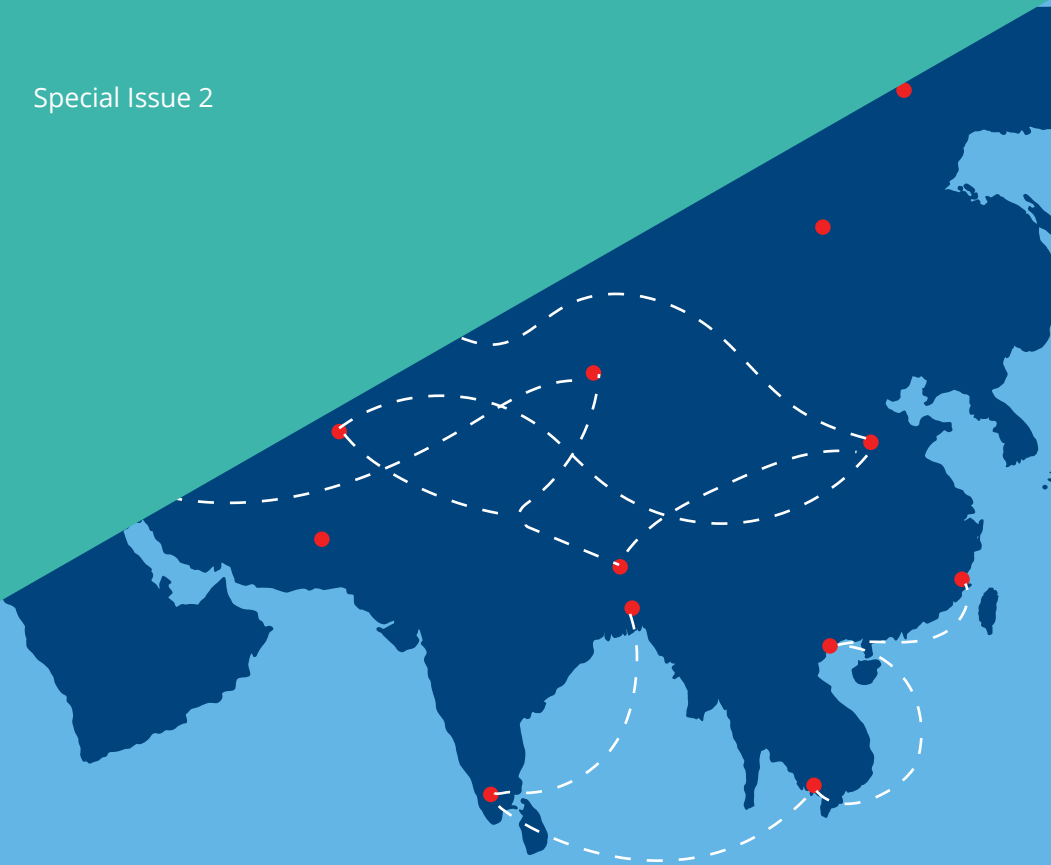


# China's Belt and Road Initiative in Central Asia: Ambitions, Risks and Realities

Special Issue 2





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Bishkek, 2020

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Dear Reader!

It is a great pleasure to share with you the second issue of our Special Collection Publication Series that we launched earlier this year. In this issue, we present five analytical papers that look into the growing role and significance of China in Central Asia and its grandiose Belt and Road Initiative (BRI). While the study of China's BRI has gained a lot of attention in the scholarly community in different parts of the world, research on the role and potential impact of the BRI on the Central Asian region still remains scarce.

With an aim to learn more about the BRI, the OSCE Academy has taken up several initiatives in recent months. In early 2019, the Central Asia Data Gathering and Analysis Team (CADGAT) of the Academy, in close cooperation with the Norwegian Institute of International Affairs, started to collect data on all BRI projects in Central Asia. As a result, eight reports have been compiled and made available for the public on the Academy's website. The team continues to work on collecting more data.

Furthermore, in November 2019 the Academy organized an academic workshop titled 'China's Belt & Road Initiative: Cross Regional Perspective', with the aim of engaging in a discussion of current trends and challenges in studying the BRI. The workshop brought together a number of international experts and scholars from North America, Europe, and East and Southeast Asia to contrast and compare different perspectives that underline current academic work done on the subject.

With this special issue, we continue to follow up with our intention of contributing to BRI studies. The papers presented here are written by our Associate and Junior Research Fellows, alumni and representatives of partner organizations. All papers have been peer reviewed, and some authors had the opportunity to present their work to the wider public in Bishkek and to receive feedback.

The first two articles introduce readers to current geopolitical realities in Central Asia in the context of the rising role of China. In

the first paper, Fabio Indeo analyzes cooperation and rivalry between Russia and China through Russia's Eurasian Economic Union and China's BRI projects. The author finds that at the moment there is an ongoing profitable convergence of strategic Sino-Russian interests and the two initiatives appear more complimentary than mutually exclusive. Russia seems to be increasingly accepting a conciliatory approach to growing Chinese influence in the region, particularly following western sanctions. However, the author warns that the implementation of these two projects could trigger future economic and geopolitical competition between Moscow and Beijing.

In the next article, Aminjonov and Sim caution against rushing into conclusions that depict Central Asian states as mere pawns in geopolitical games. They highlight that Central Asia is abundant in natural resources and located close both to European markets and to the lesser developed peripheral regions of China. The authors argue that unless certain policy measures are introduced, the agency exercised by some Central Asian states will continue to pose challenges to the Initiative. The paper concludes that at the moment, Beijing enjoys the support of the Central Asian governments, but that obstacles are likely to arise from China's management of the Initiative, as well as from evolving public receptivity and governance issues within Central Asia.

The following two articles were both written by Niva Yau Tsz Yau, providing a detailed analysis of the BRI as concept and as policy. The two articles give some specific recommendations to the Central Asian states for maximizing the benefits and reducing the risks of being part of the BRI. Yau's first article focuses on the conceptual foundations of the BRI and suggests that the Initiative should be understood as an umbrella concept and as an integrated part of Chinese foreign policy. Having a linguistic advantage, the author was able to analyze official documents, reports and speeches in Chinese, and she suggests that first and foremost, one should see the BRI as an ideologically driven project of the Chinese Communist Party. Following this logic, the paper offers a different lens for thinking about the debt trap, as well as other contested aspects of the Belt and Road.

Yau's second article provides further data for policymakers in Central Asia through a content analysis of both bilateral and multilateral projects using the official Belt and Road policy manual

released in 2015. She analyzes five proposed goals, namely policy co-ordination, connectivity, trade, financial integration and people-to-people bonds, and she concludes that the BRI is at its infancy stage in the Chinese priority of building political trust with Central Asian states. The author reiterates that a comprehensive understanding of the BRI requires a holistic outlook on the many plans embedded within the Initiative that arise from different Chinese needs, including various national and foreign policy goals. In the final paper, Sherzod Shamiev pays attention to the question of debt and suggests that Tajikistan, Kyrgyzstan and Turkmenistan are on the way to becoming dependent on China. The author asserts that Kyrgyzstan and Tajikistan are among the eight countries that were reportedly at risk of falling into a debt-trap. Focusing on the case of Tajikistan, the paper shows that China is leading Tajikistan into a process of “lock in” through its unorthodox conditions, such as the infrastructure-to-natural resource swap options. The author warns that the ownership or accessing of natural resources is a signal that China is conditioning its beneficiaries who desperately need funding for infrastructure projects.

It is our hope that this publication will help local academic and policy communities to better understand China’s strategies and activities in Central Asia, and to contribute to building up expertise in researching China and its foreign policies. We sincerely thank all authors who contributed to this volume, including the Norwegian Ministry of Foreign Affairs and the Norwegian Institute of International Affairs for their support of the publication!

Aigoul Abdoubaetova and Alexander Wolters

Bishkek, April 2020

# China and Russia: Cooperation or Rivalry along the Belt and Road Initiative?

Fabio Indeo

## How Russia Looks at BRI through the Lens of the Eurasian Economic Union

The launch of the Silk Road Economic Belt (SREB) geopolitical project in 2013 - SREB is the overland route (which crosses Central Asia) of the wider Belt and Road Initiative (BRI) - has allowed China to undertake an efficient strategy to extend its influence in Central Asia as well as to counteract the Russian project to promote economic and political integration in the post soviet space (through the Eurasian Economic Union, EAEU) with the clear goal of containing Beijing's growing power in the region.

Chinese mistrust appears motivated considering that the EAEU is a project to build a free trade market and customs union which excludes a powerful economic player in the region (China), but includes Kazakhstan and Kyrgyzstan, two of the three Central Asian countries which share a border with China. The potential future membership of Tajikistan in the EAEU - strongly supported by Moscow - will draw up a new border scenario in the region: China will no longer share a border with Central Asian republics but with the EAEU.

In geopolitical terms, Russia has perceived the BRI as a China's attempt to pull the five Central Asian republics away from its sphere of influence, representing a concrete challenge to the Eurasian Economic Union's project. The EAEU expresses the Russian ambition to restore its influence in the post-Soviet space, promoting economic integration in a reshaped geopolitical scenario within which Moscow wants to play a leading role. Russian President Putin supports the idea of the multipolarity of the international system, which appears divided in "geopolitical zones," and the EAEU should play the role of a pole of power. In an article in the Russian newspaper Izvestia in 2011, Putin called for the creation of an Eurasian Union as "a



powerful supranational union, capable of becoming one of the poles in the modern world and laying the role of an effective link between Europe and the dynamic Asia-Pacific region.”<sup>1</sup> According to Putin’s vision, Eurasian integration will allow the post-Soviet space to become an independent centre for global development, reassuring potential members that Russia has no plans to restore the Soviet Union.

Moreover, the EAEU’s geopolitical dimension emerges considering that this regional organization aims to promote economic integration and as it is also conceived as a kind of counterbalance to the EU, NATO and Chinese ambitions to expand influence in Central Asia. As a matter of fact, the adherence to the EAEU should prevent the geopolitical attractiveness of other regional cooperation initiatives such as the SCO (Shanghai Cooperation Organization) or the EU Eastern Partnership.<sup>2</sup>

After the establishment of the Custom Union and the Common Economic Space, the EAEU definitively entered into force on 1 January 2015, as the necessary evolution of economic integration in the post-Soviet space, even if limited to Russia, Kazakhstan, Kyrgyzstan, Belarus and Armenia.

In spite of initial mistrust, President Putin has undertaken a more pragmatic approach toward the BRI, considering that cooperation between EAEU and BRI could be economically and geopolitically profitable for Moscow in the short-term, rather than an open opposition deriving from clashing interests in Central Asia. In May 2015, President Putin signed a declaration with Xi on a “great Eurasian partnership,” aimed at synchronizing BRI and the EAEU.<sup>3</sup> After signing the Joint Statement on Cooperation in Linking Up the Silk Road Economic Belt and the Eurasian Economic Union,<sup>4</sup> a Sino-Russian joint working group

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<sup>1</sup> Vladimir Putin, “New integration project for Eurasia – a future which is being born today,” *Izvestia*, 3 October 2011, [www.izvestia.ru/news/502761](http://www.izvestia.ru/news/502761).

<sup>2</sup> Sergey Glazyev, “Russia and the Eurasian Union,” in *Eurasian Integration – The View from Within*, eds. Piotr Dutkiewicz and Richard Sakwa (Routledge, 2015): 84-96; Nicu Popescu, “Eurasian Union: the real, the imaginary and the likely,” *Chaillot Paper* 132 (2014): 19-21, [http://www.iss.europa.eu/uploads/media/CP\\_132.pdf](http://www.iss.europa.eu/uploads/media/CP_132.pdf).

<sup>3</sup> Sebastien Peyrouse, “The Evolution of Russia’s Views on the Belt and Road Initiative,” *Asia Policy* 24 (2017): 96, <http://asiapolicy.nbr.org>; Alexander Gabuev, “Eurasian Silk Road Union: Towards a Russia-China consensus?” *The Diplomat*, 5 June 2015, <http://thediplomat.com/2015/06/eurasian-silk-road-union-towards-a-russia-china-consensus/>.

<sup>4</sup> China’s Ministry of Commerce, “Joint Statement between People’s Republic of China and the Russian Federation on Cooperation in Linking Up the Silk Road Economic Belt and the Eurasian Economic Union”, 8 May 2015, <http://policy.mofcom.gov.cn/section/gjty/fetch.action?id=TOEL000080>.

started to define key issues for EAEU-BRI cooperation which were identified in: major infrastructure projects, the creation of a system for the protection of mutual investments, and the creation of mechanisms for the resolution of investment disputes.<sup>5</sup>

According to Gabuev, in this Sino-Russian joint statement it emerges that the two projects are not mutually exclusive, but complimentary. As a matter of fact, the EAEU is a project of regional integration – inspired by the EU model – which aims to create a common market (except for some areas, which will be synchronized by 2024) and free movement of goods, while BRI's main purpose is not regional integration but increasing interconnectivity of transport infrastructures, financial markets, and people to people contacts.<sup>6</sup> In spite of this shared intention to increase cooperation, there are no plans to develop a free trade area between China and the EEU.

In his speech to the BRI summit in May 2017, Russian President Putin announced his support in general terms for the Belt and Road Initiative, while in May 2018 China and the EAEU signed an agreement on trade and economic cooperation – the first relevant arrangement to coordinate initiatives between them – which came into effect in October 2019. It is expected to further reduce non-tariff trade barriers, to implement custom cooperation and to enhance trade facilitation, creating a better environment for industrial development.<sup>7</sup>

Unlike the free trade agreements, the EAEU-China deal will not reduce tariffs for the participating countries. A special focus will be dedicated to the development of infrastructural projects involving Russia as transit country, such as the Moscow-Kazan high speed railroad and the Western Europe-Western China expressway.<sup>8</sup>

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<sup>5</sup> Gregory Shtraks, "Next Steps in the Merger of the Eurasian Economic Union and the Belt and Road Initiative," China Brief 18, no. 11 (2018), <https://jamestown.org/program/next-steps-in-the-merger-of-the-eurasian-economic-union-and-the-belt-and-road-initiative/>; Alexander Libman, "Linking the Silk Road Economic Belt and the Eurasian Economic Union: mission impossible?" *Caucasus International* 6, vol. 1, (2016): 42-43, <http://cijournal.az/post/linking-the-silk-road-economic-belt-and-the-eurasian-economic-union-mission-impossible-alexander-libman>.

<sup>6</sup> Alexander Gabuev, "Crouching Bear, Hidden Dragon: "One Belt One Road" and Chinese-Russian Jostling for Power in Central Asia," *Journal of Contemporary East Asia Studies* 5, no. 2 (2016): 71.

<sup>7</sup> "China, EAEU sign agreement on trade, economic cooperation," *Xinhua*, 18 May 2018, [http://www.xinhuanet.com/english/2018-05/18/c\\_137187295.htm](http://www.xinhuanet.com/english/2018-05/18/c_137187295.htm).

<sup>8</sup> Shtraks, "Next Steps in the Merger of the Eurasian Economic Union and the Belt and Road Initiative"; Stephen Blank, "Russia's Reservations About China's Silk Road," *Eurasia Daily Monitor* 14, no. 67 (2017), <https://jamestown.org/program/russias-reservations-chinas-silk-road/>.

Given the existent convergence of strategic interests between China and Russia, at present President Putin and President Xi appear oriented towards enhancing cooperation rather than triggering a competition or rivalry over any ambition to extend geopolitical influence in Central Asia. In June 2019, during the visit of the Chinese President in Moscow, Russia and China decided to upgrade their relations to a comprehensive strategic partnership of coordination for a new era, while also expressing the common intention for a faster alignment between the Eurasian Economic Union and the BRI.<sup>9</sup>

## **Eurasian Economic Union vs Belt and Road Initiative**

Russia's conciliatory approach could be explained by Moscow's awareness of the changed geopolitical scenario in Central Asia, characterized by the progressive rise of China as a powerful economic and trade player and the parallel decreasing influence of Russia. We can observe that since 2009-2010 Russia has progressively lost its exclusive influence in Central Asia: the launch of the China-Central Asia gas pipeline - mainly delivering Turkmen gas - and the completion of the Sino-Kazakh oil pipeline eroded the Russian semi-monopoly in Central Asian energy exports, while in the economic field China has progressively become the main trade partner for all Central Asian states, undermining the traditional role of Russia. At present, trade between China and the five Central Asia republics has risen from US\$ 1.8 billion in 2000 to more than US\$ 30 billion in 2016, while the five states' trade with Russia amounted to only \$23 billion.<sup>10</sup>

The involvement in the Belt and Road Initiative blueprint is evidently profitable and lucrative for Central Asian countries, ensuring them the opportunity to diversify their foreign policies as well as to obtain economic and political benefits: in geopolitical terms, an enhanced cooperation with China means the opportunity for Central Asian republics to successfully implement a multi-vector strategy in foreign

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<sup>9</sup> "China, Russia agree to upgrade relations for new era," Xinhua, 6 June 2019, [http://www.china.org.cn/world/2019-06/06/content\\_74859445.htm](http://www.china.org.cn/world/2019-06/06/content_74859445.htm).

<sup>10</sup> Roman Vakulchuk and Indra Overland, "China's Belt and Road Initiative through the Lens of Central Asia," in *Regional Connection under the Belt and Road Initiative: The prospects for Economic and Financial Cooperation*, eds. Fanny M. Cheung and Ying-yi Hong (Routledge, 2019): 115; Peyrouse, "The Evolution of Russia's Views on the Belt and Road Initiative," 98.

policy, containing Russian pressure to join the EAEU's project of economic integration. Unlike the EAEU - which is characterized by an articulated process of adhesion - BRI openly welcomes and quickly includes countries which want to support the project: the result of the BRI's inclusive dimension is that all five Central Asian republics are involved in the "modern silk road."

