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Entrepreneurship in Kyrgyzstan: adjustments to a changing economic environment

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**Entrepreneurship in Kyrgyzstan:
Adjustments to a Changing
Economic Environment**

29 June 2017

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This study depicts trends how Kyrgyzstani entrepreneurs have adjusted to recent economic changes and identifies their main everyday challenges and opportunities within a landscape that is dominated by Russia, China and other bigger neighbors. The business case studies cover a spectrum of entrepreneurship including the import-trade with supplies for Kyrgyzstan's sewing industry, the emergence of local manufacturing in paper products and cotton fabric, and the food-processing of sugar beet or dried fruit. The case studies illustrate various ways in which local entrepreneurs have adjusted to the fact that the previous re-export scheme of channeling China-made goods via Kyrgyzstani bazaars to larger regional markets has been fading out.

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Acronyms

B&R	Belt and Road Initiative' (B&R)
EAEU	Eurasian Economic Union
EU	European Union
FDI	Foreign Direct Investment
JIA	<i>Jash Ishkerler Assotsiatsiyasy</i> = 'Association of Young Entrepreneurs'
MFN	Most-Favored Nation Average Tariff
NTB	Non-Tariff Barriers to Trade
RKDF	Russian-Kyrgyz Development Fund
SEZ	Special Economic Zone
SSR	Soviet Socialist Republic
WTO	World Trade Organization

Executive Summary

Within the last 25 years, Kyrgyzstan's economy has been rapidly changing. Following the demise of the Soviet Union in 1991, the early years of 'transformation' away from the previous command-economy were characterised by a process of de-industrialisation and the so-called 'shock-therapy' approach, which entailed far-reaching privatisations of former state property, trade liberalisations, reduced state subsidies, price and currency controls. From the early 2000s on, and facilitated by Kyrgyzstan's and China's common membership in the World Trade Organization (WTO), the re-export trade of consumer goods 'made in China' to Kazakhstan, Uzbekistan and Russia via local bazaars came to dominate many Kyrgyzstani livelihoods.

In August 2015, Kyrgyzstan joined the Eurasian Economic Union (EAEU), an institution among former Soviet republics that aspires to enable the free movement of goods, capital, services and people within a single market. Viewed within Kyrgyzstan's recent development, membership in the EAEU introduced a new degree of economic regulation as part of which policy aspects - from external trade tariffs to sanitary regulations or migration regimes - have gained in importance. Whereas there is general agreement that the EAEU has not been performing according to its announced potential so far, it must be acknowledged that its inauguration coincided with further negative economic impacts on the region's larger economies Russia and Kazakhstan, such as low hydrocarbon prices or currency volatilities.

This study depicts trends how Kyrgyzstani entrepreneurs have adjusted to recent economic changes and identifies their main everyday challenges and opportunities within a landscape that is dominated by Russia, China and other bigger neighbours. Employing an ethnographic methodology, the empirical data is based on field-research and conversations conducted in spring 2017 with local business owners, managers and experts from the sectors of trade, manufacturing and agriculture. Based on such qualitative approach, the study's ambition is to capture the complexities of day-to-day entrepreneurship in Kyrgyzstan beyond generalised numbers or policy-regulations, and to shape a comprehension for the de-facto relevance of informal practices, of trial-and-error situations, or of individual rationalisations for success or failure.

The business case studies presented on the following pages cover a spectrum of entrepreneurship that includes the import-trade with supplies for Kyrgyzstan's sewing industry, the emergence of local manufacturing in paper products and cotton fabric, and the food-processing of sugar beet or dried fruit. Taken together, the case studies illustrate various ways in which local entrepreneurs have adjusted to the fact that the previous re-export scheme of channelling China-made goods via Kyrgyzstani bazaars to larger regional markets has been fading out. Yet regardless whether their

activities have remained localised and small-scale or their operations are international and based on larger investments, most entrepreneurs captured in this study shared the rationale to move up into more profitable positions along their respective value chains by investing in manufacturing equipment.

Influenced especially by Kyrgyzstan's accession to the EAEU and the subsequent process of economic formalisation, a change in the *modus operandi* among local entrepreneurs is noticeable, from a previous ad-hoc informality driven by short time-horizons towards a more 'professional approach' that entails transparency and accountability. Alongside professionalisation and formalisation, the institutional landscape of Kyrgyzstan's economy is diversifying and new players have emerged that fill various gaps. Among these are, for example, logistics enterprises operating between areas of agricultural production and urban centres, newly established financing institutions such as the 'Russian-Kyrgyz Development Fund' (RKDF), or business associations that function as platforms for entrepreneurial networking and interest representation. However, the process of institutionalisation has progressed at different speeds within various segments of Kyrgyzstan's economy. In particular, the agricultural sector still seems to be most severely suffering from lower levels of mutual cooperation and resource pooling, which is an additional challenge for local entrepreneurs to ensure compliance with the EAEU's or other international standards.

'Changing the local mentality' has become a prevalent notion within Kyrgyzstan's economic communities. Among entrepreneurs, this refers to a trend of investing into market research and advertisement to influence consumer perceptions and is associated with a new demand for qualified experts in fields such as marketing, public relations and consulting.

Among those Kyrgyzstani entrepreneurs who established production facilities, purchased equipment or employ a sizeable workforce, expectations have emerged that their government should create a more favourable business climate. This entails, amongst others, the protection of (national and foreign) investment, the granting of tax incentives or other opportunities to reduce production costs, the establishment of measures towards a better balancing between import protection and export subsidy, and the involvement of local business communities during the draft process of legislation.

Introduction: Kyrgyzstan - A Rapidly Changing Economic Environment

Within the last 25 years, Kyrgyzstan's economy has been rapidly changing. Following the demise of the Soviet Union in 1991, the early years of 'transformation' away from the previous command-economy were characterised by a process of de-industrialisation and the so-called 'shock-therapy' approach, which entailed far-reaching privatisations of former state property, trade liberalisations, reduced state subsidies, price and currency controls.

At the beginning, these decisions proved burdensome for a majority of Kyrgyzstanis, as especially rural unemployment rose and spurred migration towards the urban centres. On the other hand, the openness for reform in line with 'Western principles' of democracy and market-economy facilitated Kyrgyzstan's efforts towards international integration. In regards to economic development, it was important for Kyrgyzstan to join the World Trade Organization (WTO) already in 1998, and also to remain its only Central Asian member-state for the next 15 years (Tajikistan joined in 2013 and Kazakhstan in 2015; Russia joined in 2012).

After China had gained WTO-status as well in 2001, the low-tariff trade with goods originating from their eastern neighbour became an attractive income opportunity for many Kyrgyzstanis. In-between 2002 and its peak in 2014, the import of consumer products 'made in China' increased from \$77.7 million to \$5.24 billion.¹ In light of Kyrgyzstan's small national consumer market, the predominant business model became re-exporting these Chinese goods regionally to Uzbekistan, Kazakhstan and Russia. Channelled through the main bazaars of the country, Dordoi in the north and Kara-Suu in the south, the average value of these re-exports was estimated at \$3.5 billion annually (between 2007 and 2010), or 77% of Kyrgyzstan's GDP (Kaminski and Mitra 2012: 3). With such strong focus on the sector of re-selling China-imported goods, Kyrgyzstan was also portrayed as having become a 'society of traders' (Pétric 2015).

In August 2015, Kyrgyzstan joined the Eurasian Economic Union (EAEU). This body traces its origins to a customs union that was formed in 2010 among the other post-Soviet states of Belarus, Kazakhstan and Russia. The EAEU's purpose is to enable the free movement of goods, capital, services and people within a single market, which currently covers 183 million people in 5 countries (Armenia also joined in 2015). To achieve this, the EAEU established various supranational and

¹ See: <http://atlas.media.mit.edu/en/visualize/line/hs92/show/kgz/chn/all/1995.2015/> (last accessed 20 May 2017)

intergovernmental institutions in order to coordinate and harmonise policies in various economic domains, including technical regulation and customs. Viewed within Kyrgyzstan's recent development, membership in the EAEU introduced a new degree of economic regulation, coordination and formalisation, in particular when compared to the earliest post-Soviet era of 'wild capitalism' and informal trading (Schröder forthcoming).

Aside from economic integration, the EAEU must also be discussed in regards to political constellations. In Kyrgyzstan, the road to EAEU-accession was accompanied by declining public support within the country, from 72% in 2011 to 49% in 2014. During that time, the question to what degree Russia was leveraging the Kyrgyzstani government, such as by linking EAEU membership to future cooperation in the energy sector or to the status of Kyrgyzstani labour migrants abroad, was controversially debated.² For Kyrgyzstan, the risks of non-accession were significant, and even President Atambaev referred to this as: 'We are choosing the lesser of two evils. We have no other option.'³

As far as larger geopolitical ambitions are concerned, a recent report of the International Crisis Group (2016: i) summarised the divergent viewpoints that have developed on the EAEU as follows: 'Supporters argue that it could be a mechanism for dialogue with the European Union (EU) and other international partners. Critics portray a destabilising project that increases Russia's domination of the region and limits its other members' relations with the West.' The latter is reflected as well by the apparent resistance of some EAEU member states against ceding sovereignty to supranational bodies (Roberts and Moshes 2015: 19). Notably Kazakhstan and Belarus have voiced their opposition against ambitions for further political integration, such as the introduction of a common currency within the EAEU or a joint parliament.

There is general agreement among observers and practitioners alike that since its official inauguration in January 2015, the EAEU has not been performing according to its announced potential. The mutual foreign direct investment (FDI) stock decreased by 7% between 2014 and 2015, mostly due to reduced investments made by Russian companies. The value of mutual trade among EAEU member states decreased from \$63.1 billion in 2011 to \$45.4 billion in 2015. However, these negative trends cannot unequivocally be ascribed to the EAEU itself, as it coincided with other critical economic impacts on the region's larger economies Russia and Kazakhstan, such

² See, for example: <http://www.bbc.com/news/world-asia-25718770> (last accessed 21 May 2017)

³ See: <http://thediplomat.com/2016/02/a-blurry-union-kyrgyzstan-and-the-urasian-economic-union/> (last accessed 13 June 2017)

as low hydrocarbon prices or currency volatilities. As regards the structure of trade, it is interesting to note that in 2015 mineral products made up the largest share of EAEU trade with third-party countries (65%), whereas intra-EAEU trade patterns showed more diversification: mineral products accounted for 33.4%; machines, equipment and vehicles for 16.4%; and agricultural products for 15.5% (Vinokurov 2017:61-62).

In Kyrgyzstan, key expectations that government representatives had raised prior to the country's EAEU accession have remained unfulfilled until early 2017. In particular, this concerned increasing investment opportunities (FDIs or attractive loans), developing the local manufacturing sector and improving the export potential of agricultural products (Azarov et al. 2016).

It can thus be argued that so far Kyrgyzstan's biggest gain from joining the EAEU has been the preferential treatment of its labour migrants in Russia (a group estimated to number between 0.5 and 1.5 million; of 6 million total population in Kyrgyzstan). In contrast to citizens from non-EAEU member states, Kyrgyzstanis working in Russia are not constrained by quota obligations and are also exempt from obtaining work permits or licenses. This comparative advantage has already impacted on the ability to send remittances from Russia to Kyrgyzstan (Nasritdinov and Kozhoeva 2017). For 2016, the money that Kyrgyzstanis could transfer home from Russia increased by 26.0% (to \$1.7 billion) as compared to the previous year. In contrast, the remittances sent to Tajikistan and Uzbekistan, both non-EAEU members, decreased by 13.1% and 10.4% respectively within the same period.⁴ This correlates, for example, with the fact that in 2015 the number of Tajikistani labour migrants in Russia decreased by 13.7% (Vinokurov 2017:67).

The last paragraphs have introduced Kyrgyzstan's economic evolution since the end of the Soviet era to being a member-state of the EAEU. This brief summary revealed, first, to what extent Kyrgyzstan must be considered an environment marked by rapid change. Beyond economy, change in the country's political domain has been mostly associated with the two 'revolutions' of 2005 and 2010, which ended the regimes of Presidents Akaev (1990-2005) and Bakiev (2005-2010). Furthermore, violent conflict between ethnic Kyrgyz and Uzbeks in the southern regions of Kyrgyzstan in 1990 and 2010 created societal turmoil and uncertainties that also have affected economic trends.

