

## The impact of China's belt and road initiative on the Central Asian countries

### **Kína egy övezet–egy út kezdeményezésének hatása a közép-ázsiai országokra**

A tanulmány célja, hogy elemezze Kína növekvő hatását Közép-Ázsiára, amelyik a legfontosabb területe az egy övezet–egy út kezdeményezésnek. A tanulmány Kazahsztánra, Kirgizisztánra, Tádzsikisztánra, Türkmenisztánra és Üzbegisztánra koncentrál. Arra keressük a választ, hogy milyen potenciális lehetőségeket, hasznokat és kockázatokat jelent a kezdeményezés a közép-ázsiai országok számára. A közép-ázsiai országok fejlődési stratégiája kompatibilis a kínai kezdeményezéssel? A válasz érdekében a tanulmány szakirodalomra alapozott módszert alkalmaz és összehasonlítja a vizsgált országokat.

Figyelmünket elsősorban a közép-ázsiai országok és Kína közötti fizikai kapcsolatokra, a politikai koordinációra, a kereskedelemre és a befektetések áramlására fordítjuk. A közép-ázsiai országok kulcsszerepet játszanak az Európába irányuló exportszállításokban és Kína legfontosabb alapanyag-exportálói. A kínai projekt nagy lehetőséget kínál a közép-ázsiai államok számára infrastruktúrájuk fejlesztésére, olcsóbb útvonalakon való belépésre az új piacokra, jövedelemszerzésre és versenyképességük megerősítésére. Ezzel egyidejűleg Közép-Ázsia jelentős kockázattal találja szembe magát: a kínai demográfiai expanzióval és egy kínai adósságcsapdával. A közép-ázsiai régióban a megoldatlan területi és etnikai problémák, valamint a korrupció és a kormányzat kihívásai által okozott instabilitás csökkentheti a selyemút harmonikus hatását.

**Kulcsszavak:** egy övezet – egy út kezdeményezés, új selyemút, közép-ázsiai országok

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## Introduction

Nowadays, the Peoples' Republic of China plays an important role in global political and economic affairs. In order to further strengthen the country's position on the world scene, China has announced the Belt and Road Initiative. The programme is one of the most ambitious ones in human history designated to open up unprecedented opportunities to the participating countries. In the framework of the BRI, China pays great attention to the states of Central Asia (CA) as their strategic geographical positions can have direct impact on the world economic growth, stability, and security.

The PRC, the largest world economy, is able to firmly represent the interests of the developing countries, including those of Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, and Turkmenistan, in the international arena. The natural resource-rich Central Asian republics are the corridors for the west to east and north to south terrestrial communications as their location offers the prospect of a transportation corridor between China and Europe. In this context, the potential of the BRI can help the CA states to achieve one of their lead priorities of strengthening transport and transit connectivity and becoming a global trading hub.

Taking into account the extreme relevance and importance of the China-promoted Belt and Road Initiative that has caused many discussions in the scientific and business world, it is essential to study this topic in relation to the Central Asia region.

The purpose of the research work is to understand how China's Belt and Road Initiative influence the development of the Central Asian countries. In order to achieve this objective the following research questions are raised: How should the Central Asian countries consider the potential opportunities, benefits, and risks associated with the BRI? Are the Central Asian states' development strategies compatible with the Chinese Initiative?

In order to answer these questions, the study incorporates the literature based research methodology and comparative analysis of the reviewed countries. Due to the nature of the study, a qualitative research approach is chosen, because this method allows having a deeper understanding of the research area. The research carrying out in the paper is part of a more complex study on the relations between the Central Asian countries and China in the framework of the Belt and Road Initiative.

To conduct comparative economic and investment analyses between the CA states and China, the statistics about their indicators are obtained on the official website of the International Monetary Fund, the World Bank, American Enterprise Institute, as well as official websites of the Central Asian nations' institutions.

The theoretical basis of this study includes the works of Central Asian, Chinese, and international researchers. The valuable source of this paper is the book on 'China's Belt and Road Initiative and its Impact in Central Asia' published by Nazarbayev University and the National Analytical Center in partnership with George Washington's Central Asia Program in 2018. This book consists of the papers prepared by the foreign and the Central Asian scholars, researchers, and experts. Combining methodological and theoretical approaches based on various disciplines, it provides a complex and latest analysis on the Chinese BRI in Central Asia, its aims and challenges as well as its reception by the CA countries.

The works of national researches are important basis of the paper as they give understanding of what the local community think about their participation in the Chinese project and the bilateral relations between China and the CA states, among them the articles 'The Belt and Road Initiative and Uzbekistan's New Strategy of Development' by Qoraboyev published in Uzbek Journal of Legal Studies, 'China-Kyrgyzstan-Uzbekistan Railway to Improve Attractiveness of Central Asia' by M. Levina published in The Times of Central Asia, 'Kyrgyzstan – China. Entering Strategic Level of Cooperation' by J. Kostenko in the Kyrgyz News Agency, and so on. The Chinese opinions are presented in the articles 'Share the Opportunities of the BRI and Create a Splendid Future for the China-UK 'Golden Era'' by L. Xiaoming, 'Backgrounder: Economic Corridors under Belt and Road Initiative' by Ying, 'Belt and Road: Path of Mutually Beneficial Development and Shared Prosperity of China and Kazakhstan' by an Ambassador of China to Kazakhstan, X. Zhang.

In the course of research, the information on the official websites of the Presidents and the Ministries of Foreign Affairs of China and the CA states are studied. Many data and research papers are found on the website of Foreign Policy Research Institute, National Institute for Strategic Studies of Kyrgyzstan, Center for the National Interest, Central Asia Research Group, BRIF Research Group, International Crisis Group, Astana Financial Services Authority, Belt and Road Advisory, and Silk Road Briefing. The information obtained on such news websites as The Diplomat, Forbes.ru, Interfax

News Agency, Eurasianet, The Astana Times, Xinhua, People's Daily Online, Beijing Review, and others helps provide the latest facts about the current Sino-Central Asian relations and events.

The structure of the paper contains introduction, three chapters, summary, list of references, and appendices. In the first chapter, the comparative economic and investment analyses between the Central Asian countries and China are conducted. The second one is devoted to the compatibility of the CA national development strategies with the China's Belt and Road Initiative. And in the last chapter, the challenges and risks for Central Asia and China under the BRI are discussed.

## 1. Comparative economic and investment analyses between the ca states and China

### *1.1. Sino-Central Asian economic performance and trade relations*

After the Central Asian republics' independence in 1991, a policy strategy called 'zhoubian zhengce' or the policy of the periphery has been taken by Beijing with the goal of determining common position with new adjacent states in the fields of security and economy to establish good neighbourly relations amidst changing geopolitical realities (Zhu 2010). In effect, China strives to expand its geopolitical role by linking its periphery with the economies of the contiguous countries. As a strategic orientation of the Chinese periphery policy, the Central Asian states are an integral part of the land-based China – Central Asia – West Asia corridor in which the role of the main transit area is designated to this region. Regarding the relatively long-term interaction between the newly independent republics and China, it is essential to be aware of their current economic status.

First of all, Central Asia is located far from the major centres of global business activity. Moreover, all of the regional states are landlocked and have limited transportation connections inside and outside the region. Kazakhstan has the largest territory, and it is the biggest landlocked country in the world. Turkmenistan and Uzbekistan have the second and the third largest territories, while the two remaining countries – Kyrgyzstan and Tajikistan – have the smallest territories. Therefore, the region's geography and geopolitics do not favour its economic development (Figure 1 in Appendix 1).

In terms of demographics, the total population in Central Asia is about 71.30 million which amounts to nearly one percent of total world population, whereas with more than 1.38 billion people China represents around 18.4 percent of the global population. Table 1 shows that the most populous country in Central Asia is Uzbekistan, and its population exceeds 32.3 million people. Kazakhstan is ranked the second-largest state by population with its 18 million people. The third-largest population belongs to Tajikistan (8.9 million), followed by Kyrgyzstan with its 6.2 million, while Turkmenistan has the lowest population (around 5.7 million). The largest ethnic groups in Central Asia are the Uzbek, the Kazakh, the Tajik, the Kyrgyz, and the Turkmen. The population density in Central Asia is low. Kazakhstan has the lowest density of 6.68 people per square kilometer, while Uzbekistan has the highest population density at 76.13 people per km<sup>2</sup>. The urban population indicator is the lowest one in Tajikistan where 26.98 percent of its population lives in urban areas, and Kazakhstan's has the largest share of urban population (57.34%). Considering the Central Asian region's population size, the Chinese project affects the lives and interests of many multiethnic peoples (World Bank, 2019).

