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Angaben zur Veröffentlichung / Publication details:

Schmidt, Matthias. 2020. “Reconfigurations in Central Asia: challenges, opportunities and risks of China’s belt and road initiative.” In China and the New Silk Road: Challenges and Impacts on the Regional and Local Level, edited by Harald Pechlaner, Greta Erschbamer, Hannes Thees, and Mirjam Gruber, 77–85. Cham: Springer International. https://doi.org/10.1007/978-3-030-43399-4_7.

Reconfigurations in Central Asia: Challenges, Opportunities and Risks of China's Belt and Road Initiative

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Introduction

China's "Belt and Road Initiative" (BRI) has the potential to transform the global socioeconomic and geopolitical landscape through large infrastructure projects, including railway lines, highways, ports and pipelines, as well as through trade and investment agreements. The neighbouring region to the west, Central Asia, has already experienced the increasing influence of the superpower China, not only through infrastructure projects and trade relations, but also by growing political interrelationships and financial dependencies. The term "Silk Road" is the main element involved in marketing BRI, and it draws a line from the famous ancient connection network that stands for the transcontinental exchange of goods, people and ideas, to today's idea of trans-boundary exchange and communication in times of globalisation. Since Central Asia was a key region of the ancient Silk Road and forms the gateway to the land-based Silk Road Economic Belt (SREB), consequently it is important to shed light on current developments in this important region (see also Laruelle 2018; Kohli 2018). After examining the external influences on Central Asia, defined herein as the former Soviet republics Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, this paper focuses on China's engagement in Central Asia as well as the related challenges, hopes and risks prevalent in the region.

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History of External Influences on Central Asia

Central Asia, characterised by vast deserts and steppes, high mountains and a relatively low population density, has experienced various degrees of external influences from different directions during its history. For a long time, Central Asia has served as a bridge between East and West and can be seen as a core region on the ancient Silk Road (Barisitz 2017). For many centuries, several caravan routes that connected China with the Mediterranean served the exchange of goods, people and ideas and led to the emergence of important trading centres and prosperous cities such as Samarkand and Bukhara. Hence, inner-continental Central Asia experienced a golden age in the early Middle Ages as an important transit area.

With constant improvements in nautical and shipbuilding techniques, and the increasing importance of seafaring in modern times, the Silk Road lost its main function, resulting in a significant decrease in travelling salespersons and traded goods. With the rise of the European powers and their colonial ambitions based on their worldwide marine activity, China lost its undisputed hegemony in East Asia and had to open its borders to these states and their aggressive colonialism. Goods from East Asia were transported thereafter via sea to Europe, and consequently, Central Asia forfeited its strategic meaning as a connecting area.

Internal rivalries between nomadic tribes and feudal kingdoms characterised the region in the 17th and 18th centuries, until the Russian Empire became Eurasia's great power and expanded its territories towards Central Asia from the 18th century onwards. During the so-called "Great Game" in the 19th century, the British Empire and the Russian Empire fought for influence in Asia, resulting in the Anglo-Russian Convention of 1907, in which the spheres of influence were delimited and the borders between the Russian Empire and the buffer state Afghanistan solidified and which today form the southern borders of Turkmenistan, Uzbekistan and Tajikistan. Tsarist Russia explored, administered and exploited its new territories in Central Asia in a colonial manner (Schmidt 2013).

After the Socialist Revolution in 1917, the Russian policy towards Central Asia continued to some extent, though the idea of colonialism stood in stark contrast to socialist ideals, with the new Soviet rulers heavily criticising the Tsarist colonial rule. In fact, the central planning system, organised and controlled by Moscow, ran in parallel in many ways to classical colonial rule and cemented Russian dominance within the Soviet Union. The Soviet rulers divided Central Asia administratively into five Socialist Soviet Republics (SSRs): the Kazakh SSR, Kyrgyz SSR, Tajik SSR, Turkmen SSR and Uzbek SSR. While the borders between the Soviet Republics were mainly only for administrative purposes and not demarcated physically, the outer borders to China, Iran and Afghanistan were hermetically closed for several decades; there was no trans-border exchange, no trade, no traffic.

As a consequence, for more than a century, political, socioeconomic and cultural structures and processes in Central Asia were influenced by Russia or the Russian-dominated Soviet Union. The population of Central Asia was controlled by political decisions and directives emanating from Saint Petersburg during the Tsarist Empire or Moscow during the Soviet era, while it received goods and cultural stimuli from the European part of Russia. However, the end of the Cold War and the dissolution of the Soviet Union in 1991 changed the political landscape dramatically. The former Soviet Republics became independent states, resulting in two different effects on the borders: those between the former Soviet Republics became international borders and were gradually demarcated or even secured, while the borders to China, to Iran and to some degree to Afghanistan opened up for international exchange and trade.

