

Impact of “One Belt, One Road” project to the economy of Central Asian countries

Imomov Imomnazar

Graduate School of International Development and Cooperation
Hiroshima University, Japan

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Abstract

“One Belt – One Road” – the Chinese initiative to create the Silk Road Economic Belt (SREB) and the Maritime Silk Road (MSR) was first announced by the Chairman of the People’s Republic of China Xi Jinping during his official visit to Kazakhstan and Indonesia in 2013.

The main goal of the “One Belt – One Road” initiative lies in the exploration, formation, and promotion of a new model for international cooperation and development through strengthening of current regional bilateral and multilateral mechanism and structures of collaboration with the participation of China based on maintenance and development of the spirit Ancient Silk Road.

Central Asia, for many centuries, was a dynamic center linking regional and international communities via the historic Silk Road. Nowadays, Central Asia is tremendously important to China for several reasons. Firstly, Central Asia is the gate for China to the West. All land routes from China to Europe or South Asia pass through Central Asian countries. Secondly, three of Central Asian countries share a border with China. There are traditional -cultural links between peoples on both sides of the border. Lastly, Central Asian countries are rich in natural resources especially in hydrocarbon reserves which is more important for the lifeline of the Chinese economy. Connectivity and trade with Central Asia are considered necessary for development and stability of Chinese foreign policy.

Introduction

Nowadays, China is experiencing a very rapid economic growth in world history. Still, it’s unclear which model the Chinese are developing and pursuing. It’s the daily question between scholars and analysts. The “One Belt – One Road” is supposed to be the answer for the future of China’s long-term development goals.

Chinese President Xi Jinping launched the “One Belt – One Road” (OBOR) initiative in Nazarbayev University, in Kazakhstan in 2013 (Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road, 2015). One of the biggest stories in Asian business is China’s “One Belt, One Road” initiative, an economic and diplomatic project that could transform trade (Peter Wolf, 2016). The implementation of this initiative could help increase trade and investment in the countries along the Belt and Road. The Belt and Road run through the continents of Asia, Europe, and Africa, connecting the East Asia economic circle at one hand and developed European economic circle at the other, and encompassing countries with huge potential for economic development. The “One Belt – One Road” is the first ambitious megaproject to connect the people of Asia to Europe and Africa within economic trade tradition and cultural ties which was never experienced in the world history. “We can use the innovative model of collaboration to build the New Silk Road economic belt together so that we forge closer economic ties between Europe and Asia and deepen our mutual collaboration to experience even greater development. This great project benefits everyone along this road. (Xi Jinping’s speech at Nazarbayev University, Astana 2013)”.

At the “One Belt – One Road” Summit which held in Beijing, Xi Jinping mentioned that over the past three years, Chinese investments in the countries that joined the “One Belt – One Road” amounted to about \$ 50 billion. In the coming years, it is planned to increase this amount to \$ 200 billion (Rachel MIU, Chong Tjen-San, Chris Leung, 2017).

“One Belt – One Road” contains about 900 different infrastructure projects (Raymond Mah, 2016) including roads, railways, ports, power stations, and bridges in more than 60 countries. For the implementation of these projects, the estimated cost will be from \$ 2 to \$ 3.6 trillion (Bhattacharyay et al, 2012).

Everyone is thinking that nowadays, for many countries located on the ancient Silk Road, particularly landlocked Central Asia, a historic “One Belt - One Road” trade system appears to be the only alternative for their prosperity and development. Despite increasing economic, political and cultural cooperation between China and Central Asia, the role of Central Asian countries in this project is still under consideration and under-researched. The following questions remain unaddressed: what’s the benefit of the “One Belt – One Road” project to the economy of Central Asian states? How to implement this project in the region for the stability, development, prosperity, and integration of Central Asia? What specific threats exist in the “One Belt, One Road” to the economy of Central Asia in its contemporary stage?

