in the Kyrgyz Republic: Legal Aspects" p. 19-20.

<sup>10</sup> The Law of the Kyrgyz Republic "On Investments in the Kyrgyz Republic" dated March 27, 2003 (with the latest amendments as of October 22, 2009).

**Chart 4-2: Bilateral agreements concluded by the Kyrgyz Republic to promote and protect investment**

Region	Country
Asia	China (1995)
	Turkey (1996)
	Iran (2002)
	India (1998)
	Kazakhstan (2005)
	Mongolia (2001)
	Tadzhikistan (2001)
	South Korea (2008)
	Malaysia (agreement concluded in 1995, not yet effective)
	Pakistan (agreement concluded in 1995, not yet effective)
	Indonesia (agreement concluded in 1997, not yet effective)
	Uzbekistan (agreement concluded in 1997, not yet effective)
Europe	Ukraine (agreement concluded in 1993, not yet effective)
	Armenia (1995)
	United Kingdom (1998)
	France (1997)
	Azerbaijan (1997)
	Germany (2006)
	Georgia (1997)
	Belarus (2001)
	Switzerland (2003)
	Sweden (2003)
	Moldova (2004)
	Finland (2004)
	Latvia (2009)
	Lithuania (2008)
	Denmark (agreement concluded in 2001, not yet effective)
North America	United States (1994)

Source: Prepared by the Study Team on the basis of Kalikova & Associates (2014).

(Note) The years in parenthesis are the years the bilateral agreements came into effect.

In addition to bilateral agreements, the Kyrgyz Republic has basic agreements with the Czech Republic, the Netherlands, and the UAE to promote and protect investments.

The Kyrgyz Republic's Ministry of Finance is the administrative arm that has jurisdiction over investment policy in the country. It is responsible for creating and implementing policies pertaining to the macro economy, finance, tax system, tariff policy, economic development, trade, economic activities, promotion of investment, technological regulations, support of entrepreneurs, and development of the Free Economic Zone (FEZ).

## (2) State guarantees for foreign investors<sup>11</sup>

In accordance with its laws, the Kyrgyz Republic provides foreign investors with the following guarantees:

<sup>11</sup> Kalikova Associates (2014) "Business in the Kyrgyz Republic: Legal Aspects" p. 20-21.

- 
- Treatment of business activities within the country, equal investment rights for both domestic and foreign investors, non-intervention in business activities, and protection from and compensation for violation of investor rights in accordance with the laws of the Kyrgyz Republic and international agreements.
  - Profit obtained from investments, sales of investment activities, export of assets and information from the Kyrgyz Republic, or remittances to the home country.
  - Protection against expropriations (nationalization, requisition, or equivalent methods; these shall include the actions or inactions of the Kyrgyz Republic authorities that result in investors' capital being confiscated, or a situation in which they cannot utilize the outcomes of investments).
  - The right to freely use income obtained from investments.
  - Freedom of investment for objects and business activities that are not prohibited by the Kyrgyz law, including business activities for which a license is required.
  - Freedom of financial transactions – free currency exchange, guarantee of free and unrestricted remittances. When the system for restricting remittances denominated in foreign currencies is applied in accordance with the Kyrgyz domestic law, it shall not apply to foreign investors. However, this excludes cases where the investor engages in money laundering or other illegal acts.
  - Free access to public information.
  - The following rights are clearly permitted by the laws of the Kyrgyz Republic: the establishment of groups and corporations regulated by the laws of the Kyrgyz Republic, the opening of branches and agencies, and the selection of organizational and management structures. However, purchase of real estate (except land), purchase of securities such as shares and government bonds, participation in the privatization of national property, establishment of associations and other unions, employment of nationals and foreigners based on the Kyrgyz Republic laws, and engagement in investment activities are not prohibited by the laws of the Kyrgyz Republic.
  - Recognition by public institutions and public officials of the Kyrgyz Republic of all the intellectual property rights of foreign investors.
  - In the event of amendments to the Kyrgyz Republic regulations pertaining to investment, taxes, and tariffs, investors are free to select the most advantageous condition within 10 years from the start of their investing activities (or within the period prescribed by the individual investment agreement) provided this excludes laws relating to the constitution, health service and medical treatment, and environmental protection.
  - Guarantee of special provisions in international agreements, whether bilateral or multilateral, for the promotion and protection of investment.

## Chapter 5. Tax system and preferential investment treatment

### 1. Tax system

#### (1) Summary

Kyrgyz Republic's tax system is presented by its Tax Code (the Tax Code of the Kyrgyz Republic) and other related laws and regulations. The supervisory government institution is the State Tax Service.

Taxes are classified into national tax and local tax. There are six types of national tax: ① income tax, ② profit tax, ③ sales tax, ④ value-added tax, ⑤ commodity tax, and ⑥ subsoil usage tax. In addition, special tax measures have been established for taxpayers that meet certain conditions such as business scale. There are two types of local tax: ① land tax and ② property tax. Taxpayers are divided into corporations and individuals, while corporations are further categorized into domestic corporations and foreign corporations. Foreign corporations are further classified based on whether or not they use permanent facilities when conducting business within the Kyrgyz Republic. Foreign corporations that conduct business using permanent facilities have the same tax liability as domestic corporations.

**Chart 5-1 : Types of corporations in terms of tax administration**

Corporations
Domestic corporations
Corporations organized under the laws of the Kyrgyz Republic
Foreign corporations
Corporations established under the laws of a foreign country; companies, factories, funds, institutions, and other organizations
Foreign corporations who conduct business through permanent facilities in the Kyrgyz Republic (conduct business through subsidiaries, branches, and agencies)
Foreign corporations that conduct business without permanent facilities

Source: Prepared from the Tax Code of the Kyrgyz Republic

Permanent facilities correspond to facilities such as management headquarters, divisions, offices, factories, workplaces, mines, oil or gas wells, quarries, other places for mining minerals, and sites. Foreign corporations that do not have public facilities are taxed on income earned within the Kyrgyz Republic, with the payment mechanism being that they pay taxes to the national treasury by withholding at source.

**Chart 5-2: Taxpayers who pay tax through “withholding at source” and tax rates**

Taxable items	Tax rate
Insurance payments from insurance contracts or hazard re-insurance contracts (excluding compulsory insurance contracts)	5%
International telecommunications	
Income from international transportation services between the Kyrgyz Republic and other countries	
Dividends, interest	10%
Insurance payments from obligatory insurance contracts or hazard re-insurance contracts	
Royalties, management commissions	
Other service fees, such as consulting fees	

Note: Tax rate for dividends and interest received from leasing companies would remain 1% until January 2017

Source: Prepared from the Tax Code of the Kyrgyz Republic

## (2) Income tax

Income tax is the tax levied on the income of individuals in the Kyrgyz Republic. There is no distinction between residents, non-residents, and foreigners. The taxable income is the amount obtained by subtracting the tax allowance permitted by regulations from the total annual income of the taxpayer during the designated tax period. However, a request for a tax payment cannot be made if the taxable income falls below the minimum tax income recognized by the Kyrgyz Republic National Committee. The tax rate is 10% and must be paid every month based on the income. Taxpayers can apply for an adjustment at the year-end (December).

## (3) Profit tax

Profit tax is a tax levied on profits obtained from business activities. Domestic corporations and foreign corporations conducting business through permanent facilities, sole proprietors, and individuals or corporations without permanent facilities who make payments to foreign corporations by doing business in the Kyrgyz Republic are liable to pay this tax. There is no distinction between resident corporations, non-resident corporations, and foreign corporations. The fiscal year runs from January to December.

Taxable profit is the profit calculated as a positive balance when deductible expenses permitted by the Tax Code assessed for the relevant tax period are deducted from the taxpayer’s total annual income. The tax rate is 10% and taxes must be paid every quarter, with the deadline for payments being 20 days from the final business day of the quarter. Taxpayers can apply to have their tax payment adjusted at the end of the fiscal period.

### Chart 5-3: Income not included in annual income

Assets received as an injection into capital stock or donation of shares and income from sales of shares of equity method affiliates
Special institutions that use and manage the relevant facilities for the expected purpose, facilities transferred to a company free of charge, the value of assets, the capital used for capital investment
The following items received by non-profit corporations
a) Membership fees and admission fees
b) Humanitarian aid and gratuitous provisions on the condition that they are used only for the purpose described in the articles of incorporation
c) Assets received free of charge on the condition that they are used only for purpose described in
d) Fees for the maintenance and administration of housing complexes and tenant buildings
Dividend money received from domestic enterprises that have been invested in
Partnership received from a general partner
Value of property managed in trust
(exceeding the face value) Income from treasury stock
Income from sale of treasury stock
Interest and profit from listed securities in the highest category and the next highest category on the date of sale

Source: Prepared from the Tax Code of the Kyrgyz Republic

### Chart 5-4: Expenses that can and cannot be deducted from taxable income for computing profit tax

Deductible expenses
Expenses generated in the process of paying interest on deposits and loans
Expenses generated in the processes relating to scientific research, construction, and research and design work
Fixed asset depreciation expenses
Expenses relating to the repair of fixed assets
National social insurance premiums
Loss on the sale of securities
Reserve for an expected loss and allocation to bank for a deposit insurance fund
Spending on charity, etc.
Personnel training expenses
Business trip expenses
Business social expenses
Expenses to generate other revenue
Non-deductible expenses
Tax sanctions, fines, and default interest paid with regard to the Kyrgyz Republic national budget and social fund
Taxes other than land tax, property tax, subsoil usage tax, and value-added tax that is not an offset item
Based on Kyrgyz Republic Tax Code, expenses related to the purchase, management, and maintenance of assets that are not taxable items
Expenses generated for a person other than the person paying for an indicated or ordered service, the need for which has been confirmed by documentary evidence
Loss outside of a standard prescribed by Kyrgyz Republic law
Excluding cases prescribed by the Kyrgyz Republic Tax Code, expenses that cannot be identified with confirmation documents
Expenses related to non-income
Expenses generated in order to earn income that is not subject to profit tax
Other types of expenses

Source: Prepared from the Tax Code of the Kyrgyz Republic

---

#### (4) Sales tax

Sales tax is a tax levied on sales that the business proprietor obtains for articles and services, and for the product of labor. Domestic corporations, foreign corporations that conduct business in the Kyrgyz Republic through permanent facilities, and sole proprietors are liable to pay this tax. The taxable items include sale of articles, outcome of labor, services, products excluding value-added tax, labor, and proceeds of services.