Second, it became apparent that Kyrgyzstan's economy, mostly due to its small size and few hydrocarbon resources, has been strongly subjected to external developments and influences. From the early 2000s on, the re-export trade of goods 'made in China' came to dominate many

⁴ <https://www.ritmurasia.org/news--2017-05-11--denezhnye-perevody-iz-rossii-rastut-tolko-v-stranah-eaes-30066> (last accessed 24 May 2017)

Kyrgyzstani livelihoods. But with the country's recent accession to the EAEU, policy aspects - from external trade tariffs to sanitary regulations or migration regimes - have gained in importance. At the same time, this formalisation is still very much a work-in-progress. This can be illustrated, for example, by the fact that the EAEU's first common customs code, which aims to systematise and then repeal more than 20 previously signed international treaties, will come into force only after January 2018.⁵

A similarly open question must for now remain how Kyrgyzstan and the EAEU will align with China's 'Belt and Road Initiative' (B&R) initiative (Ghiasi and Zhou 2017, Xin 2016). This is another grand-scale effort at regional integration in Eurasia, yet one which advances a less technocratic approach but rather aims at trade development through infrastructure investments.

But what do such observations on recent economic trends in Kyrgyzstan mean for those actors 'on the ground' who decided to be local businessmen or businesswomen within a landscape that is dominated by Russia, China and other bigger neighbours? From the perspective of Kyrgyzstani entrepreneurs, what are the main everyday challenges and opportunities? How do representatives of different business sectors in Kyrgyzstan adjust and find their niches in trade, agriculture or manufacturing?

The following pages present answers to these questions based on field-research conducted by the authors in Kyrgyzstan in spring 2017. Our study's main purpose is to contribute empirical insights that achieve a balance between the viewpoints of local entrepreneurs and the professional opinions of scientists, lobbyists or policy-makers. We believe that a more differentiated understanding is to be gained from blending the perspectives of practitioners with those of experts instead of treating these as 'worlds apart', which has been common practice in mainstream research on this matter (e.g. Alff 2016 vs. Roberts and Moshes 2015).

Guided by an ethnographic approach, which is outlined in more detail in the following 'Methodology-section', the data we gathered is inherently qualitative. The present study's aspiration therefore is to capture the complexities of day-to-day entrepreneurship in contemporary Kyrgyzstan, rather than to paint a representative picture. The strength of such approach is to move beyond generalised numbers or policy-regulations, and to shape a comprehension for the de-facto relevance of informal practices, of trial-and-error situations, or of individual rationalisations for success or failure.

⁵ See: <http://www.internationaltradeupdate.com/2017/02/03/aeu-new-customs-code-of-the-urasian-economic-union/> And: <http://www.eurasiancommission.org/en/nae/news/Pages/28-04-2017-3.aspx> (both last accessed 25 May 2017)

Methodology

The methodology of this study was inspired by an ethnographic approach. Accordingly, the main instruments for gathering empirical data were in-depth interviews and participant observation. Our interviews followed a general guideline, but should not be imagined as having resulted in straightforward sequences of questions and answers. Rather, they took the form of ‘conversations’ (O’Reilly 2012), which were supposed to give our respondents most freedom to express their viewpoints, and us the opportunity to pose case-specific follow-up questions.

The interviews were conducted in our respondents’ places of business, after they had given us an introductory tour. This enabled us to adapt the questions of our interview guideline, or even develop entirely new ones, based on what we had witnessed ourselves instead of relying exclusively on what we were told. Such practice diverges from the ‘regular’ ethnographic one, as part of which a researcher would conduct fieldwork in the same locations over a longer period of time and by conversing with the same respondents repeatedly. The main requirement to be granted such level of access usually is to establish close personal rapport with respondents. As the timeframe for our fieldwork was limited (March-April 2017), our approach needed to embrace a pragmatic compromise: being unable to engage in repeat visits, the empirical insights presented here draw on one or two encounters with various entrepreneurs and extended conversations with them about their recent adjustments to a changing economic landscape in Kyrgyzstan.

In total, we had conversations with 20 entrepreneurs active in the sectors trade, manufacturing and agriculture. Most of these businesses were located in the capital Bishkek or close by in the oblast of Chuy. For some other encounters we travelled to the cities of Osh and Jalalabad in southern Kyrgyzstan. Additionally, we conducted 15 expert interviews with representatives of such organisations as labour unions, business associations, consulting firms, development agencies and ministries. Furthermore, we could draw on complementary experiences from our involvement in previous research projects dealing with similar topics and conducted in the same regional setting since 2006. Depending on the respondents’ preferences, interviews were held either in Russian or Kyrgyz (or a mix of these). To protect our respondents’ integrity, their actual names have been replaced by fictitious names that reflect their actual gender and ethnicity.

Based on this methodology, the insights presented on the following pages cannot claim the same representativity as a questionnaire-based research with a nation-wide sample and several hundred or more respondents. In contrast, our ambition was to focus on the actual complexities of ‘day-to-day

business' in present-day Kyrgyzstan. Reflecting both the viewpoints of practitioners and various expert opinions, our intention is to provide the wider public with a document that captures in detail current challenges and needs, adjustments and success-stories. At the same time, the comparative analysis of case studies from different economic sectors allows to identify larger patterns and draw more general conclusions.

Nevertheless should our study primarily be perceived as explorative and pioneering for the Kyrgyzstani setting. We thus recommend to also utilise the qualitative data assembled here as the starting point for a next phase of research, which should include designing a survey that covers a larger sample of respondents in more regional contexts of Kyrgyzstan.

Entrepreneurship in Kyrgyzstan: Trade, Manufacturing and Agriculture

The empirical focus of this study is on three larger sectors within Kyrgyzstan's economy: trade, manufacturing and agriculture. Each of these sectors has evolved differently after the Soviet period ended in 1991 and each has its characteristic significance within Kyrgyzstani livelihood strategies. In line with the methodology outlined before, our aim was not to touch on all kinds of enterprises represented within these sectors in order to provide a general overview. Rather, we aspire to illustrate in detail some particular adjustments that Kyrgyzstani entrepreneurs have made in light of current larger trends towards regional economic integration. A résumé to each section will develop these business case studies into more comprehensive insights by drawing on conversations we had with additional entrepreneurs and experts in this specific field.

Trade

The introduction to this study outlined that trade, in particular the re-export of China-made consumer products towards larger regional markets through the bazaar channel, had become an essential lifeline for Kyrgyzstan's post-Soviet economy after the early 2000s. During peak years (2009-2011), the export of goods and services was estimated to amount to 77% of the country's GDP (Kaminski and Mitra 2012: 3), as compared to 29% in 1990.⁶

However, membership in the EAEU enforced Kyrgyzstan to adapt its tariff regulations as previously agreed on within the WTO framework. Although the country was granted several import exemptions during a transition period, the so called 'Applied Most-Favored Nation Average Tariff' (MFN)⁷ was raised from 4.6% in 2014 to 7.4% in 2015 (Tarr 2016).⁸ The resulting increase in price for imports into Kyrgyzstan from non-EAEU member states cast doubt on the future profitability of the hitherto predominant re-export practices of China-made goods into the wider region. Until 2015, the share of trade contributing to the GDP fell to 36%, which in Bishkek oftentimes was alarmingly

⁶ See: <http://data.worldbank.org/topic/trade?locations=KG> (last accessed 26 May 2017)

⁷ MFN is defined by the World Bank as follows: 'In current usage, MFN tariffs are what countries promise to impose on imports from other members of the WTO [World Trade Organization], unless the country is part of a preferential trade agreement (such as a free trade area or customs union). This means that, in practice, MFN rates are the highest (most restrictive) that WTO members charge one another.'

(see: http://wits.worldbank.org/wits/wits/witshelp/content/data_retrieval/p/intro/C2.Types_of_Tariffs.htm; last accessed 27 June 2017)

⁸ See: http://stat.wto.org/TariffProfiles/KG_e.htm (last accessed 26 May 2017)

framed in the sentence: ‘the Dordoi [the city’s main bazaar] is dying!’ For our study, one key question emerging from this trend was in which ways traders have adjusted their business-model to this new situation.

A Typical post-Soviet Occupational Biography and the Troubles of Re-Export Trade

The following work biography of Almaz, an ethnic Kyrgyz man in his mid-40s, is a good starting point to shape an understanding for the dynamics of Kyrgyzstan’s post-Soviet economy. At the time we encountered Almaz in Bishkek in April 2017, he earned his income as a taxi driver. This activity, however, was quite different from his original professional background and previous occupational history.

In many ways, the twists and turns in Almaz’s career can be considered typical for many post-Soviet *curricula vitae* in Kyrgyzstan. Almaz first studied in a *tekhnikum*, a professional education institution, to become an ‘ecologist’. He depicted this as: ‘I learned to work with leather, felt or other natural raw materials.’ When Almaz needed to realise that his profession was not in high demand during the 1990s transition years of de-industrialisation, he had a first period of ‘surviving’ by being a taxi driver. In 2002, Almaz switched to trading. First, he simply re-sold various everyday food products on an inner-city bazaar called Alamedin. These food products Almaz had bought before for a slightly cheaper price in Dordoi, Bishkek’s largest wholesale market. From this, he could make an average profit of 2000 Som [\$43] per day.

Having gained his first experiences and establishing some contacts, in 2005 Almaz moved on to work as a private cargo-entrepreneur. In practice, this meant that he would get an order from a Dordoi-based trader to deliver goods to clients in Almaty, across the border in Kazakhstan. In that capacity Almaz could be described as belonging to a ‘bazaar service industry’, which has evolved as a secondary layer following the success of Dordoi and similar such commercial hubs in Kyrgyzstan and elsewhere in the post-Soviet region (Schröder forthcoming). Among these on-site providers of services are banks, restaurants and hairdressers, but also mosques or other places of

worship. There were estimates that put the share of those directly or indirectly employed on Kyrgyzstan's various bazaars as high as 20% of the total labour force.⁹

Almaz describes this cargo enterprise as highly profitable for him, claiming that he made 8.000-10.000 Som per day [\$195-244]. He recalled as well how at that time he could still 'handle things at border': in order to secure a smooth passage to Almaty, he needed to first bribe the Kyrgyz border guard with 1000 Som [\$24], and the following Kazakh one with 3000 Som [\$72]. On the way back, either in an empty car or with less precious goods on board, usually no further payments were requested.

Yet about 2,5 years prior to our encounter with him, Almaz had exited the cargo-business. 'In 2015, my profit had fallen to 1000 Som [\$17] per day', he recalled. 'It was a very good time for me until then, but now I can even earn more from driving a taxi in Bishkek than from crossing the border.' On the one hand, Azamat's career may serve as a quite typical illustration for a bustling career in post-Soviet Kyrgyzstan where income peaked during the high times of re-exporting Chinese consumer goods regionally via the Dordoi bazaar in the mid-2000s.

It is as insightful to note, however, that Azamat's decision to exit this line of business coincided with the period leading up to Kyrgyzstan's accession to the EAEU. Looking back, Almaz's exit fits into a process when following Kazakhstan's entry into a Customs Union with Belarus and Russia in 2010, the border with Kyrgyzstan became more strictly supervised and controlled, leading many traders to entrust their goods rather to larger cargo companies than to single entrepreneurs (Alff 2016: 17).

This falls in line with the observation that the level of trade with China had already been decreasing for quite some time before 2015. Mogilevskii (2012) shows how due to various negative shocks in 2009-2010, re-exports by Kyrgyzstani traders to neighbouring markets dropped by almost two thirds: from \$8.1 billion in 2008 to \$3.1 billion in 2010. Among those shocks were: the re-export industry was hit by the global economic crisis of that time; the 2010 'revolution' and interethnic tensions in the country's south caused political instability in Kyrgyzstan, which also led to extended border closures with Kazakhstan and Uzbekistan; the entering into force of a Customs Union among Belarus, Kazakhstan and Russia, the predecessor of the EAEU, resulted in a more difficult access to these markets for non-member states. Another factor that contributed to the decline in China-produced goods being re-exported via Kyrgyzstani hubs were the ambitions of Kazakhstan to

⁹ <http://www.cacianalyst.org/publications/analytical-articles/item/12907-kyrgyzstan-wants-to-keep-its-wholesale-markets-in-the-customs-union.html> (last accessed 28 May 2017)

develop its own trade channels with China. Finally, a rise in prices for Chinese consumer products in the Russian and Kazakhstani markets was based on the currency devaluations of both the Rouble and the Tenge, as well as increased labour costs in China itself.

