Report

Risks along the Belt and Road

Chinese investment and infrastructure development priorities in Kyrgyzstan

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Acronyms

ADB	Asian Development Bank
BRI	Belt and Road Initiative
CIS	Commonwealth of Independent States
CRBC	China Road and Bridge Corporation
CSTO	Collective Security Treaty Organisation
EAEU	Eurasian Economic Union
FDI	foreign direct investment
GDP	gross domestic product
IMF	International Monetary Fund
KGS	Kyrgyzstani som
MoU	memorandum of understanding
POE	privately owned enterprise
RMB	renminbi
SCO	Shanghai Cooperation Organisation
SOE	state-owned enterprise
TBEA	Tebian Electric Apparatus Stock Co. Ltd.
UNDP	United Nations Development Programme

Executive summary

Chinese investment and initiatives such as the Belt and Road (BRI) have the potential to promote new development pathways through infrastructure connectivity, stimulating job creation and encouraging economic transformation. In landlocked Central Asia, where transport connectivity is lagging, Chinese institutions can help meet some of the estimated $565 billion in financing required to build adequate infrastructure over the 15 years from 2016 to 2030 (ADB, 2017). However, these opportunities are not a given – as a powerful external change agent, investment and financing initiatives such as the BRI also have the potential to increase economic, environmental and political risks within host countries.

China's economic role has expanded across Central Asia, where the country is now a major trade partner, lender and investor. Both state-owned enterprises and private businesses are engaging across sectors including energy, extractives and agriculture. Kyrgyzstan is no exception – its engagement with China has increased steadily since 1991. China is now a large trade partner, and the main investor and lender to Kyrgyzstan. This is particularly important at a time when Kyrgyzstan's other key partner, Russia, faces economic and political challenges following the invasion of Ukraine.

As China's role across the region, including in Kyrgyzstan, has increased, so have concerns about the economic, financial, social and environmental risks of its activities. Transparency of Chinese lending, lack of employment opportunities and contractual liabilities have been raised by Western and developing country commentators alike. These risks will manifest differently across different countries. Existing development and economic policies, as well as political processes, can either increase vulnerability, exposure and risks, or build capacities, opportunities and resilience. It is also not one sided; how China's impact on Kyrgyzstan development manifests depends on the balance of positive and negative outcomes deriving from its engagement and how risks are managed by China and host countries alike.

While this report takes the BRI as its main focus, an assessment of the risks deriving from Chinese investment in Kyrgyzstan cannot ignore other Chinese activities in the country, including private investment and trade. Many of those activities predate the BRI, and are often under other frameworks of engagement, such as the Shanghai Cooperation Organisation (SCO). This report has tried to capture these forms of engagement to paint a comprehensive picture of the risks and opportunities of Chinese investment and infrastructure to the Kyrgyz development process. We explore these risks by looking at two case studies: macro-level risks of Chinese investment and infrastructure projects, such as debt sustainability and security; and investment in the Kyrgyz gold mining sector.

Identifying political, economic and social risks arising from external factors such as the BRI can be challenging, as these risks are not always well-defined. Even so, our findings show that, at both macro and sectoral levels, the Kyrgyz Government has so far fallen short in managing risks and making the most of opportunities stemming from Chinese investment in the country. At the macro level, Kyrgyzstan faces debt sustainability challenges, exacerbated by external shocks including the Covid-19 pandemic, and potentially by the Russia–Ukraine war. Whether this will turn into a full-blown debt crisis, whether China will forgive (part of) its debt, or whether any other scenario plays out is difficult to foresee.

Corruption is a significant concern for the Kyrgyz public. However, despite a string of corruption scandals linked to Chinese infrastructure projects and investment, there is limited evidence to suggest that corruption is a risk particularly linked to Chinese stakeholders or to the BRI, rather than endemic to the country. Our analysis also finds that perceptions of heightened geopolitical competition in Central Asia between Russia, China, Turkey and others are common. While these perceptions do not necessarily generate risks, they are interwoven with and exacerbate concerns about debt and other perceived risks in a close economic relationship with China. There was no agreement as to whether Chinese engagement poses security threats to Kyrgyzstan.

At the sectoral level, our research found widespread concerns about compliance with the rule of law, labour market transparency and inequality associated with Chinese companies in the extractive sector. Specifically, concerns about compliance with environmental, industrial safety and social protection frameworks were often raised in relation to Chinese mining companies. Both investors and the government have a role to play in improving compliance with the law – while investors should enhance environmental performance, the government should lead on improving dispute prevention and resolution strategies and support local governments with their implementation. Similarly, concerns around labour market transparency were raised in relation to both private and state-owned Chinese companies, though there is little evidence to support claims that Chinese firms do not hire Kyrgyz workers. Nonetheless, improving oversight of compliance with local labour and subcontracting regulations, and supporting local businesses to meet their demands, could help minimise risks of social unrest.

The risks identified suggest a common perception that Kyrgyzstan has not benefitted much from economic engagement with China. The Kyrgyz Government has largely failed to steer investment and infrastructure towards improving economic resilience. While foreign investment and lending, including from China, can contribute to the development process, so far this has not happened.

To ensure that Kyrgyzstan benefits from the BRI and from China's presence in the country, we recommend the following actions to the Kyrgyz Government:

- Create a 'China strategy' to ensure that the investment and infrastructure built by China provide benefits to the Kyrgyz economy. This should include guidelines for prioritising infrastructure projects and introducing local content regulations to enhance participation of local labour and subcontractors.
- Understand the role of Chinese state and private companies and adopt tailored approaches to engage Chinese (SOEs) to come on board with the China strategy, and where necessary regulate Chinese private companies in the same manner as other foreign investors.
- Deploy economic diplomacy to diversify partnerships.
- Support local companies to meet the demands of mining companies and other investors in terms of skills and service standards.
- Facilitate engagement between Chinese investors in the mining sector and local communities and invest in building the capacity of local government in conflict prevention and resolution.

We also provide recommendations to the Chinese Ministry of Commerce, responsible for trade and outward investment:

- Improve engagement with Kyrgyzstan (and with other countries with a similar, long-standing and strong relationship with China) and improve the quality of outward investment. This could entail providing training on local rules and regulations, and support to investors. It could also entail training on sustainability, risk management and conflict prevention.
- Educate Chinese investors and Kyrgyz stakeholders on Chinese policies and guidelines applying to Chinese overseas investment and infrastructure projects.
- Promote sharing of best practice on local community engagement and conflict prevention between Chinese investors with experience of investing and operating in similar environments.

Recommendations for Chinese firms:

- Ensure that plans to engage with local communities and collaborate with local government to monitor and enforce regulations are in place before investing in Kyrgyzstan and seek support from in-country partners to this end.
- Invest in cultural and language training for Chinese employees working in Kyrgyzstan.
- Provide training to Kyrgyz employees and subcontractors of Chinese enterprises to improve skills transfer.

1 Introduction

Chinese investment and initiatives such as the Belt and Road (BRI) have the potential to promote new development pathways through infrastructure connectivity, stimulating job creation and encouraging economic transformation. However, this is not a given – as a powerful external change agent, investment and financing initiatives such as the BRI also have the potential to increase a range of economic, environmental and political risks within host countries.

With its focus on infrastructure connectivity, the BRI promises to support low- and middle-income countries with infrastructure finance. Infrastructure is crucial to boost economic activity by facilitating trade, supporting investment and reducing the costs of doing business. This is particularly true for landlocked Central Asia, which lacks adequate transport connectivity with the rest of the world (Calabrese et al., 2017). The Asian Development Bank (ADB) estimates that, to build adequate infrastructure, Central Asia will need to invest $565 billion over the 15 years from 2016 to 2030, or $38 billion per year, 8% of the region's gross domestic product (GDP) (ADB, 2017). Chinese financial institutions have stepped in to provide part of that finance via infrastructure lending.

China is also an investor in Central Asia. Both private businesses and state-owned enterprises (SOEs) invest in many sectors in the region, from agriculture to manufacturing, extractives and services. As a foreign investor, China has gone from virtually non-existent in 2000 to the fourth largest investor in 2010, to by far the largest investor in terms of foreign direct investment (FDI) flows in 2018. This, together with other foreign investment, supports trade, creates jobs, and transfers knowledge and technology, ultimately boosting economic growth. China argues that its FDI is one of the major avenues by which developing countries can achieve their development objectives, but the scope, complexity and lack of transparency and robust data about investment and financing vehicles such as the BRI makes analysing the associated opportunities and risks challenging.

With the steady increase in Chinese FDI and the announcement of the BRI in 2013, questions about the economic, financial, social and environmental risks of such activity have increased. Certainly, in many Western capitals, and among regional powers such as India, there are concerns that BRI investments are as much geopolitical as economic. While Western commentators have focused on issues such as debt sustainability, some developing countries have also raised concerns about the lack of transparency in lending, contractual liabilities and lack of employment opportunities for local communities.

Such accusations have prompted a fierce response from China about third-party influence. China argues that its investments come without conditions around human rights reform and democratic governance and has robustly denied accusations of a 'debt trap'. In 2019, Hou Yanqi, China's Ambassador to Nepal, told a press conference:

> ...the debt problem of developing countries has a much longer history, so it would be unfair to blame the BRI or China for their debt problem. As a matter of fact, no country has got trapped in a debt crisis since its participation in the BRI. Quite on the contrary, it is through participating in BRI cooperation that many countries have got out of the trap of 'no development' (Embassy of the People's Republic of China in Nepal, 2019).

To a certain extent China's ambassador is correct. How risks manifest can be country specific. Development dynamics shape a country's vulnerability and exposure to, and capacity to deal with, complex threats and risks. Existing development and economic policies and political processes can increase vulnerability, exposure and risks, or build capacities, opportunities and resilience. As a recent World Bank report states 'building infrastructure is inherently risky' (World Bank, 2019). It is also not one sided; how China's impact on Kyrgyz development manifests depends on the balance of positive and negative outcomes deriving from its engagement and how risks are managed by China and host countries alike. There are many examples of this. For instance, in Cambodia, Chinese investment and infrastructure development generate different impacts in different sectors and parts of the country, creating a case of 'fractured development' (Calabrese et al., 2022).

So just how different is Chinese FDI from other types of investment? Is it perceived as generating more risks for recipient countries because it 'stems from an emerging economy, a unique political system and a non-ally in the security space?' Or that it is inherently different in nature and '*should not be treated politically like other foreign investment'* (Chaisse, 2019). For host countries, is there an imbalance in information (asymmetric information) and does China understand more about the risks to them than they do? Or do host countries have imperfect information i.e. a lack of crucial information to make decisions regarding the risk profile of BRI investments? A clash of perspectives is inevitable.

This report looks at some of the perceived and actual risks associated with Chinese investment and infrastructure projects in Kyrgyzstan. Identifying political, economic and social risks arising from external factors such as the BRI can be challenging, as these risks are not always well-defined. In some cases, they can simply be perceptions or rumours with limited or no substance behind them. In some cases what Chinese investment achieves in terms of host country development goals might become less important to how 'risky' it is perceived to be to other expected outcomes such as political power dynamics. This is in part because what is perceived as risky, and what is seen as tolerable, to a range of country stakeholders, cannot be separated from the political, sociopsychological, cultural and financial contexts in which perceptions are formed and decisions made.

This report draws on Chinese and Kyrgyz Government sources (where publicly available), expert comment (from Kyrgyz Government-affiliated and independent agencies as well as academic researchers) and a qualitative assessment of news sources from Chinese and Kyrgyz media, to better understand these perceived or actual risks, and to provide a set of recommendations to both Chinese and host country stakeholders on how to manage and mitigate these risks.

It is important to note that, among interviewed in-country stakeholders, there was an ambiguous attitude towards distinguishing between BRI and non-BRI projects. Indeed, many stakeholders made no distinction between pre- and post-2013 engagement by China. For example, projects under the Shanghai Cooperation Organisation (SCO) were cited interchangeably with the BRI. In addition, despite the range of Chinese actors engaged in the BRI, as discussed in Sections 2 and 3, generalisations about China were common, and often seem to be based on the assumption that China is a homogenous entity with evenly dispersed economic development, a coherent state economy model, a single culture and uniform thinking (Nadin et al., 2016).

Section 2 starts by providing an overview of the Kyrgyz socioeconomic context and development dynamics. This is important as development dynamics shape a country's vulnerability and exposure to, and capacity to manage, risks and opportunities associated with foreign investment, investment flows and large-scale infrastructure initiatives such as the BRI. The section also outlines Kyrgyzstan's long-term economic development plan – Strategy 2040 – before exploring how aligned Chinese investments are to the economic growth and development priorities of the Kyrgyz Government.

Section 3 outlines China's bilateral relations with Kyrgyzstan and examines Chinese investment trends and priorities in the country. It maps out the nature, scale and diversification of Chinese investments and grants, as it is the nature, scope and depth of this engagement which in part determines whether the public and country elites perceive China's engagement as a risk or an opportunity.

Drawing on the literature and through expert interviews, Section 4 pays particular attention to Kyrgyz stakeholders' dominant perceptions of macro risks – those impacting the whole of society, such as economic dependency, debt sustainability, and geopolitical or credit risk arising from Chinese engagement. Section 5 then looks at perceptions of sector-level risks, using the gold mining sector as a case study. We examine host country risk perceptions of Chinese extractive projects, exploring issues around rule of law, such as compliance with environmental frameworks, and in relation to labour markets. Throughout Sections 4 and 5, we seek to test if these risks are unique to the BRI, to wider Chinese investments or to foreign direct investment in general.

This report is part of a series of country studies looking at complex risks along the BRI in Cambodia, Pakistan, Ethiopia, Nepal and Zambia.

Box 1 A note on risk

No single risk is inevitable

Risk results from the interaction of vulnerability, exposure, capacity and threats. Human choices, shaped by values and perceptions of risk, directly determine vulnerability, exposure and capacity to manage various threats. ***Vulnerability*** is determined by the combination of physical, social, economic and environmental factors or processes that increases the susceptibility of an individual, community, nation, assets or systems to harm when a threat occurs (adapted from UNISDR, 2017). ***Exposure*** is the situation of people, livelihoods, infrastructure, services and other tangible assets in threat-prone areas (adapted from UNDRR, 2017 and IPCC, 2014a and 2014b). In many instances, human decisions actively create or exacerbate threats, e.g., conflict, anthropogenic climate change. Many risks can be managed through reducing vulnerability and exposure, and increasing capacity and adaptation (Opitz-Stapleton et al., 2019).

Typically, political risk assessments look at the risks to investors and business operations in host countries, rather than those arising for the host country from initiatives or investments. For this report, we focus on the latter, and define political risk as:

> the potential positive or negative impacts on the economic growth potential and debt dependency, external relations with regional powers and social fabric (instability, social unrest, ability to manage shocks) to BRI countries, as a result of actors involved in the design, financing and implementation of the BRI (Chinese SOEs, private companies) or approaches emerging as a consequence of the BRI (diplomatic negotiations, bilateral agreements, investment plans/decisions) that influence decision-making (economic planning) and state effectiveness (national/local) within that country.

Risks are what *could happen* (but have not yet happened), whereas impacts have actually occurred.

2 Kyrgyzstan's development context

This section provides an overview of Kyrgyzstan's socioeconomic context and development dynamics. This is important as development dynamics shape a country's vulnerability and exposure to, and capacity to manage, risks and opportunities associated with foreign direct investment, investment flows and large-scale infrastructure initiatives such as the BRI. It briefly describes current economic and social vulnerabilities and outlines Kyrgyzstan's long-term economic development priorities. How aligned these economic growth and development priorities are to BRI projects and investments is explored in more detail in Section 3.3.

2.1 Kyrgyzstan's development trajectory

2.1.1 Political and socioeconomic development context

Domestic political context

Kyrgyz politics are best described as volatile. Since independence from the Soviet Union, the country has experienced three violent anti-government coups, most recently in 2020. Askar Akayev, the first president of independent Kyrgyzstan, and his successor Kurmanbek Bakiyev, were both overthrown during coups in 2005 and 2010 respectively. Perceptions of discrimination between northern and southern groups played a role in Akayev's downfall in 2005 (Nichol, 2005). Five years later similar factors, corruption and nepotism, rising energy prices and constitutional reforms establishing presidential dominance and eliminating 'local self-governance' contributed to Bakiyev's fall from power (Nichol, 2010).

In 2017, Sooronbay Jeenbekov, who served as prime minister under President Almazbek Atambayev, was elected in a landslide leading to the first peaceful transfer of power in Kyrgyzstan since independence (RFE/RL, 2017). Jeenbekov should have served until 2023, but his government was overthrown in a coup following parliamentary elections in October 2020, leading to his resignation shortly afterwards.

During the coup, several politicians including Atambayev and Sadyr Japarov were freed from jail. Japarov, who had two short stints as a Member of Parliament (MP) and headed the National Corruption Prevention Agency under Bakiyev, was serving a sentence on kidnapping charges at the time of the October election (RFE/RL, 2020; Pannier, 2020). Following his release, Japarov promptly assumed the position of Prime Minister and, following Jeenbekov's resignation in November 2020, acting President. He won a presidential election in January 2021. Concurrently with the presidential election, the country also ran a controversial referendum on whether it should adopt a presidential system or retain a parliamentary one, with the majority of Kyrgyz voting decisively in favour of the former (BBC, 2021). The Organization for Security and Co-operation in Europe (OSCE, 2021) observes that 'both electoral processes and debate were weakened by the linkage of presidential election and the referendum, and specifically to one candidate'.

Continued political unrest and shifting political alliances mean that Kyrgyzstan scores poorly on the Fragile States Index, ranking 68th in 2021. The country scores particularly high on factionalised elites and group grievances indicators (Fragile States Index, n.d.). Corruption remains a serious problem; according to the World Bank's Worldwide Governance Indicators, in 2020 Kyrgyzstan was among the world's worst-performing countries in terms of corruption control (World Bank, n.d.). Transparency International ranked the country 144th out of 189 on its Corruption Perceptions Index. Corruption is hugely concerning for the Kyrgyz public: 92% of respondents in a recent poll consider corruption either a 'very big' or a 'big' problem, second only to unemployment (International Republican Institute, n.d.).

Regional political and security context

Since independence, Kyrgyzstan has joined several regional organisations focused on economic and security cooperation. Except for the SCO, all are dominated by Russia and mainly count ex-Soviet republics as members (Dubnov, 2018). Following the dissolution of the Soviet Union, Kyrgyzstan joined the Commonwealth of Independent States (CIS). The CIS was established to encourage coordination of economic and security policy, but has remained marginal due to opposition from its members to closer integration. In 2002, it acceded to the Russia-led Collective Security Treaty Organisation (CSTO), a security- focused organisation with five other members – Russia, Armenia, Belarus, Kazakhstan and Tajikistan. The organisation has held several military exercises, yet failed to intervene during ethnic riots in Kyrgyzstan in 2010. It is unclear whether the CSTO's intervention during the January 2020 anti-government protests in Kazakhstan will lead to greater appetite for future intervention in member states.

In 2015, Kyrgyzstan acceded to the Eurasian Economic Union (EAEU), joining Armenia, Belarus, Kazakhstan and Russia. The Union promotes regional free movement of goods, services, capital and labour. Potential benefits of joining the EAEU for Kyrgyzstan include free movement of people and the establishment of a $500 million Russian Kyrgyz Development Fund (Satke, 2015; Esenaliev and Asylbek kyzy, 2017). Proposals for further integration of the EAEU include an agreement on stabilising exchange rates, creating a Eurasian exchange and pricing mechanism, and encouraging settlement in national currencies (Interfax, 2022).

In 1996, Kyrgyzstan joined the China-initiated Shanghai Five, which evolved into the SCO following Uzbekistan's accession. Originally focused on security, members also cooperate on health, digital infrastructure and finance. Internal competition for influence between Russia and China, along with opposition from some Central Asian states, allegedly prevents the organisation from accomplishing 'major things', including further economic integration and a free trade area repeatedly proposed by China (Aris, 2013).[1]

Relations with Russia

Kyrgyzstan is in a geopolitically strategic zone. Major powers, including Russia, China and the United States, are all vying for political influence in the region, with varying degrees of success. Kyrgyzstan became part of the Soviet Union following the fall of the Russian Empire in 1917, and remained so for the next 70 years, until 1991. Soviet rule shaped the country's economic, social and demographic make-up. Large numbers of ethnic Russians and Ukrainians moved to Kyrgyz territory, and the Russian language dominated education, politics and the professions (Megoran, 2012). Many Kyrgyz still have great fondness for the Soviet Union; public opinion polls show that over 60% of respondents believe that the country was better or as well off as a Soviet republic than it is as an independent state (IRI, n.d.). Much news in Kyrgyzstan reportedly comes from the Russian media,[2] and the Russian

1 Interview with an international relations expert 1, May 2019.
2 Interview with international politics expert 2, May 2019.

language enjoys official status. The well-being of ethnic Russians and the status of the Russian language are of great concern to Moscow.

Following the most recent coup in October 2020, the Russian Government 'have engaged the new Japarov government but with a markedly light touch' (Putz, 2020). Similar to China, Russia is also likely greatly concerned about the security of its investments in the country, with Prime Minister Mikhail Mishustin stressing the need to 'ensure the observance of the rights and legitimate interests of investors, including Russian ones' during a meeting with the Kyrgyz Cabinet of Ministers (Kudryavtseva, 2021). Japarov's early comments on the Russia–Ukraine war, remarking that the invasion was 'perhaps a forced measure to protect the civilian population of the territories of Donbass, where a large number of Russian citizens live',[3] were somewhat contrary to the neutral position expressed by the Ministry of Foreign Affairs (Ministry of Foreign Affairs of the Kyrgyz Republic, 2022). In the context of recent relations with Russia, they could be interpreted as an attempt to reassert Kyrgyzstan's position as Russia's close ally in the region at a time of relative diplomatic isolation for Moscow.

Social development

In 2019, Kyrgyzstan ranked 120th out of 189 countries on the Human Development Index (UNDP, n.d.). While poverty rates remain high, the country has made significant progress in poverty reduction, from 40% living below the national poverty line in 2006 to 25% in 2020 (World Bank, 2022). The country has also made steady progress in reducing inequality, though the Gini coefficient in 2020 was at its highest since 2011, at almost 30%, perhaps reflecting the impact of Covid-19 on the economy and living standards (World Bank, 2022). Poverty is concentrated in the south and south-west of the country (UNDP, 2022).

Primary and secondary school enrolment rates are high, and an average Kyrgyz citizen receives around 11 years of education (UNDP, n.d.). Services are a major source of employment, providing jobs for over half of the country's employed workforce (54%), followed by industry (24%) and agriculture (20%) (ILO, n.d.). While the unemployment rate has remained stable over the past decade, between around 6 and 8%, employment growth has slowed to 0.9% annually, lower than the increase in the labour force (World Bank Group, 2018). Recent public polls indicate that unemployment is a major concern for many Kyrgyz (67% of people surveyed indicated this as an issue) (IRI, n.d.). Kyrgyz youth are almost twice as likely to be unemployed as the general population.

Kyrgyzstan is both a market and a transit hub for illicit drugs from Afghanistan. Much of the opium and heroin trafficked through the country from Afghanistan is destined for Russia (Princeton University, Woodrow Wilson School of Public and International Affairs, 2014). Money laundering is another concern: the US State Department classified Kyrgyzstan as a Major Money Laundering jurisdiction in 2017, though it was removed from the list the following year (US Department of State, various years).

