Kyrgyz Republic

Strengthening national policy capacities for jointly building the Belt and Road towards the Sustainable Development Goals

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1. Introduction

1.1. 2030 Agenda, Belt and Road Initiative, and possible linkages

The scale and ambition of the 2030 Agenda requires an intensive global engagement in support of the implementation of all the Sustainable Development Goals (SDGs) and targets, bringing together Governments, the private sector, civil society, the United Nations system and other actors and mobilizing all available resources. The implementation of the 2030 Agenda and the achievement of the SDGs will depend on the concrete actions, including strengthened international cooperation, taken at global, regional, national and subnational levels, by all the stakeholders.

In 2013, the Government of the People's Republic of China announced the initiative of "jointly building the Silk Road Economic Belt and the 21st Century Maritime Silk Road," or the Belt and Road Initiative (BRI). The BRI runs through the continents of Asia, Europe and Africa, encompassing a large number of countries with huge potential for economic development. In 2013-2020, China signed BRI cooperation documents with 138 countries, more than 2,000 projects have been launched and thousands of jobs have been created in partner countries.

While the BRI and the 2030 Agenda for Sustainable Development are different in their nature and scope, they share in many respects a similar vision and some basic principles. The BRI has the potential for transforming the lives and economies of the participating countries, facilitating the implementation of the 2030 Agenda and the achievement of the SDGs, not only for the participating countries but for the world as a whole.

However, the realization of the potential benefits of BRI is by no means automatic. BRI-related activities in recipient countries embody potential risks in environmental, social, reputational or sustainability aspects. To harness the opportunities brought by the BRI to accelerate the achievement of the SDGs, the UN has conducted a capacity development project that supports beneficiary countries to better understand the implications of BRI and SDGs and formulate policy responses to maximize the benefits and avoid possible risks. The present national report highlights findings from country-specific analysis.

1.2. Country specific context, challenges and opportunities

<table>
<thead>
<tr>
<th>Kyrgyz Republic</th>
<th>2018</th>
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<tbody>
<tr>
<td>Population, million</td>
<td>6.3</td>
</tr>
<tr>
<td>GDP, current US$ billion</td>
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<td>GDP per capita, US$ current</td>
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</tr>
<tr>
<td>Life Expectancy at Birth, years (2016)</td>
<td>70.7</td>
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</tbody>
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1 The project, "Strengthening national capacities for jointly building the Belt and Road towards the Sustainable Development Goals," has been conducted by Economic Analysis and Policy Division, Department of Economic and Social Affairs, United Nations. For details, visit brisdgs.org
The Kyrgyz Republic is a lower middle-income country with a Human Development Index (HDI) of 0.672 in 2017. As a landlocked country, it relies on the agriculture sector, which contributes 25 per cent of GDP and provides approximately 30 per cent of employment. Gold constituted 25 per cent of industrial production and 48 per cent of exports. Foreign remittances from immigrant workers accounted for 30 per cent of GDP. In terms of private sector development, the economy is dominated by small economic entities that typically operate in the informal sector. It has rich endowments, including arable land (7 per cent of the country), pastures (48 per cent), and substantial forests and minerals. There is also significant potential for the expansion of its agriculture sector, hydro-electricity production, and tourism industry. The country joined the Eurasian Economic Union (EEU) in 2015, thus expanding its access to international trade and foreign investments. It has also benefited from China’s increased foreign direct investment (FDI) to Central Asia.

To realize the country’s potential, economic activities need to be diversified through increased private sector development, and improved occupational skills and productivity in the young labor force. As a landlocked economy with a limited domestic market, the Kyrgyz Republic would benefit greatly from deeper regional integration, given its important energy export potential, and by holding a good regional trade and transit position. Outside the extractive sector, the economy is dominated by SMEs, with few mid-sized corporations in existence. While deeper regional trade links create opportunities for the best local firms, stronger operating models and core competencies will be needed to better compete overall.

Economic governance and perceived corruption are key challenges to development. Gender inequality is another outstanding issue, especially in terms of education attainment, employment and political participation. According to the Millennium Development Goals (MDGs) progress report 2015, the Kyrgyz Republic has reached benchmark levels for several indicators such as extreme poverty reduction, but falls behind in issues including maternal and child mortality, gender equality, fighting HIV/AIDS, and access to clean water and sanitation.

For the Kyrgyz Republic, it will be important to evaluate the possible effects of participating in the BRI as well as the much-needed policies and institutional reforms. Some of the infrastructure and policy reforms envisaged by the BRI will be difficult to implement, creating risks ranging from fiscal sustainability to negative environmental and social implications. There are also potential economic shocks created by reduced trade costs that will require policies to deal with the adjustment and the negatively affected territories. Finally, opportunities for growth and poverty reduction will likely be contingent on appropriate macroeconomic conditions and supportive institutions, and will differ by regions and social groups depending on their comparative advantage, initial conditions and ability to reform. Rigorous analyses will be required to identify the transmission channels of various potential socio-economic impacts and assess various policy options to ensure that the BRI can help the country accelerate towards the implementation of the 2030 Agenda.

3 Bulletin of the National Bank of the Kyrgyz Republic, 2017
2. Analytical Findings

2.1. SDG progress, national development strategies, plans and other policy documents

The Kyrgyz Republic declared full support for the comprehensive international development agendas up to 2030 and has been an active participant in regional events to discuss SDGs. The Kyrgyz Republic is in the process of aligning its national development strategies with the 2030 Agenda for Sustainable Development. Since 2013, the Kyrgyz Republic has been actively engaged in developing the post-2015 development agenda through national consultations and high-level conferences attended by government, development partners, civil society, the private sector and international organizations on the process of achieving the MDGs and advancing the SDGs.

The Kyrgyz Republic has made progress in economic, social and human development over the past decade, but challenges remain in relation to the 2030 Agenda and the SDGs. The challenges include high levels of chronic malnutrition, micronutrient deficiencies, poverty, limited access to food and employment, vulnerability to natural disasters and climate change, gender inequalities and limited opportunities for smallholders.

The Government of the Kyrgyz Republic understands that economic growth and material improvement of well-being are not sufficient in resolving persistent inequalities. To comprehensively address these inequalities, income inequality has to be addressed alongside other core social challenges, such as health, nutrition, and education. These challenges could be tackled through effective public spending, governance and the reduction of prejudice, discrimination, and social exclusion. A powerful point in UNDP’s 2013 Humanity Divided report is that development paradigms should incorporate deeply intertwined material inequalities with relational ones. In practical terms, this means that development policy must address equally the inequality of opportunities and the inequality of outcomes, responding to the specific needs and circumstances of each country.

Since the SDGs can only be achieved with strong national leadership backed by global solidarity and collective actions, the National Council for Sustainable Development was established in the Kyrgyz Republic. It is the government institution that coordinates and assesses national development strategies and priorities. The Ministry of Economy serves as secretariat of the Council, collecting and reporting information from other governmental bodies. For building a more peaceful, inclusive and sustainable world, a comprehensive government approach with coordinated action at local, national and global levels is required. An SDG Coordinating Committee was established as an institutional framework to coordinate the work of agencies towards achieving the SDGs and the SDG Coordination Council under the leadership of the prime minister. For the solution of specific tasks, identified state bodies are responsible for both data collection and policy implementation, with a focus on achieving concrete results.

Government action complemented by support for SDG achievement from parliaments, civil society, and media make development inclusive and sustainable. The Government of the Kyrgyz Republic has also sought to maintain a conducive environment for the private sector and effective channels of communication.

In order for the global agenda to work, the SDGs need to be incorporated into national and local plans, policies, and budgets. In April 2017, the National Council for Sustainable Development established the country’s “Vision 2040,” which outlines key priorities in political, economic and social development. The
document includes short, medium and long-term objectives to systematically approach improvements in agriculture, development opportunities for small businesses, and the creation of logistics and processing centers, with emphasis on enhanced links among economic access, food security and resilience to shocks. Corresponding to the national interests and development priorities of the country, the SDGs are also reflected in the national strategy. Sectoral strategies in health care, education and social development, law enforcement reform and legislation have been developed by sector ministries and approved by the Parliament.

The Kyrgyz Republic has built strategic documents on sustainable development and its corresponding management system, which include the National Strategy for Sustainable Development until 2040 and the Development Program of Government 2018-2022 called “Unity. Confidence. Creation.”

Currently, the National Strategy for Sustainable Development for 2018-2040 has been finalized and approved by the National Council. It aims to create a strong economy, ensure high quality of life, develop competitive human capital, and contribute to regional cooperation. One of the key initiatives of the national strategy is the digital transformation program “Taza Koom” (Clean Society) for promoting principles of e-government and an open society. A key component for implementation of this initiative is digital transformation, which is based on human capital and innovation, as well as on living in harmony with the environment. The key national initiatives are:

1. Taza Koom, an ICT program on digital transformation;
2. Development of regions, focusing on 20 urban growth nodes starting with five to six urban centers;
3. Human capital development;
4. Law enforcement reforms for safe cities; and
5. Constructive regional cooperation and integration.

Launched in April 2017, Taza Koom is intended to link the government, businesses, and citizens to reduce corruption and increase transparency and growth. It is consistent with the 2030 Agenda for Sustainable Development, which recognizes that the dissemination of information, communication technologies, and global interconnection of networks promote great opportunities for human progress, bridging the digital divide and building a knowledge-based society. Taza Koom is intended to improve the efficiency of government bodies, taking into account the automatization of many processes and the introduction of transparency principles.


The main approach of the Development Program is a list of priorities. It is aimed at maintaining continuity and consistency, following the results of the implementation of the National Sustainable Development Strategy of the Kyrgyz Republic for the period 2013-2017. Priority directions are formed taking into account the 2030 Agenda and the achievement of the SDGs.

The medium-term strategy for 2018-2022 “Unity. Confidence. Creation” has four priorities:

1. Raising the well-being of the nation by growth through macroeconomic stability, improving connectivity with regional markets, creating a conducive investment policy, and implementing a programme for SMEs;
2. Developing agriculture and industry focusing on diversification, in addition to key sectors such as energy, transport, mining, tourism, textiles, and construction;
3. Enhancing human development outcomes and deepening unity among ethnic groups; and
4. Undertaking public administration reforms to improve service delivery with gender parity, environment, and the deployment of technologies as cross-cutting priorities.

The order of the program’s priorities is determined by the practical need to first and foremost solve the issue of effective development management (public administration). Its effect on economic growth will, in turn, expand the capabilities of the management system and the state budget to better address the basic needs of the Kyrgyz people.

The program contains a number of cross-cutting priorities on gender, environmental and technology. They should be closely integrated with each of the four program areas.

The key task of the Kyrgyz Government is to ensure the dynamic development of the economy and stable income growth to enable poverty reduction and sustainable development.