Thereafter, the inhabitants of Central Asia were exposed to the forces of globalisation and are now part of global trade and communications networks. Today, “Western” lifestyles, technologies and expertise, Chinese clothes, electronics and foods, as well as an increased leaning towards Islam, influence daily routines significantly, while hundreds of thousands of labour migrants from Central Asia work and live abroad, mainly in Russia and Kazakhstan. This re-orientation of commodity flows, impulses and viewing directions is aided by a new force of a different quality and exceptional dimension—China’s Belt and Road Initiative.

Changing Infrastructures and Trade Connections

Central Asia’s key role within the BRI is its function as a transit region. In order to serve as a transit route within the BRI, however, it needs a functioning transport infrastructure. Here, rail logistics in the form of an “Iron Silk Road” play a key role. In the 1950s, the Soviet Union and China planned to connect their railroad system, but due to worsening political relations, construction works came to a halt in the 1960s, and they were only revitalised during the collapse of the Soviet Union. The first trains crossed the border between—what is now—Kazakhstan and Xinjiang (China) in 1991 (Anastasiadou 2017), thus providing the missing link in terms of a Europe-Asia land bridge. The railway lines linking China with Iran, Turkey and Russia are an important logistical alternative to sea routes for Chinese goods reaching European markets. Today, trains from Chongqing to Western Europe need only 16 days to complete the journey, whereas sea transport requires about five weeks, albeit the latter is a much cheaper option (Duarte 2018). Current problems facing rail transport are the different rail gauges—all former Soviet Republics use the broad 1,520 mm gauge track, while China, Iran, Turkey and Western Europe use the standard gauge 1,435 mm—and lengthy customs bureaucracy. At border stations between the systems, such as Dostyk or Khorgos, containers must be transhipped. However, it is likely that times and costs for rail transport will decrease in the future.

Chinese investments in Central Asia play an important role in improving the often damaged and under-developed infrastructure. In particular, Kyrgyzstan and Tajikistan, as the poorest of all post-Soviet Republics, are barely able to invest adequately in infrastructure. In Kyrgyzstan, for example, the inner land connections that gained in importance with the delimitation of international borders between the former Soviet Republics were mainly financed by investors from abroad. Today, Chinese companies invest in various roads crossing high mountain ranges or vast steppes, thereby revitalising the idea of a railway connection crossing the Tian Shan and connecting the densely populated Fergana Valley (Uzbekistan, Kyrgyzstan, Tajikistan) with Xinjiang (China). Furthermore, China supports the construction of hydroelectric power plants, the modernisation of electric transmission lines and the installation of high-voltage lines that shall enable the transfer of Central Asian electricity to Xinjiang (Duarte 2018). Certainly, infrastructure improvements could well serve as catalysts for economic development in Central Asia, but China's loans also contribute to serious debt problems.

Another consequence of open borders and China's economic engagement is the development of a completely reconfigured trading structure in Central Asia, the widespread distribution and consumption of Chinese products and the emergence of large container bazaars such as Dordoi, near Bishkek, Karasuu, near Osh, and Baracholka, near Almaty. In particular, Kyrgyzstan's markets have become major hubs for wholesale and retail trade transactions and for the redistribution of Chinese consumer goods in the region, due to low trade barriers, as Kyrgyzstan has been the only country in Central Asia to share World Trade Organization membership with China for several years. Markets and increasingly more households are becoming flooded with Chinese consumer goods, and it is currently estimated that up to 80% of finished goods in Kyrgyzstan's markets originate from China (Tian 2018). This trend seems not to have changed significantly, even though Kyrgyzstan joined the Eurasian Economic Union in 2015, which is connected with a facilitation of trade between its member states Russia, Kazakhstan, Belarus and Armenia, aligned with rising tariffs for Chinese goods. With the BRI, including the establishment of special economic zones (SEZs) and the expected further liberalisation of trade, Central Asia's role as a marketplace for Chinese goods will remain. The steadily increasing importance of China as a major trading partner for the Central Asian states is therefore stark when one looks at the rise of imports from China between 2000 and 2017, while imports from Russia significantly decreased within the same time frame (Fig. 7.1).

Opportunities and Risks for Central Asia

China's engagement in the BRI, its investments and economic dominance are met by Central Asia with both optimism and suspicion, the latter due to China's increasing (geo)political and economic influence.