At the same time, Mogilevskii's study is an entry-point to perceive Kyrgyzstan's China-trade in more complex ways. On the one hand, the simple re-export of ready-made consumer products, such as electronic equipment, footwear or plastic goods, became less profitable due to increasing customs duties. On the other hand, the export of textiles that were 'made-in-Kyrgyzstan', even if these were based on fabrics previously imported from China, was not a line of business that suffered comparatively. Many respondents in our study, for example the entrepreneur introduced in the very next paragraph, depicted the Kyrgyzstani sewing-industry to be 'booming'. (This will also be further discussed in the section 'Manufacturing').

China-Imports for a Booming Kyrgyzstani Textile Industry

Ulan opened his new enterprise in 2012. Historically, it evolved from the work experiences that he had gained in Bishkek's sewing industry since 2002. In our conversation, he first recalls how 15 years ago his operation started with only 4 sewing machines, producing clothes that were sold locally in Bishkek. Apparently, Ulan's business grew quickly and he began selling his apparel also in Moscow: 'At one time', he states, '500 people used to work for me, and every month I paid up to \$40.000 in salaries.'

In 2012, however, Ulan decided to sell all his sewing machines. He gives 'a particular family situation' as one reason, but also mentions the 'market crisis in Russia' and 'the high competition in the sewing sector of Bishkek' as further influences. Ulan's new enterprise was unique at that time, because it added a new dimension to the booming apparel industry in Kyrgyzstan. Ulan aspired to become a supplier of various accessories, in the beginning focusing on sewing threads and ways to dye them in different colours. Ulan recalls that establishing this line of business had its initial challenges, such as after he had first purchased a larger piece of equipment from China: 'We brought this equipment, but could not use it, because we did not understand the instructions in Chinese.' Believing in the long-term prospects of this endeavour, Ulan and his larger family group decided to adapt to this situation by sending one of their younger relatives to China in order to study the trade and language. They agreed with their Chinese partner that this relative could do an internship with the company producing these kinds of equipment. 'Now', Ulan explains, 'this

relative finds the equipment there [in China], sends it here [to Bishkek], comes over, teaches us how to use it, and then goes back again.’

Ulan’s company receives cargo deliveries from China daily. He reports no to have felt any particular changes after Kyrgyzstan’s accession to the EAEU and the introduction of new customs regulations. In fact, he claims that the prices for the goods they receive from China would have decreased. Ulan primarily attributes this to the currency fluctuations between the Chinese Renminbi and the US-Dollar, which Kyrgyzstani entrepreneurs turn to when making purchases in China: ‘Before it [the price he pays for sewing accessories from the Chinese partner, including cargo fees] used to be 1 Dollar for 1 kilo, now it is 80 Cent for 1 kilo.’

At this point, Ulan estimates that his company supplies almost 70% of the sewing entrepreneurs in Dordoi with their accessories. Aside from sewing threads, Ulan’s company also offers particular plastic bags needed in this sector, which before were imported from abroad but now are manufactured on-site in Bishkek. Ulan maintains further ‘selling points’ at different locations in Bishkek, as well as in the cities of Osh and Kara-Suu in southern Kyrgyzstan.

Asked about the company’s future, Ulan elaborated that he had already taken next steps to expand his assortment. For example, he recently purchased equipment that would allow him to produce special rubber bands or add rhinestones to textiles. Furthermore, Ulan has Tajikistan in mind as a potential future market: ‘The sewing industry is just starting to develop there. They [the Tajiks] buy all accessories from Kyrgyzstan. And last week only the Chamber of Commerce and Industry from Tajikistan came [to Bishkek] and asked us to open a shop there.’ Based on these recent experiences, Ulan, like the overwhelming majority of our other respondents, is convinced of the development potential for Kyrgyzstan’s sewing industry. Following the country’s accession to the EAEU common market, Ulan noted that there would be entrepreneurs who used to have their operations in Moscow, but have relocated to Kyrgyzstan since due to lower taxes, electricity expenses, labour costs and also fewer inspections.

Ulan mentions as well that after difficult times under the previous regimes of Akaev (1990-2005) and Bakiev (2005-2010), he would currently enjoy more freedom to conduct his business, ‘as long of course’, he adds, ‘as you do not get involved in politics’. Yet also, Ulan mentions that potential foreign investors who he is acquainted with, such as his Chinese partners, would still hesitate to enter the Kyrgyzstani market because they would not be convinced of continued ‘political stability’

and the overall security of their investment. (This will be further discussed in the section ‘Manufacturing’.)

Asked if he had received any institutional support while developing his business, Ulan refers to his membership in various business associations that in recent years have come to play a key role for many entrepreneurs in Bishkek and other areas of Kyrgyzstan. He explicitly mentions the work of ‘JIA’ (*Jash Ishkerler Assotsiatsiyasy*), the ‘Association of Young Entrepreneurs’, which hosts seminars to develop one’s business capacities or exchange experiences. It also organises tours abroad for Kyrgyzstani entrepreneurs to facilitate the transfer of knowledge or establish relations with foreign investors.

A Switch to Moving Goods within the EAEU

Talant is a man with various experiences in the international import-export business. Before he opened his own company in 2013, Talant used to work for a Turkish company specialising on construction materials. Continuing in this line, Talant’s first own enterprise was to import liquid wallpaper from Turkey to Kyrgyzstan for re-selling. ‘I had a good start.’, he says. ‘But when we entered the EAEU, customs on my goods increased...[Air] cargo from Turkey used to be \$3,5 per kilo for me, now it is \$5. And via the land route it takes too long.’ Talant explains that therefore the same ‘one roll’ of wallpaper which he used to sell for 1.300 Som [\$19] before, he can offer now for no less than 2.000 Som [\$29].

In consequence, he estimates that his sales have decreased by ‘at least 40-50%’, and that these days only some of his long-term customers would still buy from him. Talant did not consider the alternative of switching to Iranian- or Russia-made liquid wallpaper, because these would be of lower quality. To still keep his business alive, Talant decided for downsizing. He reduced his own distribution staff from previously 35 to 2 people and instead works with re-sellers. Furthermore, Talant outsourced certain tasks for which he would not need permanent employees anymore, such as accounting.

In order to adjust to this new situation, Talant diversified his entrepreneurial focus. One of his next endeavours was to establish a ‘production’ of sunflower seeds for the Kyrgyzstani market. This demanded a quite international effort from Talant, as he first had to develop an import channel for high-quality seeds, which are grown in Russia. From another Russian company, Talant purchased a

machine for frying the seeds. There were initial challenges with the equipment's proper handling, but apparently these were overcome: 'In the beginning, we did not know how to fry the seeds properly, and so we burnt them several times'. Furthermore, Talant needed to locate a company in China that would provide him with the necessary technology for packaging the seeds. He elaborates that in their original business plan with the Chinese partner they had foreseen the position of a technician, who would be responsible for 'cooking' the seeds and for monitoring the packaging and thus the product's overall quality. 'But my partner wanted to save money on this part', states Talant, 'and so our business went downwards.' According to him, the decisive problem was that they could not manage to fully vacuum-seal their packs, from which the quality of their product suffered and was unable to compete on the market.

Talant's more successful new enterprise utilises the advantages of the common EAEU-market. He now imports 'dry construction materials' from Kazakhstan. The advantages are obvious to him: 'If we order it today, they bring it tomorrow without any customs clearance. It is like ordering within the country.' Aside from the favourable customs situation, Talant also mentioned that Kazakhstani construction materials would currently be offered at 30-40% lower prices than before, which in his view is primarily related to the recent devaluation of the Kazakhstani currency Tenge. For the same reason, but also due to lower oil prices in the region, Talant outlines a trend how expenses for logistics have decreased: 'Earlier it was \$1.000 [for one truckload]. Now it is \$300, because of the Tenge and the cheaper oil. It decreased three times. Also, logistics from Russia got cheaper. One truckload used to cost \$5.000, now it costs \$2.500.'

Talant plans to expand on these positive experiences of intra-EAEU trading with Kazakhstan. In fact, the building where we met for our interview is currently renovated to serve a new purpose. Not needed any more for activities related to the previous import-business with liquid wallpaper from Turkey, Talant prepares to open a fast-food restaurant there that will use chicken meat imported from Kazakhstan. He is very sure that locally he would not be able to find reliable partners for such endeavour any time soon: 'Look, nutrition for chicken is way cheaper there [in Kazakhstan] than in Kyrgyzstan. Kyrgyzstan does not have the potential to produce chicken meat in larger numbers. Anyway, I am sure that our chicken farmers will go bankrupt soon.'
(The ways in which this prediction relates to matters of national subsidises, farm sizes and other aspects will be further discussed in the section 'Agriculture'.)

In our conversation, this observation led Talant to point to some of the challenges which his entrepreneurial spirit still encounters in present-day Kyrgyzstan. In his view, the most severe

barriers for business-actors like him are caused by shortcomings of the Kyrgyzstani state. One example Talant mentions is how the authorities reacted to cases of contraband across the Kazakh-Kyrgyz border: ‘Now a new procedure has been created: you have to bring a paper which says that your firm is officially registered, and which then gives you permission to transfer your goods from Kazakhstan to Kyrgyzstan.’ In Talant’s opinion, this unnecessarily burdens entrepreneurs, simply because the prevention of contraband would be an original responsibility of state authorities. ‘In fact’, Talant continues, ‘such requirement for extensive paperwork might even contradict EAEU agreements, no? Because the EAEU urges trade within the zone to occur without any obstacles, as I understand.’

A similar perspective was shared by many of the entrepreneurs and other experts included in this study. As will be discussed later on in more detail, there was wide-ranging agreement that the Kyrgyzstani state should become a more proactive player in this changing economic environment. Talant was an interlocutor who framed this in a very catchy metaphor. Taking the example of laboratories that serve to check the compliance of certain goods with EAEU’s sanitary and phytosanitary regulations, he gave the following explanation for why these would not exist in Kyrgyzstan as of now: ‘Our government claims that they are waiting for money from Kazakhstan and Russia to build these laboratories. But the question is who needs these laboratories, Kyrgyzstan or they?...Kazakhstan has its own government laboratories. See, everybody is helping us. We are like a baby that does not want to walk. We are a baby that wants to crawl longer. Otherwise, who is preventing us? We could just go ahead and do it. It is simple in the end: we cannot understand the government and the government does not understand us...’

Résumé: Trends and Adjustments in the Trade Sector

All of the case studies presented here illustrate ways in which local actors adjust to the fact that the simple re-export scheme of channelling China-made goods via Kyrgyzstani bazaars to larger regional markets has been fading out. Current estimates indicate that in recent years, the value of goods moving from Kyrgyzstan to other EAEU member states has continued to decrease: by 12% in 2015 (as compared to 2014) and by another 8% in 2016. Furthermore, it is noteworthy that during the same period also the EAEU’s role as a destination for Kyrgyzstani exports declined

(from 37% to 33%), while exports to major non-EAEU countries, such as China and Turkey, have increased (Khasanova 2017).¹⁰

In consequence, some of those who previously earned their livelihood from the Dordoi or another local bazaar decided to move away from trade entirely. Almaz, for example, returned to the service sector and drives a taxi, as he had done during the early 1990s transition years.

Others remained active in trade, but began exploring new avenues. In particular, the import of supplies for vital segments of Kyrgyzstan's economy appears to have evolved as one attractive opportunity. Talant sees a future in the customs-free trade with building materials from fellow-EAEU member Kazakhstan. One of his main foci at present is to serve the market for interior renovation supplies, which has emerged as a lucrative niche especially since Bishkek's latest construction boom (see Nasritdinov undated). In contrast, Ulan provides the booming apparel-industry with various sewing accessories, some of which are imported ready-made, whereas others are processed further locally with equipment purchased from China. The latter reflects a rationale to move up into a more profitable position along the value chain by investing in manufacturing equipment. This is a trend in Kyrgyzstani economy that has been promoted alongside the entry into the EAEU, and will be discussed in more detail in the next section ('Manufacturing').

The empirical data of this section highlighted as well that trade in Kyrgyzstan has been influenced by multiple other developments than the country's recent EAEU-membership. Since it came into force in 2015, the EAEU has indeed established a strong focus on policies, which practitioners in Kyrgyzstan feel most strongly through new regulations being introduced. But many of our interlocutors also argued for the undeniable impact of non-policy factors, some of which clearly predated the inauguration of the EAEU, or even the Customs Union that had preceded it from 2011. Among these factors were political (in)stability (e.g. Kyrgyzstan's 'revolutions'), low energy prices and currency volatilities, changing institutional arrangements (e.g. business associations), or external economic developments (e.g. rising labour costs in China).

