



KYRGYZSTAN'S NARYN FREE ECONOMIC ZONE: POTENTIAL FOR COOPERATION WITH CHINA

Kyrgyzstan was the first post-Soviet country to enter the World Trade Organization in 1998. Later the country joined the Eurasian Economic Union (EAEU) and China's Belt and Road Initiative. That broad transparency is also supported by the creation of five Free Economic Zones (FEZ) in Kyrgyzstan, which mostly seek to diversify the Kyrgyz economy by increasing cooperation with neighboring countries. However, among the five FEZs, only the ones in Bishkek and Naryn keep up a few levels of operations, mostly because the other three need an adequate infrastructure base.

Kyrgyzstan is a relatively poor country. Its economy is not well-endowed with natural resources; labor is the main export commodity of the country, which transfers about 30% of the GDP. At the same time, the country has no direct access to seaports. Neighboring China is the main economic partner of Kyrgyzstan, as well as the closest major logistics hub and global market. China remains the main investor in Kyrgyzstan's economy during the past five years. According to the Center for Global Development, Kyrgyzstan could even suffer from debt distress due to financing from the Export-Import Bank of China (EXIM), which is the largest creditor of the country. Thus, the bank's credits are estimated at \$1.5 billion by the end of 2016, or about 40% of the country's total external debt. In 2018, the Kyrgyz parliamentary official stated that China's share in Kyrgyzstan's foreign debt has grown from 2% to 44% during 2013-2018. As of October 1, 2018, Kyrgyzstan's foreign debt amounted to \$3 billion 764 million, including \$1.7 billion owed to EXIM. The main areas of the bilateral investment and cooperation policy are energy and infrastructure construction, including hydro-power plants, the China-Kyrgyzstan-Uzbekistan railway – a part of the southern corridor of the Eurasian transcontinental railway, highway construction, and the completion of the Central Asia-China gas pipeline. In 2018, Kyrgyzstan did not receive \$100 million of pledged grant funds from China. Some analysts consider this a result of the strengthening of the anti-Chinese public discourse and the criminal cases related to the project implemented by the Chinese TBEA company. According to the National Bank of Kyrgyzstan, the country's total foreign direct investment inflow in 2018 is estimated at \$569.8 million, including \$245.4 million of Chinese investments. In this context, Kyrgyzstan can use the Naryn Free Economic Zone (NFEZ) to fully develop the potential of economic cooperation with China.

One of the major goals of the NFEZ is to pull in new foreign direct investment (FDI)

in such areas as tourism, "green economy", and key agricultural products, such as garlic, honey, meat, as well as the transfer of innovations and administrative know-how that by and large comes with FDI, which can be the main source of improvement of the country's total factor productivity. The NFEZ, established in 1998, is both Kyrgyzstan's attempt to enhance integration with China, as well as a new pattern of the Kyrgyz economic policy in the largest and underdeveloped region of the country. The project advocates the construction of land-line transportation routes linking China with the EAEU. The Kyrgyz government perceives a pivotal role of the NFEZ as a transit line for Chinese goods heading to the EAEU. It is worth noting that on June 12-13, 2019, in the framework of the state visit of Chinese President Xi Jinping, a Kyrgyz-Chinese business forum was held, and a number of bilateral agreements on investment and certification standards in agricultural trade were signed.

In legal and geographic terms, the NFEZ actually covers the entire Naryn region. Its total area is 45,200 sq. km populated by 271 000 people. The city of Naryn is 180 km from the border city of Torugart, so the NFEZ offers easy connectivity to the western and central Chinese provinces. The Kyrgyz government contributes to the Naryn region's infrastructure by remodeling the road to the Chinese border and by building a railway line from Kara-Keche (Jungal district, Naryn region) to Balykchy (Issyk-Kul region). The NFEZ has been looking for long-term cooperation with China and Kyrgyzstan's EAEU partners. In 2015, a tripartite agreement was signed to promote cooperation among Vitebsk (Belarus), Kashgar (China), and the NFEZ. In view of Kyrgyzstan, its EAEU membership could turn the NFEZ into a land bridge between Kashgar, which is in China's Xinjiang Uyghur Autonomous Region, on one side, and its EAEU partners, on the other. After Kyrgyzstan joined the EAEU in 2015, the NFEZ received several Chinese delegations interested in discussing possible investment opportunities. Despite the fact that the NFEZ was formed in 1998, its present cooperation with Kashgar began only in 2009 after the latter received the status of a special economic zone. Since then, the NFEZ management made a number of visits to Kashgar to exchange experience and establish cooperation. In 2014, the NFEZ opened an office and a trading house in Kashgar.

The current state of affairs in the NFEZ cannot be called positive. At the very beginning, the zone had 24 companies from China, the Netherlands, and Russia, and the number of jobs created amounted to 1,000.