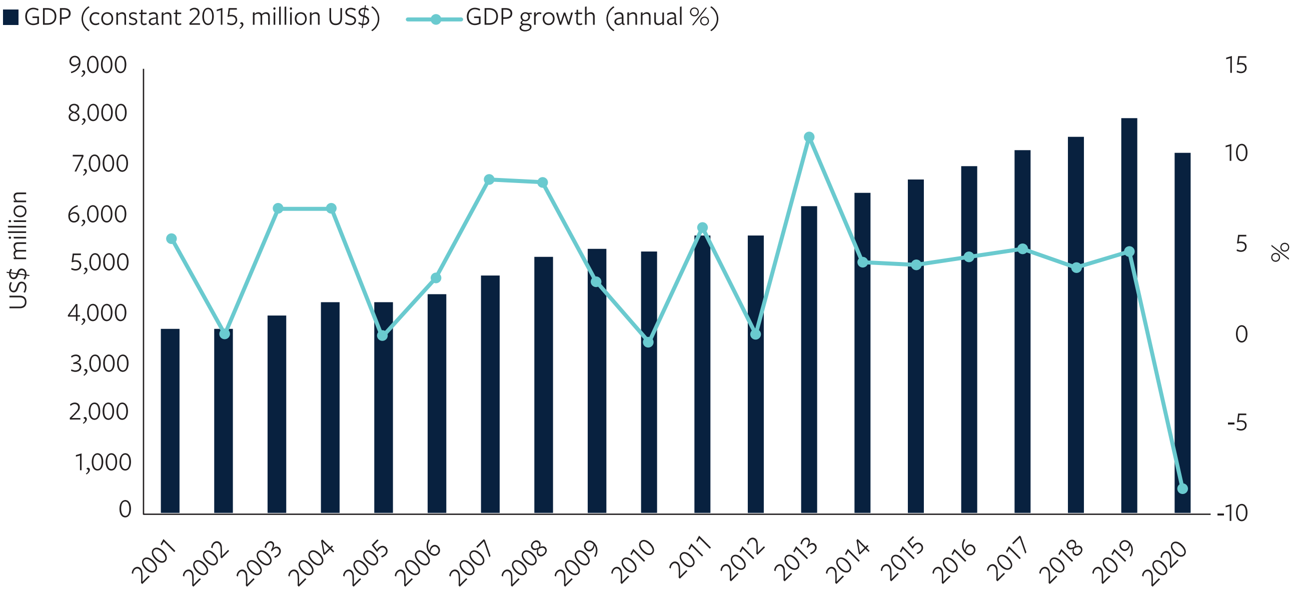
Economic development

According to the World Bank, Kyrgyz GDP was $7.7 billion in 2020, dropping dramatically for the first time in over 20 years as an effect of Covid-19 (ADB and UNDP, 2020), although recovery is expected for 2021 and 2022 (ADB, 2021). As shown in Figure 2, in 2020 Kyrgyzstan saw the sharpest

3 https://www.facebook.com/100004948146129/posts/2071368826371369/?d=n

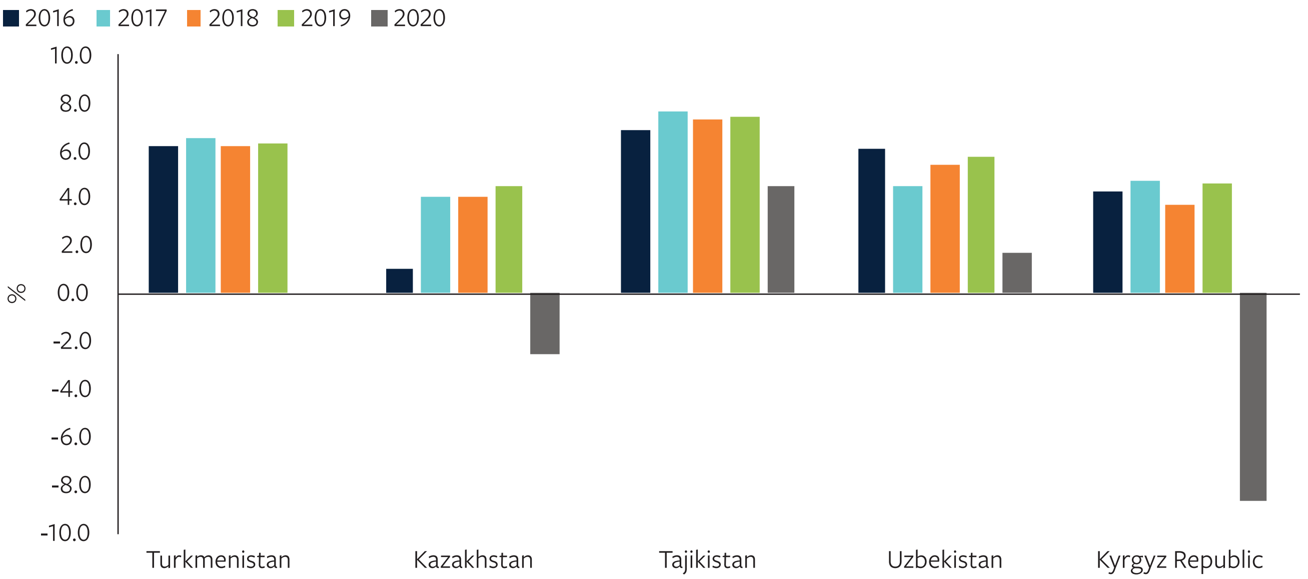
decline in growth among its regional neighbours. GDP per capita in 2020 was $1,174 (World Bank, various years), placing Kyrgyzstan at the lower end of low middle-income countries. GDP growth has been unstable in the last two decades, going below zero in some years. In 2014–2019, it hovered around 4% a year, before plunging in 2020 (World Bank, various years), as shown in Figure 1.

Figure 1 Kyrgyz GDP at constant 2015 prices ($ million) and GDP growth (%)



Note: The GDP growth line's values are marked on the axis on the right. GDP growth values go below zero in some years.
Source: World Bank (various years)

Figure 2 GDP growth rates for central Asian countries, 2016–2020 (%)



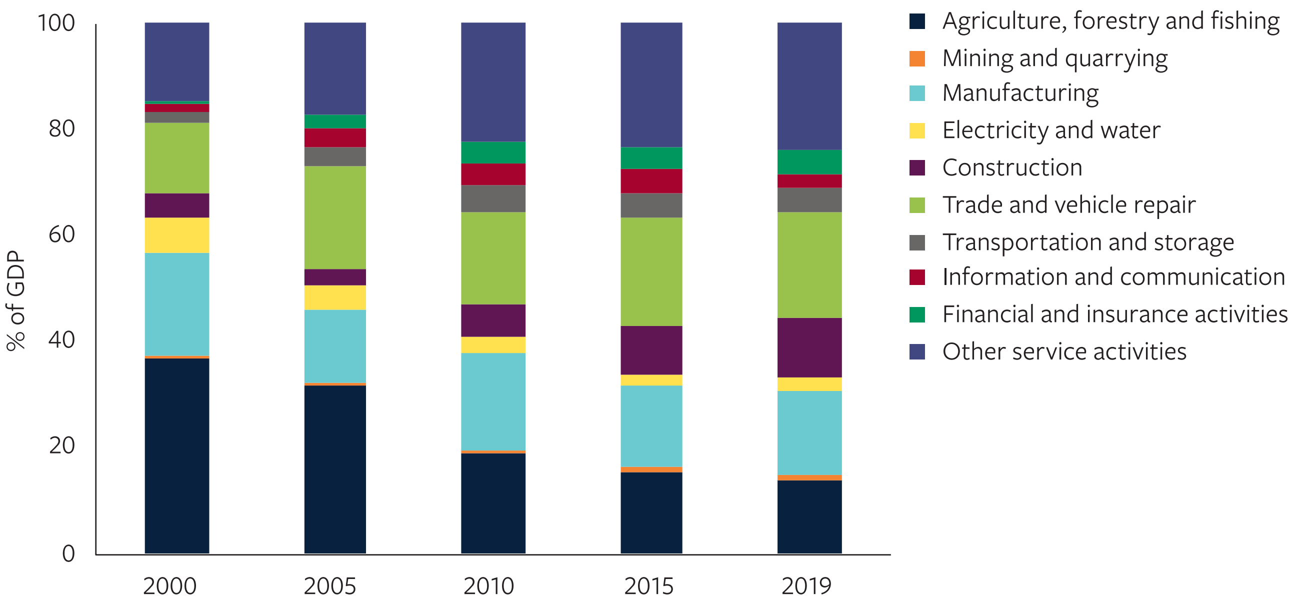
Source: World Bank (various years)

The economy contracted following the collapse of the Soviet Union and has only partially recovered through growth in the mining and construction sectors. As shown in Figure 3, the country's economic structure has diversified in the past two decades. In 2000, agriculture accounted for the lion's share of GDP, followed by services and industry (including mining and quarrying, manufacturing, electricity and water, and construction). Agriculture's share of GDP has fallen considerably, whereas the construction and services sectors have boomed, the latter in particular driven by wholesale and retail trade, but also tourism, communications and the financial sector.

The country is heavily dependent on the mining sector , which includes extraction and processing (respectively marked 'mining and quarrying' and 'manufacturing' in Figure 3). In 2014, the formal extractive sector represented over 50% of industrial output, 8.4% of GDP and 17% of government revenues, and accounted for 16,000 jobs (World Bank Group, 2018). The sector is a significant source of foreign exchange: in 2017, gold represented over 18% of the country's total exports (second only to the travel and tourism sector, at 19% of exports). Within the mining sector, Kyrgyzstan is heavily reliant on gold – and on the operation of a single mine. The Kumtor gold mine (Kyrgyz-Canadian owned)[4] alone represented 6.8% of the country's GDP in 2014. In 2015, Kumtor contributed US$ 123 million to government revenues. However, according to Kumtor Gold themselves, the mine is short-lived: gold production is scheduled to cease in 2031 (Kumtor Gold Company, 2019).

Regarding trade, Kyrgyzstan has consistently imported more than it exports, and the trade balance has been negative since 2002. In 2021, exports declined while imports increased vastly, causing a sharp decline in the balance of trade (Figure 4).

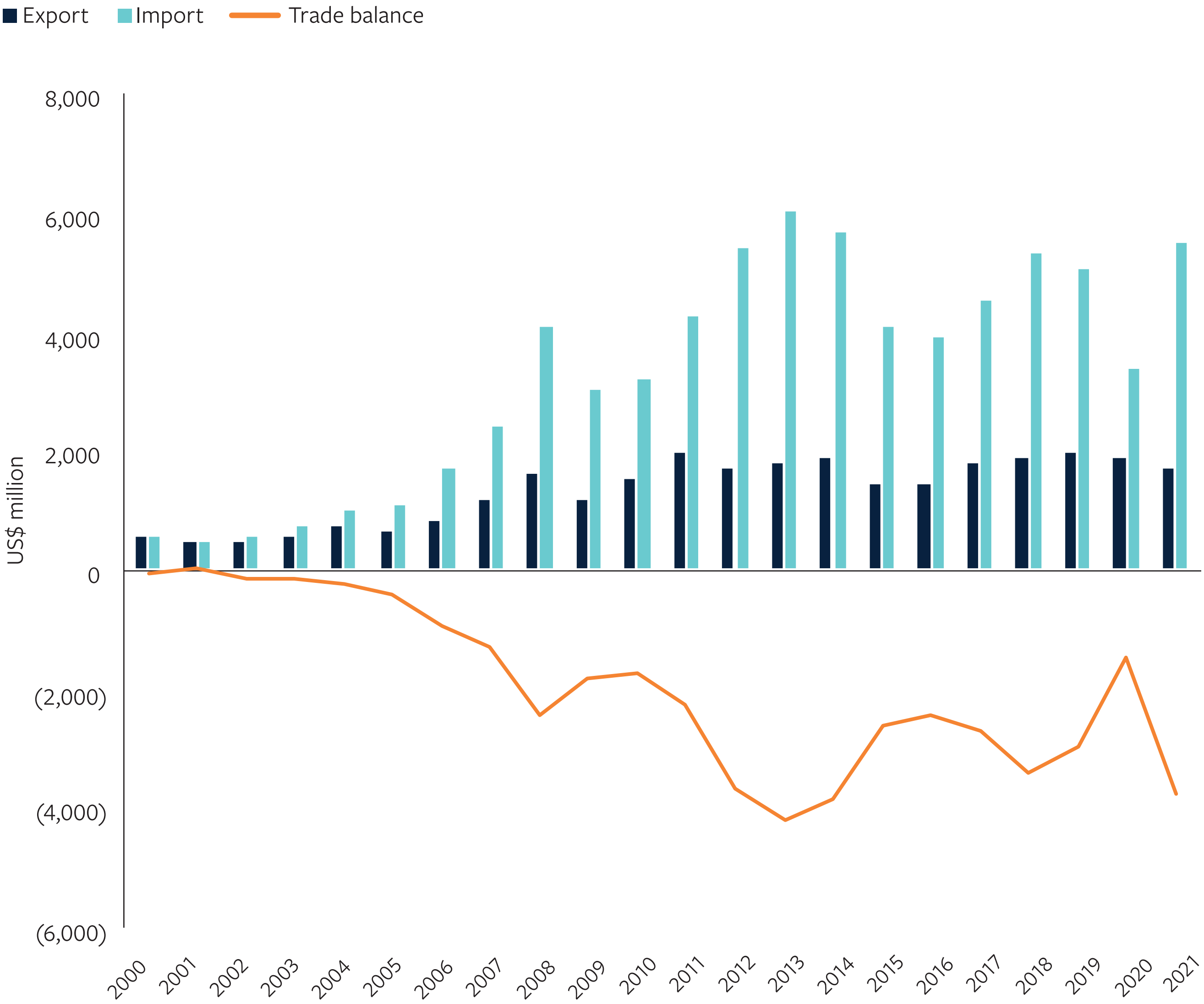
Figure 3 GDP by industrial origin at current market prices



Source: Asian Development Bank (2020)

4 Kumtor is 100% owned by Centerra Gold, a publicly traded Canadian company. Kyrgyzaltyn (a domestic Kyrgyz SOE, specialised in gold deposits) owns around 30% of Centerra Gold (World Bank Group, 2018).

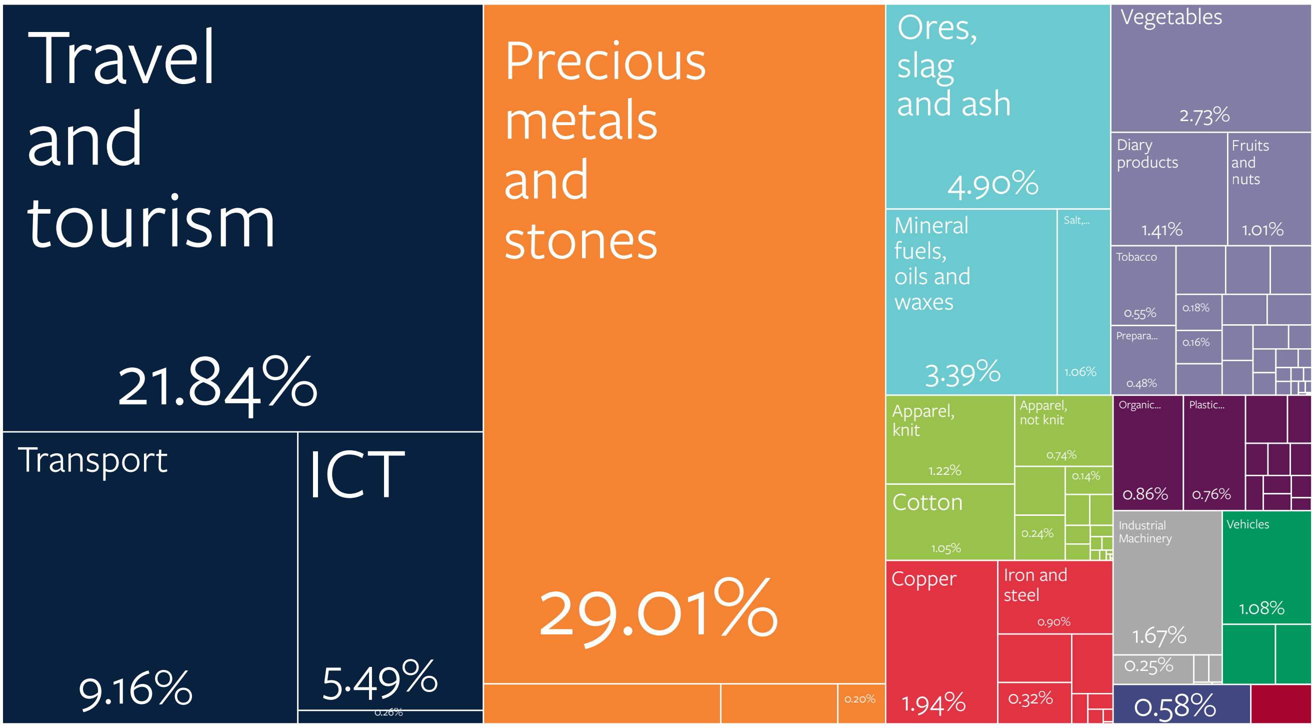
Figure 4 Exports, imports and balance of trade

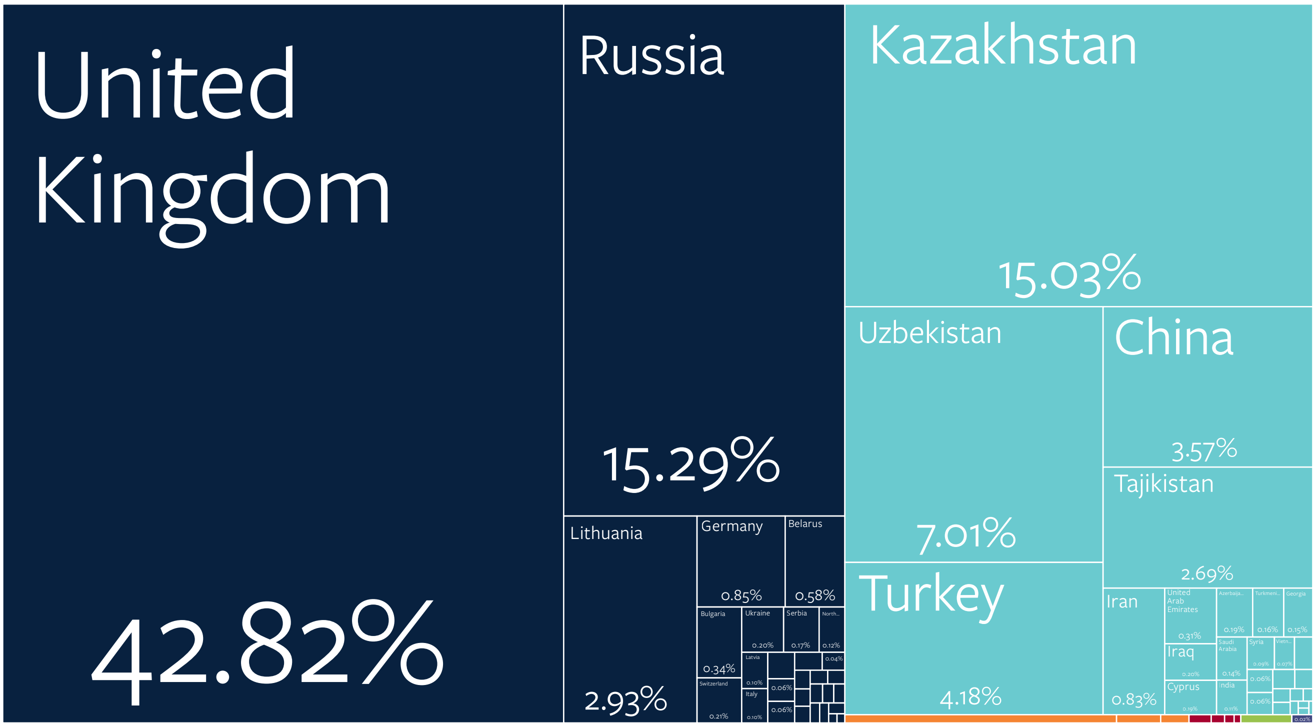


Source: DESA/UNSD (no date)

In 2019, Kyrgyz exports (including services) amounted to $2.95 billion. The services sector constituted 37% of the country's total exports (mainly travel and tourism (22%), transport (9%) and gold (27%) and other precious metals). The main export destinations (excluding services) were the United Kingdom, followed by Russia and Kazakhstan. Imports are much more diversified than exports – Kyrgyzstan imports services, clothing, agricultural products, machinery and oil, among other products. By far the main source of imports is China, providing over 58% of the total, followed by Russia (14%) and the United Arab Emirates (6%).

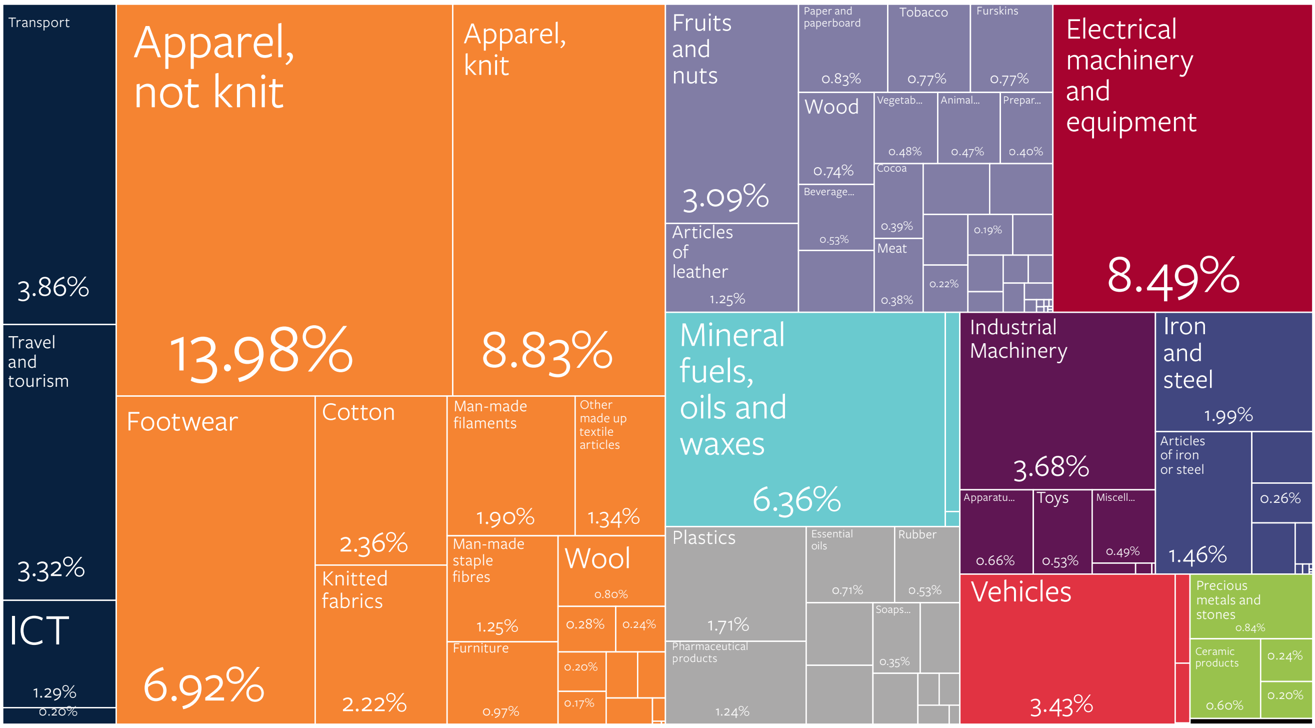
Figure 5 Exports by product (goods and services), top, and by destination (excluding services), bottom, 2019