Furthermore, Central Asian countries also benefit from the large Chinese investments expressly focused on the realization and modernization of national transport infrastructure, which are a key component of the BRI rationale to promote interconnectivity and to strengthen trade cooperation in the region through the creation of trans-regional networks of transport, while also opening new markets for these economic-landlocked countries.<sup>11</sup>

Compared to Russia, China is concretely fulfilling its promises of investing in Central Asia, granting loans and financing the development of the oil and gas sector and the realization of important infrastructure projects which will contribute to develop domestic connections to promote an integrated regional market, as well as to ship Chinese goods to the West. According to CADAGAT, China invested more than \$136 billion in Central Asian countries, mainly in energy connectivity (\$35 billion, half of them in Kazakhstan and \$9.4 billion in Turkmenistan) and railroad connectivity projects (\$23.5 billion, \$14.5 billion in Kazakhstan).<sup>12</sup>

Moreover, since 2014 Russia's ability to preserve its influence in Central Asia appears further weakened due to a combination of economic and geopolitical factors. The convergence between the fall of oil prices and the effects of western sanctions against Moscow - following the annexation of Crimea - has provoked a dangerous economic downturn, compelling Russia to freeze pledged investments in the region (to realize hydroelectric power plants projects in Kyrgyzstan and to upgrade military capacities in Kyrgyzstan and Tajikistan), thereby eroding its

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<sup>11</sup> Fabio Indeo, "The impact of the Belt and Road Initiative on Central Asia: building new relations in a reshaped geopolitical scenario," in *China's One Belt and One Road Initiative: the Changing Rule of Globalization*, eds., Wenxian Zhang, Ilan Alon and Christoph Lattemann (Palgrave Macmillan, 2018): 135-138.

<sup>12</sup> CADGAT, "BRI in Central Asia: Overview of Chinese Projects," *Central Asia Regional Data Review* 20, no. 3 (2019), [http://www.osce-academy.net/upload/file/20\\_BRI\\_in\\_Central\\_Asia.pdf](http://www.osce-academy.net/upload/file/20_BRI_in_Central_Asia.pdf).

geopolitical influence in the post-Soviet space.<sup>13</sup>

Furthermore, Russia's annexation of Crimea and the explosive crisis with Ukraine have heavily damaged Russia's image in Central Asia, spreading serious concerns about Russian integration projects in the security (CSTO) and political-economic field (EAEU). In this last case, Putin's idea that member countries can adopt a common and shared foreign policy is feared by Central Asian presidents, as they perceive it as a threat eroding their national sovereignty. Former Kazakh President Nazarbayev – one of the stronger supporters of the Eurasian integration project – clearly stressed that the EAEU will only have an economic dimension, refuting the idea of creating a supranational political institution organization.<sup>14</sup>

The worsened relations with the EU and the west have pushed Putin to openly support a “Pivot to Asia” strategy mainly based on enhanced cooperation with China, which has progressively become a reliable partner in the energy field (e.g., the launch of the Power of Siberia gas pipeline) and in the global arena of international relations, coordinating a shared diplomatic approach to deal with several issues.

In his speech to the BRI summit in May 2017, Russian President Putin announced his support in general terms for the Belt and Road Initiative.<sup>15</sup> But we can define this Russian approach as a “wait and see” policy, aimed at attracting lucrative investments offered by China for BRI-labelled infrastructural projects, while hoping to find a way to restore its influence in the region. Russia successfully obtained the National Silk Road Fund (which is directly responsible for financing BRI projects, with a \$40 billion endowment), which included the purchase of an equity stake in a Russian liquefied natural gas project on the Yamal Peninsula.<sup>16</sup>

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<sup>13</sup> Indeo, “The impact of the Belt and Road Initiative on Central Asia: building new relations in a reshaped geopolitical scenario,” 138.

<sup>14</sup> Dosym Satpayev, “Kazakhstan: Economic Integration without Relinquishing Sovereignty,” in *The Eurasian Economic Union Analyses and Perspectives from Belarus, Kazakhstan, and Russia*, eds. Felix Hett and Susanne Szkola (Friedrich Ebert Stiftung, 2015): 11-16, <http://library.fes.de/pdf-files/id-moe/11181.pdf>; Rilka Dragneva and Kataryna Wolczuk, “Eurasian Economic Integration: Institutions, Promises and Faultlines,” in *The Geopolitics of Eurasian Economic Integration*, ed. David Cadier London: LSE Ideas, 2014, 12-15, <http://www.lse.ac.uk/IDEAS/publications/reports/pdf/SR019/SR019-Dragneva-Wolczuk.pdf>.

<sup>15</sup> Blank, “Russia's Reservations About China's Silk Road.”

<sup>16</sup> “China seeks energy security by buying LNG from U.S., Russia: analyst,” Xinhua, 1 November 2017, [http://www.xinhuanet.com/english/2017-11/01/c\\_136720000.htm](http://www.xinhuanet.com/english/2017-11/01/c_136720000.htm).

Russia's ambition is to become the main transit for the BRI-trade corridors through the trans-Siberian route. As a matter of fact, Moscow is interested in the BRI-Western Europe-Western China motorway that would connect Lianyungang (on the eastern coast) with St. Petersburg, crossing Kazakhstan and Russia before reaching Europe (crossing Belarus or Finland). The sections in China and Kazakhstan have been already completed, while Russia has indicated this project as a priority, included in the Document National Goals and Strategic Objectives of the Russian Federation through to 2024.<sup>17</sup> Also, the realization of a high-speed railway from St. Petersburg to the Far East will be an interesting option: in 2014, Chinese investors expressed an interest in investing in the Moscow–Kazan high speed railroad, conceived as the first section of the wider rail line which will be included in the BRI.

The realization of these overland corridors will allow Russia to achieve the strategic goal of strengthening the unity of the EAEU as well as highlighting the central role of this bloc for the Chinese blueprint, as goods shipped across Eurasia land corridor would need to cross only two borders - between China and the EAEU and between the EAEU and the European Union.

However, delays (Russia failed to realize the Moscow–St. Petersburg highway by 2016, while the project to build the Moscow bypass is currently frozen) and rising costs (the 475-mile railway from Moscow to Kazan is estimated to cost \$32 billion) make unrealistic this ambition, also considering that Russia lacks the resources to build the necessary infrastructure.<sup>18</sup>

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<sup>17</sup> President of Russia, "The President signed Executive Order On National Goals and Strategic Objectives of the Russian Federation through to 2024," 7 May 2018, <http://en.kremlin.ru/events/president/news/57425>.

<sup>18</sup> Vladislav Inozemtsev, "Integrating the Eurasian Union and China's Belt and Road: A Bridge Too Far?" *Eurasia Daily Monitor* 16, no. 91 (2019), <https://jamestown.org/program/integrating-the-eurasian-union-and-chinas-belt-and-road-a-bridge-too-far/>; Nargis Kassenova, "More Politics than Substance: Three Years of Russian and Chinese Economic Cooperation in Central Asia," *Foreign Policy Research Institute*, 2018, <https://www.fpri.org/article/2018/10/more-politics-than-substance-three-years-of-russian-and-chinese-economic-cooperation-in-central-asia/>.

## Recommendations

- The ongoing convergence of strategic interests will push China and Russia to focus their efforts on the progressive alignment between BRI and EAEU initiatives, apparently overcoming the traditional “division of labour” which characterizes their approach towards the Central Asian region (where Moscow privileges security issues, while China appears mostly interested in the economic dimension).
- At present this Sino-Russian rapprochement is particularly significant in the energy field. As a matter of fact, following the launch of the Power of Siberia gas pipeline in December 2019 (which enhances Beijing’s energy security through an alternative overland pipeline which does not have to cross any third country), Russia and China have strongly cemented their energy partnership, especially considering that since 2016 Russia is also the largest oil supplier for China. The main long-term consequence of this upgraded energy cooperation would be that Central Asian oil and gas producers (Kazakhstan, Turkmenistan and Uzbekistan) could progressively lose their current role as relevant energy suppliers for China, through overland pipelines aimed at reducing the reliance on maritime energy routes.
- Instead, according to the perspective of Central Asian republics, a renewed competition between Russia and China could be more profitable, allowing them to balance Sino-Russian aims in the region and obtaining strategic gains. On the contrary, a long-term rapprochement between Moscow and Beijing could affect the development of independent foreign policies, as all the region will be under the influence of these powerful geopolitical players.
- In spite of the current Sino-Russian enhanced partnership, we can observe that Russia and China aim to achieve specific-national strategic goals through SREB/BRI and EAEU initiatives, paving the way for a future economic and geopolitical competition in the region which could downplay the current scenario of cooperation in Central Asia. For instance, China works to develop different and alternative east-west land corridors, mainly focusing on corridors crossing exclusively Central Asia, such as Khorgos-

Aktau in Kazakhstan, in order to reduce the vulnerability linked to the dependence on a single route. As a matter of fact, at present the New Eurasia Land Bridge Economic Corridor – which involves Russia as a transit country – is the most used and important trade route to deliver goods from China to Europe.

- If Putin’s real ambition is to restore Russian influence in the so called “near abroad,” Uzbekistan’s unexpected expression of interest to potentially join the Eurasian Economic Union (after a strong opposition to Russian-led regional integration project during the Karimov era) will surely reinforce the Moscow-led initiative, considering that Uzbekistan is the largest market and the most populated country in Central Asia. The future orientation of Uzbek foreign policy has to be carefully monitored, because its potential rapprochement to the Russian sphere of influence could influence and modify the current geopolitical balance and cooperation between Moscow and Beijing in Central Asia, opening a new phase of competition and rivalry.



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# Avoiding the Potholes along the Silk Road Economic Belt in Central Asia

Li-Chen Sim and Farkhod Aminjonov

## Trade and Investment Trends in Central Asia

While China and Russia are both among the top five trading partners for all Central Asian states, China has overtaken Russia in trade and investment in the region. In the 1990s, trade between China and Central Asia amounted to less than US\$1 billion.<sup>1</sup> By 2008, China's total trade with Central Asia exceeded that of Russia's, and by 2018 China-Central Asia trade had surged to almost \$30 billion.<sup>2</sup> Russia continues to be the main source of imports for some Central Asian states, but it is slowly losing out to China's relatively inexpensive finished goods (consumer products, machinery, textiles and electronic goods);<sup>3</sup> Central Asia exports mainly raw materials and unprocessed products to China.<sup>4</sup> Most importantly, China has become the leading foreign investor in such critical sectors as energy, industry and infrastructure in all Central Asian countries.<sup>5</sup>

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<sup>1</sup> Unless otherwise noted, all figures are in US\$.

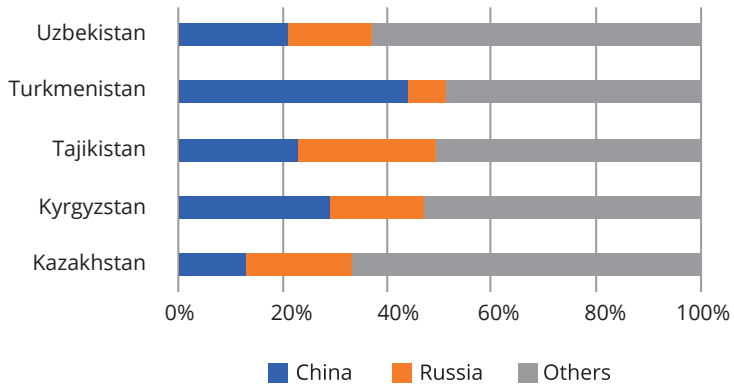
<sup>2</sup> Sam Bhutia, "Who Wins in China's Great Central Asia Spending Spree?" Eurasianet, October 2, 2019, <https://eurasianet.org/who-wins-in-chinas-great-central-asia-spending-spree>.

<sup>3</sup> Sebastien Peyrouse and Gaël Raballand, "Central Asia: The New Silk Road Initiative's questionable economic rationality," *Eurasian Geography and Economics* 56, no. 4 (2015): 408.

<sup>4</sup> Sebastian Schiek, "Movement on the Silk Road China's "Belt and Road" Initiative as an Incentive for Intergovernmental Cooperation and Reforms at Central Asia's Borders," SWP Research Paper, November 2017.

<sup>5</sup> Robert Daly and Matthew Rojansky, "China's Global Dreams Give Its Neighbors Nightmares," *Foreign Policy*, March 12, 2018. <https://foreignpolicy.com/2018/03/12/chinas-global-dreams-are-giving-its-neighbors-nightmares/>.

**Table 1. Central Asia’s Trade with Russia and China<sup>6</sup>**



### **Central Asia is Important for China’s SREB Initiative**

The Central Asian region is ‘central’ to Beijing’s Eurasian ambitions to link China’s west to South Asia, the Middle East, and Europe, thereby reducing the country’s dependence on sea routes.<sup>7</sup> For instance, the China - Central Asia - Western Asia Economic Corridor is being built to link China to the Arabian Gulf through Iran and the Aegean Sea/Piraeus Port via Turkey. Beijing also plans to create a network of major land and rail transit routes from Asia to Europe. The SREB rail routes to Turkey’s Middle Corridor via Kazakhstan and the Caspian Sea considerably shorten the route to the Middle Eastern and European markets.

Central Asia is also valuable in and of itself because of the region’s hydrocarbon and mineral resources, which Beijing perceives as integral to sustain its economic growth. Given that over half of its oil originates from the Middle East and that over 80 percent of its imports are seaborne, China has looked to land-based oil suppliers to diversify and enhance energy security. Even prior to the official launch of SREB, resource-rich and land-locked Central Asian neighbors were Beijing’s first choice; the first pipeline network to transport

<sup>6</sup> Stratfor, “Central Asia’s Economic Evolution from Russia to China,” Stratfor Worldview (2018).

<sup>7</sup> Lai Youwei and Wu An, “Ideas and Policies for Promoting the Belt and Road Economic Corridor”, DRC Research Report, no.187, 2018.

Kazakh oil to refineries in West China became operational in 2006. Currently, Chinese companies control over a quarter of oil production in Kazakhstan and Beijing is interested in boosting the level of oil imports.<sup>8</sup> Almost the entire export of natural gas from the region is now heading towards China via the Central Asia-China gas pipeline - a network constructed with Chinese loans. Kyrgyzstan, Tajikistan and Kazakhstan are also important suppliers of rare earth metals to be used in China to produce high-technology items such as solar panels or rechargeable batteries.

Finally, Central Asia's geographical and cultural proximity to China's restive Xinjiang informs Beijing's focus on these states. Beijing is mindful of the degree to which its Xinjiang Uighur Autonomous Region can be impacted by economic, security, social, and political developments in neighboring Central Asia.<sup>9</sup> With three of the six corridors of the Belt and Road Initiative passing through Xinjiang, Beijing is hopeful that economic development will bring social peace and political stability to Xinjiang as well as to its immediate western neighbors.

### **The Interest in Promoting SREB Projects is Mutual**

Central Asia also benefits from its transit status linking China with the West within the SREB. Central Asian authorities rely on Chinese loans as an economic tool to boost local development; authoritarian regimes in the region are consequently strengthened.<sup>10</sup>

The regional infrastructure is inadequate and outdated. The Asian Development Bank has estimated that over \$30 billion needs to be spent annually on infrastructure modernization until 2030 in Central Asia. Large- and small-scale projects within SREB-roads, railroads,

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<sup>8</sup> This claim was made by a senior executive at Kazakhstan's state-owned energy company, KazMunayGas as cited by Hao Tian, "China's Conditional Aid and Its Impact in Central Asia," in *China's Belt and Road Initiative and Its Impact in Central Asia*, ed. Marlene Laruelle (Washington DC: Central Asia Program, George Washington University, 2018): 30.

<sup>9</sup> The quote is by the director of the Regional Anti-Terrorism Structure within the Shanghai Cooperation Organization, as cited in Colin Mackerras, "Xinjiang in China's Foreign Relations: Part of a New Silk Road or Central Asian Zone of Conflict?," *East Asia* 32 (2015): 36.

<sup>10</sup> See Alexander Cooley, *Great Games, Local Rules: The New Great Power Contest in Central Asia*, (Oxford University Press, 2012)

pipelines, industrial parks, and special economic zones-are expected to enhance connectivity and boost trade.<sup>11</sup>

Central Asian authorities perceive physical infrastructure development projects promoted by the SREB initiative to be critical for the growth of local economies.<sup>12</sup> China has already been negotiating with Central Asian countries to link their development programs (Nurly Zhol in Kazakhstan or Taza Koom in Kyrgyzstan) to the SREB initiative.<sup>13</sup>

Besides, the SREB-related loans are not conditional on political, economic or human rights reforms unlike loans and outright grants disbursed by the EU, Japan, or multilateral lending agencies like the IMF.<sup>14</sup> They are hence more attractive to the authoritarian patrimonial regimes of Central Asia. Some of these funds are then channeled to regime supporters whose companies partake directly or indirectly in SREB projects.

## **Challenges to the SREB: The Regional and International Contexts**

The SREB projects are often presented as drivers of economic development by the Central Asian regimes. However, the unprecedented dependence of Central Asia on Chinese investments and infrastructure interconnectivity, and the fact that most of the national economic development programs are now aligned with the SREB masks several risks for China and, by extension, for the Central Asian regimes.

### **Lack of Transparency and Poor Governance**

Some of the Chinese investment projects appear to have limited benefits for the wider population. They are accompanied by accusations of lax regulation and are likely vehicles that allow local elites to capture SREB-related rents. According to Stuenkel, Chinese officials have privately acknowledged that up to 30 percent of their SREB investments in Central Asia are lost to corruption.<sup>15</sup> China also promotes no-tender procurement, such as exclusive rights granted

to the Chinese company TBEA to refurbish the Bishkek Power Plant for \$385 million<sup>16</sup> or the refurbishment by Chinese contractors of the Dushanbe-Chanak highway with a \$300 million loan.<sup>17</sup> Corruption scandals have dogged these projects.