The tax rate depends on whether the taxpayer is a VAT taxpayer. For sales of articles, labor, or services, the VAT taxpayer is subject to tax rates of ① 1.5% for trade-related businesses and ② 2.5% for non-trade-related businesses. For sales of articles, labor, or services by non-VAT taxpayers, the tax rate is prescribed as ① 2.5% for trade-related businesses and ② 3.5% for non-trade-related businesses. The present tax rates came into effect on July 1, 2012. A sales tax of 5% is applied to mobile phone companies. The tax must be paid monthly and the deadline for payment is by the 20<sup>th</sup> of the month following the reporting.

#### (5) Value-added tax

Value-added tax (VAT) is the tax levied on products and services, including imported goods that are supplied within the Kyrgyz Republic. VAT payers are parties that provide products and services domestically, or those who import products that are taxable items. According to the Tax Code, in the event that a party provides taxable products, labor, or services with a value exceeding KGS 4 million within the Kyrgyz Republic within a consecutive period of 12 months or less, it must register as a VAT taxpayer. However, even companies that are not required to register for VAT may independently register.

VAT taxable items are items supplied by a VAT taxpayer and are classified into three types: ① products supplied within the Kyrgyz Republic, ② labor and services supplied within the Kyrgyz Republic for which remuneration is received, and ③ products exported from the Kyrgyz Republic. The basic VAT tax rate is 12%, but separate tax rates of 0%, 20%, and 10% are applied depending on the taxable item. Fundamentally, the tax is to be paid monthly and the deadline for payment is the 25<sup>th</sup> of the month following the reporting.

**Chart 5-5: List of taxable items with a tax rate other than 12%**

Items with a zero VAT tax rate
Exports of products except gold alloy and solid gold
Cargo other than international travelers and transportation, luggage, and rail transportation
International transport catering services other than for transit flights and rail transportation
20% VAT tax items (January 1, 2009 - )
Inventory in stock on January 1, 2009, for raw materials purchased or manufactured for the period until December 31, 2008
Products brought into the Kyrgyz Republic across the country border before January 1, 2009
10% VAT tax articles items
Cereals and flour provided by a taxpayer before January 1, 2010

Source: Prepared from the Tax Code of the Kyrgyz Republic

#### (6) Commodity tax

Commodity tax mainly applies to metallic products and imported alcoholic products. Products that are taxable include articles made from jewels or precious metals from the Kyrgyz Republic, or articles plated with precious metals. Seven types of taxable imported products are specified: ① ethyl alcohol, ② malt beer, ③ alcoholic beverages, ④ mixtures of alcoholic and non-alcoholic beverages, ⑤ tobacco products, ⑥ articles made from jewels and precious metals or articles made from metal plated with precious metals and ⑦ oil and oil products. The value of the taxable item is considered to be the sale price of the taxable item after the VAT has been excluded (value includes tariffs in the case of imports). Manufacturers of products subject to the commodity tax shall be taxed according to the market price of the product even when they transfer the collateral product to a pledgee as a benefit-in-kind or as a gift. The tax rate of each taxable item is prescribed by Article 287 of the Tax Code. The tax is to be paid monthly, with the payment deadline being the 20<sup>th</sup> of the month following the reporting.

**Chart 5-6 : Main commodity tax, taxable items and their tax rates**

Item	Tax unit	Tax amount / Tax rate	Item	Tax unit	Tax amount / Tax rate
Distilled liquor	ℓ	KGS70	Cigarettes	1,000	KGS13~297
Vodka	ℓ	KGS40	Precious metals (made of gold, silver, platinum)	Market price	5%
Brewing alcohol	ℓ	KGS40			
Preservative-treated beverages and fruit juices, preservative liquids	ℓ	KGS40	Oil	Ton	KGS3,000
Wine	ℓ	KGS10	Jet fuel	Ton	KGS2,000
Cognac	ℓ	KGS27	Diesel fuel	Ton	KGS800
Sparkling wine	ℓ	KGS22	Black oil	Ton	KGS600
Beer	ℓ	KGS5	Concentrated gas	Ton	KGS1,400

Source: Main commodity tax, taxable items, and their tax rates



### (7) Subsoil usage tax

Subsoil usage tax is a tax imposed on business proprietors who utilize the underground resources of the Kyrgyz Republic. It is paid as a lump sum when using the subsoil for mineral exploration and mining. The Tax Code regulates two types of subsoil usage tax: ① bonuses and payments normally paid when the mining actually takes place, and ② royalties. It must be paid monthly, with the payment deadline being the 20th of the month following the reporting.

**Chart 5-7 : Types of subsoil usage tax and brief descriptions**

Category	Item	Description
Bonus	Taxpayer	Domestic corporations that conduct mineral exploration and mining, foreign corporations, and sole proprietors that conduct their businesses through permanent facilities in the Kyrgyz Republic
	Taxable item	Reserves of mined deposits, including deposits that increased during the process of industrial exploration between the mineral exploration and mining
	Tax rate, value of taxable item	Decision of the Government of the Kyrgyz Republic in accordance with the classification table for the status of the exploration and scale of the deposit
Royalties	Taxpayer	Domestic corporation engaged in the mining (reclamation) of mineral resources and foreign corporations and sole proprietors conducting businesses through permanent facilities in the Kyrgyz Republic
	Taxable item	Sales of mineral resources excluding VAT and sales tax or products resulting from the processing of mineral resources
		Amount of product sold with specie money
		Volume of water taken from the lower soil according to a water gauge (however, excludes specialist water suppliers )
	Tax rate, value of taxable item	Regulated by the Tax Code of the Kyrgyz Republic according to type of mined mineral, sales, and amount in som per unit of fixed weight

Source: Prepared from the Tax Code of the Kyrgyz Republic

### (8) Land tax

Land tax is a tax applied to rights of ownership and use of land.

Land owners, parties certified as having land-use rights by a standard document of title, and the de-facto owner or user of land are liable to pay this tax. The taxable items are land ownership rights, temporary land ownership rights, and farmland use rights, and the value of the taxable item is calculated based on the area of the land in the land-tax payment district. In addition, the basic tax rate is prescribed according to the classification of the purpose of use of the place (residence) or land (farmland, land not used for farmland, for a residence, for farming, or for orchards and vegetable gardens). This tax must be paid every year and the deadline for payment is February 1 following the relevant year.

## (9) Property tax

Property tax is levied on the ownership of regulated assets and the taxable items are divided into four groups. The value of the taxable items is calculated by the calculation formula provided in the Tax Code, while the tax rate is determined by the group the taxable item belongs to.

**Chart 5-8 : Classification of taxable items and tax rates under property tax**

Group	Taxable Item	Tax rate
Group 1	Residences not used for business purpose	0.35%
Group 2	Buildings for business purposes or used for business (residences, lodging houses, rest homes, sanatoriums, resorts, manufacturing buildings, management buildings, industry buildings, and other buildings)	1%
Group 3	Temporary housing facilities built with raw material such as metals, including kiosks, containers, or similar, that are used for business.	1%
Group 4	Transportation vehicles	Fixed amount or 0.5~50%

Source: Prepared from the Tax Code of the Kyrgyz Republic

## (10) Special taxation measures

### ① Simplified tax system

For their taxable businesses, small ventures can select to pay a single tax instead of paying the profit tax and sales tax. However, the following taxpayers cannot apply to pay a single tax: VAT taxpayers, commodity taxpayers, companies employing 30 or more workers or individual proprietors, taxpayers of license-based taxation, businesses providing financial or insurance services, investment companies, and securities companies.

### ② Taxation based on obligatory licenses

Businesses undertaking business activities that are provisioned by the Tax Code can fulfill their tax liability by paying one category of tax as an obligatory license-based tax instead of paying profit tax, VAT, and commodity tax. The applicable business activities include saunas, bathhouses other than municipally managed bathhouses, billiards, game machines, casinos, money changers, discos, and 24-hour parking lots.

### ③ Taxation based on voluntary licenses

Persons other than VAT taxpayers, companies that manufacture and sell clothes, knitwear, and footwear, and companies conducting other business activities determined by the Government of the Kyrgyz Republic can fulfill their tax liability by paying one category of tax as a voluntary license-based tax, instead of paying profit tax and commodity tax.

---

#### ④ Taxation based on a taxation contract

This is a method of paying tax according to a contract agreed upon by the taxpayer and the tax authorities who decide in advance the profit tax, the commodity tax, and the VAT tax that the taxpayer should pay in the following year. Companies and individuals engaged in businesses that satisfy certain conditions<sup>12</sup> can apply to pay tax by this method. However, at present, there are no precedents of tax being paid by this method.

#### ⑤ Tax measures in Free Economic Zones (FEZ)

Certain tax measures apply within the FEZ to FEZ registered companies that manufacture and sell products other than products subject to commodity tax (labor and services). Apart from income tax and taxes on fixed assets, a FEZ registered company is exempt from all taxes relating to business activities performed within the FEZ. However, business activities performed outside the FEZ but within the Kyrgyz Republic or overseas are subject to national tax measures based on the Tax Code.

