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Chinese Investments and Trade in Central Asia

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Declaration

I hereby declare that I am the sole author of the thesis entitled “Chinese Investments and Trade in Central Asia”. I duly marked out all quotations. The used literature and sources are stated in the attached list of references.

In Prague on.....

.....
Khairina Mamadamonova

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List of abbreviations

CA	Central Asia
ODI (OFDI)	Outward (Foreign) Direct Investments
SCO	Shanghai Cooperation Organization
SEZ	Special Economic Zones
PRC	People's Republic of China
XUAR	Xinjiang Uighur Autonomous Region
CNPC	China National Petroleum Corporation
CIS	Commonwealth of Independent States
CGIT	Chinese Global Investment Tracker
MOFCOM	Ministry of Commerce of the Republic of China
MNE	Multinational Enterprises
OFC	Offshore Financial Centres
CDB	China Development Bank
OBOR	One Belt One Road Initiative
EDB	Eurasian Development Bank
LNG	Liquefied Natural Gas
ADB	Asian Development Bank
SREB	Silk Road Economic Belt

Introduction

The People's Republic of China geographically and historically played significant role in the establishment of mutual economic and cultural ties with nations in Central Asia. Dating back to trade along the ancient Silk Road route merchants exchanged knowledge and know-how in the fields of arts, warfare and agriculture. It generated the foundation for the mutual cooperation between China and the central region of Asia which strengthened throughout the time. Three (Kazakhstan, Kyrgyz Republic and Tajikistan) out of five states in Central Asia share their borders with China, the length of the common border is spread over 3000 km. Geographical proximity significantly contributes to the mutual trade flows following the rules of Gravity Model of Trade.

The structure of trade between China and CA countries has contradictory features, due to the lack of diversified export from Central Asia tends to fulfill Chinese demand only for raw material. Exports of oil, natural gas, ferrous and non-ferrous metals make more than 80% from the total export. Each country has abundance in specific natural resources; the export profile of countries will be viewed separately in the second chapter of thesis. In contrary Chinese export structure is diversified and aggregates 85% of finished goods and high-tech products.¹ This relatively strong complementarity laid the basis for further development of bilateral trade.

Central Asian countries are considered unstable and risky to operate business from the perspective of foreign investors, thus they refuse to allocate resources and assets into this region. Hence with Chinese support and assistance CA states have opportunities to improve economic prospects and augment the number of export destinations. China is aiming and successfully taking the position of the largest trading partner in the region, spreading its influence on global and regional scale. In case of enhancing regional partnership through rational allocation of resources, effective division of labor and collaborative performance will elevate the level of international competitiveness.

From the prevailing economic scenario it's a win-win situation for each trade member. However number of questions should be asked prior to this conclusion: Is an abundance of natural resources performs as the solo driver of trade with Central Asia? Does the trade benefit both sides equally and how it contributes to the prosperity of each country?

¹ Hsiu-Ling Wu., Chien-Hsun Chen. (2004). *The Prospects for Regional Economic Integration between China and the Five Central Asian Countries*. Europe-Asia Studies, [online] 56(7), pp.1059–1080. Available at: <http://www.jstor.org/stable/4147497>.

Motivated to find out the answers I opted the following topic for my bachelor thesis. Living in Tajikistan I've noticed how Chinese trade and goods are prioritized in compare with operating alternatives in domestic market. Nevertheless the lack of reliable statistics on trade and sometimes "mistrust among civil society"² regarding the Chinese intentions hinders from making objective evaluation of bilateral trade relations and investments.

Aim of the paper: Primarily to analyze Chinese dominant position in the region and the subordinate role of Central Asian states through insightful outlook on export structure and current Chinese ODI in the region. Indicate the degree of dependence on export to China and their investments in crucial economic sectors in CA countries.

The paper is structured in the following way: in order to comprehend the major shifts in economies it begins with overview of transitional period and stages of Sino-Central Asian relations. The 1st Chapter attempts to shed a light into Chinese geopolitical interests in Central Asia. As well as analyzing specifics of Chinese ODI, its geographical and sectorial distribution. The goal of the 2nd Chapter to indicate dynamics of trade and investments considering the macroeconomic trends in CA. Lastly the task in the 3rd Chapter to scrutinize the scope of current and potential cooperation under multilateral agreements and projects between China and the republics in CA. The main question of the research to explore: *What are Chinese investment incentives and trade patterns in Central Asia?*

The relevance of this topic is reflected in the emerging Chinese global economic power and its further subjection of smaller markets with particular focus on resource-based economies. China's mechanism to operate the foreign market and the motives behind it are not widely known and revealed, therefore it prompted me for further research on this topic.

