

POLICY BRIEF 2016-1

Central Asia and the Silk Road Economic Belt

By Kemel Toktomushev

Abstract

The de facto role of China as the main economic and development player in Central Asia goes unrecognised in official and public discourses due to the prevalence of opinion-based policymaking in the region. Although evidence-based policymaking is well established in the developed world, Central Asian states have yet to fully experience the benefits of informed decision-making. Central Asian leaders have to revisit their approach towards China and utilise the opportunities such a neighbourhood offers in a more pragmatic and mutually beneficial way. In this regard, the Beijing-led *One Belt, One Road* initiative offers an excellent opportunity for the Central Asian leadership to practice evidence-based decision-making and capitalise on Chinese willingness to advance regional integration for the benefit of broader population.

Unrecognised China

The emerging role of China as the primary economic and development player in Central Asia goes unrecognised in public discourse due to the prevalence of opinion-based policymaking in the region. In local public opinion and political discourses, Beijing-supported development projects in Central Asia are often regarded as China's attempt to subdue Central Asia economically. Although Beijing's longer-term goals in Central Asia are linked more to the development and stabilisation of the restive Xinjiang region, Central Asian elites perceive Chinese-led regional initiatives as one more tool to assert Beijing's regional hegemony. These fears are often bolstered by a lack of understanding among Central Asia's political elites of China's foreign policy goals, and a historical legacy of confrontation between China and Central Asian nomadic tribes.

Accordingly, Central Asian leadership needs to reassess its positions towards Chinese initiatives in the region from a perspective rooted in evidence-based policymaking. Evidence-based policymaking, derived from quality research and applied analysis, will be instrumental in producing better policy options, reducing poverty, stimulating economic growth and enhancing the quality of life in Central Asia. Central Asian leadership must put aside the pervasive opinion-based discourse and acknowledge China's emergence as the region's major economic player and its unprecedented economic engagement in Central Asia in recent years. While in the early 2000s Chinese-Central Asian trade was estimated around US\$ 1billion, in 2010-2013 these numbers reached nearly US\$50 billion (Putz, 2015). In a decade, China grew from providing a limited number of imports to Central Asia to providing more than 10% of the region's total imports, while simultaneously becoming one of the main export destinations for Central Asian goods and commodities (Mogilevskii, 2012). It is estimated that the real numbers are even more staggering due to the significant volume of informal imports and exports.

Aside from being a key trading partner, China became the region's largest de facto lender and source of development financing. For example, China has already financed several multi-million dollar projects in Kyrgyzstan, including the construction of the Datka electricity substation and the 405-kilometer Datka-Kemin transmission line. China also agreed to a US\$400 million loan to construct Kyrgyzstan's North-South alternative road. As of 2015, Kyrgyzstan owed China approximately US\$1.8 billion, which comprises nearly half of Kyrgyzstan's total external debt (Akmat Uulu, 2015). In a similar vein, the government-sponsored Export-Import Bank of China remains Tajikistan's largest single creditor, holding almost 46% of Tajikistan's total external debt (World Bank Group, 2015). Furthermore, China is well situated to act as a mediator in Central Asia: the China-Central Asia pipeline consists of three separate enterprises, each based on a 50% ownership agreement between China and Kazakhstan, China and Uzbekistan, and China and Turkmenistan (Cooley, 2015). Moreover, through its China National Petroleum Corporation (CNPC), China is continuing to invest significantly in the region's transport and energy infrastructure, including the construction of the Atyrau-Alashankou crude oil pipeline.

Accordingly, Central Asian leadership must revisit its approach towards China and utilise the opportunities such a neighbourhood offers in a more constructive and mutually beneficial way. Central Asian policies towards China should be pragmatic and forward-looking. In this regard, the Chinese-led *One Belt, One Road* initiative offers an excellent

opportunity for the region's leadership to practice evidence-based decision-making and capitalise on China's willingness to advance regional integration for the benefit of the broader population.

One Belt, One Road

The Silk Road Economic Belt and Maritime Silk Road, also known as the *One Belt, One Road* initiative, is a Chinese-led development framework that aims to integrate trade and investment in Eurasia. Presented by President of China Xi Jinping during his official visits to Kazakhstan and Indonesia in 2013, the *One Belt, One Road* strategy is an ambitious initiative aimed at reviving the historic Silk Road in the 21st century by connecting China with Europe via Central Asia, South Asia, Southeast Asia, West Asia, East Africa and the Middle East. Based on implementation guidelines released by China's National Development and Reform Commission (2015), *One Belt, One Road* seeks to promote policy coordination, facilities connectivity, unimpeded trade, financial integration and "people to people bonds".

The proposed land-based Silk Road Economic Belt constitutes an infrastructure network of roads, rail and oil and gas pipelines stretched across the Eurasian continent. The Maritime Silk Road would be its proposed maritime equivalent, establishing an economic corridor through a system of linked ports and infrastructure. Once fully completed, *One Belt, One Road* is projected to directly affect nearly 4.4 billion people with a collective GDP of US\$21 trillion (BDO, 2015); Central Asia is assigned a special role in this regional architecture. President Xi Jinping visited every Central Asian state to personally reassure local leadership of the Chinese commitment to investing US\$40 billion in the region's infrastructure through the Silk Road Infrastructure Fund. The recent unveiling of the China-backed US\$100 billion Asian Infrastructure Investment Bank (AIIB) confirms Beijing's determination to advance its vision of regional integration. *The Economist* (2015) reports that China plans to spend a total of US\$1 trillion in government funds through AIIB and the China Development Bank on the *One Belt, One Road* initiative.

