



## PROSPECTS FOR CHINA – KYRGYZSTAN ECONOMIC RELATIONS IN THE FRAMEWORK OF THE SILK ROAD ECONOMIC BELT PROJECT

Since 1992, when China and Kyrgyzstan established their diplomatic relations, they have succeeded in developing political, economic and cultural relations in mutual trust. Signing of more than 200 various interstate and intergovernmental agreements between Kyrgyzstan and China shows the acceleration of relations between the two countries in various fields.

In terms of trade and economic relations, China has remained the main economic partner of Kyrgyzstan, despite the difficulties in the world economy in 2015. In 2014, the total amount of foreign direct investment inflows to Kyrgyzstan was \$211 million with China's contribution of \$108 million. In the beginning of 2015, China's total foreign direct investment stock to Kyrgyzstan increased to \$984 million, up from \$45 million in 2005. The trade turnover between the two countries reached over \$1.2 billion and \$1.1 billion in 2014 and 2015 respectively. Since 1992, China has provided a grant of 1.8 billion yuan (\$274.4 million) and \$1.8 billion loan to Kyrgyzstan for financing of several projects. Some projects under cooperation between the two countries are as follows: Kyrgyzstan-China gas pipeline, the second stage of North-South highway, reconstruction and repair of roads in Bishkek, construction of the oil refinery in the country, modernization of the Bishkek Power Station.

During his tour around the Central Asian countries in 2013, the Chinese President Xi Jinping in his Astana speech suggested "to jointly create and adopt the Silk Road Economic Belt project based on the innovative model of collaboration in order to strengthen further economic ties between the Eurasian countries". The new economic corridor includes more than 30 countries that stretches across Eurasia from the Pacific Ocean to the Baltic Sea. In other words, it covers a region with a population of 3 billion people. It is possible to say that Xi Jinping's Silk Road Economic Belt initiative that indicates intensification of the Chinese diplomacy on Central Asia brings new opportunities for Kyrgyzstan. China has been planning to develop several political and economic opportunities by the Silk Road Economic Belt project under three following headings: political cooperation, international trade and investment. Development of the international trade was provided by the bilateral cooperation agreement signed during the official visit of the Prime Minister of Kyrgyzstan to China on January 12, 2016. Under the agreement the parties have agreed to construct the China-Kyrgyzstan-Uzbekistan railway and the Issyk-Kul ring road forwarding additional volumes of the Chinese production to Kyrgyzstan. Aimed to develop the

trade relations between China and Kyrgyzstan and financed from China's funds aforementioned projects could decrease unemployment in the country by establishing new industrial facilities.

It should be noted that Kyrgyzstan experienced the increase of investment inflows, which is one of the economic opportunities offered by the China's Silk Road Economic Belt project. Overall Kyrgyzstan has signed with China more than 10 investment agreements with a total amount of \$1.812 billion (excluding grant assistant). In the early 1990s, major investments were made in property and industry construction (the Kyrgyz-Chinese paper mill). Over the last 10 years, repair of highways (China's investment in this area is more than \$129 million) and energy sector have become priority spheres for investments. Indeed, China has recently been investing mostly in the energy sector of Kyrgyzstan. The most important energy project is reconstruction of the Bishkek Power Station. China, through TBEA company, has allocated over \$386 million for this project. Moreover, China's State Power Investment Corporation and the Government of Kyrgyzstan held negotiations for the construction of the Kazarman chain of hydropower plant on the Naryn river. If this project with a total amount of investments over \$1.565 billion is implemented, it is expected to be China's biggest investment in the energy sector of Kyrgyzstan.

The China Exim Bank has provided a \$400 million loan for the first phase of the construction of the North-South road. The total amount of investments allocated for the project by the Eurasian Bank and the Asian Development Bank is over \$850 million. The ChinaRoad Company has been carrying out the project. Despite the fact that due to the tender problems between the parties the construction of the Issyk-Kul ring road was halted the project is estimated at \$100 million. This ring road is planned to reach Kazakhstan via the Kegen checkpoint to the Tup village in Kyrgyzstan and then become a part of the Western China-Western Europe corridor.

