

CHINA: GEO-ECONOMIC SCENARIO IN CENTRAL ASIA

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ABSTRACT

The article discusses China's geo-economic presence in the Central Asian region and analyzes the history and causes of this phenomenon in the form of a detailed discussion of the interaction between China and the Central Asian coun-

tries in the energy and transportation spheres. It notes the special role of Kazakhstan in the realization of Belt and Road Initiative and pays particular attention to certain aspects of China's crediting and investment policy.

KEYWORDS: *Central Asia, Belt and Road Initiative, geo-economics of China.*

Introduction

For over a century, during which Central Asia was first part of the Russian Empire and later—the Soviet Union, the region was treated as a component in China's relationships with both. The Soviet Union's disintegration turned the region into a distinct sector of China's foreign policy with steadily growing importance.

It should be said that during the Soviet Union's Afghan campaign of the 1980s, Beijing actively supported the mujahideen and all other opposition forces with Soviet weapons. In his book *The Silk Roads: A New History of the World* Peter Frankopan quotes one of the Chinese dailies as writing the following: The Soviet Union threatens peace and security in Asia and the rest of the world. Afghanistan is no longer the objective: the Soviets intend to use it as "a stepping stone for a southward thrust towards Pakistan and the whole subcontinent."¹ This is true: with the Central Asian and Caucasian springboards at its disposal and the left-wing Arab regimes on its side, the Soviet Union imposed its Great Game on the geopolitical square formed by Asia Minor, the Nile, the Persian Gulf and the Pamir Mountains, incredibly rich in hydrocarbons.

¹ P. Frankopan, *The Silk Roads: A New History of the World*, Knopf Doubleday Publishing Group, First Vintage Edition, 2017, p. 462 ff.

Unlike the West, China was quite satisfied with the Central Asian regimes and found a common tongue with their leaders: by the beginning of the new millennium Beijing joined the Great Game on an equal footing with the others as a powerful economic center of the contemporary world.

Today, China looks at the region as its traditional dominion or a protectorate, while its huge human resources allow it to actively realize its anaconda strategy in regard to raw materials. Beijing is not aggressive, it relies on its “soft leadership” (“soft hegemony”) doctrine to achieve, along with other players, the ultimate aim of this geo-economic scenario. China entails the reconfiguration of the Central Asian economic space, being one of the most active actors in this process. Multisided diplomacy and rhetoric, the two essential instruments of its non-confrontational “soft envelopment” strategy allowed Beijing to address the main problems of its national development.

The methodological category of geopolitical space is being gradually replaced with the geo-economic. The post-Cold War realities have confronted political thinkers and practicing politicians with the complex task of formulating a new paradigm to identify the main sources of conflicts in the contemporary world and explain political dynamics, which is obviously beyond their potential.

We can agree with one of the authors, who has stated that China had formulated a geo-economic model of its own: development of national technological platforms, which “incentivizes Beijing to take the lead in high-tech strategic industries with its digital Silk Road.”² China’s integration in the global innovation networks was among the key strategies of radical restructuring of the Chinese economy formulated in the five-year plan for 2016-2020.

China’s Geo-Economic Scenario for Central Asia

Today, China is mostly interested in large-scale investments in non-ferrous and ferrous metallurgy of Central Asia, its hydraulic power production, transport infrastructure and telecommunications since hydrocarbon resources have already been significantly developed and are under control. Many experts, mainly foreign experts predict that in the future China will play a decisive role similar to that played by the Russian Empire and the Soviet Union in the 19th and 20th centuries, respectively. This probably explains “the fact that in the last fifteen years a large number of publications has appeared that describe the Chinese emperors’ military inroads into the Central Asian territory as unifying.”³

According to Jack Farchy, an observer of *The Financial Times*, in the essay published in 2010, “Liu Yazhou, a general in the People’s Liberation Army, called Central Asia ‘a rich piece of cake given to today’s Chinese people by heaven’.” Farchy himself called this essay a sort of manifesto of China’s expansionist policy in the region.⁴ Many in the expert community have pointed out that today “Chinese leaders use history to legitimate their rule”⁵ much more often than in the past. Today, this factor remains underestimated, to a great extent, in the intergovernmental, inter-elite and civilizational respects.