To promote national interests at the global and regional levels, the Kyrgyz Government will continue to strengthen its efforts to develop cooperation within the frameworks of international and regional organizations such as the UN, EEA, Shanghai Cooperation Organization (SCO), Commonwealth of Independent States, World Trade Organization, and Organization of Islamic Cooperation.

Efforts will be aimed at strengthening and developing trade and economic cooperation with key trading partners like Russia (as well as the Eastern Partnership countries), China, Central Asian countries, Turkey, the European Union (EU), and the Middle East. At the same time, measures will be taken to effectively use the EU’s Special Incentive Arrangement for Sustainable Development and Good Governance (GSP+) for exporting products to that market.

The Kyrgyz Republic will also take an active part in expanding the framework of cooperation of the Eurasian Economic Community (EAEC), including in the negotiation processes for concluding agreements on a free trade zone rather than by pursuing preferential agreements. The key principles of future investment policy include strengthening state and municipal control over targeted spending of budget funds allocated for investment, and establishing manufactured products for export.

The investment policy will be based on the formation of an acceptable legislation that minimizes investment risks and identifies priority sectors of state support.

The Kyrgyz Government will provide to investors an access to economic information, and the investment package including land basic infrastructure (transformation and allocation of land, connection to water, electricity, etc.).

Although the country has a mid-term development strategy and expenditure framework, implementation remains a challenge at national and sectoral levels. However, sector plans in transport, education, health care and public finance have been established as part of the government’s reform process.

The Development Assistance Database was created in the judicial department of the Supreme Court to facilitate improved coordination between officers and other state agencies, such as border troops and financial institutions, in the execution of judicial decisions. A national dialogue on the potential
effectiveness of institutions includes a series of seminars on developing mechanisms to improve state and local government as well as civil society.

During strategic planning, the Kyrgyz Republic established a close partnership with the UN system, including United Nations Development Programme. The new strategic documents of the United Nations Development Assistance Framework (UNDAF) and the UNDP Country Program Document for 2018-2022 not only focus on national priorities and interests but also on achieving SDG indicators and targets as reflected in 2030 Agenda. The Kyrgyz Republic was chosen as a pilot for integrated assessment and implementation of Agenda 2030 in the form of Mainstreaming, Acceleration and Policy Support.

2.2. BRI activities and projects, past, ongoing and planned, and their potential linkages to SDGs

The BRI and its infrastructure investments have the potential to contribute to sustainable development and help achieve many of the SDGs, including SDG 9 (industry, innovation and infrastructure), SDG 6 (clean water and sanitation), SDG 7 (affordable and clean energy), SDG 13 (climate action) and SDG 15 (life on land).

During a state visit to China ahead of the Shanghai Cooperation Organization (SCO) Summit in June 2018, Kyrgyz President Sooronbay Jeenbekov and Chinese President Xi Jinping agreed to establish a comprehensive partnership that would promote further cooperation in trade and economic issues, and also made a pledge not to join any organizations that would undermine the other.

A Strategic Partnership with China was formed in September 2013, followed by a Mutual Declaration in May 2014 and a Mutual Communiqué in December 2015. The Silk Road Economic Belt has been mentioned in official documents since 2014.

The Mutual Declaration between the Kyrgyz Republic and China stipulates the “importance of the realization of the initiative for the common creation of the Economic Belt of the Grand Silk Road,” while the Mutual Communiqué, produced one year later, states that both “sides shall undertake efforts to connect the development strategies of both countries, that they shall formulate and adopt corresponding documents, as well as further promote cooperation within the framework of the common creation of the Economic Belt of the Silk Road (point 3).”

The Kyrgyz Republic indicated its willingness to advance cooperation with China in economic and people-to-people exchanges, and work together in safeguarding regional peace, stability and security.

In line with the principle of mutual respect, equality and benefit, and win-win cooperation, both sides have agreed to carry out the cooperation documents and programs that have been signed or agreed upon, and to promote bilateral, multilateral trade and economic cooperation projects, including those regarding highways and railways, energy, fiber-optic communication lines and mining.

Both sides agreed that pragmatic cooperation is the basis of the comprehensive strategic partnership between the two countries. They reiterated their opposition to all forms of protectionism and agreed to facilitate trade and mutual investment.
While recognizing the importance of enhancing interconnectivity of regional transport infrastructure, both sides pledged to continue to work on building an efficient transport corridor connecting the two countries and linking to other nations in the region.

The two countries also agreed to enhance cooperation under the framework of the UN, the SCO, and the Conference on Interaction and Confidence-Building Measures in Asia. They also agreed to exchange opinions on major international and regional issues, jointly rise to global and regional challenges, safeguard the common interests of the two countries, and continue to strengthen collaboration in initiatives that conform with common interests.

In June 2019, the Joint Declaration of China and the Kyrgyz Republic was signed, further deepening their comprehensive strategic partnership. A number of bilateral cooperation documents were signed as well, including protocols on the export of dairy products, honey, sweet cherries and wheat flour from the Kyrgyz Republic to China. Another was to promote the implementation of joint bilateral and multilateral projects in the trade and economic sphere, including projects for the construction of roads and railways, fiber-optic communication lines, the field of electricity, energy, mining, and infrastructure for the development of information and digital technologies. Furthermore, as a result of summit negotiations in 2019, preliminary agreements were reached on 24 projects for a total amount of about US$ 7 billion.

The Kyrgyz Republic was one of the first countries to support the BRI and tries to utilize its transit potential to attract China’s investment into its own transport infrastructure projects. Within the framework of the BRI, the Kyrgyz Republic hopes to reach relevant agreements on the China-Kyrgyz Republic-Uzbekistan railway project, further implementing the road construction project in the Kyrgyz Republic, and improving the conditions of cargo transportation between China and the Kyrgyz Republic. Cooperation with China provides the Kyrgyz Republic with an opportunity to enter the international market, implement economic reforms and gain wide access to external investment and technological resources.

The total amount of funds allocated through bilateral grants as well as technical and economic assistance since 2015 (per newly signed agreements) is roughly US$ 320 million. The funds provide for the development of sectors such as:

- Healthcare;
- Transport and infrastructure (development of the road network in Bishkek, restoration of the road surface of highways in Bishkek);
- Agriculture (reconstruction of the irrigation system);
- Provision of logistical assistance; and
- Support for state budget.

The Kyrgyz Republic borrows funds from the EXIM Bank of China for the implementation of major infrastructure projects in the energy sector and road construction:

1. In order to secure energy independence
   - US$ 389 million for the construction of the Datka-Kemin power transmission line
   - US$ 208 million for the modernization of power lines in the south of the Kyrgyz Republic
2. For rehabilitation and road construction
   - US$ 200 million for rehabilitation of the Bishkek-Naryn-Torugart road
   - US$ 100.6 million for rehabilitation of the Osh-Sarytash-Irkeshtam road
3. On modernization of the heat and power plant in Bishkek
   - US$ 386 million

China is the largest investor in the Kyrgyz economy. In 2018, the share of Chinese investment to total FDI was 39.7 per cent or US$ 338.092 million. According to the National Statistical Committee of the Kyrgyz Republic, the volume of accumulated Chinese FDI in the Kyrgyz economy in 2013-2018 reached US$ 1.467 billion. The main areas of investment include transport and energy, as well as industry, tourism, agriculture, and irrigation systems. Chinese contractors hold a 24 per cent market share in the country’s construction sector. The Chinese companies that operate in the Kyrgyz Republic provide 10,000 jobs for local residents, pay taxes and create commercial funds for local development.

In 2017, trade between China and the Kyrgyz Republic amounted to 1.59 billion, increased by 3.2 per cent. Exports from the Kyrgyz Republic to China were US$ 97.5 million and imports from China amounted to US$ 1.5 billion. The total foreign direct investment (FDI) inflows to the Kyrgyz Republic was US$ 211 million with China’s contribution being US$ 108 million. In the beginning of 2018, China’s FDI to the Kyrgyz Republic increased to US$ 984 million, up from US$ 45 million in 2005. The trade turnover between the two countries reached over US$ 1.2 billion and US$ 1.6 billion in 2016 and 2017 respectively. Since 1992, China has provided grants of US$ 274.4 million and loans of US$ 1.8 billion to the Kyrgyz Republic, enabling it to finance several projects.⁴

Nowadays, the bilateral relations between the Kyrgyz Republic and China within the BRI framework is expected to be more effective and efficient. The cooperation between the two countries in the BRI is based on: (1) the reconstruction of existing railways and highways in order to deliver Chinese goods to Europe, the Caucasus and the Middle East; (2) construction of new railways and highways, pipelines and logistics infrastructure; (3) transportation of energy resources, particularly Turkmen and Uzbek natural gases to China; (4) relocation of the Chinese production facilities to the Kyrgyz Republic in order to meet the demand for Chinese goods in the EEU countries and the Kyrgyz Republic’s domestic market; (5) Chinese investments in various fields of the Kyrgyz Republic’s industries, especially transport and energy sectors; (6) cooperation in the fields of industrial production, agriculture, energy production, exploration of natural resources and tourism; (7) border cooperation by establishing a free trade zone.

The most important task of the Kyrgyz Republic is to fully exercise its beneficial geographic position by becoming the transit zone in transportation corridor between Europe and China. Currently the suggestion is to construct a multimodal regional transport corridor, which will connect China, Uzbekistan, Tajikistan, Kazakhstan and Afghanistan through the Kyrgyz Republic. The transportation corridor consists of two directions: “North way” (Kashgar-Torugart-Bishkek) and “South way” (Kashgar-Irkeshtam-Osh). Successful implementation of this project will decrease transit dependence on neighboring countries and strengthen transportation security in the Kyrgyz Republic. As a result, US$ 72 million will be saved, new working places will be launched and budget revenue will be increased by means of custom dues. To note, it is necessary to set up sustainable management mechanisms of transport corridors.

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⁴ Review of Ministry of Economy of the Kyrgyz Republic, 2017
A key area of increase in BRI investment is the Silk Road Economic Belt (SREB) initiative and the Kyrgyz Republic has signed more than 10 investment agreements with China related to this initiative, totaling US$ 1.812 billion (excluding grant assistance). To provide perspective, Chinese investment to the Kyrgyz Republic was US$ 2.4 billion from 1995 to 2018. In the early 1990s, major investments were made in property and industry construction, such as the Kyrgyz-Chinese paper mill. Over the last 10 years, repair of highways (China’s investment in this area is more than US$ 129 million) and the energy sector have become priority spheres for investments. Indeed, China has recently been investing mostly in the energy sector of the Kyrgyz Republic. The most important energy project is the reconstruction of the Bishkek Power Station, which Chinese company TBEA has allocated over US$ 386 million. In addition, China's State Power Investment Corporation and the Government of the Kyrgyz Republic negotiated over the construction of the Kazarman chain of the hydropower plant on the Naryn river. If these investments of over US$ 1.565 billion is implemented, it is expected to become China’s largest investment in the energy sector of the Kyrgyz Republic. The construction of the Datka-Kemin substation, on the other hand, helps the Kyrgyz Republic save energy transit expenses of about US$ 35 million. Currently, with the support of China, the construction of the North-South motor road and the rehabilitation of the Bishkek city road network are underway. To note, the China-Kyrgyz Republic-Uzbekistan motor transport corridor has been in operation since February 2018.

