

# Economy of Kyrgyzstan in the Framework of the Integration Strategy for Silk Road Revival

## Abstract

In this study, an assessment of the need and the effectiveness, as well as the prerequisites for the integration of the Kyrgyz economy into the implementation of the Chinese strategy for the revival of the Silk Road has been made. The main directions and mechanisms of the dynamic development of the economy of Kyrgyzstan in the context of deepening integration are considered. To this end, the current level of trade, as well as the economic and investment cooperation between Kyrgyzstan and the People's Republic of China (PRC) are examined. Measures are outlined to ensure a balance in the foreign trade turnover of Kyrgyzstan with the PRC, and to increase the Kyrgyzstan's export potential. In this context, positive and negative trends in the bilateral cooperation for the implementation of large infrastructure projects are identified. Guidelines for expanding mutually beneficial economic cooperation in the field of farming and processing of agricultural products are determined. Recommendations to strengthen the mutually beneficial economic cooperation in the development of hydro-power resources of Kyrgyzstan, the implementation of transport and transit projects, and the construction of international logistics centers are proposed.

**Keywords:** Silk Road, Economic cooperation, Logistics

## İpek Yolunu Canlandırmaya Yönelik Entegrasyon Stratejisi Çerçevesinde Kırgızistan Ekonomisi

### Özet

Bu çalışmada, Çin Halk Cumhuriyeti'nin İpek Yolunu canlandırmaya yönelik stratejisinin uygulamasına, Kırgız ekonomisinin entegre olmasının gerekliliği, etkinliği ve önkoşulları değerlendirilmiştir. Kırgızistan'ın ekonomisinin dinamik gelişmesi yolundaki temel yönler ve mekanizmalar, entegrasyonun derinleşmesi çerçevesinde incelenmiştir. Bu doğrultuda, Çin Halk Cumhuriyeti ve Kırgızistan arasındaki cari ticaret hacmi ve ekonomik ve yatırım işbirlikleri incelenmiştir. Kırgızistan'ın Çin Halk Cumhuriyeti ile arasındaki dış ticaret cirosu dengesinin sağlanması ve Kırgız ihrac potansiyelinin artırılması konularında atılacak adımlar özetlenmiştir. Bu bağlamda, büyük altyapı projeleri uygulamalarında iki taraflı işbirliği konusunda pozitif ve negatif meyiller belirlenmiştir. Tarımsal ürünlerin yetiştirilmesi ve işlenmesi alanında karşılıklı fayda sağlayan ekonomik işbirliğinin genişletilmesi için yönergeler kararlaştırılmıştır. Kırgızistan'ın hidro-enerji kaynaklarının geliştirilmesinde, transportasyon ve transit projelerinin uygulanmasında ve uluslararası lojistik merkezlerinin kurulmasında, yine karşılıklı fayda sağlayan ekonomik işbirliğinin kuvvetlendirilmesi için tavsiyeler önerilmiştir.

**Anahtar kelimeler:** İpek Yolu, Ekonomik işbirliği, Lojistik

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## 1 Introduction

The pandemic has caused damage and made significant adjustments to the development of the global economy. It had a particularly negative impact on the socio-economic development of underdeveloped countries, which include Kyrgyzstan. Crisis phenomena are aggravated, which is accompanied by a decline in production, rising inflation, and the further development of chronic problems - poverty, employment, migration, etc. Internal resources for a painless way out of the current critical situation, as is the case in developed countries, are limited. In this regard, the factor of the country's transition to the trajectory of sustainable and progressive development is active participation in various integration formations and effective, taking into account national interests, the use of the benefits of integration.

As is known, within the framework of the Shanghai Cooperation Organization, two major world economic powers - the Russian Federation and the People's Republic of China - are pursuing a balanced and active policy to deepen integration processes. The efforts of the Russian Federation are aimed at developing the Eurasian Economic Union, of which Kyrgyzstan and Kazakhstan are members. The People's Republic of China is actively pursuing a policy within the framework of the strategic program "Economic Belt of the Silk Road". The countries of Central Asia (Tajikistan, Uzbekistan, Kazakhstan, Kyrgyzstan), having come up with projects to link their own national development plans, are gradually involved in the implementation of the economic strategy of the People's Republic of China "Economic Belt of the Silk Road" (Pestsov 2018).