#### ⑥ Special revenue taxation

Special revenue tax is levied on the special revenue of institutions and organizations funded by the State and it is paid instead of profit tax, VAT, and commodity tax. Except for support money, donations, and grants for humanitarian purposes, special revenue is deemed to be sales resulting from the sales of products, carrying out of work, rendering of services, and the accomplishment of other activities. The tax rate is 20%.

#### ⑦ High-Tech Park Law

Based on the High-Tech Park Law, corporations and sole proprietors registered in a high-tech park are considered to have fulfilled their tax liabilities upon paying 5% of their sales as tax.

### (11) Taxes on imports and exports

Taxes on imports and exports are defined by the Kyrgyz Republic's customs clearance laws, special laws, and other international conventions and laws. Kyrgyz Republic State Customs Inspectorate is the concerned authority with jurisdiction within the country. For the import and export of articles in the customs clearance domain of the Kyrgyz Republic, submission of an application for customs clearance, as regulated by the Kyrgyz Republic customs clearance law, is the responsibility of the party who is moving the relevant articles. In addition, the application must be submitted in accordance with the applicable regulations.

---

<sup>12</sup>The following businesses may not apply: obligatory license-based tax taxpayers; businesses providing trust, financial, or insurance services; investment and pension funds; securities companies with tax liabilities; subsoil usage tax taxpayers; commodity tax taxpayers; and businesses founded three or more years ago.

## (12) Tax inspections

Tax inspections are divided into two types: field inspections and office inspections. There are four types of field inspections: ① routine inspection, ② unplanned inspection, ③ counter inspection, and ④ re-inspection. After the inspection, the tax office issues a certificate of completion.

**Chart 5-9 : Types of tax inspections**

Category	Description
field audit	
routine	<ul style="list-style-type: none"><li>Investigation of a tax declaration for the most recent three-year period. Financial information must be presented each quarter</li><li>Prior notification by 15 days before the planned inspection; the inspection period is 30-50 days</li></ul>
unplanned	<ul style="list-style-type: none"><li>Implemented in the event of a corporate reorganization, liquidation, or when it is confirmed that inaccurate tax processing has taken place</li><li>The inspection period is 30-50 days</li></ul>
counter	<ul style="list-style-type: none"><li>Implemented when it is necessary to confirm specific documents regarding the business conducted by a taxpayer</li><li>The inspection period is 10 business days or less</li></ul>
re inspection	<ul style="list-style-type: none"><li>Implemented in the event that the submitted documents are incomplete or there is a mistake in the method of calculating the tax amount</li><li>The inspection period is 15 business days or less</li></ul>
office audit	<ul style="list-style-type: none"><li>An inspection conducted within the tax office of the documents submitted for tax processing</li><li>The taxpayer or other related parties are not present</li><li>If documents are incomplete, the taxpayer is notified, and the revised declaration must be submitted within 15 business days</li></ul>

Source: Prepared from the Tax Code of the Kyrgyz Republic and Cost of Doing Business in Kyrgyzstan

## (13) Tax treaties

The Kyrgyz Republic has concluded conventions with 21 countries for the avoidance of double taxation. It is also progressing negotiations or is at the planning stage with Georgia, Armenia, the Netherlands, the Czech Republic, Azerbaijan, France, Lithuania, Luxembourg, Spain, and the Republic of South Africa.

**Chart 5-10 : Countries with whom the Kyrgyz Republic has concluded a convention for the avoidance of double taxation**

Kazakhstan	Turkey
Belarus	Switzerland
Ukraine	Iran
Tadzhikistan	China
Uzbekistan	Austria
Russian Federation	Finland
Mongolia	Moldova
India	Germany
Canada	Latvia
Poland	South Korea
Malaysia	

Source: Prepared from Kalikova Associates “Business in the Kyrgyz Republic Legal Aspects”

---

## 2. Points to remember

Documents must be prepared and submitted at different times of the year for each type of tax such as for the value added tax and sales tax. Additionally, please be aware that all of these documents must be prepared in either the Kyrgyz language or Russian.

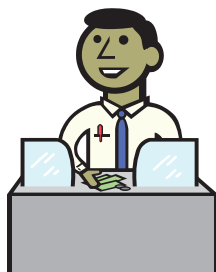
## Column 1: The tariff union

On October 6, 2007, three countries (Russia, Belarus, and Kazakhstan) signed a treaty for a unified tariff region and the establishment of a tariff union. In the following year, 2008, it was ratified by Kazakhstan in June, by Belarus in July, and by Russia in October. The tariff union of these three countries was established on January 1, 2010. Subsequently, on July 1, 2011, the burden of tariffs on goods crossing the national borders between these three countries was abolished.

In the tariff union, a unified tariff rate is levied on imports from non-union members. This rate is based on Russia's tariff rate. As a result, the tariff rates of Belarus and Kazakhstan have been effectively increased since their rates prior to the establishment of the union were lower than Russia's.

Russia joined the WTO in August 2012 and it is believed, that as it passes through the membership stages in the future, it will lower its tariff rate. This will result in a lower tariff rate within the union as well. In terms of population and nominal GDP, the current market scale of the tariff union is a population of 170 million people and nominal GDP of 2.4 trillion U.S. dollars.

The Kyrgyz Republic has expressed its intention of joining the tariff union and a roadmap has been prepared for this, approved in 2014. On average, the tariffs of the Kyrgyz Republic are lower than the tariff union for a number of goods by about 5% (Ministry of Finance, the Kyrgyz Republic). It is believed that by joining the tariff union, the cost of procuring raw materials from China and Turkey, non-members of the union, will increase, putting pressure on the Republic's manufacturing industry. However, in an interview with the Ministry of Finance, its representative said that it was looking into reducing the sales tax to address this. In contrast, by joining the tariff union, the movement of goods between members of the union will be free of tariffs and there are hopes that this will lead to manufacturing industries developing in the Kyrgyz Republic, seeking to utilize its relatively inexpensive electric power and labor force.

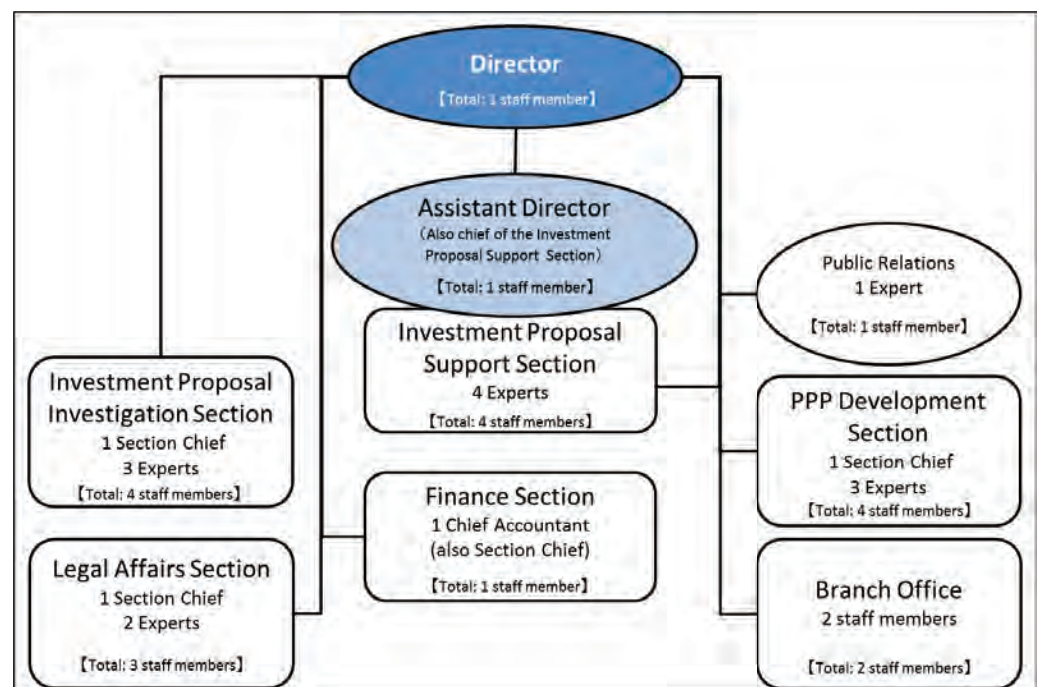


### 3. Investment incentives

#### (1) Promotion of investment by the relevant authorities

Ideas to promote investment, such as strategic planning and systems creation, are under the jurisdiction of the Ministry of Finance. Based on a regulation approved on March 18, 2014, the Investment Promotion Agency under the Ministry of Economy of the Kyrgyz Republic was established. The Investment Promotion Agency will implement measures to promote investment including providing information and consulting services to companies considering investment, and support in matching Kyrgyz Republic companies with companies abroad. The Investment Promotion Agency will consist of five sections and a branch office, including an Investment Proposals Support Section and Investment Proposal Investigation Section. The organization will have a total staff of 21, headed by the Agency Director and Assistant Director. In order to attract investment, the website “Invest in the Kyrgyz Republic” has already been made accessible to the public (<http://www.invest.gov.kg/>). In the future, the intention is for this website to provide information in English as well as in Russian and the Kyrgyz language, but as of the end of August 2014, the site was only available in Russian.

**Chart 5-11 Organization chart of the Investment Promotion Agency under the Ministry of Economy of the Kyrgyz Republic**



Source: prepared from Ministry of Finance materials



Chart 5-12 Investment promotion website



Source: the "Invest in the Kyrgyz Republic" webpage

The goal is that in the future, the Investment Promotion Agency will provide a one-stop shop for all of the procedures required of companies wishing to enter the Kyrgyz Republic, including approval of the various licenses. However, initially the plan is for its operations to focus on providing information.