The Kyrgyz Republic established Gas Pipeline Company, Ltd., which is tasked with the planning and construction of the Kyrgyz section of Line D. Construction of the Kyrgyz Republic-China gas pipeline, which is scheduled to start at the end of 2019, has a strategic and long-term significance, and as a transit country, the Kyrgyz Republic will profit heavily from it. The project provides the construction of the fourth line of the main gas pipeline, which transports Turkmen gas through Uzbekistan, Tajikistan and Kyrgyz Republic to China. The portion of the pipeline in the Kyrgyz Republic will be 215 kilometers long. The US$ 1.2 billion project will be implemented within three years.

The EXIM Bank of China has provided a US$ 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 US$ 850 million. The China Road Company has been carrying out the project. Although tender problems between the parties have halted the construction of the Issyk-Kul ring road, the project is estimated to cost US$ 100 million. This ring road is planned to reach Kazakhstan via the Kegen checkpoint in the Tup village of the Kyrgyz Republic and then become a part of the Western China-Western Europe corridor.

It is possible that China’s trade policy with the Kyrgyz Republic will be in line with the country’s membership in the Eurasian Economic Union (EEU). Chinese businessmen in the Kyrgyz Republic clearly understand that by increasing their activity in the country, they could get an opportunity to enter the common market of the EEU. Indeed, several economic activities have led to an intense labor inflow from China to the Kyrgyz Republic, including the opening of a shoe factory in the province of Naryn (located in the Kyrgyz Republic's border with China) in 2014 resulting from a US$ 1.5 million investment from China; a Kyrgyz-Chinese tractor factory located in Bishkek in 2014, and joint enterprises that produce washing machines and televisions in Osh. Moreover, Chinese companies are also rather active in the 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 the Kyrgyz Republic's border with Kazakhstan. These plants started operating with raw materials imported from Kazakhstan and Russia.

In addition to repeated provision of concessional loans, China also regularly provides technical assistance to the Kyrgyz border via law enforcement, military units, and free funding. Hundreds of millions of dollars are coming in from China in the form of grant support. Some examples of recent grants include:

- During a recent presidential trip to China, the Kyrgyz Republic once again received a grant of US$ 86.5 million. This grant will be used in the reconstruction of roads in Bishkek, a new laboratory for agricultural products, archaeological excavations, and conservation of historical monuments.
- The latest update of more than 100 streets in Bishkek were carried out by a grant of US$ 150 million. This is one of the largest grants in the history of the Kyrgyz Republic.
- A national hospital was built at the expense of Chinese grants in Bishkek, and the largest hospital in Central Asia with modern medical equipment is being built in Osh.
- With the help of a Chinese grant, irrigation projects of the Ministry of Agriculture of the Kyrgyz Republic have been implemented.
- China has also financed the construction of a lyceum school in Bishkek.

The Kyrgyz Republic offers important transit routes to China and provides the region’s wholesale market for affordable Chinese consumer goods. Since the Kyrgyz Republic has been the only country in Central Asia to share World Trade Organization membership with China for several years now, the low trade protection barriers between the two countries have allowed the Kyrgyz Republic to become a major trade and re-export hub to the rest of the region.

In most cases, China’s investment and presence benefit local economies, although they are not always perceived to do so. An open trade policy and the flood of affordable Chinese imports have helped many Kyrgyz to cushion the impact of persistent inflation. Kyrgyz entrepreneurs also profit from re-exporting Chinese goods to larger, better-protected markets like Kazakhstan, Uzbekistan, and the Russian Federation.

Chinese manual laborers working in the Kyrgyz Republic have filled critical vacancies in key industries such as construction and foundry work. As a result of China’s pragmatic expansion into the Kyrgyz Republic, Chinese investment in industry injects energy into the landlocked country and, in a way, contributes to flexible and innovative entrepreneurial development in the Kyrgyz Republic, such as the emerging sewing industry in Bishkek.

Chinese policy and commercial banks do not systematically report cross-border project lending beyond topline investment figures, and BRI project information is not centrally reported. Furthermore, specific financing agreements are rarely published. It is also uncommon for the debtor countries to fully and completely disclose loan information. The BRI financing model has proved to be more flexible and adaptable, accepting new ideas and suggestions. China’s official document on the BRI states that the initiative is “an open and tolerant process” that is more “fair and inclusive” when jointly addressing global issues. The BRI serves as a fertile ground for the birth of new ideas and fair competition of project acceptance, which will create an atmosphere of inclusion of all interested parties, instead of being a unilateral process of “imposing” Chinese projects. Each participant in the BRI is an "author and implementer" of projects, thus increasing the legitimacy of the initiative itself. This also ensures the flexibility of the BRI and frees it from rigid frameworks and responsibilities.
BRI projects are identified mainly through media publications, which is also how Chinese lending in the Kyrgyz Republic is identified. The Kyrgyz Republic is a relatively poor country with significant new BRI-related infrastructure projects underway, much of which is financed by external debt. Public and publicly guaranteed debt amounted to roughly 65 per cent of GDP, of which external debt represented about 90 per cent. The EXIM Bank of China is the largest single creditor, with reported loans by the end of 2018 totaling US$ 1.8 billion or roughly 45 per cent of the country’s total external debt. Kyrgyz and Chinese authorities are reportedly discussing the construction of a chain of hydropower plants, a China-Kyrgyz Republic-Uzbekistan railway, more highway construction, and the completion of the Central Asia-China gas pipeline. While currently considered to be at “moderate” risk of debt distress, Kyrgyz Republic remains vulnerable to shocks resulting from a sizeable exchange rate depreciation exacerbated by a scaling up of public investments.

The Silk Road Economic Belt (SREB) initiative is a local component of the BRI in Central Asia and brands itself as an all-inclusive project that would reach even the outskirts of Kyrgyz Republic. True to its word, a large increase in the import of consumer goods from China has been observed. Up to 80 per cent of finished goods in Kyrgyz Republic’s bazaars arrive from China before being re-exported to the rest of Central Asia, Russian Federation, and elsewhere. A prime example of this is the giant Dordoy container bazaar in Bishkek’s northern suburb, the region’s largest hub for wholesale and retail trade transactions. Although Bishkek is heavily dependent on worker remittances and trade with Moscow, profits from the SREB initiative offers an alternative to boost economic development and provide employment.

2.3. WEFM-e simulations

The expanded World Economic Forecasting Model (WEFM-e) is a macrostructural model that uses econometrically estimated relationships to explain economic behaviors. The WEFM-e comprises of 176 individual country models that are linked together via a trade matrix that reconciles global export and import volumes as well as export and import prices. The country models are characterized by a long-run neo-classical supply side and a short-run Keynesian demand side. Policy variables are modelled to follow rules according to country-specific situations, with flexible options for discretionary policy actions whenever necessary. The model comprises of a scaled-down framework of approximately 60 variables per country. Key behavioral equations are specified in a co-integration/error-correction framework. The advantage of this is that the long-run, as embodied in the co-integrating relations, can be modelled in a theoretically consistent manner while the short-run can be modelled so as to best fit the data, with the error correction mechanism ensuring that the system moves towards the long-run in the absence of shocks. Furthermore, both policy analysis and forecasting can be encompassed in the same framework.

The WEFM-e country model will be extended and recalibrated to generate estimates for economy-wide and sector-level growth, employment, and other socioeconomic outcomes based on various augmented investments, trade facilitations, fiscal and monetary policies, and financing scenarios for up to 15 selected countries. An additional modelling framework will be developed to assess sectoral impacts, analyze

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5 Review of Ministry of Economy of the Kyrgyz Republic, 2017
various policy options, and identify inter-linkages among various elements of the three dimensions – economic, social, and environmental – of sustainable development as per the SDGs.

**Model Structure**

Through vintages of the WEFM-e, the flavor of this philosophy has been retained within a simplified context:

1. Long-run relationships are specified in line with standard macroeconomic theory, imposing cross equation restrictions where required.
2. Core behavioral relationships are specified as error-correction processes, and equations are estimated individually within a restricted environment.
3. Co-integrating relationships are estimated either as part of a 2-step process by applying dynamic OLS procedures to first identify the long-run equations and then fitting the dynamics around the co-integrating relationships, or by applying instrumental variable techniques in a single equation framework that jointly estimates co-integrating relationships and dynamics.
4. Dynamic and static homogeneity properties are imposed in the price system where appropriate.
5. Expectations are modelled as an adaptive process.
6. Policy variables can be endogenized via rule-based processes.

**Accessing Model Accuracy**

Any macroeconomic model is subject to a considerable margin of error. The WEFM-e applies stochastic forecasting, which allows the modeler to move away from forecasting a single point for each endogenous variable at each point in time, and towards projecting a distribution of outcomes for each observation. A standard, or deterministic, forecast works under the assumption that stochastic equations remain the same over the forecast period. In contrast, a stochastic forecast allows for unexpected shocks in the future, based on the assumption that the size of these shocks will be of a similar magnitude to those observed in the past.

In order to estimate a complete distribution of outcomes for each variable, a Monte Carlo approach is applied, where the model runs multiple times, applying a randomly selected shock to each time. While this method initially provides only approximate results, as the number of repetitions is increased, the results should approach their true values. Generally, 1,000 repetitions are adequate to derive a close approximation of the actual distribution.

There are two main approaches for generating the pool of shocks from which the random selection is drawn. Both relate to the historical errors on the model equations. The first approach is based on an assumption that future shocks will be normally distributed, and are therefore drawn from a standard normal distribution, adjusted for the variance of historical shocks on the model equation over a defined sample period. The second approach applies a “bootstrapping” method where the shocks are drawn from the actual sample of historical errors on each model equation. Cross-equation covariance in errors are preserved by applying a “time-slice” from the pool of historical shocks to the model.
Further Research

Several areas of ongoing research have been highlighted throughout the discussion of the model structure above. These model enhancements will improve the capacity of the WEFM-e to produce forecasts and analyze a wider range of alternative scenarios. In addition to this ongoing program of work, the model can be readily extended for the purpose of specific studies in order to address a range of questions.

