



THE CHINA-KYRGYZSTAN-UZBEKISTAN RAILWAY PROJECT: PROBLEMS AND PROSPECTS

The China-Kyrgyzstan-Uzbekistan (CKU) railway project aimed to link Beijing with Central Asia is among China's main transportation policy priorities in the region. The CKU project, which has been on the agenda since the mid-1990s, is also of great importance for China's Belt and Road Initiative. Under the project, the railway would start in Kashghar in China's western Xinjiang Uyghur Autonomous Region (XUAR) and run through the China-Kyrgyzstan border via the Irkeshtam pass and Kyrgyzstan's Kara-Suu to Uzbekistan's Andijan in the Ferghana Valley. Moreover, there is a possibility that the railway could be extended further to reach Iran's territory. The project will create conditions for reliable cargo traffic via Central Asia and Western China, especially the XUAR, becoming an important element of goods transportation from China to Central Asia, West Asia, North Africa, and even Southern Europe.

The CKU railway project was first officially proposed in 1997 during the Transport Corridor Europe-Caucasus-Asia conference in Paris. The idea was to interconnect the railway networks of China, Kyrgyzstan and Uzbekistan and receive access to commercial maritime routes through the railway networks of Afghanistan, Iran, Turkey and Europe. Considering the importance of the railway connectivity improvement, the authorities of China, Kyrgyzstan and Uzbekistan held a trilateral meeting in Bishkek on November 5, 1997, during which the parties agreed to establish a joint working committee and expert group on the CKU railway project. As a result of the meeting, a memorandum of understanding on the joint project implementation was signed between the Ministry of Railways of China, Ministry of Transport and Communications of Kyrgyzstan and Ministry of Transport of Uzbekistan providing an opportunity for further interstate consultations. After the launch of the China-Kyrgyzstan talks on the project in 2000, the Chinese side allocated 20 million yuan (about \$3.012 million) for a feasibility study of Kyrgyzstan's section of the railway. On February 5, 2001, the Kyrgyz government proposed building the Balykchy-Jalalabad-Torugart-Kashghar railway route as part of the CKU railway project.

However, both the Tulip Revolution, which led to President Askar Akayev's ouster in April 2005, and the Andijan incident of May 2005 in Uzbekistan had a negative impact on the CKU railway project development. Despite these adverse circumstances, in 2006, the Chinese government reaffirmed its intention to complete China's section of the railway within the framework of the 11th Five-Year Development Plan. However, the April 2010 ouster of President Kurmanbek Bakiyev and the subsequent clashes between ethnic Kyrgyz and Uzbeks in southern Kyrgyzstan have resulted in further

delays in the implementation of the CKU railway project.

In 2010-2011, the Kyrgyz side tried to resume talks on the CKU project with China. In fact, the issue was discussed during the visits of the Kyrgyz high-ranking officials such as acting Foreign Minister of Kyrgyzstan Ruslan Kazakbayev, First Deputy Prime Minister of Kyrgyzstan Omurbek Babanov and Prime Minister of Kyrgyzstan Almazbek Atambayev, who visited Beijing on August 25-29, 2010, April 6-9, 2011 and September 14-16, 2011, respectively. As a result, on April 17, 2012, an agreement on the CKU railway project was signed between the Ministry of Transport and Communications of Kyrgyzstan and the China Road and Bridge Company (CRBC). According to the agreement, the Chinese company was required to prepare a feasibility study report within the one-year period and submit its proposals to the Kyrgyz government in the first quarter of 2013. In this context, on May 4, 2012, the working committee and the China-Kyrgyzstan expert group on the project held a joint meeting in Beijing. The representatives of the Ministry of Commerce, Ministry of Foreign Affairs, Ministry of Railways, Export-Import Bank, State Development Bank and other institutions attended this event from the Chinese side, while the Kyrgyz side was represented by the Ministry of Transport and Communications, Ministry of Finance and other governmental bodies. On June 5, 2012, Chinese President Hu Jintao and his Kyrgyz counterpart Almazbek Atambayev, who had arrived to Beijing to participate in the Shanghai Cooperation Organization Summit, also discussed, among other issues, the CKU railway project development.

However, despite those promising developments, on April 19, 2013, Prime Minister of Kyrgyzstan Zhantoro Satybaldiyev announced that the Kyrgyz government would not accept the feasibility study report prepared by the CRBC and submitted on March 14, 2013. Moreover, during his speech at a press conference after the Collective Security Treaty Organization (CSTO) Summit held in Bishkek in May 2013, President of Kyrgyzstan Almazbek Atambayev stated that the railroad would not be beneficial for Kyrgyzstan and Bishkek should refrain from participating in it.