China and Central Asia from Silk Road to “One Belt – One Road”

Looking at the political map of the world it seems that Central Asia is located in the center of the world and it has several advantages and disadvantages. Connecting one part of the world to another and being transit corridor for exporting and importing goods are the priority of locating Central Asia between the East and West. Central Asia is the place which Silk Road crosses it, it is the place that Alexander Great died, where Marco Polo searched for silk routes to Venice, and where British and Russian Empire had a Great Game. In a fact, West for most Chinese scholars and politics was Central Asia, not the modern European West. From the period of Han dynasty, Central Asia was the strategic place and the Chinese have always tried to have peaceful relations with the head of the Central Asian countries. These historical reasons are scientific basis for abandoning the term "Silk Road" as a historical concept. The Silk Road was the only shorter trade routes that connected the Chinese capital Xian with various trading centers in Central Asia, including, Samarkand and Bukhara. These centers were connected with other points like India, Iran, Middle East, and through them - with Europe.

Chinese “One Belt – One Road” project directly linked its initiative with the legacy of the ancient "Silk Road" and presented it as a project based on equality and mutual benefit, mutual open-mindedness and the sharing of knowledge culture and tradition from each other. But the goal of the “One Belt – One Road” initiative is not only the exchange of goods, services and ideas on equal terms. It is about creating new markets and routes for Chinese goods in Asia, in part because of a falling demand for them in Europe and the US.

Beijing's influence is growing fast day by day in the region. China engages in active economic interaction and invests impressive amounts of money in the implementation of projects which are vital for Central Asian countries.

In 1991, after Central Asia got its independence and after appearing as independent states in the political map, China changed its geopolitical position. Central Asia became one the priorities in the foreign policy of China. Countries in the region like Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan are rich in natural resources. The importance of the region as a strategic partner and market for the Chinese economy has been preserved until recent times.

A new factor in Beijing's policy towards Central Asia was the firm consolidation of the need to develop the western regions of the country on the agenda of China's domestic policy, as China's regional dynamics still show considerable imbalances. The western regions of China are more

connected with Central Asia. Thus, almost one-third of the total trade of the Xinjiang Uygur Autonomous Region of China today is going to Central Asia.

The actual issue for China is cooperating with the Central Asian states in fighting against terrorism, extremism and maintaining regional stability in recent years. The Chinese authorities are not interested in activating the Islamists and in their own territory - in Xinjiang Uygur Autonomous Region. The issues of combating terrorism and maintaining regional stability China and Central Asian states today decide both in bilateral format and through cooperation within the Shanghai Cooperation Organization.

The loans play a major role in ensuring the Chinese economic penetration into Central Asia. They mean financing projects at a relatively low-interest rate, but the condition of such loans is the use of Chinese materials, equipment, or labor in the performance of work. It also practices the transfer of shares in the business, the application of production sharing agreements. These practices make it possible to maximize the use of Chinese production resources, and the transfer of shares in business leads to a gradual expansion of economic presence in particular sectors of the economies of Central Asia. Investment is critically important for the Central Asian states to overcome geographic isolation from the seas, which greatly increases their transport costs and its limiting factor in the trade.

The particularity of the economic interaction of the Central Asian countries with China in recent years has been the alignment of domestic economic development programs of these states with the interests and strategy of Beijing. This is done to maximize the use of opportunities to attract Chinese financial resources.

The financial component of the project is based on the funds of the Silk Road Fund with the amount of \$ 50 billion and the Asian Bank for Infrastructure Investments from \$ 100 billion (Peter Wolf, 2016). In general, China is ready to invest in "One Belt - One Road" to \$ 1 trillion. Until (Till-delete) now, about \$ 70 billion, not including previously invested in the Central Asian region of investment in projects that will be inscribed in the "Silk Road".

A close neighbor is better than a distant relative

"In order to maintain peace and stability and to promote prosperity and development in the region friendly relationships and pragmatic cooperation with neighboring countries will be deepened, as well as unity and cooperation with developing countries will be enhanced and traditional friendship and common interests will be maintained" (12th Five-Year Plan, Chapter 53) China always will strengthen good-neighborliness and friendship, deepen mutually beneficial cooperation in all sphere and make sure the country's neighbors will benefit more from its development (Michael Swaine, 2014).

China pursues its Central Asian policy through multilateral and bilateral channels. The main multilateral instrument is the Shanghai Cooperation Organization, which opens new opportunities for developing positive relations with the countries of the region (Liu Haiquan, 2017). Bilateral relations with every Central Asian state are just as important as multilateral relations; the only thing is that they are more significant. The fact is that bilateral relations create conditions for setting and resolving the whole range of issues. It is very important that in relations with Central Asia, China find the right balance in the development of multilateral and bilateral relations. Both have special functions and characteristics, the most interesting point is that when bilateral and multilateral relations mutually complement each other.