However, these figures began to decline starting 2015, when the legislation of Kyrgyzstan was changed requiring prior registration with the Ministry of Justice and installation of security equipment for FEZ residents. As a result, there was a sharp decline in the number of NFEZ residents to three in 2019, with only 15 jobs created. Additionally, a clear lack of data on the NFEZ operation was noted by researchers, which means that policies concerning FEZs are being made largely in the dark. The government plans to create a new transportation and logistics center near Torugart, as well as an industrial zone with the FEZ status. Currently, the lack of competitive advantages in Kyrgyz industrial production also determines the inefficiency of the creation of a FEZ in Kyrgyzstan.

Kyrgyzstan has tried to reduce economic dependence on Russia by enhancing international cooperation and practicing a balanced multilateral external economic policy. However, it seems that by implementing this policy Bishkek has gradually increased its dependence on Beijing. Moreover, the amount of the Kyrgyz debt to China is much more voluminous and comprehensive than the one owed to Russia. By the end of 2017, Russia canceled \$240 million debt of Kyrgyzstan. In March 2018, Chinese Ambassador to Kyrgyzstan Xiao Tsinghua stated that China would not consider any debt cancellation. Since closer investment-debt cooperation with China has developed in recent years, Kyrgyzstan and China are currently building in-depth bilateral financial relations, including its legislative, political and public sides.

The Kyrgyz government does not appear to have a vision regarding the FEZ advancement. While Kyrgyzstan seeks to develop intensive economic cooperation with China through the NFEZ, the public perception remains anti-Chinese, thereby not only giving rise to alarmist concerns but also forcing the government to maintain control over Chinese labor migration to the NFEZ and its operation through changing the relevant legislation. Such a policy leads, in turn, to reduced activities within the NFEZ. It is obvious that Kyrgyzstan is reluctant to fully open up in cooperation with China, for example, in people-to-people ties, while showing a greater openness in cooperation with the EAEU. At the same time, the NFEZ remains one of the options for diversifying cooperation with China, and, if successful, this may serve as a model of "win-win" cooperation.

Politics, Foreign Affairs, and Security

- Speaking on the occasion of the third anniversary of the 2016 treacherously attempted coup, Turkish President Tayyip Erdogan stated that the Russian S-400 air defense systems, parts of which were delivered to Turkey, would be fully deployed by April 2020. Ankara's purchase of the Russian military equipment raised tensions with its NATO allies, particularly the United States, which warned Turkey that it would respond with sanctions.
- Kyrgyzstan held negotiations with Tajikistan and Uzbekistan on border delimitation issues in the Tajik city of Isfara and the Kyrgyz city of Osh, respectively. In both cases, the relevant working groups discussed proposals on the delimitation of remaining sections of the border and reached agreements on conducting joint field reconnaissance.
- The Sary-Tash 2019 special tactical exercise was held in the Alay district of Kyrgyzstan's Osh region. The units of the State Border Service, the Ministry of Internal Affairs, the State Committee for National Security and the Ministry of Emergency Situations practiced their coordination in conducting a combat operation to block and destroy illegal armed groups.
- During his visit to Washington to attend the Second Ministerial to Advance Religious Freedom, Foreign Minister of Uzbekistan Abdulaziz Kamilov met with U.S. National Security Advisor John Bolton and U.S. Special Representative for Afghanistan Reconciliation Zalmay Khalilzad. The parties discussed prospects of bilateral relations and the peaceful political process in Afghanistan.
- The 8th meeting of the India-Uzbekistan joint working group on counterterrorism was held in New Delhi. The delegations exchanged views on effective methods of countering radicalization, combating terrorism financing, preventing the use of Internet for terrorist purposes, and dealing with returnee foreign terrorist fighters. The parties also discussed ways to strengthen bilateral cooperation through capacity building and sharing of information and best practices.
- The OSCE and the UNODC organized a three-day train-the-trainer course on countering terrorist financing for Uzbek participants in Vienna. The curriculum covered areas such as sources of information; national, regional and international threats; requirements of a terrorist organization; money flows; and national case studies. Upon their return to Uzbekistan, the course participants will deliver training courses at the national level jointly with international experts.
- During its regular plenary meeting in Vienna, the OSCE Forum for Security Cooperation discussed opportunities for strengthening cooperation between the OSCE and the CSTO in Central Asia. Given the similarity of the issues tackled by the two organizations, the participants emphasized the need to specify areas of their potential interaction in the region.

