Jointly Building Belt and Road towards SDGs

The case of the Kyrgyz Republic

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Tbilisi, 27-28 October, 2019
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GENERAL INFORMATION

Official name: Kyrgyz Republic

Form of government: Parliamentary Republic

Language: Kyrgyz (state), Russian (official)

Currency: KGS
1 USD = 69,85 KGS
1 EURO = 80,05 KGS

Financial and cultural centers: Bishkek city and Osh city

Capital: Bishkek
Population: 6,4 million
Time zone: UTC +6
Average age: 27 years
Climate: moderate continental

Total territory: 199,9 thous. sq. km
STRATEGIC LOCATION AND BENEFICIAL CO-OPERATION

ACCESS TO EXTERNAL MARKETS

- **The Kyrgyz Republic** is in the center of Eurasian continent and has advantageous geographical location that makes it possible to access large markets of the neighboring countries. The Republic takes strategic position between the CIS and Asia-Pacific Economic Cooperation Society, being the one of the main transit routes through Central Asian corridor. The Republic builds mutual trust relations not only with the countries of the region, but also with the far abroad countries.
- Goods from the Kyrgyz Republic have the access to the **markets of the countries with population of more than 2 billion people**.
- **The Kyrgyz Republic has received preferential trade regime GSP+**, which means more than 6,000 items of Kyrgyz origin will be exported to European Union countries at **zero customs duty**.
- **The Kyrgyz Republic has entered into Eurasian Economic Union of Russia, Kazakhstan, Belarus and Armenia**, which provides a freedom of movement of goods, services, financial and human capital across the borders of member states.
THE KYRGYZ REPUBLIC IS THE PARTICIPANT OF THE FOLLOWING INTERNATIONAL ASSOCIATIONS:

- Multilateral Investment Guarantee Agency (MIGA)
- International Development Association (IDA)
- Shanghai Cooperation Organization (SCO)
- United Nations
- World Trade Organization (WTO)

IN RELATION TO ITS TRADE PARTNERS THE KYRGYZ REPUBLIC APPLIES THE FOLLOWING TRADE REGIMES:

- CIS countries: Free Trade Regime
- EAEU countries: Common Economic Space
- WTO countries: Most Favoured Nation Treatment
- EU countries: Generalised Scheme of Preferences (GSP+)
BASIC MACROECONOMIC INDICES

GROSS DOMESTIC PRODUCT (USD BILLION)

In 2015, GDP decreased, due to the strengthening of the US Dollar in the world market. However, the annual GDP growth in absolute terms is 104%.

GDP PER CAPITA (USD)

Stable growth of living standard, as the index of dynamically developing economics.
The Kyrgyz Republic makes efforts towards creation of favourable business climate. Owing to these efforts, the volume of the foreign investments for the last 10 years has increased more than 4 times.

According to official statistics, the unemployment level for the last 5 years averaged at 7.9%. In 2016, it fell by 0.4% to the level of 7.2%, which is the lowest indicator in the last 10 years.
INTERNATIONAL TRADE

The Kyrgyz Republic was the first country among the CIS countries that joined the WTO in 1998. Currently, the Kyrgyz Republic has the most liberal trade conditions in Central Asia.

During the last 10 years the Kyrgyz Republic turnover with countries worldwide has been exceeding the GDP level indicating economy openness.

The Republic traded with 145 countries worldwide, exported goods to 82 countries in 2017. Export was oriented to both neighboring countries and far-abroad countries.
The Kyrgyz Republic is a lower middle-income country with a HDI of 0.672 in 2017.

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

Gold constituted 25% of industrial production and 48% of exports. Foreign remittances from immigrant workers accounted for 30% of GDP.

In terms of private sector development, the economy is dominated by small economic entities that typically operate in the informal sector.

The country joined the Eurasian Economic Union (EEU) in 2015, thus expanding its access to international trade and foreign investments;

It also benefited from China’s increased FDI to Central Asia.
COUNTRY SPECIFIC CONTEXT

• 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.
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.
SUSTAINABLE DEVELOPMENT NATIONAL STRATEGY

Government Program of the Kyrgyz Republic “Unity, Trust, Creation”

- leading landmark
- Maintaining continuity

Vision 2040

- Kyrgyzstan is a free country with a strong economy.
- A tangible and sustainable civic community of Kyrgyz people has been formed.
- Kyrgyzstan is a regional center of attraction for schools, universities and research and development centers of innovative type.
- A new model of economic growth has been built integrating Kyrgyzstan into the global digital economy.
- Reasonable balance achieved between orderly urbanization and regional development.
- The environment of Kyrgyzstan is not only preserved for the next generations, but also largely restored.
- The state is able to protect itself and its interests and ensure the safety of its citizens.
Implementation of adapted SDGs in country program documents