Central Asia has major potential and offers valuable natural resources (Fig. 7.2) that are of particular interest for regions with a need for these resources, such as China and Europe. Kazakhstan, for instance, possesses significant reserves of oil (1.8% of the world's reserves) and Turkmenistan has large gas reserves (9.4% of global capacity), while Tajikistan and Kyrgyzstan have an enormous and yet only partly used hydroelectric power potential. Additionally, Kazakhstan hosts large uranium deposits, and important gold mines are located in Kyrgyzstan and Uzbekistan. Moreover, Kazakhstan is one of the four countries with the largest under- or unused agricultural land reserves in the world (Visser and Spoor 2011).

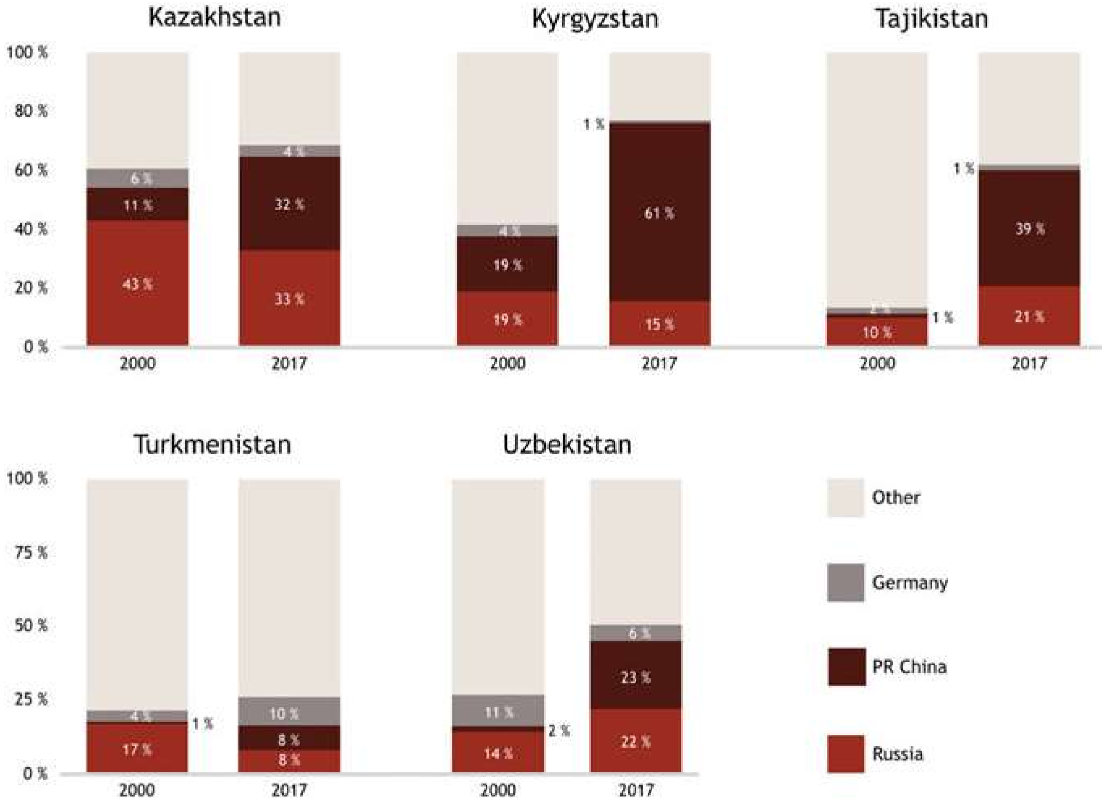

Fig. 7.1 Imports by selected countries in 2000 and 2017

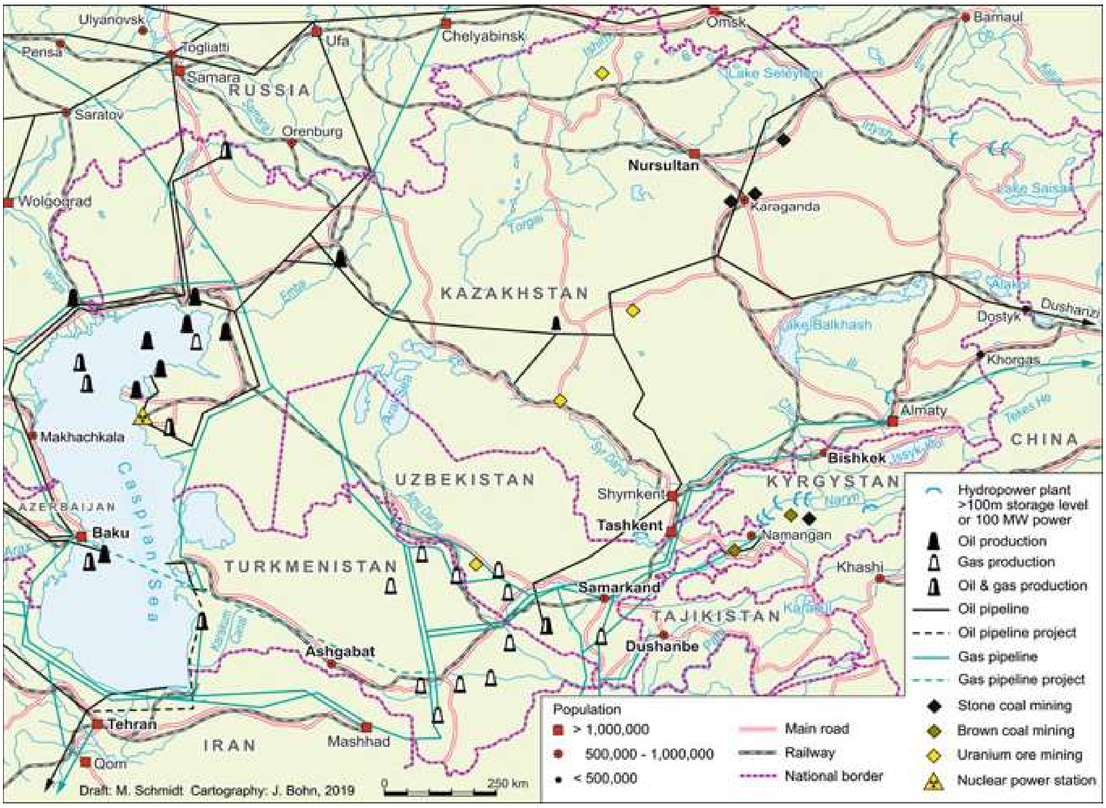

Fig. 7.2 Energy resources and pipelines in Central Asia *Source* Atlas of Economic Complexity 2019, http://atlas.cid.harvard.edu

These natural resources could form the basis for economic growth and contribute to significant foreign exchange revenues. Central Asia is and could be a major supplier of energy, especially in the oil and gas sectors, and it even has huge potential for regenerative energies (solar, wind and water). However, there are many obstacles to exploiting these resources, ranging from inadequate transport infrastructure and transferring energy (electric transmission lines, gas and oil pipelines), to insecure governments, payment difficulties and questionable energy politics (Dorian et al. 1999).

However, the BRI can be seen as a chance for Central Asia to export its energy resources to different markets, to Europe and to Asia (China, Iran), and thus to reduce its dependency on Russia for the export of fossil fuels, since all pipelines from the Soviet era cross Russia (Fig. 7.2). In particular, Turkmenistan has started to connect its gas fields via