Jointly Building Belt and Road towards SDGs

Key findings of the preliminary report

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About the project

• The scope and ambitions of the 2030 Agenda for Sustainable Development require intensive global participation in supporting the implementation of all the Sustainable Development Goals (SDGs) and targets that bring together governments, the private sector, civil society, the United Nations system and other actors, and mobilize all available resources.

• The implementation of the 2030 Agenda and the achievement of the SDGs will depend on specific actions, including the strengthening of international cooperation at the global, regional, national and subnational levels by all stakeholders.
About the project

• The Economic Analysis and Policy Division (EAPD) of the United Nations Department of Economic and Social Affairs (UN DESA) is implementing a multi-country medium-term project aimed at strengthening national capacities for the joint implementation of the BRI towards achieving sustainable development goals.
Objective of the project

• The project aims to strengthen the capacity of policy makers in countries along the BRI to assess the potential impact of the project on achieving the SDGs and develop appropriate policies to maximize potential benefits and manage potential risks.
Project tasks

To this end, the Project will focus on:

• Creation of an institutional network between countries to study the economic, social and environmental consequences of cooperation activities within the framework of “One belt, one path”, as well as national and intersectoral policies in order to stimulate and use these measures to accelerate the implementation of the SDGs;

• Facilitating capacity development and assisting interested governments in translating proposed policy options into programs at the country level and in helping strengthen national capacities through policy dialogue at the national, regional and global levels.
The Kyrgyz Republic is a middle-income country with an HDI of 0.672 in 2017.

As a landlocked country, Kyrgyzstan relies on the agricultural sector, which provides 25% of GDP and provides approximately 30% of employment.

Gold accounts for 25% of industrial production and 48% of exports.

Remittances from abroad account for more than 30% of GDP.

From the point of view of private sector development, the economy is dominated by small economic entities that usually work in the informal sector.

The country joined the Eurasian Economic Union (EAEU) in 2015, which expanded its access to international trade and foreign investment;
Country’s context

• Weak economic governance and high levels of corruption are key development challenges.

• According to the MDG progress report, the Kyrgyz Republic has reached milestones for several indicators, such as reducing extreme poverty.

• But it lags behind in issues such as maternal and child mortality, gender equality, the fight against HIV / AIDS and access to clean water and sanitation.

• Gender inequality is another unresolved issue, especially in terms of education, employment and political participation.
BRI and its infrastructure investments can contribute to sustainable development and to the achievement of many Sustainable Development Goals, including:

- SDG 9 (industry, innovation and infrastructure),
- SDG 6 (clean water and sanitation),
- SDG 7 (affordable and clean energy),
- SDG 13 (climate action),
- SDG 15 (life on land).
Cooperation between the two countries within the framework of BRI is based on:

• reconstruction of existing railways and roads to ensure the delivery of Chinese goods to Europe, the Caucasus and the Middle East;

• the construction of new railways and roads, pipelines and logistics infrastructure;

• ensuring the transportation of energy, in particular Turkmen and Uzbek natural gas, to China;

• strengthening border cooperation by creating a free trade zone.
Cooperation between the two countries within the framework of BRI is based on:

• the transfer of Chinese production facilities to Kyrgyzstan in order to meet the demand for Chinese goods in the countries of the Eurasian Economic Union and on the domestic market of Kyrgyzstan;

• Attracting Chinese investment in various industries of Kyrgyzstan, especially in the transport and energy sectors;

• improving cooperation in the fields of industrial production, agriculture, energy production, exploration of natural resources and tourism;
Trade

• Deliveries to China account for 2.1% of Kyrgyz exports.

• Since 2010, imports from China have more than doubled. It exceeds the export of Kyrgyzstan to China by almost 30 times and has grown to 25% of total imports of goods of the Kyrgyz Republic.

• The main products of Kyrgyz exports to China are mineral raw materials (periodically), raw hides, leather, and fruits.

• Imports from China comprise about a quarter of equipment and machinery, electrical equipment and electronics, 10-12% of products from ferrous metals, the rest falls on clothing, consumer electronics, shoes and cars.
Investments

• Today, the number of Chinese enterprises is 397, in addition, 177 enterprises are joint ventures.

• Investments from China are mainly directed to manufacturing enterprises (of which 78.3% - to the production of petroleum products, 19.6% - to the production of rubber and plastic products, other non-metallic mineral products), as well as geological exploration and mining.

• Tax revenues from large enterprises with Chinese investments for 2018 amounted to 3.8 billion soms (an increase of 20% compared to 2017).
Projects

• Substation Datka
• Power line "Datka - Kemin"
• Oil refinery "Dzhunda"
• North-South Road
• Modernization of Bishkek CHP
• Gas pipeline to China
Substation Datka

• The substation was built in 2011-2013 with a $208 million loan from the Chinese Export-Import Bank. Money is allocated for 20 years at 2% per annum and with a grace period of 7 years.