*Table 1: Social indicators in the Central Asian countries and China in 2018*

Countries	Surface Area (thousand sq. km)	Population (thousand)	Population Density (people per km <sup>2</sup> of land area)	Urban Population (% of total)
<b>China</b>	9,562	1,386,395	147.67	57.96
<b>Kazakhstan</b>	2,724	18,037	6.68	57.34
<b>Kyrgyzstan</b>	199	6,201	32.33	36.13
<b>Tajikistan</b>	141	8,921	64.28	26.98
<b>Turkmenistan</b>	488	5,758	12.25	51.15
<b>Uzbekistan</b>	447	32,387	76.13	50.55
<b>World</b>	132,025	7,530,360	59	54.83

Source: World Bank, 2019

Under the BRI, the Sino-Central Asian economic ties are of paramount importance. In this regard, it needs to characterise and compare the performance of the CA economies. Combined, the five Central Asian states have GDP at 265 billion US Dollars with different purchasing capacity and degree of their development (see *Table 2*).

*Table 2: Economic indicators in the Central Asian countries and China in 2018*

Economy	GDP (USD millions)	GDP per capita (USD)	GDP Growth (annual %)	GNI (USD millions)	GNI per capita (USD)	Unemp- loyment (%)
<b>China</b>	12,237,700	8,827	6.9	12,206,545	8,690 Upper middle income	4.7
<b>Kazakhstan</b>	162,887	9,030	4.1	144,959	7,970 Upper middle income	4.9
<b>Kyrgyzstan</b>	7,565	1,219	4.6	7,341	1,130 Lower middle income	7.3
<b>Tajikistan</b>	7,146	801	7.1	8,244	990 Low income	10.3
<b>Turkmenistan</b>	37,926	6,586	6.5	36,352	6,380 Upper middle income	3.4
<b>Uzbekistan</b>	49,677	1,533	5.3	51,564	2,000 Lower middle income	7.2
<b>World</b>	80,737,576	10,721	3.1	80,746,719	10,371	5.4

Source: World Bank, 2019

According to the GDP world ranking in 2018 by World Bank, GDP of China is \$12,237,700 million, thereby ranked 2nd in the list, while Kazakhstan is ranked 55th with \$162,887 million, followed by Uzbekistan (84th) with \$49,677 million, Turkmenistan (93rd), Kyrgyzstan (145th), and Tajikistan (147th) with \$7,146 million. *Table 2* demonstrates that China and all the Central Asian republics fall below the world

average in terms of GDP per capita at \$10,721. The highest GDP per capita belongs to Kazakhstan at around \$9,030, whereas Tajikistan has a GDP per capita far below the world average at about \$801. However, Tajikistan has the highest annual GDP growth at 7.1 percent. In general, as illustrated in Table 2, all of them have an annual GDP growth higher than average growth at 3.1.

In addition to GDP, the countries' income levels were characterized by Gross National Income and GNI per capita. The indicator of GNI per capita indicates that China, Kazakhstan and Turkmenistan are categorized as upper-middle income countries, while Kyrgyzstan and Uzbekistan are categorized as lower middle ones, and Tajikistan is classified as low income country (World Bank, 2019).

As shown in Table 2, in 2018, one of the lowest unemployment rates of 3.4% in the post-Soviet space has been registered in Turkmenistan, while the highest one belongs to Tajikistan with its 10.3% rate. The economy of Tajikistan is growing but still is one of the poorest in Asia. In Kazakhstan, the unemployment rate is twice lower than in Tajikistan. Among the Central Asian states, the second and third lowest unemployment rates of 7.3% and 7.2% belong to Kyrgyzstan and Uzbekistan. In the Kyrgyz state, the formal labour market has not been entirely developed, and its economic development is sustained by the migrant workers' remittances. In comparison to the Central Asian states, the unemployment rate of 4.7% in China is almost equal to Kazakhstan's one that is lower than the world average rate.

**Table 3:** *China's trade with CACs in 2018*

<b>Countries</b>	<b>Exports (FOB) (USD millions)</b>	<b>World Rank</b>	<b>Imports (CIF) (USD millions)</b>	<b>World Rank</b>
<b>Kazakhstan</b>	11,369.63	37	8,420.34	39
<b>Kyrgyzstan</b>	5,575.92	53	54.82	142
<b>Tajikistan</b>	1,428.57	99	75.34	136
<b>Turkmenistan</b>	303.41	145	7,348.73	41
<b>Uzbekistan</b>	3,858.13	60	2,336.17	67

*Source:* IMF, 2019

Due to similar production structures, beyond hydrocarbons and key commodities, the potential for intraregional trade is quite limited. The trade ties inside Central Asia have not been substantial. It only amounted to 7% of the total turnover in the region in 2014. Yet the CA countries are eager to trade with the neighbouring China and Russia due to small volumes of intraregional trade (Jha 2015).

International trade is one of the main factors that directly drives economic development in each country, including the Central Asian states and China. The aggregate China's export volume to the republics of Central Asia accounted for 21.3 billion dollars in 2017 (UN Comtrade, 2017). By focusing on exports, Kazakhstan, Kyrgyzstan, and Uzbekistan are the important trading partners of China in Central Asia; they are ranked 37th, 53rd, and 60th. The main import partners are Kazakhstan, Turkmenistan, and Uzbekistan which are ranked 39th, 41st, and 67th, respectively. As found in Table 3, Kazakhstan is the number one Central Asian trading partner of China, characterized by the export and import statistics at \$11.4 billion in export and \$8.4 billion in imports in 2018. The country accounts for around half of the Chinese trade with the region. However, all republics are mainly export directions than import sources for China, except for Turkmenistan (IMF, 2019). In this context, China is ranked number one in exports of Turkmenistan and Tajikistan, and number two in exports of Kazakhstan and Uzbekistan. China is the first ranked country in imports of Kyrgyzstan, and number two in Kazakhstan, Turkmenistan, and Uzbekistan. Hence, the Sino-Central Asian trade relationship illustrates the close collaboration between these nations (see Table 5 in Appendix 2).

However, the export of the Central Asian states to the PRC composes primarily of natural gas and mineral resources, oil, and so on, while China's imports are mainly processed industrial output. China has imported oil and gas from Central Asia for decades. Kazakhstan, Turkmenistan, and Uzbekistan are the net energy exporters (UN Comtrade Database, 2017). So, the trade structure and statistics show that the Central Asian countries are consolidating their role as suppliers of raw materials and natural resources to China and purchaser of consumer goods.



## 1.2. Overview of the FDI to the Central Asian republics and their investment climate

In regard to investments, foreign direct investment flows to different regions of Central Asia vary considerably. The key investors and economic partners of the Central Asian states are the European Union, the Russian Federation, and China. The degree of their involvement differs: the EU (mainly the Netherlands, Great Britain and France) is the largest investor in the Republic of Kazakhstan. Meanwhile, its role is much smaller in the other four countries, where only the UK acts as a key investor. The PRC is a major investor in Turkmenistan, the Kyrgyz Republic and Tajikistan; its share is also significant in Kazakhstan and Uzbekistan (BRIF Research Group, 2018).

Beijing continues to expand its presence in the region's economies. As shown in Table 4, China invested \$42.54 billion in Central Asia from 2012 to 2018 that accounts for 2.4% of total Chinese investments and construction. In absolute numbers, the Kazakh state is the biggest recipient country of Chinese investments in the Central Asian region with an FDI stock of \$23.9 billion, whereas Tajikistan gets the smallest quantity with an FDI stock of \$0.65 billion (American Enterprise Institute, 2018).

