



UNIVERSITY OF CENTRAL ASIA
GRADUATE SCHOOL OF DEVELOPMENT
Institute of Public Policy and Administration

Kyrgyzstan's Accession to the Eurasian Economic Union: Measuring Economy-Wide Impacts and Uncertainties

**R.Mogilevskii (UCA), J.Thurlow (IFPRI), A.Yeh (IFPRI)
IAMO Forum 2017, Halle (Saale), 21 June 2017**

Introduction

- Kyrgyzstan joined EAEU in August 2015
- This affected virtually all economic sectors and economic agents in Kyrgyzstan
- Simultaneously, other factors influenced the economy (economic crisis in energy-rich EAEU member countries, political shocks)
- This study aims to quantitatively assess economic effects of the country's accession to EAEU
- Uncertainties and lack of data
- Medium-term analysis horizon
- Methodology – single-country static CGE model for Kyrgyzstan

Impact Channels

- Import duties and other taxes on imports
 - no change in the free-trade regime with other post-soviet countries and increase in MFN tariff rates
 - 1.9% of total import duty revenue in EAEU countries
 - losses in VAT collections on the Kyrgyz-Kazakh border
- Income from re-exports of Chinese produce
 - no simplified regime of importation anymore
- Labor migration and remittances
 - improved legal status of the Kyrgyz migrants in Russia and Kazakhstan
- Russian-Kyrgyz Development Fund (RKDF)
- Little change in non-tariff barriers (esp. for agrifood products)

Economy-Wide Model

- Base year – 2011
- 35 sectors (34 from the supply-use table plus reconstructed re-exporting sector)
- 3 labor types (based on skill level) and 10 household types (one per one urban and rural quintile)
- 3 trade partners – EAEU, China and other countries
- Direct and indirect taxes and other government revenue
- Balance of payments, government budget and savings-investments balance are cleared by flexible exchange rate, budget deficit financing and national savings, respectively

Scenarios

- Base scenario (no accession) and five accession scenarios

No.	Title	Contents
1	Tariffs without formula	Change in the MFN tariff and losses of VAT on imports from EAEU countries
2	Tariffs without formula	Scenario 1 plus inflow of resources from the duty collections in other EAEU countries (USD63 million as per IMF)
3	Reduced re-export profits	65% fall in re-export income
4	Increased migration	5% increase in the number of migrants
5	Combined	All changes taken together

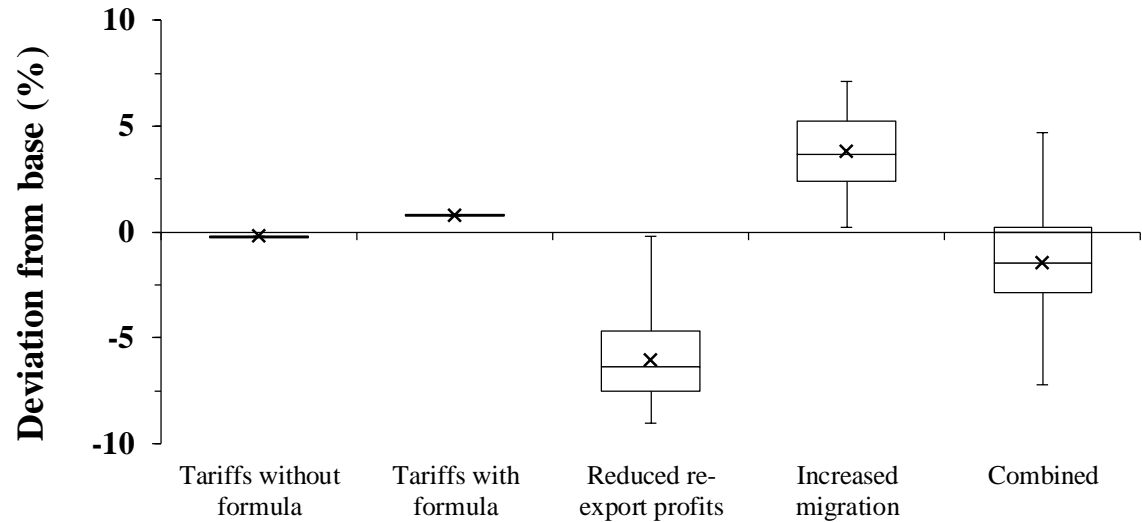
- All scenarios are associated with large uncertainty which is explicitly accounted in the simulation design (200 randomly-drawn impact magnitudes)
- The uncertainty related to the RKDF is so big that prevents inclusion of its impact into the scenarios