## Sovereign Debt

China has become the single largest creditor in some Central Asian states. The report published by the Center for Global Development, which examined the debt implications of 67 countries with BRI-linked projects, indicates that two Central Asian countries are in the highest risk category.<sup>18</sup> While taking on debt to finance infrastructure projects can boost local economies, too much debt is dangerous if it fails to boost local economies and generate large-scale revenues and returns to local budgets. Beijing is already being accused of colluding with authoritarian regimes to plunder resources with limited contribution to the country's development.<sup>19</sup>

**Table 2. General Government Gross Debt (% of GDP)**

	2015	2016	2017	2018
World	80.6	83.6	83.1	82.8
Mongolia	62.1	87.6	85.3	89.0
Montenegro	76.8	78.0	79.7	80.9
Pakistan	65.7	70.0	69.1	67.6
Low income countries	36.1	40.4	41.9	41.6
Maldives	73.1	83.1	96.5	109.0
Djibouti	72.1	86.6	88.1	87.5
Laos	65.8	67.8	69.0	70.3
<b>Kyrgyzstan</b>	<b>65.0</b>	<b>62.1</b>	<b>64.2</b>	<b>65.5</b>
<b>Tajikistan</b>	<b>33.4</b>	<b>44.8</b>	<b>51.8</b>	<b>56.8</b>



## Limited Contribution to Local Economies

Central Asian authorities often highlight that the SREB will not simply transform Central Asia into a transit region but will also boost domestic economies and raise living standards. Current projects, however, suggest otherwise. Because Tajikistan and Kyrgyzstan do not have strong local content requirements, local workers often get short shrift and money goes to the Chinese contractors. For instance, Kyrgyzstan's Osh-Sarytash-Irkeshtam and Bishkek-Naryn-Torugat roads partly funded by China were built by a workforce of 30 percent locals and 70 percent Chinese workers, with 60 percent imported raw materials.<sup>20</sup> Consequently, benefits for the local economy are tempered as mostly Chinese materials, technology, equipment and labor force are used.

## Sinophobia

Anger over elite corruption and concerns over the environmental impact of Chinese-funded projects have fueled anti-Chinese – and by extension anti-regime – sentiments among the population in the region.<sup>21</sup> According to Kassenova, “public opinion seems to be in a counter cycle to the government: while the political elites are warming up for a tight embrace with China, ordinary citizens seem to be growing more worried, with discussions of the ‘China threat’ serving as a staple of public discourse on security and the future of the country.”<sup>22</sup> Among many examples, in early 2016, protests broke out in major Kazakh cities against attempts to allocate agricultural land for long-term lease since China was assumed to be the main

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<sup>20</sup> As cited by Jean-Marc F Blanchard, “Revisiting the Resurrected Debate About Chinese Neocolonialism,” *The Diplomat*, 8 February 2018; Sui Noi Goh, “China’s President Xi Jinping Pushes Back against Charge of New Colonialism,” *The Straits Times*, 3 September 2018; Brahma Chellaney, “China’s Debt-Trap Diplomacy,” *Project Syndicate*, 23 January 2017.

<sup>21</sup> See International Crisis Group, “Central Asia’s Silk Road Rivalries”; and Marlene Laruelle and Sebastien Peyrouse, *The Chinese Question in Central Asia: Domestic Order, Social Change, and the Chinese Factor* (New York: Colombia University Press, 2012).

<sup>22</sup> Kemal Kirişci and Philippe Le Corre, “The new geopolitics of Central Asia: China vies for influence in Russia’s backyard What will it mean for Kazakhstan?” *Brookings*, January 2, 2018, <https://www.brookings.edu/blog/order-from-chaos/2018/01/02/the-new-geopolitics-of-central-asia-china-vies-for-influence-in-russias-backyard/>.

beneficiary.<sup>23</sup> More recently, in January 2019, an anti-Chinese rally described as “the biggest public protest to date in Central Asia against Beijing’s growing influence” occurred in Bishkek; protestors called for controls on work permits for Chinese citizens and on Chinese-Kyrgyz marriages and a reduction of Kyrgyz debt to China.<sup>24</sup>

## **Risk of Excessive Dependence on Authoritarian Great Power Neighbors**

Participation in the SREB is an attempt by Central Asian states to balance against the demands of the traditional regional hegemon, Russia, which continues to dominate the region’s political, cultural, and security realms. In their hurry to escape from excessive dependence on post-Soviet Russia, however, the Central Asian states are actually falling into a similar trap in their rush towards China. Both Moscow and Beijing are intensifying the implementation of regional integration initiatives – Eurasian Economic Union and SREB – to secure their strategic and economic influence over the region. The asymmetrical interdependence between the Central Asian regimes and their larger neighbors limits the former’s ability to manage and balance relations; at the same time, competition between these initiatives creates opportunities for wily Central Asian leaders to eke out some autonomy.<sup>25</sup>

## **Recommendations**

The success of the SREB in Central Asia will hinge on the interplay of several factors, including the outcome of and receptivity to SREB projects, as well as the impact of long-standing intra-Central Asian governance issues.

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<sup>23</sup> International Crisis Group, “Central Asia’s Silk Road Rivalries,” ICG Report 245, July 27, 2017, <https://www.crisisgroup.org/europe-central-asia/central-asia/245-central-asias-silk-road-rivalries>.

<sup>24</sup> Reuters, “Kyrgyz Police Disperse Anti-Chinese Rally,” Reuters, 17 January 2019.

<sup>25</sup> For a more in-depth discussion of the challenges and opportunities posed by Central Asia to SREB see Li-Chen Sim and Farkhod Aminjonov, “Central Asia in BRI: Policy Taker or Policy Shaper?”, in *Regions in China’s Belt and Road Initiative*, ed. Jonathan Fulton (Abingdon: Routledge, 2020) (in press).

- Transparency and accountability in implementing SREB projects will minimize the risk that loans taken out by Central Asian regimes will end up financing white elephant projects that generate minimal productive return on investment. China's pledge, in April 2019, to review the financial sustainability of BRI projects is a move in the right direction.
- Management of the debt to China has to be reconsidered. Signing-off on exclusive rights in the energy sector, mining, and the use of land that is taking place in Tajikistan and Kyrgyzstan may be ill-advised practices.<sup>26</sup> Unfulfilled promises may, in turn, threaten social peace and result in blowback against China and the regimes in the region.<sup>27</sup>
- The Chinese procurement model for implementing projects in Central Asia faces resistance on the local level. Comparing projects funded by China and by multilateral partners, one report found that 89 percent of contractors were Chinese and 7.6 percent were locals in the former, while 29 percent were Chinese and 41 percent were local in the latter case.<sup>28</sup> Thus, strong local content requirements (local materials, equipment, and services) should be introduced to allow suitably-qualified local companies to leverage on participation in these projects.
- Connecting 'minds' is as important as the 'hardware' of investments for the success of infrastructure projects in Central Asia. So far, China has been only relying on Confucius Institutes and education programs in promoting people-to-people interactions along the SREB initiative. Beijing has opened 11 Confucius Institutes across Central Asia and 23,000 students from the region study at Chinese universities thanks to generous Chinese stipends.<sup>29</sup> Unfortunately,

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<sup>26</sup> Yueyi Chen, "Belt and Road Initiative increases sovereign debt risks in Tajikistan," *Global Risks Insight*, July 23, 2018, <https://globalriskinsights.com/2018/07/belt-and-road-initiative-increases-sovereign-debt-risks-in-tajikistan/>.

<sup>27</sup> Kemal Kirgsci and Philippe Le Corre, "The new geopolitics of Central Asia"; Sébastien Peyrouse and Gaël Raballand, "Central Asia: The New Silk Road Initiative's Questionable Economic Rationality," *Eurasian Geography and Economics* 56, no. 4 (2015): 405.

<sup>28</sup> Jonathan E Hillman, "China's Belt and Road Initiative: Five Years Later," Center for Strategic and International Studies (Washington DC, 2018).

<sup>29</sup> Indra Overland and Roman Vakulchuk, "China's Belt and Road Gets a Central Asian Boost Uzbekistan's transformation will fast-track the new Silk Road," *The Diplomat*, May 3, 2018, <https://thediplomat.com/2018/05/chinas-belt-and-road-gets-a-central-asian-boost/>.

these measures have met with limited success in changing local perceptions of China.<sup>30</sup> Clearly, a more effective capacity building and public awareness campaign must be integral inputs of the SREB projects.

- Central Asian countries quite often appear as merely a policy-taker within the SREB. The SREB-related problems, however, could prompt Central Asian states to re-engage more seriously with other external actors, which would allow local authorities to extract concessions that are more in line with their development, political and economic interests.<sup>31</sup> Although the USA, Japan, or India are unable to match the funding offered by China, Central Asian countries must seriously consider the alternative quality infrastructure programs provided by the former. The EU's values-driven agenda regarding democratization, transparency, and accountability may strengthen Central Asian countries' capacity to generate more productive returns on all foreign investments.

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<sup>30</sup> Roman Vakulchuk and Indra Overland, "China's Belt and Road Initiative through the Lens of Central Asia", in *Regional Connection under the Belt and Road Initiative: The prospects for Economic and Financial Cooperation*, eds. Fanny M. Cheung and Ying-yi Hong (London: Routledge, 2018): 118.

<sup>31</sup> See Thomas Pedersen, "Cooperative Hegeony: Power, Ideas and Institutions in Regional Integration," *Review of International Studies* 28, no. 4 (2002); Filippo Costa Buranelli, "Spheres of Influence as Negotiated Hegemony - the Case of Central Asia," *Geopolitics* 23, no. 2 (2018).

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# Making Sense of the Belt and Road Initiative in Central Asia

Niva Yau Tsz Yan

## Introduction

Why are all roads leading to Beijing? Aimed to address the deep sense of scepticism over Chinese intentions, this article spells out how the Belt and Road Initiative should be understood as an umbrella concept and an integrated part of Chinese foreign policy. Central to the argument in this article is that development direction of the Initiative must be examined in the first instance from a Chinese perspective given the instructing capacity and the ideologically driven character of the Chinese Communist Party. With a particular focus on China's immediate western neighbours, this article subsequently examines what the Belt and Road Initiative as part of Chinese foreign policy means for Central Asian states. Looking at these possible scenarios, this article offers policy recommendations for Central Asian states in positioning against forces of the initiative.

## The Belt and Road for Chinese Foreign Policy

What is the Belt and Road Initiative for the Chinese Communist Party? At its initial announcement in 2013, the Initiative was presented to the world as One Belt One Road, made up of the Silk Road Economic Belt and the Twenty-first Century Maritime Silk Road. Sensitive to foreign criticisms concerning the monopolistic connotation of "One", official presentation of the project to the outside world has since been changed to the Belt and Road Initiative. Meanwhile, One Belt One Road remains as the sole term of the grand project used in domestic Chinese discourse in Mainland China, Hong Kong and Macau.

Having allowed space for inclusive and creative implementation during its infant years, the Initiative began to take shape in summer



2015. First there was the release of the first policy framework for the Belt and Road Initiative, the “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road”, by the National Development and Reform Commission, Ministry of Foreign Affairs, and the Chinese Ministry of Commerce with State Council authorization.<sup>1</sup> Then there was the establishment of the Leading Group for the Belt and Road Initiative, which operates under the State Council’s Coordination and Resolution Agency. Working under the Leading Group is the Office of the Leading Group for the Belt and Road Initiative, located and staffed by the National Development and Reform Commission.

Since then, the Party has been regularly publishing Belt and Road operation reports, often including projects that are not obviously labelled as a Belt and Road project either in Western or in local media of the country in concern. According to Chinese media, China-Kyrgyzstan alone has reported to signing over 200 bilateral documents since the announcement of the Belt and Road.<sup>2</sup> How much has already been done in the name of Belt and Road?

From the Asia Star Agricultural Cooperation Zone, National Fertiliser Plant Project,<sup>3</sup> Irrigation System Renovation<sup>4</sup> to the export of melon fruits to China, all of these obviously trade and infrastructure related projects in Kyrgyzstan have been reported by the Chinese as part of the Initiative. The less immediately obvious projects are such as Kyrgyzstan’s participation in the Belt and Road Media Cooperation Union,<sup>5</sup> the Belt and Road University

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<sup>1</sup> State Council, 2015, “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road,” National Development and Reform Commission [online; accessed 28 March 2015]. Available from: [http://en.ndrc.gov.cn/newsrelease/201503/t20150330\\_669367.html](http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html).

<sup>2</sup> People’s Daily, 2017, “Injecting new vitality to jointly build the “Belt and Road”” [online; accessed 6 May 2017]. Available from: <http://world.people.com.cn/n1/2017/0506/c1002-29257817.html> (in Chinese)

<sup>3</sup> Belt and Road Portal, 2018, “The Kyrgyz National Fertilizer Plant Project has been fully launched, annual output of compound fertilizers and other products is projected to more than 500,000 tons.” [online; accessed 17 September 2018]. Available from: <https://www.yidaiyilu.gov.cn/xwzx/hwxw/66479.htm> (in Chinese)

<sup>4</sup> Belt and Road Portal, 2017, “China began assistance to Kyrgyzstan’s irrigation system renovation project” [online; accessed 5 May 2018]. Available from: <https://www.yidaiyilu.gov.cn/xwzx/hwxw/54700.htm> (in Chinese)

<sup>5</sup> Belt and Road Media Cooperation Union, 2017, “2017 Annual Manual,” [online; 13 April 2017]. Available from: <http://upload.videochina.tv/2017/0413/1492062420147.pdf> (in Chinese)

Strategic Alliance,<sup>6</sup> China-Central Asian National Universities Association, Bishkek Center for Traditional Chinese Medicine, Chinese funding to support the research work on the ruins of the ancient castle in Naryn<sup>7</sup> as well as the Shans Bookstore in Bishkek.<sup>8</sup>

Beyond the daily online report of Belt and Road operation worldwide, the office of the Leading Group in 2015 published a reported titled “Building the Belt and Road: Concept, Practice and China’s Contribution”.<sup>9</sup> The report detailed operational aspects of the Initiative, aimed to increase understanding of the Initiative in the international community. At the 2017 Belt and Road Forum, a list of deliverables were released, noting 76 Belt and Road items with more than 270 concrete results worldwide in the five key areas identified in the first policy framework, namely policy, infrastructure, trade, finance and people-to-people bonds.<sup>10</sup>

In 2017, the Chinese State Information Center began to have its dedicated team of big data analysts to publish yearly Belt and Road reports on trade cooperation. Initially written to provide information for Chinese businesses to develop markets abroad and to showcase efforts from different Chinese industries and provinces in participating in the Belt and Road, “the Big Data Report of Trade Cooperation under the Belt and Road Initiative” added up to 212 pages in 2018, up from 62 pages in 2017. By 2018, the published report provides a holistic picture of Belt and Road trade, including detailed export and import information between China and the host countries.

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<sup>6</sup> China News Service, 2015, “46 Universities in China and overseas set up ‘Belt and Road’ University Alliance” [online; accessed 17 October 2015]. Available from: <http://money.163.com/15/1017/17/B655I9A600254TI5.html> (in Chinese)

<sup>7</sup> Belt and Road Portal, 2018, “Dunhuang Research Institute will promote the application of complete sets of cultural protection technology to countries along the ‘Belt and Road’” [online; accessed 27 February 2018]. Available from: <https://www.yidaiyilu.gov.cn/xwzx/dfdt/49104.htm> (in Chinese)

<sup>8</sup> Xinhua News Agency, 2017, “New bookstore in Kyrgyzstan helps to promote cultural exchange with China” [online; accessed 27 October 2017] Available from: [http://www.xinhuanet.com/english/2017-10/27/c\\_136710596.htm](http://www.xinhuanet.com/english/2017-10/27/c_136710596.htm)

<sup>9</sup> Office of the Leading Group for the Belt and Road Initiative, 2017, “Building the Belt and Road: Concept, Practice and China’s Contribution,” Foreign Languages Press Co. Ltd [online; accessed May 2017]. Available from: [https://www.followingthemoney.org/wp-content/uploads/2017/06/2017\\_Leading-Group-for-the-BRI\\_Building-the-Belt-and-Road\\_E.pdf](https://www.followingthemoney.org/wp-content/uploads/2017/06/2017_Leading-Group-for-the-BRI_Building-the-Belt-and-Road_E.pdf)

<sup>10</sup> China Daily, 2017, “List of Deliverables of the Belt and Road Forum for International Cooperation” [online; accessed 16 May 2017]. Available from: [http://www.chinadaily.com.cn/china/2017-05/16/content\\_29359377.htm](http://www.chinadaily.com.cn/china/2017-05/16/content_29359377.htm)

With a solid amount of published information on the Belt and Road by the Party in Mainland China, Hong Kong and Macau, there is evidently a serious mismatch between the domestic presentation of the Initiative and its international presentation. This clear disparity makes sense once the Belt and Road is understood as Chinese foreign policy, with its intrinsic character and utmost priority to serve Communist Party survival. It is therefore much more important to showcase and make transparent to the domestic Chinese all things Belt and Road, inducing a strong sense of Party work ethics in constantly improving the Chinese economy, legitimising Party rule in Mainland China.

Given the Party's success in lifting millions of Chinese out of extreme poverty, a strong commitment has been devoted to the use of economic performance as a legitimatising rationale for ruling. Since Mao's death in 1976, the Deng (1978-1989) era had witnessed a normalised Sino-US relationship, alongside with introducing an open attitude to opening up the Chinese market. From Jiang (1989-2002) and on, Chinese leaders have recognised and took seriously their role during this "period of strategic opportunity" to secure a stable future for China. The Belt and Road Initiative should therefore be understood as largely a by-product of this carefully crafted narrative in China, especially since its implementation character has been a mirror of the Chinese development strategy as aided by the international community.

The "China Dream", as associated consistently with Belt and Road discussion in the Chinese discourse, has its sentiments originating from the nature and experience of the Chinese economic miracle. Hardly unprecedented, it is based off of this positive experience brought to the Chinese a high incentive to intensify international trade through the Belt and Road. Consistent Belt and Road vocabularies found in Chinese media also provide evidence that these projects have Chinese interests at heart, often framed as an opportunity for China to export its expertise, such as the National Fertiliser Plant Project and the Irrigation System Renovation Project in Kyrgyzstan.