**Table 4:** Chinese investments and construction in the CA countries from 2012 to 2018

Recipient country	FDI Stock (USD billions)
Kazakhstan	23.9
Kyrgyzstan	8.68
Tajikistan	0.65
Turkmenistan	4.12
Uzbekistan	5.19
<b>Total in CA</b>	<b>42.54 (2.4%)</b>
<b>World</b>	<b>1742.88</b>

Source: American Enterprise Institute, 2018

Central Asian countries have similar trends in FDI inflows by sector and country of origin. Within sectorial distribution, the largest share of China's outward direct investments in Central Asia belongs to gas, oil and metals. The infrastructural projects such

as building highways, railroads and pipeline transport also attract capital. There are two main areas of FDI inflows by sector. The first one includes raw material resources, ores and nonmetal minerals, exploration, metallurgical and chemical industries, processing of oil and gas and energy transportation. Their share is more than 50 percent of total FDI inflows (BRIF Research Group, 2018). In Kazakhstan, China invested \$12.58 billion in energy sector, \$4.84 billion in chemicals and \$3.82 billion in metals (Figure 2 in Appendix 3). In Kyrgyzstan, \$5 billion were invested in energy and 300 million dollars in metals (Figure 3 in Appendix 3). All \$4.12 billion of the Chinese investments account for the energy sector in Turkmenistan. Uzbekistan is the third recipient country of Chinese ODI, \$2.95 billion out of 5.19 billion belong to energy, while 880 million dollars amount to chemicals (Figure 4 in Appendix 4). Tajikistan got \$350 million out of \$650 million in its energy sector (Figure 5 in Appendix 4).

The production of the companies receiving the funds is primarily export-oriented. The large-scale projects in construction of pipelines or oil and gas field development cause the uneven flows of FDI in the investment portfolios of the CA states (BRIF Research Group, 2018).

Secondly, another major recipient of FDI in all Central Asian countries is domestic service sector that includes estate operations, building, and telecommunications, financial and trade ones. Tajikistan and Kyrgyzstan have the highest share in these sectors as they do not have the vast deposits of hydrocarbons. In the transport industry 3.38 billion dollars were invested in the Kyrgyz Republic, while \$1.88 billion in Kazakhstan and \$460 million in Uzbekistan. The biggest share of Chinese investments in real estate belongs to Uzbekistan with its 540 million dollars, followed by Kazakhstan with \$360 million and Tajikistan with \$300 million. Besides, the Kazakh financial sector and utilities got 220 million and 200 million dollars, relatively (see Figures 2–5 in Appendix 3–4). Furthermore, it should be taken into consideration that the telecom equipment enterprises from Russia, China and Europe have opened manufacturing sites in the Central Asian countries because of cheaper cost of production and proximity to the European and Asian markets. As a result, demand for corresponding inputs goes up (Chan 2015).

In turn, the share of FDI from Russia to Central Asia accounts for only 2-3% of total Russia's outgoing direct investments, although the region is being considered a crucial geopolitical one for the Russian Federation. The combined FDI stock from Russia to

the Central Asian countries amounted to 1.8 billion dollars in 2015. Similarly to China, Russian capital in Central Asia is concentrated in the production of energy resources. Russian outgoing direct investments trends differ considerably across the region's states. Kazakhstan is the largest recipient of Russian FDI to Central Asia with its share of 68%, followed by the Kyrgyz Republic and Turkmenistan (Figure 6 in Appendix 5). Tajikistan and Uzbekistan have been experiencing a decline over the past years, while Turkmenistan has experienced more than a fourfold increase in 2015 compared to 2013 due to the ongoing boom in the construction sector, preparations for the Asian Games and the establishment of Avaza national tourism zone. Similarly, FDI flows of Russia into Kyrgyzstan have rapidly increased since 2010. Considering the volatile nature of Russian FDI to Central Asia, it is noticeable that the government of the Russian Federation uses investments as a tool of its political influence. Russia might have been decreased its FDI to Tajikistan over the past few years in order to persuade Tajikistan to enter the Eurasian Economic Union (CARG, 2017).

According to the Russian Foreign Minister Sergei Lavrov, since the Soviet Union's dissolution, Russia has invested 20 billion dollars in the Central Asian republics. In the previous decade Russia provided more than 6 billion dollars in bilateral and multilateral aid to Central Asia. Between 2013 and 2016, \$37 billion in remittances were sent from Russia to the Central Asian states. In order to bolster ties between the former Soviet republics, Russia wrote off \$488 million of debt owed by Kyrgyzstan and \$865 million of debt owed by Uzbekistan. Moreover, 7,500 Russian and Russian-Central Asian joint ventures are doing business there. In general, the Russian Federation is the main source of remittance flows and the largest commercial partner for the majority of the CA economies (Dubnov 2018).

The Forbes experts consider that investments in the Central Asian countries, as the frontier markets, are associated with higher risks compared to developed and developing markets. There are four key risks in Central Asia such as political tensions, dependence on neighbouring economies, commodity price volatility, and security risks. Despite it, the share of Central Asia in the world economy tripled between 2000 and 2017, but the region's economic weight remains critically small so far – about 0,3% of global GDP (Kravchenko–Popov 2018).

The structures of their economies are similar: abundance of natural resources, growing population, and low labor cost. Meanwhile, these countries face problems with

the quality of the investment climate. In the rating of Doing Business Kazakhstan is ranked 36th, Uzbekistan – 74th, Kyrgyzstan – 77th, and Tajikistan takes the 123rd place. Turkmenistan is absent in the rating of Doing Business because of missing data. In comparison, China is ranked 78th. The overall rating of Kazakhstan is higher than its neighbours' rankings; however, the Central Asian states have lower scores in frontier trade in comparison to the Chinese side. This indicator is important for the success of the BRI, as it evaluates the cost and time related to three procedural categories such as internal transportation, documents and border compliance during importing or exporting goods (Kurbanov 2018; World Bank Group, 2018).

According to the World Bank and the IMF's experts, the Central Asian countries have not sufficiently improved their investment climate. It is hard to invest and trade in the region because of the level of social stability, rule of law, corruption, as well as hindrances in transition, trade and capital that the CA administrative bodies imposed. A public and private partnership is also not effective, as the criteria for selecting projects for public funding are not always clear, and the regulatory framework is sometimes absent (CARG, 2017). Sobir Kurbanov (2018), an expert in the World Bank, believes that the republics should remove these obstacles in order to benefit from the Chinese initiative not as transit states but the major directions for capital. It is worth mentioning that the biggest benefits are waiting for Central Asia thanks to its geographical location and wealth of natural resources after completing the China-led project.

Insofar as the Central Asian region needs the support of international financial institutions like the World Bank, the European Bank for Reconstruction and Development (EBRD), the Asian Development Bank (ADB) and others, it is vital for them to improve the investment environment. To a certain degree, the membership in the World Trade Organisation and the Eurasian Economic Union helped their Central Asian members to modernise customs administration and technical standards, and reduce non-tariff barriers to trade and investment barriers. It should be noted that Kyrgyzstan, Tajikistan, Kazakhstan are the WTO members, while Uzbekistan is an observer. And Turkmenistan has not yet applied for WTO membership. Only Kazakhstan and Kyrgyzstan are the members of the Eurasian Economic Union (Batsaikhan–Dabrowski 2017).

Investments in the Central Asian countries have historically been concentrated in primary industries and accounted for about 59%. However, their authorities have already started implementing large-scale reforms aimed at reducing the dependence of

the economies on oil and other commodity markets. In order to attract FDI into non-primary commodity sectors and boost their production capacities, the Central Asian states are actively creating specialised economic zones (SEZ) with favourable investment climates in terms of land property, labour and immigration, international trade and customs duties, taxes and foreign exchange. In these special zones, generally, high-value-added goods are produced, such as electrical cables, plastic pipes, construction materials, the assembly and installation of solar collectors and subsurface pumps, the recycling of metals and so on (CARG, 2017).

In addition, the Central Asian governments are working to increase the openness and attractiveness of their economy to foreign investors. Some changes in the legal frameworks regulating entrepreneurial activity have been made. Furthermore, the significant improvements and strengthening of the laws on the protection of property are expecting. So, Kazakhstan's accession to the WTO entailed several legal amendments in the spheres of intellectual property, subsoil and subsoil use, and labour relations. Without substantial changes to the legislation, there was the unification of the Laws on Investments, Competition, State Control and Supervision, State Support of Industrial and Innovative Activity, Private Entrepreneurship, and Peasant Farm Enterprise in a new Entrepreneurial Code. To attract global investment, on 1st January 2018, Kazakhstan launched the Astana International Finance Centre that carries out the activities in the framework of a special legal mode (CARG, 2017; AIFC, 2018).