Simulation Results

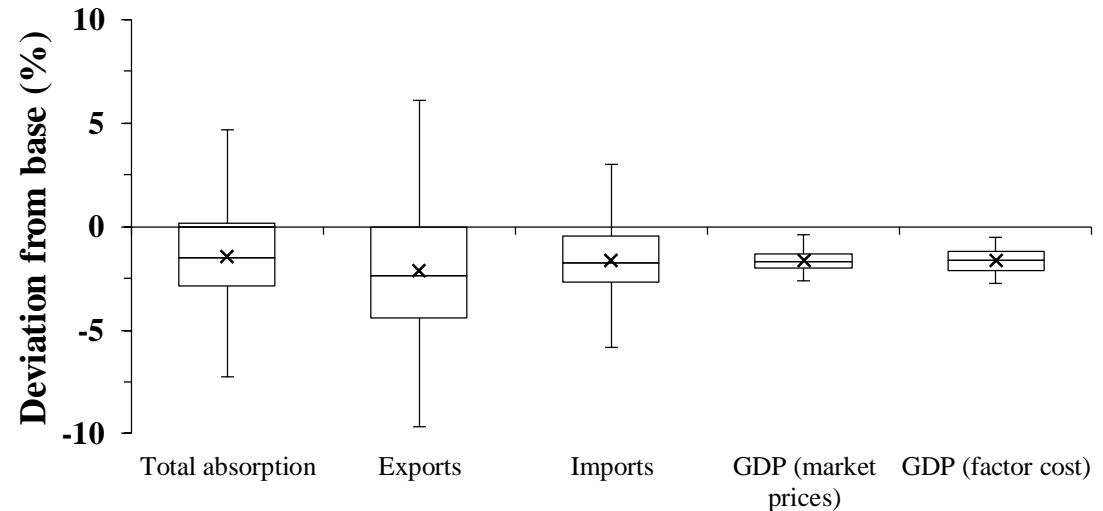
	Mean deviation from baseline (%)				
	Tariffs		Reduced re-exports	Increased migration	Combined
	w/o formula	with formula			
Real GDP market prices	-0.24	-0.09	-1.02	-0.62	-1.74
Absorption	-0.19	0.78	-6.81	3.61	-2.43
Exports	-0.85	-1.81	6.89	-5.98	-1.10
Imports	-0.56	0.17	-5.10	2.63	-2.43
Agriculture	-0.41	-0.13	-1.99	0.66	-1.39
Industry	0.10	-0.29	2.55	-1.50	1.06
Services	-0.36	-0.07	-1.85	-1.23	-3.45
Real exchange rate	-0.22	-0.35	0.83	-0.68	-0.09
Tax revenues/GDP	0.37	1.47	-0.22	0.13	1.40
Remittances/GDP	-0.05	-0.09	0.27	5.27	5.52
Re-export profits/GDP	-0.03	-0.05	-7.61	0.03	-7.61
Employment	-0.54	-0.36	-1.23	-2.25	-3.95
Real labor income	-0.85	-0.58	-1.82	-0.86	-3.60
Real capital income	-0.62	-0.61	-0.04	-0.25	-0.90
Private consumption	-0.34	0.63	-6.88	3.81	-2.49
Quintiles 1-3	-0.48	0.32	0.07	3.54	3.78
Quintiles 4-5	-0.26	0.84	-11.40	3.98	-6.57

Simulation Results (2)