## (2) Free Economic Zone (FEZ)

Following the collapse of the Soviet Union, there was an increasing demand for the establishment of an FEZ in the Kyrgyz Republic in order to cover the demand for basic consumer goods and create employment. At first, the plan was to establish FEZs in four regions (Bishkek, Karakol, Naryn, and Maymak). However, currently, only the Bishkek FEZ is operational. This FEZ is divided into two locations ① a location 5 km from the Manasi airport (area 200 ha) and ② a location in the vicinity of the mountains in the southern part of Bishkek City (area 40 ha). As of April 2014, there were 348 businesses resident in the FEZ, and about 140 manufacturing companies have entered the zone.

The FEZ is managed based on the FEZ law, which has been amended 11 times. In



each case, the amendment was not to strengthen regulations, but rather to increase the efficiency of organizational administration and management; no amendments have been made to the preferential treatment system (the latest amendment came into effect on February 14, 2014).

One of the preferential treatment measures is exemption from import and export tax. The exemption not only applies to the import of raw materials, but also to the import of materials and semi-finished goods required for production. In addition, should a company construct a factory, it is exempt for the tax on the property (when the business entity has ownership rights to the building). However, VAT is levied on products that are sold within the country. Businesses that pay VAT when procuring raw materials from within the country can claim a refund when carrying out their export procedures.

The inspection for registration in FEZ can be completed in around three hours if the necessary documents have been prepared. When a business enters the FEZ, the necessary application for registration as a corporation with the Ministry of Justice and the registration with the various government ministries with jurisdiction is completed with the application to the FEZ office. However, it is necessary to separately complete the procedures for customs within FEZ and register employees in the social insurance system. In addition, the FEZ registration must be renewed each year, which requires a payment of USD 600 for FEZ administration expenses. The tax office conducts one inspection per year. When reviews and inspections are carried out by other government institutions, they will always go through the FEZ Management Office in order to prevent any needless obstruction of production by the government.

**Chart 5-13 : Expenses relating to entering the FEZ**

Annual fee	600 dollars
Payment from sales to the government (customs clearance, tariff charges)	For exports: 1% of sales For domestic market: 2% of sales
Land use fees (leasing for a maximum of 49 years)	1 dollar/m <sup>2</sup> / year (Area of plants and buildings: 3 dollar / m <sup>2</sup> /year)
Fees to use other infrastructure (electricity and water services)	-
Income tax with regard to employee salaries	Tax rate, 10%

Source: Prepared on the basis of an interview with Bishkek FEZ

### (3) EPA and FTA

The Kyrgyz Republic concluded trade agreements immediately after its independence, mainly with its neighboring countries. It formally joined the CIS free trade agreement on January 12, 2014, with the agreement coming into effect on the same day. Its movement to join the tariff union that has come into effect between Russia, Belarus, and Kazakhstan is attracting attention both inside and outside of the country, as it expected that the impact of joining the union will be considerable.

**Chart 5-14: List of trade agreements between the Kyrgyz Republic and neighboring countries**

Name	Member country / region	Form	Stage	Details
Kyrgyz Republic / Russia free trade agreement	Kyrgyz Republic, Russia	Free trade agreement	In effect	<ul style="list-style-type: none"> <li>• Signed in October, 1992</li> <li>• Came into effect April 1993</li> </ul>
Kyrgyz Republic / Armenia free trade agreement	Kyrgyz Republic, Armenia	Free trade agreement	In effect	<ul style="list-style-type: none"> <li>• Signed in July 1994</li> <li>• Came into effect October 1995</li> </ul>
Kyrgyz Republic / Kazakhstan free trade agreement	Kyrgyz Republic, Kazakhstan	Free trade agreement	In effect	<ul style="list-style-type: none"> <li>• Signed in June 1995</li> <li>• Came into effect November 1995</li> </ul>
Kyrgyz Republic / Moldova free trade agreement	Kyrgyz Republic, Moldova	Free trade agreement	In effect	<ul style="list-style-type: none"> <li>• Signed in May 1995</li> <li>• Came into effect November 1996</li> </ul>
Kyrgyz Republic / Ukraine free trade agreement	Kyrgyz Republic, Ukraine	Free trade agreement	In effect	<ul style="list-style-type: none"> <li>• Signed in May 1995</li> <li>• Came into effect January 1998</li> </ul>
Kyrgyz Republic / Uzbekistan free trade agreement	Kyrgyz Republic, Uzbekistan	Free trade agreement	In effect	<ul style="list-style-type: none"> <li>• Signed in December 1996</li> <li>• Came into effect March 1998</li> </ul>
Tariff unions	Russia, Belarus, Kazakhstan	Tariff union	In effect	<ul style="list-style-type: none"> <li>• Signed in November 2009</li> <li>• Tariff union came into effect July 2010</li> <li>• Unified economic zone came into effect January 2012</li> </ul>
CIS free trade zone	Armenia, Belarus, Kazakhstan, Moldova, Russia, Ukraine, Kyrgyz Republic	Free trade agreement	In effect (partial)	<ul style="list-style-type: none"> <li>• Signed in October 2011</li> <li>• Came into effect September 2012 (Russia, Belarus, Ukraine)</li> <li>• Came into effect October 2012 (Armenia)</li> <li>• Came into effect December 2012 (Kazakhstan, Moldova)</li> </ul>
Economic Cooperation Organization (ECO)	Turkey, Iran, Pakistan, Azerbaijan, Kazakhstan, Uzbekistan, Tadjikistan, Turkmenistan, Kyrgyz Republic, Afghanistan	Preferential tariff agreement	In effect	<ul style="list-style-type: none"> <li>• Came into effect July 1992 (WTO Report day)</li> </ul>

Source: Prepared from JETRO materials

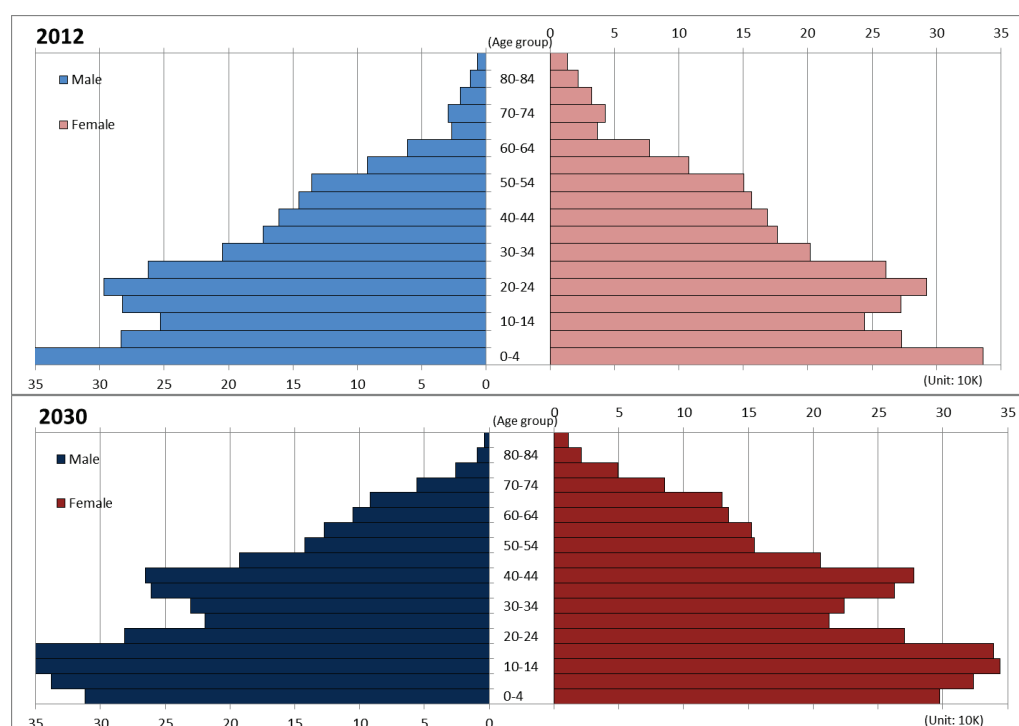
## Chapter 6. Investment Environment

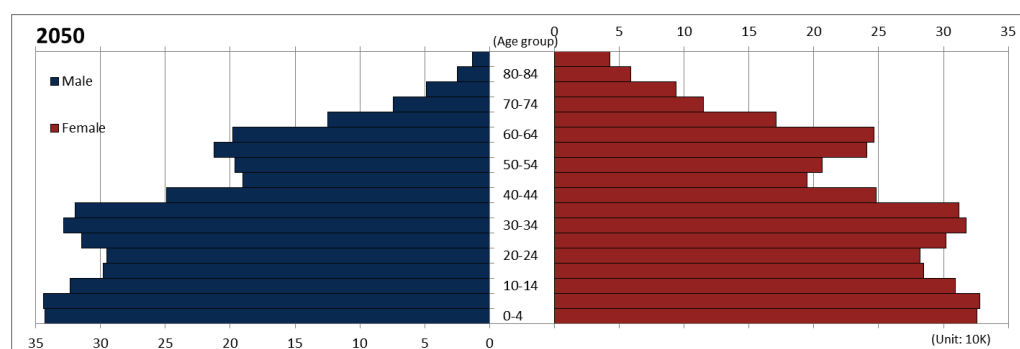
### 1. Labor

According to data by the Kyrgyzstan National Statistical Committee, the population of the Kyrgyz Republic as of December 2012 stood at 5.66 million. Of this, the working population aged 15 years or older was 2.5 million. The number of unemployed individuals was about 60,000 and the overall unemployment rate was 2.4%.