In Uzbekistan, the remote court hearing procedures using video conference facilities and the electronic submission process were implemented. The first and the only comprehensive Uzbek law on anti-corruption was enacted in 2017. Uzbekistan is to establish a unified legal regime for the operating free economic zones, for example, in relation to the provision of tax and customs privileges. Additionally, Uzbekistan made significant improvements in fields recorded by Doing Business in the 2016–2017 periods and it applied 53 regulatory reforms (Export.gov, 2017; World Bank Group, 2018). Kyrgyzstan is making efforts to bolster property rights and reduce bureaucracy for opening and running a private business, but it is facing opposition from some concerned parties. In 2017, Tajikistan developed an action plan to bolster reforms in banking that includes abolishing capital controls for foreign investors and reforms in taxation, primarily tax administration, for small and medium-sized enterprises. Generally, the CA governments are taking some steps to provide universal conditions for both

domestic and foreign investors, fighting corruption and developing a well-functioning financial market (CARG, 2017).

In sum, the Central Asian countries are not comparable with China regarding the size of territory and population. Their economies cannot compete with Chinese economic power. In total, even if there is a stable trend towards increased bilateral trade between Beijing and the CA countries, the current economic cooperation between them cannot be considered mutually advantageous. China consolidates its role as an exporter of finished products, so it accrues more benefits of trading with the Central Asia region that serves as a supplier of raw materials to China and purchaser of consumer goods. Meanwhile, the Central Asian states have recently got a huge amount of Chinese investments in energy and infrastructure through which China has actively increased its presence in the region. The Chinese project gives a lot of prospects for the economic development of Central Asia. In regard to broadening the opportunities, all five republics have to enhance the foreseeability and credibility of their investment climate and implement reforms with significant scope for regional cooperation.

## 2. The Central Asian countries as the core of China's BRI

### *2.1. The fifth anniversary of the Belt and Road Initiative and its achievements*

On September 7, 2013, the Belt and Road Initiative (previously called 'One Belt, One Road') was announced by the President of China at Nazarbayev University in the course of his visit to the Kazakh state where he first mentioned the involvement of the republics of Central Asia into the building the Silk Road Economic Belt. The proposal was aimed at connectivity with Europe via CA to increase trade between the Asia Pacific Region and Europe. Later, in October, Mr. Jinping proposed creating the second main component of the Initiative, the 21st Century Maritime Silk Road, in cooperation with the ASEAN countries during a congress in Indonesia. On a whole, the BRI is a serious strategy for development oriented towards the promotion of cooperation among participating states along the initiative's routes (Belt and Road Portal, 2018).

The year, 2018, commemorates the fifth anniversary of the Belt and Road Initiative. Since its announcement, the project has yielded many fruitful results and has made a dramatic contribution to global economic growth. The connectivity over land and

at sea has been greatly improved. 118 cooperation agreements have been signed by over 100 states and international organisations with China on the co-constructing the Belt and Road. The turnover of China with these countries has exceeded 5 trillion US dollars, and it has invested over \$60 billion in their economies. China has built 82 economic and trade cooperation zones, which have contributed \$2.2 billion in tax and fees to the host states, attracted 3,995 enterprises and created more than 244,000 jobs for local communities. It is expected that the People's Republic of China will import \$2 trillion of goods from countries and regions along the BRI and invest \$150 billion there. In addition, the key international mechanisms, such as the United Nations and G20, have endorsed the Chinese Initiative and its core values in their documents (Xiaoming 2018; Zhao 2018).

The Chinese Initiative is focused on building terrestrial economic corridors: a new Eurasian Land Bridge and China – Central Asia – West Asia (CCWAEC), China – Indochina Peninsula, and China – Mongolia – Russia (Belt and Road Portal, 2018). Kazakhstan's role in the New Eurasia Land Bridge corridor is crucial as it links Europe and the Chinese mainland through Central Asia and the Russian territory. The main objective of the New Eurasia Land Bridge is to increase the frequency of rail transportation between Europe and China and competitiveness in relation to maritime transportation by simplifying customs procedures according to the principle of 'declaration, inspection, and clearance' (Cooperans, 2018).

Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, and Turkmenistan are the core part of CCWAEC which connects the Chinese province of Xinjiang to the Mediterranean Sea via the Central Asian states and 17 countries and regions in West Asia. It is noteworthy that this corridor generally follows the trajectory of the ancient Silk Route. The corridor aims to better connect all the regional economies to the PRC and Europe offering a new intercontinental communication network that will open up the Central Asian republics and streamline cross-border trade (Ying 2017).

In order to understand the economic prospects of the BRI corridors, it necessary to consider the region's operating environment which is among the most challenging with a set of weak and mostly authoritarian post-Soviet states. They have investment-starved and resource-dependent economies (Geopolitical Monitor Intelligence Corp., 2018). In this context, Central Asia is among the first regions to benefit from the project's construction. Over the past years, the CA countries and China have enhanced



strategic cooperation, having concluded bilateral treaties on constructing the SREB for the purpose of strengthening and broadening mutually advantageous partnership. In turn, the development programmes of the Central Asian republics, for instance, ‘Nurly Zhol’ of Kazakhstan and Kyrgyzstan’s ‘Taza Koom’, all have common interests with the objectives of the Initiative.

It should be mentioned that before the announcement of the BRI the first China-Central Asia Cooperation Forum was held in 2012. Since that time it has become an effective mechanism and cooperation platform to conduct dialogue and exchanges between the CA countries and China. In 2015, an obligation to collectively build the SREB was embedded into a joint statement signed by the reviewed countries during the third Sino-Central Asia Cooperation Forum held in Shandong. Furthermore, on August 2, 2017, the fifth Cooperation Forum hosted more than 200 Chinese and Central Asian personnel including the representatives of governments, industrial and commercial sectors, think-tanks, associations and media, representatives from the SCO in Lianyungang. The issues of bilateral ties between China and the CA states and regional cooperation and reaching comprehensive consensuses were discussed (Chan 2015; Amanda 2017).

Thus, it is relevant to examine China’s relationships with each Central Asian country in the framework of the BRI since these countries have been witnessing increasingly closer ties with the PRC in recent years.

## *2.2. Kazakhstan and China: convergence through the Chinese project and the Nurly Zhol state programme*

One of the first countries to support the Chinese-led project and engage in international collaboration as part of the BRI was the Republic of Kazakhstan. Insofar as the project of the BRI was proposed by the Chinese President on the Kazakh land, it indicates that Kazakhstan is a strategically important partner of China. The Kazakh state is among the main participants and the strongest supporters of China’s initiative. N. Nazarbayev, the President of Kazakhstan, immediately supported the project and got feedback from the different layers of the Kazakh community. According to Zhang Xiao (2018a), the Chinese Ambassador to Kazakhstan, the Chinese and Kazakh state are the leaders in the BRI’s building.



On the fifth anniversary of the Chinese project, the Kazakh-Chinese business forum took place on September 7, 2018. About 300 Kazakh and 150 Chinese representatives of business communities participated in the event. Both the Kazakh and Chinese Presidents welcomed participants in their video messages and summed up the results of their bilateral cooperation. Within a joint cooperation program in the field of industry and investment, 51 Kazakh-Chinese investment projects worth around \$28 billion are being implemented: 17 projects worth \$14 billion belong to chemical and petrochemical industries, 9 projects are in mining, 7 projects in energy and renewable energy, 5 projects in infrastructure. The program also aims to ensure 20,000 new working places. It should be also noted that cargo shipments from Europe to China via Kazakhstan take 15 days unlike sea freights that might need up to 30-45 days. In comparison to shipping by sea, shipping by rail is more expensive (\$2,000 by ship compared to \$6,000 by rail), but it is cheaper than by air. Generally, Chinese companies actively participate in the industrialization of Kazakhstan and implementing large investment projects. The foreign trade turnover between the two countries increased by more than 30% in 2017 (Gotev 2018; Press Service, 2018).