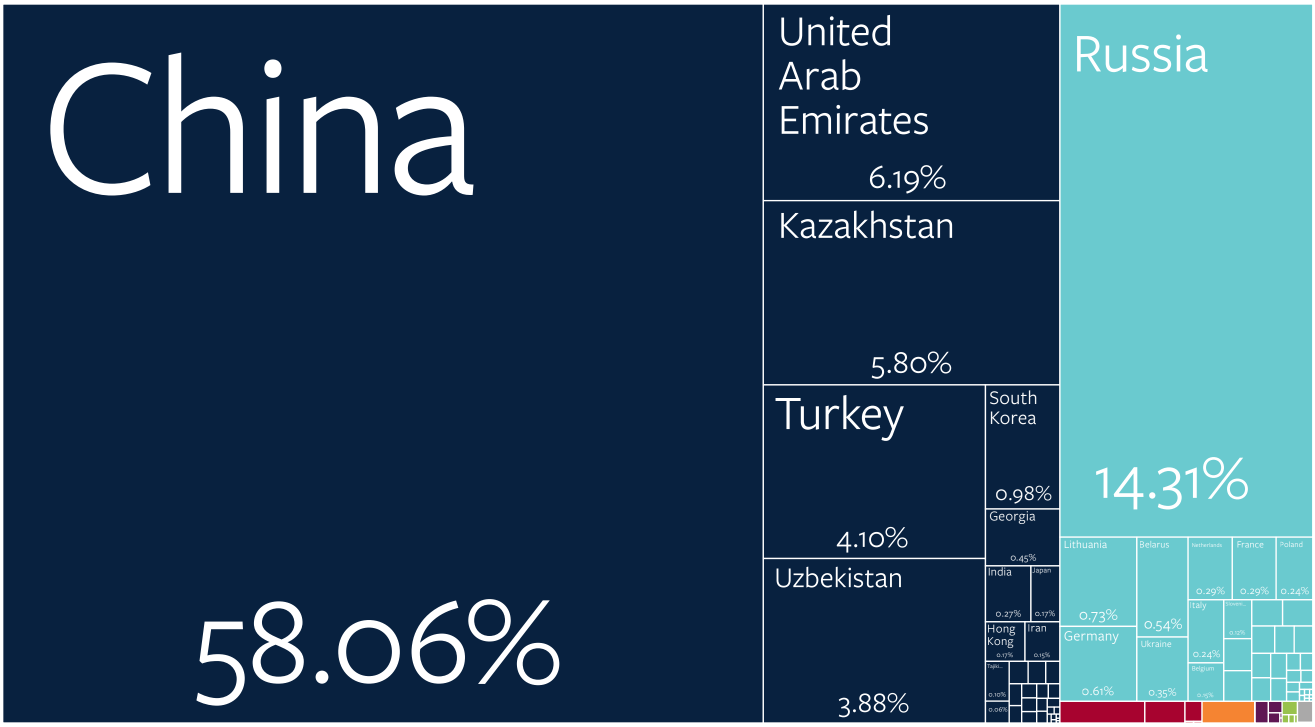




Source: The Atlas of Economic Complexity

Figure 6 Imports by product (goods and services), top, and by source (excluding services), bottom, 2019

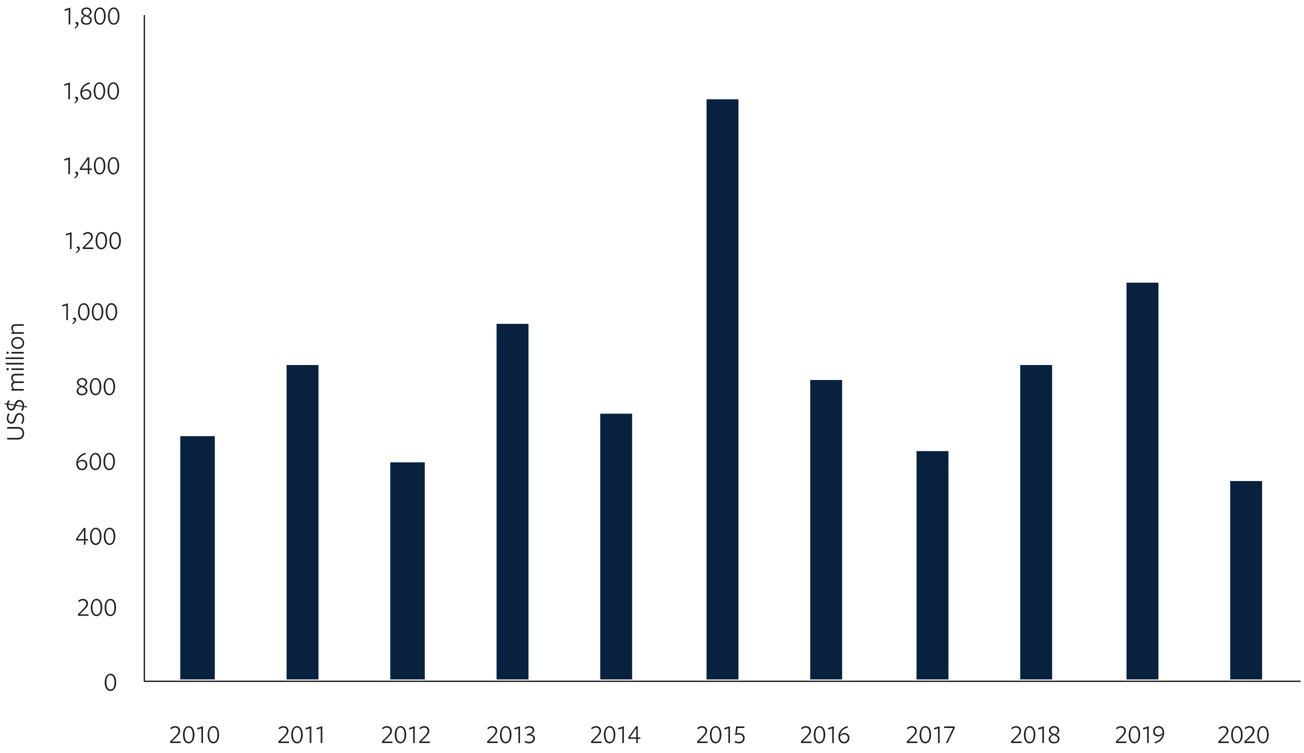




Source: The Atlas of Economic Complexity

Foreign investment in Kyrgyzstan has been on the rise. Data from the National Statistical Committee shows that foreign investment more than doubled from $3 billion in 2010 to over $7 billion in 2019, before declining to $6.9 billion in 2020. Foreign investment includes FDI, grants and others.[5] The category 'other investment' takes the lion's share, with 92% of total inflows in 2019, followed by FDI (8%). Together, portfolio investment and grants constitute less than 1% of the total foreign investment inflow. For this report, the most relevant category is FDI, and therefore the analysis below focuses on FDI. As shown in Figure 7, FDI fluctuated between $600 million and $1.6 billion in 2010–2019, before dropping to $500 million in 2020.

Figure 7 Foreign direct investment into Kyrgyzstan, 2010–2020

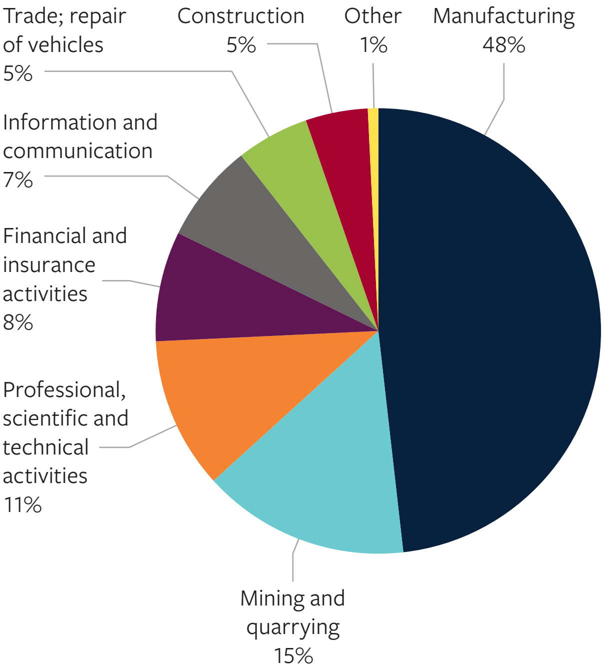


Source: National Statistical Committee of the Kyrgyz Republic

5 'Foreign direct investment is defined as financial and non-financial investment where a foreign investor controls at least a 10% share in the joint capital. Portfolio investment is defined as the purchase of shares that does not give investors the right to influence the operation of the enterprise, and constitutes less than 10% of the capital, as well as bonds, bills and other debt securities. Grants, technical and humanitarian assistance are assets donated by foreign states and international organizations to the Government of the Kyrgyz Republic, local government bodies, state and non-profit organizations in the form of technology equipment, medical supplies and medicines, etc. "Other investments" includes assets and liabilities that are not considered direct and portfolio investments.' Source: National Statistical Committee of the Kyrgyz Republic, Methodology (http://stat.kg/en/statistics/download/methodology/85/).

Manufacturing, including processing of metals and mineral products, received 48% of all foreign investment in 2020. Mining and quarrying received 15% of investment in the same year, as shown in Figure 8. At first glance, this may seem a surprisingly small amount given the predominant role of the extractive sector in the Kyrgyz economy. However, manufacturing activities include processing of metals and mineral products, while mining and quarrying simply refer to extraction. In fact, processing of metals and minerals dominates the manufacturing sector. The production of basic metals and finished metal articles excluding machines and equipment is equivalent to 51% of the country's total production. While classified as a manufacturing activity, this is closely linked to the extractive sector.

Figure 8 Foreign investment into Kyrgyzstan by sector, 2020

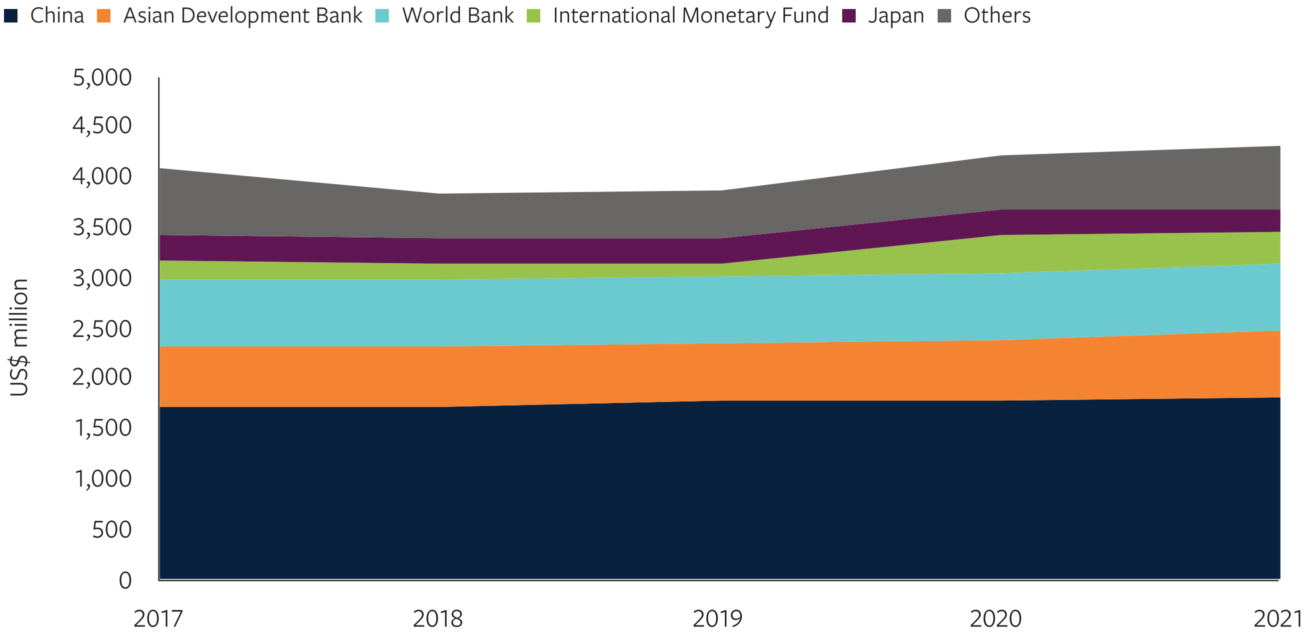


Source: Authors' calculations based on National Statistical Committee of the Kyrgyz Republic

Many Kyrgyz move abroad (primarily to Russia) looking for better economic opportunities. Estimates of the number of Kyrgyz workers abroad range from 200,000 to 710,000. Even the lower estimate is considerable, representing 10% of the country's working age population (Dubashov et al., 2017). In 2014, Kyrgyz migrants remitted more than $2 billion, or over 27% of GDP, and nine times the volume of FDI. Almost all of this came from Kyrgyz workers in Russia, accounting for 97% of the total, with much smaller volumes from Kazakhstan and the United States ($0.2 billion and $12 million, respectively). In 2018, remittances accounted for over 35% of GDP, making Kyrgyzstan the most remittance-dependent country in the world (International Organisation for Migration, 2018). While in the short term remittances boost consumption and reduce poverty, in the long term they can weaken investment and retard long-term growth (Dubashov et al., 2017). They can also become an important source of investment themselves, if used to finance business activities.

Kyrgyzstan's debt situation has evolved considerably in recent years. Kyrgyzstan borrows from both bilaterals and multilaterals. After declining from 2015, external public debt increased in 2020 to an estimated $4.2 billion, or 58% of GDP (up from 43% in the previous year) according to the most recent International Monetary Fund (IMF) Debt Sustainability Analysis (IMF, 2021). Almost 42% of public external debt ($1.8 billion) is owed to China, the country's largest lender. To put this in context, Kyrgyzstan owes a little over $2 billion to all the multilaterals combined (National Bank of the Republic of Kyrgyzstan, 2022).

Figure 9 External public and government guaranteed debt



Source: National Bank of the Republic of Kyrgyzstan (NBRK, 2022)

In 2006, Kyrgyzstan was considered eligible for debt relief under the Enhanced Initiative for Highly-Indebted Poor Countries (HIPC) (International Monetary Fund, 2006). This was highly contested, as both the public and parliament were concerned that this would strengthen the World Bank's position in the country (CADTM, 2007; Radio Free Europe/Radio Liberty, 2007). Russia, one of Kyrgyzstan's key creditors at the time, disapproved of the initiative (Marat, 2007). In recent years, Russia has written off some Kyrgyz debt. In 2012, $500 million was written off in exchange for military and energy deals, including a 15-year lease extension for Moscow's military base in the country (Bryanski and Dzyubenko, 2012). Another $240 million was written off in 2017 (Kabar, 2018a).

Of the main credit risk rating agencies, only Moody's assesses Kyrgyzstan, rating it as B2 (lower than investment grade) for 2019. The lack of rating by the other two agencies (even Moody's only recently introduced a rating for Kyrgyzstan) makes it more expensive for the country to borrow from organisations other than international donor agencies (AMEG, 2013).

In summary, given the limited diversification in its economic structure, and reliance on remittances and aid, Kyrgyzstan is vulnerable to external economic shocks. Moreover, the country faces several fundamental development challenges, including concerns about unemployment, low productivity, high rates of working poverty and weaknesses in the quality of education. The government is hoping that the National Development Strategy for Kyrgyzstan 2018–2040 ('Strategy 2040'), adopted by the National Council for Sustainable Development in November 2018 (Kabar, 2018b), will address some of these vulnerabilities.

2.1.2 Government and development partners' responses to Covid-19

The Covid-19 pandemic hit the Kyrgyz economy hard. All sectors have been severely impacted, as the authorities implemented drastic measures to stop the spread of the virus, including the closure of borders with China, border restrictions with Kazakhstan and Uzbekistan, quarantine of people coming from abroad, a lockdown of all non-essential activities and a curfew. Tax revenues declined substantially, while weaker oil prices resulted in a decline in economic activity in Russia, which in turn caused a decline in remittances to Kyrgyzstan (IMF, 2020).

Household expenditure on non-food items and services has plummeted, with a 15% decline in the volume of retail trade during the first half of 2020. Sharp declines in domestic demand drove a contraction of 5.3% of GDP in the first half of the year. Revenues from the export of tourism and travel services are expected to fall by 90%. Similarly, remittances were down 25% year-on-year for January–May 2020, potentially costing the country close to 4%–5% of GDP by end-2020. GDP fell dramatically in 2020 (ADB and UNDP, 2020), though data for 2021 indicates a recovery, and the same is expected for 2022 (ADB, 2021).

The Covid-19 crisis has created an urgent balance of payments need. In collaboration with international organisations, the Kyrgyz Government has adopted a health sector contingency plan, at an estimated cost of $16 million (0.2% of GDP). An economic plan worth $15 million has been approved, including the postponement of tax payments, time-bound exemptions on property and land taxes, and temporary price controls on essential food items. A second and third package worth $540 million (7% of GDP) included temporary tax exemptions for small and medium-size enterprises (SMEs), a food security programme to support vulnerable groups and subsidised credit to banks to provide funding to SMEs through soft loans. In March and May 2020, the IMF approved emergency financial support worth $121 million, for a total of $282 million. The Asian Development Bank (ADB) provided $50 million of budget support in June (IMF, 2020).

Kyrgyzstan is part of the Debt Service Suspension Initiative (DSSI), organised by the G20 to ease the burden of servicing bilateral debt during the Covid-19 crisis. As of February 2022, the country had distributed over 2.5 million doses of Covid-19 vaccines, having received vaccine donations from the US and Sweden through the COVAX mechanism, as well as from China and Russia.

During the pandemic, China and Kyrgyzstan continued engagement through 'cloud' diplomacy.[6] A range of Chinese actors – government, companies and associations contributed to assistance efforts in the country. For example, the Chinese General Chamber of Commerce and Chinese-owned enterprises delivered around $600,000-worth of medical and cash assistance, and the Bishkek China Assistance Centre donated food to low-income families. China's philanthropists were also involved; the Jack Ma Foundation, for example, arranged two chartered aircraft to deliver anti-epidemic materials (Chinese Embassy in the Kyrgyz Republic, 2020).

6 'Cloud diplomacy' refers to diplomatic engagement via video conference platforms and telephone calls. During the Covid-19 pandemic, which halted travel globally, China's President Xi Jinping and other diplomats used 'cloud diplomacy' to engage with other foreign leaders and international organisations, and participate in summits and other events globally.

As the pandemic eased, China and Kyrgyzstan focused on resuming economic activity. This included restarting construction and production activities on existing projects, by flying China Road and Bridge Corporation (CRBC) and PetroChina workers back to Kyrgyzstan on charter flights, and resuming production at Chinese-owned mines (ibid.). Trade routes slowly reopened and normal business between the two countries resumed (Xinhua, 2021). One outstanding issue in relations between China and Kyrgyzstan post-Covid-19 is debt. The Kyrgyz authorities have asked China for debt restructuring twice since the beginning of the pandemic (van der Kley, 2020b), but negotiations were still ongoing at the time of writing.

2.1.3 Kyrgyzstan and the Russia–Ukraine war

Kyrgyzstan's close economic and political ties to Russia mean that it is particularly vulnerable to the repercussions of the war in Ukraine, including the sanctions faced by Russia. A recent report ranks the country the third most vulnerable among low- and middle-income countries, after Belarus and Armenia (Raga and Pettinotti, 2022). Kyrgyzstan is vulnerable on three levels: directly, due to its large volumes of trade with and remittances from Russia; indirectly, because of the impact the war will have on oil and food prices, and on the global appetite for FDI, trade and tourism; and in terms of economic resilience, based on the country's ability to respond to shocks, in particular in relation to limited fiscal and monetary space and energy and food security (ibid.).

2.2 Kyrgyzstan's development strategy

The National Development Strategy 2040, the first long-term development strategy published by the Kyrgyz Government, aims to deliver a 'strong, self-sufficient, developed state' with a diversified economy and above-average gross national income (GNI) (Government of Kyrgyzstan, 2018). By 2040 the country aims to be integrated into the global economy, and involved with high added-value activities, such as production of clean energy and organic agriculture. Creating jobs is a major concern of the government, hence a focus on agriculture, which employs a fifth of the workforce and makes up 12% of GDP.

In terms of measurable goals, the aim is to raise the average monthly family income to $450 by 2023. Recognising concerns around debt dependency, the Strategy also calls for a reasonable balance between attracting foreign borrowing and using the country's own resources, with borrowing policy structured to prevent dependence on any single country, including China (see Section 4). The government hopes that public-private partnerships will gain momentum as a vehicle for economic development, including investment in infrastructure. At the national level the government has prioritised industry, agriculture and tourism as key to long-term sustainable development (see Box 2).

The plan recognises the importance of investing in infrastructure. In transport, the country is lagging (especially the rail network) in comparison with its regional neighbours. It is poorly connected by air, with the lowest traffic share (0.03%) and the lowest number of direct air links (nine) in Central Asia (World Bank Group, 2018). High transport costs, a common challenge for Central Asian countries (Calabrese et al., 2017), limit the potential for economic diversification.

The government also has plans for the country-wide development of physical and digital infrastructure, with the aim of making Kyrgyzstan the most attractive country for entrepreneurs in the EAEU by 2025 and helping it become a digital hub along the Belt and Road. Kyrgyzstan intends to establish data processing centres to provide ICT support for the region, and to connect remote Central Asia with the broader Eurasian Economic Union, Middle East, China and Europe.

Strategy 2040 calls for the development of high-quality petroleum products and building materials to supply both domestic and potentially export markets, as well as expanding the use of alternative energy sources, the development of non-metallic mineral resources and jewellery industry. According to the Strategy, mining should utilise modern technologies to minimise environmental impacts and fully comply with environmental standards.

Along with the National Development Strategy, the government has published lists of regional and national strategic development projects, for implementation mainly between 2018 and 2023, with confirmed and non-confirmed funding. There were over 250 regional and national projects with total approved funding of around $11 billion. Industry, transport and logistics and extractives account for over 60% of projects with approved funding. More than 30 regional and national-level projects required over $18 billion in additional funding. The most significant funding gaps are in energy and transport and logistics. Project funding was to come from from a variety of sources, including China but also the European Bank for Reconstruction and Development (EBRD), the World Bank, the Kuwait Fund for Arab Economic Development, the Arab Coordination Group, the Islamic Development Bank and the Russian-Kyrgyz Development Fund.

Despite progress in development planning, as evident with the publication of Strategy 2040, implementation over the longer term may prove challenging. First, widespread implementation requires a stable political environment, which may be challenging in the context of governance challenges and frequent political instability. The Presidential decree which approved Strategy 2040 recommends that parliament, the judicial authorities and national and local governments align strategic documents and action plans with Strategy 2040. However, one interviewee noted numerous sectoral plans with implementation ranging from between 3–4 years to up to 12 years – too short to give them any real value. For instance, the new medium-term development strategy covers 2022–2026, and presumably supersedes the earlier medium term strategy for 2018–2023. What steps government branches will need to take to align their priorities with Strategy 2040, and whether the medium-term priorities and tasks outlined in Strategy 2040 supersede or align with the earlier medium-term strategy, is unclear.

Box 2 Strategy 2040: priority targets and development sectors

Industrial potential of the country

Kyrgyzstan is seeking to build competitive industries in priority sectors and to promote ‘full and productive development and decent work’. The country aspires to a diversified and export-oriented industry structure, with enterprises proportionally distributed around the country and utilising domestic raw materials and production base. These should be embedded in regional and global value chains, considering integration in regional communities, such as the EAEU, and participation in BRI projects.

Agro-industrial complex and cooperation

Kyrgyzstan aims to capitalise on its geographic and climate advantages to become a leading supplier of high-quality, environmentally friendly organic agricultural products to both regional and EAEU markets.

Light industry clusters

The country will develop innovative industries which are integrated into clusters through the full production cycle – from raw materials to delivery of finished products to consumers. Markets for Kyrgyz products will encompass neighbouring countries in the region, the CIS, Europe and the United States.

Sustainable tourism

Tourism will make a significant contribution to sustainable development through providing employment and increasing incomes, promoting tourism-related industries and development, and facilitating inflows of domestic and foreign investment.

Source: Government of Kyrgyzstan (2018)

Summary

Kyrgyz politics is volatile, with frequent disruption and unrest. One of the more stable features of the political landscape is the partnership with Russia, which is reflected not only in policy choices (e.g. participation in the EAEU) but also in trade and migration ties with Moscow.

In terms of economic development, the country has experienced limited diversification, leaving its economy vulnerable to shocks. The country’s weak economic fundamentals are further threatened by the twin challenges of Covid-19 and the Russia–Ukraine war.

The following section explores how the China–Kyrgyzstan relationship plays out in this often volatile and complex context, highlighting the emerging role and nature of China as an increasingly important political and economic partner. It also explores how aligned the economic growth and development priorities of the Kyrgyz Government are to BRI projects and investments.

3 Kyrgyzstan's relations with China

3.1 China–Kyrgyzstan political relations

Between 1991 and 1997, China's foreign policy engagement with Kyrgyzstan and other Central Asian states focused on safeguarding the country's physical security by resolving outstanding border disputes. Since then, sustainable economic development and energy security have moved to the forefront of China's foreign policy in the region (Nadin, 2007).