- 17 goals, 169 SDG targets and 243 indicators
- SDG inventory and adaptation
- Implementation in national documents
- Monitoring and evaluation

- NDS KR 2040
  - Government Program (“UTC”)
  - Industry Programs (Taza-Suu)
  - Regional Programs (Growth Points)

- Adapted Events
- Adapted Tasks
- Adapted Indicators
The medium-term strategy for 2018–2022—Unity, Trust and Creation—has four priorities:

(i) 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 program for SMEs;

(ii) developing agriculture and industry focusing on diversification, in addition to key sectors such as energy, transport, mining, tourism, textiles, and construction;

(iii) enhancing human development outcomes and deepening unity among ethnic groups; and

(iv) undertaking public administration reforms to improve service delivery. Gender parity, environment, and deployment of technologies are crosscutting priorities.
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Consistency Program "Unity, Trust, Creation" and SDG

Government Program "UTC"
Consistency rate over 60%

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The government prepared the country’s long-term development strategy till 2040, which will aim to create a strong economy, ensure high quality of life, develop competitive human capital, and contribute to regional cooperation. Key national initiatives are

(i) Taza Koom, an ICT program on digital transformation;
(ii) development of regions, focusing on 20 urban growth nodes starting with 5–6 urban centers;
(iii) human capital development;
(iv) law enforcement reforms for safe cities; and
(v) constructive regional cooperation and integration.

Launched in April 2017, Taza Koom will link the government, businesses, and citizens to reduce corruption and increase transparency and growth.
The BRI and its infrastructure investments have the potential to contribute to sustainable development and to achieving many of the Sustainable Development Goals, including:

• SDG 9 (industry, innovation and infrastructure),
• SDG 6 (clean water and sanitation),
• SDG 7 (affordable and clean energy),
• SDG 13 (climate action),
• SDG 14 (life below water) and
• SDG 15 (life on land).
The cooperation between the two countries within the framework of the BRI is based on:

1. reconstruction of existing railways and highways in order to provide delivery of the Chinese goods to Europe, the Caucasus and the Middle East;
2. construction of new railways and highways, pipelines and logistics infrastructure;
3. ensuring transportation of energy resources, particularly Turkmen and Uzbek natural gas, to China;
4. relocation of the Chinese production facilities to Kyrgyzstan in order to meet the demand for Chinese goods in the Eurasian Economic Union counties and Kyrgyzstan's domestic market;
5. providing Chinese investments in various fields of Kyrgyzstan's industries, especially transport and energy sectors;
6. improving cooperation in the fields of industrial production, agriculture, energy production, exploration of natural resources and tourism;
7. strengthening border cooperation by establishing a free trade zone.
• Deliveries to China account for 2.1% of Kyrgyz exports.

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

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

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

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

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

• Tax revenues from large enterprises with Chinese investments for 2018 amounted to 3.8 billion soms (an increase of 20% compared to 2017).
2018 World Investment in Kyrgyzstan
$6.936 billion

- Direct investment of $851.7 million.
- Portfolio investment $2.44 million
- Other investments $6.029 billion.
- Grants, technical assistance $55.146 million

FDI from China in 2018 totaled $380.09 million and increased compared to 2017 by 11.6%

The most attractive industries for investors from China
- Mining (24.1%)
- Manufacturing industry (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 the country's budget.
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 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.
PROJECTS

• Substation Datka
• Power line "Datka - Kemin"
• Oil refinery "Dzhunda"
• North-South Road
• Modernization of Bishkek CHP
• Gas pipeline to China
The substation was built in 2011-2013 with a $208 million loan from the Chinese Export-Import Bank. Money is allocated for 20 years at 2% per annum and with a grace period of 7 years.

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

The facility was built by the Chinese company TBEA. The substation can receive electricity from four hydroelectric power stations of the Naryn cascade - Kurpsayskaya, Shamaldy-Sayskaya, Tash-Kumyrska and Uch-Kurgan.
• An agreement on the construction of a power line was signed in the summer of 2012. Funds in the amount of 389 million dollars were allocated by the Export-Import Bank of China - for 20 years at 2% per annum and with a grace period of 9 years.

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

• As part of the same project, a new Kemin substation was built. All work was carried out by TBEA.
OIL REFINERY DZHUNDA

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

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

• Refinery "Dzhunda" can not begin full-fledged work due to lack of raw materials.
The construction of an alternative highway between the north and south of Kyrgyzstan began in 2014. The project is divided into three stages - the construction of sections of 154, 96 and 183 kilometers.

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

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

The work is carried out by China Road and Bridge Corporation.
MODERNIZATION OF BISHKEK THERMAL PLANT

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

• The modernization of Bishkek's CHPP began in April 2014, and work was completed in 2017. As part of the modernization, new boilers were installed, the station will be able to generate 600 megawatts of electricity instead of the current 300.
According to the agreement signed in autumn 2013, a gas pipeline route from Turkmenistan to China will pass through the Chon-Alai and Alai regions of Kyrgyzstan.

