



Problems of Economic Sectors of the Kyrgyz Republic

Tolobek K. Kamchybekov^{1*}, Kobogon A. Atyshov², Bakhtiyar Bakas uulu³

¹ Doctor of Economic Sciences, Professor, Kyrgyz Economic University named by M. Ryskulbekov

² Doctor of Economic Sciences, Professor, Kyrgyz Economic University named by M. Ryskulbekov

³ Doctor of Economic Sciences, acting Associate Professor, Kyrgyz Economic University named by M. Ryskulbekov

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Abstract

At present the Kyrgyz Republic's key task is the transition to a model of the dynamic, stable and steady economic growth, which is based on enhancement of the state's role, economic competitiveness. Those problems are the most important due to exceptional significance of a correct choice of the strategy and tactics of the social and economic development of the country in the mid-term and long-term prospects, a depth of transformation changes in the economy. In view of this, it is important to determine the problems in sectors of the economy, which impede the country's dynamic development. The first part of the article examines theoretical aspects related to a definition of the economic growth. The second part covers an analysis of problems in different economic sectors of the Kyrgyz Republic. On the basis of the developed plan the research's main goal is to analyze the strategic development of the country's economy. The research used the combination of quantitative and qualitative approaches, the use of a method of system analysis, classification and generalization. The article deals with the main working tools. Firstly, the use of an institutional approach in the research added a significant synergetic effect to it. Secondly, the processes of transformation of the social and economic system are considered by means of the basic notions of the economic growth very logically and regularly. Thirdly, acknowledgement of institutional changes in the market production relations in the economy being reformed as the dominant idea made it possible to sort out pressing issues, which address the tasks of optimizing the market transformation of the economy. The outcome of this article is revelation of the major problems in the key economic sectors of the Kyrgyz Republic and formation of theoretical and practical measures to solve them, which, in the long run, could exert its positive influence upon the political and economical situation in the republic.

Keywords: institutional changes, economic growth, economic sectors, structure of production, corruption.

1 Introduction

The Kyrgyz Republic is the former Soviet republic, which is located in the Central Asia, belongs to the emerging economies. The material wealth is the main characterizing indicator in the capitalist coordinate system, and in terms of the income level, according to the World Bank's classification the republic is ranked among the poor countries. In spite of that, in the first instance the country is proud of its highly educated human capital, which seeks to accept and to adapt to challenges of the global competitive environment.

2 Materials and Methods

The republic became independent as a result of the USSR breakup and, by now, the republic holds an insignificant place in the world economic relations. In this connection, only the partner-countries take interest in the political, economic and social problems in the republic. The same is true of attitude to the scientific constituent part, the main scientific research is

conducted in Kyrgyzstan and in the member countries of the common economic space.

The problem of sustainable economic development of the Kyrgyz Republic is mainly researched within the conducted scientific and practical research in the country. It is necessary to particularly note the papers of such great Kyrgyz scientists as M.B. Balbakov, T.K. Koichuev and A.U. Oruzbaev, who researched the sources of economic development. The economic growth issues and various related aspects were considered by A.N. Ayupov, T.K. Kamchybekov, E.V. Samigullin, Zh.T. Chuburova and other authors in their papers. The deep scientific developments of the Kyrgyz scientists, their scientific views, ideas and approaches to studying the laws of social and economic development, and the characteristics of the process of reforming of the domestic economy are a valuable scientific heritage, which served as a theoretical and methodological basis for studying the complicated processes of the society development. In spite of

Corresponding author: Tolobek K. Kamchybekov, Doctor of Economic Sciences, Professor, Kyrgyz Economic University named by M. Ryskulbekov.

a great number of the papers on the economic growth in the world science, those problems continue to hold a rightful place in the research conducted by modern scientists. Up to now the scientists and economists have been holding heated discussions about interpretation of the term “economic growth” and the related economic categories. “Although the notion of economic growth goes back to the papers by economists of the XVIIIth and XIXth century (Zh.- B. Sea, I. fon Tutena and others), only since the end of the 1930-s this problem was studied within an independent theory” (1). The practice of comparison of the growth and an associated but broader notion “economic development” was spread in order to more deeply substantiate the essence of the notion “economic growth” in modern research covering this phenomenon. The economic growth is the midpoint in the economic development, but it does not reflect the bottom line of a notion of the “development”. Development is a multi-aspect process leading to radical changes in social structures, behavior of people, social institutions, and to the speedup of economic growth, the reduction of inequality and the liquidation of unemployment. The World Development Report, which the World Bank published in 1991, proclaims as the economic development goal “the life quality improvement, not the economic growth” (2). In a simplified way, correlation of the notions «development» and “growth” can be described by the following way: when somebody “is growing”, its quantitative parameters are changing, when somebody “is developing”, it is getting qualitatively other. As a matter of fact, here the logic of J. Shumpeter, which he used to determine the essence of economic development, can be applied. When thinking about the development phenomenon, the scientist understood it only as such internal changes, which violate a positive equilibrium and bring the economic system to the qualitatively other level (3). In light of this many scientists consider it necessary to theoretically substantiate a model of the sustained economic growth. The problem of economic sectors, which is set in the task, demands a deep methodological and theoretical research to be conducted in connection with its complicity, multifacetedness and dynamism, as the existing level of the analysis remains underdeveloped: categorical diversity of interpretations and definitions is preserved, the issues of revelation of problems of the economic growth, and their contribution to the national economic growth are developed insufficiently. As a methodology of the analysis the paper uses the abstract, logical, statistical, and structural and level methods and a method of the comparative and system analysis. The main sources of the work were official reports of the state authorities of the National Statistical Committee of the Kyrgyz Republic, the National Bank of the Kyrgyz Republic and the Ministry of Finance of the Kyrgyz Republic, the laws of the Kyrgyz Republic, the theoretical research, in the sphere of the economic growth as well as the practical papers covering the problems of development of the Kyrgyz Republic. This article is aimed at assessing the processes of transformations, which take place in the Kyrgyz economy, and revealing the key problems. The crucial thing is an idea of substantiating the theory of development of a separate reformed national economy in modern conditions on the basis of determining its essence and content, nature and specific character, tendencies and factors.