The population structure is triangle-shaped with a youth bulge. *The World Population Prospects: The 2012 Revision* by the United Nations predicts the population structure to change as shown below. Although population aging advances slightly by 2050, the average age (median) continues to be young at 27.5 in 2030 and 31.8 in 2050. The average age in Kyrgyzstan is lower compared with emerging countries in Central Asia, Southeast Asia, and Europe.

**Chart 6-1: Changes in Population Structure**





Source: Data from the Kyrgyzstan National Statistical Committee (2012) and the United Nations' *The World Population Prospects: The 2012 Revision* (for the years 2030 and 2050)

**Chart 6-2: Changes and Comparison of Average Age in Each Country**

Country	2030	2050	Country	2030	2050
Kyrgyzstan	27.5	31.8	Turkey	35.7	42.4
Kazakhstan	32.4	34.9	Czech Republic	45.2	44.8
Tajikistan	23.7	28.3	Hungary	44.9	46.1
Turkmenistan	31.5	36.5	Poland	45.2	48.9
Uzbekistan	31.9	37.6	Republic of Moldova	41.9	45.8
Cambodia	30.0	36.2	Romania	45.3	48.8
Indonesia	32.5	38.4	Russian Federation	42.4	41.6
Lao People's Democratic Republic	26.7	34.3	Slovakia	44.9	48.2
Myanmar	35.2	40.1	Ukraine	43.7	43.4
Vietnam	38.4	45.6			

Source: United Nations' *The World Population Prospects: The 2012 Revision*

### (1) Educational Situation

Literacy rates are generally high in the Central Asian countries, at over 99% in each country. The literacy rate in Kyrgyzstan is 99.75% (as of 2009), which is much higher as compared to 83.39%, the average among low- and middle-income countries, based on the World Bank classification.

**Chart 6-3: Literacy Rate**

	Kyrgyzstan	Kazakhstan	Tajikistan	Turkmenistan	Uzbekistan
Literacy rate (%)	99.75	99.83	99.87	99.83	99.94

	Low-income countries	Low and middle-income countries	Middle-income countries	Middle and high-income countries
Literacy rate (%)	71.87	83.39	90.70	98.54

\* The data for Kyrgyzstan and Kazakhstan are as of 2009. The rest are UIS estimates as of 2012.

\* The income level is based on the World Bank classification.

\* The GNI per capita of Kyrgyzstan based on the actual income in 2013 is 1,200 dollars (World Bank Atlas), which falls under the classification of low- and middle-income countries.

Source: UNESCO Institute for Statistics

The education system in Kyrgyzstan follows the Soviet-era system. It consists of primary education (four years), secondary education (five years), tertiary education (two years), and college education (four to five years). Of those, a total of nine years of primary education and secondary education are compulsory.

General curriculum is provided during those nine years of compulsory education. After completing the compulsory education, students choose to either continue receiving general education, receive more specialized education (specialized primary or secondary education institutions), or graduate. The term of all specialized education is two years. It is to be noted that, while specialized primary education institutions are under the jurisdiction of the Ministry of Youth, Labor and Employment, specialized secondary education institutions are under the jurisdiction of the Ministry of Education and Science.

**Chart 6-4: Number of Educational Institutions and Students**

	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
# of general education institutions (full-time)					
# of educational institutions	2,168	2,188	2,191	2,197	2,204
# of students	1,080,061	1,053,668	1,036,834	1,018,868	1,015,172
# of specialized primary education institutions					
# of educational institutions	111	110	109	109	109
# of students	28,835	29,993	31,010	31,225	31,032
# of specialized secondary education institutions					
# of educational institutions	82	90	111	122	126
# of students	43,413	48,991	59,555	64,287	72,323
# of colleges and other education institutions					
# of educational institutions	49	50	54	56	54
# of students	250,460	243,028	233,605	230,379	239,208

Source: Prepared based on the data from the Kyrgyzstan National Statistical Committee

The constitution of the Kyrgyz Republic recognizes Kyrgyz as a national language and Russian as an official language. It also guarantees that each ethnic group making up the Kyrgyz people is allowed to maintain its own language. While 65% of general education schools teach only in Kyrgyz and 47% of students study only in Kyrgyz, there are schools that teach only in Russian, Uzbek, or Tajik, and other schools that combine Kyrgyz with another language or combine two other languages.

**Chart 6-5: Number of General Education Schools and Students by Language**

	School		Student	
	# of schools	% breakdown	# of students	% breakdown
Monolingual	1,721	78.1%	649,166	63.9%
Kyrgyz	1,424	64.6%	480,878	47.4%
Russian	203	9.2%	125,519	12.4%
Uzbek	91	4.1%	40,833	4.0%
Tajik	3	0.1%	1,936	0.2%
Multilingual	483	21.9%	366,006	36.1%
Kyrgyz and Russian	346	15.7%	263,913	26.0%
Kyrgyz and Uzbek	67	3.0%	37,804	3.7%
Kyrgyz and Tajik	2	0.1%	1,378	0.1%
Uzbek and Russian	43	2.0%	41,123	4.1%
Kyrgyz, Uzbek, and Russian	22	1.0%	20,113	2.0%
Russian, Uzbek, and Tajik	3	0.1%	1,675	0.2%
Grand total	2,204	100.0%	1,015,172	100.0%

Source: Prepared based on the data from the Kyrgyzstan National Statistical Committee

## (2) Labor Law

The basic law related to labor in the Kyrgyz Republic is the Labor Code, which became effective on August 4, 2004. It prescribes matters such as the forms of employment contracts and the maximum number of work hours permitted.

The code stipulates employers to execute an employment contract with the worker. Although an employment contract can be for employment with or without a defined period, a standard employment contract is for employment without a defined period. Employment with a defined period is allowed only when it is difficult to offer employment without a defined period due to the nature of the business.

## (3) Work Hours

Although the maximum number of work hours is basically 40 hours per week, there are restrictions to the maximum hours depending on factors such as age and job description. The workweek is five- or six-day, as defined in the employment condition or other documents based on discussions between the worker and employer. As a note, the work hours are shortened by one hour on the day before a holiday.

**Chart 6-6: Work Hours (Maximum)**

	Work hours (per week)	Work hours per day	
		6-day work week	5-day work week
• Standard	40	7	8
• Workers aged between 16 and 18	36	6	7
• Workers engaged in physical labor, dangerous operations, etc.			6
• Workers aged between 14 and 16	24	4	5

Source: The Labor Code

#### (4) Holiday

In addition to weekly day-offs, the Labor Code defines public holidays of the Kyrgyz Republic, paid leave, unpaid leave, etc. Public holidays are as listed below. Although *Eid al-Fitr* (Feast of Breaking the Fast) and *Eid al-Adha* (Feast of the Sacrifice) too are celebrated by Muslims, they are moveable feasts that do not fall on a specific day because they are observed based on the lunar calendar.

**Chart 6-7: Public Holidays of the Kyrgyz Republic**

2014/1/1	New Year's Day
2014/1/7	Orthodox Christmas
2014/2/23	Homeland Defenders' Day
2014/3/8	International Women's Day
2014/3/21	Nowruz
2014/5/1	Constitution Day
2014/5/9	Victory Day
2014/8/31	Independence Day
2014/11/7	The Anniversary of the October Revolution

Source: The Labor Code

Paid leaves are basically granted to workers who have worked 11 consecutive months or more. Workers receive at least 28 days of paid leave every year.

Additionally, the Labor Code prescribes time offs such as maternity leave (70 days prior to giving birth and 56 to 70 days after giving birth) and sick leave. Although maternity leave is unpaid, the national government provides subsidy during the above-mentioned period.



## (5) Wage

The Labor Code stipulates employers to maintain the wage above or at par with the minimum wage set by the government every year. The minimum wage in 2014 is KGS 900 per month, which is approximately USD 18.

Wages must be paid at least once a month and it must be paid in som. It would be either a cash payment at the workplace or a direct deposit to the bank account specified by the worker. Employers must prepare and issue a paystub for each worker upon payment.

In case of overtime pay, employers must pay at least 1.5 times the normal hourly wage for the first two hours and at least double the normal wage thereafter. However, time off can be provided instead of overtime pay as per the employee's request. In that case, the number of compensatory hours off cannot be less than the number of overtime hours.

The average monthly wage in all industries nationwide is KGS 11,426 (USD 236). The finance and insurance industry has the highest average at KGS 25,161 (USD 519), which is about twice the national average. The average in the manufacturing industry is KGS 11,534 (USD 238), which is at the same level as the national average.

**Chart 6-8: Average Monthly Income by Industry and Region (2013)**

Industry	Average monthly salary (2013)		Region	Average monthly salary (2013)	
	In som	Dollar equivalent		In som	Dollar equivalent
Agriculture, forestry, and fisheries	5,943	123	Batken Province	8,802	182
Mining	16,550	342	Jalal-Abad Province	10,264	212
Manufacturing	11,534	238	Issyk-Kui Province	8,274	171
Electricity, gas, heat supply	18,547	383	Naryn Province	10,563	218
Construction	10,959	226	Osh Province	7,796	161
Wholesale and retail; auto repair	13,715	283	Talas Province	8,665	179
Warehousing and transportation	16,377	338	Chuy Province	9,880	204
Hotel and restaurant	10,318	213	City of Bishkek	15,294	316
Information and communication	21,787	450	City of Osh	10,188	210
Finance and insurance	25,161	519			
Real estate	9,147	189			
Overall	11,426	236			

Source: Data from the Kyrgyzstan National Statistical Committee

Note: The exchange rate is KGS 48.438 per US dollar (2013 average, IMF)

## 2. Public Infrastructure

### (1) Electricity

Since Kyrgyzstan promoted electrification during the Soviet era, the rate of electrification is high and close to the 100% level (*Electricity Governance in*

*Kyrgyzstan: An Institutional Assessment*). The electricity rate was increased on July 1, 2014. Commercial rates were increased by 4%. The electricity rate is expected to increase again: by 7% on April 1 in 2015, 2016, and 2017.