The current program of work is centered on:

- Developing a set of satellite models that link the macro projections to simple models of poverty and emissions
- Ensuring that the commodity price channels are fully integrated into the models
- Developing high-frequency forecasting models for countries that have quarterly national accounts (about 80 out of 177 countries), which will be linked via bridging equations to the main WEFM-e model
- Developing a full labor market model for employment and wages that is consistent with the underlying production function of the economy, allowing the wage to be determined as a bargaining process between employees and employers
- Developing a model of government interest payments to allow debt sustainability analysis and to assess the sensitivity of the fiscal position to an exchange rate shock
- Elaborating the international linkages in the model, through models of remittance flows, official development assistance, and capital flows.

Simulations for Kyrgyz Republic:

According to the data supplied by the National Consultant, total BRI related investment amounts to US$1.3 billion and is spread across 7 years, from 2012 to 2018. Investment growth is historically very volatile in the Kyrgyz Republic, therefore to show the impact of the BRI investments, we plot the investment growth graph starting only from 2014. Despite the fact that BRI does not cause a hike in growth (as in case of other countries), it is clear that additional investment translates to a faster investment growth in the modified model (Figure 1, a). Investment growth is almost double of the growth observed in the original model through 2022. Figure 1, b again confirms that there is no hike in infrastructure investment growth and all types of investments grow at a steady pace throughout the forecasted horizon.

Faster investment growth and relaxation of the constant TFP growth assumption (3 per cent growth for the Kyrgyz Republic) lead to higher productivity growth. Consequently, faster TFP growth leads to faster trend productivity growth (Figure 1, c), which results in faster potential output growth (Figure 1, d).

Faster investment and productivity growth feeds GDP to grow faster (Figure 1, e). As a result of this, output gap opens up initially.

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6 The Kyrgyz Republic is among the countries that the National Consultant reported BRI related investments before official launch of the BRI initiative.

According to the WEFM-e, the budget deficit in terms of GDP shrinks (Figure 1, h) with acceleration of the GDP growth in 2017 and 2018. Nevertheless, as investment projects end in 2018, GDP growth returns to the level around 5 per cent and budget deficit widens again. Consequently, debt to GDP ratio raises (Figure 1, i). By the end of the forecasted horizon debt to GDP ratio exceeds the original level and continues to raise in the long run. This result is in line with the Hurley et al. (2018) who classify the Kyrgyz Republic to be “at a “moderate” risk of debt distress”.

On the poverty side, initial acceleration of GDP leads to decline in poverty headcount rate. However, after the end of the BRI investment inflows, in 2020, poverty headcount rate starts to increase (Figure 1, g). Nevertheless, the poverty level in the long run stays about 8 pp below the level of 2015.

The original model predicts declining labor force participation. Similarly to other countries, the separation of male and female labor force participation, initially lowers overall participation, as female labor force participation is lower compared to male. Nevertheless, the increasing trend in the female labor participation in the modified model drives up the overall labor participation, which eventually exceeds the original model level in the long run (Figure 1, f). On the environment side, as expected, improved economic activity increases CO₂ emissions (Figure 1.j).

*Figure 1. Kyrgyz Republic: Baseline Scenario*

<table>
<thead>
<tr>
<th>a. Growth of the overall investment (in %)</th>
<th>b. Growth of the government, private and II</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image" alt="Investment growth" /></td>
<td>![Investment growth (Modified Model)]</td>
</tr>
<tr>
<td>c. Growth of the trend productivity growth (in %)</td>
<td>d. Growth of the potential output (in %)</td>
</tr>
<tr>
<td><img src="image" alt="Trend productivity growth" /></td>
<td><img src="image" alt="Potential output growth" /></td>
</tr>
</tbody>
</table>
We increased the BRI related investment to US$ 1.7 billion spread across 10 years (2012 - 2021) in comparison to US$ 1.3 billion spread across 7 years (2012 - 2018) in the baseline. This change makes little impact on the projection, as majority of variables in the upside scenario closely replicate projection of the baseline scenario (Figure 2). Even though TFP growth accelerates in the upside scenario, it is not enough to substantially affect demand or supply side of the economy.

BRI-related investment (SDG 9, 11):

- Increases in labor force participation and jobs (SDG 8)
- Decreases the gender gap (SDG 5, 8)
- Boosts the productivity growth (SDG 4, 8, 17)
- Leads to a faster output growth (SDG 8)
- Reduces poverty level (SDG 1, 2, 10)
- Government deficit and debt management (SDG 17)
• Overall, the magnitude of impacts is small, due to limited BRI investments

**Figure 2. Kyrgyz Republic: Upside Scenario**

a. Growth of the overall investment (in %)

b. Growth of the GDP (in %)

c. Growth of the total factor productivity (in %)

d. Growth of the potential output (in %)

e. Poverty headcount rate (in %)

f. Labor force participation

g. Environmental degradation, *103 kt
3. Policy options

3.1. Discussions at the national workshop

On October 16, 2018, the first national workshop on the BRI and SDGs was held in Bishkek. The workshop was jointly organized by DESA and the Strategic Development Department of Ministry of Economy, supported by UNDP Kyrgyz Republic. The workshop participants were from the Ministry of Economy, National Statistical Committee, Ministry of Finance, National Bank, National Institute for Strategic Research, Chamber of Commerce, private sector and Embassy of China in the Kyrgyz Republic. The participants exchanged information on BRI activities and discussed several questions regarding trade policy, the macroeconomic model and database.

Transport infrastructure and transit

Poor transport connectivity is seen as one of the main impediments for export diversification in the Kyrgyz Republic. For the last 15-20 years, the Government of the Kyrgyz Republic, with the support of international development organizations and bilateral donors, including China, invested very significant resources into the development of automobile road networks and other transport infrastructure elements. More projects are in the pipeline to support the BRI. These roads are expected not only to serve domestic transport flows and exports from Central Asia, but also east-to-west intercontinental shipments, allowing Central Asian transport network operators to benefit from the traffic. There are several challenges with these transit ambitions: competition from other routes (such as the surface route through Russia and the sea route via Indian Ocean), product composition of goods in transit, multimodality of routes (such as the rail-ferry-rail), different track gauges, and regulatory barriers. With these challenges, transit revenues expectations from BRI projects may need to be carefully evaluated.

The BRI can transform the economic environment in the regions it operates. Regional cooperation on the new and improved transport infrastructure and policy reforms could substantially reduce trade costs and improve connectivity, leading to higher cross-border trade and investment and improving growth in the region. For example, shipment from China to Central Europe takes approximately 30 days, as most goods travel by sea. While shipment by train is about half as long, it is more expensive with current infrastructure. Hence, improving the capacity and network of the rail infrastructure could radically change average travel times. Moreover, while rail transport for these routes will still remain more expensive than maritime, time and cost reduction will have significant consequences for certain goods, impacting the mode of choice and therefore, total flows of international trade.

Transportation projects have taken precedence in the Kyrgyz Republic, mostly focusing on the proposed railroad from Bishkek to Samarkand, Uzbekistan and beyond, as part of China’s planned New Silk Road rail corridor.

During a visit to China in 2017, the Kyrgyz Republic and Uzbekistan particularly mentioned the China-Kyrgyz Republic-Uzbekistan railway, hoping for its inclusion into the BRI framework. Notably, the China-Kyrgyz Republic-Uzbekistan railway projects predate the BRI and it is true that the BRI has accumulated pre-existing projects. The China-Kyrgyz Republic-Uzbekistan railroad had been under discussion for almost 20 years but has stalled over the Kyrgyz Republic’s complaints that the project lacked benefits for Bishkek. For example, the railroad in the Kyrgyz Republic from the Chinese-Kyrgyz border to the Kyrgyz-Uzbek border is estimated to cost some US$ 5 billion or 76 per cent of the Kyrgyz GDP in 2016. This would imply
annual payment of the debt principal and interest in the amount of, at least, 2-3 per cent of GDP. Recently, the parties resumed cooperation with renewed energy to complete the project. The Pop-Angren railroad will become a part of the China-Kyrgyz Republic-Uzbekistan rail link once completed.

The BRI seems to provide unique opportunities for the Kyrgyz Republic to develop its infrastructure and production potential, and also expand and deepen trade and economic relations with China. However, all options and long-term implications for trade and economic development need to be analyzed.

**External debt to China**

The Ministry of Finance (Department of Public Investments) discussed the level of external debt and FDI related to the BRI, providing an analysis of BRI projects and its impact on external debt. The National Bank (the Macroeconomic Analysis and Analysis of Financial Market Department and the International Cooperation Department) and the Chamber of Commerce also stressed the possible impact of the BRI projects on the Kyrgyz Republic, particularly on debt sustainability and foreign reserves. They were also worried about access to finance and terms of loans.

China has become the primary creditor of the Kyrgyz Republic in recent years. Even though imports and subsequent re-export opportunities have diminished, China’s role in funding large-scale infrastructure projects through direct lending to the Kyrgyz Government and in the form of FDI and regional initiatives is expected to increase significantly.

China’s concessional loans are granted to the SCO member countries for the development of infrastructure in education, medicine, the road network, energy, and more, that are of strategic importance and of wide public importance. The countries borrow at a rate of 3 per cent per annum in 20-year maturities, with a grace period of five years. At the same time, grant elements of the loan amount to at least 45 per cent. According to a separate agreement and request from the Kyrgyz Government, China allocated preferential loans to the Kyrgyz Republic under the SCO at 2 per cent per annum instead of the standard 3 per cent, taking into account the domestic economic situation of the Kyrgyz Republic. When allocating preferential loans, the EXIM Bank of China performs intergovernmental credit agreements and suffers a certain percentage loss because it receives only 2-3 per cent instead of the standard 10 per cent per annum. In this case, the difference of 7-8 per cent is covered by the Government of China. This is almost comparable to the conditions under which other financial institutions operate.

A lack of clarity in terms of official lending to Central Asia may increase economic vulnerabilities in the region, especially given the weight of Beijing’s loans in the national balance sheet. China has invested significant capital in BRI projects in the Kyrgyz Republic. Lending from China has climbed sharply, to the point where US$ 1.8 billion of the Kyrgyz Republic’s total US$ 4.3 billion external debt is owed to China. To put into context, public and publicly guaranteed debt amounts to roughly 65 per cent of GDP, of which external debt represents about 90 per cent. EXIM Bank of China is the largest single creditor with reported loans totaling US$ 1.5 billion or roughly 40 per cent of the country’s total external debt. Even if some of the BRI infrastructure loans are based on highly concessional terms, this still may become a very serious debt burden.
Foreign Direct Investment

China’s role as a development actor and investor in the Kyrgyz Republic has been growing exponentially in recent years. China became a major donor by funding large infrastructure and energy projects and by providing budget support. Prominent projects funded by China include US$ 389 million for the Datka-Kemin energy transmission line, US$ 386 million for the reconstruction of a Bishkek energy company, and US$ 400 million for the construction of the Bishkek-Torugart road and an alternative route linking the north and south of the country.