A Treaty of Good-Neighbourliness and Cooperation was signed in 2002. Since then, Kyrgyzstan and China have upgraded bilateral relations several times, issuing a Joint Declaration on Further Deepening of Comprehensive Strategic Partnership in June 2019 (Ministry of Foreign Affairs, 2019). Relations with Kyrgyzstan have largely operated through high-level bilateral engagement and under the auspices of the SCO. Beijing targeted elite policy decision-makers to ensure preferential access to Kyrgyz mineral resources, critical to China's ambitions for a high-tech economy, and to facilitate wider economic relations. Kyrgyzstan has been vocal in its support. Japarov reiterated his support for China's core interests during an in-person meeting with President Xi Jinping in February 2022 and pledged to provide a good business environment and protect the legitimate interests of Chinese enterprises investing in Kyrgyzstan (Ministry of Foreign Affairs, 2022).

Despite deepening political and economic relations between the two countries (see the following section for an overview of economic relations), political unrest followed by outbreaks of violence contribute to an often-unstable environment for foreign investors. Similar to other investors in the Kyrgyz extractive sector, Chinese companies experienced disruption after political unrest in 2020. Labour unrest and security concerns are also risks associated with investment in the Kyrgyz mining sector. Extractives is not the only sector vulnerable to protests. A planned trade and logistics centre, for which an agreement was signed during the Business Forum after the SCO summit in 2019, was cancelled following community protests (Voice of America, 2020).

3.2 Chinese trade, investment and development finance trends to Kyrgyzstan

The scale and scope of Chinese–Kyrgyz trade, investment and lending have grown exponentially in recent years, with China becoming one of Kyrgyzstan's main economic partners. Substantial capital inflows from China have been directed to Kyrgyzstan's energy and extractive sectors in the form of investment and loans.

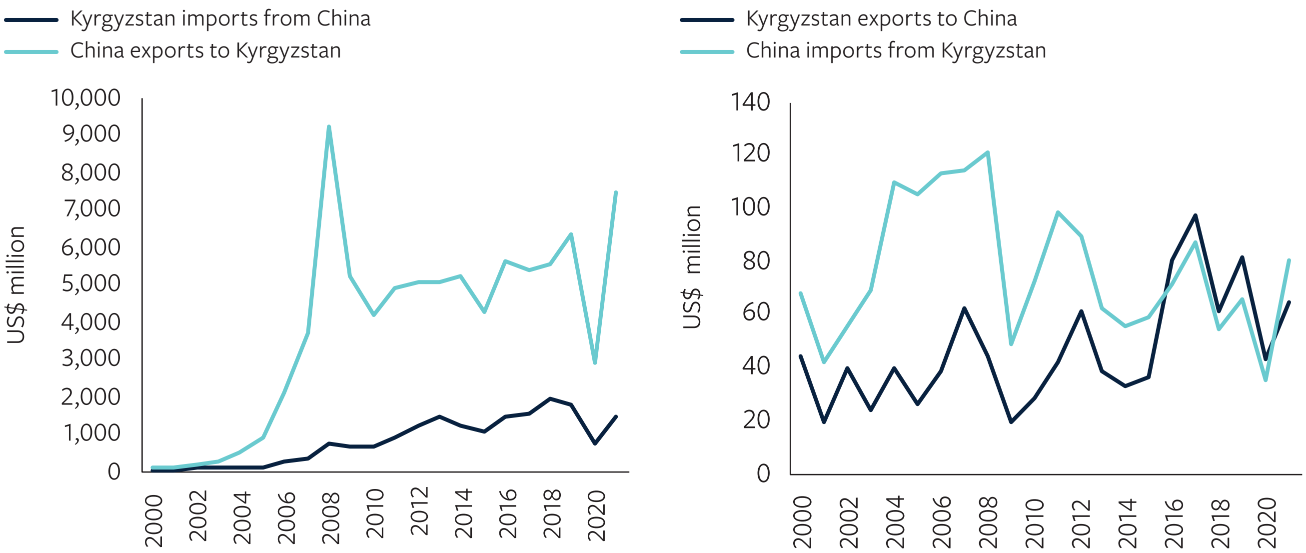
Trade

When considering trade flows between Kyrgyzstan and China, it is important to note that the two countries report widely different trade data. Figure 10 compares what Kyrgyzstan reports in terms of imports from China with what China reports in terms of exports to Kyrgyzstan. In theory, these should be identical, as what is exported by one country is imported by the other. However, the data shows a huge discrepancy. This signals imperfect data collection and reporting from the customs authority of one of the two countries (or most likely both). Both graphs, however, confirm that trade relations between the two countries have been intensifying, and that the volume of Kyrgyz imports from China is much larger than its exports to China, leaving Kyrgyzstan with a trade deficit with China since at least 2001 (DESA/UNSD, n.d.).

Given that the focus of this report is Kyrgyzstan rather than China, we will use data reported by Kyrgyzstan rather than by China.

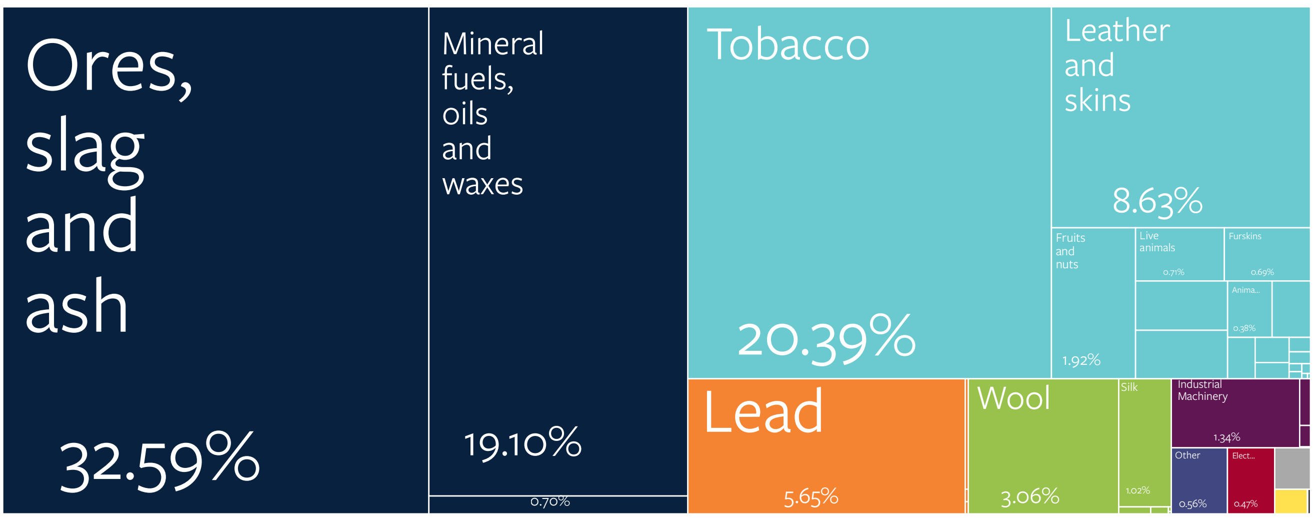
Figures 11 and 12 show a breakdown of Kyrgyz exports to and imports from China. As shown in the figure, 90% of Kyrgyz goods exports to China comprise metals and mineral and agricultural products. Imports from China are mainly textiles and apparel including footwear and clothing, as well as yarn and fabrics, machinery and equipment, toys and vehicles.

Figure 10 Kyrgyz imports from China vs Chinese exports to Kyrgyzstan (left) and Kyrgyz exports to China vs Chinese imports from Kyrgyzstan (right)



Source: UN Comtrade data

Figure 11 Kyrgyz exports to China by product (2 digit level), 2019



Source: Atlas of Economic Complexity

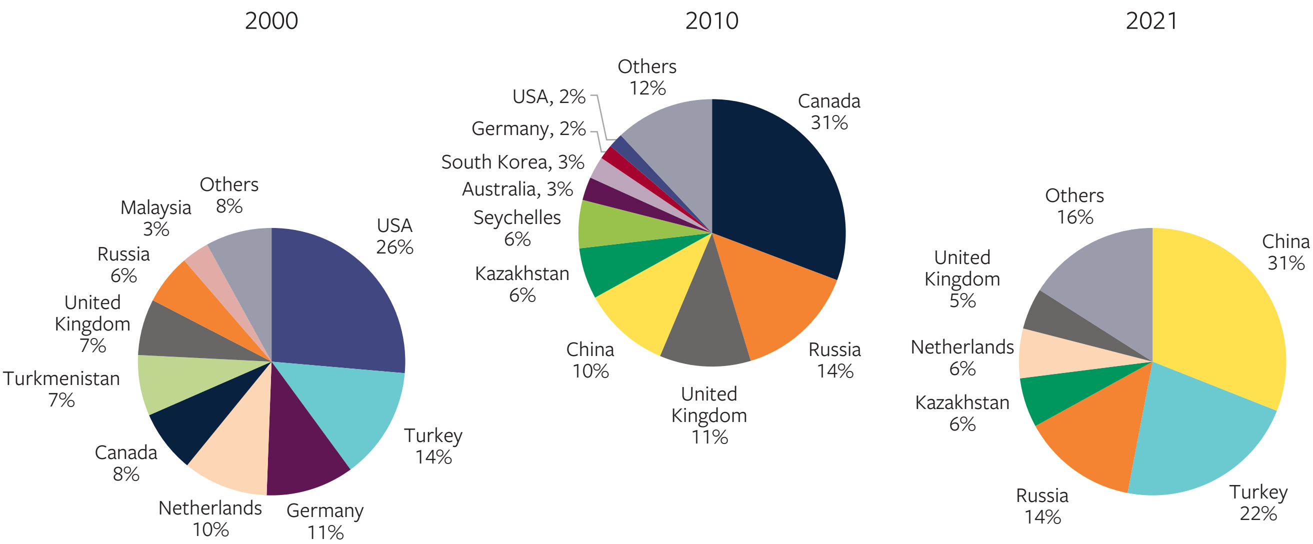
Figure 12 Kyrgyz imports from China by product (2 digit level), 2019

Source: Atlas of Economic Complexity

Investment

Figure 13 shows how FDI flows have changed in recent years. Of particular interest to this study is China's growth as a foreign investor, going from virtually non-existent in 2000 to the fourth largest investor in 2010 and by far the largest investor in terms of FDI flows in 2021, with 31% of total FDI into Kyrgyzstan coming from China.

Figure 13 Inflows of foreign direct investment by origin, various years



Source: Authors' calculations based on National Statistical Committee of the Kyrgyz Republic

Chinese investment is directed to manufacturing (56% of total investment, almost all in the production of refined petroleum products), mining (29%) and geological exploration (15%) (NSC, 2019). China is also playing an increasing role in infrastructure, agriculture and digital development. Both Chinese SOEs and private companies and individuals have pursued investment in the country. Chinese investments in Kyrgyzstan are primarily resource-seeking (as they operate in the extractive sector) and efficiency-seeking (as processing is partly done in Kyrgyzstan rather than in China).[7]

Box 3 Investment framework

Investment relations between Kyrgyzstan and China are regulated by the Kyrgyzstan Investment Law of 2003 and a bilateral investment treaty signed in 1992, which entered into force in 1995. Given that two main features of the BRI in Kyrgyzstan concern investment and lending for infrastructure projects, the framework for investment is highly important in determining potential outcomes and risks linked to the BRI. Since independence, Kyrgyzstan has strengthened rule of law around the investment framework, including a Decree on the Protection of Investment (2010). The investment environment is open, although with some limitations (including restrictions on investment and state monopolies in some sectors). Foreign investment enjoys the same treatment as domestic investment, except for land acquisitions[8] (UNCTAD, 2015).

While the legal framework is largely in line with international practice, there are weaknesses in implementation (EBRD, 2015; UNCTAD, 2015). The government has failed to protect private property from expropriation or seizure during periods of social unrest or changes of government. After the 2010 revolution, the government changed the taxation regime and revoked several mining licences. As one interviewee put it: ‘What the government agrees with one company may not be agreed again by the next government.’ Investor confidence in the country’s judicial system is also low (Knottnerus and Satke, 2017). The World Bank’s Doing Business indicators noted improvements in the ‘enforcing contracts’, ‘protecting minority investors’ and ‘resolving insolvency’ scores (as well as across all other indicators), but Kyrgyzstan still scores lower than the regional average, ahead of Tajikistan and Uzbekistan but behind Kazakhstan (World Bank, 2020).

7 Dunning’s ‘eclectic’ (or Ownership, Location, Internationalisation – OLI) paradigm broadly classifies foreign direct investment into four types: 1) market-seeking, or designed to satisfy a particular foreign market or set of foreign markets; 2) resource-seeking, or designed to gain access to natural resources such as minerals, agricultural products, unskilled labour; 3) efficiency-seeking, designed to promote a more efficient division of labour or specialisation; and 4) strategic asset-seeking, designed to protect the existing or specific advantages of the investing firms and/or to reduce those of their competitors (Dunning, 1993, 2000; Dunning and Lundan, 2008).

8 For example, foreign businesses can only lease for 50 years; they cannot lease land around borders and land classified as agricultural (UNCTAD, 2015).

There are clear regulations around land, but a fully functioning land market is not yet in place (UNCTAD, 2015). For example, there is evidence that, like other mining companies, Chinese investors came under pressure to invest in building refining and smelting plants in Kyrgyzstan. In 2016, Altynken LLC, co-owned by Zijin Mining and Kyrgyzaltyn, was pressured by a Kyrgyz parliamentary committee to stop exporting gold concentrate to China and invest in processing gold concentrate on Kyrgyz territory.

In this investment context, China sees bilateral investment treaties (BITs) as a critical mechanism for creating a 'transparent, friendly, non-discriminatory and predictable financing and sound investment environment' for Chinese companies along the BRI. China has in recent years accelerated negotiations on BITs and has signed or renegotiated 51 with BRI countries. Kyrgyzstan has signed 38 BITs since independence, 25 of which are in force, including one with China (signed in 1992 and entered into force in 1995; UNCTAD, n.d.). The country has also signed nine treaties with investment provision rules and clauses, of which eight are in force (including a treaty on the EAEU, in force since 2015; UNCTAD, n.d.). These treaties offer foreign investors a network of guarantees, including national treatment and fair-and-equitable treatment of investors, albeit without specifying what this means (and, therefore, without clarifying the limitations of these provisions).

Arbitration is available to investors, and cases are on the rise. The UNCTAD Investment Policy Hub reports 17 cases of Investor-State Dispute Settlement since 2003 (UNCTAD, n.d.). This is not uncommon as investors in extractives and mining make large use of these tools. Altogether, claims amount to around $925 million (Knottnerus and Satke, 2017), more than the total inflow of FDI in one year.

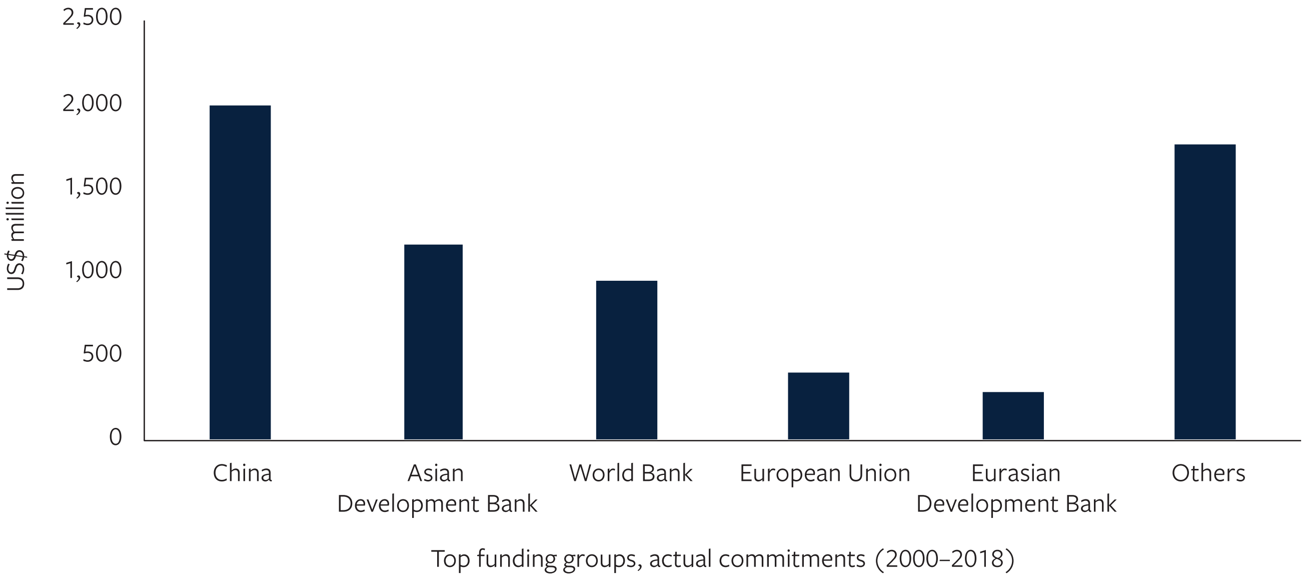
Aid

Similar to the upward trends in trade and foreign investment, China has become an important development partner for Kyrgyzstan. Figure 14 shows official development assistance flows to Kyrgyzstan since 2000. Both in terms of funding organisations and funding groups/countries, China ranks higher than other partners. A large part of this is funding provided at concessional rates to infrastructure projects.

China's aid to Kyrgyzstan seems to be uncoordinated with the work of the rest of the development community, as happens in many cases. For instance, Chinese institutions are not listed among the Development Partners' Coordination Council of Kyrgyzstan.[9]

9 See: http://donors.kg/en/agencies

Figure 14 Providers of development assistance to Kyrgyzstan



Source: Authors' calculations based on Kyrgyzstan Aid Management Platform

3.3 Chinese infrastructure and investment: alignment with Strategy 2040

China has taken a highly strategic and pragmatic approach to investment in Kyrgyzstan. Beijing recognises the need to increase cross-border and transit transportation capacity if its ambitions for bilateral and regional economic and trade development via highways in China, Kyrgyzstan and Uzbekistan are to be realised. In addition to extractives sector, China is also playing an increasing role in infrastructure, agriculture and digital development.

China's planned and current economic engagement, particularly in the mining, agriculture and digital sectors, are broadly in line with Kyrgyzstan's Strategy 2040. In this subsection we briefly map Chinese investments in key sectors, highlighting the type of actors engaged in the country where possible.

Agriculture

Kyrgyzstan is seeking closer cooperation with China in the agriculture sector, one of the four priority development sectors outlined in Strategy 2040. The sector, which in 2021 accounted for nearly 15% of Kyrgyz GDP, is facing major challenges in terms of increasing farmers' resilience to climate change and integrating small farmers into the supply chain (World Bank, 2022; FAO, 2018).

While expanding agricultural trade with China has long been on the agenda, official sources suggest that, between 2008 and 2017, there were no major Chinese investments in the sector. The two governments have announced a plan to build an agro-industrial park, *Iskra Aria* ('Asia Star'), near Bishkek (Mogilevskii, 2019), and the provincial SOE Henan Guiyou Industrial Group is implementing the project. China's Ministry of Commerce (MOFCOM) selected Asia Star as an Overseas Economic and Trade Cooperation Zone (MOFCOM, 2022). In 2016, China provided a grant worth $31.55 million to Kyrgyzstan for reconstruction of regional irrigation facilities. The two countries also strengthened scientific cooperation in the sector, signing an agreement to establish a scientific research centre, financed by Chinese partners, in 2015 (Aminjonov et al., 2019).

During the Business Forum in June 2019, the two countries signed several agreements to further cooperation in the agriculture sector (Kabar, 2019).[10] Kyrgyz company Nur Stroy Montazh signed an agreement with One Lead One (HK) Trading Limited for construction of a trade and logistics centre worth $280 million (ibid.). The project was cancelled shortly afterwards, in February 2020, owing to community protests about alleged Chinese land ownership. Protesters reportedly mistakenly believed that the land would be sold, not rented, to the Chinese company (Voice of America, 2020).

Despite limited cooperation to date, there are opportunities for Kyrgyzstan to increase exports of organic produce and milk products to China, engage Chinese investors in food processing and tap into the growing e-commerce sector. Nonetheless, governance challenges associated with political instability and corruption, along with quality of produce and infrastructure and inadequate inspection and quarantine protocols, prevent the realisation of the full potential of bilateral cooperation in agriculture (see Jonhston et al., 2021).

Communications and digital technology

Digital technology is a priority sector under Strategy 2040, and Kyrgyzstan has ambitious plans to become a digital hub on the BRI. To what extent these ambitions are feasible in the short to medium term is questionable. Individual internet access in the country lags behind Kazakhstan and Uzbekistan, with around 40% using the internet in 2019 (World Bank, 2022).

Several projects have been announced in recent years. In 2017, China Telecom completed the construction of an alternative fibreoptic route linking Kyrgyzstan and China (TeleGeography, 2017), and the following January the government signed an agreement for the development of 'smart cities' with Huawei Technologies (Kabar, 2018c). The project, worth over $60 million, was to cover the cities of Bishkek and Osh, and three road routes (Kabar, 2018d). Kyrgyzstan planned to use the income generated through motoring fines to repay the investment within five years. Huawei was to be responsible for personal data and cybersecurity regulation compliance in accordance with Kyrgyz legislation, but the government withdrew from the agreement in March 2018 citing disagreements over technical issues during the feasibility study (Kudryavtseva, 2018). Whether concerns raised by US intelligence services in February 2018 around the possibility of Huawei and ZTE using phones and other products for intelligence-gathering (Larson, 2018) were a motivating factor behind

10 The Kyrgyz Investment Agency signed the following framework agreements on: cooperation with Iskra Asia OJSC and the Chinese Free Trade Zone Community of Commerce (FTZCOC) Central Asian Logistics Center to promote construction of the Iskra Aria industrial park (worth $2 billion); the construction of a modern agro-industrial complex with a group of Jiangsu province companies; and the construction of an agro-industrial complex with the Agro-Industrial Center of Trade and Production Logistics Ru Yi (worth $35 million). The Kyrgyz Ministry of Agriculture signed three agreements with Chinese partners: an MoU (memorandum of understanding) with the Central Asia International Development Company on cooperation in agriculture (worth $150 million); an agreement for the construction of a Kyrgyz–Chinese demonstration park for modern agricultural technology with Hebei Bai Dou Jia fertilizer (worth $250 million) and an MoU with Shengda Huatai and Aykin Seyil to establish a trade and logistics centre (worth $6 million).

the withdrawal is unclear, and the government's decision to terminate the agreement was criticised in the parliament (Jogorku Kenesh, 2018). Reports from November 2019 suggest that China's National Electronics Import and Export Corporation installed 60 cameras, including 20 with facial recognition technology, across Bishkek, investing around $5 million on the installation (Radio Azzatyk, 2019a). There were also plans to install over 1,000 cameras by the end of 2020, though it is unclear if the project was carried out owing to Covid-related disruption, or who would bear the costs of installation.

Kyrgyzstan and China signed several cooperation agreements at the Business Forum in 2019. The Kyrgyz Ministry of Education and Science signed an MoU with a major cloud-based education services company, Weidong Cloud Education Group.[11] The Kyrgyz investment agency signed a cooperation agreement with Zhongyuan International Trade Cooperation to establish a Central Asian Trade Exchange and blockchain exchange.[12] The two countries are also cooperating on blockchain technology through the Blockchain Research Institute, an initiative launched in November 2018 by Chinese and Kyrgyz partners (Kabar, 2019).

Mining

Given China's appetite for gold (see Box 4), it is perhaps unsurprising that mining-related investment (geological exploration and the mining industry) is one of the main targets of China's FDI to Kyrgyzstan (Mogilevskii, 2019). As Figure 15 shows, gold, and metals such as tin and tungsten, accounted for 23% of allocated licences in 2017. As of June 2019, the majority of production licences for gold (excluding placer gold) had been granted to Chinese companies (see Figure 16).

Box 4 China's interest in gold

China is the world's top producer of gold. According to figures released by the China Gold Association in February, gold production declined by 10% to 329 tonnes in 2021, mainly owing to stricter environmental regulations. Unlike production, consumption surged: gold purchases for industrial and other use increased by 15% to almost 100 tonnes (Zheng, 2022). Chinese companies involved in the manufacture of advanced microchips, smartphones and electric vehicles all need gold as a raw material, and virtually every piece of electronics uses at least some gold as a highly conductive and corrosion-resistant material.

