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# **The China – Central Asia Economic Corridor**

## **A Brief Introduction to the Belt and Road Initiative**

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**Estimated reading time:**

**18-20 minutes**

**Estimated learning time:**

**35-40 minutes**

## **Class VII: The China – Central Asia Economic Corridor**

### **Summary**

In this course you will learn about Central Asia and its general importance for China regarding the Belt and Road Initiative. This teaching material is focusing on two countries: Kazakhstan and Uzbekistan.

### **Topics of the class include:**

- The reason of Central Asia's importance
- Kazakhstan's value for China and its own interest in the Belt and Road Initiative
- Uzbekistan's current situation and its international relations – especially towards China

## **A general overview of Central Asia and its connection to the Belt and Road Initiative**

Diplomatic relations between the People's Republic of China and the Central-Asian countries have been established in 1992 January when they got independent from the Soviet Union. Ever since their independence, the PRC aimed to form good ties with them. The first and foremost reason for this was very simple: **these countries share a border for more than 3000 kms with China**. It is obvious that solving border issues and making sure a firm border control is in place is very important for the region (and especially China): its stability depends on it as these Central Asian countries are neighboring the Xinjiang Uygur Autonomous Region which is currently the most problematic part of mainland China – and the most susceptible for terrorist attacks. Thus, **Beijing needs the support of Central Asian countries for countering extremism inside and outside of its borders**.

In the case of these countries, relationships are much less regulated between themselves and with the PRC (in comparison Pakistan and China has multiple bilateral agreements in a lot of different fields). There are no free trade agreements in effect, there are few bilateral and even fewer multilateral agreements in place. It is important to note that **each Central Asian country is at a different level of development, which also hinders actual cooperation between them**.

The Belt and Road Initiative could really be a solid basis for more bi- and multilateral agreements and consultations in general and if the Chinese government would involve the Central Asian countries more in the thought process maybe those countries would feel the Initiative more as their own. In other words, **if the BRI would be more in accordance with each countries' individual development plans it could be even more successful**.

This could also help with the general assessment of the BRI from the population's point of view. Majority of the local population (across all the **Central Asian countries**) are **reluctant to fully commit themselves** to the cooperation with China **because they fear** that the Belt and Road Initiative would **not just mean economic influence, but a political one as well**. Since these countries have a long history of subjugation, they try to be very careful in this regard. But it is not so simple from Beijing's side either since they suspect that some extremists or separatists of mainland China could use these countries as hiding places and bases for their actions if crossing borders become too easy. So, all participants try to achieve a very delicate balance.

As for the question of the development of Central Asia, the infrastructural investments are very important (just like in the case of many other participant countries) as they are in need of those and usually foreign investment is not so easy to come by. So, China's eagerness to invest in the region is not something that they can simply refuse. We are not just talking about highway and railroad projects but new facilities in the energy sector, agricultural advancement, water distribution plants and so on.

Obviously, these are risky investments which could be directly tied to the stability in the region. But as in other cases, **Beijing hopes that economic stability will lead to political security as well.**

**The importance of the region is unquestionable: the easiest (and cheapest) way for China to reach the Mediterranean and Europe is through Central Asia. The infrastructural integration of this region into the BRI would not just help trade and transportation directly (via roads, railways and pipelines) but would also advocate “unimpeded trade” (as stated before there were very few free trade agreements in place before the BRI was announced).**

We will be focusing on two countries and their relationship to the People’s Republic of China and to the BRI. These countries are Kazakhstan and Uzbekistan.

### Kazakhstan

Kazakhstan both participates in the New Eurasian Landline and in the China-Central Asia Economic Corridor. It was the country where Xi Jinping, premier of the People’s Republic of China announced the Belt and Road (then called One Belt One Road) Initiative in 2013. The country is important for Beijing for a number of reasons.



1. Picture. Map of Kazakhstan. Source: The World Factbook 2020. Washington, DC: Central Intelligence Agency, 2020. Available at: <https://www.cia.gov/library/publications/the-world-factbook/attachments/maps/KZ-map.jpg>

First, **Kazakhstan is an enormous country**, its location is vital because of strategic considerations. Basically, it is a gateway for China to other Central Asian countries. Secondly, it **has vast hydrocarbon and mineral reserves**. The previous is important for transit trade while the latter is meaningful as a source of energy for the PRC (which has become the number one energy consumer this year, surpassing the United States of America). This importance is nothing new as China has invested a considerable amount of money even before 2013. It is no coincidence that the Belt and Road Initiative was announced here. Kazakhstan and China's relations was always amicable, but Beijing's influence was never as strong as Moscow's. There are some reasons for this. They share a very long common border, they have similar political structures, and shared history: Kazakhstan got integrated into the Russian empire in the 19<sup>th</sup> Century and then became part of the Soviet Union after 1922. Furthermore, most of the transportation system of Kazakhstan leaves the country in the north and enters to Russia. There is also a sizeable Russian minority in the Central Asian country as well.