Moreover in the summer of 2015, the credit rating agency Moody's produced a report rating the *One Belt, One Road* project as credit positive for the emerging market countries involved. Specifically, Moody's predicts that the Chinese-led initiative will mostly benefit smaller countries with underdeveloped infrastructure, low per-capita incomes and low investment rates, as President of China Xi Jinping expects trade via the modern Silk Road to surpass US\$2.5 trillion in a decade.

Policy Recommendations

The following policy recommendations are suggested for both the governments of Central Asian states and the Chinese government, with the aim of capitalising on China's role in the region through more pragmatic and mutually beneficial engagement.

To Central Asian Governments:

- Central Asian leadership must recognise the de facto role of China as the main economic and development player in the region and develop their countries' respective policies from an evidence-based perspective.
- Central Asian state leaders should address the growing sinophobia in the region and mitigate its repercussions.
- Central Asian leadership must utilise the opportunities to improve infrastructure and stimulate economic growth offered by the Silk Road Economic Belt.
- Central Asian leadership has to recognise that the Silk Road Economic Belt is more than an infrastructure project. This initiative assumes the fortification of "people to people bonds", involving cultural and academic exchanges, joint research, forums and fairs, personnel trainings, and exchanges and visits under the framework of existing bilateral and multilateral cooperation mechanisms. Accordingly, all possible opportunities should be explored.

To the Chinese Government:

- Chinese leadership should seek constructive engagement with other actors in the region, particularly Russia. Russia and China already work together in Central Asia under the auspices of the Shanghai Cooperation Organization (SCO), and although points of friction between Russia and China remain, a Sino-Russian rapprochement may have a positive impact on the region. For example, in addition to the development of a Eurasian economic corridor, China and Russia may coordinate efforts to jointly address emerging threats in Central Asia, such as drug and human trafficking and the rise of radical Islamism.
- Chinese leadership should pragmatically assess both the internal and external constraints facing the Silk Road Economic Belt project's successful implementation in Eurasia in general and in Central Asia in particular, before disbursing a vast amount of resources towards the creation of a substantial infrastructure network. The majority of post-Soviet states face political and institutional difficulties as their leadership struggles to advance good governance and curb corruption. Thus, the Silk Road Economic Belt could run the risk of becoming a new source of rent for Central Asia's ruling elites.

Sources

- Akmat Uulu, A. (2015) 'V 2015 Vneshnyi Dolg KR Preodoleet Kriticheskoo Otmetku? [Will the External Debt of Kyrgyzstan Surpass the Critical point in 2015?]' *Radio Freedom Europe/Radio Liberty*, 19 March, [Online], Available at: <http://rus.azattyk.org/content/article/26908844.html> [27 Apr 2016].
- BDO (2015) *One Belt One Road*, Singapore: BDO Advisory Pte Ltd.
- Cooley, A. (2015) 'China's Changing Role in Central Asia and Implications for US Policy: From Trading Partner to Collective Goods Provider', Prepared Remarks for 'Looking West: China and Central Asia' US-China Economic and Security Review Commission.
- Mogilevskii, R. (2012) 'Trends and Patterns in Foreign Trade of Central Asian Countries', *University of Central Asia's Institute of Public Policy and Administration Working Paper No. 1*, Bishkek
- National Development and Reform Commission of the People's Republic of China (2015) *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*, 28 March, [Online], Available at: http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html [22 April 2016].
- Putz, C. (2015) 'Will All Roads in Central Asia Eventually Lead to China?', *The Diplomat*, 9 June, [Online], Available at: <http://thediplomat.com/2015/06/will-all-roads-in-central-asia-eventually-lead-to-china/> [27 Apr 2016].
- The Economist* (2015) 'The New Silk Road', 12 September, [Online], Available at: <http://www.economist.com/news/special-report/21663326-chinas-latest-wave-globalisers-will-enrich-their-countryand-world-new-silk-road> [28 Apr 2016].
- World Bank Group (2015) *Tajikistan: A Moderate Slowdown in Economic Growth Coupled With a Sharp Decline in Household Purchasing Power, Tajikistan Economic Update, no. 2*.

The Institute of Public Policy and Administration was established in 2011 to promote systematic and in-depth research on issues related to the socio-economic development of Central Asia, and explore policy alternatives. The Institute of Public Policy and Administration is part of the Graduate School of Development, University of Central Asia.

The publication of the report was carried out with the aid of a grant from the International Development Research Centre (IDRC), Ottawa, Canada. The views expressed herein do not necessarily represent those of IDRC or its Board of Governors.

About the author

Kemel Toktomushev is a Research Fellow at the Institute of Public Policy and Administration, University of Central Asia.

Copyright © 2016

University of Central Asia

138 Toktogul Street, Bishkek 720001, Kyrgyz Republic Tel.: +996 (312) 910 822, E-mail: ippa@ucentralasia.org

The findings, interpretations and conclusions expressed in this policy brief are entirely those of the authors and do not necessarily represent the view of the University of Central Asia.

Text and data in this publication may be reproduced as long as the source is cited.