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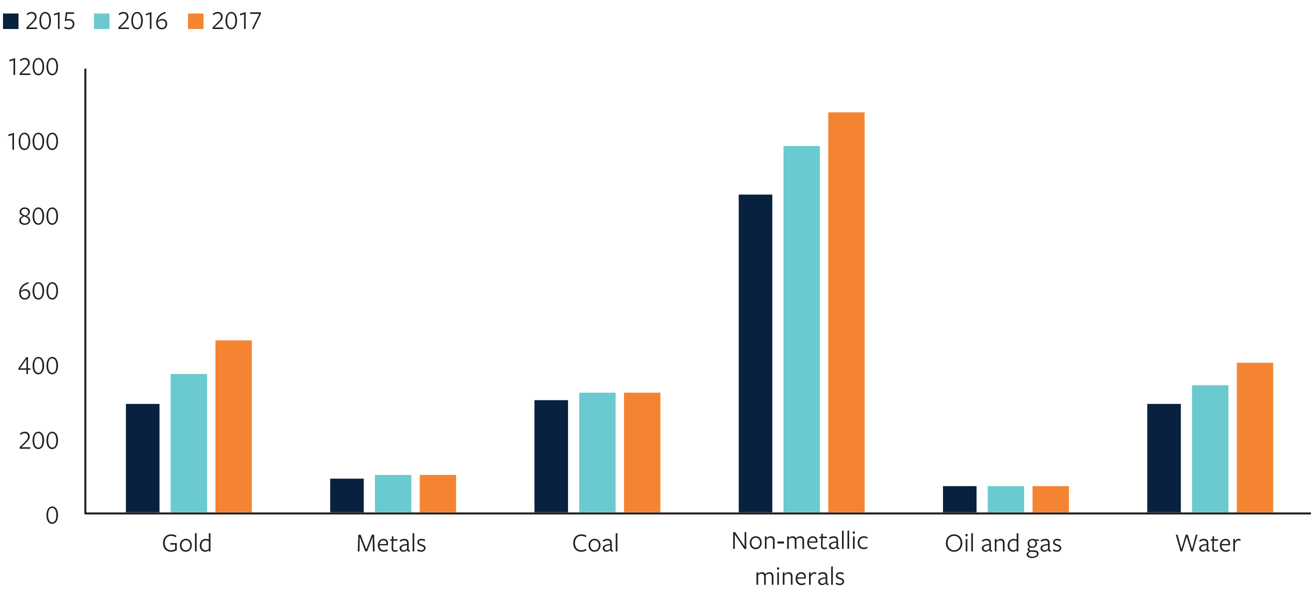
11 Weidong Cloud Education Group is a private company established in 2012 (UNESCO, 2019). The company provides cloud-based education services domestically and globally, with branches in up to 25 countries. The company is also a trusted partner for the Ministry of Education. In 2014, the company signed a strategic partnership agreement with the UN Educational, Scientific and Cultural Organization (UNESCO) to provide educational platforms to its 195 member countries. The company has been a strategic partner of SCO since 2018, where its aims include promoting the digital transformation of education (Weidong Cloud Education, n.d.). Its partnerships with UNESCO include a Building 'Future Schools' and Smart Classroom Project run globally, including in Pakistan, Russia, Uzbekistan, Kazakhstan and Kyrgyzstan. Its major acquisitions include the Business School and DEMOS (Demos) Group (UNESCO, 2020).

12 Chinese company names translated by the author from Russian.

China's first attempt at creating an international price for a commodity was through the establishment of the Shanghai International Gold Exchange (SGEI) in September 2014. In 2015, China set up a gold sector fund in northwest Xi'an city, together with a number of countries situated along the old Silk Road. The fund, headed by two leading gold producers, Shandong Gold Group and Shaanxi Gold Group, is expected to raise $16 billion in three phases, with the aim of financing gold extraction from existing but underutilised deposits (Reuters, 2015). The fund should also facilitate gold purchases for central banks of member states to increase their holdings.

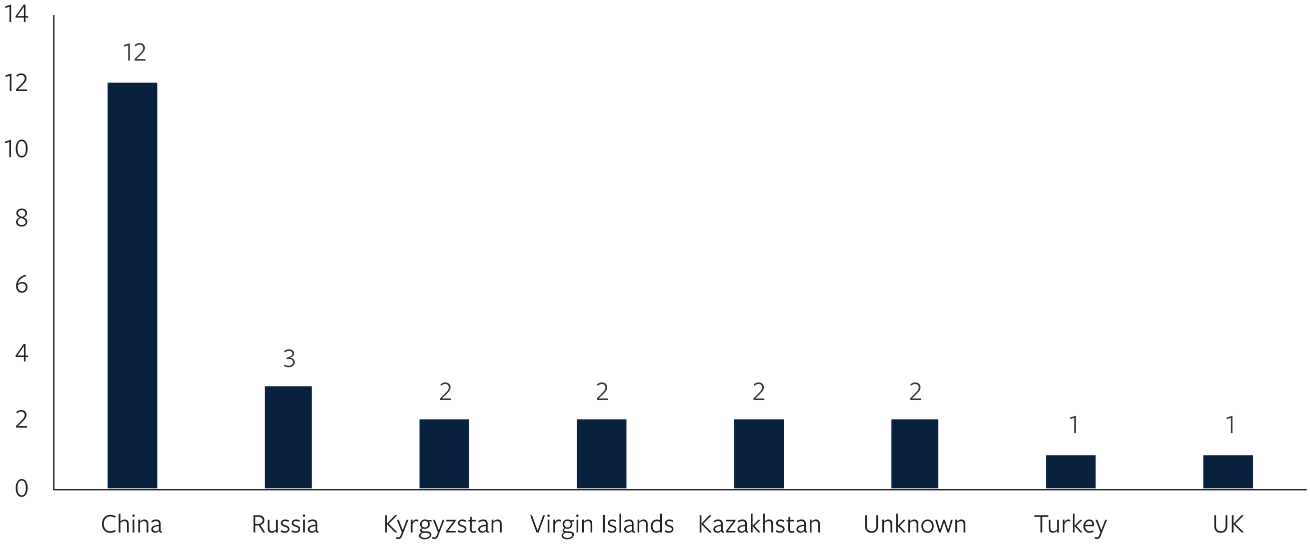
While China is not interested in a gold-backed currency per se, it does have an interest in supporting the renminbi (RMB) with gold, i.e. having a fixed number of tonnes in gold at the People's Bank of China (PBOC) to give its currency trust and credibility. Meanwhile, measures such as bilateral currency swaps and the establishment of platforms and services for transacting in renminbi are laying the groundwork for more widespread use of the currency, especially in BRI countries. In April 2020, the President of the Shanghai Stock Exchange, the country's only gold exchange and the world's largest physical gold exchange, repeated China's earlier calls for super-sovereign currency, disconnected from individual countries, post-Covid-19, to curtail the power of any one country, likely referring to the United States, to freeze the international assets of other countries. While gold would lend itself well to such a role, limited supply limits its potential role in global trade (Shen and Chow, 2020).

Figure 15 Distribution of licences based on the type of extractive resource



Source: EITI (2019)

Figure 16 Distribution of production licences for gold and metals by country of origin



Source: Licensing register published on the web page of the State Committee of Industry, Energy and Subsoil Use

Chinese investors in the Kyrgyz gold mining sector include SOEs, private companies and individual investors. At least four gold mines are operated by either fully or partially state-owned Chinese companies. The six Chinese companies exploring or developing these mines are: Zijin Mining, which is developing the Taldybulak Levoberezhny deposit; Lingbao Gold, CRBC and the Lin Xi Investment Company Xinjiang-Uyghur Autonomous Region (Lin Xi Investment),[13] which are co-developing the Ishtamberdy deposit; Southwest Energy and Mineral Resources Corporation Company (Southwest Energy), which is exploring the Shambesay gold deposit; and China National Gold Corporation (China Gold), which is exploring the Kuru-Tegerek deposit (Guizhou Geology and Mineral Resources Development (n.d.); State Committee for Industry, Energy and Mineral and Subsoil Use, 2019).[14] Two of these companies, Zijin Mining and China Gold, were among the four largest domestic gold producers in China (Zhang, 2018).

Chinese investment in the Kyrgyz mining sector includes private enterprise and individual private investors. Such investments are difficult to map. Our interviews suggest that private Chinese investors violate environmental and other regulations more so than large companies. Such investors present high reputational risks for

13 The ownership structure of this company is unclear.
14 Zijin Mining bought a 60% stake in Altynken for $150 million in 2011. Kyrgyzaltyn owns the remaining 40%. Lingbao Gold is a majority shareholder in Full Gold Mining LLC, which develops the Ishtamberdy deposit, with 80% of shares. CRBC and Lin Xi Investment each own 10%. Lingbao Gold signed an agreement with China Development Bank, CRBC, Lin Xi Investment, the Kyrgyz Ministry of Transport and Communications and the State Agency for Geology and Mineral Resources, under which the CRBC rehabilitated a 50km section of the Osh–Sarytash–Irkeshtam highway between 2008 and 2011 in return for rights to develop Ishtamberdy deposit. The total value of the road reconstruction project was reportedly $25.3 million. Southwest Energy became an investor in Z-Explorer in 2017.

China as local communities, and the wider Kyrgyz public, are unlikely to distinguish between Chinese SOEs and private investors and view all Chinese investors as equal representatives of China. Risks associated with Chinese state-owned company and low-scale private individual investment are addressed in Section 5.

China and Kyrgyzstan have sought to strengthen cooperation in the sector. During the China–Kyrgyzstan Business Forum in June 2019, the two countries signed four agreements on gold mining worth at least $1.675 billion (the value of some agreements was not disclosed; Kabar, 2019). Perhaps the most significant project announced during the Forum was a plan to establish a Central Asia Metals Exchange and the Belt and Road Development Fund, worth $1.5 billion (ibid.). Lingbao Gold and Full Gold Mining are partners in both projects. Both companies will also work on constructing a gold processing plant. Other plans include the construction of a plant for smelting gold, silver and copper, worth $100 million, and a cooperation agreement with Hansu Sinmai Huangjin, worth $75 million (ibid.).

Lingbao Gold is an interesting choice of partner. Of the four large companies discussed in this section, it was the first to start operating in the Kyrgyz market. However, media reports suggest that it has come under scrutiny for its poor relations with local communities and issues around operational transparency. This will be addressed in Section 5. Clearly, as the gold market develops, a more robust regulatory and standard-setting framework is needed across the gold supply chain to protect Chinese investors and ensure that China's gold mining industry respects the environment.

Road and energy infrastructure

Major road and energy infrastructure projects in Kyrgyzstan are financed through loans or grants to the Kyrgyz Government from China Eximbank (see Appendix 1, Table A1). Between 2008 and 2017, the Bank became the largest lender to Kyrgyzstan for infrastructure projects. Interest rates for loans provided by EXIM Bank are relatively low, at 2% or less. The grace and repayment periods of these loans are relatively long, the former ranging between 5a nd 11 years and the latter between 20 and 25 years. This would suggest that this finance falls under one of the two categories of concessional/preferential loans (Jin et al., 2018). Finance for all the infrastructure loans listed in Table A1 is concessional (below market rates), and conditions have been becoming more favourable over time, with lower interest rates and commission fees and longer grace and repayment periods (Mogilevskii, 2019). Even so, domestic and international concerns about potential debt risk and long-term economic stability persist (see Section 5).

In addition to the projects listed in Table A1 (Appendix 1), the Chinese Government provided two grants in 2015 and 2017 for road improvements in Bishkek. In 2019, the Kyrgyz Government announced another grant of RMB600 million (around $86 million) (Evening Bishkek, 2019), though for what is as yet unclear.

China is not only financing major road and energy infrastructure projects: Chinese companies are also winning contracts to construct them (see Appendix 2, Table 2). The main companies delivering road and energy infrastructure projects in Kyrgyzstan include CRBC,[15] Xinjiang-Beixin

15 CRBC is a subsidiary of state-owned China Communications Construction Limited (China Communication Construction, n.d.), specialising in construction of transport infrastructure. The company has experience in construction projects globally, including in Kenya, Serbia, Croatia and Cambodia.

Construction Engineering Group[16] (both SOEs) and the Tebian Electric Apparatus Stock Co. Ltd (TBEA),[17] which appears to be a private company. All three companies have extensive experience working on overseas projects and are actively engaged along the BRI. TBEA and Xinjiang Beixin are based in Xinjiang, and both have extensive cross-sectoral business interests in the province. Xinjiang Beixin is a subsidiary of the Xinjiang Production and Construction Corps (XPCC). XPCC was established in 1954 and played a key role in settling and safeguarding China's border through the development of agriculture and industry (Bao, 2018). The Eleventh Division of XPCC – the Construction Engineering Division – is engaged in road, bridge and building construction both in China and overseas (ibid.).

Box 5 China – Kyrgyzstan – Uzbekistan railway

Proposals for the railway project started circulating over two decades ago and proposed constructing a railway link via a southern route between Kashgar in western Xinjiang province to Andijan in eastern Uzbekistan. The Kyrgyz Government proposed an alternative northern route to help connect northern and southern parts of the country, making the railway more costly. The railway would cost approximately $2 billion, financed through development loans from China, though reports suggest that the railway can be financed through a private–public partnership model. The railway is supposed to boost the Kyrgyz economy thanks to job creation and collection of taxes and transit fees, while at the same allowing connectivity with China as an alternative to Russia (The Economist, 2022). In Kyrgyzstan, plans for the proposed railway have been criticised for several reasons. First, critics doubt the potential economic benefit to Kyrgyzstan, arguing that transit fees of $200 million are overestimated and any employment gains will be primarily in Uzbekistan and China. Critics of the proposal also argue that the proposed route will not help alleviate infrastructure gaps between the country's north and south, and will largely bypass densely populated parts of the north (FCO, 2014).

Reports indicate that Russia is interested in participating in the railway project, though details of the country's engagement are unclear (Zholdoshev, 2019). Strategy 2040 envisions that construction of the railway begins in the medium term, and that 'in the future, this railway corridor will allow to create internal railway network in the Kyrgyz Republic connecting northern and southern parts of the country' (Government of Kyrgyzstan, 2018).

16 Xinjiang Beixin Construction Engineering Group (Xinjiang Beixin) is based in Urumqi, Xinjiang. Xinjiang Beixin is a subsidiary of XPCC Construction and Engineering (Bing Tuan Construction Engineering Group). Xinijang Beixin works on engineering and construction projects both domestically and overseas, with projects in Pakistan, Kyrgyzstan, Tajikistan, Afghanistan, Mongolia and Cambodia (Xinjiang Beixin Road and Bridge Group Co., Ltd., n.d.)

17 TBEA Co. Ltd. (特变电工 *Tebian Diangong*) appears to be a private Chinese company based in Changji, Xinjiang. The company produces energy equipment, including transmission and distribution infrastructure, as well as developing new energy technologies and materials. For three years it ranked first in the world in terms of installed capacity for PV EPC projects. TBEA operates both domestically and globally, with employees in 24 countries and 3 overseas manufacturing bases (TBEA, n.d.). One of the earliest Chinese companies to 'go global', TBEA supports the BRI and has participated in the Belt and Road Forum for International Cooperation. At the Forum, TBEA Chairman Zhang Xin highlighted that the company would use its focus on green and low-carbon development to drive high-quality development of countries along the BRI (TBEA, 2019).

Contracting

Contracting Chinese companies to work on Chinese-financed projects is both very common and a source of disquiet among Kyrgyz stakeholders. Although not strictly tied, Chinese finance is often awarded in conjunction with a requirement to use Chinese contractors and equipment (Foster et al., 2009; Bräutigam, 2011) which have greatly intensified in recent years. Both bilateral trade and Chinese foreign direct investment (FDI). For example, the draft agreement for the modernisation of electricity transmission lines in southern Kyrgyzstan reads: ‘Goods, technologies and services purchased with the help of the Loan funds are bought mainly from China, the technical standards used must meet the corresponding Chinese standards’.[18] What those Chinese standards are is unclear, as is the precise quantity of Chinese goods, but the intent is evident: Chinese money should be spent on Chinese technologies and materials.

Chinese contractors have also won contracts for projects financed by other multilateral development banks (MDBs) and financiers. Out of 37 road projects listed by the Central Asia Regional Economic Cooperation (CAREC) Program (Ministry of Transport and Roads of the Kyrgyz Republic, 2019), 18 were undertaken by Chinese contractors[19] and 9 by non-Chinese contractors (for the remaining 10, the contractors are unknown or contracting was still in progress). This indicates a high success rate for Chinese contractors in winning these construction projects, both in Kyrgyzstan and more widely (Chinese firms have the highest success rate on World Bank contracts based on contract value (Farrell, 2016)).[20] On most construction projects funded by major MDBs or other financiers in Kyrgyzstan Chinese companies do not operate on their own but work with other foreign firms acting as consultants (see Appendix 2, Table 2).

Summary

Kyrgyz economic and political relations with China have evolved considerably since the country’s independence over three decades ago. Trade relations between the two countries have flourished, albeit leaving Kyrgyzstan with a trade deficit with China. In terms of FDI flows, China has gone from being the fourth largest foreign investor in 2010 to by far the largest investor in 2021. China has also become an important development partner for Kyrgyzstan. Despite intensifying political and economic relations, political unrest creates an unstable environment for Chinese and other foreign investors.

Several of China’s investment priorities in the country are clearly aligned with Kyrgyz development ambitions, such as digital infrastructure and agriculture. Chinese companies have also fulfilled contracts for the construction of road and energy infrastructure projects . However, with or without the BRI, implementing Strategy 2040 remains a significant challenge. Furthermore, Chinese investment and infrastructure projects at the macro and sectoral levels are not without risks, which we discuss in Sections 4 and 5.

18 The draft agreement is available at: www.kenesh.kg/ru/draftlaw/download/7664/accompdoc/ky.

19 Eleven of these projects were financed by non-Chinese stakeholders, while the remaining seven were financed by Chinese institutions. Table A2 in the Appendix provides an overview of non-Chinese financed projects.

20 However, in terms of number of contracts, most are awarded to Vietnamese companies (Farrell, 2016).

4 Chinese investment and infrastructure financing, and the BRI: understanding the risks at the macro level

As is the case with other countries, Chinese engagement and investment in Kyrgyzstan are *perceived* as generating a range of opportunities, but also risks. Perceptions matter as risk inherently involves probability, either the subjective view of how possible something is and what the impacts might be, or more objective statistical probabilities (e.g. the frequency or likelihood) that a threat event of a particular type, magnitude and duration occurs. Both cases inherently involve perceptions and value judgements of what/who is considered a problem, why and by whom (Opitz-Stapleton et al., 2019).

Chinese stakeholders in Kyrgyzstan are predominantly state-owned enterprises, both central and provincial level, but there are also some private enterprises and individual investors. These actors have differing standards and approaches and contractual conditions under which they provide and deliver financing, labour, construction materials and project management. Despite the range of Chinese actors engaged in the country, generalisations about China were common, and often based on the assumption that the country is a homogenous entity with evenly dispersed socioeconomic development, a coherent state economy model, a single culture and uniform thinking (Nadin et al., 2016). These behavioural norms often create a set of assumptions about how 'the Chinese' behave, and the risks that might arise from that.

Given the obvious investment needs of the Kyrgyz economy, is Chinese engagement and investment a risk or an opportunity for the country? What are the dominant risk narratives regarding China among Kyrgyz stakeholders? Drawing on the literature and through expert interviews, this section pays particular attention to Kyrgyz stakeholders' dominant perceptions of macro risks – those impacting the whole of society, such as economic dependency, debt sustainability, and geopolitical or credit risks arising from *Chinese* engagement. Throughout, we make a brief assessment of the potential impacts and future risk scenarios, or what to watch out for going forward.

4.1 Dominant risk perception: economic fragility and dependence on China

Relying excessively on one partner can lead to fragility and can make a country more vulnerable to shocks. This subsection assesses the extent of the Kyrgyz economy's dependence on China, and whether the BRI is increasing that dependency.

Kyrgyzstan's relationship with China in the context of economic fragility

The Kyrgyz economy is fragile; growth has been moderate (with an average GDP growth of 4.5% since 2000) and the country remains reliant on remittances from migrant labour, gold extraction and the import–re-export trade (World Bank Group, 2018). The revenue and export contribution of the Kumtor mine will be difficult to replace if it ceases production as currently planned in 2031, and the government has made limited plans in this sense. While the country's medium-term development plans up to 2026 recognise some of these sources of fragility, and attempt to identify strategic sectors for diversification, Strategy 2040 selects many sectors (agro-processing, tourism, light manufacturing, extractives and hydropower), and hardly constitutes a prioritisation. There has also been little attempt to identify new mineral deposits (almost all of the over 150 known deposits were either under exploration or production during the Soviet era). In addition, the long lead times for exploration, financing and infrastructure building mean that it would be several years before any gains were made (World Bank Group, 2018). All these factors present considerable challenges.

Risk perceptions

China's increased presence in Kyrgyzstan contrasts with the limited interest in the country displayed by other foreign (non-Chinese) investors, the challenges with the operating environment and infrastructure, and the small size of the market. While mining and mineral processing remain potentially one of the most attractive sectors of the economy, our interviews indicated that long lead times, the highly politicised nature of the sector, pervasive corruption and conflict with local communities have made it difficult to invest.[21] Several foreign investors have left the country in recent years.[22] Interviewees also pointed out that there does not seem to be a contingency plan for 2031, when Kumtor's operations are scheduled to close. Many also highlighted that the government is expecting foreign companies to invest, but activities to promote such investment have been limited.

The limited interest from foreign investors, coupled with the lack of active investment promotion by the government, has left Kyrgyzstan in a vulnerable position. Within the space of a few years, China has become one of Kyrgyzstan's main trading partners, main investor and aid provider, in part because it is one of the few countries willing to engage. As one interviewee highlighted, 'we need Chinese investors in mining because no one else is coming'.[23] Relying heavily on one partner can accentuate vulnerability for a country such as Kyrgyzstan. As one commentator pointed out: 'massive investment from any single country is a security threat regardless of country of origin'.[24] However, as discussed, Chinese investments are quite diversified – in addition to investments linked to the Chinese Government (policy banks and SOEs) there are also several private actors. This contrasts sharply with another set of findings from our interviews. Some interviewees (in some cases, the same ones quoted above) mentioned that many perceived that China was not offering much to Kyrgyzstan in the partnership. The most common evidence offered for this was that Kyrgyzstan did not receive any significant finance or was not promised any large-scale project during the Belt and Road Summit, held in April 2019.[25] However, during the Kyrgyzstan–China Business Forum in Bishkek in June 2019, the two countries signed deals worth over $7 billion.

21 Interview with private sector association, May 2019.
22 Interview with independent expert, May 2019.
23 Interview with mining labour union representative, June 2019.
24 Interview with independent expert, June 2019.
25 Kyrgyzstan is mentioned under only two of the deliverables of the Second Belt and Road Forum (the Belt and Road Energy Partnership and the launch of the Alliance of International Science Organizations in the Belt and Road Region), with no announcement made on new infrastructure projects.

Interviewees did not explicitly cite China's economic performance as a vulnerability factor, though this could dramatically affect the Kyrgyz economy. China's economic slowdown and its changing patterns, such as automation and a shift towards more sophisticated production (Hou et al., 2017), as well as disruptions in supply chains and in global trade caused by Covid-19, could affect China's demand, investment and lending globally, including in relation to Kyrgyzstan.

Overall, there seems to be general unease with China's increased economic role in Kyrgyzstan, at the same time as an acknowledgment that Chinese investment is needed in a country where few others are willing to invest. The limited efforts of the government in finding and attracting new economic partners contribute to a general sense that the Kyrgyz economy is vulnerable.

Impact assessment

Should bilateral relations between Kyrgyzstan and China cool, Kyrgyzstan risks losing an important source of investment and finance, with negative impacts on revenues, exports and jobs.Episodes of unrest in Kyrgyzstan have been worrisome to Chinese investors. However, the Business Forum in 2019 confirmed that the Chinese Government was planning several projects in Kyrgyzstan, and the economic relationship between China and Kyrgyzstan is unlikely to end abruptly. First, since Kyrgyzstan still owes considerable amounts to China, the two countries are likely to continue their economic engagement to ensure that the Kyrgyz Government is able to service the debt. Second, even if future official lending from China was to decrease or stop altogether, private Chinese investors, in particular small- and medium-scale ones, would continue operating and pursuing new investment opportunities. Third, while Chinese companies and the Chinese Government are important to the Kyrgyz economy, other stakeholders also play key roles – for example, Canadian investors in Kumtor Gold and the Russian Government. As such, the impact of decreased engagement with the Chinese Government is expected to be perceived as not severe.