China is a crucial partner of the Central Asian countries in ensuring the security of borders and regional security. The security of border with the three Central Asian countries like Kazakhstan, Kirgizstan, and Tajikistan are vital for everyone. There is no any desire by the Chinese side to establish hegemony or control the region, it does not threaten the small countries, but consider them and cooperate with them as equals, it does not interfere in their internal affairs and is always ready

to resolve all issues through negotiations and in the spirit of justice. This kind of foreign policy and diplomacy helped China create a positive image among Central Asian countries.

Kazakhstan is China's largest economic and trading partner in Central Asia. China and Kazakhstan have not only laid a compact basis for bilateral relations but are also working to create a reliable political, economic and strategic framework for further cooperation. Comparing to the other "One Belt One Road" countries, Kazakhstan is strategically positioned as a portal of China to Europe common border in Khorgos to the western shores of the Caspian Sea in Aktau.

In 2015, Kazakhstan and China reached an agreement on the integration of "One Belt - One Road" and the new economic policy of Kazakhstan "Nurly Zhol- Light Road". Four priority directions of the strategic cutting of "One Belt - One Road" and "Nurly Zhol" are defined: the development of bilateral trade, the accelerated expansion, and modernization of the infrastructure, the development of cooperation in the sphere of production activities and the deepening of cooperation in the financial sphere (Prospects for the CIS, informational and analytical note, 2016).

Figure 2: Map of the newly built and planned pipelines and railways in Central Asia.



Source: Bruegel

One Belt One Road project is strategic objectives of the Kyrgyz Republic in terms of infrastructure, development and investment attraction. China is very interested in building a railway connection with Uzbekistan through Kyrgyzstan. In addition to exporting Chinese goods to local markets, it is planned to use it for imports of raw materials to China. In some alternatives of the project, the road connects China through Kyrgyzstan not only with Uzbekistan but also with Tajikistan, Afghanistan, Iran, and Turkey, up to the connection with the European railway network.

Tajikistan has good relations with China, there are no any significant contradictions in their relations. China is a strategic partner of Tajikistan. Strengthening and developing bilateral relations and cooperation with this country is one of the priorities of Tajikistan's foreign policy (According to the Ministry of Foreign Affairs of the Republic of Tajikistan). The volume of bilateral trade between China and Tajikistan is satisfactorily growing. The Government of Tajikistan intends to steadily increase its efforts to further expand and deepen trade and economic cooperation, taking into account favorable conditions for geographical closeness and economic complementarity. In September 2014 signed Memorandum between the National Development and Reform Commission (NDRC) of the People Republic of China and the Ministry of Economic Development and Trade of the Republic Tajikistan which it is focusing in on the integration of the country's development plans with the implementation of the One Belt One Road initiative as an important chance for the

economic development of the country. Tajikistan was one of the first countries which signed Memorandum of understanding on One Belt One Road Project with China. China has invested in the repair and reconstruction of several important highways, which it considers as important for both sides. Chinese company of TBEA took part in the construction of a unified energy network of the Republic and the establishment of a Cogeneration plant in Dushanbe. China is primarily investing in the extraction of natural resources. One of the first notable presence of Chinese investments in the Zarafshan joint venture for the extraction and processing of gold (Sophie Ibbotson, Max Lowell-Hoare, 2018). In addition, a decision was made to build an industrial town, of which 500 million dollars were allocated, and which should include the construction of factories for the production of pyrotechnics, lead, batteries, and cement.

Tajikistan and China are actively cooperating on the world stage, in particular within the Shanghai Cooperation Organization. The two countries have similar positions in many international and regional issues.

Turkmenistan is standing apart in Central Asia. It adheres neutrality in foreign policy, and no willingness to join any regional organizations, including the Shanghai Cooperation Organization, and cooperating with all countries from a distance. Nevertheless, China has good, friendly relations with Turkmenistan. As Turkmenistan is rich in natural resources, especially natural gas can be accessed from Central Asia to West Asia, the Middle East, and Europe which makes Turkmenistan very significant in terms of energy and transport. Therefore, China seeks to develop good relations with Turkmenistan, especially in the field of trade and energy resources (Fehér-Szunomár, 2009). The great opportunity is related to the opening of the International Port in Turkmenbashi. With the implementation of this project, it will be possible to send cargo via the international port of Turkmenbashi from China, Japan, Korea, as well as from Central Asia, to the Iranian port of or Azerbaijan.

