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Win-Win or Zero-Sum Game: Relationship of China and Kyrgyzstan

In the context of the economic relationship between China and Central Asian countries, mostly Chinese officials emphasize relations as a win-win cooperation. In the context of the win-win cooperation, Central Asian countries export their products and raw materials to China and attract investment and financial assistance from China for improving their infrastructure. In return, China exports its products to these countries, gain new market, diversify its export-import and energy routes and expand its economic influence through Central Asia. With regard to the Sino-Kyrgyz relations, we analyze their economic relations in order to see whether the two countries' relations bases on win-win cooperation or zero-sum cooperation. If both of them relation basis on win-win cooperation, we may see that in the long term, two countries benefit from economic relations, increase their interdependency and improve their economy. In contrast to win-win, if the basis of the relations on zero-sum cooperation, we see that one side benefits from economic relations in the long term and increase its economic influence, but other side increase its dependency to another side and only benefit economic relation in the short term rather than the long term.

Since gaining independence in the 1990s, economic relations with China play an important role in the Kyrgyzstan economy. Kyrgyzstan was the first country among Central Asian countries that it was a member of WTO. Membership of WTO created a range of opportunities to country improve its economic relations with China. When China became a member of WTO in 2001, two countries' trade flows increased quickly (Omuralieva, 2014: 81). Kyrgyzstan located strategic geography for China because it plays an important role in diversifying China's export-import routes and provide a wholesale market for Chinese goods. Chinese officials always argue that Sino-Kyrgyz relations are mutually beneficial and base on win-win cooperation. In this essay, we especially pay attention to China-Kyrgyz economic relations in the context of trade, investment, and aid policy in order to explain the

relations between two countries whether base on win-win or zero-sum cooperation.

Trade

Trade and economic cooperation play important role for the development of Kyrgyz-Chinese relations. Cooperation in this direction is carried out in the framework of the signed intergovernmental Agreements on trade and economic cooperation in 1998 and the establishment of the Kyrgyz-Chinese intergovernmental Commission on trade and economic cooperation in 1994. China is the main trade and investment partner of Kyrgyzstan. China took the first place in trade and investment in the economy of Kyrgyzstan at the end of the 2016 and 2017. Trade between China and Kyrgyzstan is inherently unbalanced. Trade turnover between China and Kyrgyzstan was accounted for 1.597 billion US dollars in 2017. Export was 97.5 million US dollars, import – 1.500 billion US dollars(Embassy of the Kyrgyz Republic in the People's Republic of China, 2018).Chinese exports to Kyrgyzstan consist of cloths, agricultural products, and light machinery while Kyrgyzstan's exports toChina agriculture products and natural resources(Reeves, 2015: 122).

Besides, Chinese merchants play a dominant role with the trade network of Kyrgyzstan. Both Dordoi and Kara Suu bazaar are the large wholesale and retail market in Bishkek. Both bazaars due the low taxes and location plays key role for Chinese merchants. 75% of the goods of Dordoi bazaar and 85% of goods of Kara Suu bazaar come from China. Kyrgyzstan import China's goods and re-export these goods to other regional countries. The monthly turnover of both Dordoi and Kara Suu bazaars were 331 million US dollars and 90 million US dollars respectively in 2012. We may say that these bazaars are the main motor of the Kyrgyzstan's economy (Omuralieva, 2014: 86-87). Furthermore, China's import of Kyrgyz products and raw materials also help to Kyrgyzstan to alleviate the impact of inflation (Tian, 2018).

In the context of the trade between two countries, despite the Kyrgyzstan's gains as an importer and transporter of goods, Sino-Kyrgyz relations consist of the asymmetrical trade relationship. Firstly, last years, Kyrgyzstan textile and apparel sectors grow so fast and China play a key role in these sectors (Reeves, 2015: 122). Because cotton and wool are produced in Kyrgyzstan and export mainly China. In addition, due the lack of modern standards low quality clusters, Kyrgyzstan do not export these goods to developed countries or cannot compete other regional exporters such as China, Turkey and Korea but export to less developed western China's cities, predominantly (Birkman, 2012: 24-25). Secondly and more importantly, Kyrgyzstan relies on China's good for its commercial service sector because Kyrgyz traders has developed its commercial sector around the China's imports which they re-export these goods to other regional countries, that is why, without Chinese imports, country's service sector would collapse or lose its main sources for economic growths (Reeves, 2015: 122-123). According to Marlène Laruelle and Sébastien Peyrouse, Beijing has transformed Kyrgyzstan into a China-dependent economy that can survive mainly by re-exporting Chinese products (Omonkulov, 2020: 76).

Investment and Finance

China also play dominant role in Kyrgyztan economy in terms of investment and finance. Since 2001, China was the main source of the all FDI investment (Reeves, 2015: 123). Between 2006-2017, cumulative gross of Chinese FDI flow as equal to 2.3 billion US dollar and for this period China provided 25-50% of total FDI of Kyrgyztan, which is equivalen to 2-7% of the country's GDP (Mogilevskii, 2019: 09).

