

DEVELOPMENT OF KYRGYZSTAN'S EXPORT OF GARMENT PRODUCTS IN THE CONDITIONS OF EURASIAN ECONOMIC UNION MEMBERSHIP

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Abstract: *in this paper studied the development of Kyrgyzstan's export of garment products in the conditions of Eurasian Economic Union membership, in particular, for the 1.5-year membership of Kyrgyzstan in the EAEU (from August 12, 2015 to March 2017). The changes in the conditions for the export of garments with the entry of Kyrgyzstan into the EAEU, the dynamics of the volume of export, production and import of garment products, as well as recommendations for the further development of the garment industry are presented.*

Keywords: *export, garment product, foreign trade, EAEU.*

РАЗВИТИЕ ЭКСПОРТА ШВЕЙНОЙ ПРОДУКЦИИ КЫРГЫЗСТАНА В УСЛОВИЯХ ЧЛЕНСТВА В ЕВРАЗИЙСКОМ ЭКОНОМИЧЕСКОМ СОЮЗЕ

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Аннотация: *в данной работе изучалось развитие экспорта швейной продукции Кыргызстана в условиях членства в Евразийском экономическом союзе, в частности за 1,5 года членства Кыргызстана в ЕАЭС (с 12 августа 2015 г. по март 2017 г.). Рассмотрены изменения условий для экспорта швейной продукции с вхождением Кыргызстана в ЕАЭС, динамика объемов экспорта, производства и импорта швейной продукции, а также представлены рекомендации по дальнейшему развитию швейной отрасли.*

Ключевые слова: *экспорт, швейная продукция, внешняя торговля, ЕАЭС.*

Since August 12, 2015, Kyrgyzstan has become a full member of the Eurasian Economic Union (hereinafter referred to as the "EAEU"), thereby choosing the way of regional economic integration with such countries as Russia, Kazakhstan, Belarus and Armenia. Membership in the EAEU provides free movement of goods, services, capital and labor for Kyrgyzstan, as well as coordinated and unified policy in the economic sectors [1]. As part of the membership in the EAEU, Kyrgyzstan received free access to a 180 million market for the export of agricultural products, garments, industrial products, etc. As of March 2017, Kyrgyzstan's membership in the EAEU is 1.5 years, during which and until now the Kyrgyz economy continues adapt to the new conditions of foreign trade. It should be noted that Kyrgyzstan continues to be simultaneously a member of the World Trade Organization since 1998, which is acceptable in accordance with WTO rules and policies. The purpose of this work is to study the development of export of one of the most important sectors of Kyrgyzstan's economy, namely, the export of garments in the conditions of EAEU membership.

1. Brief information on the importance of garment industry for the economy of Kyrgyzstan

According to the study of World Bank, garment industry accounts for 5-15% of GDP, while employment in the industry is 150-300 thousand people [2]. In this industry, there is a shadow production, respectively, the statistical indicators for the garment industry do not reflect the real size of the industry. Thus, the industry has a positive economic effect through creation of jobs, growth of state budget revenues from taxes from the industry, growth of export and, accordingly, growth of export earnings, growth of the related services sector (transport, cafes, financial institutions, etc.), growth of the living standards of the involved households and other.

2. Change in the conditions for the export of garments with the entry of Kyrgyzstan into the EAEU

With the entry of Kyrgyzstan into the EAEU, certain conditions for the export of garments to the EAEU countries have improved, which are as follows:

- Abolition of customs control, in particular at checkpoints on the state border of Kyrgyzstan with Kazakhstan and at airports with air communication between Kyrgyzstan and other EAEU countries [3].

- According to clause 3 of Article 28 of the EAEU Agreement of 29.05.2014, the member countries of the EAEU in mutual trade do not apply customs duties, measures of non-tariff regulation, special protective, anti-dumping and countervailing measures, except as provided for by the above-mentioned Agreement [1]. That is, Kyrgyzstan's membership in the EAEU allows reducing barriers to the movement of Kyrgyzstan's export to the EAEU countries.