At the preparatory stage, China did a lot to facilitate the operation of the Shanghai Cooperation Organization (SCO) as one of the most important elements of ensuring its interests in the region and

² G. Diesen, “China’s Geoeconomics and the ‘New Cold War’,” *Valdai Papers*, No. 96, 21 November, 2018.

³ A. Khojaev, “China’s Central Asian Policy (Based on Chinese Sources),” *Central Asia and the Caucasus*, No. 3 (45), 2007, p. 38.

⁴ J. Farchy, “China’s Great Game: In Russia’s Backyard,” *The Financial Times*, 14 October, 2015.

⁵ J. Blanchard, K. Lin, “Contemplating Chinese Foreign Policy: Approaches to the Use of Historical Analysis,” *Pacific Focus*, Vol. XXVIII, No. 2, 2013, p. 165.

demonstrated great skillfulness in using the entire set of economic, political, military and other instruments that it offers.

It not only improved the functioning of the SCO mechanism, but put into action the vast arsenal of its bilateral relations with each of the Central Asian states. Having recognized their independence and established diplomatic relations, the PRC hastened to sign numerous agreements, promoted closer economic cooperation, opened air traffic and simplified the visa regime for its own and foreign citizens. Wholesale trade was organized in Beijing and in border towns, customs dues on exported Chinese products and imported raw materials were lowered or even annulled; transportation and delivery service was improved, highways were modernized together with delivery means.

According to the IMF, trade between China and the five post-Soviet Central Asian states (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) rose from \$1.8 billion in 2000 to \$50 billion in 2013; later it dropped somewhat, together with the raw material prices.

In “Golden September” (to borrow the term from Chinese media) 2013, Chairman Xi Jinping paid official visits to Kazakhstan, Turkmenistan, Uzbekistan and Kyrgyzstan to sign, over 10 days, a number of highly important documents, including those that raised the relationships with these countries to the “strategic partnership” level.

On 1 June, 2018, President of Kazakhstan Nursultan Nazarbayev said in his exclusive interview to the Xinhua Agency that during the years of Kazakhstan’s independence China had invested over \$16 billion in its economy. Well-known and highly successful Chinese companies CNPC, CGNPC, CITIC and over 1,200 companies with Chinese capital are operating in Kazakhstan. According to Forbes electronic publisher, since 2015 the republics have signed five agreements on cooperation clusters in transport infrastructure, trade, processing industry, construction, agriculture, etc.⁶

China has moved to the fore in the communication revolution unfolding in the region by promoting a system of fixed telecommunication network and a system of data transfer to promptly receive information from all corners of the world. Many of the new technologies were created by the Huawei and ZTE companies that operate in close contact with the People’s Liberation Army of China on domestic national loans from the China Development Bank. This is how the latest technologies appeared in Tajikistan, Kyrgyzstan, Uzbekistan and Turkmenistan, the resource-rich countries with which China is building long-term relations.

“Concern about these telecom companies was enough to prompt U.S. congressional hearing which concluded that Huawei and ZTL ‘cannot be trusted’ on the basis that they are too close to Chinese ‘state influence and thus pose a security threat to the United States’.”⁷ The U.S. National Security Agency launched a secret program Operation Shotgiant to penetrate Huawei and hack its servers.⁸

“Energy exports have been a major factor in the expanding economic relationship between Central Asia and China. Since the mid-1990s, Beijing has invested billions of dollars in energy-related infrastructure projects and acquisitions in the region’s energy sector. Central Asia is projected to supply 20% of China’s gas consumption by the end of 2015, and this share is expected to grow as China continues to expand its pipeline network in the region.”⁹

It is obvious that internationalization of resources as a basis for consolidation of national, regional and global resources to promote national and regional development and joint solution of

⁶ See: I. Zhukov, “Skolko Kitaia v Kazakhstane?” *Forbes Kazakhstan*, 10 May, 2017, available at [https://forbes.kz/auto/skolko_kitaya_v_kazakhstane], 15 September, 2018.