Economy, Finance, and Energy

- Prime Minister of South Korea Lee Nak-yeon paid visits to Tajikistan and Kyrgyzstan, becoming the first South Korean leader to visit these Central Asian states. In Dushanbe, he held talks with President Emomali Rahmon and his Tajik counterpart Kokhir Rasulzoda. In Bishkek, Lee Nak-yeon met with President Sooronbay Jeenbekov and Prime Minister Muhammetkaliy Abylgaziev. In both capitals, the parties discussed ways to boost mutual trade and economic cooperation.
- The delegation of Uzbekistan headed by Foreign Minister Abdulaziz Kamilov paid a week-long working visit to the United States to attend a number of events and meetings aimed at developing bilateral trade, economic, financial and investment relations. During the visit, Uzbek officials and businessmen negotiated with representatives of U.S. government agencies, the World Bank, large U.S. corporations, hedge funds, investment banks and financial institutions.
- The first meeting of the Uzbekistan-Afghanistan joint commission on trade and economic cooperation was held in Tashkent. The sides agreed to accelerate trade, launch industrial projects, and build a new electricity line from Uzbekistan to Afghanistan. UzAuto, Uzbekistan's car producer, also announced a plan to set up a joint assembly of cars in Kabul.
- According to a report by the Tajik state natural gas distributor Tojiktransgaz, over the first six months of 2019, Tajikistan significantly increased imports of natural gas from Uzbekistan, purchasing about 70 million cubic meters worth more than \$8.7 million. The Tajik Aluminum Company is the largest consumer of the Uzbek gas in Tajikistan accounting for 80% of the imports.
- ArcelorMittal Temirtau, Kazakhstan's largest mining and metallurgical company, terminated its contract with Niko Oil, Gazprom's official distributor in Kazakhstan, over fears that dealing with a sanctioned company would damage the reputation of its leadership. This is the first time a sanctioned Russian company operating in Kazakhstan has run into problems.
- Russian President Vladimir Putin and his Belarusian counterpart Alexander Lukashenko attended the 6th Forum of Russian and Belarusian Regions held in St. Petersburg. Participants included more than 1,000 delegates from the two countries, including officials, businessmen, experts and journalists. Apart from economic cooperation, this year's forum focused on interregional ties as a foundation for the two nations' common cultural and humanitarian space.
- The Board of the Eurasian Economic Commission approved a draft agreement on the Advisory Board for Exchange Policy of the EAEU States, determining its tasks, functions, composition and powers. If created, the body composed of the heads of national banks will coordinate exchange rate policies of the member states.

Society and Culture

- A thematic event devoted to discussing the model of cooperation between the UN and the International Fund for Saving the Aral Sea in ensuring sustainable development in Central Asia was held at the UN Headquarters in New York. The event focused on ways of strengthening collaboration in resolving the Aral Sea problem and eliminating negative effects of climate change.
- The OSCE Program Office in Dushanbe organized training courses on preventing violent extremism and terrorist radicalization among youth in 12 districts of Tajikistan's Sughd and Khatlon regions. 320 representatives of local governments, teachers, and people, whose relatives travelled to conflict zones as foreign terrorist fighters, participated in the courses.
- The 21st regional Central Asia media conference titled "Media freedom and pluralism in times of digital transformation" was held in Bishkek. During the two-day event, 100 journalists, officials and civil society activists from the five Central Asian states and Mongolia discussed issues related to the development of new media technologies, the regulation of the online media and the protection of freedom of expression in the region.
- At a meeting devoted to the improvement of the national system of continuous professional education, Uzbek President Shavkat Mirziyoyev instructed responsible officials to finalize proposals regarding the establishment of a new vocational training system. Currently, as Uzbekistan undertakes large-scale reform efforts, the country's labor market needs qualified personnel of working professions.
- The 29th session of the CIS Health Cooperation Council was held in Ashgabat as part of Turkmenistan's CIS presidency. Heads and leading specialists of healthcare agencies from the CIS member countries, as well as relevant international organizations, attended the forum to discuss issues related to the prevention and treatment of diabetes, tuberculosis and other diseases.
- According to a poll conducted by the Rating sociological group, 58% of Ukrainians are satisfied with the performance of President of Ukraine Volodymyr Zelensky, whereas 19% hold the opposite opinion. Over 80% of respondents are dissatisfied with the Verkhovna Rada, and only 7% approve its work. 41% of respondents believe that the situation in Ukraine is developing in the right direction, while 37% think it is developing in the wrong direction.
- The Ministry of Education and Science of Kyrgyzstan organized the international ethnic carnival "The Issyk-Kul Gathers Friends" at Lake Issyk-Kul, bringing together more than 400 children from Kazakhstan, Kyrgyzstan, Russia and Uzbekistan. The event's objective is to study, revive and preserve ethno-cultural peculiarities of the CIS and other countries, as well as to develop artistic, musical, vocal and choreographic skills of participating children.