There is a number of economic and political reasons for Kyrgyzstan to postpone consultations on the launch of the China-led CKU railway project. From the economic perspective, due to the difficulties experienced by the Kyrgyz economy over the past years, Kyrgyzstan could not meet its financial liabilities to cover the construction of the Kyrgyz section, most of which should pass through the Tian Shan Mountains. This will significantly increase the estimated cost of the project, which already increased from \$900 million in 1997 to \$1.34 billion in 2001 with a further growth to \$2 billion

in 2006, \$4.5 billion in 2012, and \$6.5 billion in 2013. Since Kyrgyzstan was not able to cover the construction costs, the government was considering permitting China to lease the new railway line, as well as the gold ore, aluminum and iron deposits for 47 years in return for fully funding the construction of the CKU railway's Kyrgyz section. However, the related debates caused a negative public reaction in the country. From the political perspective, it is worth noting that other regional actors hampered the China-Kyrgyzstan-Uzbekistan railway project construction. For example, during the CSTO Summit in Bishkek held in May 2013, Russia proposed the construction of the Russia-Kazakhstan-Kyrgyzstan-Tajikistan (RKKT) railway project, which could be considered as an alternative to the CKU railway project. In fact, at that time President Atambayev recognized that the RKKT railway project was more suitable for Kyrgyzstan than the CKU project.

However, the further development of China's Belt and Road Initiative, which has been on the agenda since 2013, along with the negative effects of the financial crisis in Russia on the Kyrgyz economy that still suffers from structural weaknesses, compels Kyrgyzstan to increase the level of China's investment. Under these circumstances, the China-Kyrgyzstan talks on the issue of the CKU railway project have been put back on the agenda. For instance, in May-June 2016, the trilateral consultations between China, Kyrgyzstan and Uzbekistan on the project were held in Beijing. Moreover, the September 2016 change of leadership in Uzbekistan and Tashkent's efforts to improve relations with China and the Central Asian countries have had a positive impact on the prospect of the CKU railway project's implementation. As a result, on December 19-20, 2016, China, Kyrgyzstan and Uzbekistan continued the trilateral talks on the project in Bishkek. Finally, Kyrgyz President Almazbek Atambayev and his Uzbek counterpart Shavkat Mirziyoyev discussed the issue in Bishkek on September 5, 2017.

To conclude, the CKU railway that could give the landlocked countries access to international land and maritime transport lines has the potential to carry 15-20 million tons of cargo per year via Kyrgyzstan. Cargo transit fees would definitely contribute to the economic development of the country. The CKU railway project could not only bring benefits for the countries along the route but could also promote the development of the regional and global markets. From this point of view, it is highly probable that the China-Kyrgyzstan-Uzbekistan railway project will be built in the near future.

Politics, Foreign Affairs and Security

- During his official visit to Ankara, President of Russia Vladimir Putin agreed with his Turkish counterpart Recep Tayyip Erdogan to take coordinated steps for setting up and monitoring a combat-free zone in Syria, while reaffirming a commitment to build the Turkish Stream gas pipeline and Turkey's first nuclear power plant. The sides also agreed to continue lifting mutual trade, economic and investment barriers.
- During his official visit to Tashkent, President of Tatarstan Rustam Minnikhanov discussed with his Uzbek counterpart Shavkat Mirziyoyev the development of economic cooperation between the Turkic republics, including the increase in trade turnover and the implementation of investment projects in the oil and gas, petrochemical and chemical industries, automotive and mechanical engineering, pharmaceuticals, agriculture, information technology and other areas.
- During his official visit to Baku, Turkish Minister of National Defense Nurettin Canikli discussed with President of Azerbaijan Ilham Aliyev prospects for further strengthening cooperation between the two countries with a focus on joint activity in the military-technical field.
- During his official visit to Astana, Russian Deputy Prime Minister Dmitry Rogozin discussed with Prime Minister of Kazakhstan Bakytzhan Sagintayev the expansion of bilateral cooperation in the space industry. In particular, the parties discussed an upcoming meeting of the Kazakh-Russian Intergovernmental Commission for the Baikonur Complex.
- During his official visit to Tashkent, Chairman of the Senate of the Parliament of Kazakhstan Kasym-Zhomart Tokayev discussed with President of Uzbekistan Shavkat Mirziyoyev the issues of further intensification of inter-parliamentary interaction, as well as the promotion of promising projects and programs of mutually beneficial partnership within the framework of international and regional organizations.
- According to official spokesperson of the Russian Southern Military District Vadim Astafyev, the special operations forces based in the Rostov Region were sent to the Kadamovsky military training site near Novocherkassk. It was noted that the forces were deployed to

the area to hold tactical and special exercises.