Despite the fact that in such a historically short period of time, within the framework of the Eurasian Economic Union and the implementation of the economic strategy of the PRC "Economic Belt of the Silk Road", there is an increase in mutual trade, priority sectors of national economies, prospects for an economic union, as well as conjugation of national economies in integration strategy of the revival of the Silk Road are evaluated diametrically opposite, up to the denial of its viability. At the same time, it is impossible not to notice the opposition between the EAEU and the economic strategy of the PRC "Economic Belt of the Silk Road" (Khasbulatov 2017). Russian President Vladimir Putin, speaking at the opening ceremony of the International Forum in Beijing in May 2017 "One Belt, One Road", said "that the addition of the potentials of such integration formats as the EAEU, One Belt, One Road", the Shanghai Cooperation Organization, the Association states of Southeast Asia can become the basis for the formation of a large Eurasian partnership (Putin 2017). In this case, in our opinion, we are talking in the future about the merger of large regional integration formations and the development of an inter-bloc Eurasian partnership covering countries on a number of continents.

At present, the processes of integration, creation, and development within the integration formation of new areas of economic cooperation, the development of competition between them are actively taking place, which is reflected in modern approaches to their research. In this regard, one should agree with researchers who rightly point out that among all the factors on which the competitiveness of national economies depends to a decisive extent, the level and format of integration has recently dominated (Ushachev 2014). The development of modern trends in regional economic integration is based on the doctrine of a new organization of the community of states, which involves observing their political and sociocultural differences and recognizing the need to harmonize the development of individual states with the needs of integration formation (Glazyev 2013).

In this sense, the development of Eurasian integration, in which Russia undoubtedly plays a leading role, cannot in any way contradict the implementation of the PRC's economic strategy, which also pursues the goal of expanding economic integration, including with the participation of post-Soviet states. It should be in line with the conjugation of these two global economic strategies in the Eurasian space. The development and deepening of integration processes in the EAEU based on the implementation of a coordinated macroeconomic policy should lead to the sustainable development of the economies of the Member States using the integration potential of the Union and the competitive advantages of each country. Active participation in the PRC's program "Economic Belt of the Silk Road" will allow the countries of Central Asia, including Kyrgyzstan, to modernize the transport system, develop alternative ways to enter the markets of third countries.

With this in mind, the modern foreign economic policy of Kyrgyzstan should be built. Kyrgyzstan is a member of the Eurasian Economic Union (EAEU), actively participates in the implementation of a major integration project of the People's Republic of China "Economic Belt of the Silk Road" (SREB). Recently, integration processes have been activated in Central Asia, where Kyrgyzstan, having a significant hydropower potential, will play a special role. The development of regional economic integration, the large-scale participation of Kyrgyzstan in integration formations create favorable conditions for a balanced and dynamic development of the national economy.

## 2 Discussion

The PRC in terms of GDP production in the world ranking ranks second and in 2019 its GDP amounted to 14.4 trillion. US dollars (16.0% of world GDP). The annual growth rate of the Chinese economy exceeds 6.0%. The PRC ranks first in the world economy in terms of export volumes (2.4 trillion US dollars). The PRC is the world's largest investor and the volume of investments abroad amounted to 129.8 billion US dollars. A significant part of

the investments is directed to the implementation of the Chinese strategy of the Silk Road Economic Belt (SREB). Economic Strategy of the People's Republic of China "Economic Belt of the Silk Road" is one of the important components of the concept "One Belt and One Road", put forward by the People's Republic of China in Astana.

As you know, among the EAEU countries, Kyrgyzstan was practically the first to become a member of the WTO, which made it possible to quickly establish and develop trade relations with China and contributed to the transformation of our republic into a buffer zone, a kind of trade bridge connecting the rest of the CIS countries with China. In connection with the implementation of the integration strategy of the PRC "Silk Road Economic Belt", Kyrgyz Chinese relations have reached a new level.