When the Initiative is presented on the world stage, a lingering sense of experimentalism persists within the Party in light of lack of experience in undertaking international responsibilities. A direct cause of such inexperience can be traced back to the first formal piece of Chinese foreign policy in the immediate years after the establishment

of the People's Republic of China, the Five Principles of Peaceful Coexistence. The non-interventionist principle have since been the core of Chinese foreign policy, most frequently found in speeches at the United Nations, with China emphasising the importance to uphold respect for governments in their internal affairs.

It is also owing to this lack of experience in undertaking international responsibilities that had held back the Chinese leadership's ability to completely abandon Deng's "hide capabilities and lie low" policy, especially during the infant years of the Initiative.<sup>11</sup> Belt and Road international promotion has therefore been unclear and mild when compared to domestic promotion. Confined still by the non-interventionist principle today, international presentation of the Initiative finds itself stuck between a dilemma to encourage states' participation while respecting their choice to stay out of the Belt and Road. The modest and vague nature of cultivating "cooperative and win-win ethos in international politics" as invitation to the Belt and Road can therefore be understood in this sense.

At the 19<sup>th</sup> National Congress, the party had made clear its determination to cultivate a strong sense of all things with "Chinese characteristics". This has had another spillover effect to Chinese Foreign Policy, as Xi (2012-Present) affirmed during the Congress, "no two political systems are entirely the same, and a political system cannot be judged in abstraction without regard for its social and political context, its history, and its cultural traditions. No one political system should be regarded as the only choice." China should therefore "ensure we have our say in the realm of ideology" and "should do more to foster a Chinese spirit, Chinese values, and Chinese strength".

On one hand, many have concluded Xi's speech as evidence for Chinese assertiveness. On the other, what "Chinese Exceptionalism" in fact has revealed could well be a deep insecurity with the Party's grip on the Mainland. Real threat to the Party lies within domestic China, with the communist ideology in decline as capitalist thinking take over. Analytical focus in this case should center on the latter in the discussion of "socialism with Chinese characteristics". Positioned to favour Party ruling, extensive patriotic education campaign since

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<sup>11</sup> Poh, A. and Li, M., 2017, "A China in Transition: The Rhetoric and Substance of Chinese Foreign Policy under Xi Jinping," *Asian Security*, Vol. 13, No. 2, pp. 84-97.

the 1990s has been intensified in recent years to cultivate a new Chinese identity. With high symmetry between economic and social liberalisation, the Party's concern is justified and wise from their point of view given world development history.

Ensuring the Party's ability to comprehensively establish China as a "moderately well-off society" by the centenary of the founding of the Party in 2021, to put simply, the Belt and Road Initiative is an umbrella concept and an integrated part of Chinese foreign policy as it intrinsically prioritises the domestic environment out of necessity given the Party's commitment to performance legitimacy. The domestic trend of intensifying nationalistic sentiment has had a spill-over effect to Chinese foreign policy as manifested also with the Belt and Road strategy.

Understanding the Belt and Road this way helps make sense of persistent issues with the Initiative. Chinese respect for local governments to manage their internal affairs has translated to a neglect of local voices with Belt and Road project implementation. Likewise, with debt trap accusations, China believes it is the local government's responsibilities to make judgements with regards to loans, since the local government in concern should have better understanding than China of their own domestic economy and capacity. As a continuation in Chinese foreign policy, incorporation of old projects such as the North-South highway in Kyrgyzstan also therefore make sense for the Belt and Road.

## **Realising the Ideal**

Given high domestic orientation, the extent to which host governments can benefit from the full ideals of the Belt and Road rely on appropriate positioning. Central Asian economies should in principle see growth in Gross Domestic Product (GDP) driven by export to China and other trade made possible by Chinese funded technology and infrastructure, as well as higher economic interdependence with the wider world.

Currently, the Joint Commission on Facilitation of International Road Transport serves as a good communication platform for SCO Member

States on infrastructure issues. Clarifying potential export capacity and developing economic policies in alignment with the Belt and Road should in principle serve as the next step in order for all Central Asian economies to enjoy the fruits of trade brought about by the Initiative. There is a need to expand the current scope of the SCO Financial Ministers and Central Bank Governors Meeting, such as building a Central Asian business network that can enhance understanding of regional division of labour, minimising excessive production and make efficient domestic investment strategies.

Apart from multilateral efforts, much of the progress has been made between Sino-Central Asian States. Sino-Kyrgyz Regional Cooperation Plan (2015-2020), Kazakhstan's Bright Road Initiative, Tajikistan's national development strategy 2030 and Uzbekistan's new development strategy have all been welcomed and seen as compatible with China's Belt and Road Initiative in this Chinese discourse. Heads of states diplomacy has thus far served a sound basis with room for continuous effort and communication with the Chinese counterpart.

Without an official map of the Initiative, flexible nature of the initiative means that host countries need to actively approach and cultivate a good business environment to attract investments. What understanding the Belt and Road as a Chinese foreign policy means for local government is an assurance of Chinese intention as primarily economic, directly at the domestic economy.

## **Preventing the Unfortunate(s)**

In envisioning and make possible the full extent of the Belt and Road, is it no surprise that China holds a tight grip to a region of high geo-strategic status that is Central Asia. Situated directly in the way of China's "Great Western Development Strategy", what is feared for the most in this region is Chinese military presence. As of 2018, China's heavy military surveillance in Xinjiang has the Western discourse comparing it to a police state. While violence endures in Xinjiang, the build up of Chinese forces in the immediate Chinese provincial neighbourhood of Central Asia is undesired.

Despite high domestic orientation, the Belt and Road in operation concerns geo-political consequences that can trap Chinese investments (as in Venezuela). A politically stable Central Asia will be desired, local governments in Central Asia should therefore have high incentive to aid a long-term solution to Uyghur separatist sentiments.

Prior to settling for “tributary peace”, there have been five notable cases of economic warfare during the “Spring and Autumn Period” in Chinese history. Ancient Chinese states had been masters at misleading and encouraging another state to abandon its agricultural sector to concentrate investments on cultivating another more profitable sector. The manipulating state in the next few years will subsequently up prices of agricultural exports, while restricting or banning imports of goods from the manipulated state. Hengshan state abandoned theirs for a thriving weapon manufacturing sector, yet, with basic subsistence cut off, their weapons were not able to fight against Lu state and Qi state.

The Belt and Road Initiative theoretically can serve as foundation for potential economic tactics. The fear of Chinese investments killing infant industries in local economies is a justified concern. States such as Kyrgyzstan with a less diversified economy is most prone to economic manipulation. Central Asian states should therefore focus on developing while diversifying their economy, exploring different export partners. Protective policies regarding the agricultural sector should also be considered and intensified.

## **Discussion and Conclusion**

The most probable scenario for Central Asia involves some gains and necessary losses. There is reason why most conquerors in history opt to divide and rule. Regional integration in Central Asia will be a dilemma for China, as it could potentially serve as great hindrance to Chinese dominance.

Thus far, the Shanghai Cooperation Organisation remains the only multilateral means for China to exert its influence in the region. Central Asian states should therefore 1) actively make sure of and expand the

Shanghai Cooperation Organisation as platform for negotiation and communication. Central Asian actors should also consider 2) taking seriously the domestic orientation of the Initiative and position to gain accordingly.

To better secure Central Asian states' political and economic interests, attention should be paid to 3) supporting a long term solution to Uyghur separatist sentiments, 4) diversify development and export partners, as well as 5) consider protective policies against its own agricultural sector.

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# Operation Reality of the Belt and Road Initiative in Central Asia

Niva Yau Tsz Yan

## Introduction

China is pursuing a landmark strategy to accelerate globalisation. Over half a decade since the formal announcement of the Silk Road Economic Belt (the Belt) in Astana and the Twenty-first Century Maritime Silk Road (the Road) in Jakarta, by late 2018, the Belt and Road Initiative had accumulated 3,116 projects worldwide (China Securities Journal, 2018). Clouded by its ambitious reach and ambiguous framework, policy implementation is the least understood aspect in both academic and public discussions of the Belt and Road Initiative.

An overwhelming volume of literature had been devoted to deciphering what the Belt and Road is for China, from both geopolitical and geo-economics perspectives. Other literature brings in regional or country specific considerations of the Belt and Road Initiative, highlighting security, state interests, political institution, resources and trade concerns.<sup>1</sup>

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<sup>1</sup> See: X. Xiao, "The "Belt and Road Initiative" and China-Israeli Relations," *Journal of Middle Eastern and Islamic Studies (in Asia)* 10, no. 3, (2016): 1-23; T. Zan, "Turkey Dream" and the China-Turkish Cooperation under the "One Belt and One Road" Initiative," *Journal of Middle Eastern and Islamic Studies (in Asia)* 10, no. 3 (2016): 50-72; H. Zhao, "Afghanistan and China's new neighbourhood diplomacy," *International Affairs* 92, No. 4, (2016): 891-908; T. Chong, "The Politics behind Cambodia's Embrace of China," *Perspective*, no. 59 (2017): 1-7; T. Dolbaia, "Initiative of China: "One Belt One Road" and Perspectives of Georgia," 23rd International Scientific Conference on Economic and Social Development, (2017): 70-77; S. Pencea, "Romania-China Trade and Investment Relations Against the Backdrop of "One Belt, One Road" Strategy," *Romanian Economic and Business Review* 12, no. 2 (2017): 17-28; I. Timofeev, Y. Lissovolik, and L. Filippova, "Russia's Vision of the Belt and Road Initiative: From the Rivalry of the Great Powers to Forging a New Cooperation Model in Eurasia," *China & World Economy* 25, no. 5, (2017): 62-77; H. Qi, "The Necessity of Bilateral Trade Framework in Globalisation – Case Analysis of Finland under the OBOR" (Thesis, Lapland University of Applied Science, 2017); M. Raskovic, "China-CEE Cooperation in the eyes of the Beholder: Perceptions of the BRI Initiative and Attitudes towards China in Slovenia," *China-CEE Institute Working Paper* 2560-1628, no. 20, (2017): 1-15; B. Sidy, "Qatar and Rising China: An Evolving Partnership," *China Report* 53, no. 4 (2017): 447-466; J. Zeuthen, "Part of Master Plan? Chinese Investment in Rare Earth Mining in Greenland," *Arctic Yearbook* 2017 (2017): 1-17; M. Chen, "The Economic Adjustment of Saudi Arabia and the Docking of Bilateral Economy and Trade between China and Saudi Arabia under the "One Belt One Road" Initiative," *Journal of Middle Eastern and Islamic Studies (in Asia)* 10, no. 2 (2018): 46-70; Z. Han, and X. Chen, "Historical Exchanges and Future Cooperation Between China and Oman Under the "Belt and Road" Initiative," *International Relations and Diplomacy* 6, no. 1 (2018):

Examining implementation provides information to assess on-the-ground issues surrounding the Initiative and China, such as debts, sovereignty, emergence of private Chinese security companies, politically-driven finance leading to colossal waste and geo-economic resilience.<sup>2</sup> Implementation characteristics show the manner in which domestic Chinese politics play in shaping Belt and Road practices.<sup>3</sup> In a larger context, looking at Belt and Road implementation will confirm Chinese foreign policy macro-concepts in shaping instructions.<sup>4</sup> A scarce number of academic publications have examined actual Chinese strategies towards realising the Belt and Road through project documentation, let alone making use of its official operational framework.<sup>5</sup>

This research addresses Belt and Road implementation in Central Asia. Presenting documentation and highlighting implementation characteristics, projects are categorised according to the white paper's five goals from the Chinese government's perspective. The 2015 "Vision and Actions on Jointly Building Silk Road Economic Belt and 21<sup>st</sup>-Century Maritime Silk Road" is the highest-level instruction document issued by China's National Development and Reform Commission, with a detailed list of operational deliverables. Examination of the five

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1-15; A. Kizekova, "China's Belt and Road Initiative and the 16+1 Platform: The Case of the Czech Republic," in *Securing the Belt and Road Initiative* (Springer, 2018); S. Kondapalli, "The Maritime Silk Road and China-Maldives Relations," in *China's Maritime Silk Road Initiative, 173-201*, (Singapore: Palgrave Macmillan, 2018); A.R. Shah, "How Does China-Pakistan Economic Corridor Show the Limitations of China's 'One Belt One Road' Model," *Asia & the Pacific Policy Studies* 5, no. 2, (2018): 378-385; I. Musiałkowska, "Subnational Development Policy as the Area of Common Interest Under the One Belt, One Road Initiative? The Case of Regional Policy-Making in Poland," in *The Belt & Road Initiative in the Global Arena, 141-161* (Singapore: Palgrave Macmillan, 2018); R. Muzapu, T. Havadi, and K. Mandizvidza, "Belt and Road Initiative: Positioning Zimbabwe for Investment Opportunities," *Management* 8, no. 1 (2018): 18-27; I. Qoraboyev, "The Belt and Road Initiative and Uzbekistan's New Strategy of Development: Sustainability of mutual relevance and position dynamics," *Uzbek Journal of Legal Studies* 2, (2018): 1-10.

<sup>2</sup> A. Arduino, "Security Privatisation with Chinese Characteristics: The Role of Chinese Private Security Corporations in Protecting Chinese Outbound Investments and Citizens," *RSIS Policy Reports* (2015); D. Murphy, "One belt one road: International development finance with Chinese characteristics," *Pollution* (2016): 241-253; C. Ljungwall & V. Bohman, "Mending vulnerabilities to isolation: how Chinese power grows out of the development of the Belt and Road Initiative," *The RUSI Journal* 162, no. 5 (2017): 26-33.

<sup>3</sup> B. He, "The domestic politics of the Belt and Road initiative and its implications," *Journal of Contemporary China* 28, no. 116 (2019): 180-195.

<sup>4</sup> C.K. Johnson et al, *Decoding China's Emerging "Great Power" Strategy in Asia* (Washington, DC: Center for Strategic and International Studies, 2014).

<sup>5</sup> M. Shariatnia & H. Azizi, "Iran-China Cooperation in the Silk Road Economic Belt: From Strategic Understanding to Operational Understanding," *China & World Economy* 25, no. 5 (2017): 46-61; A.J. Rabena, "The Complex Interdependence of China's Belt and Road Initiative in the Philippines," *Asia & the Pacific Policy Studies* 5, no. 3 (2018): 683-697.

identified goals, namely policy coordination, infrastructure connectivity, facilitating trade, financial integration and fostering people-to-people bonds, provides indicators to understanding what China wants from its Belt and Road.

This research particularly follows all Belt and Road projects in Central Asia that have been endorsed and incorporated into the Chinese governmental framework, excluding independent efforts that claim to be part of the Initiative, but which have no official endorsement. Official endorsement is taken as an indication of what China sees as foremost crucial aspects to manage in Central Asia in the early stage of the Belt and Road Initiative.

This article dives into detailing implemented projects within the 2015 policy framework from 2013 to 2019 in Central Asia. Project documentation followed governmental publications from the Office of the Leading Group for the Belt and Road Initiative, the dedicated group of high-level personnel appointed by President Xi to drive this Initiative. Since 2015, the group of five coordinates interests of a diverse set of state organisations while addressing the criticism of the lack of an effective leadership structure.<sup>6</sup> Discussion of this official collection points to implementation specifics combining a literature survey of other Chinese governmental sources, focus group interviews and personal observations in Central Asia from May 2018 to November 2019. This article concludes with an exploration of what this current operation reality means.

## **Policy Co-ordination**

The first step to implementation is reaching a comprehensive development consensus between China and Belt and Road countries that serves as the foundation while formalising a cooperation plan. Policy co-ordination for the Initiative in Central Asia has taken the following forms: official partnerships, cooperation committees, alignment with domestic development plans and China-led multilateral mechanisms.

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<sup>6</sup> He, "Domestic politics of the Belt and Road initiative," 180-195.

## Official Partnerships

Key to the legacy of the Chinese foreign policy discourse is a system of relationships clearly defining the level of strategic alignment and scope of cooperation between China and its partners. Incorporating Central Asian states in this system of relationships is the first step to building a mutual understanding of the Initiative's strategic nature. By the time Chinese President Xi announced the Belt at Nazarbayev University, all Central Asian states had, just in time, reached a "strategic partnership" (zhàn luè hu bàn guān xì) with China.<sup>7</sup> Contrasting to the Road, China has established this type of partnership with South East Asian states by the early 2000s.

Emerging after the Cold War, this type of partnership denotes a governmental commitment to collaborate with China beyond non-sensitive areas such as trade and culture, and make possible military cooperation and coordination of positions on international affairs. Against historical legacies of Russian Hegemonic influence in Central Asia, China has struggled to build friendly relations with its immediate western neighbours for years.

An independent, genuine Sino-Central Asian relation therefore came in the pretext of the Belt and Road Initiative. The Chinese move to establish strategic partnerships with Kyrgyzstan in 2013 was filled with repeated vocabularies of the Belt and Road, while the last piece of Sino-Kyrgyz diplomatic policy was signed over 10 years ago.<sup>8</sup> Except Turkmenistan, all other four Central Asian states have since upgraded to "comprehensive strategic partnership" (quán miàn zhàn luè hu bàn guān xì) with China, further expanding the scope of cooperation by allowing engagement with non-governmental actors.<sup>9</sup>

With a strict national policy of neutrality since 1995, Turkmenistan has stayed away from officially associating itself with the Belt and Road

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<sup>7</sup> Kazakhstan in 2005, Kyrgyzstan in 2013, Tajikistan in 2013, Turkmenistan in 2013 and Uzbekistan in 2012.

<sup>8</sup> In the early 2000s, the Sino-Kyrgyz Good-neighbourly and Friendly Cooperation Agreement came as a result of resolved border issues between China and Kyrgyzstan through the Shanghai Cooperation Organisation. The 2002 Sino-Kyrgyz Cooperation Agreement focused on enhancing state-level communication, security collaboration, and to build economic and cultural ties.

<sup>9</sup> Kazakhstan in 2011, Kyrgyzstan in 2018, Tajikistan in 2017 and Uzbekistan in 2016.