While our field research was conducted prior to the Ukraine conflict, we need to consider how this could affect Kyrgyzstan's economy. As noted, Kyrgyzstan is one of the low- and middle-income countries that may see the most negative repercussions from the war. While it is still too early to assess the impact of the conflict, this must be taken into account when considering Kyrgyzstan's economic future in relation to China. The Kyrgyz economy still has considerable ties to Russia and, should the conflict weaken these ties, Kyrgyzstan would have fewer alternatives to China in terms of its economic partnerships.

Overall, the fragility of the Kyrgyz economy goes beyond its relationship with China, and it sits in the fundamentals of the economy.

Future risk scenarios/what to watch

- Reduced economic engagement by Chinese firms in Kyrgyzstan leads to economic slowdown, compounding the slowdown generated by Covid-19 and the potential impact of the Russia–Ukraine war.
- Engagement by Chinese companies (public and private) does not support economic diversification and leads to continued dependence on the extractive sector. This, in turn, does not promote job creation and fuels continued social unrest.

4.2 Dominant risk perception: debt sustainability, creditworthiness and related risks

One of the most debated issues around the Belt and Road has to do with debt. The impact of large infrastructure projects on debt sustainability depends on how these projects affect economic growth and, in particular, whether they can generate the resources to service the debt, either directly or indirectly. This subsection looks at whether Chinese infrastructure financing poses risks to debt sustainability in Kyrgyzstan.

Financing infrastructure often entails lending to sovereigns or using a sovereign guarantee. This can create issues for debt sustainability if returns on investment are not properly factored in. When borrowing externally, countries expose themselves to several financial risks (Bandiera and Tsiropoulos, 2019):

- Risks from repayment of investments; for instance, if an external event reduces the expected revenue from a project and triggers additional expenses for the government. An example is a fall in revenues from toll roads because of Covid-19.
- Risks from financing terms, such as refinancing, liquidity and currency risks, which could result in a higher debt burden and higher debt service for the government.
- Risks from collateralised debt financing, which could lead the government to lose some of its assets if it cannot repay its debts.
- Default risk, which is a concern for both the lender and the borrower.
- Operational risks, such as those linked to default or breach of contract clauses.

In addition to these, debt has broader consequences for a country's development pathways. Large debt service repayments may prompt the government to reduce other development or social spending. The country's creditworthiness is also at stake. If investors doubt a country's ability to service its debt, they can demand higher returns to compensate for their increased risk. Finally, defaulting on debt obligations may discourage future investment and lending. If the country has no choice but to borrow from a lender of last resort (such as the IMF), this may impose reforms, constraining the country's independent policies.

Kyrgyzstan's external public debt increased in 2020 to an estimated $4.2 billion, or 58% of GDP (from 43% in the previous year), according to the most recent IMF Debt Sustainability Analysis (IMF, 2021). Almost 42% of public external debt ($1.8 billion) is owed to China, the country's largest lender.

Most Kyrgyz borrowing from EXIM Bank and other Chinese lenders is concessional, and repayment will start in the next few years. By the end of 2021, expenditures to service the public debt amounted to 29.5 billion Kyrgyzstani som (KGS) (4.1% of GDP), of which interest payments amounted to KGS 8.2 billion (1.1% of GDP) (National Bank of the Republic of Kyrgyzstan, 2022). Recent analysis by the IMF indicates that Kyrgyzstan is at moderate risk of debt distress. The country's capacity to carry debt is strong, but while there is some room to absorb shocks the economy remains vulnerable to external changes. The latest Debt Sustainability Analysis (DSA) states that, while infrastructure investment is necessary, externally-financed public investment could undermine debt sustainability (IMF, 2021).

Studies confirm Kyrgyzstan's vulnerability. Wignaraja et al. (2018) identify BRI-related debt in Kyrgyzstan as a cause of concern in terms of sustainability, and estimates that Kyrgyzstan should grow at 27% per year to maintain a GDP-to-debt ratio of 60%, compared with the current forecast placing growth at 5%. Similarly, Hurley et al. (2019) identify Kyrgyzstan as high risk in terms of BRI-related debt. However, neither of these papers takes into account Russia's recent debt cancellation.[26]

As is the case for many countries, the budgetary impacts of Covid-19 have made debt servicing more difficult, prompting the Kyrgyz authorities to ask China for debt restructuring twice since the beginning of the pandemic (van der Kley, 2020b). The war in Ukraine could further exacerbate the situation. Around 15% of Kyrgyz exports are directed at Russia, and over 70% of remittances to Kyrgyzstan are from workers based in Russia (Raga and Pettinotti, 2022). These sources of foreign exchange may decrease dramatically, worsening Kyrgyzstan's debt situation.

Risk perceptions

Debt owed to China is a thorny issue in Kyrgyzstan, with one interviewee mentioning that the country was very likely to default. There is a common perception that Kyrgyzstan is being 'strangled' by Chinese debt, to the point where it may be forced to cede some assets to China. Rumours abound around allegedly similar cases of debt-equity swaps in Sri Lanka, with reference to the controversy over Hambantota port, and neighbouring Tajikistan, which allegedly gave China rights over land and mining concessions in exchange for debt write-off (Reynolds, 2018).[27] These stories partially overlap with the widely circulating 'debt-trap diplomacy' narrative, already questioned in the literature (Jones and Hameiri, 2020; Singh, 2020).

The example of Russia writing off debt in exchange for concessions on military bases (mentioned above) is also cited as evidence that infringements on sovereignty are not uncommon – though one interviewee also mentioned that this was in exchange for Kyrgyzstan joining the EAEU. As one interviewee noted, China has not yet 'called in the favour', implying that it may do so at some point.[28]

Another interviewee pointed out that Chinese finance has fewer strings attached: in essence, 'Chinese money is too good to refuse' as it offered good financial conditions with limited commitment to reform.[29] At the time of our fieldwork, the feeling from some senior government advisors was that Kyrgyzstan has found itself with too much debt from China and little room to borrow more from others. In response, the government was unwilling to provide any more government guarantee on debt.[30]

26 As there is no official database of BRI projects, these studies rely on databases constructed using various sources, including media reports. These databases often fail to differentiate between projects that have been announced officially but are not being implemented, and projects that have been implemented. Moreover, these datasets include all Chinese-owed infrastructure debt, regardless of whether this is linked to the BRI.

27 Sri Lanka allegedly had a debt-equity swap with China, handing over Hambantota port to China on a 99-year lease after the latter failed to service over $1 billion in debt. This claim was discussed and disproved by several researchers, including Acker et al. (2020) and Wignaraja et al. (2020). With regard to Tajikistan, the country granted China around 2,000 hectares of land concessions in 2011.

28 This was mentioned in three interviews with political experts and one with an advocacy organisation, May 2019.

29 Interview with government advisor, May 2019.

30 Public debt comprises state government debt, state guarantees and central bank debt to the IMF. Since 2007, the budget code has prevented the state from guaranteeing the debt of state-owned enterprises and other public entities (International Monetary Fund, 2021). Data from the NBRK shows that government-guaranteed external debt has been zero since 2010, well before the emergence of the BRI and before China became one of the country's main lenders (National Bank of the Republic of Kyrgyzstan, various years).

Many interviewees highlighted the lack of transparency in some of the infrastructure deals with Chinese SOEs. This did not relate exclusively to the financial conditions attached to loans (repayment periods, interest rates etc.), which are often available, but also to the overall conditions in terms of employment, procurement and so on. Interviewees could not identify a source or repository of documents related to these loans and grants.

Some commentators mentioned that Chinese-financed projects have no requirements in terms of local procurement, and therefore will have a small multiplier effect on the Kyrgyz economy.[31] This may lead to lower growth rates, with less beneficial results for the economy. While we do not have a comprehensive dataset to validate this, Tables A1 and A2 in Appendix 1 and Appendix 2 confirm that many infrastructure projects are effectively built mostly by Chinese SOEs and POEs. These may subcontract Kyrgyz companies for parts of their projects, but they will maintain overall control.

At the time of our fieldwork, several interviewees raised doubts about the (then current, now former) government's ability to critically assess loans and develop a solid debt management strategy. One interviewee pointed out the lack of critical discussion by the government around engagement with China, in particular in relation to debt.[32] Several interviewees also pointed to the limited options available to the government. Some felt that at some point China would want to 'cash in', leaving Kyrgyzstan on the brink of collapse or having to cede some of its assets. No one considered it likely that China could restructure or forgive the debt, though debt renegotiations are common and asset seizure is rare for debt owed to China (Kratz et al., 2019).[33]

Impact assessment

The IMF assesses Kyrgyzstan as at moderate risk of debt distress. The Kyrgyz Government should consider carefully whether to take on additional loans, either from China EXIM Bank or other lenders, especially taking into consideration the planned closure of the Kumtor mine in 2031.

Covid-19 has exacerbated the risk of debt distress in Kyrgyzstan, and therefore future borrowing should be approached with care. It is also possible that the Russia–Ukraine conflict causes a reduction in Kyrgyz exports, further exacerbating the risk of debt distress. The latest IMF DSA indicates a shock to exports as a potential trigger of a debt crisis (IMF, 2021).

Future risk scenarios/what to watch

- The Kyrgyz Government defaults on its debt. At the moment this scenario seems unlikely as there is no indication of an intention to default.
- The Chinese Government restructures or forgives Kyrgyz debt. While this scenario would entail no threat for Kyrgyzstan, its likelihood is unclear. Bilateral discussions on this topic generally take place behind closed doors, and it is difficult for external observers to assess the situation.

31 Interview with development partner, May 2019.
32 Interview with political expert, May 2019.
33 In contrast to what many of our interviewees believed, one recent report shows that, since 2000, China has written off almost $10 billion in 96 rounds of cancellations (Development Reimagined and Oxford China-Africa Consultancy, 2019).

4.3 Dominant risk perception: weak government effectiveness

Government effectiveness refers to how the various parts of government (ministries, departments and agencies at the national and subnational levels) work together and manage the country's resources to kickstart and sustain the development process. In short, government effectiveness indicates what the government is able to accomplish. Here we are specifically interested in assessing how the Kyrgyz Government understands and manages the opportunities offered by the BRI. We review what policies and actions the government has managed to take to that effect.

Since independence in 1991, Kyrgyzstan has experienced considerable political instability. Over the past 30 years, the country has seen six presidents, a rapid succession of often short-lived governments and three anti-government coups. While relatively democratic compared to its Central Asian neighbours, the country nonetheless oscillates between democratisation and semi-authoritarian rule (Ismailbekova, 2018). In this unstable environment, Kyrgyzstan has had to rebuild its political system after the collapse of the Soviet Union. Interviewees pointed to structural weaknesses in the government's ways of working, an opportunistic foreign policy and challenges with broader planning, with Strategy 2040 regarded as a wishlist, with no real prioritisation and costings. Government agencies approach development partners and financiers with uncoordinated requests that can conflict with each other.[34]

Infrastructure projects require strategic vision and the technical ability to evaluate their impact (environmental, social, economic, security etc.). According to interviewees this ability is absent, with no overall vision within the government. At the time of our interviews, the Prime Minister's Office, where this vision should be held, was extremely busy and under-resourced and could not lead the infrastructure portfolio. One interviewee pointed out that the government does not have the capacity to conduct cost–benefit analyses, and often has to rely on contractors' analysis.[35]

The government has yet to develop a modern framework for the mining sector to replace old and often obsolete Soviet technical standards.[36] The human, institutional and financial capacities of mining institutions are low, and technical knowledge is often outdated. Public institutions find it difficult to provide services to the private sector, or monitor and implement laws and regulations (World Bank Group, 2018). Interviews indicated that government agencies lack the resources to conduct regular site inspections. However, the Kyrgyz Government has the ability to build and manage relations with different partners. For example, when deals with Russia fell through in the hydropower sector, the Kyrgyz Government sought funding for the projects in China, kickstarting talks with the State Power Investment Corporation of China, a centrally managed SOE (State Power Investment Corporation, n.d.).

Risk perceptions

The challenges highlighted above are not specific to the BRI or to China, but apply to investment and financing more widely. However, given the scale of

34 Interview with independent consultants, July 2019.
35 Ibid.
36 Interviews with mining sector experts, May 2019.

infrastructure financing and investment coming from China and linked to the BRI, these challenges need to be considered in this light.

Kyrgyzstan lacks a specific approach to its engagement with China, and the country's politicians focus largely on domestic issues. Widespread Sinophobia and close relations with Russia mean that discussions about China's role in the country are confined to the media. Interviewees reflected that this lack of a serious discussion about China, and the inability of the government to engage seriously on this topic, means that the country is unable to formulate a solid policy with clear objectives, either towards China or the BRI.

The government's limited capacity means that financiers and investors have considerable scope to propose and implement infrastructure projects, leading to a lack of coordination. Interviewees pointed to examples where the government had relied on a contractor's calculations to assess costs and benefits, or where environmental impact assessments were conducted after the project had started, not before. Several interviewees suggested that these challenges were more common in relation to bilateral agencies than with multilaterals. With regard to one project financed by another (Asian) bilateral, the government did not request specific assessments and the contractors conducted their own assessments and proceeded with the work.

In addition, and specifically in relation to China, the government does not seem to have prepared a strategy on how to engage with the country. As a large and growing trading partner, China should deserve some reflection on the part of Kyrgyz officials, who should consider how to leverage this inflow of money to reach their own development objectives. Yet, so far, no such assessments have emerged. None of our interviewees highlighted a clear approach towards China, either from the economic or from the foreign policy side.

Impact assessment

The limited capacity of the Kyrgyz Government to coordinate, critically appraise and evaluate large and complex projects and policies has potentially negative consequences, including poor planning, wasted resources and potentially lower economic growth in the long term.

Future risk scenarios/what to watch

- Economic growth and diversification is lower than it could have been with appropriate strategies in place, leading to slow growth, economic vulnerability and decline.
- Poorly planned infrastructure projects lead to wasted resources and fail to ensure environmental and social security.

4.4 Dominant risk perception: heightened geopolitical rivalry

Central Asia has historically been an area of geopolitical, strategic and economic importance. In the nineteenth century, Britain and Russia sought to out-manoeuvre each other in what was termed the 'Great Game' in the region. Today, many commentators claim that Central Asia is again a region of geopolitical competition involving Russia, China and the United States, with Saudi Arabia, Turkey, Iran, Pakistan and India on the sidelines. Despite challenges to these narratives, including from China, which officially frames its engagement along the Belt and Road as 'building community of shared future for mankind', and because how geopolitical dynamics play out depends on a multitude of factors – not least Central Asian states' engagement with countries vying for influence in the region, Kyrgyz stakeholders appeared highly cognisant of regional geopolitical dynamics. They were particularly aware of both risks and opportunities for the country, particularly associated with heightened competition between Russia and China. As such, whether justified or not, concerns about heightened geopolitical rivalry, and its potential impacts on Kyrgyzstan, exacerbate anxieties about debt sustainability and other risks.

Risk perceptions

For decades Sino-Russian relations have been characterised by competition and an alliance of interests. Lo (2008) describes relations between the two countries as an 'axis of convenience', where neither side has particularly high expectations of the other, and therefore approaches relations pragmatically and in line with their long-term interests. While Russian President Vladimir Putin has described Xi as 'a partner I can count on', and has noted that Chinese and Russian positions coincide on several global issues (CGTN, 2018; FT, 2019), many commentators argue that Russia is increasingly wary of Chinese economic influence in Central Asia. Since the collapse of the Soviet Union, Russian policy has been to maintain its position as a prominent economic and political player in the region.

Unlike other countries in Central Asia, where Russian influence is declining, Kyrgyzstan is firmly situated within Russia's sphere of influence, and the two countries share close economic, political, military and personal ties.[37] Russian FDI in Kyrgyzstan increased from 6% of total inflows in 2000 to 15% in 2018 (though China is the largest investor in terms of flows), and Russia is one of the main markets for Kyrgyz goods (UN Comtrade Data). Russia has also promoted political, economic and security initiatives such as the CIS, the EAEU and the CSTO (Dubnov, 2018). Kyrgyzstan hosts the Russian Joint Military Base in the northern town of Kant, and has agreed to its expansion, while reports suggest that it is open to a second Russian base in the south of the country (RFE/RL Kyrgyz Service, 2019). Public polling shows that 88% of Kyrgyz respondents view Russia as an economic partner, ahead of any other country, while only 1% view it as a threat (IRI, n.d.). The Russian media is popular in Kyrgyzstan, and the Kyrgyz public overwhelmingly view world affairs through a Russian lens.[38]

The economic impact of Western sanctions on Russia following the invasion of Ukraine will further limit Russia's ability to compete with China in Central Asia, while the importance of the region to Russia will likely increase considering relative diplomatic isolation from European and other countries. Russia's strained relations with Western countries makes it difficult for Kyrgyzstan to balance relations with both partners. Perhaps one example that demonstrates these dynamics is the closure of the US Transit Centre at Manas, near Bishkek, in 2014. Former President Atambayev argued that Kyrgyzstan was threatened by other countries over hosting the facility. Atambayev did not specify which country pressured Kyrgyzstan to close the facility, which was an important source of tax revenue. Media reports, however, linked Atambayev's statement with Russia. Though the facility, opened in 2001, was initially supported by Russia, this changed as Russian–US relations deteriorated. Atambayev promised to close the facility in 2011, and in 2012 Russia wrote off $500 million of Kyrgyz debt while the lease for the Kant

37 Interview with international relations expert 1, May 2019.
38 Interview with international politics expert 2.

base was extended for 16 years. In 2014, the Kyrgyz parliament voted to shut down the Manas Transit Centre (RFE/RL, 2017). More recently, Japarov reiterated that there will be no new US military bases in the country, saying that 'one [foreign] base will be enough for us', a reference to Russia's Kant base (RFE/ RL Kyrgyz Service, 2021).

As China and Russia strive for greater influence, the challenge for Central Asia, including Kyrgyzstan, is how to deal with both without becoming overly dependent on either.[39] The extent to which Russia is prepared to counter or confront China's engagement in Kyrgyzstan is difficult to evaluate based on speculation and unverified analysis. While some commentators suggest that Russia is actively encouraging anti-Chinese sentiment,[40] this is questionable and any attempts in this direction would seriously jeopardise relations between Moscow and Beijing.[41] That said, Putin's ambitions to create a Eurasian Partnership, which integrates all bilateral and multilateral developments in Eurasia, would suggest that Russia remains committed to maintaining its influence in the region. One tool to support this is the EAEU, championed by Russia along with Kazakhstan. From Kyrgyzstan's perspective, the EAEU could provide growth opportunities.[42] Some commentators argue that Kyrgyz politics are already strongly connected to the EAEU, which is not clearly interconnected with the BRI.[43]

Some interviewees have suggested that China is also cognisant of the need to maintain a balance of power in the region, for example, by consulting Russia prior to announcing projects of geopolitical significance. Realistically, '[t]he Russians understand that there is nothing they can do about it. So instead of confronting it, they pretend to be in it'.[44] The China–Kyrgyzstan–Uzbekistan railway is one such example. The same interviewee also shared speculation that Russia had asked the Kyrgyz Government to halt a hydropower dam project (Upper Naryn and Kambarata), fearing such a move may enable China to disproportionately influence the Central Asian energy market.

Impact assessment

Kyrgyz stakeholders are keenly aware of the implicit competition between states over spheres of influence in Central Asia, and appreciate that some, including China and Russia, exhibit strength in different domains. At the same time, several interviewees highlighted that, in Kyrgyzstan, internal politics takes precedence with foreign policy a lesser priority. Weak government capacity also means that the government (at the time) did not have a coherent strategy to respond to initiatives like the BRI. As such, concerns about heightened geopolitical competition, and in particular as a result of China's growing influence in countries via loans and investment, likely exacerbate anxieties exhibited across dominant risk narratives with regard to debt sustainability and security concerns.

In this context, and considering the imposition of new (and possibly further) sanctions on Russia following the invasion of Ukraine, the benefits offered by Russia's determination to push for

39 Interview with international relations expert 1, May 2019.
40 Interview with independent expert 2, June 2019.
41 Interview with international politics expert 1, May 2019.
42 Interview with former government official 2, June 2019.
43 Ibid.
44 Interview with international relations expert 1, May 2019.

greater Eurasian integration, given China's increasing economic and soft power footprint via the BRI, are less clear. Membership of the EAEU provides Kyrgyzstan with an opportunity to diversify its export markets. Kyrgyz products now need to meet EAEU standards, which should increase their competitiveness. However, the economic impacts of new Western sanctions on Russia following the Ukraine invasion, particularly the possibility of sanctions on energy exports, may limit its attractiveness as an export destination and as a provider of loans and grants, even as it seeks renewed cooperation with EAEU states in light of its relative diplomatic isolation. As a result, Kyrgyzstan along with other countries may find itself more reliant on cooperation with China economically, while balancing strategic relations with Russia and China. In either case, if Kyrgyzstan is to benefit from EAEU membership, or indeed mitigate risks associated with membership, then similarly to the BRI, it will need to formulate a coherent strategy towards its participation in it.

Economic and diplomatic isolation from European and other 'Western' countries may lead Russia to seek to reassert its political influence in Central Asia, though its overtures will likely be met with a mixed reception across different states. Russia's invasion of Ukraine will likely unnerve leaders across the region, particularly those with large ethnic Russian populations who will be fearful of Russian intentions and the repercussions of going against Moscow directly, or indeed being embroiled in its military activity, including having their many citizens in Russia allegedly pressured to sign up for military service in Ukraine (Wood and Khashimov, 2022). At the same time, Russia's relatively poor performance in the war with Ukraine may call into question the security protection it may be able to provide Central Asia, including Kyrgyzstan (Pannier, 2022a). Other countries seeking to play a greater regional role, such as Turkey, may benefit from Russia's preoccupation with the war in Ukraine (Pannier, 2022b).

Russia's invasion of Ukraine will impact China's interests in the region in two ways. Disruption of trade through Russia and Ukraine to Europe could undermine the economic case for further Chinese infrastructure investment in Central Asia. At the same time, driven by its core national security interests in Xinjiang, China may be driven to continue to deepen engagement in Central Asia, including Kyrgyzstan.

Overall, while it is difficult to anticipate how regional geopolitics will evolve, this will create both risks and opportunities for Kyrgyzstan. Mitigating risks and maximising opportunities requires the government to formulate a coherent foreign policy towards the different stakeholders seeking to gain influence region in a way that maximises national development opportunities for the country.

Future risk scenarios/what to watch

- Confrontation and/or competition between China and Russia increases as Russia seeks to shore up support in the region amid relative diplomatic isolation and China intensifies efforts to secure core interests, leading to regional economic and political instability.
- Kyrgyzstan fails to formulate a coherent approach towards the BRI and EAEU, missing out on opportunities to support economic development.