pipelines with Iran and China, whilst another pipeline is under construction that aims to transport gas to Pakistan (Heinrich 2017). Of Kazakhstan's three oil export pipelines, two lead currently towards the West, and only since 2011 one has connected the large oil fields of Atyrau on the Caspian Sea with China (Heinrich 2017). A gas pipeline from Kazakhstan to China is planned.

The growing influence of Chinese investments is remarkable. Many state-owned or private Chinese enterprises engage in the oil and gas sectors and other mining businesses, and it is estimated that up to 30% of all oil extraction in Kazakhstan is already controlled by China (Tian 2018). Moreover, China's activities and investments have two different effects on Central Asia: not only do they lead significantly to improved infrastructure and can stimulate economic development, but they also increase dependency on China. Lain (2018) sees a particular risk for Central Asia in such an "over-dependence" as an exporter of raw materials and as a buyer of commodities, as is already the case for Turkmenistan, because China is the only importer of Turkmen gas since Russia stopped gas imports from the country in 2016. The pipelines connecting China and Turkmenistan were financed by Chinese loans, so Turkmenistan currently does not earn hard currency for the gas exports; instead, the exports themselves are repayments in kind (Lain 2018).

Chinese investments raise the risk of debt distress in borrower countries, in particular in Kyrgyzstan and Tajikistan, and they could lead to a long-term indebtedness and more dependency on China. Around 50% of Tajikistan's public debt and 40% of Kyrgyzstan's debt is owed to Chinese institutions, mainly the China Exim Bank (Jaborov 2018). Nonetheless, Tajikistan is currently planning to increase its external debt in order to finance infrastructure projects in the power and transportation sectors (Hurley et al. 2018).