- Reduction of the delivery of garments to the markets of the EAEU countries by reducing the obstacles at the borders.

It should be noted that there are the following moments within the framework of membership in the EAEU:

- With the entry into the EAEU, customs tariffs on imported raw materials (fabrics and accessories) from third countries (all countries that are not members of the EAEU) increased from \$0.35/kg to \$0.5/kg on average, leading to increase in costs of production of garments [4].

- The Association of Light Industry Enterprises of Kyrgyzstan refused preferences for fabrics and accessories for the production of garments, in particular, from the use during the transition period of Kyrgyzstan on these goods of import customs duties rates that are different from the rates set by the Unified Customs Tariff of the EAEU. This decision was made to avoid the need to ensure that imported fabrics and accessories are not exported to other EAEU countries. The receipt of these preferences would create additional control at the border of Kyrgyzstan with Kazakhstan for the export of imported fabrics and accessories [5].

- From August 12, 2017 in Kyrgyzstan the Technical Regulations "On the safety of light industry products" come into force, which aims to use safe and quality light industry products on the territory of the EAEU countries. The effect of this regulation means an increase in the requirements for the safety of garments and the need for the passage of garment products through testing laboratories to obtain a certificate of conformity of garments to the requirements of this regulation [5]. This creates an additional barrier to the export of garments.

3. Dynamics of export, production and import of garments

Considering the change in the volume of export of textile and garment products¹ for the period from 2011 to 2016 (see Diagram 1), the volume of export in 2016 decreased by 24% compared with 2011. During 2013-2016 there was a volume of more than 140 million dollars. The largest volume of export was 208 million dollars in 2012. Dynamic series shows the absence of a steady growth in export. After the entry of Kyrgyzstan into the EAEU, the export volumes (for 2015 and 2016) remain practically at the level that existed before entering the EAEU. The share of export of textile and garment products in total export of Kyrgyzstan increased from 7.6% in 2014 up to 9.4% in 2016 [6], which shows an increase in the share of export of products by almost 2% after Kyrgyzstan entered the EAEU.

The geographical structure of export of textile and garment products is as follows [1]: in 2016, 86.6% were exported to the EAEU countries, and 13.4% were exported to third countries. The share of export of textile and garment products to Russia and Kazakhstan increased from 84.6% (2014) to 86.5% (2016). At the same time, the share of export of textile and garment products to Russia increased from 13.5% (2014) to 46.4% (2016), and to Kazakhstan, on the contrary, decreased from 71.1% (2014) to 40.1% (2016). Thus, after the entry of Kyrgyzstan into the EAEU, the geographic orientation of export slightly increased towards Russia and Kazakhstan (by 1.9%), with a greater focus to Russia than to Kazakhstan (46.4% vs. 40.1%).