3 Results

The economic growth in the Kyrgyz Republic during the independent development took place mainly through the uncontrolled use of many natural resources. The growth and structure of the Kyrgyz economy was based mainly on the anthropogenic extensive and nature-intensive development. In this respect the country fully depends on the state of natural ecosystems. The risks of dramatic worsening of the economic indicators are created in the event of the natural resources depletion and the environmental pollution. In prospect it is necessary to consider that historically “raw material” economy runs its course, as it showed the problematic character of development in a stable balance with the environment and the inability to assure the quality of human development. In spite of the abovementioned strategic vision of the Kyrgyz Republic in the long term, this is a strong and independent state, which is included in developed countries, comfortable for the people’s life, with assurance of protection of their rights, freedoms and safety, multilingual and benevolent internal environment, compliance with the laws, high level of education, healthy environment, social stability, international image of a wealthy country, sustainable economic growth and high attractiveness for investors. The authors believe that, in order to achieve the said goals, it is necessary to take the following measures:

- to acknowledge the institutional factors as the key conditions of achieving the stable and sustainable economic growth;
- to revise the regulatory and legal framework of the civil laws, the governing title, by means of transition from the property economic conception to the legal essence;
- to hold the preliminary public hearings of the bills affecting the legal interests and rights of the economic entities in a mandatory manner;
- to carry out the reforms in the industry with focusing on development of the manufacturing sector, to amalgamate the agricultural enterprises, to implement a mechanism of compensation for expenses for a water resource in reservoirs in the energy sector;
- to actively demonopolize the political and economic spheres of the activities, to form the efficient competitive environment;
- to implement the institution of the public private partnership as an alternative to a method of privatization in the branches, which are of strategic importance to the country;
- to toughen up the anti-corruption laws by means of increasing the legal, property and moral responsibility of all the participants in the economic relations;
- to legalize and formalize the shadow economic activities by means of simplifying the licensing system and to improve the regulatory framework regulating the activity of the small and medium-sized business;
- to reduce the state bureaucratic apparatus with simultaneous increasing incomes for the state employees, who are acknowledged as honest;
- to implement an indicative planning tool into the government regulation system as a method of the guiding state influence.

4 Discussion

4.1 Economic potential

In 1991 after the Kyrgyz Republic became independent, while choosing an economic system the Kyrgyz Republic placed a priority on the mixed (convergent) system, whose main principles are as follows: free business, free pricing

system, free competition, minimum state regulation and, of course, private property. So, the Kyrgyz economy was formed during the deep crisis, which is related to transition from the planned economy to the market system.

The years of 1991- 1995 for the republic is a stage of destruction of the command government system, which is characterized by the disastrous fall in the GDP (in 1995 the negative value was minus 20.1% to the previous year). The years of 1995- 1999 are a stage of forming the market infrastructure, where it is possible to mention the years of 1996 and 1997 which witnessed a significant improvement in the economy, while a growth of the real gross product was 7.1 and 9.9%, respectively. In the new years of 1998-1999 the Kyrgyz economy experienced some shocks, when the economic activity declined up to 2.1% in 1998 and 3.7% in 1999, which became a consequence of economic crises, which broke out in Russia and East Asia. Since 2000 the economic growth has taken place in Kyrgyzstan, and in 2004 an indicator of the real growth achieved 7.1%. However, in 2005 and 2010 the society experienced two significant political and social shocks, which resulted in the economic slump. So, in 2005 the GDP declined by 0.2%, and in 2010 the GDP declined by 1.4%. A peaceful transfer of power as a result of election of the President of the Kyrgyz Republic in 2011 had a beneficial effect on the economy, which increased by 6 %. However, in 2012 in connection with the worsening of the situation with the mining sector, the Gross Domestic Product declined to minus 0.1%. In 2013-2018 the republic saw the positive growth rate, which was varied from 3.6 to 10.5%.

In summary, it is possible to note that over 27 years of the reforms, in 9 cases the GDP in the republic declined (the greatest decline took place in 1995 - minus 20.1%), and in 18 cases the GDP grew (the greatest growth took place in 2013 – 10.5%) (Figure 1). The conclusion about “ostensibility” of the economic growth in the Kyrgyz Republic for the whole period of the independent development is the most important. So, at present there is a growing demand for forming an efficient

model of management of the economic growth and forming a new policy of the economic growth.