⁷ P. Frankopan, *The Silk Roads: A New History of the World*, Knopf Doubleday Publishing Group, First Vintage Edition, 2017, p. 502.

⁸ Investigative Report on the US National Security Issues Posed by Chinese Telecommunications Companies Huawei and ZTE. US House of Representatives Report, 8 October, 2012.

⁹ E. Rumer, R. Sokolsky, P. Stronski, *U.S. Policy Toward Central Asia 3.0*, available at [<https://carnegieendowment.org/2016/01/25/u.s.-policy-toward-central-asia-3.0-pub-62556>].

tactical and strategic tasks is the central and dominant vector (axis) of geo-economic integration groups.

Turkmenistan, which until the first decade of the 21st century had sent all of its extracted gas to Russia, became China's main gas supplier. In 2009, China funded the equipment of Galkanysh, the region's biggest group of gas fields, becoming the only foreign country permitted to use the onshore Turkmen gas fields. Today, China has already built a vast network of gas pipelines to become the biggest gas market for Turkmenistan since Russia had refused to buy its gas.

Turkmenistan is actively involved in cooperation with China in the transportation sphere: under one of the contracts, it bought 66 new diesel locomotives and 64 freight and passenger cars and later 113 (mainly passenger) cars from China. Turkmenistan paid only 15% of the total sum, the rest was paid by the commercial loan from the Chinese company Capital-Longji Sci-Tech Co, Ltd for 8 years with an annual rate of 3.6%.¹⁰ In 2005, it signed a contract with Capital-Longji Sci-Tech Co, Ltd for a purchase of 48 diesel locomotives and 50 cars for a total amount of \$128.6 million. The Chinese company funded 85% of the total sum, or \$109 million in the form of a commercial loan. In 2008, Turkmenistan signed a contract with Capital-Longji Sci-Tech Co, Ltd on \$27.5 million on 10 main-line freight diesel locomotives and spare parts, funded by the China Exim Bank.¹¹ Prior to that, Turkmenistan had bought railway equipment from Russia.

This means that China's presence in the transportation sector of Turkmenistan is limited to diesel locomotives, freight and passenger cars and spare parts, the China Exim Bank being the main creditor.

In 2018, China actively tested the transit potentials of the China-Kazakhstan-Turkmenistan-Iran route. It sent several test trains of 40-50 containers from the cities of Yiwu (the Zhejiang Province in the country's east), Changsha, capital of Hunan Province in China's south, Yinchuan, an autonomous region in the central part of the country) and Xi'an (also known as Sian) and Bayannur in the country's north and discovered that the new route was three times faster than the previous one (which required shipping by sea).¹²

This is what happened to American company Conoco Phillips, which decided to sell its share in Kashagan, the biggest Kazakhstan project in 2013, but never contemplated China as a possible buyer. Kazakhstan's authorities used their first refusal right. They borrowed the required amount from China to buy the share package and transferred it to the China National Petroleum Corporation (CNPC). Later, an oil pipeline was built to move 20 million tons a year from Kazakhstan to China.¹³

As soon as the Soviet Union disappeared, China and Kazakhstan organized railway communications, in 1992-2006, the volumes of freight turnover between Alashankou and Dostyk (Friendship) increased 34 times over, from 47 to 1,625 million tons. Since 2006, the two countries have determined to further intensify their railway communications and have been working on the technical aspects of rail joining at the Khorgos border point. Since that time, the volumes of supplies of Chinese railway machinery and equipment to Kazakhstan, partly bought using Chinese loans, increased.¹⁴

¹⁰ See: "In the Last Four Years Turkmenia Bought from China 130 Diesel Locomotives and Passenger Cars," *Delovaya pressa*, 15 November, 2010, available in Russian at [http://www.businesspress.ru/newspaper/article_mld_20644_ald_509953.html], 12 March, 2017.