Public and private Chinese companies have also shown interest in providing foreign direct investment (FDI) in the energy, airline and construction sectors to better access the China and Eurasian Economic Union (EAEU) market. Given the expansive nature of these projects, albeit nascent, trends show that China is poised to rewrite the rules and alter domestic attitudes towards FDI and infrastructure development in the Kyrgyz Republic.

As with other Central Asian countries, Kyrgyz Republic’s business ties with China are getting stronger. Bilateral trade is looking increasingly positive and China has become the country's second-largest trading partner after Russia. There are now more than 250 Chinese companies registered in the Kyrgyz Republic, including Zhongda China Petrol Company and Zijin Mining Group. Other companies cover various other industries such as trading, construction, telecommunications, agriculture and metallurgy.

The inflows of FDI to the Kyrgyz Republic totaled US$ 1.1 billion in 2015, with China contributing US$ 152 million. At the end of 2018, China’s share of FDI to the Kyrgyz Republic exceeded US$ 1.0 billion, up from US$ 125 million in 2006.

Currently, almost all foreign investments in the region are allocated to either the extractive sector (oil, gas, and metals) or the non-tradeable sectors (telecom, finance, retail, and real estate). Chinese investments into tradeable sectors are less likely as Central Asian economies seem to lack many important capabilities in this type of production. Additionally, investments into tradeable sectors may be aimed at import substitution, posing a high risk of net welfare losses in FDI-receiving countries. Extractive sector investments would, of course, increase export potential in the region, but may not allow for economic diversification, which is a long-term goal for all governments in the region.

Migration and demographic changes

Research institutes, such as the University of Central Asia and the Institute of Strategic Studies, stressed difficulties in obtaining sub-national data for in-depth analysis. Particularly, migration and demographic changes by BRI projects are important but difficult to be analyzed.

There are two prevalent fears in the Kyrgyz Republic. The first is that there will be an “invasion” of Chinese migrants who will settle, then take jobs away from locals (particularly in agriculture) and marry local women. The second fear is that China will start to question existing border agreements and will suddenly demand more land. These two fears are not supported by the facts, given the available data on Chinese migration and China’s expressed satisfaction with its diplomatic relations with the Kyrgyz Republic.

Chinese investment should, in theory, open up employment opportunities for the local population. However, there are limitations to this as cited by representatives of the National Institute for Strategic
Studies. Most often, a condition of the huge soft loans that China provides through state banks is that the linked projects be implemented by a Chinese company and workforce. For example, the construction of two roads (Osh-Sarytash-Irkeshtam and Bishkek-Naryn-Torugart), funded partially by China, consisted of 30 per cent local workers versus 70 per cent Chinese workers, and 60 per cent of raw materials were imported.8

Therefore, as economic cooperation between the two countries improved, there was an increase in the number of Chinese citizens working in the Kyrgyz Republic. 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 per cent of which were Chinese citizens. The majority of Chinese citizens in the Kyrgyz Republic are workers, traders and university students.

Moreover, the flow of unregistered (and not properly taxed) border or “suitcase” goods from China to the Kyrgyz Republic black market is a serious issue. In 2014 alone, there was an almost five-fold difference between the official annual bilateral trade turnover figures reported by the Chinese and by Kyrgyz authorities (US$ 5.3 billion and US$ 1.1 billion respectively).9

An important driver of uncontrolled migration from China to the Kyrgyz Republic during the 1990s was a bilateral agreement on a visa-free travel regime, which was in force until 2003. Since then, the Kyrgyz authorities have begun to tighten immigration laws in order to limit the number of Chinese migrants. In 2010, the Kyrgyz government set a quota of 13,000 new foreign workers. Approximately 70 per cent of those spots were claimed by Chinese citizens. Though the quota for new foreign workers remained the same, Chinese citizens claimed 80 per cent spots in 2015 and 85 per cent in 2016. Accordingly, the number of Chinese citizens as a share of the total migrant worker population in the Kyrgyz Republic rose from 67.8 per cent in 2013 to 77 per cent in 2016.10

Yet, there are no concrete figures about the total number of Chinese nationals permanently residing in the Kyrgyz Republic. According to the migration authorities, around 28,000 of them were registered as living in the country in 2014, though officials admitted that the real number might, in fact, be as high as 40,000. The Chinese Embassy in Bishkek claims that there are about 20,000 Chinese migrants permanently residing in the Kyrgyz Republic. However, local experts counter that the real number of Chinese workers may be higher, with conservative independent estimates at 50,000 Chinese workers.

In many cases, bringing in Chinese migrant workers is not a matter of choice but necessity for Chinese investors. Chinese companies bring in their own technology for their projects. Thus, as one Kyrgyz official puts it, “they also bring their own engineers, monitors, and other qualified specialists to operate the equipment.” Some argue that locals are also very reluctant to take jobs that are being taken by Chinese migrant workers, as they are very hard, lower-paid, and require longer working hours. According to the Labor, Migration, and Youth Ministry representative, in the case of Chinese projects, most of the local employees quit within months, complaining about harsh working conditions and low wages.

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8 Data from the Ministry of Transport and Communication of the Kyrgyz Republic, 2017
9 Minutes of meeting of Prime Minister Djoomart Otorbaev, April, 2014.
10 Review of Ministry of Economy of the Kyrgyz Republic, 2017
Trade policy

Representatives of the private sector have raised questions on trade policy, access to Chinese markets, investments, and access to finance from BRI funds. Since all BRI interventions would be associated with increased imports of goods and services from China, the direction of change in Central Asian net exports to China is ambiguous.

Trade policy and trade facilitation measures may be the cheapest and most effective way to increase trade between China and the Kyrgyz Republic. However, the parties do not seem to be prepared to go very far in trade liberalization. The non-preferential Agreement on Trade and Economic Cooperation between China and the Eurasian Economic Union, which has recently been approved by the Government of China and the Eurasian Economic Commission, is an example of what could realistically be achieved in the trade policy area.

All these possible BRI interventions may produce significant trade creation and trade diversion effects. Trade creation may emerge due to lower transportation costs (especially in trade with China), other production costs, reduction of regulatory barriers for trade, and a general increase in total factor productivity due to infrastructure improvements. Trade diversion may become a result of asymmetric development of transport infrastructure and re-orientation of some trade flows from north-south to east-west. It may also be a by-product of the re-orientation of Chinese FDI on inputs (equipment, construction materials, components) imported from China rather than from third countries, such as traditional suppliers to Central Asia.

Other infrastructure investments may increase Central Asian exports to China if supported by export-oriented FDI from China. This includes improvement in irrigation systems or testing labs serving agricultural projects, and the creation of electricity generation capacity to supply energy to a mine or metallurgical plant.

3.2. Suggested actions to maximize benefits and avoid risks

Through the BRI, the Chinese government proposes to support very different types of interventions in partner countries, including infrastructure development, investments into production capacity, measures in trade facilitation, human and cultural exchanges, among others. This may create an opportunity for the landlocked and relatively geographically isolated economy of the Kyrgyz Republic to improve its connectivity to China, but also to other parts of the world. Foreign trade of Central Asian countries seems to be one of the largest affected areas, and it is hoped that the BRI will increase the region’s export capacity.

However, there are significant economic and policy challenges, and the realization of the potential benefits of the BRI are, by no means, automatic. Policy reforms could have large effects. For example, the indicator on doing business shows that in the Kyrgyz Republic it can take up to 50 days to comply with all procedures to import goods. It takes less than 10 days in the G7 countries. Accomplishing this indicator would provide the largest scope of improvement at the border in the region. More generally, the return on investment in infrastructure is likely to be low or even negative unless complementary reforms are carried in parallel to improve institutions and the policy environment.
BRI-related activities in recipient countries like the Kyrgyz Republic could lead to the materialization of adverse environmental, social, reputational or sustainability risks. Managing these risks requires coordinated action. Governments need to act in line with recipient countries’ sustainable development needs, generate national and international public goods, and foster a conducive environment for private sector activity to do the same. Responsibly conducting business, actively engaging in domestic or regional supply chains, and reliably creating stable, decent jobs are pivotal for the private sector to contribute significantly to minimizing risks. All stakeholders need to pre-emptively and effectively identify, assess, and contain risks.

It is important to reduce BRI-related risks in order to achieve the sustainable development objectives. BRI-related projects encounter political, regulatory, macro-economic, social and environmental risk factors throughout their lifecycles, which encompass planning, development, construction, operation and termination phases. Risks can materialize at local, regional, national and transnational levels as well as the sectoral level. Risks include regional political and social instability, such as ethnic violence, and increasing resource nationalism. Furthermore, Chinese companies using Chinese labor do not always receive a welcome with open arms. The flows of Chinese goods and exports likewise can become a source of local disagreement and resentment, as shown by clashes between Chinese state-owned enterprise workers and the local populations.

There are many questions about the sustainability of the BRI and its economic success. The first is the lack of coordination with other donors. BRI financial mechanisms need to be integrated with those of other multilateral financial institutions. The second is the lack of transparency in the aid-granting process. Although China is not a member of the Organization for Economic Co-operation and Development (OECD), financial institutions should adhere to the OECD’s requirements and recommendations regarding international aid.

The participating countries should focus on properly reporting BRI projects, provide systematic discussion of potential risks, opportunities and challenges. Controversial topics like Chinese immigration and environmental pollution are currently being debated. The main objective of the state migration policy should be to ensure the rights and interests of citizens as well as foreign citizens and stateless persons arriving in the Kyrgyz Republic. The following areas require closer attention: the system of accounting for external migration; the process of recording and controlling the stay of foreign citizens and stateless persons in the Kyrgyz Republic; registering foreign citizens; improving the interaction of state bodies in the fight against illegal migration and manifestations of extremism and terrorism.

Some public reporting has expressed alarm about the implications of the BRI for debt sustainability. Corporate governance, true diversification, fiscal management, and commercial feasibility of the projects are key factors in determining BRI impact.

For the BRI to be successful, it must not only stimulate industries that channel more trade to China but also allow for the diversification of trade. The Kyrgyz Republic like other Central Asian states must leverage Chinese investments appropriately to build up manufacturing and services, as well as ancillary industries around transit infrastructure. This would be facilitated by greater use of local skilled labor in energy, transport, and communications BRI projects and by investing in training programs for local populations.

Infrastructure must be planned from the very beginning through integrated environmental planning approaches, such as strategic environmental assessments, and include multi-stakeholder, cross-sectoral
and landscape-wide or river basin perspectives. This allows sustainability requirements to be included in the largest extent possible. Financial institutional standards, planning procedures and other internal policies need to be consistent with this approach and integrate with environmental planning to ensure informed decision-making.