Since 1990s, China mostly has been preferring to invest Kyrgyztan's mining and oil sector. For example, in 2011, a Chinese company namely Zijin Mining purchased mine, which is located in Talas province in Taldy- Burak region and Chinese Full Gold Mine Company

operated Ishtamberdy mine in Jalalabad province in the south part of Kyrgyzstan in the summer of 2011(Omuralieva, 2014: 90-91). In 2012, Chinese company purchased old paper factor and 20 hectares of land in order to construct oil refinery. The company will invest 70 million US dollars for constructing factories. Furthermore, Chinese companies operate some 10 medium-sized mines producing gold-copper concentrate which is exported for refining to China(Mogilevskii, 2019: 10). In addition to mining sector, China also invests oil sector in Kyrgyzstan. For example, China financed two refineries in Kyrgyzstan, namely Kara-Balta and Tomok oil refineries. These refineries are supplied by CNPC-operated oil fields in neighboring Kazakhstan and produce 1.35 million refined products per year (Pradhan, 2018: 10). Moreover, China announced that it would provide $1.4 billion in FDI for constructing Kyrgyzstan-China oil pipeline (Reeves, 2015: 123).

In the context of the Belt and Road Initiative (BRI), China also prefers to invest infrastructure and energy project in Kyrgyzstan. In terms of infrastructure projects,the planned China-Kyrgyzstan-Uzbekistan railway and the North-South Highway, for which China's Exim Bank has lent 400 million dollars for the construction of its first phase, are considered as one of the most ambitious transportation projects in Beijing's Kyrgyzstan (Omonkulov, 2020: 72; Toktomushev, 2016: 02). By the help of the China-Kyrgyzstan-Uzbekistan railway, China has a chance to diversify its export and imports routes and also secure its energy routes. For Kyrgyzstan side, officials in the country hope that attract Chinese investment. In addition, Kyrgyzstan will gain 261 million US dollars per year as a transit country. However, the project has been postponed for years due to government debt and domestic political concerns in Kyrgyzstan. That is why, China and Uzbekistan introduced combined road-rail corridor – freight from China will be unloaded in Kyrgyzstan to reach the Uzbek section of the railway by road (CHOICE, 2021).Apart from railway project, China gave 60 million Yuan unreturned credit to Kyrgyzstan for the construction of China-Kyrgyzstan-Uzbekistan highway in 2011(Omuralieva, 2014: 83-85).

With regard to the energy projects, China has financed the construction of the Datka electricity substation and the 405-kilometer Datka-Kemin transmission line. These projects help to improve country's energy system and reduce its dependence from regional countries (Toktomushev, 2016: 02; Mogilevskii, 2019: 09). For securing its energy security, China also try to diversify its energy routes. From this perspective, Kyrgyzstan play a strategic role for China. In the context of the China-Central Asia gas pipeline energy project, China decided to construct one of the routes, namely gas line D, through theKyrgyzstan. Construction of the gas line started in 2018. By the way of the this project, Kyrgyzstan take a benefit as a transit country (Akıncı, 2019: 88; Omuralieva, 2014: 88).

China's investment in Kyrgyzstan have both positive and negative effects to country's economy. From the positive sides, firstly, some of the Chinese project is under the construction and some of the is completed recently, that is why we cannot expect major impact on the countries production capacity but we see these projects effects via comparison of the average annual GDP growth rates. A comparison of the average annual GDP growth rates in 2011-2017 and in 2000-2010 shows some increase from 4.2% per annum (2000-2010) to 4.8% per annum (2011-2017)(Mogilevskii, 2019: 12).There is no doubt that other factors also contribute the GDP growth but most Chinese investment increases share gross domestic products in Kyrgyzstan and affect positively to GDP. Secondly, improving the relationship with China contribute to Kyrgyzstan's developing country's total factor productivity (TFP) and help to country to develop an export-oriented economy, better market linkages. Moreover, China's investment creates new jobs for local people.Furthermore, China's investment inindustry of Kyrgyzstan inject energy to landlocked country's economy and promote flexible and innovative entrepreneurial development in Kyrgzystan. One of the example is emerging sewing industry in Bishkek (Tian, 2018).Finally, Chinese investment contribute to improve Kyrgyzstan's infrastructure.