¹¹ See: V.V. Paramonov, A.V. Stokov, O.A. Stolpovsky, *Kitayskiy ekonomicheskiy ekspres v tsentre Evrazii: novaia ugroza ili istoricheskiy shans (ekonomicheskoe prisutstvie Kitaia v Tsentralnoy Azii)*, ed. by V.V. Paramonov, OAO Altayskiy poligraficheskiy kombinat, Barnaul, 2010, p. 112.

¹² See: "Razvitie transportnoy otrasli Turkmenistana v 2018 godu," *Kaspiyskiy vestnik*, 19 February, 2019, available at [<http://casp-geo.ru/razvitie-transportnoj-otrasli-turkmenistana-v-2018-godu/>], 27 March 2019.

¹³ See: A. Mordvinova, "Ekonomicheskaya strategiya Kitaia v Tsentralnoy Azii: zadachi, instrumenty, rezultaty," *Viper-son*, 31 March, 2016, available at [<http://viperson.ru/articles/icheskaya-strategiya-kitaya-v-tsentralnoy-azii-zadachi-instrumenty-rezultaty>], 13 February, 2019.

¹⁴ See: V.V. Paramonov, A.V. Stokov, O.A. Stolpovsky, op. cit., p. 56.

As could be expected, in 2015, the Kazakhstan scenario attracted the biggest volume of container traffic: in 2014, freights along the China-EU-China route were shipped through the Trans-Baikal area, while in 2016 two-thirds of its volume were moved through border points in Kazakhstan.¹⁵

In China, Khorgos is the second (after Alashankou) “window” to the West that opens up routes to Almaty, Bishkek, Tashkent and other Central Asian cities and further on (Pakistan, Afghanistan and the Gulf countries). Three strategically important main gas pipelines from Turkmenistan, Uzbekistan and Kazakhstan reach China through Khorgos to provide approximately half of the volume of gas consumed by households. The transportation corridor and preferential conditions of the free-trade zone are expected to become the industrial base for the development of Khorgos. The border control point turned the Khorgos Autonomous District into an international hub of highways, railways and pipelines connected with Central Asia and Europe.

A project of the main railway China-Kyrgyzstan-Uzbekistan, essential for China in the first place, has been actively discussed since 1997 on China’s initiative. Today, China has nearly completed construction of the related facilities in its territory. Kyrgyzstan, which needs this railway, does not have the funds to start construction. In 2006, Beijing offered Bishkek a \$1.2 billion soft loan in exchange for access to the republic’s mineral resources, specifically, gold. This stirred up a vehement discussion in the corridors of power and the expert community of Kyrgyzstan.¹⁶

With no common borders with Uzbekistan, China is interested in it as a transit country. China was previously involved in the electrification of the Tukumachi-Aganharan railway. In 2010, according to a contract between the state joint-stock company Uzbekistan Temir Yo’llari and the Chinese Zhuzhou, China delivered diesel locomotives for a total amount of \$75.53 million.¹⁷

China’s investment activities are apparent in Afghanistan as well. In 2007, Chinese corporations China Metallurgical Group Corp., Jiangxi Copper Corporation and Zijin Mining Group Company won the tender for the development of Aynak, one of the world’s biggest copper deposits near Kabul. The \$3.5-billion deal is the biggest in the history of Afghanistan. China might be interested in other copper deposits, as well as in gold and iron ore mining. Moreover, there are practically undeveloped deposits of oil (about 1.6 million barrels) and natural gas (15.7 trillion cubic m) in Afghanistan.¹⁸

China invited the Central Asian states to join the New Silk Road Economic Belt and gave them a chance to “ride the Chinese train.” By that time, China had done a lot to revive “runc” as the traditional principle of Chinese diplomacy: “magnanimous and benevolent patron.” Today, Central Asian and Eurasian economies are confronted with an obvious challenge. None of them can compete with China’s non-raw material sectors on its own, which significantly limits the prospects and structures of their economies.