**Chart 6-9: Comparison of Electricity Rates**

	Bishkek	Moscow	Tashkent	Almaty
Commercial rate for electricity (per 1kWh) (unit: USD)	0.027	0.04~0.09	0.05	0.02~0.16

Source: Data from Sevel Electro for Bishkek and *Survey of Investment-Related Costs* by Japan External Trade Organization (JETRO) for other cities

## (2) Water

Besides electricity, the water rate too is cheaper in Kyrgyzstan compared to the neighboring countries. At 0.15 dollars per square meter, it is one-sixth of the rate in Moscow and one-ninth of the rate in Almaty.

**Chart 6-10: Comparison of Water Rates**

	Bishkek	Moscow	Tashkent	Almaty
Commercial rate for water (per 1kWh) (unit: USD)	0.15	0.95	0.21	1.27

Source: Data from Bishkek Vodakanal for Bishkek and *Survey of Investment-Related Costs* by JETRO for other cities

## (3) Gas

The rate in Bishkek is high compared to major neighboring cities. It is about three times the rate in Moscow and about five times the rate in Tashkent.

**Chart 6-11: Comparison of Gas Rates**

	Bishkek	Moscow	Tashkent	Almaty
Commercial rate for gas (per 1m <sup>3</sup> ) (Unit: USD)	0.38	0.11	0.07	0.16

Source: Data from KyrgyzGas for Bishkek and *Survey of Investment-Related Costs* by JETRO for other cities.

#### (4) Communication

Although the penetration rate of fixed-line phones is low, the number of mobile phone contracts per 100 people is 121.45, which is the second highest penetration after Kazakhstan among five Central Asian countries. However, it seems there is a large gap between urban areas such as Bishkek and rural areas.

**Chart 6-12: Penetration of Communication Means**

	Kyrgyzstan	Kazakhstan	Tajikistan	Turkmenistan	Uzbekistan	Russia
Number of landline phone contracts (per 100 people)	8.31	26.67	5.18	11.49	6.91	28.47
Number of mobile phone contracts (per 100 people)	121.45	180.50	91.83	116.89	74.31	152.84
Internet usage rate (individual, %)	23.40	54.00	16.00	9.60	38.20	61.40

Source: Data by International Telecommunication Union

**Chart 6-13: Per-Minute Rates for Fixed-line Calls (Kyrgyz telecom)**

(Unit: som)	Day time	Night time and holidays
Domestic call		
Within the area	2.50	1.00
Out of the area	3.50	1.50
International call		
Central Asian countries	7.02	5.00
Russia	12.10	7.02
Europe	19.25	13.75
United States and Canada	11.50	7.25
China	12.25	9.00
Turkey	13.75	12.25
Japan	15.50	12.25

Source: Kyrgyz telecom rate schedule

Various rate plans are offered for mobile phones. Given below is the rate schedule offered by MegaCom:

**Chart 6-14: Mobile Phone Usage Charge (MegaCom)**

Type	Charge (Unit: som)	International calling rate Area	Charge (Unit: som, per minute)
Receiving a call	Free	The CIS countries	15
		Europe	30
Calling a MegaCom mobile phone (per second)	0.95	Asia	24
		North America	24
Calling other carrier's mobile phone in Kyrgyzstan (per second)	2.95	South America	130
		Africa	130
Calling a landline (per second)	4.50	Australia and Oceania	130
Sending a text message to a mobile phone in Kyrgyzstan (per message)	0.95		
Using the Internet (per 1Mb)	2.45		

\*In the case of the TUNUK plan. The charges vary by plan.

Source: Usage charge schedule of MegaCom

### 3. Distribution

Goods are mainly distributed via truck and railroad. According to freight volume statistics by the Kyrgyzstan National Statistical Committee, trucking is the most common means of shipping in terms of freight tonnage. In terms of ton-kilometers (freight tonnage  $\times$  transportation distance,) trucking and railroad shipping are comparable types of transportation. It seems trains and airplanes are more often used for long-distance transportation.

**Chart 6-15: Freight Volume by Type (2013)**

	Freight tonnage (in 10K ton)	Freight ton- kilometers (in 1M ton- kilometers)
Land transport	4,094.53	25.690
Railroad	136.06	10.020
Trucking	3,936.01	14.083
Pipeline	22.46	1.587
Water transport	1.08	0.020
Air transport	0.04	1.103
Total	4,095.65	26.8

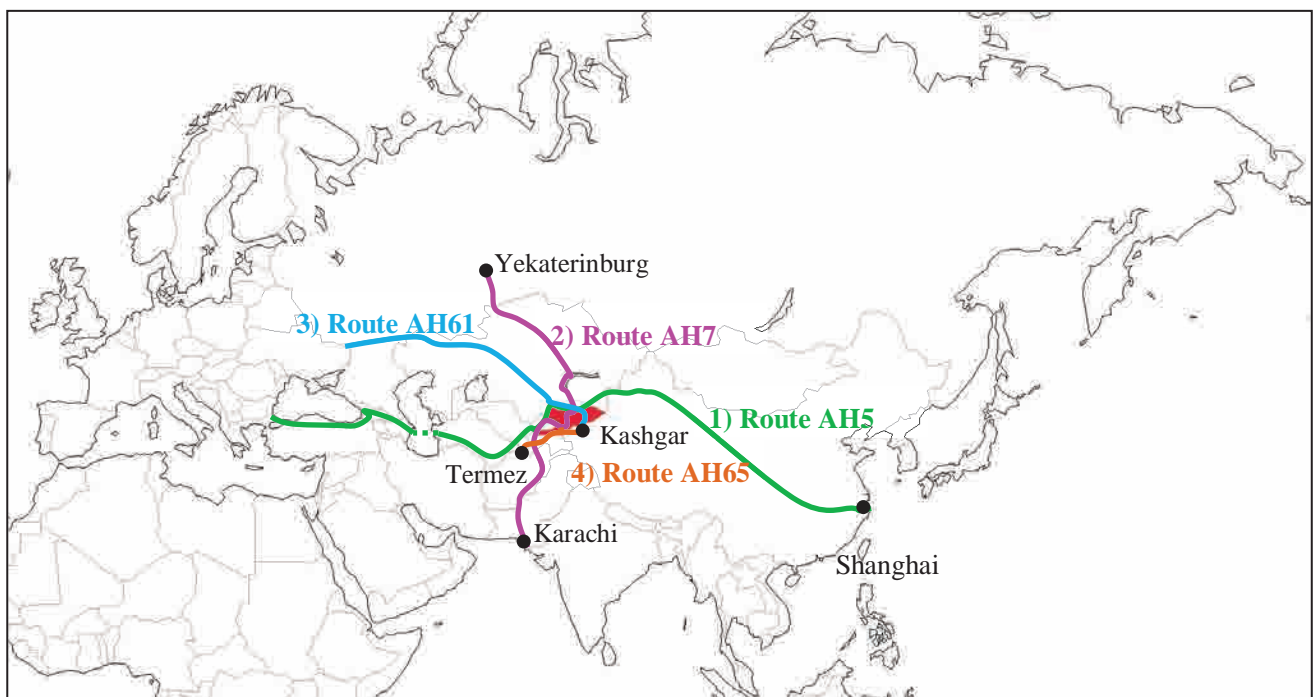
Source: Data from the Kyrgyzstan National Statistical Committee

### (1) Road

The Kyrgyz Republic has four Asian highways as its major international roads: (i) Route AH5, which runs from Shanghai, China to Bulgaria via Kazakhstan, the Kyrgyz Republic (Bishkek to Kara-Balta), Uzbekistan, Turkmenistan, Azerbaijan, Georgia, and Turkey; (ii) Route AH7, which runs from Yekaterinburg, Russia to Karachi, Pakistan via Kazakhstan, the Kyrgyz Republic (Kara-Balta to Osh,) Uzbekistan, Tajikistan, and Afghanistan; (iii) Route AH61, which runs from Kashgar, China to Ukraine via the Kyrgyz Republic (Torugart to Bishkek,) Kazakhstan, and Russia; and (iv) Route AH65, which runs from Kashgar, China to Termez, Uzbekistan via Kyrgyzstan (Irkeshtam to Karamyk) and Tajikistan.

According to a local shipping company, it takes 7–10 days to ship by truck from Bishkek to Moscow and 1–2 days from Bishkek to Almaty. In addition, the transportation fee is about USD 5,000 per truck from Bishkek to Moscow and USD 800 from Bishkek to Almaty.

**Chart 6-16: Asian Highways Passing Through the Kyrgyz Republic**



Source: A CraftMap prepared on the basis of data from the Ministry of Land, Infrastructure, Transport and Tourism of Japan

## (2) Railroad

Next to trucking, it is railroad that accounts for a large distribution volume (ton-kilometers) Shipping from the Far East is basically done by railroad. When using the railroad, it takes about 25–30 days at USD 10,000 per container to travel from Japan to the port of Lianyungang in Jiangsu Province, China and then to Kyrgyzstan by train via Kazakhstan or the Trans-Siberian Railway. It takes about two weeks and costs USD 5,000 per container to travel from Moscow to Bishkek.

## (3) Air

The main airports of the Kyrgyz Republic serviced by international flights are the Manas International Airport in Bishkek and Osh Airport in the south. Other airports such as Batken Airport, Isfana Airport, and Jalal-Abad Airport mainly cater to domestic flights.

