Prospects for China – Kyrgyzstan Economic Relations in the Framework of the Silk Road Economic Belt Project

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

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

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

The China Exim Bank has provided a $400 million loan for the first phase of the construction of the North-South road. The total amount of investments allocated for the project by the Eurasian Bank and the Asian Development Bank is over $850 million. The ChinaRoad Company has been carrying out the project. Despite the fact that due to the tender problems between the parties the construction of the Issyk-Kul ring road was halted the project is estimated at $100 million. This ring road is planned to reach Kazakhstan via the Kegen checkpoint to the Tup village in Kyrgyzstan and then become a part of the Western China-Western Europe corridor. Nowadays, the bilateral relations between Kyrgyzstan and China within the framework of China's One Belt, One Road (OBOR) initiative expected to be more effective and efficient. The projects being implemented so far are also easily correspondent with the purpose of the Initiative. The cooperation between the two countries within the framework of the OBOR is based on: (1) reconstruction of existing railways and highways in order to provide delivery of the Chinese goods to Europe, the Caucasus and the Middle East; (2) construction of new railways and 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.

It is possible to make a prediction that China's policy on Kyrgyzstan addresses the fact of the country's membership in the Eurasian Economic Union. The Chinese businessmen in Kyrgyzstan clearly understand that by increasing their activity in the country they could get opportunity to enter the common market of the Eurasian Economic Union. Indeed, an intense labor inflow from China to Kyrgyzstan was achieved by economic activities of the shoe factory opened in the province of Naryn (located in Kyrgyzstan's border with China) as a result of Chinese investment totaling $1.5 million in 2014, the KyrgyzChinese tractor factory located in Bishkek, as well as joint enterprises that produce washing machines and televisions in Osh. Moreover, the Chinese companies are rather active in Kyrgyz gold and bronze mining sector in the province of Shu providing geological exploration activities in the Osh province. Furthermore, China has launched two oil refinery facilities located near the cities of Kara Balta and Tokmak on Kyrgyzstan's border with Kazakhstan. These plants are expected to start operating with the raw materials imported from Kazakhstan and Russia.

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

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

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