Nowadays, the bilateral relations between Kyrgyzstan and China within the framework of China's One Belt, One Road (OBOR) initiative expected to be more effective and efficient. The projects being implemented so far are also easily correspondent with the purpose of the Initiative. The cooperation between the two countries within the framework of the OBOR is based on: (1) reconstruction of existing railways and highways in order to provide delivery of the Chinese goods to Europe, the Caucasus and the Middle East; (2) construction of new railways and high-

ways, pipelines and logistics infrastructure; (3) ensuring transportation of energy resources, particularly Turkmen and Uzbek natural gas, to China; (4) relocation of the Chinese production facilities to Kyrgyzstan in order to meet the demand for Chinese goods in the Eurasian Economic Union countries and Kyrgyzstan's domestic market; (5) providing Chinese investments in various fields of Kyrgyzstan's industries, especially transport and energy sectors; (6) improving cooperation in the fields of industrial production, agriculture, energy production, exploration of natural resources and tourism; (7) strengthening border cooperation by establishing a free trade zone.

It is possible to make a prediction that China's policy on Kyrgyzstan addresses the fact of the country's membership in the Eurasian Economic Union. The Chinese businessmen in Kyrgyzstan clearly understand that by increasing their activity in the country they could get opportunity to enter the common market of the Eurasian Economic Union.

Indeed, an intense labor inflow from China to Kyrgyzstan was achieved by economic activities of the shoe factory opened in the province of Naryn (located in Kyrgyzstan's border with China) as a result of Chinese investment totaling \$1.5 million in 2014, the Kyrgyz-Chinese tractor factory located in Bishkek, as well as joint enterprises that produce washing machines and televisions in Osh. Moreover, the Chinese companies are rather active in Kyrgyz gold and bronze mining sector in the province of Shu providing geological exploration activities in the Osh province. Furthermore, China has launched two oil refinery facilities located near the cities of Kara Balta and Tokmak on Kyrgyzstan's border with Kazakhstan. These plants are expected to start operating with the raw materials imported from Kazakhstan and Russia.

Therefore, as a result of improved economic cooperation between the two countries, there was an increase in the number of Chinese citizens worked in Kyrgyzstan. In 2016, the Kyrgyz government increased foreign labor quotas from 12,900 to 14,490 people. In 2015 the number of foreign workers in the country reached 12,259 people, 9,848 or 80% of which were Chinese citizens. The majority of Chinese citizens in Kyrgyzstan are workers, traders and university students.

To conclude, China aims to invest largely on projects that cause positive impact on both Kyrgyzstan's economy and its own economy. Intense economic relations and high cooperation that has taken place in the economic sphere are expected to enhance both the economic and political relations between the two countries in the long term.

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## Politics, Foreign Affairs and Security

- On the sidelines of the Council of Ministers of Foreign Affairs of the Organization of the Black Sea Economic Cooperation member states held in Sochi, the Ministers of Foreign Affairs of Russia, Sergei Lavrov, and his Turkish counterpart, Mevlut Cavusoglu, started discussions aiming to restore diplomatic and economic relations between the two countries. Earlier, the President of Russia, Vladimir Putin, instructed the government to take measures to resume bilateral tourist ties and cancel the ban on charter flights between Russia and Turkey.
- During the 70th Session of United Nations (UN) General Assembly Kazakhstan was elected to serve on the UN Security Council as non-permanent members for 2017-2018. The 193-member of the UN General Assembly elected Kazakhstan with 138 votes while 129 votes was enough to secure membership. Kazakhstan will take up its temporary seat on the Security Council alongside Sweden, Ethiopia and Bolivia.
- The President of Russia, Vladimir Putin, established a Council for Strategic Development and Priority Projects aimed at improving the activity of the country in various fields of economics. The Russian President will personally head the Council while Prime Minister, Dmitry Medvedev, will be appointed with the rank of the Deputy Head.
- The Parliament of Kazakhstan approved ratified amendments to agreement with Russia on delimitation of Caspian seabed. The Protocol aimed at improving legislation base for subsoil exploration in the northern part of the Caspian Sea was signed on October 15, 2015 in Astana.
- The lower house of Tajikistan's parliament, Majlisi Namoyandagon, unilaterally denounced agreement with the Kyrgyzstan on the facilitation of the acquisition of nationality signed in 2002. Parliamentarians also voted for denouncement of an agreement on simplified procedures for termination of citizenship of Tajikistan and acquisition of citizenship of Kyrgyzstan signed in 2004.
- The National Security Committee of Kazakhstan (NSC) reported that in the town of Balkhash and the village of Gulshat of the Karaganda region the NSC detained several members of a group that had planned terrorist acts using improvised explosive de-

vices. During the arrest one of the suspects killed himself by detonating such a device.