Indicators for the textile and garment industry of the Kyrgyz Republic

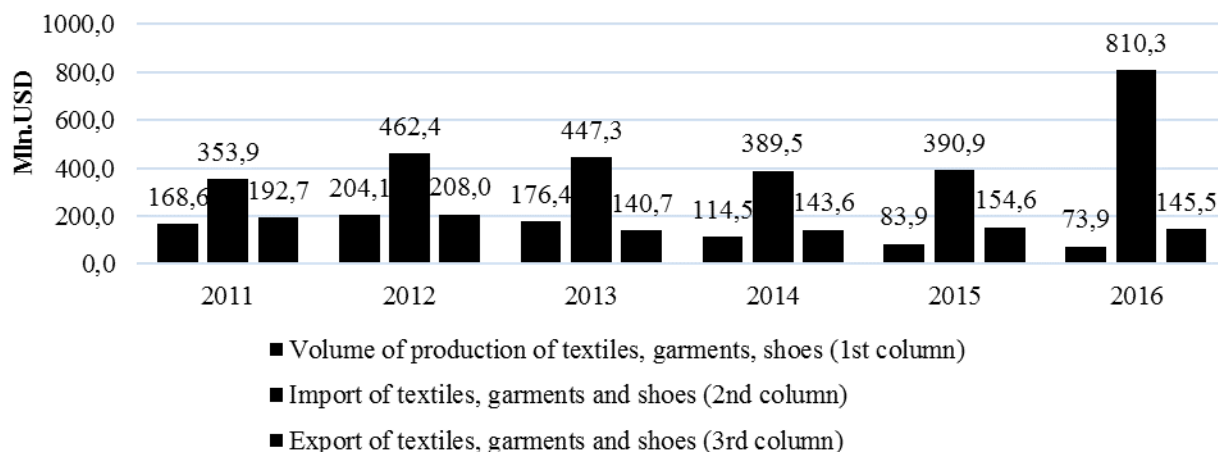


Fig. 1. Diagram 1. Indicators for the textile and garment industry of the Kyrgyz Republic

Source: National Statistical Committee of Kyrgyz Republic, www.stat.kg.

The volume of production of textiles, garments and shoes tended to decline from 204.1 million dollars in 2012 up to 73.9 million dollars in 2016 (see Diagram 1). Comparing the volume of production and export of textiles, garments and shoes for the period 2011-2016 we can note the excess of export over production volumes (except for 2013), which indicates the presence of re-export flows or the presence of unaccounted production volumes.

¹ The volume of export, import and production of textiles and garments is calculated by enlarged commodity items (50-67 of the group of the Commodity Nomenclature for Foreign Economic Activity (hereinafter - FEACN))

Decrease in production volumes in 2014 and 2015 is associated with a decrease in the purchasing power of consumers in Russia and Kazakhstan due to the slowdown in the economic growth of these countries due to the reduction in oil prices and sanctions against Russia, the devaluation of the ruble and tenge [7]. The increase in customs tariffs for imported raw materials also has a negative impact on the volume of production.

In view of the fact that imported raw materials are mainly used in the production of garments, it is also worthwhile to consider the volume of import of textile, garments (see Diagram 1). Import consists of finished products and raw materials for the production of garments. For the period of 2011-2015 the volume of import was about 400 million dollars. In 2016, there was a sharp increase in the volume of import of textile and garment products by 2.1 times compared with 2015 and amounted to 810.3 million dollars (which was 33.8% of the total volume of Kyrgyz import from third countries). This increase in the volume of import gives a ground to suppose that in 2016 the actual volume of production of textile-garments should be much higher than the statistical data. This assumption is confirmed by the information of the Light Industry Association that in 2016 there was an acceleration in the development of the garment and textile industry. The capacities of enterprises began to be used again as much as possible, at the beginning of 2017. Garment shops are loaded, orders come from abroad, the number of garment shops is growing, and there is a problem of shortage of staff (seamstresses) [7]. According to the information of the Light Industry association, more than 80% of garment products are produced by individual entrepreneurs who work on a patent basis and do not report to the National Statistical Committee on the volumes and export of their products. Currently, association works to optimize the accounting of the production volume [7].

Textile-garment goods are almost completely imported to Kyrgyzstan from third countries and in 2016 import of these goods from third countries was at the level of 798.6 million or 98.6% [1]. Considering the structure of import of textile and garment products from third countries for 2016 (see Diagram 2), most of the import is made up of shoes, gaiters and similar products; their details (64 FEACN group) - 257 million dollars or 32.2% of import. Next are chemical fibers (\$ 155.3 million), clothing and clothing accessories knitted machine or hand knitting (\$ 150.4 million), etc. From this import structure, raw materials and processed materials for the production of textile and garment products amount to 265.3 million dollars or 33.2% (50-60 of the FEACN group). Clothing is 250.5 million dollars or 31.4% (61-62 of the FEACN group).