The source is the National Statistical Committee of the Kyrgyz Republic (4). The economic growth rate in the Kyrgyz Republic is influenced by various internal and external factors. The country's peculiarities include significant reciprocal influence of the political and economic factors: the political pressure by other countries leaves its imprint on the economic stability, which, in its turn, influences the political background in the Kyrgyz Republic. In accordance with theoretical views of the economists of the 18th century, the economy-policy interaction plays a crucial role in the society development. Carl Marx believed that the state and political relations are determined by the nature of economic relations and a level of the productive forces development. “In social production of their life, - Carl Marx wrote – the people enter into certain, necessary relations, which do not depend on their will, the production relations, which correspond to a certain stage of development of their material productive forces. The aggregate of those production relations is an economic structure of the society, a real basis, on which there is a legal and political superstructure and to which certain forms of the social consciousness correspond” (5). Then this idea was elaborated by Vladimir Lenin, who defined the politics as “a concentrated expression of the economy” (6). In total, all of that leads to close interweaving of various determinants: negative development in one sphere leads to negative consequences in another sphere, giving rise to a multiplicative effect in the whole society. So, when considering the economic problems, it is necessary to consider the issues, which exert the greatest influence upon the Kyrgyz Republic's economic situation. To begin with, let's consider the GDP production structure in the context of the branches. So, according to the National Statistical Committee of the Kyrgyz Republic, a share of production of the goods and services relative to the economic sectors is as follows (Table 1).



Figure 1: Economic growth in the Kyrgyz Republic in 1991-2018 (in billions US dollars and %)

Table1: Production structure (in % of the GDP)

	1990	1995	2000	2005	2010	2015	2017
Industry	26.4	11.9	23.3	17.3	20.7	16.7	18.2
Agriculture	32.7	40.5	34.1	28.5	17.5	14.0	12.3
Construction	7.7	6.1	3.8	2.7	5.5	8.4	8.2
Transport and communications	4.9	4.2	3.4	6.6	8.6	8.2	7.5
Trade	4	11	12	17.8	16	18.8	17.9
Other services	21.7	19	16.4	16.3	21.5	33.9	35.9

The source is the National Statistical Committee of the Kyrgyz Republic

Table 2: Gold mining on Kumtor

	1996-1999	2000-2004	2005-2009	2010-2014	2015-2018
Gold mining (tonns)	54.8	102	75.1	82.2	66
Mined gold cost (in millions US dollars)	529.9	1 070.9	1 842.9	3 674.9	2 581.3

The source is data provided by Kumtor (7)

The major problem is a significant difference of the economic structure of the Kyrgyz Republic from the economic structures of the developed countries. As to the economy the primary sector – the agriculture is developed intensively, while the secondary sector – the industry is on the decline. The agriculture continues to prevail in the total output volume, which shows that the Kyrgyz economy has a distinct agricultural orientation.

Table 1 shows that the industry's share in the GDP reduced from 26.4% in 1990-s to 18.2% in 2017. It is necessary to take into consideration that the main share in the industry itself falls on the production results in the mining industry, in particular, this is gold mining on Kumtor field.

Trying to build an economy based on the natural resources is not successful too. The project of developing the Kumtor field is an excellent example that the natural fields in the event of total corruption cannot be a source of the economic growth, and what is even worse, they are getting places of environmental and chemical pollution. The main item – the foreign trade, gold exports, brings the country next to nothing, all the products belong to the concessioners and they are taken abroad, while giving the appearance of serious foreign economic activities.

From 1997 to 2018 367.21 tons of gold were mined at the mine. The total cost of the gold mined in that period at annual average world places was more than 9.1 billion US dollars (Table 2.). Meanwhile, as a result of the project implementation, considering the mining of, on the average, 5 grams of gold per a ton of the rock, the country received 87 million tons of the poisonous processes ore, which is on the tailing dump with a designed volume of 40 mln. m³. There is a risk that in the event of the existing tailing dam, the cyanides and still more toxic salts of heavy metals can get to the Naryn river, and while causing a heavy environmental disaster they will go about the whole Central Asia.

It is also necessary to take into account that in the republic there are 92 facilities placing 250 mln. cubic meters of toxic and radioactive waste of the mining production. The total quantity of places for the toxic waste increases year on year, and according to the results of performance in 2017 the total volume of the toxic waste reached 120 million tons. Those factors indicate the worsening of the environmental situation in the country, which appeared as a result of operation of the harmful mining production.

In this century those climatic changes are the most disturbing when water is getting the most valuable product even on comparison the oil and gold. Experts believe that the water is turning into the formation center as a seat of tension and a seat of the growth center.