• An agreement on the implementation of this project was signed in 2010-2011.

• The facility was built by the Chinese company TBEA. The substation can receive electricity from four hydroelectric power stations of the Naryn cascade - Kurpsayskaya, Shamaldy-Sayskaya, Tash-Kumyrskaya and Uch-Kurgan.
Power line "Datka - Kemin"

• An agreement on the construction of a power line was signed in the summer of 2012. Funds in the amount of 389 million dollars were allocated by the Export-Import Bank of China - for 20 years at 2% per annum and with a grace period of 9 years.

• Construction began in the summer of 2013 and completed exactly two years later.

• As part of the same project, a new Kemin substation was built. All work was carried out by TBEA.
Oil refinery "Dzhunda"

• Construction began in 2009, was completed - at the beginning of 2013, in 2014 the plant was launched.

• The project is implemented by the China Petrol Company Djunda, the company has invested about $ 300 million investment. In the fall of 2013, during the visit of the Chinese leader Xi Jinping to Kyrgyzstan, an agreement was signed on the allocation by the Development Bank of China of $ 400 million to develop the plant and increase its capacity.

• Refinery "Dzhunda" can not begin full-fledged work due to lack of raw materials.
North-South Road

• The construction of an alternative highway between the north and south of Kyrgyzstan began in 2014. The project is divided into three stages - the construction of sections of 154, 96 and 183 kilometers.

• The Chinese side has allocated loans for the first two sections of the road. The first phase of construction was funded by the Export-Import Bank of China, which allocated a loan of $400 million, conditions - 2% per annum, repayment period - 20 years with a grace period of 11 years.

• A loan of $300 million was taken for the second phase of the project, and this amount is divided into two parts: the Export-Import Bank of China will issue $185 million for 20 years at 2% per annum, the Chinese government - $112 million for 25 years at 1.5% per annum. Both parts of the loan have a grace period of 11 years.

• The work is carried out by China Road and Bridge Corporation.
Modernization of Bishkek CHP

• During the aforementioned visit of Xi Jinping to Kyrgyzstan, an agreement was signed on a loan to modernize Bishkek's CHP. According to the document, the Chinese Export-Import Bank allocated $386 million for 20 years at 2% per annum with a grace period of 11 years.

• The modernization of Bishkek's CHPP began in April 2014, and work was completed in 2017. As part of the modernization, new boilers were installed, the station will be able to generate 600 megawatts of electricity instead of the current 300.
Gas pipeline to China

• According to the agreement signed in autumn 2013, a gas pipeline route from Turkmenistan to China will pass through the Chon-Alai and Alai regions of Kyrgyzstan.

• The length of the gas pipeline along the Kyrgyz territory will be 215 kilometers, the construction cost is $1.5 billion, which will be allocated by the Chinese side.

• The volume of deliveries will be 30 million cubic meters of Turkmen gas annually. In 30-35 years of transit, Kyrgyzstan will receive up to $2.5 billion. The Kyrgyz side will not be able to connect to the gas pipe.
Challenges and opportunities of BRI

Opportunities

- Improving cross-border infrastructure and their management;
- Reducing trade costs, improving trade rules, stimulating trade flows;
- Improving the investment climate and the influx of FDI;
- Improving growth and employment, reducing poverty;
- The development of lagging and isolated regions.

Challenges

- Ensuring the effectiveness of investments in conditions of high uncertainty;
- Coordination of infrastructure investments, lack of data and transparency;
- Environmental and social risk management;
- Ensuring openness and transparency to the public;
- Maintaining sustainability of public debt.
Discussion at the 1st workshop

The participants exchanged information on the activities of BRI and discussed several issues on the following topics:

• Transport Infrastructure and Transit
• External debt to China
• FDI
• Migration and demographic change
• Trade policy
• Macroeconomic model
• Database.
Transport Infrastructure and Transit

- Poor transport links are seen as one of the main obstacles to diversifying exports in Kyrgyzstan.

- Regional cooperation in the field of new and improved transport infrastructure and political reforms can significantly reduce trade costs and improve connectivity, which will lead to increased cross-border trade and investment and improved growth in the region.

- The Belt and Way Initiative provides Kyrgyzstan with unique opportunities to develop its infrastructure and productive potential, as well as to expand and deepen trade and economic relations with China.

- However, all options should be carefully analyzed and long-term effects on trade and economic development considered.
External debt to China

• China's role in financing large-scale infrastructure projects through direct lending to the Kyrgyz government, as well as foreign direct investment (FDI) and regional initiatives, is expected to increase.

• The lack of clarity regarding official lending could increase the region's economic vulnerability, especially given the weight of Beijing's national loans.

• Eximbank of China is the largest single lender on available loans totaling $1.5 billion. The United States, or about 40 percent of the country's total external debt.