Mutual trade is developing at a high pace. The mutual trade turnover between Kyrgyzstan and China increased from 128.0 million US dollars in 2005 to 1616.0 million US dollars in 2019, i.e., almost 14.1 times. Moreover, the growth rate of foreign trade turnover of the Kyrgyz Republic (KR) and the PRC was significantly higher (more than 4.0-4.5 times) than the overall growth rate of the total foreign trade turnover of the Kyrgyz Republic. As a result of such outpacing growth in trade cooperation, the share of foreign trade turnover of the Kyrgyz Republic and China in the total foreign trade turnover of the Kyrgyz Republic increased sequentially from 7.2% in 2005 to 13.9% in 2010, and up to 26.4% in 2019.

And now the PRC is one of the main trading partners of the Kyrgyz Republic, ranking first in terms of foreign trade and significantly ahead of even the Russian Federation (for comparison, the share of the Russian Federation in 2019 was 23.7 %) (Table 1).

Indicators	2005	2010	2013	2014	2015	2018	2019
Foreign trade turnover	1773,0	4978,7	7993,8	7618,4	5745,0	6672,0	6869,3
- including from China	128,0	694,5	1471,0	1232,0	1085,0	2003,0	1816,5
Coef. growth compared to 2005	-	2, 8	4, 5	4,2	3,2	3,7	3,8
- including from China	-	5,4	11,4	9,6	8,4	15,7	14,1
Oud. China's weight in the total trade turnover of the Kyrgyz Republic, in %	7,2	13,9	18,4	16,1	18,8	30,0	26,4

**Table 1.** Development of foreign trade of the Kyrgyz Republic with the People's Republic of China, mln USD

**Source:** Data of the National Statistical Committee of the Kyrgyz Republic

Noting positive trends, one cannot fail to note the significant predominance in the foreign trade turnover of imports from China over exports from Kyrgyzstan to China (31.8 times), which creates certain threats to aggravate the negative balance of Kyrgyzstan's foreign trade with China.

When linking the economies of Kyrgyzstan within the framework of the implementation of the "Economic Belt of the Silk Road" of the PRC, it is also necessary to consider the implementation of measures to balance the foreign trade turnover and a significant increase in the export potential of Kyrgyzstan to the PRC. In this regard, the government of the People's Republic of China has recently shown a certain interest. The PRC is especially interested in a significant increase in exports of environmentally friendly agricultural products from Kyrgyzstan (fruits, livestock products, etc.) and is taking measures to provide Kyrgyzstan with the necessary laboratory facilities to ensure acceptable phytosanitary standards.

The volume of foreign direct investment inflows from China in 2019 amounted to 337.8 million US dollars and tends to grow in dynamics (Table 2).

Indicators	2010	2013	2014	2015	2018	2019
Investments, total	3572,4	5487,3	5415,7	5615,4	6939,1	7279,0
- other investments	666,0	964,5	727,1	1573,3	851,7	1076,9
- other investments	2688,2	4474,9	4612,2	3557,9	6029,8	6147,9
Investments from China, total	231,0	883,0	853,9	1258,0	690,0	700,0
- private investments	70,8	468,3	221,7	474,4	338,0	337,8
- other investments	155,1	409,7	622,0	784,0	352,0	360,0
The share of China, in%, in						
- general about. inv	6,4	16,1	15,7	22,4	9,9	9,6
- other investments	10,5	48,5	30,3	30,1	39,7	34,4
- in other investments	5,7	9,1	13,4	22,0	5,8	4,9

**Table 2 - Inflow of foreign investments to Kyrgyzstan, including from the People's Republic of China, million US dollars** **Source:** Data of the National Statistical Committee of the Kyrgyz Republic

For the period 2010-2019, the total volume of investments from China to Kyrgyzstan increased by 2.9 times: from 231 million US dollars in 2010, to USD 700.0 million by 2019. In 2019 Of the total volume of Chinese investments in the economy of Kyrgyzstan, about 48.9% were direct investments (337.8 million US dollars). During the analyzed period, in the volume of incoming foreign investments, the volume of so-called other

investments (mainly loans provided) is consistently growing, the share of which in 2019 was amounted to more than 4.9% (360.0 million US dollars).