The trend towards formalisation, institutionalisation and professionalisation within Kyrgyzstan's business environment will be further discussed in the 'Conclusions'.

¹⁰ See: <https://comtrade.un.org/data/> (last accessed 01 June 2017)

As a small nation among bigger neighbours, Kyrgyzstan's economic climate has always quite strongly been determined by outside developments. Historically, such dependencies have extended from the 70-year-long Soviet period into the 2000s-era of trading with Chinese goods, and nowadays they continue with the institutionalisation of the EAEU.

As part of this alliance for regional integration, Kyrgyzstan necessarily shares the strengths and weaknesses of all other member states. In that way, 'unfavourable' developments for Russia's national economy, such as the mutual sanctions with 'the West' due to the Crimea annexation or globally low energy prices, have reduced the former hegemon's capabilities to keep earlier promises of infrastructure investment in Kyrgyzstan (e.g. in the hydropower sector¹¹). Similarly, between 2013 and 2016, the export of goods from Kyrgyzstan to Kazakhstan declined by at least 40%.¹² One very significant reason for this was the devaluation of the Kazakhstani Tenge by more than 30%, just in the moment when Kyrgyzstan formally entered the EAEU in 2015.¹³

Beyond the currency-related increase in prices for Kyrgyzstani goods on the markets of Kazakhstan, the intra-EAEU trade practice has more generally been characterised by significant 'non-tariff barriers to trade' (NTB). As measures to protect the domestic market, such NTBs may include sanitary regulations, licences, quotas or bans, but also national subsidies or restrictions on (foreign) marketing. Estimates claim that in total such NTBs could still account for as much as 15-30% of all export goods traded among EAEU countries (Vinokurov et al., 2015:60).

One such recent NTB-instance was Kazakhstan's delay in suspending their phytosanitary controls for Kyrgyzstani products until October 2016, or more than one year after Kyrgyzstan should have formally been granted access as a consequence of its EAEU-accession (Khasanova 2017).¹⁴ (We will continue to discuss the particular importance that NTBs have had for agriculture in Kyrgyzstan in a later section.)

¹¹ <https://www.rferl.org/a/qishloq-ovozi-kyrgyzstan-energy-dreams/27499926.html> (last accessed 01 June 2017)

¹² <https://comtrade.un.org/data/> (last accessed 01 June 2017)

¹³ This again was a reaction to the previous Rouble devaluation, which had put pressure on the prices for local, Kazakhstani goods as compared to those originating from Russia. See: <https://www.bloomberg.com/news/articles/2016-08-18/one-year-on-kazakh-devaluation-brings-ostriches-to-the-steppe> (last accessed 01 June 2017)

¹⁴ See: <https://comtrade.un.org/data/> (last accessed 01 June 2017)

Manufacturing

During the Soviet era, the industrial sector of the Kyrgyz Soviet Socialist Republic (SSR) employed more than 30% of the labour force and generated 30% of the GDP (Abazov 1999: 197-198). However, the country's industry was never based on locally available raw materials and also depended on the external demand from other Soviet republics. Once the manufacturing and technological chains of the all-Union industrial complex had been fragmented after 1991, de-industrialisation became an inevitable consequence during the transition period. Employment in the industrial sector fell below 19%, and the output declined by 75% when comparing the levels of 1990 and 2009 (Mogilevskii and Omorova 2011: 5).

Part of the industrial sector's recovery during the last years can be attributed to the operations of the *Kumtor* gold mine, which accounts for 8% of Kyrgyzstan's GDP and a 23.4% share of the industrial output.¹⁵ Beyond that, Kyrgyzstan's apparel sector is structurally important, employing more than 150,000 citizens and contributing up to 15% of the GDP. The export value of Kyrgyzstan's sewing segment is estimated to have increased ten-fold between 2003 and 2012, from \$15 million to \$155 million, and accounts for up to 80% of Kyrgyzstan's light industry production (Jenish 2014: 4-5). One main question for our study thus became which adjustments Kyrgyzstan's EAEU-membership triggered among those local entrepreneurs involved in the sewing-business, but also which alternative trends in manufacturing can be observed more generally?

Moving-Up the Value Chain in the Sewing Industry

Zamira is a young female entrepreneur active in Kyrgyzstan's bustling sewing industry. As we had already encountered her during a previous research in 2013, in the course of time we could develop an in-depth understanding of her professional career. Generally, Zamira's business is influenced by recent trends in both the sectors of manufacturing and trade. In-between these, she managed to continuously move up the value chain.

At the beginning, Zamira rented one half of a container on Bishkek's Dordoi bazaar. There she sold female clothes, blouses and office suits, whose design she adapted from internet templates or from browsing through fashion magazines. Once an idea had emerged, Zamira went to another Bishkek

¹⁵ See: <http://www.kumtor.kg/en/> (accessed 12 June 2017)

bazaar to purchase the necessary fabric, which is imported from China predominantly by Uighur traders. She then delivered the fabric to another businesswoman, who ran a sewing workshop with about 15 machines out of an old Soviet industrial building. Depending on the size of her order, Zamira could pick up the ready batch of clothes already some days later. In 2013, the production costs for one of her female blazers amounted to 320 Som [\$6.6]. Of these, 115 Som [\$2.3] went to the owner of the sewing workshop covering salaries and her other expenses, and 215 Som [\$4.4] were the costs of the fabric. Zamira could sell such jacket for 430 Som [\$8.9] in Dordoi. In Zamira's experience, 'on a single good day this could give me a clean profit of more than \$250'.

Four years later, Zamira still offers similar fashion for females, for which she still buys the China-imported fabric at the other Bishkek bazaar. In the meantime, her customer base has expanded significantly, but Zamira's main clients also still originate from other parts of Kyrgyzstan, Uzbekistan, Tajikistan, Kazakhstan and Russia. The most notable change in Zamira's enterprise concerns the manufacturing part. Zamira now runs her own sewing workshop with about 20 sewing machines and a permanent staff of 15 seamstresses. 'During high times', she explains, 'I can switch to working in shifts and then employ up to 40 girls.' Depending on the 'degree of difficulty' and time needed for sewing a single piece of clothing, one of her employees can earn between 10.-20.000 Som [\$147-294] during 10 working days. Zamira says that this is considered a good salary, but exceptionally qualified seamstresses could as well earn 40.000 Som [\$588] in the same period. She elaborates further that because elsewhere better salaries are offered, 'I sometimes have trouble getting good workers during the hot season of our business, meaning when after spring we begin producing clothes for the sales after summer. Then the demand for girls is really high in Bishkek.'

Based on her limited ability to secure the best human resources when it matters most, Zamira still considers herself to be an 'entrepreneur in the middle, and certainly I can improve something' (see also Jenish 2014: 6). One of her future plans concerns the manufacturing site. Zamira has already invested in equipment, which aside from the sewing machines also includes, for example, a machine to add rhinestone designs to her clothes. But currently Zamira is still operating out of a basement in an apartment block, which is located a 10-minute drive from the Dordoi bazaar. And although she does not consider her monthly rent of 30.000 Som [\$440] to be exceptionally high, Zamira's aspiration is to 'purchase my own piece of land and build my own workshop on it'. In such own building, Zamira could not only save to pay rent and thereby further decrease her production costs. Furthermore, she could improve on-site working conditions, for example by providing food from an own cafeteria, and create additional income for herself, such as by renting out rooms to accommodate her employees.

As regards the trading aspect in her business, Zamira states that Kyrgyzstan's accession to the EAEU has not affected her business negatively. She reports to even have kept all her permanent clients from non-EAEU states, such as Tajikistan or Uzbekistan. Zamira purchases the fabric imported from China at a slightly higher price than before from her Uighur partners. But beyond new customs regulations, this change is also related to the recent increase of the Dollar, as the primary means of doing her business, against other regional currencies. 'And even more', reflects Zamira, 'it made a difference that my workers are demanding more: 5 years ago, girls used to make one piece for 45 Som, now it costs 75 Som [which between mid-2012 and mid-2017 is a rise from \$1.0 to \$1.1].

Balancing these various increases in production costs against lower expenses for exporting to EAEU-member states, Zamira needed to add no more than 50 Som [\$0.7] per piece, on average, to her previous selling price. In Zamira's case, such moderate adjustment became possible because she continuously explored ways to lower other expenses, especially by opening her own sewing workshop. Zamira's gradual move up the value chain in this line of manufacturing is also related to the ever larger turnover rates she has been achieving: her sold units increased from 7.000 in 2014 to 18.000 in 2015.

Zamira also points to the risks that sometimes are involved in her line of business, such as when she sent her husband to China in 2016 in order to purchase ready-made school uniforms: 'But they were somehow not adequate for our Kyrgyz market, the sizes were wrong. We could not sell these uniforms at all, and so we completely lost the \$30.000 loan that I specifically had taken out for this...But this happens, it is a lesson. And I have earned back that loan already since then with my clothes.' Continuing on this happy-end, Zamira rejects the popular claim that 'Dordoi is dying!'. At least for her chosen field, the sewing sector, she has not noticed that 'anything would be slowing down'.

A New Line of Business: The Paper Factory

In some ways, Igor took more of a risk when opening his new business than Zamira or other Kyrgyzstani entrepreneurs presented in this study. First, Igor left behind a successful career as a lawyer, in which he had been earning a good fortune and prestige. Furthermore, with his current enterprise Igor has been operating in rather uncharted territory. He does not engage in a segment

of Kyrgyzstan's economy that already has proven to be prosperous for many, such as the sewing industry. Instead, Igor decided to 'give manufacturing a chance' and began dedicating his full-time attention to producing paper products.

In fact, Igor's paper factory has already existed since 2009. Back then it emerged as a common idea among a circle of friends. 'But until 2016', Igor explains, 'this was not a serious business, because the company only offered 5 different products.' At that point, Igor felt that something new needed to happen, in his professional life and with this rudimentary company. He sold most of his private property, bought out his friends' shares in the company and began investing money on a bigger scale: 'I risked it, and I am still risking. It is too early to say that everything is good.'

But certainly, the factory's recent progress becomes apparent during our tour of the premises and the following conversation with Igor. The number of employees has grown from about 15 in 2014 to currently 50, including office and sales personnel, factory workers and delivery drivers. The major investments were in equipment to cut, colour and sort the raw paper material. Igor purchased these used machines mostly in Turkey, and claims to have imported these without paying 'any customs fees, because they are intended for local use in Kyrgyzstan'. Currently, this enables Igor to offer 80 different paper products. His assortment includes tissues, paper towels or toilet paper, each available in 'economy' or 'premium' quality.

In order to finance the manufacturing equipment, Igor also applied for a loan offered by the 'Russian-Kyrgyz Development Fund' (RKDF). The RKDF originated in an intergovernmental agreement between Russia and Kyrgyzstan in 2014. It is equipped with a total capital of \$1 billion, of which half was the fund's charter capital (allotted from Russia's federal budget) and the other half was a loan (Tiulegenov 2015: 4).¹⁶ Generally, the RKDF was set up as one of the instruments to facilitate the integration of Kyrgyzstan into the EAEU, i.e. to support the adjustment to Union-wide norms in different sectors, but also to stimulate the emergence of new business ventures, such as in manufacturing or agriculture. In that way, the RKDF was intended to compensate for economic losses that would be associated with Kyrgyzstan's EAEU membership, in particular those suffered from the decrease in the re-export trade of Chinese consumer goods (see section 'Trade'). Igor reflects that he first heard about RKDF's existence coincidentally. When he learned that paper production would be an eligible segment for funding, he approached one of RKDF's partner banks. Igor depicts the application procedures as not overly difficult, but mentions that his background in

¹⁶ <https://themoscowtimes.com/articles/russian-government-approves-giving-1-billion-to-kyrgyz-development-fund-45230> (last accessed 02 June 2017)

law of course was an asset while preparing the necessary documents. After only one month he could already access a loan in Kyrgyzstani Som at 12% annually, which is significantly below the regular interest rate of 20-24%. Igor would have been offered an even lower annual interest rate of 4-5%, if he had taken a loan in Dollars.

Aside from equipment, Igor highlights the need to invest properly into market research and a professional advertisement campaign for his products. He remarks that this would still be a weak spot among many Kyrgyzstani entrepreneurs: 'Last year we [his company] spent 4 million Som [approx. \$58.000] for our marketing. Some people say that I am crazy to spend so much money for this. But I see the benefit.' In order to appeal to patriotic sentiments, Igor hired a marketing agency to develop 'Kyrgyz designs', which are based on traditional ornaments or depict a 'typical local family'. Furthermore, his employees regularly attend various trade fairs or exhibitions to promote their products face-to-face. Igor reflects on the challenge to initiate a change in perception towards locally produced goods: 'The quality of our products is not worse than that of imported ones. We can produce good quality paper, but our practice has shown that local people do still not believe this.'