For local economies to truly benefit from Chinese investment, it needs to be accompanied not only by employment but also by training, professional development, and corporate social responsibility activities. China is gradually realizing that these practices are key to countering fears of Chinese dominance, but the Kyrgyz Republic could also encourage these efforts.

In order to achieve a low-risk environment and act as described above, the BRI can draw from studies on Special Economic Zones (SEZ) to help realize their potential to play a catalytic role in industrialization, diversification and trade integration. A road map to transform Jilin City in northeast China to become the first low-carbon SEZ shows how decision-making with a sustainability focus can bring long-term socioeconomic, environmental, health and climate benefits. BRI projects firmly linked to social and environmental frameworks from the outset can effectively contribute to mitigating risks while delivering positive development outcomes, upgraded infrastructure and structural transformation.

The development impact of investment will depend on both its quality and quantity. In this regard, the role of environmental and social safeguards for infrastructure projects is pivotal for securing the overall vision of the BRI. Using the Environmental and Social Framework recently adopted by the Asian Infrastructure Investment Bank (AIIB) in conjunction with the overall framework provided by SDGs, China could make sustainability a core focus of the BRI. This would have clear benefits for competitive advantage, increase the initiative’s reputation, and substantially boost the integration of sustainable thinking into the decision-making processes of all BRI stakeholders.

Accordingly, the Government of the Kyrgyz Republic needs to reassess its positions towards Chinese initiatives in the region from a perspective rooted in evidence-based policymaking. Evidence-based policymaking based on quality research and applied analysis will be instrumental in producing better policy options, reducing poverty, stimulating economic growth and enhancing the quality of life.

The Kyrgyz Republic need to develop an integrated infrastructure plan, as well as appropriate institutional and financing mechanisms:

- Economic corridors should be carefully identified to maximize benefits and foster urbanization and be in line with national development strategies
- Projects should ensure social and economic cohesion, and job creation
- Fiscal and debt sustainability should be addressed
- Private sector financing and PPP arrangements need to be developed
- International conventions on freedom of transit, cross border telecommunication networks, customs, and trade facilitation should be adopted
- Institutional setup for corridor management and performance monitoring need to be addressed.

The BRI imposes a number of risks:

1. Environmental risks
   - Major direct environmental effects (wildlife, pollution) from construction/operation and indirect effects (habitat, water quality, erosion) from changes in the use of land
2. Rising spatial inequality
   - High likelihood of persistence in lagging areas within countries and regions
   - Likely negative effects as a result of greater trade and market integration, that are not equipped with compensatory mechanisms
   - Barriers to labor mobility exacerbate unique inequalities while dampening overall returns

3. Increased governance risks
   - Corruption and public procurement
   - Debt sustainability risks

4. Investment and policy coordination failures
   - Potentially lead to lost opportunities for hubs and cities with increased market potential.

4. Conclusion

The BRI will potentially have a large effect on Central Asia and the Kyrgyz Republic:

- Increase in real income and FDI inflows over the long run with infrastructure improvements

But BRI may fail to meet expectations due to failures related to institutional, governance, and market inefficiencies:

- Need to reduce border delays, trade barriers and FDI restrictions
- Address spatial inequality and mobility
- But also boost investor protection, open public procurement and ensure private sector participation

Participation in the BRI should be in line with countries’ national development agenda and an integrated infrastructure plan at the regional level.

Economic and non-economic risks associated with BRI projects need to be managed:

- Public debt sustainability, governance, environmental and social concerns
- Coordination problems, lack of data and poor transparency magnify these risks.
References


Annex – Report on national workshops

#1 National Workshop Report

Bishkek, Kyrgyz Republic

10/16/2018

Topics / Agenda

The purpose of the workshop is to invite technical level government officers and researchers who interested in model and data, administrative level who work on projects implementation to have actual information, experts who could discuss impact of projects as well as development partners to exchange information on the BRI activities, the progress to achieve SDGs and assessment of data required for DESA analysis.

Participants

1. Ministry of Economy - 7
2. Ministry of Finance - 1
3. Ministry of Transportation - 1
4. National statistical committee - 1
5. National bank - 1
6. National strategic research institute - 2
7. AUCA research center - 1
8. Chamber of Commerce - 1
9. Embassy of China - 1
10. Private sector - 2
11. UN agencies - 2

Key points raised

Overview of the current state of BRI activities and its potential impact on the achievement of the SDGs in in the concerned country

The adoption of the 2030 Agenda for Sustainable Development represents an historic opportunity for countries to move on a steady sustainable development path. However, it also presents a great challenge to countries that will require to adopt a coherent and integrated approach to policy design and implementation. Indeed, the 2030 Agenda recognizes that the regional, geographic, socio-economic, and demographic contexts of each country present distinct challenges, demands and priorities that will need to be addressed through coherent and well defined national strategies and plans that will require detailed assessments on how some sectorial policies may impact other sectors, national goals and development priorities.

Kyrgyz Republic declared full support for the comprehensive International development agendas up to 2030 and Kyrgyzstan is an active participant in regional events to discuss SDG. Kyrgyzstan is in the process of aligning its national development strategies with the UN 2030
Agenda for Sustainable Development. The Government of the Kyrgyz Republic, with the participation of the expert community and international development partners, is developing a sustainable development strategy for the next five-year period, which will be directly aimed at the concept of national sustainable development directly related to the basic concept in the period until 2030. It was stressed that “Kyrgyzstan intends to implementation of the SDG, taking into account national features of development”.

The Belt and Road Initiative (BRI) has been launched by the leadership of the People’s Republic of China in 2013. Over 80 countries are expected to take part in the Initiative within the broader aim of advancing in the implementation of their respective national 2030 Agenda. The initiative is expected to enhance policy coordination, connectivity, trade, financial integration and people to people contacts, forging greater international economic integration and helping these countries implement the 2030 Agenda for Sustainable Development and achieve the SDGs.

The five priorities of BRI have a marked overlap with the global sustainable development framework, and the associated set of SDGs. Moreover, Agenda 2030 complements the BRI by highlighting sustainability—a critical aspect for BRI’s credibility, which will be boosted by being seen as an important instrument for furthering sustainable human development across a range of countries. In today’s globalized world, economic and social linkages inevitably transcend individual countries, and environmental sustainability is by definition a regional and global, as well as national, issue. SDGs inherently encompass all these aspects. Thus, they naturally round out the long-term vision of sustainably enhancing integration of economies and societies along the ancient Silk Road.

Kyrgyzstan is one of the first countries to support the BRI and Kyrgyzstan under the Silk Road Economic Belt Initiative tries to utilize its transit potential and attract China’s investment into its own transport infrastructure projects. Within the framework of the Belt and Road, Kyrgyzstan hopes to reach relevant agreements on the China - Kyrgyzstan - Uzbekistan railway project, further implement the road construction project in Kyrgyzstan, and improve the conditions of cargo transportation between China and Kyrgyzstan.

For Kyrgyzstan, it will be important to evaluate the possible effects of participating to the BRI and the needed policies and institutional reforms. Some of the infrastructure and policy reforms envisaged by the BRI will be difficult to implement, creating risks ranging from fiscal sustainability, to negative environmental and social implications. There are also potential economic shocks created by the reduced trade costs that will require policies to deal with the adjustment and the lagging and negatively affected territories. Finally, opportunities for growth and poverty reduction will likely be contingent on appropriate macroeconomic conditions and supportive institutions and will differ for different regions and different social groups depending on their comparative advantage, initial conditions and ability to reform.

The BRI seems to provide unique opportunities for Central Asian countries to develop their infrastructure and production potential and to expand and deepen their trade and economic relations with China. However, all options may need to be carefully analyzed and long-term implications for trade and economic development considered. This will require careful analyses of the potential socio-economic impacts – including on trade, investment, employment,
growth, and the environment – to inform the policy-makers in the participating countries. In particular, rigorous analyses will be required to identify the transmission channels of various potential socio-economic impacts and assess various policy options to ensure that the Initiative can help countries accelerate their advancement towards the implementation of the 2030 Agenda thereby providing equitable and sustainable benefits to all participating countries.

Review of the national strategies and plans, fiscal frameworks and other policy documents to identify their linkages to BRI

Ministry of Economy (Macroeconomic Department; Strategic Planning and Regional Development Department, Fiscal Policy Department) mentioned about last visit of President of KR Sooronbay Jeenbekov to China and agreements reached during visit. Also they emphasized that all aspects of sustainable development need to be included in the projection and forecast by the DESA’s modeling tool. But at the same time, it needs to be simple to use and easy to enter data. National Statistical Committee (NSC) agreed that necessary data will be provided to DESA. It was also pointed out that NSC is responsible for collecting all the data, but some of the data are further revised and estimated by other ministries, such as Ministry of Economy and the National Bank.

Geopolitics play a role in PRC investment in Kyrgyzstan, extending beyond infrastructure to integrated technical structures and intelligence sharing. During a state visit to China ahead of the SCO Summit in June, Kyrgyz President Sooronbay Jeenbekov and Chinese President Xi Jinping agreed to establish a comprehensive partnership that would promote further cooperation in trade and economic issues, and contained a pledge not to join any organizations to undermine the other. As part of the agreement, Kyrgyzstan also reaffirmed its acceptance of the PRC’s One-China policy.

Kyrgyzstan will firmly adhere to the one-China policy, stand ready to advance pragmatic cooperation with China in the areas of economy and trade, cultural and people-to-people exchanges, and jointly combat "three evil forces," as well as work together in safeguarding regional peace, stability and security.

In line with the principle of mutual respect, equality and mutual benefit, and win-win cooperation, both sides agreed to carry out the cooperation documents and programs that have been signed or agreed upon, and to promote bilateral, multilateral trade and economic cooperation projects, including highways and railways, energy, fiber-optic communication lines and mining industry to inject new contents into a sustainable cooperation between the two countries, the statement said.

Both sides agreed that pragmatic cooperation is the material basis of the comprehensive strategic partnership between the two countries. They reiterated their opposition to all forms of protectionism and agreed to facilitate trade and mutual investment.

While recognizing the importance of enhancing interconnectivity of regional transport infrastructure, both sides pledged to continue to work for building an efficient transport corridor connecting the two countries and linking to other nations in the region. The two countries also agreed to enhance cooperation under the framework of the United Nations, the Shanghai Cooperation Organization, and the Conference on Interaction and
Confidence-Building Measures in Asia so as to exchange opinions on major international and regional issues in time, jointly rise to global and regional challenges, safeguard the common interests of the two countries, and continue to strengthen collaboration in initiatives that conform with common interests of the two sides.