Claiming leadership in the Eurasian space the Republic of Kazakhstan regards China's Initiative as a means of becoming the biggest commercial and transient centre in the CA region bridging the European and Asian parts. Through joining the project, Kazakhstan has a possibility to receive more Chinese technical facilities and capital. In line with the New Silk Road Initiative, the Kazakh President announced an economic policy called 'Bright Road' ('Nurly Zhol' in the Kazakh language) in November 2014. It intends to stimulate the country's economic growth by means of large-scale investments and implement crisis prevention measures. Until 2020, it is planned to implement projects related to logistics, infrastructure, public services and SMEs with a total investment of about \$40 billion. In order to boost bilateral cooperation in a wider range of areas and consolidate the implementation of both strategies, China and Kazakhstan agreed to link the Silk Road Economic Belt to the Bright Path in September 2016. The plan of cooperation to converge the constructing the Chinese project and the infrastructure development program Nurly Zhol indicates that the Kazakh-Chinese political coordination has achieved a high degree of intergovernmental interaction. This interstate alignment of state strategies shows the top level of bilateral relations between the Chinese and Kazakh nations. In addition, both countries have similar views on

making China's dream of reviving its nation and the Kazakhstani dream of the prosperous land of the Great Steppe happen (Official Website of the Prime Minister of Kazakhstan, 2015; Zhang 2018a).

China and Kazakhstan ensure the continuous strengthening of cooperation. So, the number of mutual visits between top officials of the two states has been increased for past five years. According to Roman Vassilenko, the Kazakh government seeks to develop a combination of economic policies, political interaction and international structures concerning the Chinese strategy, as the overall framework for stable, sustainable and mutually beneficial contacts with China (Gotev 2018).

As a geographical centre of the land part of the BRI, Kazakhstan is working on accelerating its infrastructure connectivity and creating a logistics network. A number of big infrastructural projects were put into operation: dry port of Khorgos on the border with China; the ports of Lianyungang and Aktau; the railroad between Kazakhstan, Turkmenistan and Iran; the transcontinental automobile road connecting Western Europe with Western China. In total, there are the following: a direct link between the 6 towns of Kazakhstan and the PRC; 5 check points; 5 transboundary gas and oil pipelines; 2 crossborder railroad tracks; and 1 transboundary collaborating centre. In 2017, the amount of transit flow from the Chinese territory to the European states which traversed through the Kazakh land surpassed one thousand eight hundred and made up over 60% of the aggregate. This transit traffic brought \$3 billion of revenue to Kazakhstan. Moreover, the Kazakh state gained access to the Pacific Ocean thanks to their transient logistics hub in the city of Lianyungang. Minister for Investment and Development of Kazakhstan, stated that large investments in infrastructure and implementation of the Nurlı Zhol would transform Kazakhstan into a shopping centre in Central Asia (Press Service, 2018; Zhang 2018a).

Kazakhstan does not want to be perceived just as a transit point on a Belt and Road map, so it seeks to become a Central Asia finance hub. In 2014, the Kazakh – China Direct Investments Fund was created with initial capitalization \$500 million. In December 2015, the national company and Silk Road Fund concluded an agreement on creation of Kazakhstan – China Production Capacity Fund with a capitalization of \$2 billion aimed at financing joint projects in the frame of the BRI and Kazakhstan – China industrial – investment cooperation program. The foundation was registered in Beijing on 7 December 2016. Mr. Birimzhan said that the establishment of this Fund

would favourably influence developing the investing activities in the Kazakh state, and therefore, help strengthen economic relations between two countries (Kazakh Invest, 2018).

On July 5, 2018, Kazakhstan officially launched the Astana International Financial Centre as a trusted platform for international financial dealings and a finance centre for the Central Asian region, the Eurasian Union, the Caucasus, the Middle Eastern countries, western provinces of China, Europe, and Mongolia. The AIFC has its own legislature grounded on the English legislation principles and operates within a special legal regime. Its independent Court is separable from the judicial system of Kazakhstan and composed of international judges (AIFC, 2018).

Although the largest part of Chinese investments in Kazakhstan is concentrated in natural resource extraction and related industries, agriculture is another vital component of the solid strategic partnership between two states. Kazakhstan is the 8th largest wheat exporter, and it is strategically located at the crossroads of Europe and Asia. In 2017, Kazakhstan exported sunflower seeds, wheat, and various farm products to China that surpassed 500 thousand tons, and it was a remarkable rise of twenty percent which made their bilateral trade more symbolic (Zhang 2018a). The Chinese scholar Xu Haiyan emphasises the role of Kazakhstan as the hub of a 'grain Silk Road Corridor'. Under the BRI umbrella, the China-Kazakhstan Modern Agriculture Innovation Park was completed in 2015 by Shaanxi-based Yangling Agriculture Hi-Tech Zone. The Chinese media often cite these projects as examples of the Belt and Road's rich opportunities for agribusinesses (Arcesati 2018). Within Kazakhstan-China industrial and investment program, 4 projects worth \$93 million are in agriculture and food processing industry (Kazakh Invest, 2018).

For sound implementing the China-led initiative, the strong bonds between peoples should be laid down. In this regard, great help is provided by the Confucius Institutes. According to Wang Zheng, Chinese Director of the Confucius Institute at Kazakh National University, there are five Confucius Institutes in Kazakhstan. Every year about 2,000 students study at the Confucius Institutes in Astana, Karaganda, Aktobe, or Almaty. As a result, Kazakhstan has been witnessing the rapid growth of those who learn Chinese (Hanban News, 2018). In turn, 5 centres of the Kazakh culture and language operate in the PRC. The number of Kazakh centres is the biggest among the CA countries. To date, around 1,400 Chinese students are studying in Kazakhstan and

about 14,000 Kazakh students in China. In the perspective, the amount of student exchanges is planned to increase (Zhang 2018b).

So by and large, for the last five years, the accomplishments of collaboration between Beijing and the Kazakh state in constructing of the Belt and Road are noticeable. The effective development of bilateral contacts sets an example of success for the other countries including the Central Asian ones. China and Kazakhstan aim at abolishing the hindrances and combined efforts along the project routes and taking advantages of the mutually beneficial development. Meanwhile, there are still a set of problems and challenges that need to be addressed by both sides.

### *2.3. Linking Kyrgyzstan's Taza Koom project with the BRI concept*

While Kazakhstan seeks to be the financial centre of Central Asia, the Kyrgyz Republic is working on transforming into a digital hub for Eurasia. To achieve this goal, the Kyrgyz state developed a Digital Transformation Program called Taza Koom (smart society in English). Taza Koom is a main element of the National Sustainable Strategy for Development till 2040. In April 2017, during a consultation of the National Council for Sustainable Development, the former Kyrgyz President Atambayev stated that the digital strategy would be aimed at bringing Kyrgyzstan from extractive economy to knowledge-intensive one and building pure and honest society. Health, individual rights, education, increasing living standards and enhancing the business conditions are important tasks of an open and transparent state which this high-tech program intends to build (Taza Koom, 2017).

Later, on May 15, 2017, at the One Road, One Belt forum, Mr. Atambayev expressed willingness to link the Chinese concept, namely a digital Silk Road, and the Taza Koom national campaign and jointly implement the objectives to expand the network of fiber-optic transmission lines passing from China to Europe via the Kyrgyzstan's territory. Additionally, he proposed to establish logistics e-commerce centres in Kyrgyzstan for the purpose of promptly processing online orders for consumers of the Eurasian countries. With regard to Kyrgyzstan's objectives of transforming into a digital centre of Eurasia, the Chinese companies Huawei and Telecom have cooperated with the Kyrgyz project (Interfax News Agency, 2017).

Sooranbai Jeenbekov, a newly elected President, has demonstrated more incentives in collaborating with the Chinese side in the sector of green technology. He suggested China opening a joint factory for the production of electric vehicles in Kyrgyzstan focusing on the Central Asian and the EAEU's citizens as the major buyers. He considers this area of cooperation as a promising one within the implementation of the BRI. Even if electric cars are not in demand in Kyrgyzstan now, their production will facilitate to bring them on the Kyrgyz market for mass use, thereby, reducing Kyrgyzstan's oil and gas dependence on exporting countries and improving the ecological situation inside the country (Kostenko 2018).