Igor thus accentuates the role of well-qualified sales representatives, who keep in touch with the management of local supermarkets, hotels or restaurants and are knowledgeable about the needs of such corporate clients. 'Our customers choose us', Igor explains further, 'because we do not only offer a product, but a service as well... They cannot only buy toilet paper or napkins from us, but also garbage bags, toothpaste or Q-tips.' Supplying his customers with these latter accessories that Igor's factory does not produce itself, has proven convenient to the clients: 'As they have to work with one company only, ours, and not call 10 different companies and order each product separately.'

When speaking about the day-to-day challenges in his line of business, Igor is quite confident that he can compete not only with any national but also with international companies in regards to price, quality and the variety of products. Inside Kyrgyzstan, the company recently opened a fully-functioning branch in Osh, Kyrgyzstan's second largest city in the southern part of the country, which apparently has shown good results. Furthermore, Igor's paper products can be found in Tajikistan, Kazakhstan and 'sometimes even in Russia', an achievement for which the company was among the recipients of a 'national award' in the competition 'best exporter of Kyrgyzstan'.

At this time, Igor sees his main competition in Russian manufacturers: 'With them, we cannot compare ourselves, of course. They have better equipment and less employees, therefore their net

costs are less than mine.’ In addition, Igor has to constantly locate and manage sources from where he can receive the raw material paper. With Kyrgyzstan lacking adequate natural resources, Igor currently is in touch with more than 30 factories abroad, some in Uzbekistan but most in Russia. ‘Especially when the [Russian] Rouble is low’, he elaborates, ‘it is worth bringing the raw material in from Russia.’ But Igor remarks as well that he has to be careful about his approach to purchasing raw material: ‘Whenever we buy raw materials from Russia, they monitor our market through us. For example, if we bought 100 tons from them now, the next year they would reject us and instead a similar ready-made product from Russia would appear here [on the Kyrgyz market].’ In order not to raise such attention, Igor now orders only smaller amounts of raw material but from multiple sources. This also matches with the policies of his partner firms, which would not risk selling him raw material beyond a certain threshold, ‘so we do not hit them with our product.’

In regards to the EAEU, Igor reflects about the balance between opportunities and competitive disadvantages for a Kyrgyzstani entrepreneur within such larger and more integrated market. He refers to Kyrgyzstan’s earlier reliance on the re-export trade with Chinese consumer goods to explain that such ‘open access market’, without serious barriers or import tariffs, was suitable for the country during that period. ‘So far, Kyrgyzstan has been only selling and buying. But now it is slowly producing something.’ Therefore, for local manufacturers like Igor the question of ‘protection’ has gained central importance. This entails the expectation that Kyrgyzstani producers would be protected by their government from ‘non-national products’, as is common practice in neighbouring countries. Having various NTBs in mind, such as bans, quotas or national subsidies (see section ‘Trade’), Igor summarises that ‘it is still normal practice [within the EAEU] to implement some conditions for imported goods. Kazakhstan, for example, does that for almost all products from Kyrgyzstan.’ The other area of improvement that Igor has in mind concerns the legal protection of investment, both local and foreign. ‘Kyrgyzstan is an interesting country for many’, he explains, ‘because the costs for labour, electricity and water - all basic things for production - are cheap. But so far there is not enough access to impartial justice, which we need in order to attract bigger investors.’

Any concerns about competitors or government support aside, Igor communicated to us a particular entrepreneurial joy he would feel when witnessing his creation being appreciated by fellow citizens. A vast majority of our interlocutors in the segment of manufacturing shared such positive emotion, but Igor expressed this very vividly: ‘I used to work as a successful lawyer. But the joy to see your own product on the shelves of a supermarket is something different. Our products are fully made in Kyrgyzstan. I am proud, and I proudly say that this is our product. When I enter the supermarket

and I see people buying our products, it makes me happy. When I tell them that this is made here, nobody believes me. It gives me pleasure that people think it is not possible that such a product is made in Kyrgyzstan.’

Next Level Manufacturing: Fabric ‘Made in Kyrgyzstan’

The RKDF (Russian-Kyrgyz Development Fund) does not only support emerging small- and medium enterprises in Kyrgyzstan, such as the paper factory presented just now. On the funds’ agenda are also larger-scale enterprises with an even stronger international profile. The company ‘Tekstil Trans’ is certainly one of the prime examples for such new approaches in financing and developing the Kyrgyzstani industrial sector.

‘Tekstil Trans’ is located in the city of Tokmok, about one hour east of the capital Bishkek. It claims to be the first industrial-size production site in independent Kyrgyzstan that does not reside in a restored Soviet-era structure, but was newly built from scratch. Already one year after the start of construction in March 2016, the factory was ready operate. ‘Tekstil Trans’ is the country’s pioneering venture to process cotton yarns into various kinds of fabric for further use in the local sewing industry. Before the opening of ‘Tekstil Trans’, cotton fabric needed to be imported ready-made to Kyrgyzstan, mostly from Uzbekistan, Turkey or China. Now, the only raw materials that ‘Tekstil Trans’ depends on from abroad are cotton yarns from neighbouring Uzbekistan or Tajikistan, as well as the colours to stain these yarns, which are brought in from Turkey.

At the time of our visit in April 2017, the factory employed 110 people. They work in laboratories on-site, handle machines on the factory floor, work in the administration or the factory’s cafeteria. We were also shown an empty factory hall where until summer 2017 a sewing shop will be established for 250 more employees, most of them local women from Tokmok. ‘Currently’, explains the manager, ‘they are still trained in Bishkek. For those of our workers who have no living arrangement in Tokmok, we will provide our own dormitory with 100 spots for free.’ Unlike in most of the informal local sewing business, the workers of ‘Tekstil Trans’ are equipped with regular working contracts and are organised as members of their respective labour union. In their own sewing department, ‘Tekstil Trans’ will produce baby-clothes and T-Shirts for males.

Asked about the financing of ‘Tekstil Trans’, the manager explains that this was only possible for two reasons: first, the previous professional experience and success in a similar line of business of

the company's current owner, who has been involved in the production of socks and other sewing products for export to Russia and Kazakhstan since 2008; and second, the establishment of the RKDF, which could offer favourable conditions for a business loan of such magnitude that previously was 'unimaginable in Kyrgyzstan'. On top of the \$2 million in own equity that the owner of 'Tekstil Trans' contributed himself, the company was able to attract a \$7.5 million loan from the RKDF, at 4% annual interest rate. Within the overall repayment schedule of 7 years, 'Tekstil Trans' was granted a 'break from repayments' during the first 12 months of operation.

Aside from the expenses of 'Tekstil Trans' related to their corporate building or personnel, a considerable part of their investments was utilised to purchase equipment. Some of the larger machines of 'Tekstil Trans' were purchased in Germany, but mostly they come from Turkey. The sewing machines for the new sewing shop were imported from Taiwan. Furthermore, the cooperation with the Turkish partners of 'Tekstil Trans' includes a transfer of knowledge. 'Tekstil Trans' hired several Turkish engineers for two years, during which they are expected to educate the company's Kyrgyzstani staff on how to operate and repair crucial equipment.

Reflecting on their market positioning, the manager of 'Tekstil Trans' confidently remarks: 'Our conditions are not really different from those in Europe or elsewhere. In such circumstances, we can also achieve Western standards in quality and output.' In regards to the textile industry's value chain in Kyrgyzstan, 'Tekstil Trans' has closed a significant gap. Based on their cotton fabric, other local entrepreneurs can manufacture textiles that were previously imported ready-made, such as T-shirts or children's clothes. In addition, local sewing businesses gained in flexibility, because 'Tekstil Trans' can be commissioned to create fabric designs that appeal to the distinct demands of local or foreign markets.

Indeed, the potential of 'Tekstil Trans' seems both diversified and far-reaching. One of its most promising markets is Russia, where already certain supermarket chains are among their clients. In our conversation, the manager addresses the competition of 'Tekstil Trans' in Russia quite self-confidently: 'Of course there also big sewing ventures in Russia. But Russia is big and we have already found a quite good niche for ourselves.' Beyond the post-Soviet region, a German retailer has recently closed a contract with 'Tekstil Trans'. 'This alone', the manager elaborates, 'will consume about 20-30% of our production capacity. And we are proud to have reached the centre of Europe, with something made in Kyrgyzstan.'

'But our own national market is very important to us', continues the manager. 'There are about 5000 textile enterprises in Kyrgyzstan. They buy fabrics from China or Uzbekistan, but these are of

lower quality than ours. We tested it.’ As long as the company depends on the import of cotton yarns and colouring from abroad, however, the ability of ‘Tekstil Trans’ to also offer lower prices than these competitors remains limited. For now, ‘Tekstil Trans’ thus aims to convince local entrepreneurs with arguments on their product’s higher quality, on proximity and a dose of patriotism. To that end, ‘Tekstil Trans’ began an advertisement campaign for the factory and its products. Their website is up and running, and until summer 2017 they will have billboards in Bishkek and a video-clip in Kyrgyz, Russian and English.

To meet its future challenges, ‘Tekstil Trans’ would hope for more flexible support from the Kyrgyzstani government. Unlike with the paper factory discussed before, in the case of ‘Tekstil Trans’ this does not concern the question of protecting investments, but rather tax incentives and other measures enabling cost reductions. One example is that ‘Tekstil Trans’ currently still sends cotton fabric from Tokmok to its partner company ‘Salkyn’, which belongs to the same owner and sews baby-clothes in Bishkek’s ‘Special Economic Zone’ (SEZ). ‘Now’, remarks the ‘Tekstil Trans’ manager, ‘Salkyn has to pay export customs, because the fabric is not imported from Uzbekistan anymore but produced here in Kyrgyzstan. The SEZ does not support such local manufacturing, but only is geared at international import-export.’ For ‘Tekstil Trans’ and its sister organisation, this situation will improve only once their on-site sewing department has opened. On the one hand, the manager of ‘Tekstil Trans’ understands that certain expenses might be determined by international agreements and thus are non-negotiable with local government representatives. Aside from the legal embedding of Bishkek’s SEZ, this concerns the customs fees that ‘Tekstil Trans’ has been charged with when importing its cotton colouring from Turkey since Kyrgyzstan became a member-state to the EAEU. On the other hand, the manager remarks: ‘We are a big employer and we made significant investments into our national economy. But still, for example, we pay the full value added tax and other taxes, right since the first day of our operation. At least in this regard, it would be good if the government helped us.’

Résumé: Trends and Adjustments in the Manufacturing Sector

Zamira and ‘Tekstil Trans’ were chosen to illustrate different segments of Kyrgyzstan’s textile business. In that regard, Zamira belongs to a majority of those active in the local sewing sector, for which it is estimated that ‘80% of the garment are produced by individual entrepreneurs who

work under patents, and do not report to the National Statistical Committee.¹⁷ Such estimate gives an insight to which degree this vital part for Kyrgyzstan's export economy has been operating informally and flexibly, and thus can also hardly be grasped by official numbers. The case of Zamira revealed how an individual career can evolve over time with comparatively small investments in equipment and a manufacturing site. Such gradual advance is also evident in Zamira's most recent project: to produce an acceptable 'copy' of a women's blouse, of which the Turkish original sells for 5000 Som [\$73] in Bishkek, whereas she aspires to offer her blouse for 950 Som [\$14], at a production cost of 750 [\$11].

Zamira's case is complemented by 'Tekstil Trans', which represents a unique example of a grand-scale corporate venture founded on a local- and foreign-financed investment in infrastructure and equipment. And while Zamira tries to gradually move up the value chain according to her individual possibilities, 'Tekstil Trans' could be seen as a rather structural attempt to remove the import-dependency on cotton fabric for the whole of Kyrgyzstan's apparel sector. Together with the enterprise of Ulan, who addresses the local demand for various sewing supplies by importing them from China, our depiction of the Kyrgyzstani production cycle in textiles is complete: Ulan and his company could provide a smaller entrepreneur such as Zamira with threads and other accessories, while 'Tekstil Trans' could do so in regards to cotton fabric.