As of July 2014, the Manas International Airport offers flight services to 27 cities in nine countries, while the Osh Airport offers services to 13 cities in four countries.

**Chart 6-17: Cities Serviced by Flights from Bishkek and Osh**

Country	City	Country	City	Country	City
Russia	Volgograd	UAE	Dubai	Kazakhstan	Almaty
	Grozny	Uzbekistan	Navoi	Russia	Yekaterinburg
	Yekaterinburg		Tashkent		Irkutsk
	Irkutsk	Kazakhstan	Almaty		Krasnoyarsk
	Kazan		Astana		Kazan
	Krasnodar	Thailand	Bangkok		Moscow
	Krasnoyarsk	Tajikistan	Dushanbe		Novosibirsk
	Mineralnye		Khujand		Saint Petersburg
	Moscow	China	Ürümqi		Chelyabinsk
	Novosibirsk		Shanghai		Samara
	Omsk	Turkey	Istanbul		Surgut
	Perm	Mongolia	Ulan Bator	China	Ürümqi
	Saint Petersburg			Turkey	Istanbul
	Surgut				
	Chelyabinsk				

Source: Website of the Manas International Airport

**Chart 6-18: Air Freight Fees (1 kg)**

	Almaty to Bishkek	Russia to Kazakhstan
Freight shipment fee (Unit: USD)	From 1.95	From 2.79

Source: *Cost of Doing Business in Kyrgyzstan* by Japan International Cooperation Agency (JICA) and Chamber of Commerce and Industry of Kyrgyz Republic

#### 4. Intellectual Property

##### (1) Overview of Intellectual Property Rights

Intellectual property rights in the Kyrgyz Republic are defined by national laws such as the Patent Law (enacted in 1998), Law on Inventions, Utility Models, and Industrial Designs (enacted in 1999), and Law on Copyright (enacted in 1998). The regulating authority of intellectual property rights is the State Service of Intellectual Property and Innovation (commonly known as Kyrgyz Patent).

Kyrgyzstan is also a member of various international agreements related to intellectual property. For example, the country is a member of the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Artistic Works, and the Madrid Agreement Concerning for the International Registration of Marks. The country, therefore, has obligations related to the protection of relevant intellectual property rights.

Furthermore, since the country joined the World Trade Organization (WTO) in 1998, their intellectual property rights are internationally protected in accordance with the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

**Chart 6-19: Major Laws Related to Intellectual Property Rights in Kyrgyzstan**

	Name	Effective date
1	Criminal Code of the Kyrgyz Republic	01.01.1998
2	Civil Code of the Kyrgyz Republic, Part II	01.03.1998
3	Code of the Kyrgyz Republic on administrative responsibility	01.10.1998
4	Protection of intellectual property rights by the customs authority	01.01.2005
5	Law of the Kyrgyz Republic on copyright and related rights	23.01.1998
6	Law of the Kyrgyz Republic on trademarks, service marks and appellations of places of origin of goods	28.01.1998
7	Patent law of the Kyrgyz Republic	04.02.1998
8	Law of the Kyrgyz Republic on the legal protection of software and databases	04.04.1998
9	Law Of The Kyrgyz Republic on trade secrets	10.04.1998
10	Law of the Kyrgyz Republic on the legal protection of integrated circuits topologies	10.04.1998
11	Law of the Kyrgyz Republic on the legal protection of selection achievements	26.06.1998
12	Law of the Kyrgyz Republic on employee's inventions, utility models and industrial designs	13.08.1999
14	Law of the Kyrgyz Republic on firm names	31.12.1999
15	Law of the Kyrgyz Republic on patent attorneys	28.02.2001
16	Law of the Kyrgyz Republic on secret inventions	31.03.2006
17	Law of the Kyrgyz Republic on the protection of traditional knowledge	07.08.2007
18	Law of the Kyrgyz Republic on competition	26.10.2011

Source: Website of Kyrgyz Patents

## (2) Industrial Property Rights

Industrial properties such as invention, utility model, design, trademark, service mark, and appellation of origin of products can be legally protected by registering with Kyrgyz Patent.

An invention is valid for 20 years from the date filed with Kyrgyz Patent. The protection of invention patents on pharmaceutical products can be extended by up to five years by applying for an extension.

A utility model is protected when there is novelty and industrial applicability. The protection period is five years from the filing date with Kyrgyz Patent. By applying



for an extension, the protection can be extended by up to three years.

Property rights of industrial design apply to designs with novelty and uniqueness (shape, structure, combination, color, etc.). The protection period is 10 years from the filing date with Kyrgyz Patent and it can be extended by up to five years by applying for an extension.

The protection period for a trademark is 10 years from the date of filing with Kyrgyz Patent. By applying for an extension, the protection can be extended by up to 10 years.

### (3) Other Intellectual Property Rights

Copyright applies to creative works in scientific, literary, and artistic fields. Phonogram, performance, and broadcasting are also protected. Registration of works is not required. The protection period lasts for the creator's lifetime plus 50 years after his/her death. Software and database are also subject to protection. The right applies to any kind of software and language.

Kyrgyzstan is a member of the International Convention for the Protection of New Varieties of Plants (UPOV Convention), which was a requirement at the time of joining the WTO. Since it is a member, its citizens' rights related to plant varieties are supposed to be protected. However, its effectiveness is yet to be validated. For this reason, some plant nursery companies in Japan are apparently hesitant to bring in original seeds and plants due to concerns about infringement of the rights.

**Chart 6-20: Number of Intellectual Properties Protected in Kyrgyzstan (1993 to the end of June 2014)**

Type	Number
Invention	4,032
Utility model	50
Design	5,874
Trademark	62,897

Source: Website of Kyrgyz Patent

---

#### (4) Liability and Penalties for Infringement

Civil, criminal, and administrative liability are prescribed for the infringement of intellectual property. The Civil Code confers upon the holder the right to demand removal and compensation for damage from the infringement of patent, copyright, trademark, etc. The Criminal Code stipulates criminal liability for the infringement of intellectual property rights, imposing fines or imprisonment. The Code on Administrative Liability stipulates administrative fines as penalties for the infringement of intellectual property. Whether there is an administrative infringement in this field is determined at the discretion of the court.

### 5. Environmental Regulations

#### (1) Environmental Protection

The main environmental protection laws include the Law on Environmental Protection, Law on Protection of the Atmosphere, and Law on Biosphere Territories. The regulatory authority is the State Agency for Environment Protection and Forestry (SAEPF).<sup>13</sup> In addition, the State Inspection Office for Environment and Technical Safety is the official executive authority for environmental and technical safety.

---

<sup>13</sup> [http://www.nature.kg/index.php?option=com\\_xmap&sitemap=1&Itemid=46&lang=en](http://www.nature.kg/index.php?option=com_xmap&sitemap=1&Itemid=46&lang=en)

**Chart 6-21: Key Laws and Regulations Related to Environmental Protection**

	Name	Effective year
1	Laws of the Kyrgyz Republic on mineral resources	1997
2	Land Code of the Kyrgyz Republic	1999
3	Forest Code of the Kyrgyz Republic	1999
4	Laws of the Kyrgyz Republic on environmental protection	1999
5	Laws of the Kyrgyz Republic on environmental impact review	1999
6	Laws of the Kyrgyz Republic on protection of the atmosphere	1999
7	Laws of the Kyrgyz Republic on ecological examination	1999
8	Laws of the Kyrgyz Republic on biosphere territories	1999
9	Laws of the Kyrgyz Republic on the animal world	1999
10	Laws of the Kyrgyz Republic on radiation safety of the population	1999
11	Laws of the Kyrgyz Republic on drinking water	1999
12	Laws of the Kyrgyz Republic on production and consumption waste	2001
13	Laws of the Kyrgyz Republic on the protection and use of the plant world	2001
14	Laws of the Kyrgyz Republic on mining territories	2003
15	Water Code	2005

Sources: Various

## (2) Environmental Impact Assessment

When engaging in a project related to natural resources in Kyrgyzstan, an environmental impact assessment (EIA) must be conducted in order to prevent adverse effects on the environment and public health. There are two types of EIA that have been stipulated: the one conducted by the government and the one conducted by a private entity (e.g., NGOs). The EIA review by the government is handled by the State Ecological Expertise, the EIA review division of the State Agency on Environmental Protection and Forestry.<sup>14</sup>

## (3) Environmental Mishaps

One of the major environmental mishaps in Kyrgyzstan occurred during the

<sup>14</sup> Source: *Preliminary Study on the Environmental Improvement Plan of Cholponata City, Kyrgyzstan* by JICA (2008)

development of the Kumtor Gold Mine, the largest gold mine in Central Asia. In 1998, a truck transporting 1,700 kg of sodium cyanide to Kumtor overturned and dumped the deadly toxin into the Barskaun River. It caused death of several residents in the downstream area, in addition to other health issues, pollution of the surrounding environment and loss of aquatic life. The Government of Kyrgyzstan has filed a suit for the environmental pollution damages against the development company (See Chapter6 Section6, Litigation and Arbitration).

Many laws such as Law on Environmental Protection, Law on Protection of the Atmosphere, and Law on Environmental Impact Review were established in the following year (1999).

## 6. Litigation and Arbitration

### (1) Dispute Settlement Body

In case of an investment dispute, the involved parties may refer their case to international dispute resolution agencies, namely the International Centre for Settlement of Investment Disputes (ICSID) and the United Nations Commission on International Trade Law (UNCITRAL) for mediation.