The PRC is consistently strengthening its position in the investment space of Kyrgyzstan, investing its investment resources in promising sectors of the national economy of Kyrgyzstan (manufacturing, real estate, trade, and exploration), as well as in the construction of major infrastructure projects.

In the structure of the manufacturing industry, the main volume of investments was directed to the production of food products (including drinks and tobacco), the production of rubber and plastic products, metallurgical production, and the production of petroleum products. As a result, the share of the PRC in the total volume of foreign investments attracted to the republic increased from 6.4% in 2010 to up to 9.6% in 2019; accordingly, the share of direct investments increased from 10.5 to 34.4%. Currently, the PRC ranks third in terms of the total volume of attracted direct investments in Kyrgyzstan, behind Canada and the Russian Federation.

The largest investment projects implemented in Kyrgyzstan with credit funds from the PRC were the construction of the Datka-Kemin power transmission line (389.0 million US dollars), the Junda oil refinery (300.0 million US dollars). In 2014 the construction of an alternative North-South highway was started (the sum of the Chinese loan is 700.0 million US dollars). Bishkek CHPP was upgraded (USD 386.0 million). Thus, the PRC is implementing investment projects in the Kyrgyz Republic worth more than 4.2 billion dollars. Moreover, infrastructure projects of Kyrgyzstan are being implemented for \$2.6 billion at the expense of tied Chinese loans, which provide for the implementation of projects by Chinese companies.

As a significant risk for the development of the national economy, it should be noted the growth of the external debt of Kyrgyzstan to the PRC, the share of which in the external public debt of the country amounted to 35.0%. Moreover, the debt of Kyrgyzstan on credit resources is growing, aimed at the implementation of mainly large infrastructure projects (construction of an alternative road "Bishkek-Osh"). In this regard, as part of the further integration of the national economy into the integration strategy of the PRC, it is necessary to focus on the growth of direct investment in the development of priority sectors of the real sector of the country's economy.

The consequence of the poorly regulated trade and economic cooperation between the Kyrgyz Republic and the PRC is the growing asymmetry and imbalance of the foreign trade turnover of our country. In practice, trade in goods is carried out only in the direction of the growth of their imports from the PRC. At the same time, in trade with the PRC, Kyrgyzstan is extremely inefficient in using the opportunities to increase exports of domestic products, and weakly uses the opportunities for developing cross-border economic cooperation. The development of one-sided, mainly in the interests of Chinese capital, foreign trade is mainly due to the underdevelopment of modern large logistics centers in the republic, where it is possible to organize modern management in this system.

These risks and threats should be considered in future plans and directions for organizing mutually beneficial, considering national interests, trade, and economic cooperation of the Kyrgyz Republic within the framework of the implementation of the strategy "Economic Belt of the Silk Road" of the PRC. One of the important directions of conjugation of the national economy in the integration strategy of the PRC is the possibility of ensuring Kyrgyzstan's access to world and regional markets. Modernization and development of transport infrastructure should take an important place. It is necessary to strengthen the work in the direction of the construction of the railway line "China-Kyrgyzstan-Uzbekistan", considering the national interests of Kyrgyzstan. Kyrgyzstan can become not only a major transit zone in the Central Asian region, but also significantly modernize the network of internal transport communications for the movement of people and goods. For Kyrgyzstan, the implementation of other large-scale transport projects of the transport and logistics belt "Economic Belt of the Silk Road" means the creation of the most favorable conditions for accelerated socio-economic development and integration of its economy as part of the implementation of the strategy "Economic Belt of the Silk Road" of China.

As is known, integration creates the prerequisites for sustainable development and rational use of the potential of the regions. Almost all regions of the country have the potential to increase exports of products both to the EAEU countries and to non-CIS countries. Kyrgyzstan, within the framework of the implementation of the integration strategy of the PRC, has real opportunities to effectively use and increase the export potential of the regions. To this end, Chinese capital should be actively attracted to create joint ventures for the processing of agricultural and other products in the regions, and a network of logistics centers and technology parks should be developed in the regions.