Initiative,<sup>10</sup> which is an initiative many perceive to be an emerging form of international governance with a power bloc of over 100 countries against an opposition bloc composed of United States and its allies. Despite efforts to get Turkmenistan on board with the Belt and Road, President Xi had failed to do so during his visit to Ashgabat, his first Central Asian destination since the inauguration of his presidency, before announcing the Initiative in Nur Sultan, Kazakhstan.

## Cooperation Committees

Since early 2000s, China had strived to build a government-to-government level communication and area-specific cooperation mechanism with Central Asia. This platform has since been used to coordinate matters crucial to realising the Belt and Road Initiative in Central Asia. Overall, the highest-level Chinese politicians have been consistently appointed to manage these individual cooperation committees with Central Asia. All party members, most continued from Hu’s leadership, the backgrounds of these Chinese politicians reflect a serious commitment at the highest-level of the Chinese Communist Party to guarantee influence in China’s western periphery.

**Table 1. Government-to-Government Cooperation Committee Communication between China and Central Asia**

Country	Areas
Kazakhstan	Security, cross border rivers cooperation, economics and trade, finance, transport, energy, geology, mining, ports and customs, railway, science and technology, environmental protection and culture
Uzbekistan	Security, energy, science and technology, culture and agriculture
Turkmenistan	Security, economics and trade, energy, culture
Tajikistan	Economics and trade, science and technology
Kyrgyzstan	Economics and trade

Source: Compiled by author of publications from Chinese governmental reports

<sup>10</sup> In the Chinese Ministry of Foreign Affairs’ list of “important documents” (zhòng yào wén jiàn), a list of official frameworks signed by China and respective countries, all other Central Asian states have signed documents with Belt and Road vocabularies since 2016. The last piece of official framework was signed between China and Turkmenistan in 2014.

The scope of government-to-government cooperation is largest between China and Kazakhstan. The highest-level Chinese politicians have been consistently appointed to oversee extensive cooperation efforts with Kazakhstan. Wang Qishan, current Vice President of China, oversaw the cooperation committees for both Kazakhstan as they began in 2004. Since the Belt and Road Initiative, Zhang Gaoli, former Vice Premier of China, chaired the cooperation committees for both Kazakhstan and Turkmenistan until Han Zheng took over as the Vice Premier. Existence of this close-knit, large scope communication mechanism demonstrates Kazakh acceptance of strong Chinese willingness in cooperation. As for contracting with Turkmenistan, despite high willingness, where the same personnel had been assigned to oversee government-to-government cooperation since 2010, China has struggled to further cooperation areas.

Kyrgyzstan has merely one single official channel to high-level Chinese officials for the purpose of economics and trade, which was established in 1999. For years, beginning in 2008, Tajikistan too had a single economics and trade window to China. Only in 2018 was the Sino-Tajik science and technology cooperation committee established. Despite Kyrgyz governmental willingness to increase areas of government-to-government cooperation, as expressed in 2014, the Chinese counterpart has been reluctant.<sup>11</sup> Within the framework of Sino-Kyrgyz and Sino-Tajik Economic and Trade Cooperation Committees, a specific office has been set up to connect with officials from the Xinjiang Uygur Autonomous Region, as trade remains smaller in scale and dependent on Xinjiang in nature. Zhong Shan, Chinese Minister of Commerce, has been overseeing Sino-Kyrgyz and Sino-Tajik trade through the respective Economic and Trade Cooperation Committee.

Since its initiation in 2011, leadership for the cooperation committees in Uzbekistan have been lesser prolific in comparison. Meng Jianzhu, Secretary of the Central Political and Legal Affairs Commission, oversaw the cooperation committee for Uzbekistan. Cheng Guoping, former Vice Minister of Foreign Affairs and current Commissioner for anti-terrorism, regularly joins annual meetings with Uzbek representatives. Now retired, Guo Shengkun has taken

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<sup>11</sup> "Kyrgyzstan to push Sino-Kyrgyz economic and trade cooperation forward," Ministry of Commerce, <http://kg.mofcom.gov.cn/article/zxhz/201407/20140700668820.shtml> (In Chinese).

over Meng's position in the government and has been overseeing cooperation progress in Uzbekistan accordingly.

Each specific cooperation committee is headed by and includes respective Chinese and Central Asian experts in the focus area to drive implementation. For example, the governor's secretary at the People's Bank of China heads the financial Sino-Kazakh Cooperation Committee.<sup>12</sup>

Since 2014, the Tianshan Forum was also established to serve as an annual platform for Chinese and Kazakh political and business leaders to discuss progress and future developments. Over 100 government officials, experts, scholars and business elites joined the 4th Tianshan Forum in 2018.<sup>13</sup>

## **Alignment with Domestic Strategies**

Through all of these government-to-government communication mechanisms, Central Asian leaders have reached plans to make official the synergy between their local development strategies and the Belt and Road Initiative. All of the Central Asian governments, except Turkmenistan, have shown eagerness to synchronise their economies with the Initiative. Identified as a key policy goal, domestic alignment with the Belt and Road is welcomed by China.

Leadership is clear in China's dealing with Central Asia, with each high level state visit accompanying the signing of many bilateral

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<sup>12</sup> In August 2019, the meeting saw representatives from the Kazakh State-owned Bank, Kazak Sovereign Wealth Fund Samruk-Kazena, Astana International Finance Center, Kazakh Development Bank, Kazakh People's Bank, Kazakhstan Stock Exchange, Kazakh Savings Bank, Alkin Bank, Kazakh Export Company, Kazakhstan Interbank Settlement Center and China-Kazakhstan Khorgos International Border Cooperation Center. Chinese representatives include People's Bank of China, Chinese Ministry of Commerce, Chinese Ministry of Foreign Affairs, Chinese Banking and Market Supervision Management Committee, Export and Import Bank of China, Chinese Development Bank, Chinese Export Insurance Company, Chinese Agriculture Bank, Bank of China, Chinese Construction Bank. See: <http://www.mfa.gov.kz/zh/beijing/content-view/po-itogam-10-go-zasedania-podkomiteta-po-finansovomu-sotrudnicestvu-kazhstansko-kitajskogo-komiteta-po-sotrudnicestvu>.

<sup>13</sup> "The fourth silk road "Tianshan Forum" was held in Astana," Belt and Road Portal, 2018, <https://www.yidaiyilu.gov.cn/xwzx/hwxw/66304.html> (In Chinese).

documents.<sup>14</sup> This applies to Central Asian leaders' visits to China as well.<sup>15</sup> While mostly trade-related, these cooperation agreements also include areas such as media, metrology, health and others as identified in the Belt and Road white paper.

Kazakhstan has initiated a US\$9 billion plan in 2014, Nurly Zhol, or Bright Road, to fill in domestic infrastructure gaps to accommodate the demand driven by the Initiative. The Sino-Kyrgyz Regional Cooperation Plan (2015–2020) on the other hand has broader and more specific focuses. These include modernising border crossing, diversifying transport links, advancing the agricultural sector, strengthening mining, manufacturing, and energy cooperation, developing emerging industry, exploring the feasibility of an economic cooperative zone, tourism, science and education, as well as cultural and financial integration.

Lagging behind in progress, in 2017 Tajikistan pledged to align the Tajik National Development Strategy 2030 with the Belt and Road Initiative. It was only in February 2018 that Uzbekistan incorporated the Belt and Road as its foreign policy priority. This is followed by a suggestion to bridge the Initiative with South Korea's revival of its Nordpolitik in November 2018, which primarily centres on Russia's Far East as an attempt to increase economic competitiveness with Japan.

## Multilateral Mechanisms

Independent from the Soviet Union since 1991, Central Asia is the least integrated region among China's neighbours. Since the Belt and Road Initiative, China has introduced to Central Asia a great number of regional and international platforms of cooperation opportunity.

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<sup>14</sup> I. Qoraboyev, "One Belt ,One Road: A Comparative Regionalism Approach," in *The Belt & Road Initiative in the Global Arena*, pp. 103-114 (Singapore: Palgrave Macmillan, 2018).

<sup>15</sup> With President Sooronbay Jeenbekov in Beijing for the SCO summit, a total of 10 Agreements and Memorandums of Understanding on matters such as gas pipeline, zone of external trade, human resources, phytosanitary requirements for melon fruits and the provision of economic assistance were signed.



Smaller in scope and substance than the SCO, the China-Central Asia Political Parties Forum began in 2016. Specially set up to facilitate regional Belt and Road consensus, the Forum provides an annual platform for China to convey its determination to realising the Initiative to Central Asian leaders. Made up of talks by governmental officials from all five Central Asian states and China, the Forum is attended by politicians and industry leaders who are backers of the Belt and Road.

Serving as the single multilateral organisation involving most of Central Asia, beyond security, the SCO has steadily introduced economic and trade elements into its order of business. In 2005, the SCO Business Council and the SCO Interbank Association were established, providing the first platforms for national banks in the region to coordinate investments. In 2009, China initiated a loan framework under the SCO to aid Central Asian economies in light of the global economic crisis. This loan structure has since been incorporated into the Belt and Road; this manner of financial integration will be further discussed in the later section.

Other dialogues within the SCO have also been used to serve the Belt and Road. In logistics, the SCO Joint Commission on Facilitation of International Road Transport was established in 2017 as a mechanism to coordinate logistics implementation, bringing together customs departments from all over Central Asia to make trade efficient. This mechanism was primarily set up to demonstrate the beneficial effects of the China-Kyrgyzstan-Uzbekistan railway, especially for Kyrgyzstan as a transit country, where construction has not begun due to reluctant political commitment.

In 2015, an annual China-Central Asia Cooperation Forum was established with the coordination of the Chinese People's Association for Friendship with Foreign Countries, which primarily functions to serve as a second channel (aside from Chinese ambassadors) directly projecting Chinese foreign goals in foreign countries. For China, the China-Central Asia Cooperation forum serves as a meeting platform between politicians down to the provincial level, enlarging exchange and promoting political trust.

Outside of orders within the official intergovernmental frameworks, many private efforts have been exercised for the Belt and Road. Endorsed by the Chinese government, these platforms work to bridge

non-political Sino-Central Asian leaders and broaden support for the Initiative from different sectors. The following associations include at least one Central Asian state participant:<sup>16</sup>

- Belt and Road Media Cooperation Union
- Belt and Road News Network
- Belt and Road University Strategic Alliance
- Belt and Road Cultural Heritage International Cooperation Alliance
- Alliance of International Science Organizations in the Belt and Road Region
- Belt and Road Academic Publishing Union
- Forum of Belt and Road for Deans of Environmental School
- Belt and Road International Medical Education Alliance
- Belt and Road Dairy Alliance
- International Coalition for Green Development on the Belt and Road
- Belt and Road Studies Network
- Belt and Road Film Festival Alliance
- Belt and Road Think Tank Alliance
- Belt and Road Energy Partnership
- Silk Road Urban Alliance
- Silk Road Enterprise Development Alliance
- Silk Road Regional Organisation Alliance
- Silk Road International Museum Friendly Alliance
- Silk Road TV International Cooperation

While the inside-outs and progress of these individual efforts deserves its own lengthy research, important details especially relevant to Central Asia are discussed in the later section on people-to-people bonds.

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<sup>16</sup> A week before the second Belt and Road Forum in April 2019, the Chinese Ministry of Civil Affairs released a statement to outlaw all non-governmental associations established in the name of Belt of Road. This is part of the main effort of the second Belt and Road Forum to clean up transnational corruption stemming from the Initiative. For the purposes of documenting Belt and Road operation, this article included these non-governmental associations previously endorsed by the Belt and Road leading group prior to this legal adjustment.

## Connectivity

In the spotlight, the Belt and Road Initiative is bringing about a movement to build a basic foundation of infrastructure concerning transportation, energy and digital connectivity. In Central Asia, the Initiative has taken serious steps to push for regional physical connectivity through building and improving railways, highways, ports, and traditional and green energy infrastructures. Table 2 shows a list of main projects under the Belt and Road Initiative. Apart from an attempt to upgrade Soviet infrastructure through the Belt and Road, China is also formalising and centralising a double preferential loan structure in Central Asia.

**Table 2. List of Belt and Road Infrastructure Efforts in Central Asia**

Country	Project
Kazakhstan	Lianyuangang logistics cooperation base
Kazakhstan	China-Kazakhstan-Russia-Belarus-Poland-Germany via Alataw (train)*
Kazakhstan	China-Kazakh-Turkmenistan to Iran and Persian Gulf via Kuryk (train and ferry)
Kazakhstan-Turkmenistan	China-Kazakhstan-Caucasus-Europe via Kuryk (train and ferry)
Kyrgyzstan-Uzbekistan	China-Kyrgyzstan-Uzbekistan-Turkmenistan-Iran-Turkey-Europe via Irkeshtam (train)
Kyrgyzstan	Bishkek main roads renovation
Kazakhstan-Kyrgyzstan	Kazakh-Kyrgyz highway
Tajikistan	Vahdat-Yovon railway
Uzbekistan	Kamchiq tunnel
Kyrgyzstan	Repair Bishkek Thermal power plant
Uzbekistan	Repair 3 hydropower stations in Shahrizabz, Tashkent and Bozsu
Tajikistan	Dushanbe Thermal power plant
Kyrgyzstan	Irrigation Systems Renovation Project in the Issyk-Kul and Batken regions
Tajikistan	Nurek dam
Tajikistan	Rogun Dam electricity generator
Tajikistan	Khujand South-North 500kV transmission line

**Table 2. List of Belt and Road Infrastructure Efforts in Central Asia (continued)**

Country	Project
Tajikistan	Lolazor-Khatlon 200kV
Kyrgyzstan	Datka-Kemin 500kV transmission line
Uzbekistan	Angren Thermal Power station modernisation
Kazakhstan	Zinc mine renovation and expansion
Kazakhstan	Modernise environmental friendly refinery in Shymkent
Kazakhstan	Sino-Kazakhs natural gas pipeline
Turkmenistan	China-Central Asia Natural Gas Pipeline
Tajikistan-Kyrgyzstan	CASA1000

## Upgrading Soviet Infrastructure

Since the Belt and Road Initiative, Kazakhstan has taken seriously the promise of being an international transportation hub in Eurasia. On multiple occasions, Kazakh politicians have referred to China as “Kazakhstan’s ocean.” Committed to truly realising the Belt and Road Initiative, connecting Central Asia and South East Asia, the Kazakh government ensured that Kazakh wheat was for the first time successfully transported to Vietnam via Liangyuangang, located on China’s Northeast coast in 2017.<sup>17</sup> Officially Kazakhstan’s closest trade route to the ocean, the time required for a change of gauge at Khorgos dry port drastically decreased through the years, from 6 hours in 2017 to 3.5 hours in July 2019.<sup>18</sup>

More urgent than introducing new infrastructure, China has been busy upgrading Soviet era transport and energy infrastructure in Central Asia. As Xinjiang’s prime economic partner, Central Asia ought to economically develop at a relative speed in order to absorb and adequately support plans to connect Eurasia. For the Chinese

<sup>17</sup> W. Wang, “Kazakhstan wheat crosses Liangyuangang for Southeast Asia,” People’s Daily, February 9, 2017, [http://paper.people.com.cn/rmrbhwb/html/2017-02/06/content\\_1747663.html](http://paper.people.com.cn/rmrbhwb/html/2017-02/06/content_1747663.html) (In Chinese)

<sup>18</sup> “Close to 1500 China-Europe trains entered and exited Xinjiang’s Khorgos Port in the first half of this year,” Belt and Road Portal, <https://www.yidaiyilu.gov.cn/xwzx/dfdt/97362.html> (In Chinese)

government, this meant assisting Central Asian countries to first be economically self-sufficient, which has largely been the justification to finance domestic transport and energy infrastructure. Most of these repair efforts come from Chinese unconditional aid, or unprofitable loans to Central Asian governments.

## **Double Preferential Loans**

Funding the Belt and Road Initiative, the Chinese government has pushed for efforts to centralise all governmental loans to itself. Processed by central policy banks, recipients are almost exclusively state-owned Chinese companies, keeping the financial figures circulating within the Chinese economy.

Designed as a combination of government-to-government concessional loan and export credits to hire Chinese companies, double preferential loans come with low interest rates and a lengthy repayment duration. These loans are initiated by the local government's expression of will to the Chinese policy banks, which must accompany a letter of support from the Chinese Ambassador in that specific country. In various forms, such as EPC, PPP, BOT, BOOT and others, these loans have been evidently distributed in both bilateral and multilateral channels such as the SCO loan structure and Silk Road Fund.

All Kyrgyz and Tajik projects in Table 1 were funded in this double preferential loan structure. Introduction of double preferential loans to Kyrgyzstan and Tajikistan has since directed economic reliance from foreign banks to China. Prior to the Initiative, other foreign development banks have been the sole craftsmen of basic infrastructure in Central Asia. Kyrgyzstan and Tajikistan, the two least developed countries in the region, are the main recipients of foreign aid infrastructure in Central Asia.

Highly demanding of basic infrastructure, the Initiative serves as driver of these politically motivated loans, regulated by Exim Bank and the Chinese Ministry of Finance. Having been the de facto contractors for many infrastructure projects instructed by foreign banks, for example, the Islamic Development Bank for the China-Tajik highway,

Asian Development Bank for the Bishkek to Torugart highway, Tajik-Kyrgyz highway and Tajik-Uzbek highway, Chinese companies were already familiar with practically completing constructions in Central Asia.

By 2019, both countries are amongst the most indebted to China in the world. While it remains a contested concern for the Central Asian states, this is a manageable issue from a Chinese perspective. A card that has not been played in Central Asia, China has in the past forgiven millions of loans in Africa, in order to deal with anti-Chinese sentiments.<sup>19</sup>

## Trade

Infrastructure is built in the hopes of expanding trade. Beyond reducing investment barriers to ease trade, promoting regional economic integration requires countries to broaden their scope of trade and to create a friendly business environment. By 2019, there are around 2800 Chinese companies registered in Kazakhstan, 574 in Kyrgyzstan, 400 in Tajikistan, 1268 in Uzbekistan and at least 21 in Turkmenistan.<sup>20</sup> Belt and Road trade focuses in Central Asia have been emphasised in the following areas: logistics, investment facilitation and expanding trade areas.