4.5 Dominant risk perception: increased security and instability risks

Risk perceptions

Historical mistrust of China is a factor in how China, both its citizens and investments, are perceived in Kyrgyzstan. In contrast to Russia, Chinese investment and engagement in Kyrgyzstan is viewed overwhelmingly negatively by the Kyrgyz public. As one expert emphasised, in terms of China's investment in gold mining 'the main problem is China – the name'.[45]

China's expansion into Central Asia under the Qing dynasty was often cited as a reason for Kyrgyz distrust of China. In the modern era, cooling relations between Russia and China in the 1950s led to China being viewed as an opponent, even an enemy, of the Soviet Union. With increasing Chinese engagement via the BRI, these underlying feelings of mistrust exacerbate any perceived or actual abuse of Kyrgyz law by Chinese investors. China's size and proximity are also factors; as one commentator suggested, the Kyrgyz have an inherent fear of China, euphemistically noting that 'if it [China] wants, it will go through our country in the biggest car it can afford'.[46] The BRI, with its focus on transport connectivity, has fuelled fears of mass migration from China: 'we were afraid that if there were a railroad, Chinese can come to our territory much easier and faster'.[47]

Anecdotal evidence suggests that cultural differences and racism are also having an impact on how the Chinese are perceived in Kyrgyzstan. Intermarriage between Chinese and Kyrgyz was viewed negatively, and at the extreme Chinese are perceived as wanting to 'invade' Kyrgyzstan.[48]

Anecdotal evidence also suggests that Chinese investors are being treated differently to investors from other countries. One commentator noted that: 'if a Canadian investor comes with the same objective – profitability – he will be approached differently; an American or French investor will also be treated differently. Chinese investors, on the other hand, are treated with contempt.'[49] For example, one of the main political risks for all investors in the gold mining sector is working with local communities, and 'doing so is three times more difficult for a Chinese company than for a Canadian one'.[50]

Mistrust of China and resulting xenophobia mean that the question of debt and economic dependence on China provoked an emotive response from Kyrgyz academics, politicians and the general public alike. There is a fear that China will encourage economic migrants from Xinjiang to flock to Kyrgyzstan. In terms of debt dependency on China, as one interviewee argued, Kyrgyzstan owes money to other partners as well, yet 'nobody is saying that the US and Russia will invade the country', possibly implying that debt to other actors is not perceived as a threat to Kyrgyz

45 Interview with independent expert 1, June 2019.
46 Ibid.
47 Ibid.
48 Ibid.
49 Ibid.
50 Ibid.

sovereignty in the same way as that from China. As a result, Chinese investors were seen as fair game, where the Chinese are 'deceived by everybody', including national government bodies and locals, and why 'everybody wants to squeeze them giving nothing in return'.

Impact assessment

During our fieldwork, there seemed to be no agreement among Kyrgyz elites as to whether Chinese investment in strategic sectors poses a security threat. Some saw Chinese economic expansionism as a threat to Kyrgyz sovereignty, possibly based on media reports of China's leasing of Hambantota port in Sri Lanka and Tajikistan's concession of land and gold mines. The fear that China might claim something in return for loans and grants was strong, with one expert saying that China 'is not a good uncle and ready to ask for something in return'.[51] Another expert pointed out that China's foreign economic policy had an aggressive edge: 'I wouldn't say that Kyrgyzstan will lose its sovereignty, but China can claim something, while France will not do that.'[52] The implication is that China will resort to expropriation should Kyrgyzstan fail to fulfil its financial obligations.

Unless carefully managed by the Kyrgyz Government, at the macro level rising anti-Chinese sentiment could lead to a loss of investor confidence and lower levels of FDI. At the local level, anti-Chinese sentiment can lead to violence against Chinese investors and discourage both private and state-owned Chinese companies from investing in the country. Chinese companies that do invest may be less inclined to employ and train Kyrgyz nationals.

Future risk scenarios/what to watch

- Anti-Chinese sentiment and potential violence against Chinese investors leads to a deterioration in relations with China.
- Security concerns about Chinese investment lead to closer relations with Russia and Russian-led initiatives in Eurasia.
- Lower levels of FDI result in lower levels of economic growth.

4.6 Dominant risk perception: increased corruption

For the purpose of this study, we follow Khan (2001) in defining corruption as a violation of the formal rules governing the allocation of public resources by officials for financial gain or political support.

Corruption is a widespread issue in Kyrgyzstan and has shaped the recent history of the country. Both the 2005 and 2010 revolutions were sparked by public discontent at government corruption and nepotism, though these practices continued under successor regimes (Ismailbekova, 2018). Engvall (2016) describes the Kyrgyz state as an 'investment market', where politicians and businessmen 'invest' by 'buying' political positions and paying political parties, to receive access to resources and privileges. According to Engvall, this behaviour 'is not only pervasive but also standardized and rationalized' (ibid. 198). Having access to a political position yields benefits, but because these positions are seen as uncertain and have a high rate of turnover, those who invest in them are motivated to squeeze as many benefits as possible in a short period of time to maximise their 'return on investment' (Engvall, 2016). Martini

51 Interview with independent expert 2, June 2019.
52 Interview with independent expert 1, June 2019.

(2013) reports the presence of various types of corruption: bureaucratic corruption, affecting public administration, nepotism and cronyism, political corruption in relation to elections, and large-scale embezzlement. The UN Development Programme (UNDP) puts losses due to corruption at $700 million annually (Knottnerus and Satke, 2017), and a fifth of investors admit to having paid bribes (Kudryavtseva, 2016). Media reports of corruption abound, and many (if not most) large projects are tainted by scandal. Notable examples involving senior politicians include Kumtor (GAN Integrity, 2016) and the Bishkek power plant (Putz, 2018), discussed below.

Risk perceptions

Cases such as the Bishkek Thermal Power Plant scandal link Chinese investment to corruption in the public mind, and create a negative image of Chinese investment. The project to modernise the plant involved a $386 million loan from China EXIM Bank. A Chinese contractor, TBEA, was chosen to implement the work. The plant was inaugurated in 2017, but a breakdown in 2018, during a particularly cold winter, prompted an investigation which revealed massively bloated costs (including the purchase of equipment such as pliers and fire extinguishers at wildly inflated prices). Millions of dollars were embezzled (Alkanova, 2018). Thirty people were arrested, including two former prime ministers, a former mayor of Bishkek, a former energy minister and a representative of TBEA (Alkanova, 2018; Radio Free Europe/Radio Liberty, 2018). The Kumtor case, a joint Kyrgyz–Canadian operation, has been connected to several public scandals involving the political elite, including presidents and their families. Centerra and Cameco, the Canadian companies involved, were also accused but denied the allegations (Knottnerus and Satke, 2017).

Cases such as the Bishkek scandal link Chinese investment to corruption in the public mind, and create a negative image of Chinese investment in the country. One interviewee suggested that Chinese entities seem more prone to corruption than Western companies, reinforcing the mistrust that shapes perceptions of and attitudes towards China, especially as the evidence points to corruption being a widespread phenomenon for foreign and domestic investors alike. One interviewee pointed out that the Chinese Government lacks legislation on foreign bribery akin, for example, to the US Foreign Corrupt Practices Act, which enables the prosecution of foreign officials. In reality, this legislation exists, but it is less prominent and rarely applied.

Impact assessment

In the short term, corruption effectively moves resources from those who have no access to public funds to corrupt individuals who do. In the long term, corruption could discourage investment. Some political frameworks may also generate corruption that supports capital accumulation, and economic incentives can channel the capital generated into investment, resulting in higher growth and employment creation in the longer term (see, for example, Khan, 2001). In Kyrgyzstan, there seem to be very limited incentives to invest in productive activities (Engvall, 2016).

Any project, investment or infrastructure plan mobilising large sums of money brings heightened risks of corruption. In Kyrgyzstan, this is evident in the case of the Bishkek Thermal Power Plant. Yet, there is no evidence that this is uniquely linked to Chinese projects. Rather, corruption seems to be a widespread issue affecting not only relationships with foreign players, but also domestic matters. Therefore, it is not possible to conclude that

Chinese projects enable corruption. Rather, it is linked to the broader political economy of the country.

Future risk scenarios/what to watch

- Deteriorating relations with Chinese stakeholders, including government and policy banks, could lead to reduced official lending and government-to-government business. Chinese private sector operations are unlikely to be affected.
- Corruption continues to divert resources from public funds. Unless measures to tackle corruption are put in place, this remains a likely scenario. In the long run, this can affect the country's ability to grow and undermine its development efforts.

Summary

Perceptions of risk cannot be separated from the political, socio psychological, cultural and financial contexts in which decisions are made. These dynamics shape countries' vulnerability and exposure to, and capacity to deal with, a range of economic and socio political risks.

This section has analysed the potential risks Chinese investment and infrastructure projects pose to the Kyrgyz development process at the macro-level, and how the government is addressing these risks, real and perceived. The Kyrgyz economy is fragile and reliant on remittances from migrant labour, gold extraction and the import–re-export trade. In this context, China plays an important role as the main source of the country's imports (though a minor export destination) and increasingly as an investor, lender and aid provider. While over-reliance on one partner, in this case China, is an increasing cause for concern among Kyrgyz stakeholders, the fragility of the Kyrgyz economy goes beyond its relationship with China, and sits in the fundamentals of the economy. There are opportunities for Kyrgyzstan to strengthen economic relations with other countries, for instance, through the EAEU. Taking advantage of these opportunities requires careful balancing of regional geopolitical dynamics and an appraisal of the macroeconomic conditions facing key EAEU economies such as Russia.

In terms of debt sustainability, Kyrgyzstan is at moderate risk of debt distress, exacerbated by the impacts of Covid-19 on the economy. For these reasons, the government should carefully consider further borrowing, whether from China or other lenders. At the macro level, government capacity to coordinate, appraise and evaluate large and complex projects and policies is limited. This has potential negative consequences, such as poor planning, wasted resources and potentially lower economic growth in the long term.

Corruption is a long-standing issue in Kyrgyzstan, and one which has shaped the recent history of the country. If left unaddressed, corruption can affect the long-term development prospects of the country by diverting public funds from projects that would address infrastructure gaps and other priority areas. Chinese stakeholders engaged in infrastructure construction were perceived as adapting to and exacerbating corruption, but there is no evidence to suggest that there is anything unique about China; rather, corruption remains endemic to doing business in Kyrgyzstan.

The next section looks at potential risks posed by Chinese economic engagement from a sectoral perspective, focusing on the mining sector.

5 Sectoral risks: mining sector

The formal extractive sector is a major part of the Kyrgyz economy. As early as the 1900s there were 27 coal mines in the south of the country. Other resources being mined included lead, silver and mercury. Exploration for oil and gas began in the Ferghana valley around the same time. These deposits were predominantly developed by European and US investors. Mining continued to expand during the Soviet period, and by the late 1980s the country was supplying all of the Soviet Union's antimony, two-thirds of its mercury, a third of rare-earths and up to a fifth of uranium. With the exception of gold, the mining sector declined following the disintegration of the Soviet Union (Rogalsky, 2019).

Kyrgyzstan is comparatively rich in mineral deposits, including gold, mercury, antimony, tin, iron, aluminium and lead. Total gold reserves are over 2,000 tons (Government of Kyrgyzstan, 2019), and between 2012 and 2016 annual gold mining volumes were estimated at between 10 and 19 tons (George, 2018). The country has mercury reserves of approximately 42,000 tons. There are no significant oil and gas deposits, and the small volumes of crude oil and gas currently produced are consumed domestically and do not fully cover Kyrgyzstan's energy needs (Rogalsky, 2019). Coal mining is a valuable component of the economy, second in economic value to gold production (ibid.).

Mining in Kyrgyzstan, as in many countries, is highly politicised.[53] As one mining sector expert put it, 'discussions about mining are based more on populist statements rather than evidence'.[54] The sector is highly political for several reasons, including its association with financial gains, its significant contribution to the Kyrgyz economy, particularly from the Kumtor mine, and its environmental and social impacts. Over the last 20 years, the Kumtor mine in particular has become a political 'testing ground for the government and the opposition'.[55] With the mine due to cease operations in 2031, the mining sector will once again become the subject of intense political debate. Since coming to office, the new Kyrgyz Government has arguably carried out a protectionist policy in the sector, giving itself the power to temporarily seize assets of the Kumtor mine, among other measures. In addition, the government promised to introduce a new Mining Code and committed to increasing the share of local workers in the workforce and procurement from local companies. While these measures did not necessarily target Chinese investors, they speak to elite and broader public anxiety over ownership of natural resources, and a sense that the country does not sufficiently benefit from their development.

At the local level, young political leaders reportedly adopt a position on the mining sector and try to tackle issues related to the sector to improve their reputation.[56] In terms of Chinese investment specifically, one interviewee noted that certain interest groups might encourage conflict with Chinese companies to renegotiate

53 Interview with independent expert in mining sector 1, May 2019.
54 Interview with mining labour union representative, June 2019.
55 Interview with international politics expert 3, May 2019.
56 ibid.

improved social packages.[57] Where Kyrgyz and Chinese businesses are in competition over mining licences, vested interests can seek to sabotage existing projects by Chinese investors by organising protests.[58] Actual or perceived environmental damage by mining companies can be manipulated by interest groups.[59] However, at the local level risks stemming from Chinese investment seem related more to labour and environmental disputes associated with specific Chinese investments and commercial projects. Stakeholders also more clearly differentiated between activities of Chinese SOEs and private firms and individuals.

5.1 Dominant risk perception: rule of law (incorporating breaches of contract and compliance)

In this report, the *rule of law* indicator was used to better understand issues of Chinese companies' compliance with existing Kyrgyz law and denotes the compliance with rules and regulations that are accessible, commonly understood and respected by all stakeholders.

Environmental, industrial safety and social protection frameworks in the mining sector

Across the world, mining companies have an image problem. If not strictly untransparent, they are often perceived as distant and self-interested, and not engaged in reasonable dialogue with local communities. While this is regardless of the origin of the investor (Oxus International, 2013), issues relating to non-compliance with environmental, industrial safety and social protection legislation and/or weak or non-existent corporate social responsibility (CSR) practices by Chinese actors were presented by Kyrgyz stakeholders as some of the more prevalent risks associated with Chinese investment. How fair or accurate this is is a source of much debate.

Environmental, industrial safety and social issues in the Kyrgyz mining sector are governed by more than 100 legal acts, including codes, laws and statutes. Generally, the policy framework indicates that the government has a strategic commitment to environmental and social protection, risk mitigation and minimisation. The legislation envisages rules and norms on waste management, sanitary-hygienic zones, chemical agents, air, water, land resources and flora and fauna protection, remediation and reclamation, and industrial, fire and occupational safety. However, there are concerns that some of these legal acts are contradictory and their legal hierarchy is ambiguous. There are also cases where there are no legal acts detailing certain norms and standards, especially with regard to industrial safety and conservation of resources.

As part of the mining licence process, government approval of Environmental Impact Assessment (EIA) documentation is required, covering economic conditions, demographics, public health and the historical and cultural value of affected land, and mitigation, minimisation or compensation measures pertaining to environmental damage. The EIA requires companies to detail their preventative and

57 Interview with international relations expert 1, May 2019. Social packages refer to employment, local infrastructure and training, as well as payments to the community.

58 Interview with International politics expert 1, May 2019.

59 Interview with international politics expert 2, May 2019.

response measures to environmental disasters, including a programme for local environmental monitoring within a year after activities begin.[60]

On the surface, this would appear to be a reasonable level of government commitment to environmental and social protection and risk mitigation and minimisation. However, there are significant weaknesses in the rigour, scope and enforcement of these instruments in practice. In the EIA process, for example, government officials do not assess the entirety of risks associated with mining, for instance, relating to transportation.[61] Critics argue that environmental protection rests on fines for pollution (fees for air emissions, discharge of contaminated water, and disposal of waste and mining dumps),[62] which does not guarantee that the environment is properly protected.[63] While the law obliges mining companies to avoid above-standard losses of resources during mining, high-grading and any deterioration of reserves,[64] there are no guidelines detailing these norms.

Another fundamental weakness is the absence of legislated technical pre-qualification requirements for licence applicants. In practice, some pre-qualification criteria may be introduced into tender terms, separately developed by an inter-ministerial tender commission and approved by the government in each case. However, the absence of legislated pre-qualification norms leaves this to the discretion of the commission. This, coupled with the absence of pre-qualification applicable to auction and first come, first served methods of granting subsoil use rights, indicates that the government does not conduct a robust assessment of applicants' technical qualifications. Finally, Kyrgyz Government mining bodies (and mining companies) use numerous technical regulations (instructions and standards) for oversight and technical project review purposes. Many were developed under the Soviet Union and currently have no legal force.[65]

Regional development funds have been introduced to redistribute the gains from mining. According to the Code on Non-tax Payments (2018), entities holding development licences contribute 2% of gross monthly proceeds from the sale of mineral resources to these funds to finance the socioeconomic development of local communities. However, these funds are vulnerable to corruption and their administration is unclear. The Law on Subsoil (2012) stipulates that, at the exploration and development stage, holders of deposits of national importance develop the social package together with local authorities. The social package should include a programme of investment in the improvement of social and household conditions of the local community and are only required for projects 'of national importance', and their minimum levels are not specified (IISD, 2018). In practice, under the pressure of local authorities/communities, some mining companies that possess licences for other subsoil use objects also have to come to certain agreements that provide some benefits on a local level.

60 Appendices 5 and 10 to the Regulation on Environmental Impact Assessment.
61 In 1998, a truck belonging to the company overturned and spilled almost two tons of highly poisonous sodium cyanide into a river feeding into Issyk Kul Lake (RFE/ RL, 1998); interview with former government official 1, June 2019.
62 Methodology on Payments for Environmental Pollution, as of September 19th, 2001, #559.
63 Draft Kyrgyz Republic *Midterm and Long-term Strategy of the Mining Industry Development for 2014–2035* (2014).
64 Article 16, Subsoil Law.
65 With the introduction of the new Law on Normative and Legal Acts on 20 July 2009.

Risk perceptions

Transparency, especially in the mining sector, in relation to contract terms, environmental and technical (industrial) protection, compensation, and community engagement, has been a significant problem. Issues pertaining to both potential and actual violations of Kyrgyz law and regulations were frequently cited as one of the main risks associated with Chinese investment in the gold mining sector. Interviews for this study suggest that violations can occur at various stages of the project cycle, from investors not respecting licencing and contractual terms to not meeting requirements for restoring land/recultivation and compensation.[66]

One interviewee stated that Chinese companies possessing exploration licences (for placer gold) in fact begin extraction, referring to examples of Chinese-owned mining sites in Chatkal district doing just that. According to this interviewee, this was a common issue and not a practice restricted only to Chinese companies.[67] Another interviewee cited violations of Kyrgyz law in relation to the depositing of mining dumps, where a private Chinese company placed dumps on pastureland, rendering it unusable for several years. The company relocated the dumps only after its licence was revoked.[68]

There was a general feeling among stakeholders that Chinese companies were unaware of Kyrgyz environmental laws and regulations, or that they only cared about the environment because of local community pressure, while 'oversight government bodies do not care'.[69] Others suggested that Chinese companies were only interested in financial gain.[70]

Perceived or actual environmental violations have prompted a number of anti-Chinese protests. In June 2018, around 300 local residents reportedly protested against the development of the Ishtymberdy deposit by Full Gold Mining, calling it illegal, demanding that the company adhere to technical and environmental norms and calling for an assessment of the damage to the environment, compensation payments to local residents, the banning of harmful substances at the mine and the relocation of the tailing pit (Kudryavtseva, 2018). In July 2019, conflict broke out at the Solton-Sary deposit, licenced to the Chinese company Zhong Ji Mining.[71] Villagers accused the company of contaminating the environment, leading to livestock deaths. The Kyrgyz Government suspended work at the mine (Bacchi, 2019).

Mismanagement or lack of adequate social funds and packages were also a source of conflict between Chinese companies and local populations, as well as with investors from other countries. Some Chinese SOEs were paying increasing attention to the issue of social packages. For example, the Kemin *rayon* Regional Development Fund, supported by Altynken, provided microcredit financing, prioritising projects which use local raw materials, support job creation and develop new technologies (Altynken, 2013). The company reportedly donated $7.5 from every ounce of

66 Interviews with former government official 2, independent expert 3, civil society representative 1 , May and June 2019.
67 Interview with civil society representative 1, May 2019.
68 Interview with independent expert 2, June 2019.
69 Interview with independent expert 1, June 2019.
70 Interview with former government official 2, June 2019.
71 Zhong Ji Mining was established by China Gold Hong Kong Buchuk Mining Company Limited. It is unclear whether the latter is a subsidiary of China National Gold Group Corporation (China Gold).

gold sold to this fund, co-founded in cooperation with the Kemin district administration, and in the past the company contributed $2 million to this fund (Kabar, 2018e). The company also provided social packages of around $1.1 million to four neighbouring districts between 2012 and 2015 (see Box 6), donates $100,000 a year to charity and contributes to the district economy by purchasing produce from local farmers (Kabar, 2018). Analysts suggest that having established initial relations and goodwill to operate with communities , Altynken had become less open and less committed to agreement with local communities (Ocakli, interviewed by Imanbekova, 2021).

Preliminary calculations for another company, Z-Explorer, suggest that it will contribute around KGS 250 million to local development funds over the lifetime of the project. Between 2008 and 2018, the company contributed around KGS 12 million for social programmes such as reconstruction of local infrastructure and professional training (Begalieva, 2018). Information about social packages provided by other Chinese-owned mining companies in Kyrgyzstan is unavailable online.

Box 6 Social packages provided by Chinese companies – Taldybulak Levoberezhny deposit, Altynken (Zijin Mining/Kyrgyzaltyn)

As part of its effort to establish good relations with local communities, in 2012 Altynken signed an agreement with leaders of four districts – Chym-Korgon, Kyzyl-Octyabr, Orlovka and Jany-Alysh, and Kyrgyzaltyn – which outlined rights and responsibilities for establishing long-term partnership based on transparency, fairness and mutual respect. Based on the agreement, Altynken undertook to allocate a $1.1 million social package to the four districts for the period 2012–2015 to assist with resolving social problems. Breakdown of expenditure in 2013 shows that funding was distributed for a variety of activities, including infrastructure repairs and sports events, across the four districts. For instance, in Chym-Korgon district funding was used for repairing and replacing the roof of a recreation centre, water supply system repairs, cleaning and repairing irrigation canals, and several sports events. Altynken also provided training in various professional fields to 400 residents (Altynken, 2014).

It is unclear whether the company and district representatives negotiated a new social package after 2015.

Conflict with local communities in Kyrgyzstan's mining sector dates back to the 1990s, when a large number of mining licences were issued to companies that subsequently underinvested in social development. Frustration among local communities was compounded by the accumulation of revenues from mining at the national level, while the risks were borne primarily locally. Grievances eventually boiled over into periods of intense conflict between local communities and mining companies in 2011 and 2013.[72]

How Chinese companies manage conflicts with local communities when they do arise was also highlighted by stakeholders. One interviewee stated that, 'Some companies protect their mining sites like military bases. No other foreign investor does such things.' Another interviewee pointed out that 'Western' companies are equally culpable in underinvesting in conflict prevention. Several interviewees felt that one of the main challenges was that Chinese companies do not engage local communities at the inception stage of a project, but only after conflict breaks out. One interviewee argued that China's domestic approach to conflict mediation when local populations raise environmental concerns – essentially bringing in troops – was ineffective when dealing with Kyrgyz communities.[73]

To secure their investments, Chinese companies in Kyrgyzstan were adopting conflict prevention strategies. One expert pointed out that, while keen to invest in the mining sector, Chinese companies prefer Kyrgyz Government to have at least a 10% share in the company exploring or developing the mine to ensure Kyrgyz Government support in case of conflict with local populations. Such an approach arose because Chinese companies saw which companies operated, such as Altynken (co-owned by partially state-owned Zijin Mining), developing Taldybulak Levoberezhny deposit, and Kumtor (developing Kumtor deposit), where Kyrgyz Government has shares and has assisted with conflict mediation, and companies that either did not operate or did so intermittently such as Z-Explorer (owned by provincial SOE Southwest Energy), exploring Shambesay deposit, and Full Gold Mining (owned by partially-state owned Lingbao Gold, national SOE CRBC and Linxi Investment), developing Ishtymberdy deposit, in which Kyrgyz Government had no shares and did not support conflict mediation to the same extent.[74]

72 Interview with independent expert in mining sector 1, May 2019.
73 Interview with independent expert 1, June 2019.
74 Interview with independent expert 1, June 2019.

Box 7 Conflict prevention strategies adopted by Chinese companies: Shambesai, Z-Explorer (Southwest Energy)

In 2017, Southwest Energy, a subsidiary of a Chinese POE, invested in Z-Explorer, which holds the licence for the development of the Shambesai deposit. Conflict with the local population dates back to 2013, when the deposit was being developed by Australian investors (Solovyov, 2013). By the time Southwest Energy invested in 2017, work had been suspended for several years. New investors arranged several workshops to provide local leaders with an opportunity to question investors about the potential impact of the project. Workshop participants visited Taldybulak Levoberezhny mine, operated by Altynken, to see a similar project, and local residents had an opportunity to raise any questions or concerns. The company pledged to use technologies which minimise the project's environmental impact and protect Isfayram River, a source of irrigation water for orchards and household consumption. Company representatives also informed local residents of educational and employment opportunities linked to the project. The State Committee for Industry, Energy and Subsoil Use participated in the workshops (Kabar, 2018f). The Committee, in partnership with the administration of Kadamjansky District and the company, co-organised three visits to Cogadyr gold mine (in Kazakhstan) and Taldybulak Levoberezhny gold mine (in Kyrgyzstan), and has hosted three roundtables and a workshop on the Shambesai project (K-News, 2017). In addition to engaging local community representatives, investors are seeking to respond to concerns about the environmental and social impact of the project through the Shambesai project website. The company published a summary of the Environmental Impact Assessment, available in Kyrgyz, Russian and English. In terms of employment, Z-Explorer would prioritise opportunities for local communities and Kyrgyz citizens, with around 250–300 jobs created during the project (Vesti, 2018).