Modern equipment was used in the construction of several infrastructure facilities, two railway stations, as well as an oil terminal at the customs post-Imamnazar. All this has conditioned the compliance of the first phase of the international railroad Turkmenistan - Afghanistan - Tajikistan with international standards which its linking Afghanistan, Tajikistan and Turkmenistan easy access to China, India, and Pakistan.

Uzbekistan differs from the others Central Asian countries because of there is no common border with China, and it reduces the possibility of conflicts in matters of the border, water resources or other critical issues. From the point of transit potential Uzbekistan has a great advantage as a position in the center of the region and a developed network of railways and highways.

China and Uzbekistan have no serious political differences, and they managed to bring their relationship to the level of generous partnership. Nowadays, China and Uzbekistan are striving to improve transport links. The communication between these countries goes mostly through the territory of Kazakhstan, which leads to rather high transit costs. It is assumed that if the transport problem can be solved, the volume of bilateral trade can be more and more. Energy can make a significant contribution to bilateral relations and improve the status of Uzbekistan in Chinese foreign policy. Oil and gas are the main interest of China to Uzbekistan.

If Beijing builds China-Kyrgyzstan-Uzbekistan-Turkmenistan-Iran-Persian Gulf railway corridor with the possible exit from Iran through Turkey to Europe planned by the "One Belt - One Road" this section will be its element ensuring the inclusion of Uzbekistan in the global network of logistics routes (Mirzokhid Rahimov, 2016). After implementing this project, Uzbekistan will get a direct exit not only to China but also to the Middle East.

Benefit and challenges of "One Belt - One Road" to Central Asia

It is impossible to deny China's obvious interests to Central Asia. Without any doubt, countries participating in the project can and should find and occupy the maximum economic and political benefits for themselves. Central Asia located in the heart of Asia, at the crossroads of two

continents (Fauzia Nasreen, 2016), has serious chances to get maximum benefits from the implementation of the Chinese initiative of economic cooperation. Taking into account the absence of the access to the sea for several central Asian countries Chinese project is the best option for solving this issue. Moreover, the overland route has a great advantage over the sea route in the form of the speed of delivery of goods for example from China to Europe, the train can get in 15 days, which is twice as fast as in the sea.

Thus, Central Asia can use the opportunities and resources of the “One Belt – One Road” to actively promote domestic products to new markets - to China and other countries along the Belt, to attract investment in the development of basic sectors of the national economy, more fully implement their logistics advantages.

In Central Asia, there are some worries regarding the flow of migrants from China (Francisco Gomez Martos, 2017). Chinese companies like to use their own material for construction infrastructure their own people and bring Chinese labor to get a job done. It doesn't give people local jobs and employ local specialists. The dominance of Chinese companies in major projects in Central Asia can be challenging for the local companies. And they cannot be in a competition with the Chinese company who has a deep pocket in finance.

Another challenge is the increasing terrorism and extremism groups which is threatening the implementation of the One Belt One Road initiative. There will be long highways, ports and bridges along the Belt which unfortunately will possibly be the main target of these groups.

Conclusion

China is trying to maintain close relations with other countries, especially with its neighbors. As China's population rapidly increases, it tends to move its people around the world and provide them with food and jobs. The Chinese initiative is still in the initial years of implementation and has a huge impact on the Central Asian economy. New market opportunities are available along this huge initiative. The initiative is providing a chance for Central Asia to construct infrastructure such as roads and railways, and provide access to modern technology, transport, and logistics.

In the last 20 years, Central Asia countries have experienced rapid economic growth averaging 7 percent (ankura.com) and investment from China increased which lead to continued economic growth.

Step by step the character of international policy is becoming more complicated because of new rules, new actors and new competition. If the competition is totally free and geared towards prosperity and development of the region, it will be great, never forget that behind everything is retaining something different. Let's hope for the prosperity of this world and wait what will happen tomorrow. Somehow, it's impossible to predict or expect the outcome of initiative while it's still in progress.

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