## Logistics

Until 2019, westbound cargo trains from China to Kazakhstan have either returned half empty or are uselessly stranded in Central Asia. With a slowing Chinese economy coupled with the Sino-American

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<sup>19</sup> J. Nyabiage, "Lender's remorse? China finds Africa projects require a growing wave of debt forgiveness," South China Morning Post, August 11, 2019, <https://www.scmp.com/news/china/diplomacy/article/3022301/lenders-remorse-china-finds-africa-projects-require-growing>; R. Aidoo, "African countries have started to push back against Chinese development aid: Here's why," The Washington Post, October 16, 2018, <https://www.washingtonpost.com/news/monkey-cage/wp/2018/10/16/african-countries-have-started-to-push-back-against-chinese-development-aid-heres-why/>

<sup>20</sup> Statistics from Chinese embassies in Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan and Turkmenistan.

trade war, China has since been actively looking to Belt and Road countries for trade solutions. China is naturally gravitating towards its main partners, so in 2018, Russian exports to China have for the first time exceeded their imports from China, closing a 13-year-old trade gap.<sup>21</sup>

A relaxed Chinese import policy has been long overdue. In 2017, China approved a fast-track clearance at Sino-Kyrgyz borders for Kyrgyz farm produce. In 2019, for the first time, container after container of Kazakh wheat were exported eastbound to Lianyungang. Kazakhstan's national railway company, Temir Zholy, has reported a 54% increase of eastbound cargo to China in 2018.<sup>22</sup> Return trains from Chongqing to the European Union, 20 days shorter than the existing sea route, saw a 67% increase in 2018 compared to the same period in 2017.<sup>23</sup> As a result, Sino-Kazakh trade imbalance is down 60% from 2017 to 2018.<sup>24</sup>

Involved in six large-scale cross regional projects,<sup>25</sup> the Sino-Kazakh border has become more porous to accommodate heavy trade traffic. Five border ports (Khorgos, Alataw, Dulata, Baketu and Jimunai) at the Sino-Kazakh are now open to the public all year long. These ports are well equipped with high quality nearby airports (Khorgos, Alataw and Baketu), railways (Khorgos and Alataw) and highways, while continuously receiving further Chinese funding to improve efficiency. This is compared to the Kulma pass, the only Sino-Tajik border port, which was only open December to April by appointment before becoming open all year from 2016.<sup>26</sup>

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<sup>21</sup> "Russia's exports to China surpass imports first time in 13 years," Belt and Road Portal, 2019, <https://www.yidaiyilu.gov.cn/xwzx/hwxw/79625.html> (In Chinese)

<sup>22</sup> "The volume of traffic between Kazakhstan and China increased by 38% in 2018," Kazakhstan Temir Zholy NC JSC, 2019, <https://www.railways.kz/en/news/r-men-khr-arasyn-day-tasymal-klemi--2018-zhyly-38-artty->

<sup>23</sup> "KTZH developing container transportation on Chongqing-EU-Chongqing route," Kazakhstan Temir Zholy NC JSC, 2018, <https://www.railways.kz/en/news/tzh-chongqing-euchongqing-bayty-boyyynsha-konteynerlik-tasymaldaudy-damytady>

<sup>24</sup> "China-Kazakhstan trade statistics from January to October released," Ministry of Commerce, 2018, <https://www.yidaiyilu.gov.cn/xwzx/hwxw/74865.html> (In Chinese)

<sup>25</sup> The 6 projects are: 1) Port of Lianyungang, 2) Dry port of Khorgos, 3) Aktau port, 4) Kazakhstan-Turkmenistan-Iran railway corridor, 5) Connecting the countries of Central Asia with the Persian Gulf and the port of Bandar Abbas in the south of Iran and 6) Western Europe-Western China international transit corridor.

<sup>26</sup> "Kulma pass to open all year," Belt and Road Portal, 2016, <https://www.yidaiyilu.gov.cn/wftz/ssl/3135.html> (In Chinese)

In 2017, products travelling from Tashkent to Kashgar took at least ten days. Real efforts pushed by the SCO Joint Commission on Facilitation of International Road Transport oversaw the issuing of over 500 cargo transport permits, shortening the Tashkent-Andijan-Osh-Irkeshtam-Kashgar highway transport time to two days, connecting Uzbekistan and China hassle free. As one of the two land routes out of Xinjiang, the Tashkent to Kashgar highway via Kyrgyzstan now offers an alternative to the busy Sino-Kazakh border.

## **Investment Facilitation**

In 2018, over 6 million people visited the International Center of Boundary Cooperation in Khorgos, a once deserted town with a few hundred residents<sup>27</sup> before becoming a recognised city in Xinjiang in July 2014. Designed to facilitate investments for the Belt and Road Initiative, the centre sits in the Khorgos Special Economic Zone, where Kazakh and Chinese businessmen enjoy visa free entry for five days to browse exhibitions from over 5,000 companies on site.

Other more specific industrial parks have been set up in Central Asia with teams of local representatives to serve Chinese businessmen. These industrial parks function primarily as an information platform for Chinese companies to kick-start their businesses. Local experts at these industrial parks works with Chinese companies to ease legal matters, logistics and find customers. As wages rise in mainland China, these industrial parks in Central Asia enjoy lower operation costs in terms of labour and rent in a geographically close proximity, at the same time avoiding potential foreign sanctions on made in China products.

All Chinese-built, construction of more such industrial parks are financed through loans from the China Development Bank. As Table 3 shows, these industrial parks begin with high funding, high hopes and expectations.

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<sup>27</sup> "International Center of Boundary Cooperation exceed 5.9 million visitors in 2018," Belt and Road Portal, 2019, <https://www.yidaiyilu.gov.cn/xwzx/dfdt/76494.html> (In Chinese)



**Table 3. List of Belt and Road Industrial Parks in Central Asia**

Country	Project	Planned funding (USD)	Location
Kazakhstan	Aiju grain and oil trade logistic park	\$140 million	Kokshetau
Kazakhstan	China-Kazakhstan modern agriculture innovation park	\$283 million	Almaty
Uzbekistan	Peng Seng Industrial Park	\$50 million	Jizzakh
Tajikistan	Northern Nonferrous metals Industrial park	\$500 million	Istiklol
Tajikistan	Zhongtai new silk road Tajikistan agricultural textile industrial park \$283 million		Khatlon
Kyrgyzstan	Asia star agricultural industry cooperation zone	\$200 million	Tokmok

Investing in Turkmenistan remained conservative until China held its first products exhibition in Ashgabat, joined by 86 Chinese companies in July 2017. The Turkmen government further invited investments in October 2017 by establishing the first free trade zone.<sup>28</sup>

## Expand Trade Areas

Many efforts in the name of the Belt and Road have been pushed to diversify trade beyond the financially weighty energy and mineral sectors in Central Asia. All of these Chinese-introduced trade sectors massively shifted reliance on imports in areas where it was previously from Russia.

Once ironically reliant on asphalt import despite being a main exporter of oil, the Sino-Kazakh Caspian Sea asphalt company, since 2014, has produced enough to not only satisfy Kazakh domestic demand to build roads, but also to export elsewhere in the region. Similarly, CNPC has invested in a factory to build a wide type of welded steel pipe that will lower Kazakh import of such products by 60%. Registered in Kazakhstan, Uzbekistan and Kyrgyzstan, Kelun-Kazpharm,

<sup>28</sup> "Silk Road News: Turkmenistan enacts the Free Economic Zone Act," Belt and Road Portal, 2017, <https://www.yidaiyilu.gov.cn/xwzx/gnxw/30684.htm> (In Chinese)

a Sino-Kazakh company, now runs the biggest pharmaceutical factory in Central Asia.

Responding to Kyrgyzstan's agricultural-based economy, China has introduced a fertilizer plant with a total investment of US\$2bn from Hebei Baidoujia Fertilizer Co. Ltd., to be built by China Nuclear Industry 23 Construction Co. Ltd.<sup>29</sup> Since 2018, under the build-operation-transfer model for 30 years, China is set to profit from the country's only fertilizer production company, with plans to export the final products to other countries in Central Asia. Since agricultural products are most time sensitive, it is expected that Kyrgyzstan can benefit the most from higher connectivity.

A Chinese step to cultivate a whole ecosystem in Kyrgyzstan, the Sino-Kyrgyz industrial park, includes seed development, agricultural machinery, agricultural medical production, agricultural product processing, packaging, modern farming, and so on. Due to climate likeness to Xinjiang, Chinese technologies have also been conveniently introduced to Kyrgyzstan in other primary sectors such as cotton planting.

With the signed agreement to relocate excess production from China to Kyrgyzstan in 2017, more Chinese technologies are expected to be transferred. By 2017, 12 projects have been transferred to Kazakhstan, following a 2015 agreement to relocate excess production from China to Kazakhstan.<sup>30</sup>

Suffering from international sanctions against Iran, Turkmenistan has diversified away from Iran as its previously sole export and import origin. Bilateral trade between China and Turkmenistan increased from \$4.5 million in 1991 to over \$8.4 billion in 2013.<sup>31</sup> The landmark Central Asia China Pipeline built by the Chinese counterpart is set to supply natural gas eastward for 30 years from the Turkmen Galkynysh Gas Field, the world's second largest gas field, as compensation for

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<sup>29</sup> M. Song, "Hebei Baidoujia Fertilizer Co. Ltd to build Kyrgyzstan's national fertilizer plant," *China Economics Daily*, June 24, 2017, <http://news.sina.com.cn/c/2017-06-24/doc-ifyhmpew3226098.shtml> (in Chinese)

<sup>30</sup> R. Vakulchuk & I. Overland, "China's Belt and Road Initiative through the Lens of Central Asia," in *Regional Connection under the Belt and Road Initiative. The Prospects for Economic and Financial Cooperation*, 115-133 (London: Routledge, 2019).

<sup>31</sup> Information obtained from the Chinese Ministry of Commerce.

Chinese loans.<sup>32</sup> Sino-Turkmen trade figures then are also partly driven by other industries. Chinese-made cars, bus compartments and railway infrastructure make up of 80% of the Turkmen market, while Huawei and other Chinese telecommunication companies make up of 60% of the market share.<sup>33</sup>

## **Financial Integration**

Aimed at increasing financial exchange between countries, financial integration here concerns areas such as monetary policy, local currency settlement as well as setting up regional development financial institutions. With immature banking systems, tackling financial integration in Central Asia appears to be China's experimental ground. The Initiative has fostered the following as parts of its strategy to financially integrate with Central Asian countries: RMB internationalisation, SCO financing and the Silk Road Fund.

## **RMB Internationalisation**

External trade management requires a stable currency, especially to avoid the kind of economic interruptions evident with Iranian sanctions. For years, China has been attempting to introduce the renminbi (RMB) as a reliable international trading currency, encouraging foreign countries to hold such reserves to ease trade, reducing transaction costs while shifting dependence away from the US dollar. In 2016, the RMB successfully joined the US dollar, Euro, Japanese yen and British pound sterling as one of IMF's special drawing rights currencies, a new currency backing method introduced after US abolishment of the Gold Standard in 1971.

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<sup>32</sup> Vakulchuk & Overland, "China's BRI through the Lens of Central Asia.,"; W. Liu & M. Dunford, "Inclusive globalization: Unpacking China's belt and road initiative," *Area Development and Policy* 1, no. 3 (2016): 323-340.

<sup>33</sup> "Chinese Ambassador to Turkmenistan: Turkmen "Renaissance of the Ancient Silk Road" Meets "Belt and Road"," *Belt and Road Portal*, 2017), <https://www.yidaiyilu.gov.cn/xwzx/hwxw/20362.htm> (In Chinese)

An identified goal within the Initiative, strong efforts has been pushed to complete financial transactions in RMB in Central Asia. With ambiguous and special attachment to RMB, Central Asian states have been encouraged to actively purchase and continuously enlarge their RMB holdings in order to ensure loan repayments. As a result, Kazakhstan has listed RMB as one of its saving currencies.

As of 2019, Kazakhstan, Tajikistan and Uzbekistan have signed RMB Bilateral Swap Agreements with China. These agreements allow a large sum of RMB to be traded at a specified rate prior to any trade deals, encouraging stabilising savings in RMB as well as direct trade by providing better business forecasts. While there are no overarching bilateral swap agreements between China and Kyrgyzstan, a local currency settlement for border trade lays the foundation for future swap deals. As of 2019, RMB cannot be used to conclude trade in Turkmenistan.

In Central Asia, China seems to favour these bilateral swap agreements more than Renminbi clearing centres, where the latter is popular only in countries with more mature banking structures.<sup>34</sup> With no RMB offshore clearing banks in Central Asia, RMB dealings remain at a highly political level. This has left space open for the Chinese government to set terms of a new financial game in Central Asia, bypassing international standards.

## **SCO Financing**

Deals within the SCO loan structure—the single platform where details can be agreed upon between Chinese policy banks and respective national banks in Central Asia—are managed by the SCO Interbank Association. Since 2009, many domestic Central Asian infrastructure projects have been aided by loans under the SCO framework to connect with the Belt and Road Initiative. Financing through Chinese-supported SCO loans also tend to be combined with the double preferential loan structure, such as the Tajik highway from Dushanbe to the Uzbek border and the Bishkek thermal power station repairs.

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<sup>34</sup> N. Rolland, *China's Eurasian Century?: Political and Strategic Implications of the Belt and Road Initiative* (National Bureau of Asian Research, 2017).

By 2019, the China Development Bank has accumulated SCO loans up to a total of US\$50 billion.<sup>35</sup> At the 2018 SCO summit, President Xi introduced another US\$4 billion into the SCO loan structure. Apart from providing a platform for Chinese loans to reach a regional consensus of support, the SCO structure also allows China to initiate projects not immediately and directly commercial, such as anti-drug trafficking in Central Asia.

## Silk Road Fund

With long to medium term rates, the Silk Road Fund is a sum of money specifically pooled by China's policy banks designed to offer higher quality packages of financing suited to international standards for Belt and Road projects. Beyond loans, the Silk Road Fund can finance projects using company equity and creditor's rights, as well as collaborating with international development banks, which are not viable under existing financing from SCO and Chinese policy banks.

While financing projects along the Belt and Road in Kenya, Pakistan, Russia and the UAE, the Silk Road Fund has a special eye on Central Asia. With an allocation of US\$2bn for the China-Kazakhstan Production Capacity Cooperation Fund, since 2018 it has been backing the Astana Stock Exchange to raise funds for Kazakh businesses. In Uzbekistan, the Silk Road Fund has signed a cooperation agreement with Uzbekneftegaz and the Uzbek Bank for Foreign Economic Activity of Uzbekistan.<sup>36</sup>

For China, introducing international actors in its foreign loan structure lessens the risk of defaults, which is frequent along the Belt and Road. An alarming 80% of proposed Chinese mining deals have failed to be implemented for such reasons.<sup>37</sup> In Central Asia, after the Bank of Astana had its license revoked in September 2018, China

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<sup>35</sup> S. Xu, "China Development Bank SCO loan balance close to US\$50 billion," People's Daily, June 14, 2019, [http://paper.people.com.cn/rmrbhwb/html/2019-06/14/content\\_1930463.htm](http://paper.people.com.cn/rmrbhwb/html/2019-06/14/content_1930463.htm) (in Chinese)

<sup>36</sup> "Silk Road Fund and Uzbekistan related enterprises and financial institutions sign a package cooperation agreement," Belt and Road Portal, 2019, <https://www.yidaiyilu.gov.cn/xwzx/gnxw/57689.htm> (in Chinese)

<sup>37</sup> J. Miao, "Expectations and Realities: Managing the Risks of the "Belt and Road" Initiative," *China Quarterly of International Strategic Studies* 1, no. 3 (2015): 497-522.

Development Bank backed away from the planned US\$1.9bn light rail project in Nur-Sultan.

## **People-to-People Bonds**

At the backbone of the Belt and Road Initiative, China has begun to take seriously the necessity that is soft power. In Central Asia, its intense focus on building people-to-people exchanges makes urgent sense from a Chinese perspective given its limited soft power in the region. The Soviet legacy and post-Cold War Western soft-power domination in Central Asia have given locals a seriously low knowledge level about China, despite being geographically close in proximity. Key strategies here concern promotion of the Chinese language, Chinese Traditional Medicine, University Cooperation and a Silk Road identity.

## **Promotion of Chinese Language**

The push for Chinese language in Central Asia has been evidently challenging. For a long time, the lack of textbooks and other teaching materials were the greatest hindrance. The first Chinese bookstore came to Central Asia, in Kyrgyzstan, only in 2017. Shans International Publishing, the first overseas publisher of Chinese books in Russian language, opened its first branch in Moscow in 2016. Operating in Almaty with plans to expand to Tashkent in 2019, Shans pioneered exporting the core of Chinese culture to the Russian-speaking world.

A lack of recognition of the opportunities associated with studying in China, coupled with visa access, has handicapped Central Asian students from continuing their education in China. Since the Belt and Road Initiative, many efforts have been pushed to encourage students to study in China. In 2019, there are about 14,000 Kazakh, 4,600 Kyrgyz, 3,500 Tajik, 6,500 Uzbek and over 2,000 Turkmen students in China.<sup>38</sup>

Functioning to facilitate construction in nature, as reflected through energy related choices of majors, Chinese education for Central Asian

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<sup>38</sup> Information obtained from respective Chinese embassies.

students serves to provide local technical gaps of knowledge, to better aid Chinese companies in fulfilling their local employees proportion while exporting Chinese standards of construction. In 2018, 81 Kyrgyz petrochemical students started jobs at Chinese-funded enterprises in Kyrgyzstan. Most of these students first undergo Chinese language training at the various Confucius institutes in most of the large Central Asian cities. Despite high enrolment, these Confucius institutes in Central Asia struggle to teach advance level Chinese language due to lack of materials. The first Kazakh-Chinese dictionary was published only in February 2018.<sup>39</sup>

## Chinese Traditional Medicine

Considered as one of the civilisation-defining aspects of Chinese culture, the promotion of traditional Chinese medicine abroad has been incorporated as a prioritised industry in the Belt and Road Initiative. With its designated policy group including members from the Ministry of Foreign Affairs, the internationalisation of traditional Chinese medicine is being considered to become the face of Chinese culture. Offering a Chinese solution to health while opposing the Western alternative symbolically adds meaning for China's pursuit of its own political ideology.