Of course, the water is a depleting resource. In this connection the deputy director of the Global Center of the Environment at the United State Agency for International Development David Foster Hail voiced the following opinion: "The majority of people believe that the water is free of charge,

when believing that there is much water. It is false. The water is not free of charge, and there is not much water... The fresh water accounts for only 3% out of the total quantity of the water. So, with account take of the fact that the world population increases by about 90 million persons per a year, a crisis is approaching. The water is getting a serious constraint factors..."(8)

According to the forecasts, by 2025 the glaciers' areas in the republic will have reduced by 30-40%, which will lead to the water content decrease by 25-35%. According to the Institute of Hydropower Engineering of the National Academy of Sciences of the Kyrgyz Republic, at present the glaciers recede three times as quickly as in the 1950-s. Some research said that the glaciers recede by 50 meters a year and if this rate is preserved, all the small glaciers will disappear fully and some large glaciers will remain. The peak of thawing and, therefore, flow of local rivers will fall approximately on 2020-2030-s and the flow volume can decrease by 40%. So, the agenda must contain an issue of rational, economically substantiated, with account taken of the environmental constituent part, a mechanism of the use of water resources. In this connection, it is impossible to manage without the economic calculations of the water cost. In spite of the fact that the water as well as the air are generally recognized as invaluable, when their volume is decreased, there is a question about the economic assessment of the water in monetary terms.

The researcher O. Boyarkina gave the overall characteristic in relation to the water, she writes: "Kyrgyzstan and Tajikistan consider the water as the goods, which have their cost. They bolster their approach with a sovereign title to the natural resources within the international private law. The countries of flow consumption area consider the water as "a gift of nature" and they appeal to the fundamental standard of the international water law – a principle of reasonable and fair use of the water of international watercourse and "an equal access" to the water resources, according to which the transboundary waters are the general resource, and, therefore, free of charge" (9).

The international law on necessity to determine the water cost by the beginning of the 21st century is in the making. But for the Kyrgyz Republic, the statement, which the President of Turkey Suleiman Demirel voiced in July 1992 about the water resources, will be true: "Neither Syria, nor Iraq can pretend to Turkey's rivers more than Turkey can pretend to their oil. This is an issue of sovereignty. We are entitled to do what we want. The water resources belong to Turkey, the oil resources belong to them. We do not ask them to share their oil resources with us gratuitously and they cannot demand that we should share our waters with them" (10).

Promotion of an idea of assessment of the monetary equivalent of the water is not a new subject, it was also broached by the republic's leader in the Soviet period - T. Usabaliev. He wrote: "The Toktogul reservoir with a volume of over 19 billion cubic meters of the water increased the areas

of irrigated lands by 400 thousand hectares in Uzbekistan and Kazakhstan, and significantly enhanced the water supply of other more than 900 thousand hectares of their existing irrigated lands. In the period of operation of the Kyrgyz inter-republic irrigation facilities, Uzbekistan and Kazakhstan received a net profit of 7.6 billion US dollars. In the post-Soviet period Uzbekistan and Kazakhstan's governments sell Kyrgyzstan the gas, the oil products and coal for a currency. Only in 10 post-Soviet years Kyrgyzstan sent 670 million US dollars to purchase those energy resources" (11).

Therefore, formation of a policy of paying money for the water платности за воду must serve as a basis for mutually advantageous use of the resource of the transboundary waters. Political and economical understanding that any land resource, including the water, has a monetary equivalent, must lead to the economically efficient and environmentally reasonable use

of such a depleting natural resource as the water. In this case, it is appropriate to cite a quotation of the researcher A. Likhacheva: "Many economist often define the water as a normal economic welfare and they have certain grounds for that: as a matter of fact, the water is a resource, its price can be calculated, and a volume of this welfare and a demand for it can be assessed quite exactly" (12).

Another major source of incomes, which feed the development of the country's economy, is the money transfers of migrants from abroad, which became the greatest in 2017-2 billion 482 million US dollars (Figure. 2.). In terms of the volume of the coming money transfers relative to the GDP, the republic ranks second in the world, and such transfers exert great influence upon the population's daily living as well as upon the country's macroeconomic indicators.

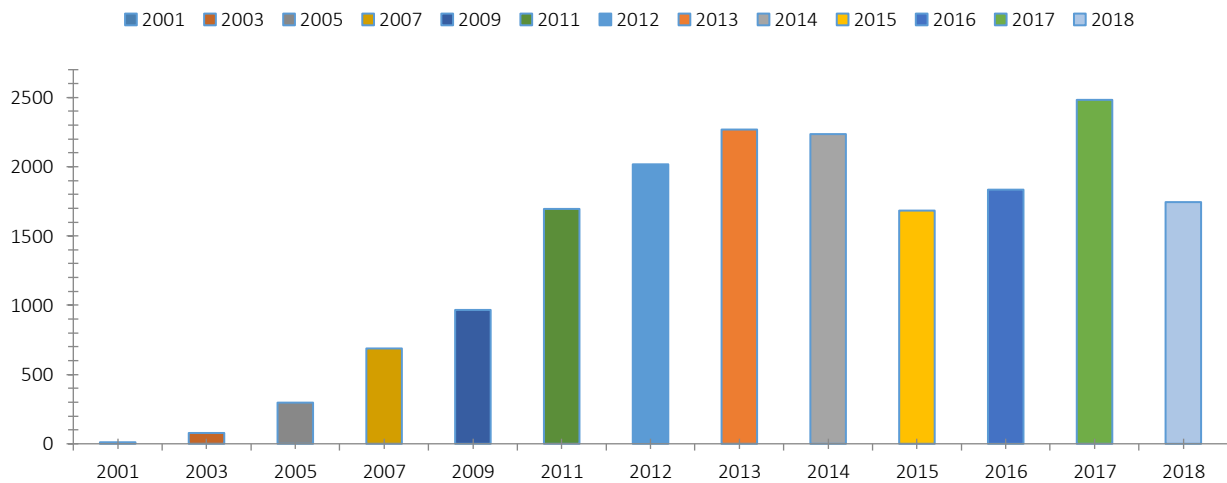


Figure 2: Money transfers of labor migrants (billion US dollars)