One of the urgent and unsolvable problems in the republic in recent years is the efficient use of the country's water and energy potential. This problem has long gone beyond the borders of our state and has taken the form of an interstate solution with the participation of most of the countries of Central Asia (CA). The conjugation of the national economies of the Central Asian countries and participation in the implementation of energy projects "Economic Belt of the Silk Road" of the PRC also creates good conditions for effective cooperation between Kyrgyzstan, Uzbekistan, Kazakhstan in solving this problem. As part of the implementation of the integration strategy "Economic Belt of the Silk Road", it is possible to implement, on the terms of cooperation between the Central Asian countries, the construction of a cascade of hydroelectric power stations on the water and energy arteries available in the region, which will allow increasing the production and export of electricity.

Broad prospects within the framework of the agrarian belt "Economic Belt of the Silk Road" of the PRC are opening up for the development of agriculture and, in general, for the modernization of the agrarian economy of the Kyrgyz Republic. It is important for Kyrgyzstan to effectively transform agriculture, which is a priority sector of the national economy, to the needs of the Silk Road Economic Belt and the EAEU. First of all, it is most rational to use favorable natural and climatic conditions and the richest natural land and water resources for the intensive development of almost all branches of animal husbandry and agriculture, the development of an organic and ecological economy, the demand for whose products, due to an increase in the standard of living of the population, is growing from the PRC.

The development of integration processes, in which Kyrgyzstan takes an active part, testifies to the increasingly complex configuration of regional policy. Considering the fact that at present Kyrgyzstan needs to re-build a multi-vector policy, it needs to be formatted considering building relationships with integrated systems. Therefore, an important element of it should be the development of mechanisms for coordinating multilateral interests in integrated formats, such as the Eurasian Economic Union (EAEU) and the Silk Road Economic Belt (SREB).

Despite the commonality of the directions of development of integration processes, these two integration projects differ significantly. The Eurasian Economic Union is an institutionalized project, fixed by an agreement and relevant organizational structures. The Silk Road Economic Belt is a purely functional project, where the interaction between its participants is carried out in the form of a business project.

Despite the differences in the development of integration processes within the EAEU and the Silk Road Economic Belt, participation in both projects is important for Kyrgyzstan. Within the framework of the EAEU, Kyrgyzstan has the opportunity to effectively use its production and labor potential, expand exports of products, attract investments for the modernization and development of the real sector of the economy. Significant advantages are created by the EAEU for the effective use of migrant labor. Important is the development of the educational system, the system of training and employment of personnel. The importance of the EAEU in solving the pressing macroeconomic problems of the country - budget deficit, the burden of public debt is essential.

The strategy of the PRC "Economic Belt of the Silk Road" is also important for Kyrgyzstan from the point of view of the implementation of large infrastructure projects (construction of roads and railways), which ensure the overcoming of transport isolation and access to world sea transport routes. China, within the framework of the implementation of the "Economic Belt of the Silk Road" on the territory of Kyrgyzstan, is ready to invest in the development of agriculture, processing industry, education, and intellectual property development, in the development of communications and digitalization of the economy.

### **3 Conclusions**

The functioning of Kyrgyzstan within the framework of the EAEU in no way contradicts its active participation in the economic strategy of the PRC "The Economic Belt of the Silk Road".

As part of the implementation of this project on the territory of Kyrgyzstan, it is necessary to use investment and credit resources actively and purposefully for the development of industrial infrastructure, the construction and modernization of the road and railway network, the development of agrolistics and, in general, the renewal of agricultural technology for the production of crops, increasing the volume of exports of products of the "green" economy.

It is necessary to take additional measures to overcome the extreme asymmetry of the foreign trade turnover of the Kyrgyz Republic and the PRC, in order to develop on a mutually beneficial basis and implement large joint projects to significantly increase the volume of exports of products to the PRC.

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