In March 2015, the Chinese government adopted the “Vision and Action Plan for Jointly Building the Silk Road Economic Belt and the 21st Century Maritime Silk Road,” a document of highest importance prepared by the State Committee for the Development and Reforms of the PRC and by the foreign affairs and commerce ministries. This is, in fact, a framework “road map” with highly structuralized basic elements: geography, aims and tasks, principles, trends and mechanisms of realization. “The Belt and Road Initiative is more than China’s asymmetric response to the United States related to secure routes of raw material supplies. It is an important element of its own system parallel

¹⁵ See: L.B. Vardomsky, M.O. Turaeva, *Razvitie transportnykh koridorov postsovetskogo prostranstva v usloviakh sovremennykh geopoliticheskikh i ekonomicheskikh vyzovov*, Institute of Economics of the Russian Academy of Sciences, Moscow, 2018, p. 43.

¹⁶ See: V.V. Paramonov, A.V. Stokov, O.A. Stolpovsky, op. cit., p. 74.

¹⁷ See: I. Reshetnikov, “Namanganskaia pravda”: poezda poydut v Ferganskuiu dolinu cherez pereval Kamchik,” *Tsentrasia: inform*, 3 March, available at 2011 [<http://www.centrasia.ru/news.php?st=1299133620>], 20 April, 2016.

¹⁸ See: A. Bovdunov, “Novaia bolshaia igra: kak prikhod Kitaia v Afghanistan zatronet interesy Rossii i SShA,” *Novorusmir*, 27 December 2017, available at [<http://novorusmir.ru/archives/35040>], 15 May, 2018.

to the already existing one.”¹⁹ China intended to create a single market for electric power within the EAEU program by 2019 and a single market for oil, gas and oil products by 2025.

Due to many regional problems that still remain unresolved Beijing uses its cooperation with Central Asia within the New Silk Road Economic Belt and the SCO to tune up long-term partner relations with each of the countries separately.

Broad and consistent access to global trade, resources and energy fuels is an absolute condition, required for a country to realize its long-term development aims. On the one hand, Beijing makes no secret of its intention to draw the Greater Central Asia into its sphere of influence; on the other, it does not make that claim on every corner. There is one important aspect that deserves a special mention: possible repercussions of undeclared yet massive investments in the regional infrastructure accompanied by wider political cooperation with the regional countries. In 2016, China offered military assistance to Afghanistan for the first time; the leaders of the latter discussed more extensive defense cooperation with the Defense Ministry of China. Kabul was interested in logistic equipment, light weapons, spare aviation equipment parts, ammunition and military uniforms.

As distinct from Moscow, Beijing prefers not to demonstrate its military potentials so as not to provoke even greater irritation with China’s military-political ambitions in Central Asia in Washington and Brussels.

Crediting policy is one of the key instruments of China’s economic strategy in Central Asia. All in all, by the beginning of 2016, China had already provided Central Asian countries with loans totaling \$30 billion, which increased the debt burden of these countries. In the past, they have borrowed money from international financial institutions; today, China has become one of the main creditors with powerful consolidating positions in the region. In 2015, the share of China in the foreign national debt of Tajikistan reached 43% (\$0.9 billion), Kyrgyzstan—35% (\$1.2 billion) and Kazakhstan—8.5% (\$13.3 billion).