The source is the National Bank of the Kyrgyz Republic (13). In the present period of development the most topical problem is consequences of the outcome of joining of the Kyrgyz Republic to the Eurasian Economic Union. The scientists did not research advantages and disadvantages of this decision, in light of this there are no substantiated calculations on the economic reasonability of the project for all its participants. It is evident that the country's participation in the Eurasian Union as a matter of priority is a political project. But for the Kyrgyz economy such changes is another economic shock. When making analogies it is possible to note that the same situation takes place in the republic as was the case in 1991 before the USSR breakup. The authors believe that having joined the Eurasian Economic Union the Kyrgyz Republic must reconstruct and change the whole structure of its economy for the second time, which is difficult, painful and long process.

4.2 Key problems in branches

During the period of the reforms the Kyrgyz economy lost an industrial component, it has significant disproportions in the branch and territorial structure. The existing economic structure is mainly oriented to the agricultural production, the mineral output, the production of services and the re-export of Chinese products. The structure is not innovative, it does not

imply the creation of the engineering-oriented branches. The industry also has disproportions in territorial placement of the productive forces, since the industrial enterprises are mainly concentrated in the Chui valley and in Bishkek. In terms of efficiency, the Kyrgyz industrial enterprises cannot compete with the Chinese consumer goods. This is influenced by many factors including the cost of the electrical power and labor force and the corruption, the expenses for which have a great share in the pricing.

In order to analyze the industry's prospects, it is necessary to understand the competitiveness of the manufactured products. This can be done with using the comparative costs law showing the advantages of what Torrens successfully called the territorial division of labor (14).

It is possible to imagine three kinds of correlation of the costs for producing the same couple of the goods in various countries: equal, absolute and comparative advantages. Each country will produce the goods whose opportunity costs are minimum, where the opportunity costs are a number of units of the goods, which it is necessary to refuse in order to produce a unit of the other goods. This way of formulating a doctrine covers any possible configuration of costs.

The competitiveness analysis on the basis of aggregating some food and nonfood goods in the republic shows that garments, dairy products, cement and filament lamps has a

positive degree of competitiveness. The soft drinks, flour and sugar has a lower degree of competitiveness. In recent years, various spheres of food industry come to have the enterprises, which become leaders and drive up production in the competitive environment through improving the management, the marketing, the modernization of production with a focus on the advanced technologies.

If to consider the manufacturing of the major kinds of the industrial products in quantitative terms, it is possible to see the following picture. In 1990 the Kyrgyz manufacturers produced 1263 electrical machines (for comparison in 2015 no such machines were produced), 275 thousands alternating current motors (в 2015 no such motors were produced), 1342 metal-cutting machines (in 2015 no such metal-cutting machines were produced), 23 400 baling machines (in 2015 no such machines were produced), 24 300 trucks (in 2015 no such trucks were produced), 48 500 impeller pumps (in 2015 no such pumps were produced). In comparison with the output in 1990 (319.8 thousands electric lamps) in 2015 167.3 thousands lamps were produced (Table 3).

On the basis of Table 3 it is possible to state that a structure of the industrial products manufacturing continues to have negative tendencies, the main one is the change of correlation between the extractive and manufacturing branches in favor of the former. The growth is particularly significant in the mining branch and the energy complex. The other negative tendencies are the significant reduction of a share of the machine building and other branches, which produce the consumer goods, in other words, the increase in a proportion of the traditional setup and reduction of a share of advanced technologies. The manufacturing industry is reduced more than the extractive industry is, the machine building and the metalworking production are removed from the industrial sector, the contribution of this branch to the industrial output fell to less than 3%.

Another key branch, energy sector, is also in the crisis. The lack of investments, a high level of corruption and commercial losses, and the system problems have put the energy sector on the edge of survival. An excellent example of the energetic problems is the accident in the Bishkek Combined heat power plant, which occurred during the anomalous cold weather in 2018.

After the Kyrgyz Republic became independent, the agriculture and the food industry remain some of the most problematic spheres. In spite of some infusions made by the government and the foreign credit facilities, the Kyrgyz agriculture does not show the dynamic development for a long time, when coming to nothing more than a simple

reproduction. The branch preserves a high level of the small commodity production, which cannot compete with the import products and implement the modern technologies and equipment. In addition, they could not make connections between the agriculture and the processing industry properly, where the government must play a key role. Through deeper processing of the agricultural products the Kyrgyz Republic could turn into a center of manufacturing the ecologically clean products. However, the lack of the relevant infrastructure impedes the solution of this task.

The agriculture, which was ideally expected to assure the food security, continues to be inefficient sector. The agricultural sector has a low production potential, low efficiency and low adaptability of the branch's members to the situation change. Even here the Kyrgyz agricultural products are partially supplanted by the import agricultural products. The agricultural production is characterized by a low added value, and the most part of the fresh raw materials is processed in Russia and Kazakhstan as before. Structurally the agricultural products attained its maximum, which is related to natural restrictions on using the land, which are aggravated by its low productivity.