One could interpret the fact of the announcement (or more like the location of it) that Beijing wanted to increase its influence within Kazakhstan and to name the country as one of its core partners. It is obviously a gesture but a clear message as well: **China can and will invest in Kazakhstan while others may not (or not at this magnitude)**. Although Kazakhstan is a member of the Eurasian Economic Union and is very close with Russia, this announcement moved the country a little closer to China – **Astana (called Nur-Sultan since 2019) is trying to balance its international relations with its foreign policy**, keeping the same level of “friendliness” with Russia, China and the West, but still they want to separate themselves a little from Moscow.

As I have mentioned relations between the two countries are friendly and were ever since the formation of the People's Republic of China in 1949. Most trade between the Soviet Union and China (at least until their fallout that started in the middle of the 1950s) was made via Kazakhstan using its routes and railways.

**The government in Astana eagerly accepted Beijing's offer regarding the BRI since the aim of the Initiative perfectly correlates with its own plan, namely: make Kazakhstan a regional trade and transit hub.** It then basically synchronized its own development plans with those of the BRI to be as efficient as possible. **So, the BRI can be considered a fully supported project en route to a great success in Kazakhstan, right?**

**Not entirely. Although the government and the ruling elite, practically the upper echelons of society are very welcoming of the BRI, but the majority of the population is skeptical at best.** The reason for this is simple: corruption is so general that it is interweaving all of the governance (widespread protests were all over the country in 2019 because of this). People also fear that they will become too dependent on China's economy and political wishes and that many of them would lose their work because of Chinese expats (and workers from other Central Asian countries because of Chinese investments). Probably one of the reasons why there were no revolution or at

least forceful regime change is the fact that a large amount of Kazakhstan's huge income goes to the maintenance of a welfare state where at least some of the money the ruling elite make pours down to lower levels of society. This (and the incredible amount of money the elite earns) resulted in Kazakhstan having the highest GDP in the region.

This increase in wealth – and the growth of the economy – is tied to the country's resources: **hydrocarbons and minerals are abundant. It has the 11<sup>th</sup> largest oil reserves in the world. Maybe even more important is the fact that Kazakhstan has the largest uranium deposits in the world (and a lot from copper, zinc and gold).** All this income increases the GDP substantially partially because the population is only around 18 million people.

In the past decade, Kazakhstan's leadership recognized this overdependence on natural resources and **they try to diversify the economy.** First and foremost, it needs to **upgrade its infrastructure:** not just roads and railroads but telecommunication, water supply and so on to be able **to become a transit hub for Central Asia.** They realized the need for this even before the BRI was announced so it was and is very beneficial for them (again it is not a coincidence that Xi Jinping announced the Initiative here). We must not forget that Kazakhstan is an enormous country which is also landlocked, so trying to be a transit country is a logical thing.

It is logical for China too: they most probably could have achieved the same results circumventing Kazakhstan altogether, but that would cost substantially more. However, including the country in the BRI has other values, not just saving money. By improving Kazakhstan's infrastructure and indirectly its domestic development (and economy) **China tries to enhance security and stability of the region** (a generally happy population will lead to less extremism to oversimplify things). Security does not only mean defense against external and internal threats, but in this case energy security.

**Energy security is crucial for China since it is the world's largest energy consumer.** However, most of China's energy (that is hydrocarbons) comes from regions that are not the most stable to say the least. Countries in Africa and the Middle-East, although are good sources of crude oil and they sell it relatively cheap, are not the safest places and that means China could be potentially cut off from a part of its energy source. The other important thing is the question of the **Strait of Malacca.** As most international sea trade routes go through there, so are the giant tanker ships delivering crude oil to Beijing, but these waters are not controlled by China, actually that area is more like a sphere of influence for the United States – and especially now that is not good for the PRC. Thus, the Central Asian region is key.

**Speaking of transportation, the integration of Central Asia to the Belt and Road Initiative is essential simply because it shortens transit time to Europe drastically.** It is true shipping goods via trucks and trains are more expensive than using ships, but it is also much faster. Because of this Kazakhstan is almost as meaningful for the BRI as Pakistan. Apart from the vast amount of resources the country has and its key location,

further important factor is that at the border of Kazakhstan and China lies **Korgas the biggest dry port of the world: it transfers roughly 70% of goods between China and Europe.**

This land connection is also important for domestic development and security in China: it gives the opportunity for Beijing to make progression in its outback territories, especially in Xinjiang Province.