The Kyrgyz Republic as well as Kazakhstan, that are the only members of the Russian-led EAEU among the CA states, formally backed up the alignment of two projects and began to search for the possibilities to take advantage of it (Kassenova 2018). Kyrgyzstan stands for the coordinating actions to extend integration between the Eurasian Union and the Chinese Initiative and the need to look for prospective areas of coordination. The existing agreement between the Union and China covers issues of customs and industry cooperation, electronic commerce, technical regulation, etc. In this regard, the accession of Kyrgyzstan to the Union increased the country's investment attractiveness for China (National Institute for Strategic Studies of Kyrgyzstan, 2018).

Following the results of 2017, China became one of the largest trade and economic partners and investors of Kyrgyzstan. Turnover with China amounted to \$1.6 billion. The Kyrgyz exports amounted to only \$ 100 million, the rest is imports from China. Yet Kyrgyzstan experiences the increase of investment inflows that is considered as one of the economic opportunities offered by China's project. The Chinese side provides great support to Kyrgyzstan in the form of grants, loans, and technical assistance. So, the PRC intends to allocate 600 million yuan for the construction of roads, laboratories, and archaeological excavations (Kostenko 2018).

Kyrgyzstan backs the China-proposed Belt and Road Initiative, insofar as it gives new opportunities and access to the sea for the Central Asian countries, in particular, Kyrgyzstan. In this context, Kyrgyzstan stands for starting the building of the railway between China and the Republics of Kyrgyzstan and Uzbekistan. According to Mr. Jeenbekov, the project is a strategically relevant for the country, as it offers the potential to earn transit fees, help develop the southern province of Osh in Kyrgyzstan and create new working places. Also, it will stimulate the commercial contacts because the region

may export more dairy and meat products and potable water to its Eastern counterpart. However, this project for the railway construction has been discussed for about 20 years, and it is still on the preliminary feasibility study. The project also causes many concerns to Kyrgyzstan such as the allocation of the purported job opportunities to Chinese migrant labourers or strengthening the existing divide between the Northern and Southern halves of the country as well as lack of benefits for Bishkek. From the Kyrgyz side, it was offered an option that this railroad must pass through the country's territories to contribute to the development of its trade relations (Foreign and Commonwealth Office, 2014; Levina, 2018).

Under the BRI, the biggest infrastructure project is a 433 kilometres (269 miles) long alternative motor road connecting Bishkek with Osh. For the construction, the Chinese Export-Import Bank provided an 850 million dollars loan and the China Road and Bridge Corporation (CRBC) was the key executive partner. The first phase of the road construction began in 2014. The second one is now being implemented by the CRBC. The Kyrgyz expert K. Rakhimov believes that this North-South highway will facilitate the future freight flow of the China-Kyrgyzstan-Uzbekistan railroad and reinforce the Chinese commodity expansion in the populous Ferghana valley (Levina 2018).

Another important project in which Kyrgyzstan will take part is the construction of the fourth string of the main gas pipeline for the transportation of Turkmen gas across the territory of the Uzbek, Tajik and Kyrgyz states to the PRC. Kyrgyzstan is the last of the Central Asian countries, where the gas pipeline will run. The length of the pipeline in the Kyrgyz territory is about 215 kilometres. In Kyrgyzstan, the gas pipeline construction would begin at the end of 2019. The country will be able to receive an annual profit for gas transit without investing a dollar in the project. And about 800 workplaces will be created during construction where 200 people will get a permanent job (Kabar News Agency, 2017).

Thus, being among the first countries to support the Chinese idea, Kyrgyzstan is doing its utmost to utilise its transit potential and attract China's investment into its own projects. Due to the Chinese help under the Initiative, Kyrgyzstan will be more technically united and have a better transport connection. Meanwhile, the country is heavily indebted to China, and therefore, Kyrgyzstan dependence on China could threaten its sovereignty.

#### *2.4. Compatibility of the China's initiative with the domestic development agendas of Uzbekistan, Tajikistan, and Turkmenistan*

The China-led Belt and Road program is a unique multilateral framework for inclusive and cooperative development. Insofar as the program's implementation passes through many countries with various regional mechanisms, its success depends on China's ability to establish close partnerships with target states. In its actual formulation, the BRI could accommodate the foreign policy vision and perspectives of Tajikistan, Uzbekistan, and Turkmenistan as the EAEU non-members.

The BRI's respect for sovereignty concerns corresponds to the Uzbek vision of foreign policy. Uzbekistan strongly adheres to the principle of sovereignty and the policy of non-alignment with any military-political bloc. Being a double landlocked country, the Republic of Uzbekistan has an everlasting need for more connectivity with major global markets and infrastructure development. The understanding of the importance of the Chinese Initiative for the country's needs explains Uzbekistan's support for it and its involvement with several institutional and investment initiatives within the framework of the project. In light of Uzbekistan's foreign policy opening and dynamism, President Shavkat Mirziyoyev underlined country's readiness to initiate and strengthen relations with all partners in advancing causes of peace, progress, and development (Official Website of the Ministry of Foreign Affairs of the Republic of Uzbekistan, 2019).

In this context, the opportunities offered by the Initiative help Uzbekistan realise its national Strategy of Actions in 5 priority spheres for Uzbekistan's development in 2017-2021 that was launched by the Government of Uzbekistan in February 2017. The Development Strategy sets out a comprehensive programme of reform, including political, administrative, and judicial aspects. This ambitious program will facilitate the process of Uzbekistan's moving from an inward-oriented economic model towards a more open, integrated and export-driven economy. To date, major steps have been taken to liberalise the foreign exchange regime and loosen the currency control (Official Website of the President of Uzbekistan, 2017).

Uzbekistan's agenda of its modernisation resonates with China's presentation of its idea as a framework for realising investments and capacity-building transfers in the field of infrastructure (Qoraboyev 2018). Mr. Saidov, Ambassador of Uzbekistan to China, noted that Beijing has been one of Uzbekistan's most important investors, and



the turnover between them accounted for five billion dollars in 2017. Their mutual cooperation is continuously developing in main essential fields. So, in May 2017, 115 deals worth around \$23 billion on stimulating their interaction in electric energy, chemicals, oil extraction, pharmaceuticals, architecture, textiles, transport, agriculture and so on were signed during President Mirziyoyev's visit to China. China's bank will finance a 1.2 billion dollars project on the producing synthetic liquid fuel at Shurtan gas refining complex situated in the south of the country. In addition, a \$3 billion deal targets the modernisation of three hundred water pump stations and developing Uzbekistan's hydropower industry. In general, there are more than seven hundred companies with the Chinese capital's participation in Uzbekistan, and a number of joint projects are being implemented in different sectors ranging from agriculture to transport and logistics. For example, Chinese companies will build a car tunnel under the Kamchik Pass that separates the Fergana valley from the rest part of the state. At the same time, the Uzbek President stresses that Chinese investments have to create workplaces, primarily, for Uzbekistan's peoples rather than for the Chinese labourers as it happened in Tajikistan (Eurasianet, 2017; Qoraboyev 2018).

In terms of the China – Kyrgyzstan – Uzbekistan railroad project, Uzbekistan will get access to the Pacific's and the Persian Gulf's ports and this railway designated for trading with the Asia-Pacific economies will not depend on the transition through the Russian territory. The railway will help reduce cargo transit costs and increase the speed of cargo transit. The project will also stimulate the region's countries usage of natural resources and enhance international trade and tourism. As a result, the route from East Asia to the Middle East and Southern Europe will be cut by about 900 kilometres and will take 7-8 days less. However, the negotiations still continue on the issue of a track gauge and funding as well as determining in detail the number of tunnels, bridges and other structures (Panfilova 2018).

All in all, the Sino-Uzbekistan relationships have reached the strategic partnerships level within the development agendas of both countries. The readiness of Uzbekistan to participate in China's initiative must be complemented by Beijing's actions on integrating the relevant elements of the Uzbek national strategy into its project.

The first country to have signed a memorandum with the Chinese colleague on building the Silk Road was Tajikistan. And the authorities of Tajikistan have also proposed its programme to link to the BRI. In 2016, the 'National Development Strategy



of the Republic of Tajikistan till 2030' was adopted. By aligning its national strategy that centres on industrial development with the Belt and Road Initiative, Dushanbe aims at expanding bilateral cooperation in infrastructure, agriculture, science and technology and other areas. According to the Chinese Ambassador to Tajikistan Yue Bin, in recent years China has been the main investor in Tajikistan's industrial sector. Many large industrial enterprises or projects in Tajikistan including the Dushanbe-2 thermal power station and Zhongtai (Dangara) agricultural and textile industrial park were invested by Chinese companies. Another important part of the Sino-Tajik cooperation within the BRI is infrastructure connectivity. With the government of Tajikistan support, a lot of roads were built by Chinese enterprises or with loans provided by China's government to boost connectivity among the national highways in the north and south. For instance, China invested the 350-km Dushanbe – Chanak (Uzbek border) highway (Hashimova 2018; Huaxia 2018).