Since the Initiative began, governmental efforts have pushed to set up 43 overseas traditional Chinese medicine centres all over the world, including Central Asia. Chinese President Xi's visit to Bishkek in 2013 witnessed the first agreement to promote traditional Chinese medicine in Central Asia. As a result, the first in Central Asia, the Bishkek Centre for Traditional Chinese Medicine was established in 2015. From its opening in September 2015 to October 2016, over 2,000 patients have completed acupuncture treatment at the Bishkek centre, of which 60% are locals. Providing services for free, the five regular Chinese doctors at the centre in Bishkek also train local students to practise acupuncture.

The second government-funded traditional Chinese medicine centre in Central Asia, opened the summer of 2018 in Almaty. The Tashkent centre is due to open at the end of 2019. Likewise, these

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<sup>39</sup> "Kazakhstan's first Han-Kazakh dictionary debuts in Astana," Belt and Road Portal, 2018, <https://www.yidaiyilu.gov.cn/xwzx/hwxw/49076.html> (in Chinese)

traditional Chinese medicines came as a result of agreements signed during President Xi's visits to the respective countries. While such agreements are absent in Tajikistan and Turkmenistan, Chinese doctors are regularly invited to share their practices. Often, traditional Chinese medicine manufacturers accompany representatives from Chinese hospitals, along with university professors.

Promotion of traditional Chinese medicine for the Initiative is the most rigorous in Kyrgyzstan. The brand new Osh Clinic Hospital, back by a US\$26m Chinese investment, became operational in summer 2019. The Gansu hospital, which manages the Bishkek Centre for Traditional Chinese Medicine, donated US\$300,000 worth of medical equipment to the Osh Clinic Hospital. In the name of the Belt and Road, a China-Kyrgyzstan International Health Consortium has been established, connecting Chinese hospitals with eight hospitals in Kyrgyzstan.<sup>40</sup>

## University Cooperation

Since the Initiative, a race has emerged among Chinese universities to establish innovative paths to connect to youths along the Belt and Road. Apart from the many Belt and Road research centres flooding Chinese academia with politically motivated studies in alignment with policy choices, efforts have been made to cultivate an image for the Belt and Road in academia abroad. In China, structures have been set up to screen and approve international conference papers and academic activities that are political in nature, resulting in only the official point of view being allowed.<sup>41</sup>

For the Initiative, Chinese universities have been encouraged to set up alliances and events to connect with foreign universities while promoting the Belt and Road. In Central Asia, some of these exchanges are knowledge-based. The Chinese Academy of Agricultural Sciences has built a joint laboratory for animal disease prevention and control in Kazakhstan's S. Seifullin Agro Technical University in August 2018.<sup>42</sup>

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<sup>40</sup> "Xinjiang cross-border telemedicine platform has connected 24 large overseas hospitals," Belt and Road Portal, 2018, <https://www.yidaiyilu.gov.cn/xwzx/dfdt/63049.html> (in Chinese)

<sup>41</sup> He, "Domestic politics of the Belt and Road initiative," 180-195.

<sup>42</sup> "Ministry of Agriculture and Rural Affairs implements "Belt and Road" initiative," Belt and Road Portal, 2018, <https://www.yidaiyilu.gov.cn/xwzx/bwdt/61733.htm> (in Chinese)



Agreements have also been signed to set up cotton experimentation laboratories in Tajikistan and Uzbekistan, at the Tajik Agricultural University and at the Tashkent National Agricultural University.

The various education alliances (see in multilateral mechanism section above) established under the Initiative also serve as platforms of communication between Belt and Road countries. Beyond bringing together Central Asian education leaders, these alliances invite education leaders along the Belt and Road to attend annual meetings and forums in China. Providing vocabularies for Belt and Road education leaders is believed to be effective in order to expose Central Asian youths to the Initiative in classroom discussion.

## **Silk Road Identity**

Perhaps the most exclusive aspect of Belt and Road implementation in Central Asia, China is working to cultivate a region-wide Silk Road identity. Aimed at restoring the positive association with the ancient economic and cultural ties between countries along the route, the Chinese government has brought up vocabularies of a Silk Road identity on various occasions. Often, these historical tales are accompanied and encouraged by archaeological discoveries.

By 2019, close to US\$100 million has been allocated to overseas archaeology work related to the Silk Road in Central Asia.<sup>43</sup> The UNESCO listing of the “Silk Roads: the Routes Network of Chang’an-Tianshan Corridor” between China-Kazakhstan-Kyrgyzstan was considered as a landmark success for the Belt and Road Initiative in China. Funded by the Chinese government, these Chinese archaeologists have repeatedly used a Silk Road-centric framework to present their findings. Highlighting peaceful coexistence of different ethnic and religious groups, the findings also worked to emphasise cases when Han Chinese rulers reached out to ancient Central Asian tribes for help to fight off common enemies.

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<sup>43</sup> “China Provides 100 Million Funds to Assist the Restoration of Cultural Relics in Five Countries along the Belt and Road,” China News, 2017, <http://collection.sina.com.cn/yjjj/2017-10-23/doc-ifymzzpv9507800.shtml> (in Chinese).

Findings have provided evidence for a trade route between Khorgos and Almaty, which dates back to the 5th century.<sup>44</sup> A key project funded by China's National Cultural Heritage Administration encompasses a group of Chinese archaeologists studying ancient castles in Kyrgyzstan, notably ruins of Buddhist temples in the Naryn Region. Other archaeology projects in Kyrgyzstan include the discovery of a tomb with Chinese features. Another exemplary project involves Sino-Uzbek archaeologists who have also found evidence for a Chinese diplomatic mission from the 2nd century, Zhang Qian's westward quest to present-day Uzbekistan to seek military help from the Yuezhi people to encircle the Xiongnu people.

## Conclusion

Evidently, many projects that are considered to be part of the Belt and Road Initiative in Central Asia are not obviously or explicitly recognised as being so beyond the Chinese discourse. With the Belt and Road Initiative set in stone in the Chinese constitution in October 2017, it is only logical to expect a strong continuous effort on the part of the Chinese. The second policy framework, the Three-year action plan for advancing the Belt and Road Initiative (2018-2020) has been spelled out to guide, include and encourage Chinese provincial governments to put forward their international inputs.

Essentially an “all directional” (quán fāngwèi) approach, the Belt and Road Initiative as the Chinese way stood in sharp contrast with the democracy promotion of American Foreign Policy. As a naturally fluid strategy with various national and foreign policies in mind, comprehensive understanding on the impact of the Belt and Road in any given country or region requires a holistic outlook of the many plans embedded within the Initiative arising from different Chinese needs.

How China sees Central Asia, or how China will continue its implementation of the Initiative in Central Asia will first require an understanding of domestic Chinese politics given the existence of Belt and Road to fulfil various Chinese national and foreign policies. Almost

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<sup>44</sup> J. Zhao, “Archaeologists from Shaanxi travel to Kazakhstan to unveil Rahat site,” September 5, 2018, Retrieved from <http://news.cnwest.com/ssxw/a/2018/09/05/15961913.html> (in Chinese).

all Chinese actors in the region consider the Belt and Road from the point of view of China, not Central Asia. It is therefore difficult to frame the intent of the Initiative outside of China's very own national and foreign policies.

However, since the Initiative is subjected to the local governments' willingness to participate, Belt and Road implementation is also affected by a particularly nation's desire to cooperate with China. The scope of this article excluded important discussions of the role and influence of Russia, Turkey, South Korea and Iran in Central Asia. A full picture of the situation in Central Asia, of the Belt and Road Initiative, must also take into consideration the role and influence of the mentioned countries. For example, Uzbekistan's South Korea focus can partially explain the lack of Sino-Uzbek Belt and Road progress compared to other Central Asian states. Further analysis incorporating other states is needed in order to produce a full picture of Chinese implementation characteristics.

Attention to Belt and Road developments elsewhere in the world will help to advance understanding of implementation progress and characteristics in Central Asia. Have Chinese strategies mentioned above been repeated elsewhere? What are some projects not yet replicated in Central Asia? How has progress elsewhere added to envisioning an intercontinental free trade area? After numerous incidents of anti-China unrest around the world, Chinese companies have moved to hire more local workers as a response to criticisms.

After the 'what' question has been answered, naturally, the next question is who. Examination of the Belt and Road requires a comprehensive look at the role domestic Chinese politics play in shaping implementation.<sup>45</sup> Looking at which companies and personnel whose Belt and Road projects have been endorsed also serve to indicate evidence of the Chinese state's approval of their merits under President Xi. Likewise, what are the effects of a dominance of Chinese SOEs, who are often poor at financial decision-making, on Belt and Road countries?

It is also worth looking at what kind of international division of labour China is creating under the Belt and Road Initiative. Has there

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<sup>45</sup> He, "Domestic politics of the Belt and Road initiative," 180-195.

been more competition or cooperation? The danger of a fragmented Central Asia is looming under the Belt and Road.<sup>46</sup> There evidently lacks meaningful multilateral mechanisms that goes beyond consensus building, as is suggested that Beijing would try to prevent such from being established since a common front can jeopardize its interests.<sup>47</sup> In either case, the main focus for the international community should be fixated on how to influence Chinese assertiveness going forward.

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<sup>46</sup> F. Tolipov, "One belt, one road in Central Asia: Progress, challenges, and implications," in *Securing the Belt and Road Initiative*, 181-195, (Singapore: Palgrave, 2018).

<sup>47</sup> S. Peyrouse, "Discussing China: sinophilia and sinophobia in Central Asia," *Journal of Eurasian Studies* 7, no. 1 (2016): 14-23.

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# China's Policy of Political and Lending Conditionality: Is there a "Debt-Trap Diplomacy" in Central Asia?

Sherzod Shamiev

## Introduction

There is growing concern among experts and the general public in Central Asia that the region might be slowly sliding into a debt-trap.<sup>1</sup> As the largest investor in Central Asia, China's involvement marked a turning point in economic development and infrastructure building throughout its Post-Soviet history. The Central Asian region is considered to be fundamental for the success of BRI.<sup>2</sup> With the help of BRI infrastructure loans the Central Asian countries are able to better connect to worldwide value chains, upgrade Soviet era infrastructure and break the communication deadlock. However, upon a closer look it can be noted that there are also some worrying signs that Tajikistan, Kyrgyzstan and Turkmenistan have become increasingly dependent on China in their strategic economic sectors.<sup>3</sup>

Through a case study, this policy brief illustrates a so-called "lock in" process in the mining sector of Tajikistan, when it becomes dependent and the alternative options get "locked out," meaning that other options have less chances to compete against Chinese companies in this industry. In this way the beneficiary country might lose its maneuverability and much of its decision-making power.<sup>4</sup> This process is believed to occur when China extensively uses unorthodox conditionalities, through which it gains access

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<sup>1</sup> Voices on Central Asia, "China's Belt and Road Initiative and Its Impact in Central Asia," Voices on Central Asia, 2018, <https://voicesoncentralasia.org/chinas-belt-and-road-initiative-and-its-impact-in-central-asia/>.

<sup>2</sup> Voices on Central Asia, "China's Belt and Road."

<sup>3</sup> Tim Fernholz, "China's Debt Trap Is Even Worse than we Thought," Quartz, 2018, <https://qz.com/1317234/chinas-debt-trap-in-sri-lanka-is-even-worse-than-we-thought/>.

<sup>4</sup> Ian Greener, "The Potential of Path Dependence in Political Studies," *Politics* 25, no.1 (2005): 62-72.

to Central Asia's natural resources. The policy brief is intended to cover some gaps and respond to questions regarding China's use of conditionalities in Central Asia and provide some recommendations and policy options.

## Political and Lending Conditionalities

To understand the process which might lead to a debt-trap, it is important to delve into conditionalities that China uses, as they are an initial phase and an important factor that we cannot leave untouched. For many decades, international aid and lending has been dominated by Western institutions and standards.<sup>5</sup> The recipient countries which needed development aid needed to adhere to certain standards such as adjusting their economic policies, improving good governance and human rights records, etc. Chinese conditionality takes a different form from what has traditionally been used by the Washington Consensus institutions, because they are imposed in non-explicit terms. Rather, conditions are embedded in project financing requirements, which vary from case to case basis.<sup>6</sup>

Chinese conditions have been categorized by Matti Nojonen and Michael Mattlin in the "Conditionality in the China's Aid Model." According to the authors the conditionalities are divided into political, embedded, emergent, and cross-conditionality. Political conditionality is mostly about supporting one-China policy, which all of the Central Asian states have signed up for.<sup>7</sup> According to one-China policy the recipient nation must recognize mainland China as the only legitimate Chinese government, and the recipients also cannot have official relations with Taiwan.<sup>8</sup> It is interesting to look at the one-China principle today, as China is becoming a more assertive actor, its power and political conditionality grows proportionately. In addition to one-China policy, Beijing expects recipient countries to refuse supporting the Uygur cause, collaborate in the extraditing

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<sup>5</sup> Matt Derchen Xuefeng, Sun, Matti Nojonen, and Michael Mattlin, "Conditionality in China's Aid Model," Carnegie Endowment, 2012, <https://carnegieendowment.org/2012/01/10/conditionality-in-china-s-aid-model-event-4024>

<sup>6</sup> Michal Hudec, "China's Emergence in Central Asia," Institute of Asian Studies, 2018, [https://www.asian.sk/wp-content/uploads/2018/08/Chinas-Emergence-in-Central-Asia\\_fin.pdf](https://www.asian.sk/wp-content/uploads/2018/08/Chinas-Emergence-in-Central-Asia_fin.pdf)

<sup>7</sup> Hudec, "China's Emergence."

<sup>8</sup> Xuefeng, Sun, Nojonen, and Michael Mattlin, "Conditionality in China's Aid."

the dissidents, and possibly expects support for China at the UN Security Council, etc.<sup>9</sup>

As with any lender, China is interested in repayment and interest. With the help of cross conditionality, it makes sure the loan is repaid in one form or the other. Sometimes the resource itself becomes a way of payment as in the case of the Angolan oilfield, Ghana's cocoa field, two of Tajikistan's gold mines, etc.<sup>10</sup> A large share of Ecuador's future oil revenues, accounting for up to 41% of its government revenues, is also earmarked for China, as it follows the oil for loan model.<sup>11</sup> As it can be noted, to secure its investments in high risk/low return countries, China uses the resources-backed loan scheme, also known as the Angolan Model. For instance, one of the examples from Central Asia is when, in 2009, China provided Turkmenistan with \$4 billion in exchange for the right to exploit the South Yolotan or in Tajikistan when China built a heating plant in Dushanbe in exchange for gold mine licenses.<sup>12</sup>

Tied aid, or otherwise called embedded conditionality, is when money from China comes tied to Chinese firms and their requirements. Some of the embedded conditionalities include practices such as an agreement by the recipient country to allow Chinese labor and resources, technology, and also regulations put in place by Chinese firms.<sup>13</sup> Exim Bank is one of the active users of embedded conditionality. When it provides a loan, the central condition to qualify for the loan is that the recipient country uses a Chinese project contractor and labor. Such projects currently account for about 40% of all Chinese projects connected with foreign assistance.<sup>14</sup>

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<sup>9</sup> Marlene Laruelle, ed., "China's Belt and Road Initiative and its Impact in Central Asia," (Washington D.C.: The George Washington University, 2018), X.

<sup>10</sup> Mattlin Matt and Nojonen Matti, "Conditionality and Path Dependence in Chinese Lending," *Journal of Contemporary China* 24, no.94 (2015): 713.

<sup>11</sup> Henry Sanderson and Michael Forsythe, *China's Superbank: Debt, Oil and Influence: How China Development Bank is Rewriting the Rules of Finance* (John Wiley & Sons, 2013), 139-140.

<sup>12</sup> Laruelle, *China's Belt and Road*, 28.

<sup>13</sup> Laruelle, *China's Belt and Road*, 27

<sup>14</sup> Zhang Haibing, "The Development and Transformation of China's Foreign Aid," Center for Strategic and International Studies, 2017, <https://www.csis.org/development-and-transformation-chinas-foreign-aid>.

## Creation of Path Dependence

Some nations that have been borrowing heavily from China are becoming dependent on China in strategic sectors of their economy. In Central Asia, China has become the region's largest lender and source of infrastructure financing.<sup>15</sup> The official total trade turnover between China and Central Asia has grown 60-fold, from \$500,000 in 1991 to up to \$50 billion in 2013, and dropped to \$41.7 billion in 2018.<sup>16</sup> It is considered to be a structural effect that occurs over time when the recipient relies too much on the donor to fuel investments into its strategic sectors. This effect is also known as an emergent conditionality.<sup>17</sup>

**Table 1. Total Investment of Chinese Projects in Central Asia (in US\$, million)<sup>18</sup>**

	Total by country	Rail and road connectivity	Energy connectivity	Industry	Agriculture and food	Mineral and petroleum	Finance and IT	People-to-people projects
<b>Total by sector</b>	136 241.06	23 499.74	35 693.8	12 299.55	1 451.88	55 159.65	8 100	46.44
Kazakhstan	90 862.43	14 539.3	18 849.5	10 545.6	1 049.63	37 778.5	8 100	NA
Turkmenistan	24 842.5	1 402.5	9 410	NA	NA	1 403	NA	NA
Tajikistan	10 518.7	4 515.9	4 516	679.8	342	465	NA	NA
Kyrgyzstan	5 391.68	1 773.04	2 713	150.8	31.55	676.85	NA	NA
Uzbekistan	4 635.75	1 269	205.3	923.45	28.7	2 209.3	NA	NA

The attractiveness of the loans offered by Chinese lenders often dims many project related demands, for example by Exim Bank with regards to the use of Chinese sourcing and contractors. Positive results brought by infrastructure or other projects related to welfare and development leads to reliance on the same financing source and new Chinese-financed projects, which in turn creates a path dependence.<sup>19</sup> Chinese funded

<sup>15</sup> Alexander Cooley, "China's Changing Role in Central Asia and Implications for US Policy: From Trading Partner to Collective Goods Provider," Center for Strategic and International Studies, 2016.