In summary, it is possible to note that the real sector is the weakest link of the Kyrgyz economic system. Neither the industry, not the agriculture became the basis of an enlarged reproduction process in the economy and the foundation of the rapid economic growth. In the republic, the service sector dominates, where the large-scale re-export foreign trade operations play the key role.

During the period of reforms, the economic restructurization and cessation of direct infusions from the central union budget influenced the significant total decline of the GDP. The issue of subsidies in the Kyrgyz economy is one of the key issues for understanding Kyrgyzstan's potential. As a Soviet republic, The Kyrgyz Soviet Socialist Republic received high subsidies from the union budget for developing its national economy. The German researchers H. Halmrot, T. Rem, E. Schenger and H. Ufer made the following assessments: "Kyrgyzstan is one of the poorest republics of the former USSR (in 1992 the annual income per capita was 810 US dollars). The Kyrgyz economy was highly integrated within the USSR and the republic's dependence on the former USSR was still stronger, due to the transfers from the union budget. At the end of 1980-s they made up 10-12% of the gross product" (15). In 1989-1991 13% of the gross national product were equivalent to 600- 700 million Soviet rubles, which were equal to 350- 400 million US dollars at the exchange rate.

Table 3: Production of the major kinds of industrial products

	1990	1995	2000	2005	2010	2015
Large electrical machines, units	1263	64	-	-	-	-
Alternating current motors, units	275 000	49 192	868	55	4	-
Electrical lamps, Thousand units	319.8	137.7	232.4	198.9	166.9	167.3
Metal-cutting machines, units	1342	27	-	-	-	-
Baling machines, thousand units	23 400	2	-	-	-	-
Impeller pumps, units	48 500	12 097	740	794	6	1
Trucks, units	24 300	8	-	-	-	-
TV sets, units	0	0	2 835	1 729	48 302	-

The source is the National Statistical Committee of the Kyrgyz Republic

In the contemporary period of its history the country depends on the foreign infusions by 40%.

In spite of a dispersion of assessments in the subsidies level, on the whole it is possible to recognize that up to now the republic has been unable to independently solve its domestic political and economic issues without foreign infusions. In light of this, the foreign debt, which reached the figure of 4.4 billion US dollars (Figure 3), is a serious problem for the country. Since 2014 the foreign principal debts have been paid, which will increase to 2020. In the republic, where there is a budget deficit permanently, the problem of a lack of additional sources of forming the government incomes leads to the unstable situation in the macroeconomic sphere. The development of the national economy is significantly influenced by the external factors, which weakly depend on the efforts made within the country. This is a great dependence of Kyrgyzstan on the political and economical situation such its main partners as Russia, Kazakhstan and China. In the event of violation of a favorable external situation, the problems appear in the economy automatically, there are fewer possibilities to fulfill the government's social obligations, the som exchange rate falls, etc. This is confirmed by a correlation between the problems in the Kyrgyz Republic and the crisis in the Russian Federation, which started at the end of 2014.

The shadow economy and corruption, which cover all the economic sectors, remains a global problem for the country. In accordance with the Ministry of Economic Development and Trade a share of the shadow economy is, according to the different estimates, from 18 to 70% and reaches a volume of about 4 billion US dollars. Corruption is the most important problem of the republic. When in 1990-s the Kyrgyz Republic launched a large-scale reforming of its economic and political systems, it faced serious problems of corruption in business and the government.

The Swedish political scientist J. Engvall, who defended the doctoral dissertation on the subject "State as the investment market: analytical base for understanding the policy and bureaucracy in Kyrgyzstan" в 2012 году, believes that Kyrgyzstan is an extremely corrupted country, where all the posts, and above all the government posts, and sold and

bought. Doctor Engvall said that the standard political theories cannot explain the essence of the things going on in this country, since the corruption, as he believes, became just a way of governance. "Today Krgyzstan is not a particularist, or clan or congeneric state. Here the money is the main factor in appointing persons to the majority of administrative or political posts" (17).

The country does not have a real strategy of fight and of an effort to eradicate this negative phenomenon. The misunderstanding about the corruption arises because the corruption is considered to be as a source of the problem, while a phenomenon is the eventual result. A source, which gives rise to it, is, first and foremost, the state apparatus represented by the bureaucracy and officials.

The shadow economy analysis, which is performed by the National Statistical Committee of the Kyrgyz Republic, indicates a permanent tendency of the activities growth in the informal sector. If, in monetary terms, in 1995 it made up 1.4 billion soms, then in 2017 it reaches 116 billion, and in percentage terms to the GDP it grow to 24.5% (Fig. 4). A high level of the shadow economy and corruption in the Kyrgyz exerts common negative influence upon all the spheres of the state activities. This favors the inefficient macroeconomic management, when leading to the slowdown of the GDP growth rate. More than that, it gives rise to serious social consequences – the society loses its respect for the state institutions, legal acts and, eventually, to the state itself. A deep driving force, which favors the shadow economy development, is the capital's pursuit of maximum profits, in the fight for which, as Carl Marks said, it is impossible to stop the capital. The following statement made by Carl Marks say about that very expressively: "...the capital flow passes all bounds" (18), "...the capital has the only one life aspiration – the aspiration to increase" (19) and "...the development of the capitalist production necessitates a permanent increase of the capital invested in an industrial enterprise, while the competition imposes the immanent laws of a capitalist way of production as the external compulsory laws on each individual capitalist" (20).