Despite receiving much-needed development infrastructure, Chinese FDI will not facilitate developing the Tajik economy if Tajikistan does not follow its national interests. Being the most remittance-dependent country in the world, Tajikistan even does not have any requirements to mandate foreign firms to hire domestic labour. And so in the country, many jobs are taken by Chinese workers that are paid more than the locals while the Tajik citizens have to go abroad in search of jobs. In addition, the excessive dependence on the contracting companies of China restrains the practicability of the Belt and Road project. In 2016, President of Tajikistan gave the privilege of operating 2 goldmines to the Chinese firm Tebian Electric Apparatus in exchange for constructing 2 integrated heat and power plants. Until the TBEA can recoup its \$332 million investment, it will operate two mines. Meanwhile, Tajikistan is a crucial component in Beijing's geostrategic aspirations as it is situated at the crossroad of the major economic corridors within the BRI and allows negotiating better local purchases in the commercial transactions with China (Reynolds 2018).

Turkmenistan's position in China's Belt and Road Initiative remains somewhat out of sight due to its remoteness and a common border with unstable Afghanistan as well as the country's inability to liberalise its economy and trade. It is the only Central Asian state not to have presented itself as a candidate to join the WTO and not to be a member of the AIIB, which will fund the BRI along with the Asian Development Bank and other sources. Turkmenistan still sticks to the old Soviet Union style of operations

following its government programme ‘Strategy of Political, Economic, and Cultural Development of the Turkmen state up to 2020’. However, one of the priority tasks of this programme is to attract a high investment and increase the constructions of industrial objects. In this context, the Chinese investments in the frame of the Belt and Road Initiatives are crucial for Turkmenistan. Following China’s example, Ashgabat has started opening up and becoming more connected after years of an isolationist policy (SojuzPravoInform, 2003; Silk Road Briefing, 2017).

Using its strategic position, in May 2018, Turkmenistan opened the Turkmenbashi Port on the Caspian Sea at a cost of US\$1.5 billion with the purpose of improving the exportation and serving as a hub between the Asian and European countries. The so-called Turkmenbashi’s Caspian window and the Turkmen Belt and Road are expected to treble the country’s cargo processing capability up to 26 million tons per year. This new harbour can handle the stream of cargoes that move between the countries of Europe and the Middle East and China, as Turkmenistan has an operating railway link with China through neighbouring Kazakhstan (Silk Road Briefing, 2018).

Moreover, Turkmenistan is the biggest supplier of natural gas to its Chinese partner. The country delivered 21% of the Chinese import of natural gas via the CA – China gas pipeline (also known as Turkmenistan – China gas pipeline). However, being largely dependent on natural gas exports for revenues, Turkmenistan wants to diversify its economy (Hashimova 2018). In this regard, the ‘Avaza’ project was launched in 2009. The Avaza national tourist zone, dubbed as ‘the Central Asian Las Vegas’, took place on the Caspian coast. Although 70% of Turkmenistan is desert, the country is attracting a large number of Chinese tourists. So, the tourism facilities in Avaza are now being built in order to better accommodate the Chinese market (Silk Road Briefing, 2017; Official Website of the Ministry of Foreign Affairs of Turkmenistan, 2019).

To conclude, the Central Asian countries were among the first ones who officially supported the China-promoted initiative. As a key part of the project, the Central Asian states are being actively engaged in international trade and connectivity. These countries try to take advantage of the project by converging it with their national development strategies. The reviewed national programs and the BRI are not mutually exclusive, as emphasising their particular features all Central Asian countries successfully align its strategies with the Chinese initiative. However, the closer cooperation between the CA states is needed to bargain more preferences for them under the BRI.

### 3. Challenges and risks in the framework of the BRI

The Belt and Road Initiative is aimed at deepening regional cooperation and improving connectivity on a trans-continental scale. For the Central Asian region, which has faced tremendous political, economic, and social difficulties since the collapse of the Soviet state, the Chinese project provides with opportunities to actively engage with international trade. At the same time, the growing influence of China in the economy, business activity, and social-cultural fields in the CA region cannot cause concerns.

The BRI is a big and cross-regional economic program that serves as one of the main tools facilitating China's foreign investment. In order to understand the perception of the BRI investment flows by the local community, in 2017, a case study was carried out by the scholars at the Nazarbayev University in Kazakhstan and J-Invest Consulting in Kyrgyzstan. 300 respondents, mainly representatives of the educated class, were surveyed. The combined results for these countries show that there were no significant differences between how the Kazakhs and Kyrgyz perceive foreign investment. According to the results, the overall opinion on Chinese foreign investment is quite liberal. 96% agree or strongly agree that FDI is good for their countries and economic cooperation with China is important (Johec–Kyzy 2018).

Among the challenges of the growing amount of China's investments, the most adverse effect is the Chinese immigrants' inflow. Around 80 per cent of interviewees believe that it causes many problems. The second-greatest fear is polluting and damage to environment (70%), then China's managerial practice (65% – in the Kazakh state and 52% – in Kyrgyzstan). About 59% of the Kazakh respondents and 44 per cent of Kyrgyzstani ones prone to accept that Beijing's investments pose some threats to the national sovereignty. Around 1/3 of interviewees wanted to confine China's investments to big firms, while 2/3 would also let China finance the SMEs. Only 6% would allow Chinese employees to work in their countries. Regarding other states' interests, about 25 per cent consider China's FDI as a trouble for the Russian Federation, and between 30 to 40 per cent that it could cause the disruption of the power balance (Johec–Kyzy 2018: 73–75).

Yet in the interview with Azeri. Today, Oleg Sidorov, a leading political analyst in Kazakhstan, states that Moscow has not determined its position to the Central Asian republics. In fact, China is out of reach both for Russia and for other world actors who

have their own interests in this region. China has acquired a strong position in Central Asia with its pragmatic projects and significant financial injections (Mustafayev 2017).

Recognizing the importance of investments for the regional economic activities, it should be mentioned that the growing Chinese investments and loans can lead to the Central Asian region's over-dependence on the Chinese side as the source of overseas investments and marketplace. Firstly, the mechanisms of allocating and receiving Chinese foreign aid must be taken into consideration. According to a researcher at Georgetown University, Hao Tian (2018), there are two types of Chinese aid. The first one is the credits on development and FDI, mainly, in the case of raw material resources' access in the recipient states. Therefore, in the content and aid practice norms, the Chinese aid differs from the Western.

The Chinese assistance often contains the packages of soft loan, mixed aid, investment and trade deals that are usually accompanied with special conditions including support of China's territorial integrity and its one China policy by the recipient countries. The second type is known as tied aid meaning that Chinese money meets the Chinese companies' needs. The soft loans intended to infrastructural and technical support projects envisage the involvement of the Chinese technology, facilities, materials, and services stipulated by the contracts. The participation of Chinese companies is another key condition, insofar as it allows the state companies to operate outside the country, getting foreign resources and deals. In this regard, economic difficulties and isolated geographic locations of the Central Asian states make them extremely vulnerable to China's embedded conditionality (Tian 2018).

Mr. Jaborov, a lecturer at the National University of Tajikistan, even refers to the expression 'predatory lending'. It means that a borrower country must make concessions in politics and economy to a creditor nation or its companies along with repaying the interest rates. By providing big loans to the Central Asian countries, China is able to acquire the rights to local enterprises' property (Jaborov 2018).

The recent study shows that Tajikistan and Kyrgyzstan are among the eight countries along the BRI that face high sovereign debt risks. Because of the Initiative their levels of debts owed to China have risen sharply making them heavily indebted (Ming 2018). However, the Chinese Initiative is completely different presented and discussed by the officials of Tajikistan and Kyrgyzstan. The Director of the OSCE Academy in Bishkek, Dr. Alexander Wolters, notes that in the Kyrgyz Republic its dependency on China is

less pronounced and more contested, while Tajikistan welcomes emerging dependency on the Chinese investments, the part of which even aimed at financing the construction of entire cities. Kyrgyzstan's membership in the Eurasian Economic Union and the public controversies regarding Chinese investments have complicated the Sino-Kyrgyz relationships and the potential for China's capital (Wolters 2018).