Review of available data to support project research

*External debt to China*

Ministry of Finance (Department of Public Investments) discussed the level of external debt and FDI related to BRI, interested in an analysis of BRI projects and its impact on external debt. National Bank (Macroeconomic Analysis and Analysis of Financial Market Department; International Cooperation Department) and the Chamber of Commerce also stressed the possible impact of the BRI projects on Kyrgyzstan, particularly the debt sustainability and foreign reserves, they also worried about access to finance and terms of loans.

China has become the primary creditor of Kyrgyzstan in recent years. Even though imports and subsequent re-export opportunities have diminished, China’s role in funding 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 in importance.

A lack of clarity in the terms of official lending to Central Asia may also increase economic vulnerabilities in the region, especially given the weight of Beijing’s loans in the national balance sheet. The PRC has invested significant capital in BRI projects in Kyrgyzstan. Lending from China has climbed sharply, to the point where $1.7 billion of Kyrgyzstan’s $3.8 billion in external debt is owed to China. By the end of March 2017, public and publicly guaranteed debt amounted to roughly 65 percent of GDP, of which external debt represented about 90 percent of the total. China’s Exim Bank is the largest single creditor, with reported loans by the end of 2016 totaling $1.5 billion, or roughly 40 percent of the country’s total external debt. Even if some of the BRI infrastructure loans are provided on highly concessional terms, this still may become a very serious debt burden, especially for smaller Central Asian economies like Kyrgyzstan.

*FDI*

China’s role as a development actor and investor in Kyrgyzstan has been growing exponentially in recent years. China became a major donor by funding large infrastructure and energy projects and providing budget support. Prominent projects funded by China include USD $389 million for the Datka-Kemin energy transmission line, USD $386 million for reconstruction of a Bishkek energy company and USD $400 million for construction of the Bishkek-Torugart road, as well as construction of an alternative route linking the north and south of the country.

There is also growing interest from public and private Chinese companies in FDI in the energy, airline and construction sectors to access the EAEU market. Given the expansive nature of these, albeit nascent, trends, China is poised to rewrite the rules and alter domestic attitudes to FDI and infrastructure development in Kyrgyzstan.
In common with other Central Asian countries, Kyrgyz business ties with China are getting stronger. Bilateral trade is looking increasingly rosy and China has become the country's second-largest trading partner, after Russia. There are now more than 250 Chinese companies registered in Kyrgyzstan, including Zhongda China Petrol Company and Zijin Mining Group, and covering various industries such as mining, trading, construction, telecommunications, agriculture and metallurgy.

The inflows of foreign direct investment (FDI) to Kyrgyzstan amounted to US$1.1 billion in 2015, with China contributing US$152 million. As of the end of 2017, China's total stock of FDI to Kyrgyzstan exceeded US$1.0 billion, up from US$125 million in 2006.

In Kyrgyzstan, $4.5 billion worth of China-backed infrastructure projects include roads, transmission lines, and gas pipelines bringing Western China closer to energy and commodity resources in Central Asia. Chinese contractors hold a 24 percent market share in the country's construction sector.

*BRI-related FDI projects.*

Currently, almost all foreign investments in the region go into either extractive sector (oil, gas, metals) or non-tradeable sectors (telecom, finance, retail, real estate). Chinese investments into tradeable sectors are less probable as Central Asian economies seem to lack many important capabilities in this type of production. In addition to that, investments into tradeable sectors may be aimed at import substitution with a high risk of net welfare losses for FDI-receiving countries. Extractive sector investments would, of course, increase export potential of the region, but may not allow achieving the economic diversification which is a long-term goal of all governments in the region.

*Migration and demographic changes*

Research Institutes, such as University of Central Asia and Institute of Strategic Studies, stressed difficulties in obtaining sub-national data for in-depth analysis. Particularly, migration and demographic changes by the BRI projects are important but difficult to be analyzed.

Chinese investment should in theory open up employment opportunities for the local populations. But there are limitations to this. Most often, a condition of the huge soft loans that China provides through state banks is that the linked projects are implemented by a Chinese company and workforce.

Although not a Chinese-specific funding method, it has contributed to some resentment amongst Central Asian populations against Chinese investment. Certain countries, such as Turkmenistan and Uzbekistan, have guarded against this with local content quotas. Turkmenistan technically requires that a project’s workforce consists of 70 per cent local employees, and Uzbekistan mandates that Chinese companies can only send management personnel, not labourers. In reality, there are lapses in adherence to such stipulations.

In Kyrgyzstan and Tajikistan there is a more visible Chinese workforce. In Kyrgyzstan, for example, the construction of two roads (Osh-Sarytash-Irkeshtam and Bishkek-Naryn-Torugart)
part-funded by China consisted of 30 per cent local workers versus 70 per cent Chinese workers, with 60 per cent of raw materials imported. This highlights the often China-centric relationship that is quite typical on such infrastructure projects.

Trade policy

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

Trade policy and trade facilitation measures may become the cheapest and most effective way to increase trade between China and Kyrgyzstan. However, the parties do not seem to be prepared going very far in liberalization of this trade. The non-preferential Agreement on Trade and Economic Cooperation between China and Eurasian Economic Union (EAEU), which has recently been approved by the government of China and Eurasian Economic Commission (the executive body of EAEU), is an example of what could realistically be achieved in the trade policy area. And, of course, all BRI interventions would be associated with increased imports of goods and services from China, so the direction of change of Central Asia net exports to China is ambiguous.

All these possible BRI interventions may produce significant trade creation and trade diversion effects. Trade creation may emerge due to lower transportation costs (especially for trade with China) and other production costs, reduction of regulatory barriers for trade, and general increase in total factor productivity due to infrastructure improvements. Trade diversion may become a result of asymmetric development of transport infrastructure and re-orientation of some trade flows from north-south to east-west direction. It may also be a by-product of re-orientation of Chinese FDI on inputs (equipment, construction materials, components) imported from China rather than from third countries — traditional suppliers to Central Asia.

Other infrastructure investments may increase Central Asian exports to China if these are targeted to support export-oriented FDI from China, for example, improvement of irrigation systems or testing labs serving agricultural projects (or creation of electricity generation capacity to supply energy to a mine or metallurgical plant) aiming to produce goods for Chinese market.

Transport infrastructure and transit

Poor transport connectivity is seen as one of the main impediments for export diversification in Kyrgyzstan. For the last 15–20 years the government of the country, with support of international development organizations and bilateral donors including China, have invested very significant resources into the development of automobile road networks and other transport infrastructure elements. More projects are in the pipeline for BRI’s support. Government of the country expect these roads to serve not only/not so much domestic transport flows and exports from Central Asia, but also intercontinental shipments in East-West direction allowing Central Asian transport network operators to benefit from the transit traffic. There are several issues with these transit ambitions: competition from other routes (surface route through Russia, sea route via Indian Ocean etc.), product composition of goods in transit,
multimodality of routes (e.g. rail-ferry-rail, except for Kazakhstan), different track gauges, and regulatory barriers. This may mean that the expectations of high transit revenues from BRI projects may need to be carefully evaluated.

The Belt and Road Initiative can transform the economic environment in which economies in the region operate. Regional cooperation on the new and improved transport infrastructure and policy reforms could substantially reduce trade costs and improve connectivity, leading to higher cross-border trade and investment and improved growth in the region. For example, shipment times from China to Central Europe are approximately 30 days, as most goods travel by sea. Shipment times by train are about half as long, but given current infrastructure, much costlier. Hence, improving the capacity and network of rail infrastructure could radically change average travel times. And while rail transport will remain costlier than maritime for these routes, the time and cost reduction will have significant consequences for certain goods impacting the mode choice and total flows of international trade.

China-Kyrgyzstan-Uzbekistan railway

Transportation projects have taken precedence in Kyrgyzstan, with a large sum of that going to the proposed railroad via Bishkek to Samarkand, Uzbekistan and beyond, as part of China’s planned New Silk Road rail corridor.

During visit to China in 2017 Kyrgyzstan and Uzbekistan, in particular, mentioned the China-Kyrgyzstan-Uzbekistan railway — hoping for its inclusion into the Belt and Road framework. Notably, the China-Kyrgyzstan-Uzbekistan railway projects predates the Belt and Road. The Chinese initiative has certainly accumulated preexisting projects, but it’s important to note, first, that the impetus for the rail line does not originate with Beijing’s present initiative and, second, that the project has been stalled for years. The China-Kyrgyzstan-Uzbekistan railroad had been under discussion for almost 20 years but stalled over Kyrgyzstan’s complaints that the project lacked benefits for Bishkek. For example, the railroad in Kyrgyzstan from Chinese-Kyrgyz border to Kyrgyz-Uzbek border is estimated to cost some US$5 billion or 76% of the Kyrgyz GDP in 2016. This would imply annual payment of the debt principal and interest in the amount of, at least, 2–3% of GDP. Recently the parties resumed cooperation with renewed energy to complete the project. The Pop-Angren railroad will become a part of the China-Kyrgyzstan-Uzbekistan rail link once completed.

Interactive discussion on the cooperation between stakeholders and policymakers to implement the research project by DESA and future work plan

Even though Kyrgyzstan are heavily in debt to China and will remain so for many years, seem inclined to welcome the Belt and Road Initiative as a way to bolster their regional standing and fund needed infrastructure investment in a number of sectors.

Through the BRI, Chinese government proposes to support very different types of interventions in partner countries including infrastructure development, investments into production capacity, measures in trade facilitation, and human and cultural exchanges, among other things. This may create an opportunity for the landlocked and relatively geographically isolated Central Asian economies to improve their connectivity to China, but also to other parts of the world. Foreign trade of these countries seems to be one of the areas to be affected the most, and it is hoped in Central Asia that the BRI will increase the region’s export capacity.
However, there are significant economic and policy challenges, and the realization of the potential benefits of BRI is by no means automatic. Policy reforms could have large effects. For example, Doing Business indicators show that in Kyrgyzstan it can take up to 50 days to comply with all procedures to import goods. It takes less than 10 in G7 countries, indicating the large scope for improvements at the border in the region. More generally, the return on investment in infrastructure is likely to be low or even negative unless complementary reforms are carried to improve institutions and the policy environment.

The Belt and Road Initiative seems to provide unique opportunities for Central Asian countries to develop their infrastructure and production potential and to expand and deepen their trade and economic relations with China. However, all options may need to be carefully analyzed and long-term implications for trade and economic development considered.

Disclaimer: the views and opinions expressed during the workshop are those of the participants and do not necessarily reflect the views of the Economic Policy and Analysis Division, Department of Economic and Social Affairs, United Nations.