**Chart 6-22: International Agencies for Dispute Resolution**

Name of Agency	Overview
International Centre for Settlement of Investment Disputes (ICSID)	<ul style="list-style-type: none"> <li>• A center for mediation and arbitration of international investment disputes</li> <li>• Many international investment agreements designate the ICSID as their choice of arbitration agency</li> </ul>
United Nations Commission on International Trade Law (UNCITRAL)	<ul style="list-style-type: none"> <li>• A UN organization established in 1996</li> <li>• Legal agency in the field of international trade</li> </ul>

Sources: Various

### (2) Litigation Case of Kumtor Gold Mine

The Kumtor Gold Mine case in Kyrgyzstan is a recent example of a major litigation. Since the 1990s, the Government of Kyrgyzstan had been signing agreements with a Canadian company (Centerra Gold), offering generous conditions such as granting of

operating rights. However, repeated incidents of environmental pollution (See Chapter6 Section 5, Environmental Regulations) led to various concerns such as pollution measures, compensation issues, and labor issues with the local residents. The Kyrgyzstan government (State Agency on Environmental Protection and Forestry) then filed a lawsuit against Centerra Gold in February 2013 to claim a USD 315 million compensation for the environmental pollution caused from 1996 to 2011.

## 7. Business Practices

Interviews were conducted with local companies regarding business practices of manufacturers and retailers in Kyrgyzstan. The matters relating to trading systems, payment methods and terms, ordering, slotting fee, and product returns are outlined below.

**Chart 6-23: Major Business Practices in Kyrgyzstan**

Item	Overview
Trading system	In most cases, manufacturers and retailers are mediated by wholesalers. In modern trade, some manufacturers and retailers trade directly with each other.
Payment methods	Cash and credit; prepayment is a basic requirement. However, sometimes the payment is deferred for regular clients.
Payment terms	In the case of deferred payment, the payment term is usually 20 to 30 days.
Ordering	By phone and online
Delivery deadline	A product cannot be sold unless more than one-third of its shelf life still remains.
Slotting fee	A slotting fee does exist for modern trade.
Returning products	Manufacturers sometimes allow retailers to return products (e.g., food items with a long shelf life) depending on the contract.
Rebate (reward)	In order to promote sales, manufacturers pay bonuses to wholesalers and retailers based on the sales.
Sales campaign	Manufacturers and retailers jointly conduct sales campaigns. The cost is often covered by the manufacturer.

Source: Interviews conducted locally

---

### (1) Trading System

As in Japan, the common trading system in Kyrgyzstan's modern trade consists of three layers: manufacturers (production), intermediate distributors and wholesalers (distribution), and retailers (sales). While the areas distant from manufacturing facilities (such as countryside) go through wholesalers (distributors and intermediators), manufacturers often directly trade with retailers in the areas close to the factories. Direct trade is prevalent in small as well as large businesses. However, in many cases, large companies use their own means of distribution (trucks), while small companies rely on the retail company (or its affiliated company) for distribution.

### (2) Payment Method and Term

Sales are made either by cash or on credit; payments in installments are accepted as well. When shipping the merchandise, new customers generally make pre-payments in cash. In case of made-to-order products (clothing such as dresses), there were cases where the production was initiated after receipt of an advance payment (30% of the price, for example) and then the product was shipped after receiving the balance. There were also cases wherein the payment term for regular clients was one month.

### (3) Ordering

Online ordering, which is mainstream in Japan, is also available in Kyrgyzstan. Wholesale shops also accept direct orders from retail personnel on phone. Differentiation as per business type and size is not known.

### (4) Slotting Fee and Returning Products

Modern retail stores in Japan often require slotting fee or listing fee for new products, and there are retailers in Kyrgyzstan that collect fees in a similar manner. Slotting fees are fixed monthly fees. While major supermarkets require a high slotting fee (5 to 8% of the product price), stores in traditional retailing require no fee. The cost burden of slotting fee is significant for the manufacturers; therefore, some manufacturers have stopped selling to the modern retail stores. Narodny, a major domestic retailer, was imposing a slotting fee until 2008; however, they abolished it on the grounds that sales of the displayed products were getting increasingly poor.

Retailers in Japan normally buy products from manufactures to display on their shelves; however, a different scenario is observed in Kyrgyzstan. Instead of the retailers purchasing products from the manufacturers, the manufacturers purchase the right to use the shelves at the retail stores. The retail stores can avoid the risk of unsold products merely by renting their shelves and receiving money when products are sold.

---

Unsold products are returned to the manufacturer (in the case of food products: before the expiration date).

For refrigerated and frozen food products, there were instances where the manufacturer allotted refrigerated display cases to the retailers. This was to secure product space because the refrigerated cases at retail stores become cramped with frozen desserts such as ice creams, especially during summer.

Whether a manufacturer allows the products to be returned or not also varies from company to company and from product to product. There are cases where this is defined in the contract in advance. Based on the interviews, it can be said that while the manufacturers accepted returns of clothing and food products with a long shelf life, they were reluctant to accept returns of furniture and food products with a short shelf life.

#### (5) Other

In Kyrgyzstan, there is a custom of manufacturers paying bonus to wholesalers (distributors) and retailers based on their sales. The retail price of a product is determined by the retailer who adds a margin to the price set by the manufacturer. Therefore, price of the same product varies in different retail stores. Sales campaigns are run jointly by the manufacturers and the retailers, while the handling fee is covered by the manufacturer.

Kyrgyzstan is a young country. The population's average (median) age is 26.7 years, or about five years less than that of neighboring Kazakhstan (31.1) and some 15 years less than that of Russia (41.9). In addition, the population is concentrated in the capital city of Bishkek. Based on interviews with local people, it seems that around 15% of the country's roughly 5.6 million people are concentrated in Bishkek.

Kyrgyzstan's per capita GDP is USD 1,280, or about 1/30th of Japan's (USD 38,491). Nevertheless, the consumption patterns of young people in Bishkek suggest a strength that belies this statistic.

Kyrgyzstan does not have fast fashion stores like H&M or Inditex, but judging from the latest colors and designs evident in the attire of students and working people seen on city streets, it seems there is an awareness of fashion trends and demand for fashionable merchandise.

One can also see a smattering of entertainment businesses and restaurants that target young people. Throughout the city there are sports bars that show programs highlighting European soccer, the professional tennis world tour, and similar topics, and they are crowded with young people on weekends. In recent years, shopping centers have been opening one after another, with food courts, accessory shops, and other businesses that draw young people.

In the restaurant industry, there are signs that restaurant chains are beginning to expand. In the past, most of restaurants and coffee shops were independent, with few chain stores. However, recent years have seen the start of hamburger shop and self-service coffee shop chains in Bishkek. The coffee shop chains in particular are working hard to offer consistent flavor and aromas, even using the same brand of coffee machine as Starbucks. Customers pay about JPY 1,000 for a light meal (salad, soup, sandwiches, coffee). Although this is expensive in light of local income levels, we saw many young people in the shops, including foreigners.

One might say that Kyrgyzstan's youth-focused consumer markets are gradually coming to resemble the markets of high-income Western countries.





### Column 3: Procedures for importing and marketing merchandise in Kyrgyzstan

When importing goods into Kyrgyzstan, some items need to go through quarantine. The main types of quarantine are 1) hygienic and epidemiological quarantine, 2) plant quarantine, and 3) animal quarantine.

Furthermore, when distributing products for sale in Kyrgyz markets, it is necessary to obtain inspection agency certification. Appended to government resolution No. 639 of Dec. 30, 2005 is a list of items for which certification must be obtained. A version of that list which reflects revisions made by resolution No. 122 of March 6, 2013 addresses 234 items, which are categorized as requiring the following nine types of safety checks.

1. Construction-related safety of buildings and other structures
2. Biological safety
3. Fire safety
4. Mechanical safety
5. Electrical safety
6. Environmental safety
7. Electromagnetic safety
8. Chemical safety
9. Radiological safety

Food products require certification under category 2 (biological safety). Inspection methods used for certification vary depending on the item. Requirements differ according to a variety of factors, such as whether sale of a product is contracted for a period of less than one year or for a longer period, whether or not an expiration date has been established, and whether or not refrigeration or other storage methods have been specified.

To apply for inspection, enter technical specifications in the format specified under resolution No. 639 mentioned above, attach required documents and product samples and submit to the inspection agency.

For details, refer to Resolution of the Government of the Kyrgyz Republic dated 30 December 2005, No. 639 "On mandatory conformity assessment of products" (Постановление Правительства Кыргызской Республики от 30 декабря 2005 года N639).

---

## Contacts

- Japan International Cooperation Agency (JICA)  
Kyrgyz Republic Office  
15, Razzakov str., Bishkek, 720040, Kyrgyz Republic  
Tel : +996-(312)-900270, Fax: +996-(312)-900279  
<http://www.jica.go.jp/kyrgyz/office/index.html>
- Kyrgyz Republic – Japan Center for Human Development  
KNU, Building 7, Floor 2 720033 Kyrgyz Republic 109,  
Turusbekova Street, Bishkek, Kyrgyz Republic  
Tel: +996-(312)-906580, 906581, Fax: +996-(312)-906589, E-mail: [krjc@krjc.kg](mailto:krjc@krjc.kg)  
<http://www.krjc.kg/>

- This guidebook summarizes various information and facts obtained through the “Data Collection Survey on Investment Opportunity for Business Development” conducted between February and October 2014.
- The information provided in this guidebook is based on what has been believed as reliable sources; however, they are not subject to warranty as to the accuracy or completeness of information delivered. In addition, all information provided represents the most updated information available during the survey period, but they are subject to changes due to changes in political or economic conditions of the country.
- For further details and descriptions on laws, rules and regulations, we recommend to refer to the updated versions.
- The Japan International Cooperation Agency will not take responsibility on any direct, indirect or punitive damage caused based on the information delivered on this booklet.