Despite efforts to build positive relations with the local community, there have been several incidents of conflict with the new investors. A workshop held by the company in February 2018 was disrupted by protesters. The company subsequently clarified that the aim of the workshop was to introduce its plans to use cyanide-free gold mining technology in response to local concerns about potential pollution of the Isfayram River (Vesti, 2018).[75] The company also confirmed that, following completion of exploratory work between 2007 and 2012, all the boreholes investigated over that time had been sealed. From 2013, the company had no access to deposits owing to illegal road closures and protests by local residents, along with threats of violence against company representatives and of damage to property of the company and its contractors. Company representatives categorically denied any planned relocation of local residents, stating that the deposit is located on state land with no settlements (Vesti, 2018). In September 2018, investors were locked in a container and threatened. This incident was filmed and shared on YouTube (Elet.media, 2018).

75 As a result of a road accident in 1998, where a truck carrying sodium cyanide overturned en route to Kumtor Gold Mine in 1998, over a ton of cyanide contaminated rivers used by local residents. Two decades on, the incident likely contributes to local concerns about the environmental impacts of gold mining.

Impact assessment

In general, there is a perceived lack of transparency around the mining sector, since mining operations take place in remote mountain areas far from the public eye. Informality is also pervasive in the sector. Even so, the perceived lack of transparency of mining companies is less than one might expect: a survey of over 2,800 people living in communities near mining sites found that only 2% of respondents were unhappy with the amount of information provided by the mining company (Oxus International, 2013). However, in recent years the lack of regular reliable data and information has been considered to be one of the major contributors to conflict.

Infringing laws and regulations is common for companies operating in Kyrgyzstan. The effect is potentially very damaging to the environment and the economy as it can discourage compliance with environmental norms (and international standards) and deter further investment, and it can discourage law-abiding companies from investing in this complicated environment. This could potentially lead to a loss of jobs, revenues and exports. It may also divert funds away from those who are entitled to them (the population affected by a mining investment, or those who could benefit from public services paid for by mining revenues).

Conflict and social unrest over environmental issues can discourage foreign investment, from both Chinese and other investors, which can result in lower economic growth. This is particularly important given the high potential economic value of mining and its potential contribution to fulfilling the ambitions set out in Strategy 2040.

Future risk scenarios/what to watch

- Deteriorating relations with Chinese mining investors.
- Deteriorating relations with China.

5.2 Dominant risk perception: lack of labour market transparency and inequality

This indicator refers to perceived issues linked to job creation, localisation and working conditions, particularly a perceived lack of transparency around the use of Chinese labour, in terms of number of workers and length of stay on mining and construction projects. As in other countries, Kyrgyz citizens see immigrants as 'taking their jobs'. Immigrants into Kyrgyzstan are predominantly from CIS countries (mostly Kazakhstan and Russia), but there is also a large and growing Chinese workforce. Estimates of Chinese immigration range from around 8,000 in the 2009 census to 40,000, with media sources reporting up to 100,000 Chinese migrants, most of them undocumented. While on average 60% of immigrants into Kyrgyzstan are women, Chinese immigrant flows are male-dominated (60% are men) (OECD and ILO, 2017).

Legislation limits the number of foreign workers per enterprise to 20%; an enterprise must pay a state fee for each foreign worker hired above the limit (regulations as of 16 April 2019, #175). Hiring foreign workers is also regulated by a quota system. Quotas establish the maximum number of foreign citizens that can be granted work permits (labour quota) or permanent residence (immigration quota) on an annual basis. However, these quotas are never filled, and they mostly go to Chinese citizens. In 2014, Chinese migrants filled 72% of the quotas assigned to foreign workers, primarily in construction and gold mining (OECD and ILO, 2017).[76] Reports suggest that, in a decree signed shortly after his election as President, Japarov pledged that the government would ensure that 90% of the mining workforce are local employees, and an 80% procurement rate from local businesses.

In addition to legal immigrants, there are a certain number of illegal immigrants who overstay their visa or do not go through formal quota systems. Given their informality, estimating how many are in the country is difficult. However, it is likely that foreigners working in the informal sector will not have legal status.

Risk perceptions

The workforce localisation rate, or share of local workers hired by foreign companies, is a contentious issue for Chinese firms, both private and state owned. Whether Chinese firms largely rely on expatriates or prefer to hire local workers has been widely debated, especially in the China-Africa literature (see, for example, Sautman and Yan, 2015; Oya and Schaefer, 2019). This issue predates and extends beyond the BRI.[77]

In Kyrgyzstan, the belief that Chinese SOEs and private companies only or mostly hire Chinese workers is widespread, and was one of the most common complaints we encountered in relation to Chinese investment and construction projects in the country. Interviewees identified low localisation rates for Chinese companies, both in more visible sectors (for example, in the construction of roads around Bishkek) and in less visible ones (for example, in the informal mines spread around the country). These concerns were also widely reported in the media (see, for example, Asanov and Najibullah, 2013) and circulated on social media.

Many interviewees reported this concern. For mid- to high-skilled jobs, many understand that, for some skill levels or for selected specialisations, Chinese workers may be necessary. However, interviewees also noted that some of these skills are available in Kyrgyzstan, and hiring foreign workers is not always necessary. For lower-skilled jobs in the infrastructure construction and mining sectors, many mentioned that the working schedules and conditions that Chinese workers are prepared to accept would not be acceptable to Kyrgyz workers, and therefore that Chinese employers prefer to hire compatriots. Another contributing factor is language. In Chinese firms using Chinese machinery, processes and manuals, Kyrgyz workers have no access to large parts of the information, making working together complicated.

Two interviewees reported that, despite there being no quotas for foreign and local workers, Altynken signed a voluntary agreement to maintain a maximum ceiling of expatriate staff at 10%. One interviewee regarded this agreement as of little use given that the company would also

76 From August 2015, citizens of the EAEU member states (Russia, Kazakhstan, Belarus and Armenia) are not required to obtain work permits to work in Kyrgyzstan (Kalikova & Associates, n.d.).

77 The frequency with which this claim was being made prompted many scholars to investigate it in the African context. Invariably, these studies found that African employees in Chinese firms range from 50% to over 95% of the total workforce (Broadman, 2007; Bräutigam, 2009; Chen et al. 2009; Mohan and Lampert, 2013; Sautman and Yan, 2015; Sun et al., 2017; Schoneveld et al., 2018). Recent comparative analysis has highlighted that localisation rates of Chinese firms are very similar to those of other foreign firms (Oya and Schaefer, 2019).

hire subcontractors for specific tasks, most of whom were Chinese companies mostly employing Chinese nationals.[78]

Labour market challenges go beyond the infrastructure construction and mining sectors analysed in this report. An earlier perception study shows that similar issues apply in the trade and retail sectors, where Chinese (and Turkish) traders and importers bringing in cheaper goods from their home countries create unfair competition for domestic businesses (OECD and ILO, 2017).

Overall, the data is scarce and there is no evidence supporting or contradicting the widespread perception that Chinese immigration is damaging employment prospects for Kyrgyz workers in Kyrgyzstan. Even so, the belief is widespread and contributes to anti-Chinese sentiment.

Impact assessment

The increased presence of Chinese workers could potentially push Kyrgyz workers out of employment and exacerbate labour market issues. Overall, however, there is little likelihood that large numbers of Chinese will replace Kyrgyz workers. There is very little evidence on localisation rates in Chinese companies in Kyrgyzstan, but what evidence there is does not support the claim that Chinese firms do not hire Kyrgyz workers. A recent study conducted on a handful of Chinese companies in Kyrgyzstan shows that these hire between 60% and 90% local workers, and that their localisation rates have increased over time (van der Kley, 2020a).

Even so, the growing presence of Chinese workers has generated unrest. In 2012, when Altynken was preparing to begin exploration of the Taldybulak Levoberezhny deposit, around 450 Kyrgyz protested against the presence of Chinese subcontractors. While the company pledged to employ Kyrgyz nationals for 90% of positions, and employed 260 Kyrgyz workers at that point, around 300 Chinese nationals worked as subcontractors in breach of its pledges (Denisenko, 2012). In January 2019, several hundred protesters gathered in Ala-Too square in Bishkek to demand the deportation of illegal Chinese migrants (RFE/RL Kyrgyz Service, 2019). The same activists who organised this protest, along with representatives of the State Migration Services, had inspected several foreign-owned companies, including Zhongda oil refinery, and found that, of 1,000 workers at the refinery, 300 were Chinese nationals, all of whom had appropriate visas and resided in the country legally (Eshaliyeva, 2019).

Future risk scenarios/what to watch

- Deteriorating relations between local communities and Chinese mining investors lead to the departure/scaling back of Chinese and other foreign investors in the sector.
- Deteriorating relations with China as a result of a poor business and security environment for investment leads to deteriorating bilateral relations between the two countries and reduced opportunities for cooperation.

78 The virtuous counter-example is offered by Kazminerals, the first Kazak company to be listed on the London Stock Exchange. One interviewee reported that, for its Bozymchak site, Kazminerals committed to hiring at least 50% local staff, and in practice localisation rates are even higher. Kazminerals is considered to have good community relations.

Summary

This section has explored risks at sectoral level, focusing on the mining sector. Chinese stakeholders, including state and private companies, are involved as investors in the sector. Overall, our analysis found that limited government capacity to manage projects and policies at the macro-level appears to filter down to sectoral levels, where existing laws and regulations are enforced inconsistently.

In terms of compliance with Kyrgyz environmental, industrial safety and social protection frameworks specifically, Chinese companies are often found wanting. However, lack of transparency and compliance with laws, whether real or perceived, is an issue that goes beyond Chinese investment and affects many sectors. While some Chinese companies, especially state-owned ones, were perceived as making an effort to improve their practices, overall these efforts cannot replace stricter government oversight and strategy for resolving long-standing disputes in the sector. Given the prominent role of extractives in the Kyrgyz economy and their potential to contribute to Kyrgyz national development, improving the environmental and social performance of the sector is critical.

Labour market issues around workforce localisation rates are contentious issues for Chinese firms, both private and state owned, globally, and Kyrgyzstan is no exception. While the increased presence of Chinese workers could potentially push Kyrgyz workers out of employment, this outcome is unlikely and there is little evidence to support the claim that Chinese firms do not hire Kyrgyz workers. These issues nonetheless generate social unrest around Chinese investment and can lead to increased xenophobia towards investors.

6 Conclusions and recommendations

Taking the BRI as the starting point, this report has looked at the political and economic risks that arise from Kyrgyzstan's economic engagement with China. As Kyrgyz stakeholders see the BRI as inclusive of all forms of Chinese activity in the country (including private investment and trade), and not limited to infrastructure connectivity projects, this report has tried to capture all these forms of engagement to paint a comprehensive picture of the risks posed by engagement with China to the Kyrgyz development process.

The report highlights the growing Chinese presence in the country. In recent years, China has become a large trade partner, and the main investor in and lender to Kyrgyzstan. China is a partner Kyrgyzstan needs, particularly when its other key partner, Russia, may face economic and political challenges due to its invasion of Ukraine.

Kyrgyzstan also faces challenges in terms of the sustainability of its public debt, exacerbated by the Covid-19 crisis, and potentially by the Russia–Ukraine war. Whether this will turn into a full-scale debt crisis, whether China will forgive (part of) its debt, or whether any other scenario plays out is difficult to foresee.

Central Asia is an area of geopolitical, strategic and economic importance. In Kyrgyzstan, perceptions of heightened geopolitical rivalry among countries like Russia and China vying for regional influence are common. These perceptions are interwoven with and exacerbate anxieties about debt owed to China and the close economic relationship between the two countries. While geopolitical dynamics create both risks and opportunities for Kyrgyzstan, taking advantage of opportunities, and likewise mitigating risks, requires a more coherent foreign policy approach to ensure that opportunities are fully captured.

There was no agreement among Kyrgyz elites as to whether Chinese engagement in Kyrgyzstan poses security threats. Greater economic engagement with China was perceived with suspicion, particularly with regard to potential expropriation should Kyrgyzstan fail to fulfil its financial obligations to the country. If left unmanaged, anti-Chinese sentiment could lead to violence against Chinese investors, prompting loss of investor confidence and lower investment. In public opinion, Chinese infrastructure projects and investment have also been linked to corruption. Corruption scandals related to Chinese projects have been associated with China, yet there is no evidence to suggest that this risk is particularly linked to Chinese stakeholders or to the BRI, rather than endemic to the country.

Finally, this report has examined the extractive sector. Our research found that compliance with Kyrgyz environmental, industrial safety and social protection frameworks among Chinese mining companies is often lagging. However, lack of transparency and poor compliance with rule of law, real or perceived, also appears to be an issue for other investors in the sector. While investor efforts to improve environmental performance are important, enhancing government oversight and formulating a strategy to resolve disputes is critical if the sector is to contribute to the country's development. Concerns about workforce localisation rates are common, both among private and state-owned companies, though there is little evidence to support the claim that Chinese firms do not hire Kyrgyz workers. Enforcing local regulations for labour and subcontracting can help the Kyrgyz Government mitigate the risk of social unrest around Chinese investment.

What all these risks suggest is that, while China's presence in Kyrgyzstan is growing, there is a perception that the population has not benefitted much from it. Indeed, while Chinese companies have increased their engagement, Kyrgyz citizens have not seen more jobs, income or prosperity coming their way. The Kyrgyz Government has not managed to steer Chinese investment and infrastructure towards productive activities to increase the country's economic resilience.

We argue that this is the core of the question. Foreign investment and lending, Chinese or otherwise, have the potential to accelerate a country's development. However, to achieve this potential they have to be mobilised towards appropriate goals. The Kyrgyz Government has not been able to do this. It has not put together a strategy to mobilise this finance towards its development goals. The result has been a lack of benefits stemming from the BRI and dissatisfaction among Kyrgyz citizens, resulting in anti-Chinese sentiment.

To ensure that Kyrgyzstan benefits from the BRI and from China's presence in the country, we recommend the following actions to the Kyrgyz Government:

- Create a 'China strategy' to ensure that the investment and infrastructure built by China provide benefits to the Kyrgyz economy. Kyrgyzstan has an existing mechanism to coordinate aid from development partners.[79] However, China's approach is different as infrastructure generally moves together with trade and investment (Lin and Wang, 2017). For this reason, a dedicated 'China strategy' would address all aspects of China's economic engagement with Kyrgyzstan. The strategy should include:
  - guidelines for prioritising infrastructure projects
  - local content regulations to enhance participation of local labour and subcontractors.
- Understand the role of Chinese state and private companies and adopt tailored approaches:
  - engage Chinese SOEs to come on board with the China strategy
  - regulate Chinese private companies where necessary, in the same manner as other foreign investors.
- Deploy economic diplomacy to diversify partnerships.
- Support local companies in meeting the demands of mining companies and other investors in terms of skills and standards for services.
- Facilitate engagement between Chinese investors in the mining sector and local communities throughout the lifecycle of projects, and invest in building the capacity of local government in conflict prevention and resolution.

We also provide recommendations to the Chinese Ministry of Commerce, responsible for trade and outward investment:

- Improve engagement with Kyrgyzstan (and with other countries with a similar, long-standing and strong relationship with China), and seek to improve the quality of outward investment. This could entail providing training on local rules and regulations, and support to investors. It may

79 See: http://www.donors.kg/en/about-us.

be difficult to do this from China, so embassies in-country should become the reference point for these activities. It could also entail training on sustainability, risk management and conflict prevention. Training programmes/workshops provided by Chinese universities such as Yunnan University of Economics and Finance, and companies like Syntao and Rongzhi CSR Institute, could be expanded to Chinese investors in Kyrgyzstan.
- Educate both Chinese investors and Kyrgyz stakeholders on Chinese policies and guidelines which apply to Chinese overseas investment and infrastructure projects.
- Promote sharing of best practice on local community engagement and conflict prevention between Chinese investors with experience investing and operating in similar operational environments.

Recommendations for Chinese firms:

- Ensure that plans to engage with local communities and collaborate with local government to monitor and enforce regulations are in place when intending to invest in Kyrgyzstan, and seek support from in-country partners to this end.
- Invest in cultural and language training for Chinese employees working in Kyrgyzstan to facilitate better relations with local communities and improve the image of Chinese investment in the country.
- Provide training to Kyrgyz employees and subcontractors of Chinese enterprises in Kyrgyzstan to improve skills transfer.

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Appendix 1

Table 1 Key road and energy infrastructure projects in Kyrgyzstan financed by the Chinese Government

Project	Year of agreement	Amount		Terms				Notes	Name of Chinese contractor; SOE/POE	Source of finance
		$ million	CNY million	Repayment period (years)	Grace period (years)	Interest rate	Commission/ management fee			
Rehabilitation of Osh-Sarytash-Irkeshtam road (section from 190km to 240km)	2008	25.3		This project was based on the 'resources in exchange to investments' scheme – Chinese party (China Development Bank and a consortium of companies from China) fully financed the road rehabilitation; in exchange, the Kyrgyz Government allowed Chinese company 'Full Gold Mining' to develop the gold deposit Ishtamberdy				Other parts of this road financed by multilateral financial institutions	CRBC (SOE)	China Development Bank[80]
Rehabilitation of Osh-Sarytash-Irkeshtam road (section from 123 to 190km)	2009	75.3		20	5	2%	0.5%		CRBC (SOE)	Export Import Bank of China (China EXIM Bank)
Rehabilitation of Bishkek-Naryn-Torugart road (section from 9km to 272km)	2009	200.0		20	5	2%	0.5%	Other parts financed by multilateral financial institutions	CRBC (SOE)	China EXIM Bank
Modernisation of electricity transmission lines in the south of Kyrgyzstan	2011	208.0		20	7	2%	0.5%		Tebian Electric Apparatus Stock Co. Ltd (TBEA) (POE)	China EXIM Bank
Construction of electricity transmission line 500 kV Datka-Kemin and 500 kV Datka substation	2012	389.8		20	9	2%	0.5%	Part of regional CASA-1000 project	TBEA (POE)	China EXIM Bank
Modernisation of Heat and Power Plant in Bishkek city	2013	386.0		20	11	2%	0.43%		TBEA (POE)	China EXIM Bank
Alternative road North-South (sections Kazarman-Jalal-Abad and Balykchi-Aral)	2013	400.0		20	11	2%	0.43%		CRBC (SOE)	China EXIM Bank
Rehabilitation of Osh-Batken-Isfana road (sections from 220km to 232km and from 248km to 360km) and Bishkek-Balykchi road (section from 147km to 172km)	2015	129.8		20	11	2%	0.5%	Other parts financed by multilateral financial institutions	CRBC (SOE)	China EXIM Bank

80 Beyond Investment Group (2017)

Project	Year of agreement	Amount		Terms				Notes	Name of Chinese contractor; SOE/POE	Source of finance
		$ million	CNY million	Repayment period (years)	Grace period (years)	Interest rate	Commission/ management fee			
Alternative road North-South (part Aral-Kazarman, section from 195–291km)	2015	185.3		20	11	2%	0.36%	Approx. 62% of total costs of the project	CRBC (SOE)	China EXIM Bank
	2015		697.6[81]	25	11	1.5%	0.36%	Approx. 38% of total costs of the project	CRBC (SOE)	China EXIM Bank
Development of street network in Bishkek city (phase 1)	2015		489.5[82]	Grant					CRBC (SOE)	Chinese Government
Development of street network in Bishkek city (phase 2)	2017		286.0[83]	Grant					TBC	Chinese Government

Sources: Mogilevskii (2019); Ministry of Transport and Roads of the Kyrgyz Republic (2019), *updated by the authors;* Radio Azzatyk, Kyrgyz Service Radio Free Europe/Radio Liberty (2019b).

81 Equivalent to US$112.0 million at 2015 CNY/US$ average exchange rate of 6.227 (WDI).
82 Equivalent to US$78.6 million.
83 Equivalent to US$42.3 million at 2017 CNY/US$ average exchange rate of 6.759 (WDI).

Appendix 2

Table 2 Key infrastructure projects in Kyrgyzstan undertaken by Chinese contractors*

Project name	Donor	Total project value	Grant amount	Loan amount	KGZ Government	Contractor (SOE/POE)	Contract value (if known)	Project progress (as of April 2019)	Consultant and consultant contract value (if known)
Bishkek-Kara-Balta Road Section 15.9km–61km (1st component of Bishkek-Osh Road)	ADB	$120.8 million	$35 million	$65 million	$22.8 million	China Railway No.5 Engineering Group (SOE)	$70.24 million	Civil work in progress. Completion 26.5% based on advance amount	
Osh-Batken-Isfana-border of Tajikistan Road; Length 65km – Bridge over Sokh river	EBRD	$39.96 million	$1.76 million	$35 million	$0.2 million	Xinjiang-Beixin (SOE)		Completed	EGIS BCEOM (France)
Osh-Batken-Isfana-border of Tajikistan Road; Length 32km (123–155km)	World Bank	$30.7 million	$11.3 million	$13.7 million	$5.7 million	Xinjiang-Beixin (SOE)		Completed	Kocks Consult (Germany)
Osh-Batken-Isfana-border of Tajikistan Road; Section Kock Talaa – Pulgon (108–123km)	EU	€8.6 million	€8.6 million			CRBC (SOE)		Completed in 2015	Safegeinternational (Belgium)
Osh-Batken-Isfana-border of Tajikistan Road; Section 10–28km	World Bank	$16 million	$7.2 million	$8.8 million		Xinjiang-Beixin (SOE)		Completed in 2015	Kocks Consult (Germany)
Bishkek-Naryn-Torugart Road (CAREC-1); Section 400–439km Length 39km	ADB	$23 million	$20 million		$3 million	CRBC (SOE)	$15.4 million	Completed in 2012	Japan Overseas Consultants (Japan)
Bishkek-Naryn-Torugart Road (CAREC-1); Section 479–539km Length 60km	ADB	$70 million		$55 million	$15 million	CRBC (SOE)	$54.31 million	Completed in November 2016	TERA International Group Inc. (USA) Contract value US$ 2.77 million
Bishkek-Naryn-Torugart Road (CAREC-1); Total Section 365–400km; 439–479km, Length 75km	ADB	$62.48 million	$22 million	$28 million	$12.48 million	CRBC (SOE)	$47.6 million	Completed in 2014	TERA International Group Inc. (USA) Contract value US$1.9 million
Sarytash Karamyk Road; Section Sarytash/Karamyk (0–136km)	ADB		$25.6 million	$23 million		CRBC (SOE)	$40.4 million	Completed in 201	TERA International Group Inc. (USA) Contract value US$1.6 million.
Osh Sarytash Irkeshtam Road Length 77km (3–80km)	ADB			$32.85 million	$12.15 million	CRBC (SOE)	$39.09 million	Completed in 2010	Finnroad OY (Finland) Contract value US$1.74million.
Bishkek-Naryn-Torugart Road (CAREC-1) Section 272–365km Length 93km	Arab Coordination Group	$72.3 million		Islamic Development Bank – $6.95 million Saudi Development Fund – $15 million Kuwait Development Fund – $11.9 million OPEC – $7.4 million Abu Dhabi Development Fund – $15 million	$6.1 million	JV between Copri and Sinohydro (Kuwait/China SOE)	$45.4 million	Completion 90.8% Additional works during warranty period	Team International (Lebanon)/ Saudi Consult (Saudi Arabia) Contract value US$1.3 million.

* This table only includes infrastructure projects financed by non-Chinese institutions but constructed by Chinese companies. The projects financed and undertaken by Chinese stakeholders are listed in Table A1 in Appendix 1.

Source: Ministry of Transport and Roads of the Kyrgyz Republic (2019), updated by the authors