• Even if some of the BRI infrastructure loans are provided on very favorable terms, it can still become a very serious debt burden.
FDI

• In recent years, the role of China as a subject of development and investor in Kyrgyzstan is growing exponentially. There is also growing interest from public and private Chinese companies in FDI in the energy, airline and construction sectors for access to the EAEU market.

• Currently, over 400 Chinese companies are registered in Kyrgyzstan, which cover various industries, such as mining, trade, construction, telecommunications, agriculture and metallurgy.

• Currently, almost all foreign investments in the region go to the extractive sector (oil, gas, metals) or non-trading sectors (telecommunications, finance, retail, real estate).

• Chinese investments in tradable sectors are less likely, as many important opportunities are missing in this type of production.
Migration and demographic change

• Chinese investment should theoretically open up employment opportunities for the local population. But this has limitations, most often the condition for the huge soft loans that China provides through state banks is that related projects are implemented by a Chinese company and labor.

• There are two common fears in Kyrgyzstan. First, there will be an “invasion” of Chinese migrants. The second fear is that China will begin to doubt border agreements and suddenly demand more land.

• In many cases, attracting Chinese migrant workers is not an option, but a necessity for Chinese investors. Chinese companies bring their own technology to their projects; thus, "they also bring their own engineers, observers, and other qualified personnel to work with the equipment."
Trade policy

• Representatives of the private sector raised questions on trade policy, access to Chinese markets, investments, access to finance from BRI funds.

• Trade policies and trade facilitation measures may be the cheapest and most effective way to increase trade between China and Kyrgyzstan.

• Other infrastructure investments can increase exports from Central Asia to China if they are aimed at supporting export-oriented FDI from China, for example, improving irrigation systems or testing laboratories serving agricultural projects (or creating generating capacities to supply energy to a mine or metallurgical plant) in order to produce goods for the Chinese market.
The risks

• Risk management is vital for BRI to achieve sustainable development goals.
• Projects related to BRI face political, regulatory, macroeconomic, social and environmental risk factors throughout their life cycle, which includes the phases of planning, development, construction, operation and completion.
• Risks can materialize at the local, regional, national and transnational, as well as industry level.
• Risks include regional political and social instability, such as Kyrgyz ethnic violence and growing resource nationalism.
The risks

• Environmental risks. The main direct environmental impacts (wildlife, pollution) from construction / operation and indirect impacts (habitat, water quality, erosion) from changes in land use

• Increasing spatial inequality

• High probability of maintaining lagging areas within countries and lagging regions in Central Asia
The risks

• Likely negative consequences resulting from greater integration of trade and the market and lack of compensation mechanisms
• Barriers to labor mobility exacerbate particular inequalities while reducing overall returns
• Increased Management Risks
• Corruption and public procurement
• Debt Sustainability Risks
• Ineffective coordination of investments and policies
• May lead to missed opportunities for centers and cities with increased market potential.
Recommendations

• BRI members should focus on the correct reporting of BRI projects, provide a systematic discussion of opportunities and risks, opportunities and problems.

• Corporate governance, diversification, fiscal management and the commercial feasibility of projects will be a key factor in determining its impact.

• In order for BRI to succeed as China offers, it must stimulate an industry that directs more trade to China and diversify trade outside of China.

• In order for local economies to truly benefit from Chinese investments, they must be accompanied not only by employment, but also by training, professional development, and corporate social responsibility activities.
Recommendations

• To create a low-risk environment and act as described above, BRI can rely on research on special economic zones (SEZs) to help realize their potential to play a catalytic role in industrialization, diversification and trade integration in partner countries.

• The impact of investments on development will depend on both their quality and quantity. In this regard, the role of environmental and social safeguards for infrastructure projects is critical to providing a common vision for BRI.

• Evidence-based policy development, based on quality research and applied analysis, will help develop better policy options, reduce poverty, stimulate economic growth and improve the quality of life in the country.
Recommendations

• Economic corridors must be carefully defined to maximize benefits and promote urbanization and in line with national development strategies.
• Projects should ensure social and economic cohesion; job creation
• Sustainability of budget and debt must be addressed
• Funding mechanisms for the private sector and PPPs need to be developed.
• Adoption of international conventions on freedom of transit and cross-border telecommunications, networks, customs and trade facilitation
• An institutional structure needs to be established to manage the corridor and monitor performance.
Conclusion

• BRI potentially has a big impact on Central Asia
• Long-term increase in real income and FDI inflows, improved infrastructure
• But BRI may not live up to expectations due to failures related to the institutional system, management and market inefficiencies.
• Border delays, trade barriers and FDI restrictions need to be reduced
• Solving the problem of spatial inequality and mobility.
• But also increase investor protection, open public procurement, ensure private sector participation
• Participation in BRI must be consistent with the national country development program and a comprehensive infrastructure plan at the regional level
• Economic and non-economic risks associated with BRI projects must be addressed
Thanks for your attention!

Q&A

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