Credit terms were and remain highly specific: they are low-interest (1.5-3%) long-term (up to 20 years) loans with a grace period, which makes them highly attractive for the region’s states that have practically no access to the Western financial markets. This helps China gain political weight in Central Asia. Arina Mordvinova, an expert in Central Asian politics, has forecasted that the Chinese side will rely on crediting to a much greater extent to widen the spheres of the yuan in the region.²⁰

Kazakhstan and Turkmenistan, countries rich in natural resources, are the main objects of China’s active crediting policy. Tajikistan and Kyrgyzstan use Chinese money to reconstruct their power lines and roads. In Uzbekistan China is pursuing a different crediting policy. Tashkent demonstrates a determination to funnel Chinese money into the real sector, while China gives money to Uzbek enterprises under conditions of purchase of Chinese equipment.²¹

However, there is a problem: China refuses to regularly inform its partners about trans-border project funding on a standardized or transparent basis. The Chinese Development Bank and Exim Bank do not reveal the terms of their loans, which makes it practically impossible to assess the cost of debt of each debtor country to China.²²

Chinese investments in its closest neighbors’ infrastructure are offered on soft conditions under an obligation to use Chinese materials, equipment, technologies and machines, as well as Chinese railway standards and services of qualified Chinese experts in their operation.

¹⁹ A.O. Vinogradov, “Asimmetrichnyy otvet, ili strategiya Kitaia v globalnom mire,” *Filosofskie nauki*, Issue 1, 2015, pp. 116-134.

²⁰ See: A.E. Mordvinova, “Kredity kak instrument ekonomicheskoy strategii Kitaia v Tsentralnoy Azii,” *Aftershock*, 22 February, 2016, available at [<https://aftershock.news/?q=node/374799&full>], 11 March, 2016.

²¹ See: A. Mordvinova, “Ekonomicheskaya strategiya Kitaia v Tsentralnoy Azii: zadachi, instrumenty, rezultaty.”

²² See: R.F. Cekuta, K. Cheriegate, E. Deahl, Y. Chen, *Protection and Modernization of Critical Infrastructure—Key to Prosperity and Security*, Caspian Policy Center, Washington, 2019, p. 29.

This is amply confirmed by the relations between Tajikistan and China, wherein the latter pours money into the economy of the former, especially in precious metal mining. In 2011, this crediting activity forced Tajikistan to part with stretches of its territory to repay the debt. In 2013, Tajikistan sold part of its Gorno-Badakhshan Autonomous Region for \$500 million. In 2018, it transferred the rights to the Verkhniy Kumarg gold fields in the Sughd Region to Beijing to repay the debt incurred for the modernization of the Dushanbe-2 thermal power station.²³

The New Silk Road strategy is not limited to economic partnership, it stretches into international cooperation in the academic and cultural spheres. During the next decade, 30,000 young people from the SCO countries will receive stipends to study at Chinese higher educational establishments; 40,000 Chinese students and teachers will be educated in Central Asian countries at the expense of the Confucius Institutes funded by the Chinese government.

In some of the Central Asian republics CCTV, the Chinese state TV channel offers, on a regular basis, programs about China and blocks of news supplied by the state information agency Xinhua, as an important instrument of strategic penetration of China into Central Asia and consolidating its positions there.

Conclusion

Confronted with certain limitations or even obstructions in the region, the Chinese leaders abandoned any giant collective projects involving all the countries of Central Asian and concentrated on bilateral agreements according to the simple principle: some projects are successful, others are not. China prefers long-term plans; the SCO is its main instrument in the region, which helps it maintain a balance of power; and it is shifting the balance in its favor, while its growing economic and political weight forces the Central Asian leaders to visit China more often.

So far, the Belt and Road Initiative is too recent to assess its future, yet it may obviously revolutionize trade in Eurasia; in fact, the process has begun, yet the rate is still slow. In the future, it may revolutionize Eurasia in many other spheres as well. It promises huge advantages and is fraught with huge challenges that may change everything, from global policies to national identities, accelerate the redistribution of global GDP from the West to the East and create very serious pressure on fresh water and food sources. As usual, everything depends on those who realize these plans and the way they are implemented.

²³ See: G. Abdullaeva, "Na Shelkovom puti cherez Tsentralnuiu Aziyu voznikli trudnosti," *Aftershock*, 24 January, 2019, available at [<https://aftershock.news/?q=node/723216&full>], 20 March, 2019.