Import of textile and garment products in the Kyrgyz Republic from third countries for 2016 (mln. USD)

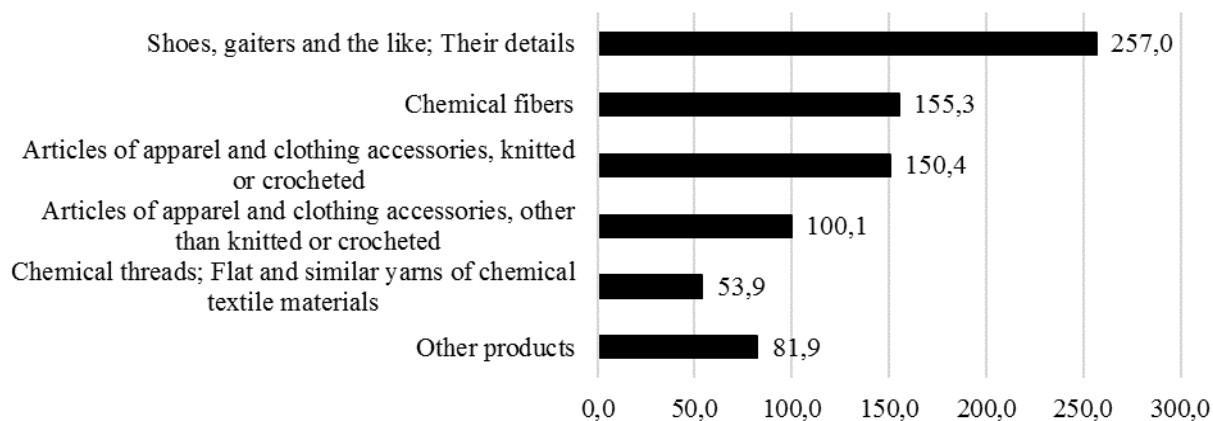


Fig. 2. Diagram 2. Import of textile and garment products in the Kyrgyz Republic from third countries

Source: Eurasian Economic Commission, <http://www.eurasiancommission.org>

4. Conclusions and recommendations

The analysis of the development of the Kyrgyzstan's export of garment products in the conditions of EAEU membership makes it possible to draw the following main conclusions:

- With the accession of Kyrgyzstan to the EAEU, the conditions for the export of garments to the EAEU countries have generally improved, while at the same time the country has expanded opportunities to further develop the garment sector as an important sector for the economy.
- After the entry of Kyrgyzstan into the EAEU, the volume of export for 2015 and 2016 remain practically at the level that was before entering the EAEU. The share of export of textile and garment products in total export of Kyrgyzstan increased from 7.6% in 2014 up to 9.4% in 2016.
- After the entry of Kyrgyzstan into the EAEU, the geographic focus of export slightly increased towards Russia and Kazakhstan (by 1.9%), with a greater focus to Russia than to Kazakhstan (46.4% vs. 40.1%).

- The volume of production of textiles, garment and shoes tended to decline from 204.1 million dollars in 2012 up to 73.9 million dollars in 2016. Decrease in production volumes in 2014 and 2015 is associated with a decrease in the purchasing power of consumers in Russia and Kazakhstan and the devaluation of the ruble and tenge.

Recommendations for the Government of Kyrgyzstan:

- Accelerate the process of preparing test laboratories before the entry into force of the Technical Regulations on the Safety of Light Industry Products.

- Provide support to local enterprises that produce fabrics and accessories for the production of garments. In particular, support in the form of soft loans to expand the production of domestic raw materials, which will reduce the cost of production of garments at the expense of domestic raw materials and reduce the dependence of the garment industry on imported raw materials.

- Support the receipt of certificates of conformity for local enterprises exporting garments to the European Union countries, within the framework of the use of the General System of Preferences of the European Union, which allows Kyrgyzstan to import duty-free items of garments to the countries of the European Union.

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