- Turkmenistan launched production of the fast attack craft, Galjan, at the shipyard near Ufra for the Turkmen maritime border guard service, Serhet Gullugy. Six fast attack craft will be constructed with technical assistance supplied by Turkey's Dearsan Shipyard.

## Economy, Finance and Energy

- Azerbaijan's state oil company, SOCAR, announced its plans to increase the light oil products' output. The light oil products are forecasted to account for 67.4% (3.6-3.7 million tons) of the total oil products' output in 2016, while it accounted for 64.2% (3.5 million tons) of the total petroleum products production in 2015.
- According to the Chief Executive Officer of Gazprom, Alexei Miller, Ukraine is requesting Russia to supply over 3 billion cubic meters of gas in the third quarter of 2016. It was also noted that natural gas price for Ukraine in the third quarter of 2016 will stand at \$167.57 per thousand cubic meters comparing to over \$180 per thousand cubic meters in the second quarter of 2016.
- The Director General of Organization of Industry, Mine and Trade of the Mazandaran province of Iran, Mohammad Pour Omran, announced about plans to construct jointly with Kazakhstan an oil refinery in Amirabad port on the Caspian Sea shore. According to the statement, the oil refinery facility would refine Kazakhstani oil and then export it to other countries.
- The Gazprom Kyrgyzstan reported that after recalculation the tariffs for gas in the country was reduced. Kyrgyzstan's population will pay over 14.18 soms per cubic meter of natural gas in July comparing to 14.33 soms per cubic meter of natural gas in June. The tariffs for gas for industrial enterprises, commercial structures and budgetary organizations decreased from 17.57 soms to 17.41 soms per cubic meter of natural gas.
- The Minister of Energy of Iran, Hamid Chitichian, announced that the construction of the power grids for exchange of energy with Azerbaijan is completed. After its commissioning Iran will swap as much as 600 megawatts of power with Azerbaijan enabling power exports to a third country like Russia and Georgia as well.

- The European Union authorities announced its plans to allocate €7.2 million to Azerbaijan as part of the Rural Development Support Program (RDSP). The RDSP for Azerbaijan started in 2012 and focuses on increasing the access to safe, quality food, stabilizing food availability and supply, as well as encouraging entrepreneurship in the field of agricultural and rural development.
- The Russian automobile manufacturer AvtoVAZ reported that it exported 28,461 Lada cars in 2015, which is 45% lower than in 2014. Export to Kazakhstan fell by 65.9% to 14,278 cars in 2015. At the same period, export to Azerbaijan increased by 1.4 times to 4,690 cars.
- According to the Kazakh state-owned railway operator, Kazakhstan Temir Zholy, the company has launched the construction of a second railway track on a 110-kilometer length section of the Almaty 1 – Shu railway line. The construction of the second track will increase the capacity of the railway line with more trains travelling between China and the Persian Gulf, Europe and Turkey.

## Society and Culture

- Heads of Azerbaijan, Kazakhstan, Kyrgyzstan, Russia and other Eurasian states expressed their condolences to the President of Turkey, Recep Tayyip Erdogan, over the terrorist attack at Ataturk International Airport in Istanbul resulted in the death of at least 45 people and injure of 239 people.
- The Ministry of Agriculture of Kyrgyzstan announced that the country strengthened veterinary control on the Kyrgyz – Kazakh border after an anthrax outbreak in the Karaganda region. According to the announcement, all meat products imported from Kazakhstan would be thoroughly checked by Kyrgyzstan's State Sanitary Inspection experts.
- The State Emergencies Committee of Tajikistan reported that a 5.4 - magnitude earthquake that hit the remote Rasht region located 200 kilometers from Dushanbe has destroyed dozens of houses. The Rasht region authorities stated that no injuries or deaths have been reported.
- China's Hunan Province Flood Control Headquarters reported that rain-triggered floods disrupted traffic and damaged roads in the province forcing the evacuation of 4,700 residents from 82 townships. According to the report, disaster relief efforts are underway.