

## **Imap-analysis**

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# **WHY INVEST TODAY IN THE KYRGYZ REPUBLIC?**



## **Basic information for an Introduction**

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## **Introduction**

**Kyrgyzstan has a large potential to further develop its industry**

The five Central Asian CIS states Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan and Turkmenistan are becoming more attractive for German exporters and investors. Due to their abundant natural resources and having an industry not fully developed, these states have become promising partners for direct investments and valuable customers for investment goods. One should not underestimate the consumer potential of about 58 million people living in these countries. Among these Central Asian states, Kyrgyzstan offers a few of the most interesting markets. Economic growth and political stability, confirmed by the recent fall of president Akajew, make the young republic a center for investors in Central Asia. Whereas in other parts of Central Asia experts predict revolutions, the Kyrgyz Republic is considered to be politically stable.

### **1. Economic Situation in the Kyrgyz Republic**

**Som is a stable currency**

In the 90s the Kyrgyz Republic was considered a role model for successful social, political and economic reforms among other Central Asian countries. The Kyrgyz national currency Som became convertible at an early stage and privatisation progressed quickly. Until now the Kyrgyz Republic remains the only Central Asian country that has joined the WTO.

The most important sector of the national economy is agriculture, which produces about 40 % of the gross domestic product (GDP) and employs approximately 41 % of the population. Main agricultural products are meat, wool, leather, sugar, cotton, silk, tobacco, vegetables, grain and cattle fodder. 78,8 % of all agricultural goods are produced by private enterprises.

**Hydroenergy – important branch of industry**

The second largest sector is the industry which attributes 20 % to the country's GDP. Major industry branches are: non-ferrous metallurgy, power energy, engineering, light and food goods industry. A major part of the national economy is hydro energy. Approximately 16 billion kWh are produced annually, 6 billion are exported to neighbouring countries.

**Abundant natural resources**

Kyrgyzstan has significant and explored deposits of gold, tin, tungsten, coal as well as construction materials such as basalt and wollastonit. Besides experts forecast large resources of silver, iron ore, rare metals, crude oil and natural gas. Kyrgyzstan is rich in fresh and mineral water which is used as drinking water and for medical purposes. Wonderful mountain ranges, the mountains of Ala-Too and Pamir, the Lake Issyk-Kul and the nut forests of Arslanbob, which are part of the "Great Silk Road Way " offer a wide

range of possibilities for tourists.

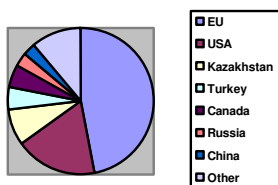
**Germany is not a significant import or export partner**

Main export partners are: United Arab Emirates, Kazakhstan, Russia, Uzbekistan and China.  
Main import partners are: Russia, Uzbekistan, Kazakhstan, Germany, USA, Turkey and China.

**Privatisation**

As a result of two privatisation programmes the following sectors have been transferred into non-governmental ownership: 97,3 % of trade, 51,2 % of transport, 56,9 % of the construction industry, 41,3 % of agriculture, 80,4 % of industrial factories.

The non-governmental sector in Kyrgyzstan is a real basis for the development of a market economy in the republic - it produces 95 % of the entire business turnover and 80, 8% of all agricultural products. As per 1.01.2000 the number of registered commercial companies in the Republic was 195.200 and increased by 11% in 2001.



**Source of foreign investment:**

EU 47%  
USA 18%  
Kazakhstan 8%  
Turkey 5%  
Canada 5%  
Russia 3%  
China 3%  
Other 11%

**Source: IBC 2004**

**Chances for European companies**

**Investment Climate in the Kyrgyz Republic**

Foreign investment in Kyrgyzstan is governed by the Law on Foreign Investment (1997) which allows foreign investments in all sectors of the Kyrgyz economy and thus providing a legal basis for a monopolistic status of a foreign company.

The law guarantees equal rights to both local and foreign companies. The Kyrgyz Republic is the only Central Asian state that has joined the WTO.

The following sectors of the Kyrgyz economy are considered to be most attractive for European companies:

**Privatisation of the Energy and Telecommunication Sector**

Dividing the state energy company, Kyrgyzenergo into eight separate companies marked the first step towards privatisation in 2002. At the beginning only four distribution companies will be privatized. A tender for one of them has already been opened.

As a next step the government plans to privatize and restore a large number of small hydroelectric power plants. Beginning of 2003 the state telephone company was privatized.

**Processing of Agricultural Products**

Agriculture produces over 40% of the Kyrgyz GDP. At the same time a major part of agricultural products are imported from neighbouring states. Foreign companies are already involved in tobacco and cotton production.

In April 2003 for the first time an international fair for food processing technology took place in Bishkek.



### **Tourism**

The area of the Tien-Shan mountains has a fascinating beauty. The number of western tourists increases annually, with the largest share coming from Germany. Alpinism, hunting and individual tours are very popular. Wealthy guests from Kazakhstan and Russia still consider the Issyk-Kul lake as their traditional vacation area. Being closely located to India and China's developing tourist markets with over 2 billion people, the Kyrgyz Republic has a substantial potential for developing its tourist facilities in the near future.

### **Textile Production**

Low personnel costs make the Kyrgyz Republic very attractive for labour-intensive production processes. However transport costs may be high due to the lack of sea access. Another obstacle is a frequent shortage of domestic raw materials in the required quality and quantity.