Igor's paper factory illustrates a pioneering foray into a new segment of light-industry manufacturing in Kyrgyzstan. It demanded costly efforts in marketing for Igor and his team to convince their potential local customers, most of whom still find it hard to believe that such 'industrial products' can originate in their home country at a comparable quality and competitive price. In that way, Igor's experiences emphasise the need for developing an advanced understanding of customer relations, market research and advertisement. Igor still senses hesitation among many of his fellow Kyrgyzstani entrepreneurs to perceive designers, public relation specialists or consultants as a worthwhile return on investment. In the textile sector, however, the development of an encompassing brand 'made in the Kyrgyz Republic' has shown good success and attracted international attention.¹⁸

¹⁷ <https://www.timesca.com/index.php/news/14692-kyrgyzstan-garment-industry-can-be-a-monopoly-in-the-customs-union> (last accessed 04 June 2017). For further information on the 'patent'-system, see Jenish 2014: 8.

¹⁸ See for example <http://www.bizexpert.kg/2017/03/22/novosibirsk-zhdet-kyrgyzskih-predprimatelej> (last accessed 04 June 2017)

Furthermore, it became evident that there is a clear ceiling for Igor's paper business. His ability to complete the production cycle is constrained by the fact that Kyrgyzstan lacks the natural resources to supply the raw material for processing paper products. Whereas Igor will thus continuously depend on foreign imports, among the managers of 'Tekstil Trans' even bigger plans have already evolved. Their intention is to set up a factory in southern Kyrgyzstan that would produce yarn from local cotton. According to their inquiries on the ground, the available volume and quality would satisfy their demand, and also the local cotton farmers apparently have signalled their interest in a cooperation. There might indeed be good potential in such future scenario, with estimates that 70% of the raw materials, including fabrics, for the Kyrgyzstani sewing industry are still imported from abroad, and that textiles 'made in the Kyrgyz Republic' currently occupy no more than 6% of the Russian market.¹⁹

All entrepreneurs we had conversations with expressed a particular joy in 'producing something' and showed pride that finally, following on the simple re-export scheme with Chinese-made goods, 'national manufacturing' has become possible in Kyrgyzstan. But whereas Zamira exemplifies a rather informal, localised and smaller-scale businesswoman, this cannot be said of Igor's paper factory or 'Tekstil Trans'. The latter two self-organise the import of raw materials for their processing and the later export according to various international standards. Their manufacturing is based on high-value equipment and as national leaders in their industries they seek to distance themselves from copycats of their business models or their international competitors. We could trace how from such position emerge specific expectations towards the Kyrgyzstani government to create a more favourable business climate: protect (foreign and national) investments, provide tax incentives or other opportunities to reduce production costs, and establish measures for a better balancing between import protection and export subsidy. In particular the latter point will be further discussed in the next section on 'Agriculture'.

For Igor and 'Tekstil Trans', the instalment of the RKDF has crucially supported their business development. Despite the fact that criticism has been voiced on RKDF's allocation practice²⁰ and legal status²¹, also other entrepreneurs we interviewed for this study reflected the positive impact of this institution on Kyrgyzstan's business landscape. Although for the time being it is

¹⁹ <https://www.timesca.com/index.php/news/14692-kyrgyzstan-garment-industry-can-be-a-monopoly-in-the-customs-union> (last accessed 04 June 2017).

²⁰ See: <https://24.kg/english/47362-Russian-Kyrgyz-Development-Fund-turns-into-elite-business-fund/> (last accessed 04 June 2017)

²¹ See: <https://24.kg/english/48732-Entrepreneurs-can-not-sue-Russian-Kyrgyz-Development-Fund/> (last accessed 04 June 2017)

impossible to predict whether 'Tekstil Trans' or Igor's paper factory can sustain their success long-term, it has at least become evident in which way the RKDF is perceived as an attractive instrument to finance entrepreneurial spirits in Kyrgyzstan. In particular a major endeavour such as that of 'Tekstil Trans', we were assured by its manager, could literally not have been realised under loan conditions worse than those offered by RKDF. At the same time, it needs to be noted that successful applications to an institution such as the RKDF demand advanced competencies in preparing a convincing business-plan and the proper handling of the paperwork. And whereas this might not present a significant barrier for highly educated professionals, it could prove considerably more difficult for businessmen whose previous operations were rather characterised by informal flexibility and impromptu agreements.

Agriculture

Kyrgyzstan's agricultural sector is characterised by the fact that it provides employment for a quite large share of the labour force, above 30%, and also contributes significantly to the GDP, about 20%. In recent years, agriculture in Kyrgyzstan has demonstrated a capacity for growth, but also a vulnerability to internal and external shocks: between 1998 and 2007, the 'Agricultural GDP' first increased by 34%, but then fell again by 19% until 2012 (Broka et al. 2016: 6). Given the sector's relevance in Kyrgyzstan, especially the contribution of agricultural income for poverty reduction in rural areas, expectations were high that with EAEU membership new export markets would become accessible. However, these hopes were soon disappointed by the significant role that NTBs still play within the EAEU, with estimates that these could account for 15-30% of the total trade export value among member-states (Vinokurov et al., 2015:60). In the field of agricultural products, NTB-related costs that affect prices and competition include sanitary and phytosanitary measures, technical barriers or subsidies for the own national market. It was thus among the relevant questions for our research how such new regulatory schemes would affect those Kyrgyzstani entrepreneurs who are active in the agricultural sector.

The Challenges of Chicken Farming and Greenhouses

Cholpon is a multidimensional entrepreneur. She owns a supermarket in the city of Osh in southern Kyrgyzstan, but also runs a small chicken farm and some greenhouses in a site some 50 kilometres away. And Cholpon knows how to efficiently integrate these various endeavours.

As many other Kyrgyzstani entrepreneurs we encountered, Cholpon initially had no prior educational background in any business-related subject. 'In fact', she mentions during our conversation, 'I do not even have any higher education degree. When I was still sitting at home with my kids [being a housewife], this was 2000, there was a massive focus on computerisation. I went and signed up for a course on an accounting software, without even telling my husband...I was just interested and did not want to be behind [in terms of embracing 'modernity'].'

Nowadays, Cholpon has more than 60 employees, about 35 in her supermarket and 25 for the chicken farm and for the greenhouses. Within her family, responsibilities are shared in the way that Cholpon cares for the supermarket, while her husband and son attend to the chicken farm and greenhouses. Cholpon's supermarket is unique in Osh not so much for its size or the everyday products it offers, but for the fact that it features an own bakery and confectionary. This idea

originated from the 'development project' of a Dutch organisation in which Cholpon participated. She elaborates: 'As part of this, a Dutch baker came to Osh for some days to teach us...And later I even went for a return visit to see how this industry works in the Netherlands.' Generally, Cholpon is satisfied with what the bakery adds to the supermarket, and also she states that the 'local population' has acquired a taste for her 'Dutch bread'.

Among her challenges in this particular segment are not the access to good-quality ingredients, equipment or even human resources. Cholpon tells that before the Dutch baker arrived, she went over to Osh's culinary school and asked the director to provide her with his best students. Cholpon and the Dutch baker were quite content with the four students they received, of which one even proved to be an exceptional talent. But taking his example, Cholpon stresses that a major obstacle in her line of business is the fluctuation of work-force: 'Eventually, all of these students who learned from the Dutch baker ran away afterwards to work elsewhere.' Some apparently left to Russia for labour migration. But this most talented student, in Cholpon's words, '...ran away to Bishkek. His sister even called me and said that he can make more money there than in Osh.'

Cholpon links the chicken farm to her supermarket by using the eggs for the bakery and selling the meat at special prices. She states that currently they would keep 30.000 chicken in their farm. However, this number is down from 50.000, which Cholpon depicts as a negative effect of Kyrgyzstan's accession to the EAEU: 'After we entered the EAEU we encountered problems. Eggs were brought from Russia and their price was cheaper than ours...I presume that they are old and expired. It is impossible otherwise, because these eggs are expensive in Russia and appear cheap here. But the transport must cost money, too...We know this, because we produce. But local people do not know, and our people buy whatever is cheap. This is the mentality. People do not think about the consequences.'

In this situation, Cholpon did not to upgrade the farm from 'half-automated' to 'fully-automated', as part of which food, water and the collection of eggs would have been handled by machinery. She decided instead to slaughter 10.000 of her chicken at once and to freeze their meat, because the maintenance costs were running too high as long as she had difficulties selling the eggs. Cholpon furthermore explains the dependency on imported food supplements. For example, the vitamins used in the chicken farm and the greenhouses originate from Germany. 'We buy vitamins from an agro-pharmacy now,' Cholpon tells us. 'Before we simply used to buy them on the bazaars...Now we sometimes also order it via the Internet from Russia or Kazakhstan. For example, these German

vitamins are brought to Moscow first and then sent to us. We therefore need to pay for the product itself and the cargo here.’

Cholpon presents this new development as part of a formalisation, which was initiated by the EAEU-accession and has since worked to the disadvantage of local agricultural entrepreneurs. In fact, she portrays these changes as creating more confusion than the previous informal practices based on personal trust through reputation: ‘To the opposite, now we have some kind of disorder. Before there was stability. Now I would not open a new business anymore, because I do not know what will happen further. All the goods come to us from Russia, but from us there is nothing [in the local market or exported]. My wholesale customers know me and trust the quality of our product. They know this even without the proofs from any laboratory.’ Related to this, Cholpon reports with a smile that recently some officials from the state sanitary department came to her supermarket. They examined whether she would offer fish products from three particular Russian brands, because these were identified to contain bacteria.

For Cholpon, the chicken farm was never associated with any hopes of exporting within the EAEU. This has been different with the greenhouse project, even if so far the cucumbers and tomatoes she grows serve exclusively the local market of Osh. But Cholpon already travelled to Moscow in 2016 in order to participate in an exhibition and advertise her products in a big department store. Cholpon reports that Russian customers showed serious interest in importing her products, because ‘they are organic and we use seeds imported from the Netherlands.’ The main reason why Cholpon eventually could not secure an order in Moscow was that her potential Russian partners demanded a volume that she could not supply at the time. Otherwise, the higher selling price that she demanded as compared to Russian producers was not considered an obstacle, and also Cholpon managed to receive the necessary EAEU-certification while in Moscow. In the meantime, Cholpon has expanded her greenhouse capacities and could offer larger quantities to increase her export potential. But for now she remains sceptical about this opportunity and explains that there would also be wholesale traders in the Kyrgyz market, who buy her products directly from the greenhouse site and then re-sell them within the Osh region or further.

As to the question how the Kyrgyzstani state could support her, Cholpon remarks that she had already raised the issue of providing qualified experts for the agricultural sector: ‘For example, we always hire a veterinary specialist from Kara-Suu [a city close to Osh]. But he is not aware of new medicine. He still has the Soviet education and knows Soviet pharmaceuticals... But now we have new diseases. Sometimes when our chicken are ill, we send samples to Bishkek for further

diagnosis... We used to have agriculture institutes and universities. It could have been possible to educate some students who want to be veterinary specialists and promote this subject. To give them stipends or send them to foreign countries for internships... The same thing is with greenhouses. We need specialists in this field.’

Sugar Beets: Adjusting to a Small-Size Farming Environment

The processing of sugar beets into refined sugar may serve as a good example of post-Soviet de-industrialisation. Marat, manager of a sugar factory with its headquarters in Bishkek, tells us that during the Soviet era there had been a total of 7 sugar factories in Kyrgyzstan. ‘They used to draw on a harvest of 2 million tons of local sugar beet, out of which they made 200.000 tons of sugar. 100-120 tons were used for internal consumption [in Kyrgyzstan] and the rest was exported to other Soviet republics.’ Yet with this all-Union distribution scheme disintegrating during the 1990s, most Kyrgyzstani sugar factories closed down. According to Marat, the industry hit rock bottom in 2008, after which the local market was fully supplied with imported sugar. The 4 factories that still used to work until then, at least partially, now were standing idle as well.

In the case of his factory, a new group of shareholders was formed in 2009, who initiated a process of renewing the equipment, restoring the production sites, and developing new supply chains for raw material. At that time, Marat’s factory began approaching local farmers and offered them attractive prices if they planted sugar beets. But this also set in motion a problematic dynamic, which Marat explains cannot only be observed in their line of business: ‘In our country, we have this experience that if farmers planted one crop too much, then the price goes down. It is the same with tomatoes, onions and potatoes. For example, carrots cost 12 Som [per kilo] this year and everybody starts planting carrots. Then in the next year the price goes down to 4 Som [per kilo].’ From Marat’s viewpoint, the most severe structural challenge in his sector goes back to the far-reaching privatisation process of previously state-owned farmland, which the Kyrgyzstani government opted for as part of their post-Soviet transition strategy. From this emerged a large number of small-scale private farmers whose operations are difficult to regulate and coordinate: ‘We do not have any collective farms anymore. Land was privatised by the people [in the 1990s] and now everybody grows what he wants – full democracy.’