- Impact on absorption in different scenarios

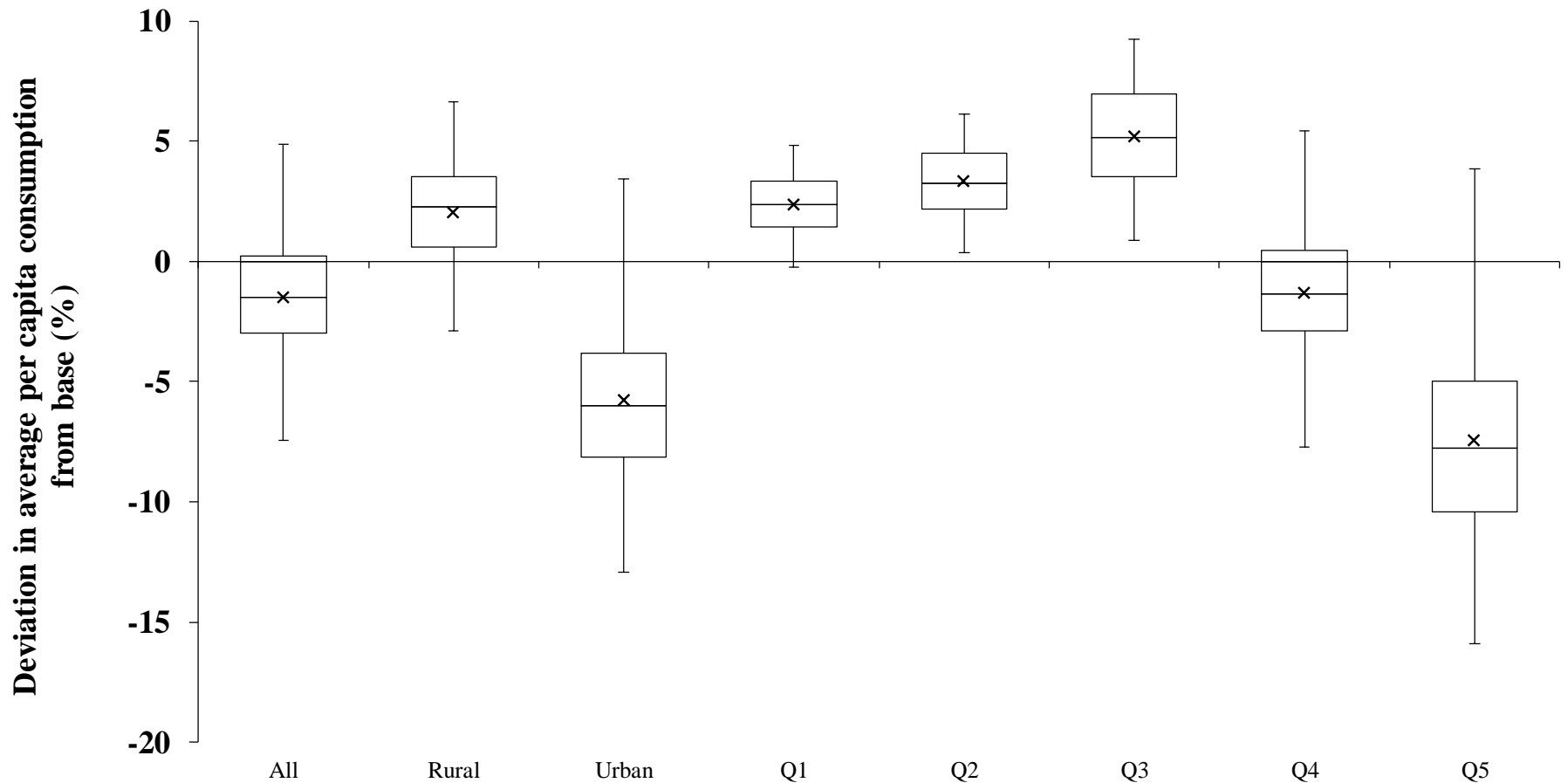


- Macroeconomic effects in combined scenario



Simulation Results (3)

- Impact on households in combined scenario



Conclusions

- Different impact channels seem to affect the economy in opposite directions, so total effect tends to be modest
- In general, the most probable economic effect from the accession appears to be negative – average GDP reduction of 1.7%
- However, with probability about 0.25 the effect may be positive
- Main effect – the damage for re-exports
- This could be (partially) compensated by the RKDF activities
- Wealthier segment of the population incurs losses while more poor are going to win