Economy, Finance and Energy

- According to the Energy Market Regulatory Authority of Turkey, Azerbaijan exported about 3.94 billion cubic meters of gas to Turkey in January-July 2017, as compared to 3.8 billion cubic meters in the same period of 2016. It was also noted that Turkey imported 31.92 billion cubic meters of gas in January-July 2017, 26.01 billion cubic meters of which were imported via pipelines, while imports of liquefied natural gas accounted for 5.91 billion cubic meters. Azerbaijan's share in Turkey's total gas imports stood at 12.3% in January-July 2017.
- According to the State Oil Fund of Azerbaijan, the fund's budget for 2017 was adjusted. In accordance with the currently approved budget, the fund's revenues and expenditures for 2017 are set at 8.3 billion manats and 14.4 billion manats, respectively. The revenues from the sale of Azerbaijani profitable oil and gas are forecasted at 7.5 billion manats, while income from oil and gas transit through the Azerbaijani territory is expected to reach 16.8 million manats.
- According to the Ministry of Energy of Kazakhstan, the prognosis of oil production in the country was updated to 85 million tons in 2017 compared to 81 million tons forecasted in the beginning of the year. It was also noted that gas production is expected to reach 48 billion cubic meters, while oil processing will amount to 14 million tons.
- According to Prime Minister of Russia Dmitry Medvedev, in 2017 a total of 242 billion rubles (\$4.1 billion) were earmarked for the implementation of the state programs promoting the development of agriculture and the regulation of agriculture markets. It was also noted that in 2016 Russia exported 27.1 million tons of wheat, which made it the world's largest wheat exporter. In 2017, Russia plans to export 30 million tons of wheat.
- According to Prime Minister of Uzbekistan Abdulla Aripov, the country's government will permit unrestricted cash sales of foreign currency to individuals beginning October 1, 2017. The Central Bank of Uzbekistan devalued the national currency in September 2017 allowing its official exchange rate to drop to about 8,100 sums per \$1 from 4,210 sums per \$1.

- The Asian Development Bank (ADB) has approved a business plan for operations in Azerbaijan in 2018-2020. It was noted that the estimated cost of the ADB lending program for three years was set at \$1.6 billion. The ADB's funds will be used for water, transport, energy projects and public-sector management projects.
- President of Uzbekistan Shavkat Mirziyoyev signed a decree on measures to further streamline Uzbekistan's foreign economic activity. According to the document, the rate of excise tax for new automobiles manufactured and imported from Kazakhstan (except for those intended for medical purposes) will be reduced to 2% of the customs value starting from October 1, 2017.

Society and Culture

- President of Kazakhstan Nursultan Nazarbayev signed a decree on the celebration of the 20th anniversary of the capital city of Kazakhstan – Astana. According to the decree, the concept of Astana's 20th anniversary celebration themed "Astana – the Heart of the Country" is to be approved.
- According to the State Registration Service of Kyrgyzstan, 35,110 people obtained the citizenship of Kyrgyzstan from 2010 until the first half of 2017. It is also reported that 90% of new citizens are migrants from Uzbekistan and Tajikistan, while the remaining 10% are former residents of Russia, Kazakhstan, Ukraine, Armenia, Azerbaijan, Turkmenistan, and Georgia.
- President of Uzbekistan Shavkat Mirziyoyev signed a decree on measures to radically improve the management of the pre-school education system. According to the decree, the Ministry of Pre-school Education is to be created in the country. The new ministry will develop and implement a unified state policy in the field of pre-school education.
- Minister for Religious Affairs and Civil Society of Kazakhstan Nurlan Yermekbayev and Director of the State Commission for Religious Affairs of Kyrgyzstan Zaiyrbek Ergeshov signed a memorandum of cooperation in Bishkek. Under the document, the authorized government bodies will cooperate in the field of theological education and hold joint scientific and educational events aimed at the strengthening of the inter-faith dialogue.