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

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

Opportunities

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

Challenges

• Ensuring the effectiveness of investments in conditions of high uncertainty;
• Coordination of infrastructure investments, lack of data and transparency;
• Environmental and social risk management;
• Ensuring openness and transparency to the public;
• Maintaining sustainability of public debt.
The participants exchanged information on BRI activities and discussed several questions on following topics:

- Transport infrastructure and transit
- External debt to China
- FDI
- Migration and demographic changes
- Trade policy
- Macroeconomic model
- Database.
Transport Infrastructure and Transit

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

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

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

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

- China's role in financing large-scale infrastructure projects through direct lending to the Kyrgyz government, as well as foreign direct investment (FDI) and regional initiatives, is expected to increase.
- The lack of clarity regarding official lending could increase the region's economic vulnerability, especially given the weight of Beijing's national loans.
- Eximbank of China is the largest single lender on available loans totaling $1.5 billion. The United States, or about 40 percent of the country's total external debt.
- Even if some of the BRI infrastructure loans are provided on very favorable terms, it can still become a very serious debt burden.
In recent years, the role of China as a subject of development and investor in Kyrgyzstan is growing exponentially. There is also growing interest from public and private Chinese companies in FDI in the energy, airline and construction sectors for access to the EAEU market.

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

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

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

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

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

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

- Representatives of the private sector raised questions on trade policy, access to Chinese markets, investments, access to finance from BRI funds.
- Trade policies and trade facilitation measures may be the cheapest and most effective way to increase trade between China and Kyrgyzstan.
- Other infrastructure investments can increase exports from Central Asia to China if they are aimed at supporting export-oriented FDI from China, for example, improving irrigation systems or testing laboratories serving agricultural projects (or creating generating capacities to supply energy to a mine or metallurgical plant) in order to produce goods for the Chinese market.
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• Representatives of the private sector raised questions on trade policy, access to Chinese markets, investments, access to finance from BRI funds.
• Trade policies and trade facilitation measures may be the cheapest and most effective way to increase trade between China and Kyrgyzstan.
• Other infrastructure investments can increase exports from Central Asia to China if they are aimed at supporting export-oriented FDI from China, for example, improving irrigation systems or testing laboratories serving agricultural projects (or creating generating capacities to supply energy to a mine or metallurgical plant) in order to produce goods for the Chinese market.
Simulations for Kyrgyz Republic (WEFM)

- 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.
Simulations for Kyrgyz Republic (WEFM)

Investment growth

- Original
- Modified

Simulations for Kyrgyz Republic (WEFM)

Investment growth (Modified Model)

- Infrastructure Inv.
- Private
- Gvt

Years: 2014 to 2023
Simulations for Kyrgyz Republic (WEFM)

Trend productivity growth

- Original
- Modified
Simulations for Kyrgyz Republic (WEFM)

Potential output growth


- Original
- Modified
GDP growth

- **Original**
- **Modified**

2014 to 2023
Simulations for Kyrgyz Republic (WEFM)

Labor force participation

- Modified_Female
- Modified_Male
- Original
- Modified
Simulations for Kyrgyz Republic (WEFM)

Poverty Headcount Rate

- 2014
- 2015
- 2016
- 2017
- 2018
- 2019
- 2020
- 2021
- 2022
- 2023

Poverty Headcount Rate:
- 15%
- 20%
- 25%
- 30%
- 35%
Simulations for Kyrgyz Republic (WEFM)

Budget deficit

- Original
- Modified


Values: -9, -6, -3, 0
Simulations for Kyrgyz Republic (WEFM)

CO2 emission (kt)

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)
- Gov deficit and debt managable (SDG 17)
- Overall, the magnitude of impacts is small, due to limited BRI investment.
Risks

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

- Environmental risks. The main direct environmental impacts (wildlife, pollution) from construction / operation and indirect impacts (habitat, water quality, erosion) from changes in land use
- Increasing spatial inequality
- High probability of maintaining lagging areas within countries and lagging regions in Central Asia
- Likely negative consequences resulting from greater integration of trade and the market and lack of compensation mechanisms
- Barriers to labor mobility exacerbate particular inequalities while reducing overall returns
- Increased Management Risks
- Corruption and public procurement
- Debt Sustainability Risks
- Ineffective coordination of investments and policies
- May lead to missed opportunities for centers and cities with increased market potential.
SUGGESTED ACTIONS TO MAXIMIZE BENEFITS AND AVOID RISKS

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

• 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.
SUGGESTED ACTIONS TO MAXIMIZE BENEFITS AND AVOID RISKS

• 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.
Conclusion

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