Follow-up actions

- Provide the methodology and example model to Ministry of Economy, Ministry of Finance, National bank, National Institute of Strategic Research, Research Center of AUCA.
- Collect requested data for the model and discuss with Ministry of Economy, National Statistical Committee, National Bank.
- Invite participants of the national workshop and discuss results of the model on second workshop.
- Provide information on the sustainability of the project after completion and coordination of the work with the model at the regional level.
#2 National Workshop Report

Bishkek, Kyrgyz Republic

10 September 2019

Topics / Agenda

The second national Workshop on strengthening national policy capacities with the use of macroeconomic modelling tool to achieve the Sustainable Development Goals (BRI towards SDGs) under the Project was held in Bishkek, Kyrgyzstan on 10 September 2019. The workshop was organized jointly by UN DESA mandate to deliver the 2030 Agenda through the 2030 Agenda Sub-Fund of the UN Peace and Development Trust Fund (PDF) and the Ministry of Economy of the Kyrgyz Republic.

This workshop aimed to discuss the current trends in BRI towards SDG in Kyrgyz Republic. The following topics were presented on the workshop: current trend of investments and BRI, progress of SDG in the country and its policy applications, WEFM country model and simulations, preliminary findings and policy recommendations of national report on BRI/SDG in the Kyrgyz Republic.

An overview of the SDG implementation and the current state of B&R activities were given. The preliminary findings based on the collection and analysis of background data and information related to both B&R and the SDG-related context in the Kyrgyz Republic and other pilot countries presented. National strategies and plans, fiscal frameworks and other policy documents examined to identify their linkages to B&R and policy recommendations discussed.

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<td>13:30 - 14:00</td>
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<td>14:00 - 14:10</td>
<td>Opening Speech</td>
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<td>M-r Avtandil ALYBAEV, Deputy Minister, MoE</td>
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<td>14:10 - 14:15</td>
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<td>Dr. Namsuk KIM, Economic Affairs Officer, UNDESA</td>
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<td>14:15 - 14:45</td>
<td>Current trend of investments and BRI</td>
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<td>M-r Khanchoro MURZALIEV, Head of Investment Policy Department, MoE</td>
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<td>M-r Azamat ERNISBEKOV, Chamber of Commerce</td>
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<td>14:45 - 15:00</td>
<td>Q&amp;A</td>
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<td>15:00 - 15:30</td>
<td>SDG monitoring and its policy applications</td>
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<td>Ms Aisuluu AMANOVA, Head of Strategic Planning Division, MoE</td>
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<td>15:30 - 15:45</td>
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<td>Coffee Break and Photo Session</td>
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<td>16:00 – 16:30</td>
<td>WEFM (DESA Modeling Tool) and simulations</td>
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<td>Dr. Namsuk KIM, Economic Affairs Officer, UNDESA</td>
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<td>16:30 – 17:00</td>
<td>Findings and Recommendations of National Report in Kyrgyz Republic</td>
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<td>Mr Aibek KADYRALIEV, National Consultant, UNDESA</td>
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<td>17:00 – 17:30</td>
<td>Discussion session and Closing Remarks</td>
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<td>MoE and UNDESA</td>
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**Participants**

1. PM’s office
2. Ministry of Economy
3. Ministry of Finance
4. Ministry of Transportation
5. National statistical committee
6. National bank
7. Investment Promotion and Protection Agency
8. National strategic research institute
9. Chamber of Commerce
10. Embassy of China
11. Independent experts
12. UN agencies
Key points raised

1. Current trend of investments and BRI

China is the largest investor in the Kyrgyz economy: in 2018, the share of China amounted to 39.7% of the total volume of FDI received ($ 338.092 million). According to the National Statistical Committee of the Kyrgyz Republic, the volume of accumulated Chinese FDI in the Kyrgyz economy in 2013-2018 reached $ 1.467 billion. The main areas of China's investment in Kyrgyzstan are mining (24.1%), manufacturing (45.6%), professional, scientific and technical activities (30.2%).

The total amount of funds allocated through bilateral grant and technical and economic assistance since 2015 (taking into account the new signed agreements) is 2 billion 200 million Chinese yuan - (about 320 million US dollars) for the development of sectors such as:

- healthcare
- transport and infrastructure (development of the road network in Bishkek, restoration of the road surface of highways in Bishkek);
- agriculture (reconstruction of the irrigation system of the Kyrgyz Republic);
- provision of logistical assistance;
- support for state budget.

Kyrgyzstan borrows funds from the Chinese Eximbank for the implementation of major infrastructure projects in the energy sector and road construction:

1. In order to get out of the Central Asian energy ring and gain energy independence
   - $ 389 million for the construction of the Datka-Kemin power transmission line
   - $ 208 million for the modernization of power lines in southern Kyrgyzstan
2. For rehabilitation and road construction
   - $ 200 million for rehabilitation of the Bishkek-Naryn-Torugart road
   - $ 100.6 million for rehabilitation of the Osh-Sarytash-Irkeshtam road
   - $ 585.3 million for the construction of the North-South highway
   - $ 129.8 million for the rehabilitation of the Osh-Batken-Isfana road and the Bishkek-Balykchy road
3. On modernization of the heat and power plant in Bishkek
   - 386 million dollars

China is one of the leading economic partners of Kyrgyzstan. As a result of the summit negotiations in 2019, preliminary agreements were reached on 24 projects for a total amount of about $ 7 billion. During the visit, the main document was signed: the Joint Declaration of the PRC and the Kyrgyz Republic on further deepening the relations of comprehensive strategic partnership, and a number of bilateral cooperation documents, including protocols on the export of dairy products, honey, sweet cherries and wheat flour from Kyrgyzstan to China, to promote the implementation of joint bilateral and multilateral projects in the trade and economic sphere, including projects for the construction of roads and railways, fiber-optic communication lines, projects in the field of electricity, mining, infrastructure projects on development of information and digital technologies, etc.
2. SDG monitoring and its policy applications

Kyrgyz Republic declared full support for the comprehensive International development agendas up to 2030 and Kyrgyzstan is an active participant in regional events to discuss SDG. Kyrgyzstan is in the process of aligning its national development strategies with the UN 2030 Agenda for Sustainable Development. Since 2013, Kyrgyzstan has been actively engaged in developing the post-2015 development agenda through national consultations and high-level conferences attended by government, development partners, CSOs, the private sector and international organizations on the process of achieving the MDGs and advancing the SDGs.

Since SDGs can be achieved with strong national leadership backed by global solidarity and collective action, the National Council for Sustainable Development was established. The National Council for Sustainable Development is the government institution that coordinates and assesses national development strategies and priorities, headed by the President of the Kyrgyz Republic. The Ministry of Economy is a Secretariat of the Council collecting and reporting information from other government bodies. For building a more peaceful, inclusive and sustainable world a whole-of-government approach with coordinated action at local, national and global levels required. An SDG Coordinating Committee was established as an institutional framework to liaise the work of agencies towards achieving the SDGs and an SDG Coordination Council under the leadership of the prime minister coordinates SDG implementation. For solution of specific tasks, state bodies were identified, which are responsible for both data collection and policy implementation, with focus on achieving concrete results.


During the strategic planning, government established a close partnership with the UN system, including UNDP. The new strategic documents of the UNDAF and the UNDP Country Program Document for 2018-2022 adopted by the Kyrgyz Republic, also focused on national priorities, the interests of Kyrgyzstan, assistance in achieving the indicators and targets reflected in the Global Development Agenda and SDG 2030.

3. WEFM (DESA Modeling Tool) and simulations

World Economic Forecasting Model (WEFM) is a macrostructural model that uses econometrically estimated relationships to explain economic behaviours. WEFM comprises 176 individual country models linked together via a trade matrix that reconciles global export and import volumes and export and import prices.

Changes in WEFM-e

- Create simplified (reduced-form) version of complex non-linear relationships for
- infrastructure investment and education level in production
- labor participation based on GDP per capita and education level
- Poverty reduction
- Consumption and investment behavior in relation to expected growth and the real interest rate
  - Government debt accumulation and its impact on the country risk premium, real interest rate and the exchange rate with the back loop in private consumption and investment
Simulations for Kyrgyz Republic

- Total BRI related investment amounts to 1.3 USD billion and is spread across 7 years, from 2012 to 2018
- Investment growth is historically very volatile in Kyrgyzstan
- Medium period projection until 2023

BRI related investment (SDG 9, 11)

- Increases in labor force participation and jobs (SDG 8)
- Decreases the gender gap (SDG 5, 8)
- Boosts the productivity growth (SDG 4, 8, 17)

- Leads to a faster output growth (SDG 8)
- Reduces poverty level (SDG 1, 10)
- Government deficit and debt manageable (SDG 17)
- Overall, the magnitude of impacts is small, due to limited BRI investment.

4. Findings and Recommendations of National Report in Kyrgyz Republic

The Kyrgyz Republic has made progress in economic, social and human development in the past decade, but challenges remain in relation to the 2030 Agenda and the Sustainable Development Goals. The challenges include high levels of chronic malnutrition, micronutrient deficiencies, poverty, limited access to food and employment, vulnerability to natural disasters and climate change, gender inequalities and limited opportunities for smallholders.

Weak economic governance and perceived corruption are key challenges to development. Gender inequality is another outstanding issue, especially in terms of education attainment, employment and political participation. According to the MDG progress report, the Kyrgyz Republic has reached benchmark levels for several indicators such as extreme poverty reduction, but falls behind in issues including maternal and child mortality, gender equality, fighting HIV/AIDS, and access to clean water and sanitation.

Suggested actions to maximize benefits and avoid risks

- Managing risks is vital for BRI to achieve sustainable development objectives.
- BRI related projects encounter political, regulatory, macro-economic, social and environmental risk factors throughout their lifecycles, which encompass planning, development, construction, operation and termination phases.
- Risks can materialize at local, regional, national and transnational, but also sectoral level.
- Risks include regional political and social instability, such as the Kyrgyz ethnic violence, and increasing resource nationalism.
- The BRI members should focus on proper reporting about BRI projects, provide systematic discussion of possibilities and risks, opportunities and challenges.
- Corporate governance, true diversification, fiscal management, and commercial feasibility of the projects will be a key factor in determining its impact.
• For BRI to be successful in the way China suggests, it must both stimulate industry that channels more trade to China and allow for the diversification of trade away from China.
• For local economies to truly benefit from Chinese investment, it needs to be accompanied not only by employment but also by training, professional development, and Corporate Social Responsibility activities.
• To achieve a low-risk environment and act as described above, the BRI can draw on studies on Special Economic Zones (SEZ) to help realize their potential to play a catalytic role in industrialization, diversification and trade integration in partner countries.
• The development impact of investment will depend on both its quality and quantity. In this regard, the role of environmental and social safeguards for infrastructure projects is pivotal for securing the overall vision of BRI.
• Evidence-based policymaking, derived from quality research and applied analysis, will be instrumental in producing better policy options, reducing poverty, stimulating economic growth and enhancing the quality of life in the country.

**Follow-up actions**

In-depth training course on modelling tools including WEFM-e was requested