### **Software Production**

The Kyrgyz Republic's software industry is still at the very beginning. However, the Kyrgyz President has proclaimed the development of the software sector to be one of the government's top priorities. Kyrgyzstan has a well educated workforce, which in many cases migrates to Kazakhstan or Russia. A big European electronic company has signed a contract with a local company, encouraging a substantial development of the sector.

**Software sector is in its infancy**

### **Transport Infrastructure Projects**

Financed by international companies, the Kyrgyz road network is currently being developed and extended under the leadership of foreign companies. This undertaking will certainly involve a number of projects and hence tenders. Foreign investors and business professionals are advised to select their local partners carefully and to study this industry sector thoroughly.

## **2. Overview of Economic Data**

**Currency:** 1 Kyrgyz Som (K.S.) = 100 Tyins, exchange rate (mid 2003): 1 K.S. = 0,02 Euro

**GNP growth rate** – 0,5% GNP: 1,4 billion US\$

GNP/capita: 290 US\$

**Share in GDP:** agriculture 39%, industry 26%, service 35%

**Unemployment:** 8,6%

**Inflation rate:** 2,1%

**State income:** 259 million US\$

**Tax revenues** (share in GDP): 12,4 %

**State expenditure:** 338 million US\$

**Balance of payments:** - 0,035 billion US\$

**External debt:** 1,797 billion US\$

**Currency reserve:** 317 million US\$  
**Received development aid,:** 186 million US\$  
**Energy:** Production 1,353 million tons of oil equivalent

**Agriculture, raw materials, industry:**

**Productive land:** 7,6%, 74,2% of the cultivable land is irrigated

**Products:** forage plants, grain, cotton, fruit, vegetables, cattle breeding,

**Wooded** – 10.000 km<sup>2</sup>, **Clearing (annual):** - 228 km<sup>2</sup>,  
**Raw materials** – coal, gold, tin, mercury, zinc, tungsten, uranium, oil, natural gas

**Industrial sectors:** mining and processing of coal, gold, tin, mercury, zinc, tungsten, uranium, oil and natural gas.

**Foreign trade:**

**Balance of trade:** -61 million US\$, **export:** 548 million US\$ (2003) including 46, 5% non-ferrous metals, 15,8% electricity, 9,3% agricultural products.

Main customers: UAE (24,7%), CH (20,3%), Russia (16,7%), Kazakhstan (9,8%), Canada (53%) (2003)

**High-tech export:** 5 million US\$

**Import:** 601 million US\$ including 27,2% machines and hardware, 21,8% oil and gas.

Main suppliers: Russia (24,7 %), Kazakhstan (24%), China (10,3%), US (6,7%), Uzbekistan (5,5%), Germany (53%) (2003)

**Environment and Tourism:**

**Protected areas:** 12,5% of the state territory

CO<sub>2</sub> emissions: 4,6 million t

**Freshwater utilisation:** agriculture 94%, industry 3%, household 3%

**Tourism:** 69.000 visitors (2001)

**Revenues:** 36 million US\$

### **3. Ten good reasons to invest in the Kyrgyz Republic**

#### **1. The government sticks to its reform intentions**

**Privatisation is largely finished**

**Good investment climate**

Kyrgyzstan is a democratic, liberal and reform-oriented country. A comprehensive programme of market reforms includes privatisation, restructuring, price liberalisation, full account convertibility, adoption of modern business legislation, and great strides towards creating a dynamic financial sector.

## **2. Political and ethnic stability**

### **Island of political stability**

Due to a strong market orientated government, good external and harmonious internal relationships between the minorities, Kyrgyzstan is often called an island of political stability in the region. The recent events demonstrated the viability of democratic mechanisms in spite of the beginning nepotism practised by the former president's family.

## **3. Liberal trade regime**

### **A member of WTO**

Since 1998 Kyrgyzstan has been the only Central Asian state to become a member of the World Trade Organisation. Its membership in the WTO is expected to boost Kyrgyzstan's exports to 132 member-states and considerably improve its economic situation.

## **4. Liberal currency control regulations**

### **Simple international currency transfer**

Kyrgyzstan offers unrestricted transfer of capital and dividends.

## **5. Important natural resources**

### **Significant gold reserves**

Kyrgyzstan is the third-largest gold producer in the former Soviet Union with gold production exceeding 21 tons in 1998. Being very profitable Kyrgyz gold reserves have attracted the greatest foreign interest so far. Significant reserves of antimony, lead, zinc, sulphur and uranium are ready for exploitation.

## **6. Low operating expenses**

### **Declining energy costs**

Deregulation and the upcoming privatisation of monopolies in the energy and telecommunication sector will further decrease operating expenses enabling Kyrgyzstan to maintain its competitiveness in the world.

## **7. Highly-educated, low-cost workforce**

### **Good labour market**

An average monthly salary is less than 25 USD. The workforce is well-educated, highly productive and flexible. All major cities have their own universities.

## **8. Dynamic financial sector**

The financial and banking sector is developing dynamically.

## 9. Good financial resources

### Developed financial infrastructure

International banks provide their services in all parts of the country. Foreign investors and local partners have access to a broad range of financial sources, i.e. Asian Development Bank, Central Asian - American Enterprise Fund, EBRD (the European Bank for Reconstruction and Development).

## 10. Important geopolitical location

The country's geographical location close to China, Russia, Kazakhstan and the planned oil pipelines is important from a geopolitical and economic point of view.



imap-analysis. Why invest today in the Kyrgyz Republic?

### **Sources and links**

*The International Business Council in Bishkek* <http://www.abc.kg>

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<http://www.botschaft-kirgisien.de>

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