<sup>16</sup> Maria Levina, "Can Central Asian Countries Pay Their External Debts?," The Times of Central Asia, 2019, <https://www.timesca.com/index.php/news/26-opinion-head/20949-can-central-asia-countries-pay-their-external-debts>.

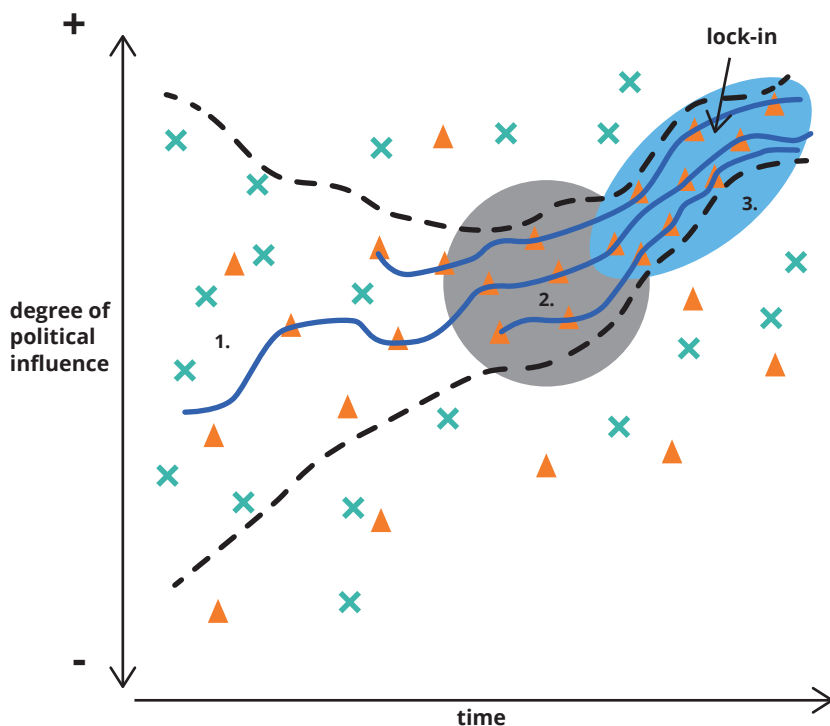
<sup>17</sup> Xuefeng, Sun, Nojonen, and Michael Mattlin, "Conditionality in China's Aid."

<sup>18</sup> Farkhod Aminjonov, Alina Abylkasymova et al., "BRI in Central Asia: Overview of Chinese Projects," CADGAT, 2019, [http://www.osce-academy.net/upload/file/20\\_BRI\\_in\\_CA.pdf](http://www.osce-academy.net/upload/file/20_BRI_in_CA.pdf).

<sup>19</sup> Matt and Matti, "Conditionality," 716.

projects in strategic sectors of developing countries have given their firms and state-owned enterprises (SOE) an influential position. The total economic, industrial, and political weight of cumulative projects financed and managed by Chinese investors in some countries reaches a critical point. As a consequence, the recipient country loses its maneuverability and may become restricted in its decision-making by relying on China too much in critical aspects of major infrastructure projects.<sup>20</sup>

**Figure 1. Hypothetical Lock-in in Chinese lending<sup>21</sup>**







<sup>20</sup> Matt and Matti, "Conditionality," 717-718.

<sup>21</sup> Matt and Matti, "Conditionality," 715.

## Figure 1. Hypothetical Lock-in in Chinese lending (continued)

- 1. Political conditionally:**  
accepting Chinese political conditions as a precondition for receiving loans
- 2. Embedded conditionally:**  
complying with the project-related demands of Chinese state-linked lenders
- 3. Emergent conditionally:**  
cumulative lock-in effects of Chinese-financed projects in critical sectors

-  - option to choose 'fast-track' Chinese financing
-  - project trajectories in recipient country
-  - option to choose non-Chinese financing
-  - border limiting optimal decisions

The overreliance on Chinese loans in long term perspective creates a power asymmetry that becomes larger between China and the recipient country. For instance, Cambodia, Kyrgyzstan, Tajikistan and many other recipient nations, as a result of extensive borrowing from China, have adjusted their policies, including in the diplomatic arena, closer towards China.<sup>22</sup> The recent announcement that Tajikistan and Kazakhstan have aligned their National Development Strategy for the period up to 2030 with BRI is a clear sign of this.<sup>23</sup> These strategic dimensions also influence how the international community, and particularly the recipients, react to political events in China.

## The Narrative of Debt-Trap Diplomacy

The narrative of debt-trap diplomacy is growing, regardless of the absence of facts that support the idea of a debt-trap.<sup>24</sup> The term debt-trap or debtbook diplomacy was coined in a report by the US State Department written by Sam Parker 2018 and Gabrielle Chefitz.<sup>25</sup> Since

<sup>22</sup> Matt and Matti, "Conditionality," 718.

<sup>23</sup> Laruelle, China's Belt and Road, 6.

<sup>24</sup> Deborah Brautigam, "Is China World's Loan Shark?," The New York Times, 2019, <https://www.nytimes.com/2019/04/26/opinion/china-belt-road-initiative.html>.

<sup>25</sup> Gabrielle Chefitz and Sam Parker, "Debtbook Diplomacy China's Strategic Leveraging of its Newfound Economic Influence and the Consequences for U.S. Foreign Policy," Belfercenter, 2018, [https://www.belfercenter.org/sites/default/files/files/publications/Debtbook Diplomacy PDF.pdf](https://www.belfercenter.org/sites/default/files/files/publications/Debtbook%20Diplomacy%20PDF.pdf).

then, the term has become a catchphrase to portray policies that some consider as predatory lending. The increasing reliance on China as an investor is raising major concerns in the US and around the world about the changing geopolitical power dynamics.<sup>26</sup> According to the report, China builds influence over other nations by deliberately causing them to take on more debt than they can handle.<sup>27</sup> Other sources describe debt-trap diplomacy as an attempt by China to lure poorer nations by offering cheap loans for transformative infrastructure projects. When poorer nations are unable to service the loans, Beijing can demand concessions or other advantages in order to relief the debt.<sup>28</sup> Particularly, the Sri Lankan handover in 2017 of a strategic port to China on a 99-year lease became a smoking gun for critics of “debt-trap diplomacy”.<sup>29</sup>

Relying on several case studies, I argue that China does not intentionally use debt-trap diplomacy as a tool. On the contrary, seizure of assets or embedding the countries into a debt-trap is a major drawback that slows down the BRI projects’ implementation and will negatively impact the perception of China around the world and amongst its beneficiaries.<sup>30</sup>

The data from recent case studies conducted by Rhodium group<sup>31</sup> and the Center for Global Development (CGD)<sup>32</sup> suggests that China prefers to use debt-relief or debt write off, rather than asset seizures and debt-trap diplomacy. The CGD report analyzed 84 cases for the

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<sup>26</sup> Sean Mantesso, “What Happens When Poorer Nations Lured by China’s Cheap Loans Can’t Pay Them Back?,” ABC News, 2018, <https://www.abc.net.au/news/2018-11-16/are-china-cheap-loans-to-poor-nations-a-debt-trap/10493286>.

<sup>27</sup> Askary Hussein and Jason Ross, “Why China’s Debtbook Diplomacy Is a Hoax,” The International Schiller Institute, 2018, <https://schillerinstitute.com/why-chinas-debtbook-diplomacy-is-a-hoax/>.

<sup>28</sup> Mantesso, “Cheap Loans.”

<sup>29</sup> Laura Zhou, “Study Challenges Accusations of China’s Debt-Trap Diplomacy,” Inkstone, 2019, <https://www.inkstonenews.com/politics/study-challenges-accusations-chinas-debt-trap-diplomacy.article/3008398>.

<sup>30</sup> Gyude Moore, “The Language of ‘Debt-Trap Diplomacy’ Reflects Western Anxieties, Not African Realities,” Quartz, 2018, <https://qz.com/1391770/the-anxious-chorus-around-chinese-debt-trap-diplomacy-doesnt-reflect-african-realities/>.

<sup>31</sup> Agatha Kratz, Allen Feng, and Logan Wright, “New Data on the ‘Debt Trap’ Questions,” Rhodium Group, 2019, <https://rhg.com/research/new-data-on-the-debt-trap-question/>.

<sup>32</sup> Gailyn Portelance, John Hurley, and Scott Morris, “Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective,” Center for Global Development, 2018, <https://www.cgdev.org/publication/examining-debt-implications-belt-and-road-initiative-a-policy-perspective>.

period of last 15 years. From the data provided it is clear that China did not engage in a debt-trap or intentional asset seizures when loans weren't serviced.<sup>33</sup> The case of Sri Lanka is an outlier, when we compare it to all the other cases of debt management by China. Thus, I assume that when it comes to debt management and debt-sustainability, China is far from the experienced Paris club lenders.

When we look at the table provided by Rhodium Institute, the first realization is that asset seizures are very rare.<sup>34</sup> A common feature in the table is an outcome, in which China writes-off debt (16 instances), followed by deferments (11 instances) and refinancing, term negotiations, and denial of additional loans (4 instances).<sup>35</sup>

**Table 2. Summary of China's External Debt Renegotiations<sup>36</sup>**

Country	Year	Amount renegotiated	Outcome
Angola	2015	USD 21.3 bilion	Refinancing
	2018	Unclear	Terms renegotiated
Botswana	2018	USD 7.2 mln	Write-off
Cambodia	2016	USD 90 mln	Write-off
Cameroon	2001	USD 34 mln	Write-off
	2007	USD 32 mln	Write-off
	2010	USD 30 mln	Write-off
	2019	USD 78 mln	Write-off
Congo	2019	Unclear	Ongoing
Cuba	2008	Unclear	Deferment
	2010	USD 2.8 billion	Write-off, deferment
	2016	Unclear (up to 3 bn)	Write-off
Djibouti	2019	USD 800 mln	Ongoing
Ecuador	2017-2018	USD 1 billion	Terms renegotiated
Ethiopia	2018	USD 3.3 billion	Deferment
	2019	USD Unclear	Ongoing



**Table 2. Summary of China's External Debt Renegotiations (continued)**

Country	Year	Amount renegotiated	Outcome
Ghana	2002-2003	USD 54 mln	Write-off
	2007	USD 126 mln	Write-off
	2014-2015	USD 1.5 billion	Withheld further lending
Kazakhstan	2018	Unclear	Deferment
Lesotho	2018	USD 10.6 mln	Write-off
Maldives	2019	Unclear	Ongoing
Mongolia	2017	USD 2.2 billion	Refinancing: Deferment
Mozambique	2017	USD 24 mln	Write-off
	2018	Unclear	Deferment
Sudan	2017	USD 160 mln	Write-off
Sri-Lanka	2012	USD 307 mln	Terms renegotiated
	2016-2018	USD Unclear (At least 1.1 billion)	Asset seizure, Write-off, Refinancing
	2019	USD 1 billion	Refinancing
Tajikistan	2011	Unclear	Rumored (asset seizure)
Tonga	2018	Unclear	Deferment
Ukraine	2014	USD 3 billion	Deferment
Vanuatu	2016-2017	USD 5 mln	Write-off
Venezuela	2015	Unclear	Withheld further lending
	2016	Unclear	Deferment, Terms renegotiated
	2018	Unclear	Rumored refinancing, Deferment
Zambia	2017	Unclear (up to USD 5.5 billion)	Ongoing
Zimbabwe	2010	USD 54 mln	Deferment
	2015	USD 40 mln	Write-off
	2018	USD n/a	Withheld further lending

When it comes to debt-trap diplomacy in Central Asia, the idea that it is being used has never been convincingly argued, or at best there is still insubstantial proof of it. Nevertheless, the serious debt spiral and number of projects completed and planned makes one think of a possibility of a potential “Hambantota”<sup>37</sup> scenario in Central Asia. The increased natural resource extraction by China in the region is a sign that conditionalities work and they provide Chinese banks and companies such as Tebian Electric Apparatus (TBEA), China Road and Bridge Corporation (CRBC), China National Petroleum Corporation (CNPC) and others with access to Central Asian natural resources.<sup>38</sup> Besides that, the stagnating economy of China in the near future might put the government under a heavy domestic pressure, and debt-write offs and restructuration will be difficult and unwelcome when the economy is in recession.

## Is Tajikistan in a Debt-Trap?

Tajikistan is a peculiar case, as it is in a very difficult economic situation, which makes it receptive to Chinese conditionalities. BRI projects in Tajikistan range from roads, railways, to pipelines, power plants, mining, farming and even traffic cameras.<sup>39</sup> Through several critically important projects that were implemented, it is seen that there is no clear plan of leading Tajikistan into a debt-trap by China.

The controversial 2011 land dispute and its settlement between Tajikistan and China marks a beginning of large wave of infrastructure and energy projects attributed to Chinese companies in the country. Although we do not know the exact outcome of the negotiations, the indirect outcomes suggest that the land dispute was a critical part of the political agreement between Beijing and Dushanbe that serves as a gateway for the cooperation.<sup>40</sup>

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<sup>37</sup> Unable to repay its debt, Sri Lanka ceded its Hambantota port for 99-year lease to China

<sup>38</sup> Laruelle, China’s Belt and Road, 36.

<sup>39</sup> Sam Reynolds, “For Tajikistan, the Belt and Road Is Paved with Good Intentions,” *The National Interest*, 2018, <https://nationalinterest.org/feature/tajikistan-belt-and-road-paved-good-intentions-29607>.

<sup>40</sup> Kratz, Feng, and Wright, “New Data on the ‘Debt Trap.’”

Another critical juncture event is believed to be construction of a combined heat and power plant in Dushanbe. As it was noted, in return for constructing the phase one of Dushanbe coal plant, the government of Tajikistan granted TBEA rights to explore and mine gold deposits at the Eastern Duoba mine and Upper Kumarg mine.<sup>41</sup> Simply said, Tajikistan has swapped its natural resources to complete an initial phase of the coal plant, which might have opened a risky dynamic of funding infrastructure projects through giving away licenses to mine precious metals.

Tajikistan has over 137 deposits of industrial gold and 127 non-industrial gold deposits. And it is very much looking for investments to develop its mining industry. The absence of alternative investments in the mining industry forces the government to welcome and approve Chinese capital. For instance, the Tajik Chinese Joint Mining Company “Zarafshon” brings 764 million Somoni in taxes and provides 2,400 jobs, which is very favorable for Tajikistan.<sup>42</sup> Both Tajikistan’s vast precious metal deposits and China’s demand and aspirations to access gold and other rare metals creates mutually beneficial cooperation. Over the past five years, the production of gold in Tajikistan has more than tripled, from 2 to 6,4 tons. Gold production in 2019 has increased by 60 percent (8.1 tons) compared to the same period last year, which became a record year for gold production.<sup>43</sup> Although there are many positive outcomes of Sino-Tajik Cooperation, I believe that the ceding of Yakjiva Silver deposit is a possible sign of a “lock in” stage, in which competing alternatives and ideas might get locked out and challenging the established system, which China has created, will have high opportunity cost. At this point Tajikistan risks falling into a “lock in” and losing its control over much of its natural resources if it keeps borrowing and swapping natural resources for infrastructure money.

### Recommendations

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<sup>41</sup> Dirk van der Kley, “The Full Story Behind China’s Gold Mine–Power Plant Swap in Tajikistan,” *The Diplomat*, 2018, <https://thediplomat.com/2018/04/the-full-story-behind-chinas-gold-mine-power-plant-swap-in-tajikistan/>.

<sup>42</sup> Sputnik, “Kakoy Cenoy Obhodyatsya Druzhba I Dengi: Zachem Kitayu Zoloto Tajikistana,” *Sputnik News*, 2018, <https://tj.sputniknews.ru/analytics/20180515/1025552961/tajikistan-china-zoloto-dobicha.html>.

<sup>43</sup> Payrav Chorshanbiev, “Vipusk Dragometallov v Tajikistane Vedetsya s Bolshim Operezheniem Prognozov,” *Asia Plus*, 2019, <https://asiaplustj.info/ru/news/tajikistan/economic/20191011/vipusk-dragmetallov-v-tadzhikistane-vedetsya-s-bolshim-operezheniem-prognozov>.

Loans and development aid are an important tool for China in diplomacy, as it serves its political, economic, strategic and global interests.<sup>44</sup> Central Asian elites have learned how to balance between the great powers during a so-called Great Game, and Chinese influence should be balanced out to a safer level, through engagement with other great powers and their projects in the region. Thus, there should be a conscious move to accepting more alternatives to Chinese financing.

The governments in Central Asia should pay closer attention to conditionalities they are accepting, as these conditionalities might lead to a “lock in” process. The BRI is only on its initial years of implementation, and considering the number and sums of the projects there could be many potential cases of debt-trap in the future. Thus, there needs to be an extensive monitoring and assessment of the overall debt levels.

Tajikistan’s mining industry is becoming dependent on China, as there are not many alternatives that could provide funding for mining. China, as one of the largest gold producers, is interested in extraction of gold and other extractive minerals, as the price of gold shares are rising in global markets. The government of Tajikistan should defer from infrastructure to natural resource swaps as in the case of the Dushanbe-2 thermal plant. These resource to infrastructure money swaps could be potentially very risky, as they could make Tajikistan even more dependent on China in its strategic economic sectors.

After the case of Hambantota, we have seen many countries looking closer into cost and benefits of the projects that China finances. Through closer scrutiny and cost and benefit analysis government of Tajikistan could eliminate the potential “white elephant” projects.

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<sup>44</sup> Zhang Denghua and Graeme Smith, “China’s Foreign Aid System: Structure, Agencies, and Identities,” *Third World Quarterly* 38, no.10 (2017).

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