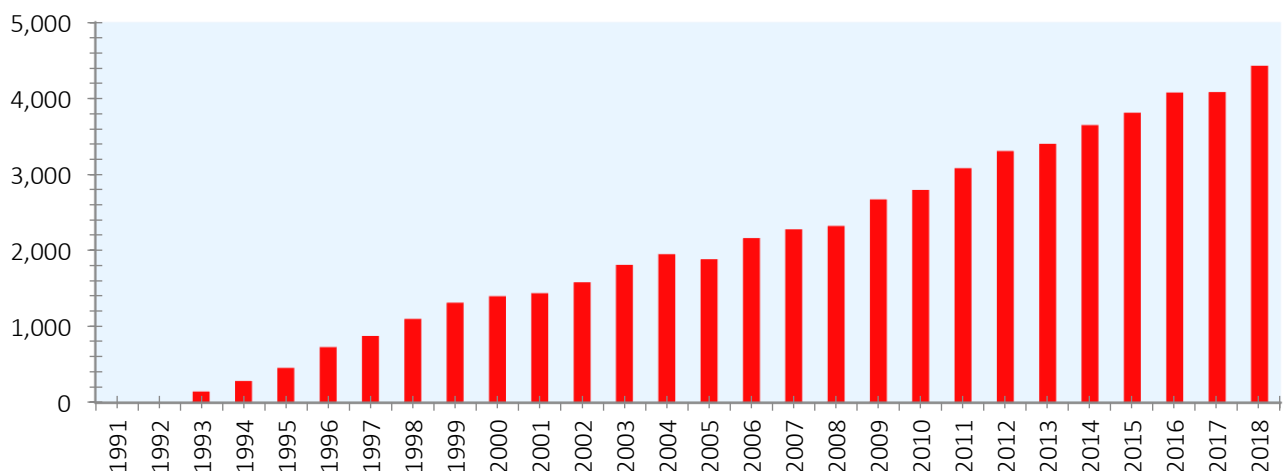


Figure 3: The foreign debt of the Kyrgyz Republic (billion US dollars) (The source is the Ministry of Finance of the Republic of Kyrgyzstan (16))

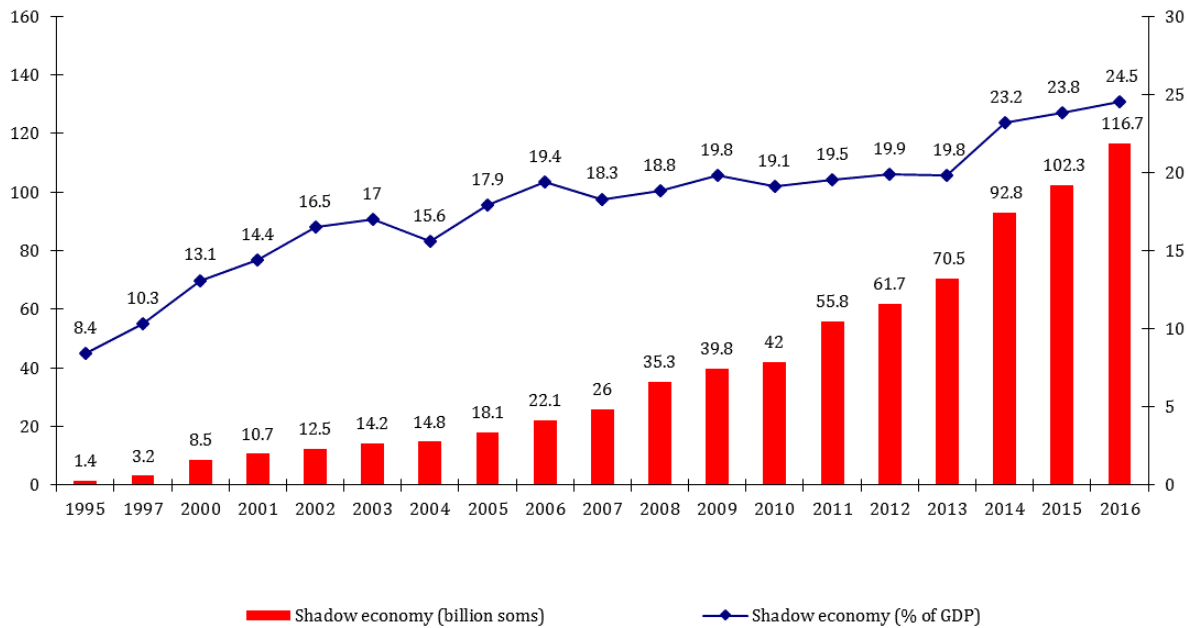


Figure 4: Volumes of the informal sector of the economy of the Kyrgyz Republic (The source is the National Statistical Committee of the Kyrgyz Republic)

The statement in the English journal “Quarterly Reviewer”, to which Carl Marks referred, is characteristic: “The capital is getting more and more courageous when receiving higher and higher profits – “with 100 percent it violates all the human laws, with 300 percent it would commit any crime even under threat of a gibbet”.