In a context of facilitated trade, present Sino-Central Asian relationships parallel the model of the Soviet economy: the republics located in the south of the Union primarily delivered raw materials and energy sources to the better industrially developed regions of the USSR. Like the Soviet state, the People's Republic of China imports Central Asian energy and primary commodities and exports the final products to the region. So, the Chinese companies are in a better position than the Central Asian ones, so such situation makes the domestic enterprises less competitive and increases demand for imported goods from China. Over-reliance on the Chinese side as a purchaser of their export products leads to some problems as well. For example, Turkmenistan is currently facing this problem, because China is the main foreign importer of Turkmen gas putting the country in a dependent position on gas supply (Jaborov 2018).

The BRI is viewed as a motive of Beijing's expansionist policy to exploit rich resources of the Central Asian countries and make them a junkyard for excess production of China. The Central Asian nations still treat the Eastern counterpart with fear and disbelief. The negative attitudes towards the Chinese are particularly pronounced in Kazakhstan and Kyrgyzstan. For instance, despite huge investments, the coordination of national strategy *Nyrlı Zhol* with the Chinese one provoked mixed reactions in the Kazakh media and public. The rapid pace of Chinese participation under the BRI caused the protests, insofar as the population opposed lease of land to China or setting up joint ventures (Dave 2018: 102).

The influx of Chinese immigrants is another crucial area of concern for the Central Asian countries. In the Central Asian societies, anti-Chinese sentiments are spread and the racial stereotype is overtly broadcasted. Amid the growing Sinophobia, there are suggestions that the Chinese government's goal is to utilise the territory of Central Asia to solve its population problems. In Kyrgyzstan, violent disputes between the Chinese migrants and the Kyrgyz occasionally arise owing to more interactions of the Chinese with Kyrgyzstan's society. The fears of China that also exist in Kazakhstani society provoked the protests against the intermarriages. The Kazakhs were against mar-

riages between Kazakh women and Chinese men that were supposed to marry Kazakh women for money receiving from China's government. So, the protesters required to close matrimonial agencies that acquainted Chinese men with Kazakh women (Burkhanov 2018: 159).

The issues related to corruption and governance can undermine the success of implementing the BRI project, insofar as a certain part of funds intended for projects was corrupted and not properly used. And due to it, the assessment of the projects, which lack sustainability standards, are usually based on the profitability. The Chinese investments in Central Asia are surrounded by the high level corruption, including bribe payments to senior officials. As an example, in 2016, the Kazakh director of the Khorgos international centre of cross border cooperation with the PRC was accused of taking a hefty bribe. According to the Head of China's Chamber of Commerce in the Kyrgyz state, several Chinese investors were also involved in corruption cases (International Crisis Group, 2017). Hence, if most of China's projects are related to corruption scandals, the realisation of the initiative will not achieve successful results.

Like the other investors, Chinese companies face difficulties in operating amid complicated bureaucratic red tape in the Central Asian states. Corruption and mismanagement encourage disrespect for the environmental considerations that cause protests. The BRI infrastructures also cause environmental hazards throughout Eurasia and boost the extraction of raw materials. Inside the country, China launched an ecological policy in order to adopt the latest green technologies and reform environmental standards and regulations. In the context of such a policy, China can outsource its polluting industries to Central Asia. It should be mentioned that the CA states have already experienced negative environmental impacts. The locals suffer from the emissions and pollution produced by the refineries and cement factories (International Crisis Group, 2017).

Thus, progress in the realisation of the BRI will depend on how the Chinese side could take measures to address the aforementioned issues. In general, the project has many positive aspects and meets the Central Asian states' needs. However, the BRI is more beneficial for China, as it serves, firstly, for the Chinese interests including the expansion of the export markets and granting its firms' access to overseas natural resources. Although the Chinese project facilitates trade and develops infrastructure in the region, it causes many challenges. In order to mitigate the growing dependency on their Eastern neighbour, the republics must adhere to their national interests and

ensure diversification of their credit sources. In addition, all five Central Asian states should build sustainable relationships in science, industry, and cultural areas. In order to act as independent players in both regional and global levels, it is necessary for the Central Asian countries to develop stronger relationships with each other and different foreign partners. China should also take into account the overall context of these countries.

## Conclusions

In the conducted research, the relations between the Central Asian countries and China in the framework of the Belt and Road Initiative were analysed and the answers to research questions were received. As the research has demonstrated, the modern condition and development trends indicate the strengthening of trade, economic and political cooperation between the reviewed countries and China's growing influence in the Central Asian region.

On the one hand, the Belt and Road project contributes to developing the Central Asian economies and ensuring the stability in the region through targeted investments and political support. The Chinese loans and infrastructure investments aim to facilitate the integration of the CA countries within the region and into the global trade and value chains and, therefore, to increase their role on the international level.

On the other hand, the growing presence of China in the region and, as a result, the trade imbalance, primarily risk of being only the raw materials appendage of China, over-dependence on China's aid and credits, environmental and migration problems can cause public discontent and mass protests that certainly will affect the region's security and stability of the ruling regimes.

It is clear that the Central Asian states should not be underestimated. They have shown certain independence and managed to strengthen their political systems and administrative bodies and work out own model of national development. In the case of Uzbekistan and Turkmenistan, both states adhere to the principles of sovereignty and the policy of non-alignment. Kazakhstan and Kyrgyzstan as the members of the Eurasian Economic Union confront Russian efforts to transform the Union into a supranational organisation with coordinated external policies and a common currency and focus on their national interests.



In light of the urgent need of the financial and technical assistance and capital and alternatives for international cooperation, the Chinese-promoted BRI became quite desirable to the national regimes in Central Asia. China and the Central Asian countries signed bilateral treaties on the building of the BRI, and thereby enhanced strategic cooperation in trade, finance, transport, communication and so on. In order to boost bilateral cooperation in a wider range of areas, the political elites of the Central Asian nations have also incorporated the agenda of the BRI into the state strategies and promoted the convergence of domestic development plans with the Chinese project. Linking the national development strategies with the BRI and underlying their particular characteristics, the authorities of the Central Asian countries plan to achieve their goals and attract more Chinese funds.

The results of the study show that the national development programs and the Belt and Road project are not mutually exclusive and their provisions complement each other. At the same time, the Kyrgyz and Kazakh administration is seeking to use the potential of both projects – the Chinese project and the Russia-led Eurasian Economic Union – in order to maximise the economic and strategic benefits. The EAEU members, Kazakhstan and Kyrgyzstan, stand for the coordinated efforts to extend integration between two ambitious projects, whereas the EAEU non-members, Tajikistan, Uzbekistan, and Turkmenistan, aligned their national development programs with the BRI emphasising their own foreign policy vision and perspectives. In the meantime, the promotion of the BRI and its convergence with the national programmes must also depend on the Central Asian experts' and local residents' support.

The results on the current economic performance of the Central Asian states in comparison with China demonstrate that the PRC is one of their key investors and the main economic partners along with the European Union and the Russian Federation. The trade structure displays that the Central Asian countries are consolidating their role as suppliers of raw materials and natural resources to China and purchaser of consumer goods. China has actively increased its presence in the region providing huge investments in energy and infrastructure sectors. In the light of broadening the opportunities for economic development, all five CA republics are working on improving their investment climate and implementing reforms with significant scope for regional cooperation.



The Central Asian countries compete for attracting more Chinese investments; therefore, this situation can force the Central Asian authorities to make serious strategic concessions to its Eastern partner. In order to avoid the one-sided benefits given to China and unfavourable donor-recipient relations and, as a result, losing their sovereignty, it is highly recommended for them to formulate a joint concept in relation to the BRI and support stronger regional integrity and multilateral dialogue in Central Asia as well as strengthen the ties with the EAEU. At the same time, the Chinese assistance and capital will unite the region economically and strengthen its competitiveness by integrating Central Asia into a trade with Western Europe, South and East Asia via cheaper routes.

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