To adjust to this situation, Marat’s factory made a contract with each farmer in autumn on buying a certain amount of sugar beet from him. This gave the farmers planning security and increased their

trust in working with this factory. Gradually, sugar beets cultivation became popular again and a realistic income opportunity for farmers in northern Kyrgyzstan (especially Chuy oblast). Now Marat's factory is working at 100% capacity, with 1.400 people employed, and processes 3.000 tons of sugar beet daily. The factory currently buys from 3.500 local farmers, who deliver their harvest to different collection points in the larger region. In total, 700.000 tons of sugar beet were purchased during the last season. Comparing prices between different countries, Marat highlights to what degree sugar beet farming should be perceived as a lucrative option in Kyrgyzstan:

'Kyrgyzstan buys the most expensive sugar beet among farmers in the whole post-Soviet region. For example, in Belarus they are paid \$28 [per ton] and \$32 in Russia... Now that our production is in demand and people understand that it is profitable, the production price of sugar beet is between \$20-25 per ton. The farmers get \$55 for it from us, so their profit is \$35 per ton.' In addition, farmers have adopted measures to use farmland more efficiently and now harvest 35 tons of sugar beet from 1 hectare, as compared to 20 tons some time before (but in contrast to 50 tons per hectare in Russia).

Marat notices a tendency among local farmers to merge smaller plots: 'Educated and stronger farmers rent the land of others. They say: "Give me your 5 hectares land for rent, I will pay you \$5000"... This is how a kind of big farming has been evolving. How exactly they work with each other is negotiated between them. A farmer can rent the whole land without any involvement of the actual land owner, or the land owner can even work for the person who rents his plot.'

Marat contrasts such 'educated farmers' with those who operate on a shorter time-horizon and without having the larger consequences in mind. In particular, he depicts a behaviour pattern that apparently is common among smaller households: 'If a farmer planted 5 hectares of one crop and the harvest was good, he will try again the second year... Because he had good profit before, he went and bought a nice car, married his son and tries a third year. But during the third year, the soil gets sick and he goes bankrupt. It is not so terrible that he went bankrupt, it is more terrible in case this disease spreads out and infects other fields nearby.' Marat highlights that it would thus be more efficient for them to deal with less and more professional partners. At the same time, he admits that previous attempts to trigger a development towards 'collectivisation' were unsuccessful. He concludes that his company for now would need to accept these rather confusing circumstances and work equally with farmers that own between 5 and 1500 hectares.

In our conversation, Marat mentions several challenges that his company would currently be facing, most of them refer to competitive disadvantages as compared to enterprises located in nearby republics. Among them is the matter of handling logistics between the factory and the collection

points where farmers submit their harvest. Marat remarks that for transporting such heavy loads his company depends on the services of the Kyrgyzstani national railway. ‘But’, he specifies, ‘within the last 10 years, the railway costs have increased by factor 20...Last year we still got a discount of 20%, but this year the EAEU enforces everyone to unify the fees. Therefore, the internal fees might again increase by factor three.’ Marat continues with uneven energy prices and their effect on production costs. He mentions that whereas in Kazakhstan a manufacturer would pay on only \$58 per 1.000 cubic-metres of gas, the same volume would amount to \$378 in Kyrgyzstan. And because 60% of the net price for producing sugar is determined by energy expenses, Marat further elaborates, the eventual net price for a Kazakhstani ton of sugar would be lower by \$100. The only way for the company to adjust to this situation was by purchasing new energy-efficient equipment. Although this investment has not allowed the company to increase the volume of production, energy expenses were reduced by 40%.

To address these disadvantages, Marat’s company has been continuously lobbying Kyrgyzstan’s government to introduce customs fees or other measures to limit the access for Kazakhstani sugar to the local market. Marat mentions a research they conducted among 35.000 farmers in order to convince their authorities with evidence-based arguments. According to him, the survey illustrated that with a modest increase in the consumer price for sugar, equal to 100 Som [\$1.5] per month for a whole household, ‘we could really save our whole industry’. Marat frames this in a rhetorical question: ‘100 Som is two packs of cigarettes in a shop. So what should matter [for the Kyrgyzstani government]? Two packs of cigarettes per month, or the salaries of 28.000 people who work in the fields, 3.400 drivers and 1.400 factory employees?’ Yet so far, the efforts of Marat’s company in that direction were to no avail.

Looking beyond the Kyrgyzstani government, Marat promotes the idea to facilitate a more efficient use of local farmland with the help of international donors or development banks. In particular, he advocates the common financing of a mapping software that would allow better coordination between his company, or other major agricultural enterprises, and the farmers. Mediated through the local self-administration (*ayil okmotu*), each parcel of land could be coded with information about its ownership and previous cultivation patterns before being matched with the current demand in sugar beets or another crop. As part of a coordinated effort within the agricultural sector, such market information system, according to Marat, would also promise to resolve the issue of strong price fluctuations (as mentioned before): ‘This mapping program would help farmers to understand how they could avoid losses. If they see that other farmers already planted enough carrots, then they should not plant carrots. Then they should plant something else, because the price for carrots will go

down. The same is with potatoes and sugar beet. Such data could be used online by farmers and then would allow them to plan better and get a good overview.’

Dried fruit and Else: Exporting to Europe with a Turkish Partner

The enterprise of Ahmet is located close to the city of Jalalabad in southern Kyrgyzstan. His story exemplifies that the Kyrgyzstani agricultural sector can develop significant export potential, in case the right international business partners are in play.

Ahmet has a professional background in farming. ‘In the 1990s I worked with tobacco’, he says. ‘Then, 15 years ago, I started with dried fruit. First, I exported them to Turkey, then to Germany.’ Ahmet elaborates that only last year he began expanding his business in regards to the overall assortment, volume and export destinations. Now his company can offer about 60 different products, which aside from dried fruit include various nuts, jams, pickles and drinks. ‘Within only 7 months’, he reflects, ‘we were able to enter and supply the local market with our products. Since winter [2016] we are exporting to Kazakhstan and Russia as well.’

During our visit, workers were busy with constructing a new building in order to expand the storage and processing capacities. As this new structure will feature cooling equipment, Ahmet plans to also produce tomato paste and juices. He explains further that ‘once this is finished, the number of my employees will grow from 30 to 100.’ During high season, the total amount of people that Ahmet hires for his different production sites increases to 700. He adds that while working for him, these locals of different ethnic belonging (Kyrgyz, Uzbeks, Tatars or Russians) would not have to consider becoming labour migrants to Russia.

Ahmet buys directly from local farmers of the Osh and Jalalabad region. He establishes a contract with them early on and then provides them with seeds, such as for cucumbers or tomatoes, which he imports from Turkey. Ahmet highlights that he has been collaborating with many of these farmers for 20 years or more. Therefore they would know ‘exactly’ what kind of quality he would expect. Ahmet is not worried about the local competition, because next year already he is certain to be able to offer 200 different products, while the majority of small-scale entrepreneurs do not reach beyond 2 or 3.

Yet also, Ahmet remarks that the position of Kyrgyzstani exporters is weak when compared to those from other Central Asian countries: ‘Without state support or subsidies, such as for example provided in Uzbekistan or Kazakhstan, of course our production costs become higher.’ Referring in

particular to Kazakhstan, Ahmet points out that ‘technical regulations’ within the EAEU and the question of obtaining particular certificates would put businessmen like him at a considerable disadvantage: ‘Kazakhstan has the whole package of certificates. But we do not have laboratories for now. People say that they will be opened in autumn. I went to Russia in order to get certificates for my products, but it was too expensive for me.’

In light of this, Ahmet has begun to orientate towards the European market. He does so through his Turkish partners with whom he got acquainted by pure coincidence: ‘10 years ago they came to Kyrgyzstan in order to buy beans. But their Kyrgyz partners cheated them. Then my friend met with them in Bishkek. They said that they would like to do business here and were looking for a partner. So they came to Jalalabad and met me.’ Ahmet characterises these Turkish partners as being involved in ‘big business’, with 19 cooperation firms in Italy, France and Germany to whom they would be able to offer their huge assortment of 3370 different products.

Although Ahmet is satisfied with the opportunities that his ‘Turkey connection’ has opened up for him, his vision for the future is to become a direct exporter to Europe. It thus marked an important milestone for him, and for other local agricultural entrepreneurs, when Kyrgyzstan was granted GSP+ status²² by the EU in January 2016. In fact, this agreement removes all tariff duties for the export of more than 6.000 items produced in Kyrgyzstan to EU member states. Within the category of agricultural products, Ahmet’s assortment is entirely eligible to profit from that framework. At the time of our visit, Ahmet was preparing to comply with the necessary certification criteria, phytosanitary standards and so called ‘rules of origins’ requirements.²³ In practice, this has meant for him to purchase up-to-date processing equipment, to renovate his production site (such as with new tiles), but also to obtain proper documentation from the Kyrgyzstani authorities.

During our conversation Ahmet was hopeful to ‘get these GSP documents within the next two months’. However, a recent report published by the EU raises quite serious doubts about the actual progress in regards to ‘GSP+ supportive measures’ in Kyrgyzstan.²⁴ It mentions a lack of ‘acceptable food safety and quality practices...at the production level’, but even more so highlights

²² According to the European Commission, within the ‘Generalised Scheme of Preferences’ (GSP), ‘the “GSP+” enhanced preferences mean full removal of tariffs on essentially the same product categories as those covered by the general arrangement. These are granted to countries which ratify and implement core international conventions relating to human and labour rights, environment and good governance...’ (see: <http://ec.europa.eu/trade/policy/countries-and-regions/development/generalised-scheme-of-preferences/>;
last accessed 27 June 2017)

²³ See: https://eeas.europa.eu/headquarters/headquarters-homepage/1397/kyrgyz-republic-and-eu_en
(last accessed 06 June 2017)

²⁴ See: https://eeas.europa.eu/sites/eeas/files/gsp_mission_report_summary.docx (last accessed 06 June 2017)

the multiple problems encountered at national laboratories. Among them are: inadequate equipment and accreditation according to international standards, conflicts of competencies between the three Ministries that oversee the laboratories and a lack of knowledge about EU food safety standards, procedures and methodologies. As of December 2016, Kyrgyzstan has not yet exported any local product to the EU within the GSP+ regime.²⁵

Résumé: Trends and Adjustments in the Agricultural Sector

Cholpon, Marat and Ahmet are involved in quite different segments of the agricultural value chain in Kyrgyzstan, and their businesses vary in size, approach and clientele. Still, these entrepreneurs have expressed to share certain challenges affecting their day-to-day operations that extend beyond the individual experiences of each of them.

One of these challenges originates in Kyrgyzstan's particular approach to post-Soviet transition, during which the far-reaching privatisation of land has shaped an agricultural sector dominated by small-scale and subsistence-oriented farming. In fact, it is estimated that presently 97% of agricultural produce in Kyrgyzstan derives from small-scale farms (Azarov et al. 2016). Although Marat has noticed a trend towards the consolidation of farmland in the hands of 'stronger farmers', he still highlights the lack of efficiency when his company deals with a majority of counterparts who operate on plots as small as 5 hectares. Beyond sugar beets, this is noticeable also in other segments, including fruit-processing, chicken farming or greenhouse cultivation. Cholpon, who must already be counted as a larger-scale entrepreneur in her line of business, reported that recently many small chicken farms were closing down (up to 2000 of them). The main reason apparently was that with 1000 heads or less the potential profits are clearly outweighed by the production costs, which according to her would be basically the same as for 5000 chicken (see also Tilekeyev et al. 2016 for the segment of sheep meat production).

This again raises the question what prevents small-scale farmers from pooling their resources and sharing risks. The cases of Ahmet and of Marat's company indicate that such consolidation in a particular region might depend on the presence of a larger-scale enterprise, which based on a higher-volume demand enforces certain standards of quality and efficiency in return for solid income opportunities. Yet even an experienced manager like Marat admitted it was difficult to grasp the reasons for low levels of coordination and collaboration in the agricultural sector. Other

²⁵ See: https://eeas.europa.eu/delegations/kyrgyz-republic/18606/summary-first-gsp-videoconference-english_en (last accessed 08 June 2017)

interlocutors we discussed with mentioned a lack of mutual trust and of professionalism, an unreliable judiciary and short time horizons. Cholpon's reasoning about their recent failure to form an association of chicken farmers illustrates this confusion vividly: 'I do not know why it did not work out. It is not only trust, but also skills and education. Now they [fellow entrepreneurs] started to understand that it is difficult to work alone. We should get united. Our business atmosphere is strange. We hide from each other and are envious of each other.'