In the market economy the state’s regulating potential is limited, so the most reasonable thing is to clear out the goals in terms of their importance and to build a target preference function. The main thesis is that the state functions must include the maintenance of stable legal and macroeconomic conditions, in which the economic activity can develop successfully, in other words, the state is forming the conditions, order and rules of the actions in the economic environment.

A dilemma of the policy choice consists in the fact that it appears where there are more goals of the economic policy that there are tools, through which they can be achieved. For example, the anti-inflation measures can be aimed at defeating the inflation, but they can lead to the employment growth, since one of the tasks of the inflation control is a reduction of the government expenses. In this case, it is very appropriate to cite the following quotation by S. Fisher: “Adoption of political decisions, which influence the economic growth, is a political problem, which is solved by the political means” (21). In the case of this country, the government must start with itself, with the institutional reforms. It is necessary to strengthen the institutionalization standards: to strengthen the judiciary system, to control the applicable laws execution, to efficient enforce the state financial flows. The institutional conditions in question have the maximum effect, and the macroeconomic factors have a lower potential. For all that, while considering the economic growth problems, the economic science demands the issues of savings, investments,

inflation, unemployment and boundaries of the general government expenditure to be studied.

In any social system a certain consensus concerning the society’s goals must exist. However, the economic policy is almost always the means of achieving the goals, which are not clear; more than that, some of them can contradict each other (22). So, A. Illarionov says: “The economic policy is one of the most important factors, which influence the economic growth rate, and therefore, predetermine the economic security state” (23).

In light of this: “The economic policy is the general line of economic actions, which is pursued by the state or the country’s government, giving of wishful orientation to the economic processes, which are implemented in the aggregate of measures taken by the state, by means of which the determined goals and tasks are achieved, the social and economic problems are solved. As expected, the economic policy is designed to express and to implement goals, tasks, interests of the country, state and people”(24).

Considering the strict requirements for the forms and methods of the state interference, it is possible to say that the state is only able to influence the goals by means of one or another tool. So the economic policy’s goals have a number of parameters: firstly, only the goals, whose implementation cannot be assured by the market, must be set, secondly, a goal must be measurable quantitatively, thirdly, it is necessary to have a set of efficient political tools, fourthly, it is necessary to have an idea of efficiency of the tools’ influence upon the goal. The eminent economist Ya. Tenbergen wrote: “On the whole the economic policy’s logic is determined by the content and volume of the correlations between various types of variables, which characterize it” (25).

In the market economy, the state’s regulating bias is limited, so the most reasonable thing is to clearly sort out the goals in terms of their importance and to build a target

preference function. The main thesis is that the state functions must include the maintenance of stable legal and macroeconomic conditions, in which the economic activity can develop successfully, in other words, the state is forming the conditions, order and rules of the actions in the economic environment.

“The economists have called upon to analyze the regulation activities in terms of costs and benefits for a long time. As the economists gain experience in analyzing the costs and benefits and receive more and more information about a price, which the people set for the risk during their everyday conscious choice, a conflict will increase about a value of regulation between those supporting the regulation, which is efficient in terms of the costs and those saying that some values are higher than the economic calculation” (26).

According to the theory of the economists of the Massachusetts Institute of Technology (MIT) Daron Acemodly and James Robinson, which they set forth in the book “Why nations fail”, many developing countries lay down the rules of the game, which prevent them from developing. Those countries’ elites are interested in their own gain, rather than in the collective gain, when establishing the extractive institutions. With such rules, the governing minority is protected against the competition, it uses the state’s military possibilities to build up its wealth, to redistribute the property. The state serves the interests of a small group of the population to the detriment of national and social interests (27).

The economic globalization and its major element, globalization of the financial markets on the basis of external and internal liberalization, undermine the state’s role, its necessary regulating functions (28). In this context A.N. Byukov fairly said that the globalization and liberalization “brings to nothing the possibilities of some countries to regulate and to determine its national economic and financial policy, when restricting the national sovereignty” (29).

In this respect only one factor, the lack of Kyrgyzstan’s own sources of energy resources, makes the country fully politically and economically dependent on decisions adopted by foreign states. The potential risks on regulating by the foreign countries of volumes, time limits, and, what counts most, of cost of the energy resources (for petrol, diesel fuel and gas), which forms the price range for all the products and services, deal virtually a fatal blow to the potential on implementing a line of the political independence and the economic sovereignty. The existing political freedom is fully leveled by the lack of possibilities to practically carry out its own economic policy.

5 Conclusion

The potential economic growth in 1991-2018, which was measured as a growth of fixed assets with account take of the depreciation, was in the Kyrgyz Republic negative on the whole, so, it is unfair to say that the republic has an economic or even cyclical growth. Such economic growth can be determined as an imaginary growth-actual growth during reduction and qualitative degradation of the national economy’s potential (the negative potential growth). Over the long term, it does not solve the problem of expanded reproduction in its quantitative and qualitative aspects.

In this context the period of 2020- 2030 is expected to be turning and determining on transition of the republic to the sustainable development. By 2030 the Kyrgyz Republic is

expected to be among the countries, which will be oriented to successful implementation of the sustainable development strategy with the improved management institutions, the efficient laws, the progressive staff potential, which is ready to strengthen the basis of the country’s sustainable development, with the developed environmental and economic thinking of the population and the improved social and economic ratings in the world development.

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