The attraction of Chinese investment for Central Asian governments lies in the belief that this financial aid is free of political conditionality, which stands in stark contrast to political conditions such as maintaining human rights, strengthening economic liberalisation or fostering good governance, as demanded by Western donors (Tian 2018). However, it is often overlooked that China expects loyalty to the "One China" policy from recipient countries, which includes limited relations with Taiwan, no criticism of Chinese policies on Uyghurs and Tibet and collaboration in the "hunt for dissidents" (Laruelle 2018, p. x).

Another problem is the fact that a large share of Chinese funds for Central Asia never leaves the Chinese system: "A loan granted by a Chinese bank to a Central Asian government is reinvested in the Chinese company that got the contract, which brings Chinese equipment and a Chinese workforce to Central Asia to carry out the project" (Laruelle 2018, p. xi). Moreover, it is not uncommon for joint projects to reserve 70% of the available jobs for a Chinese workforce, leaving only 30% for local hires (Tian 2018).

China's growing influence and presence in Central Asia elicits Sinophobic sentiments (Peyrouse 2016) and fosters various concerns, such as the fear of an "invasion" by Chinese migrants who will take jobs away from locals, or the fear that China will question border agreements and demand more land (Laruelle 2018). People in Kyrgyzstan worry that their country has become a "dumping ground for cheap Chinese products" (Tian 2018, p. 32), while Chinese mining companies are accused of generating pollution, lacking transparency on contract negotiations and taking jobs from locals. Protests in Kazakhstan in 2016, about changes to the land law that would have allowed foreigners to rent land for 25 years, are a sign of such increased nationalist sentiments. The fact that China's aid is usually not connected with investments in human capital, or with the intention to improve socioeconomic structures such as endemic corruption, aligned with a lack of any form of visible corporate social responsibility, are other negative aspects of these one-sided relationships.

Conclusion

The BRI is the latest and most visible culmination of China's growing influence in Central Asia, and it will reconfigure further the region's post-Soviet history and present-day economic development. After more than a century of dominance, Russia has lost ground dramatically in the region (Freeman 2018), and Central Asia is increasingly directing its foreign and economic gaze eastward, in that exchanges with other Asian countries, in particular with China, has been growing steadily since the 1990s (Contessi 2016). China is already the largest investor and the most important economic player in the area, and it will most probably strengthen this position in the future. In view of the high dependency of Central Asian governments on Chinese investments and loans and the risk of increasing indebtedness, it is most likely that the political influence of China will increase, too.

Whether there is already an ongoing New Great Game about the influence of large powers in Central Asia is a question of definition. Certainly, there is competition between powerful actors such as China, Russia, USA, the EU and, to some degree, Turkey, Iran and the Gulf states for natural resources, energy transfer, political allies or cultural impacts, and while Russia as the historical hegemon in the area retains a not insignificant political influence, it has lost most of its former dominance in economic and cultural terms. The EU is an important economic partner and donor for Central Asia, and for some parts of the population it acts as an attractive political and socioeconomic model. It seems that the USA has recently decreased its interest in the region and thus lost political influence; however, its lifestyle and culture influence the Central Asian societies constantly—and often unnoticed. In the field of trade, traffic and cultural-religious influences, Turkey, Iran and the Gulf states play a specific role, albeit in economic terms, while China has become the dominant force. This economic supremacy, probably followed by increasing political influence, will most likely increase with the BRI.

For the Central Asian countries, one could assume that a number of competing political actors would offer a range of opportunities and choice. But in fact, their opportunities are relatively limited due to their narrow portfolio of natural and human resources, their limited economic and political power, and their relatively weak strategic position—the Central Asian countries stay somehow in competition with each other. However, an open multi-vector policy towards all directions might be a good option for Central Asia, thus avoiding absolute dominance of one external power. The BRI is a chance for better infrastructure and better connectivity to global markets and thus for economic development. But the challenge for the Central Asian republics lies in whether they will be locked into the role of a transit area and raw material exporter. Until now, Chinese BRI projects have not necessarily led to significantly more local jobs or knowledge transfer and thus to economic diversification. In any case, the BRI is a major factor in the reconfiguration of Central Asia's role "in a world where more people would travel across Eurasia by rail than fly across the Atlantic to America" (Duarte 2018, p. 20).

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