**One of the major priorities of China is to maintain peace and stability in the region so that its own security is assured.** Border security and Xinjiang have always been very important for Beijing. It aims to make huge investments in the Province, including the development of its infrastructure (telecommunication is imperative, otherwise it would not be able to build the surveillance system the eastern parts of China have).

**Kazakhstan is important for one additional reason (this is true for many other participants of the BRI across the globe). Its enormous size and its abundance of minerals is perfect for China to outsource its surplus production (be it construction or mining).** But it is important to state that most construction done in Kazakhstan in relation with the BRI is only partially financed by China. The majority of the BRI projects are either funded by Astana herself or from other foreign investments funds (although the investment transactions are interwoven by corruption). This makes Kazakhstan unique in Central Asia: most other countries are in need of Chinese loans (not just in Central Asia, but around the world), but Kazakhstan is not.

As for the people-to-people connective part of the BRI it is worth mentioning that almost 20000 Kazakh students are studying currently in China (as a comparison: this number was around 8000 in 2008). Furthermore, there are five Confucius Institutes in Kazakhstan.

### **Problems**

Most of the “opposition” toward the BRI come from the population, the “common people of the streets”. **They are afraid of overdependence on another country and racial stereotypes are not unheard of.** The news of Uygur “reeducation” camps is not helping the Chinese image too much either. This is not helped by the fact that most of the local people do not really know what the meaning of the BRI is and why so many Chinese workers are entering their country. Additionally, **there are notable salary discrepancies between local workers and Chinese workers** even if they are working on the same project in the same position.

As mentioned before, widespread corruption is a general problem in Kazakhstan and the BRI projects are not devoid of this. There are more than one enterprises where the money provided for construction and development simply vanished. Bribery are also quite common. These could (and have already in some cases) lead to certain Chinese investors to reconsider and withdraw their investments. For some reason, although the **Korgas dry port** is an immense project, **it is not working at capacity, which means transit trade could be further increased between China and Kazakhstan.**

**One of the main problems in the case of Kazakhstan is the one-sided economy it has. Although the mineral resources provide a large amount of wealth for the ruling elite, it only provides new job opportunities for the population to a certain degree.** New sectors should be developed within the country – including a drastic advancement of agriculture – to create new jobs. It is quite likely that the growth of transit trade will stop in the near future. The transit revenues should be reinvested into other sectors to make sure Kazakhstan’s economic growth remains stable.

## Uzbekistan

As in the case of Kazakhstan, Uzbekistan was also integrated into the Russian empire in the 19th Century and then into the Soviet Union in 1922. Even after the country’s independence in 1991 close relations with Russia and mutual cultural ties are given in the case of Uzbekistan.



2. Picture: Map of Uzbekistan. Source: The World Factbook 2020. Washington, DC: Central Intelligence Agency, 2020. Available at: <https://www.cia.gov/library/publications/the-world-factbook/attachments/maps/UZ-map.jpg>

**In the early to mid-1990s financial investments from the West was scarce in Uzbekistan.** The reason for this is although they have been independent since 1991 (but a member of the Commonwealth of Independent States) the practice of governance largely remained the same: any kind of internal resistance was suppressed, no thought were given on human rights and so on. Thus, few investment plans come to fruition. This has started to change in the early **2000s as more and more country started to invest in Uzbekistan, among them China.** The strengthening of Islamic extremism after the **American invasion of Afghanistan** again set back the financial situation of the country and the increase in corruption, and in some cases, the lack of the rule of law did not help either.



The announcement of the BRI started to boost the inflow of capital into the country, but only from China: the **ongoing problems with corruption kept the West from risking big investments in the country. It did not keep away Beijing, because Uzbekistan has vast amount of natural gas reserves and, yes, the PRC wanted to purchase it.** So, the main reason of investing in Uzbekistan is its natural resources and to build the necessary infrastructure to extract it and transfer it. But this is a bit of an oversimplification.

Uzbekistan is an important country for transit trade. **Essentially all four planned gas pipelines of the Central Asian Corridor go through here.** By early 2016 three out of this four pipelines have been finished. These pipelines transfer 20% of China's annual natural gas consumption (it is important to differentiate that not all of the gas comes from Uzbekistan, the total amount is 20%).