Kyrgyzstan's accession to the EAEU has presented another major challenge for the local agricultural sector. During almost all of our conversations, we heard that pre-EAEU expectations about exporting into a larger common market had been frustrated. To the contrary, entrepreneurs such as Cholpon and Marat underlined the pressure that the Kyrgyzstani agricultural sector would face from food products originating in other EAEU member-states, especially Kazakhstan and Russia. Regardless whether this concerned eggs, sugar, chicken meat or other daily products, our interlocutors always mentioned a similar set of circumstances that would disadvantage Kyrgyzstani entrepreneurs as compared to their external competitors within this new market environment.

The EAEU's phytosanitary standards and other formal requirements have remained one key NTB for Kyrgyzstani entrepreneurs. For the time being, to ensure compliance with these standards demands significant expenses and efforts from their side, in particular because adequate laboratories have not yet been established in Kyrgyzstan. Our interlocutors explained Kazakhstan's more advantageous position in that matter not only because of its earlier involvement in the Customs Union (preceding the EAEU), but also because the Kazakhstani government would serve as a more financially capable and politically willing supporter for its entrepreneurial community. In the eyes of our interlocutors, this includes especially Kazakhstan's practice of actively subsidising the own farming sector, as well as the complementary measure of formally protecting the own national market against imports from Kyrgyzstan (Khasanova 2017).²⁶

Furthermore, agricultural entrepreneurs in Kyrgyzstan heavily criticised the role of local-based importers, who would, for example, trade in Russian eggs or Kazakhstani chicken meat. The destructive effect this might have on the development of Kyrgyzstani agricultural ventures is particularly notable in the higher echelons of political lobbying. One of our interlocutors depicted such an 'exchange' in detail: 'Importers, those who profit greatly, bribe [Kyrgyzstani] deputies. Then these deputies lobby the interests accordingly, meaning towards "no imposition of import

²⁶ See: <https://comtrade.un.org/data/> (last accessed 01 June 2017)

customs”. And we entrepreneurs are then told by such deputies: “Let this [good] be cheap for the people [local consumers]. We do not care about your production, because if you cannot compete with this [good] from Kazakhstan, then it does not make sense to support you.”

More than their fellow entrepreneurs in other sectors of Kyrgyzstan’s economy, those involved in agricultural businesses complained to feel ‘neglected’ by their government during the current transition towards an integrated market where the formulation, interpretation and enforcement of policy-regulations plays a more decisive role than ever before. In this situation, it has become even more challenging for them to compensate for the sometimes already higher production costs they face at home. Our case studies point out some of these comparative disadvantages for Kyrgyzstani entrepreneurs: the low levels of hydrocarbon resources (e.g. equalling higher energy costs), few heavy industrial ventures (e.g. producing construction material), low levels of positive state-involvement (e.g. no subsidies for railway transportation), and a small banking sector (e.g. leading to higher-interest loans).

Conclusions

This study had the purpose to identify trends how entrepreneurs in Kyrgyzstan have adjusted to recent changes in their economy. Employing an ethnographic approach, the study's empirical data is based on conversations we had in spring 2017 with local business owners, managers and experts from the sectors of trade, manufacturing and agriculture. The following conclusions consolidate our main insights on developments in Kyrgyzstani entrepreneurship amidst efforts towards regional integration that have been driven by larger players such as Kazakhstan, Russia and China.

The individual biographies of Kyrgyzstani entrepreneurs reveal that a majority of them could not draw on specialised knowledge or vast previous experiences before 'entering business'. As regards the previous transition from the Soviet era to Kyrgyzstani independence after 1991, those who had opted for such unexpected and radical shifts from their original occupation were also referred to as 'accidental traders' (Sahadeo 2011). For the current pivot away from the re-export business with Chinese goods, this notion could be readapted to 'accidental entrepreneurs'. This reflects that many present-day Kyrgyzstani entrepreneurs draw on previous careers in 'simple trading', on their know-how and the capital they now invest in manufacturing equipment or in the employment of a workforce. At the same time, the *modus operandi* seems to be changing, from a previous ad-hoc informality driven by short time-horizons towards a more 'professional approach' that entails transparency and accountability, especially when dealing with international business partners. During a recent roundtable in Bishkek, entitled 'Business Agenda 2017', one commentator referred to this historical trajectory of Kyrgyzstan's economy, noting that 'our next generation of businessmen should not only be smart, but knowledgeable, competent and educated'.

Such change in approach among Kyrgyzstani entrepreneurs is crucially influenced by a process of formalisation that their economy has been exposed to since EAEU accession in mid-2015. The fact that export opportunities depend on local producers' compliance with new regulations more than before is still controversially debated. Some portray this development as a 'foreign occupation', which turns Kyrgyzstan into a consumer market for Russian or Kazakhstani goods and disrupts previous quality-assessment measures that were based on local trust and reputation. Others depict this not so much as a 'loss in flexibility', but as a necessary move towards advancing the competitiveness of products 'made in Kyrgyzstan' and towards ensuring their objective compatibility with various international standards (inter alia the EU's GSP+-framework).

Alongside professionalisation and formalisation, the institutional landscape of Kyrgyzstan's economy is diversifying and new players have emerged that fill various gaps. Brokers and logistics enterprises have brought closer together the peripheral areas of agricultural production and urban centres, such as in the case of newly-built cold storage facilities for local apples in the Issyk-Kul area. Larger-scale factories, for example in the textile or paper industries have secured more local coverage along the global value chains of manufacturing. The RKDF is a recently established body whose low-interest loans have stimulated the emergence of new enterprises in various economic sectors, especially manufacturing and agriculture. Business associations, such as JIA or the 'Association of Light Industry' (*Legprom*), have emerged as efficient platforms for networking and information exchange, for merging entrepreneurial interests and representing them vis-a-vis the Kyrgyzstani state structures. Their efforts are essential for shaping interconnected business communities throughout the country that are based on shared professional values, mutual solidarity and practices of common learning and mentoring.

Across the different sectors of Kyrgyzstan's economy, the trend within the business community to consolidate could not equally be observed among the employees. Since the end of the Soviet era, labour unions have become a marginal actor in Kyrgyzstan that struggle to address the *de facto* disregard of a *de jure* adequate labour code. Entrepreneurs and workers alike characterised Kyrgyzstani labour unions to be equally suffering from a lack of state support, from own mismanagement, and from correspondingly low membership figures (cf. Hinz and Morris 2016). Within the various segments of Kyrgyzstan's economy, the process of institutionalisation has progressed at different speeds. At this time, the agricultural sector still seems to be most severely affected by lower levels of mutual cooperation and resource pooling. In comparison to those active in trade or manufacturing, agricultural entrepreneurs face more challenges while attempting to self-organise. Aside from the agricultural sector's particular exposure to production shocks (e.g. weather, diseases), these challenges include the larger number of actors involved, the fragmentation into many small-scale farming plots, and the general undercapitalisation of the sector.

In light of this, agricultural entrepreneurs and labour union in Kyrgyzstan would benefit from a cross-sectoral transfer of knowledge and best-practice models from more advanced segments, such as the textile industry or the sphere of business associations. This might include the establishment of more efficient information systems, e.g. on demands in agricultural markets or on the situation of workers' rights. Furthermore, it would be crucial to gain a better understanding for the (rational and non-rational) micro-dynamics responsible for the reluctance of forming functioning cooperatives among small-scale farmers.

‘Changing the local mentality’ has become a prevalent notion within Kyrgyzstan’s economic communities. It is used to comment on the achievements or deficiencies among local entrepreneurs in regards to the aforementioned dynamics of professionalisation and institutionalisation. A ‘progressive attitude’ thus is considered to manifest in investments for solid market research and smart advertisement in order to influence consumer perceptions, such as in the patriotic campaign ‘buy Kyrgyz!’. Furthermore, a ‘modern open mind’ is understood to translate into actions directed at long-term cooperative behaviour and the pooling of resources in organisations of common interest representation, such as the aforementioned business associations. Associated with this trend is a new demand for qualified experts in the fields of marketing and consulting (see also Tilekeyev et al. 2016: 50). In that situation, public or private initiatives are relevant which aim to improve the information flow towards educators and ‘future professionals’ in regards to current labour market developments and the emergence of new occupational profiles, such as in the segments of business-related services and engineering.

Among those Kyrgyzstani entrepreneurs who established production facilities, purchased equipment or employ a sizeable workforce, expectations have emerged that ‘their state’ should offer them protection in return for their investments. Depending on the particular positioning of a business venture, local entrepreneurs have formulated precise requests on how the branches of government could alleviate competitive disadvantages. With an awareness that their state’s limited budget would not allow for direct financial support that is comparable to the national subsidies granted in Kazakhstan or Russia, the demands of Kyrgyzstani entrepreneurs pragmatically focus on passive measures, for example legal investment protection, (temporary) import protection, tax incentives or other ways to reduce production costs.

A strong sense of opposition is detectable when either the state’s passivity or administrative interference turns into an obstacle for business development. For agricultural entrepreneurs in Kyrgyzstan, one case in point is the government’s continued inability to provide the laboratory infrastructure necessary to prove the compliance of local goods with EAEU- or other standards.²⁷ Entrepreneurs were particularly enraged about cases when emerging businesses were not only subject to ‘overregulation’, but became targets for inspections by the financial or tax police in order

²⁷ On the other hand, as Tilekeyev et al. (2016: 49) highlight for the sector of sheep meat production, improving such value chains requires capital investment and entails operation costs from all participants, both public and private: ‘Without this investment, a situation may arise when perfectly equipped and functioning laboratories have to issue negative opinions based on the findings of an analysis of the meat produced in violation of the technical requirements due to the imbalance between producers and regulators.’

to extract bribes; or when foreign lobbyists succeeded to ‘convince’ parliamentarians into voting against Kyrgyzstani national interests in return for personal gain.

Aside from such apparent infringements, it was remarked by practitioners and experts alike that Kyrgyzstan’s current ‘troubles’ in EAEU-integration were crucially related to the following factors: the unresponsiveness of policy makers to suggestions from local business communities during the draft process of laws; the insufficient clarification of export conditions by ministries and other agencies to local entrepreneurs (in equally Russian and Kyrgyz languages), or to farmers about price prognoses and respective diversification needs; the country’s weak bargaining power in the international domain, such as in regards to extensions of preferential periods or tariff exemptions; finally, the problem that low salaries and limited prospects for personal advancement could hardly attract the most qualified specialists to join the public sector. Therefore, events such as the aforementioned ‘Business Agenda 2017’ roundtable constitute innovative forums for dialogue that intend to establish a regular exchange between public and private sector representatives and improve their mutual awareness of expectations, challenges and opportunities in various sectors of the economy.

Next up for Kyrgyzstan’s economy are no less challenging tasks. The preferential period that the country was granted by the EAEU will expire in August 2017, which means that 18 new technological regulations will come into force that also cover the sewing and food-processing sectors.²⁸ At the moment, there is still disagreement between government representatives and independent experts in Kyrgyzstan as to whether local producers are ‘ready’ to comply with these regulations, or will face export bans and fines. Further examples could be mentioned, such as the requirement for Kyrgyzstan to amend its tax code in accordance with EAEU realities²⁹, or the expectations to better utilise Kyrgyzstan’s GSP+-status with the EU. Eventually, this describes a larger trend as part of which the international connectivity of Kyrgyzstan’s economy has become to be critically determined by matters of norm compliance and policy harmonisation. While institutionalising an economy that previously was ‘wide-open’ and geared towards trade, it seems essential that local entrepreneurs do not feel ‘neglected’ by their government’s performance, and that they are not coerced back into those practices of (informal) ‘muddling through’ which they have aspired to overcome.

²⁸ See: <https://rus.azattyk.org/a/28492707.html> (last accessed 09 June 2017)

²⁹ See: <http://csef.ru/en/politica-i-geopolitica/326/kyrgyzstan-i-eaes-medovyj-mesyacz-podhodit-k-konczu-7454> (last accessed 09 June 2017)

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