Aid and Loan policy

Most of China's assistance to Central Asian countries mostly consist of the soft loans (i.e. concessional or low-interest loans below market rates, which do not contain grant elements – and government- backed or subsidized investments in infrastructure and natural resources). Compare to the Western assistance, China's assistance gives a great advantage to donor such asincreased access to energy resources and lucrative contracts for Chinese companies. Due the bad governance, poverty and instability, Kyrgyzstan is one the country that receive largest share of Chinese assistance. China is the one of the most important for Kyrgyzstan in terms of concessional loans and grant aid. China is the largest concessional loans provider to Kyrgyzstan which is account for more than 60% of the country's planned funding between 2013 and 2016. Most of China's loans and aid design to improve infrastructure projects, such as North-South highway or China-Kyrgyzstan-Uzbekistan railway. For example, China pledged 3 billion US dollar loans for infrastructure development. China is also main sources for the Kyrgyzstan in the context of the aid. For instance, China gives 16 million US dollar to Kyrgyzstan between 2000-2007 (Reeves, 2015: 123-124). In addition to the assistance for improving infrastructure, China also sends aid for building school and hospital, as a result of which, new and existing schools and hospitals benefit from improvement and upgrading of specialist equipment, technology and logistics. Finally, China also sends aid to Kyrgyzstan for reconstructing of the residential areas of Southern Kyrgyzstan which were affected violent ethnic riot in 2010 (Bossuyt, 2019).

Firstly, China's aid to Kyrgyzstan help to country improve its infrastructure and break landlocked geography. Furthermore, improving of infrastructure also create a chance to Kyrgyzstan diversifies its export and import routes. Secondly, sending aid for modernizing or building new hospital and school may increase people's lifestyle and contribute to education of younger people. Finally, China's aid also helps to country upgrade its

electricity generation plants and transmission line. Developing electricity system contribute to the energy independence of Kyrgyzstan.

The fast development of Kyrgyz infrastructure by the way of the massive inflow of resources resulted in the growth of Kyrgyzstan's debt burden. China also main creditor of Kyrgyzstan. Kyrgyzstan's debt to China reached 1.7 billion dollars or 44% of its total foreign debt (3.8 billion dollars) as of February 2018. At the same time, Kyrgyzstan borrowed a total of $ 4.5 billion from China's credit line under the Belt-Road Project (Omonkulov, 2020: 75). Despite the positive impact of aid on Kyrgyzeconomy, growing debt also increase country's dependency on China and lead vulnerable position versus China.

Conclusion

In the context of the Sino-Kyrgyz trade relations, despite Kyrgyzstan's gains as an importer and transporter of Chinese goods, Sino-Kyrgyz relations consist of an asymmetrical trade relationship. Kyrgyzstan export mainly textiles and raw materials to China and import technological and manufactured products. Maybe Kyrgyzstan benefits from trade relations in the short term but, in the long term, Kyrgyzstan's dependence on China increases. In addition, exporting mostly export raw materials to China, Kyrgyzstan does not improve its human capital and high skilled labor force. With regard to the trade relations, Sino-Kyrgyz relations seem to bases on zero-sum cooperation in the long term rather than win-win cooperation.

With regards to the investment, despite the contribution of Kyrgyzstan's annual GDP growth rates and improve the total factor productivity and export-oriented economy, Chinese investment has different negative effects on the Kyrgyz economy. One of the main purposes of the Chinese investment in the mining, oil, and infrastructure sector is to increase the

country's extraction and export of natural resources. This creates a range of problems for the Kyrgyz economy. Firstly, these sectors provide fewer employment opportunities to the local population and increase short-term employment in the country, and most of the time Chinese companies prefer to use their own people for working compared to the local people. Besides, the job creation of China's companies is limited and they mostly avoid technology transfer to the country. This situation also prevents the improvement of domestic industry. Secondly, extraction of the natural resource improves the certain sector and contribute corruption and unequal distribution of the wealth in the country. Furthermore, Chinese companies also violate the environmental standard. Finally, these sectors vulnerable the external shocks and increase the state's dependency on China. As trade relations, in the long term, China's investment affects Kyrgyzstan negatively and only let to improve the specific sector, especially mining and oil sectors, and this situation prevent the country to diversify its industry. With regard to the investment, as a trade relation, Sino-Kyrgyz relations seem to the basis of zero-sum cooperation rather than win-win cooperation.

Finally, in terms of the aid and loan policy, despite China's aid and loans help to improve Kyrgyzstan's infrastructure and develop its industry, it used to try to secure access to mining sites such as gold, ore deposits, and rare earth elements. Furthermore, it tries to involve in the exploration and development of gold deposits in the country. Despite the high unemployment rate in Kyrgyzstan, Chinese loans also promote Chinese firms for using Chinese equipment and laborers. Besides, China's cheap and handy loans increase Kyrgyzstan's dependency and vulnerabilities on China. This situation also causes to enhance China's political and economic influence.

To sum up, in the context of the trade, investment, and aid and loan policy, despite the different positive impacts, Sino-Kyrgyz economic relations basis on asymmetrical economic

relations and in the long term give the advantage of China over Kyrgyzstan in the context of the economic influence. As a result, take the example of the trade, investment, and aid and loan policy, we think that two countries' economic relationship basis on zero-sum cooperation in the long term, rather than win-win cooperation, in contrast to China's officials' claims.

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