The amount of investments has started to increase ever since the new political leadership (2016). Current president Shavkat Mirziyoyev has followed Islam Karimov in the position of President of Uzbekistan. Although the presidential election of Mirziyoyev was just as corrupt as Karimov's before (the last time he was elected President he was ineligible as a candidate based on Uzbekistan's constitution to begin with) there were signs of some changes. The relationship between Uzbekistan, Tajikistan and Kyrgyzstan started to normalize (settling of border disputes) and Mirziyoyev himself promised reforms in 2017. So far, these reforms have not been materialized as political changes: the governmental structure, the lack of political representation, and the lack of free elections are still the same as before. However, economic reforms are real which is shown in the amount of new jobs created in the country. The president announced in 2017 that more than 300000 new jobs were created that year, however, that number should be treated with criticism. But still changes began to happen after 2017: the old cadres of the previous regime have been slowly removed from the government and the political scene and started to fill in with young Uzbeks. Moreover, Mirziyoyev openly criticized the former presidency and also acknowledged the errors of the current political structure and promised to start enforcing the rule of law and create widespread reforms on the judicial system.

In addition to political reforms, the foreign policy opening, the domestic economic development and industrial modernization are all important factors in relation to international investments.

The economic system also needs changes. **One of the most important export commodities of Uzbekistan is cotton and a substantial amount of income comes from its production. However, it also serves as a root of great controversy: child's labor and forced labor is a common thing in Uzbekistan** or at least it was under Karimov's rule – it is yet to be determined whether there will be real, long lasting changes under Mirziyoyev or not.

**The reason for modernizing the country's economy is simple: it has only a few resource and valuable product, and it is quite overdependent on them. So, a**

**diversification is recommended.** For these reasons there are plans for creating new industrial zones and high-tech facilities. Furthermore, jumpstarting the tourism in the country is also among the primary goals.

In the case of Uzbekistan joining the BRI was a no-brainer: ever since its independence the country was really withdrawn from global politics and international trade in general. **As a participant of the project it has much better chance to create better diplomatic environment with the other countries in the region,** but also it provides opportunity for it to reach markets that were unavailable for decades.

As for China Uzbekistan's participation in the Initiative is also important but in no way imperative. This part of the Central Asian Economic Corridor could be circumvented by Beijing as the final destination (namely the Mediterranean and through it, Western Europe) could be reached in other ways. That being said, ignoring Uzbekistan would mean that the costs would be a lot more and also most probably at least some of the natural resources of the country would be unavailable for China.

In the case of Uzbekistan, the BRI's people-to-people connectivity and cultural dimension has more historic roots than in the case of other (Central-Asian) countries. **Tashkent, the capital of the country was the center for Chinese studies and for learning Mandarin during the Soviet Era of the 20<sup>th</sup> Century.** The Turkestan Institute of Oriental Studies (now reformed and renamed as the Tashkent State University of Oriental Studies) is the only oriental studies university in Central-Asia and was among the first in Asia. People from all over Central Asia came to study Chinese history and Mandarin (after the National Language Unification Commission finally settled on the Beijing dialect as the official "common" language of the PRC in 1932). It became a solid foundation for the good relationship between Uzbekistan and China.

## **Problems**

The assessment of the BRI internationally (and to some degree in Uzbekistan) is ambiguous. One of the reasons for this is the strong endeavor on part of China to present the BRI as a non-centered, non-focused project, not a geopolitical and economic strategy of the People's Republic of China. Instead, Beijing adheres to the notion that the Initiative is more like a complex web of different projects with many interested parties participating in it and no one is gaining the upper hand, everyone reaps its rewards equally (the win-win concept of the BRI). Although this latter claim can or could be true, the problem is for some in the international community it looks like China is trying too hard to prove it is not a unified geopolitical strategy. Yet another problem is that many Chinese projects started before the announcement of the BRI, yet they are renamed as if they were always a part of the Initiative. This again can be a little bit thwarting.

Furthermore, **the "usual" questions come up in the case of Uzbekistan itself as well: will the investments and the new facilities, the new infrastructure in general be sustainable or will they simply be used for a few years and then left to wither and**

**die? What about the loans?** What if for some reason Uzbekistan will not be able to repay the debt to China? It is quite possible that the facilities' income will go directly to Chinese companies until the loans are paid back, or those companies will get ownership of facilities for a certain amount of time.

What about transit trade? What kind of taxes could be utilized by Uzbekistan (to increase its income) on the transit trade before Beijing intervenes? It is clear that it is in no interest of China to hinder international trade in any way as one of the main goals of the BRI is the expansion of international trade for China.

**Questions for Self Checking:**

Why is the Central Asian region extremely important for the People's Republic of China?

Whats Kazakhstan's role in the security of China?

Why is it recommended for Uzbekistan to commit fully tot he BRI?