Methodology

The basis of my bachelor thesis to analyze specific phenomenon in trade relations, consequently my research would be primarily qualitative. Using the qualitative method I will focus my writing on critical and reflexive approach to answer the research question. In addition I will apply the quantitative data from the following databases: International Monetary Fund, The World Bank, Ministry of Commerce in China and UNCTAD etc.

Including analysis and numerous research papers written by scholars or performed by research centers internationally in the given areas i.e. Central Asia-Caucasus Institute & Silk Road Studies Program, University of Central Asia, Asian Development Bank Institute and Center for Strategic & International Studies.

² Ibid., Hsiu-Ling Wu., Chien-Hsun Chen. (2004).

Transitional Period Overview

An expansion and the interconnectedness of the world economic operations lead to the modern and broader vision on globalization. However looking back to 90's would display contrasting picture from what we perceive as a common trends of world economic order. Former socialist states in the Soviet Union and China shared communist ideology, although during the transitional stage in economy each had different approach to reforms. It was a historical transformation stage which shaped the present scenario and economic positions of the following countries. After the collapse of Soviet Union each country declared independence and went through multiple structural modification phases, followed by unstable political and economic environment. CIS countries undertook "shock therapy" to speed up the process transformation from socialism to capitalism using radical reforms, as the result it brought to economic depression and high social costs.³ Liberalization of the market was maintained by relatively weak market institutions which led the attempt to failure. Each state in CA went through homogeneous phases of economic downturn and sharp decline in manufacturing accompanied by increased level of poverty.

Chinese economic transition differed by the adoption of gradual approach. Decentralization became the main feature of Chinese reforms, in addition with improvements in macroeconomic management by taking the power from central and distributing it to local governments. Altogether the characteristics of economic transformation in China allowed avoiding transitional recession in compare to situation in former Soviet countries.⁴

The outcome of Chinese successful transition model once and for all strengthened its leading position in the global market. The conversion to "new world order" became the trigger escalating and reshaping the frozen relations between two sides of Asian continent. The outcome of Soviet disintegration led to emergence of new countries in Central Asian region: Kazakhstan, Turkmenistan, Kyrgyzstan, Uzbekistan and Tajikistan.

³ Dennis WEI, Y., (2011). *Decentralization, Marketization, and Globalization: The Triple Processes Underlying Regional Development in China*. Asian Geographer,(online) 20(1-2), pp.7–23

⁴ Vladimir Popov. (2000). *Shock Therapy Versus Gradualism: The End Of The Debate*. Comparative Economic Studies.(online) 42 (Issue 1), 1-57. Available at: <http://www.e-ir.info/2014/03/06/john-mearsheimers-theory-of-offensive-realism-and-the-rise-of-china/>

The Sino-Central Asian trade has gone through “three principal phases.”⁵ The first phase (1992-1996) is notable by establishment of initial strategic cooperation through Friendship Treaties and official opening of Chinese-Kazakh border post.

The second milestone (1997-2001) was reached through gradual growth in trade by 25%. In spite of this, following period was marked with the regression of diplomatic and economic relations. Political pressure was rising from Beijing regarding the separatist ideas spreading in Uighur community. Furthermore China forced Kazakhstan and Kyrgyzstan to dissolve the Uyghur diaspora from their territories and deprived Uighurs from dominating positions in the border trade. The situation was spiced up by economic crises in CA countries; it obstructed the performance of the first Chinese firms operating in Central Asia.

Therefore the beginning of the modern, third stage (2002) of mutual relations began with regulations and tackling numerous issues. Since the political and economic situation can't be separated when it comes to Chinese relations with countries in CA- stabilization of the political situation was the primary concern. Under the search for stability and security all CA countries, China and Russia agreed upon the creation of SCO. The formation of Shanghai Cooperation Organization in 2001 was followed by the trade boom in 2000's. The stimulated rate of trade growth increased by 150% between 2004 and 2006, reached more than \$10 billion (according to statistics in CA countries) and \$13 billion (according to Chinese indicators).⁶

Currently pipelines and transport corridors are the main advantages of Central Asia, according to latter geopolitical interests are being laid. Yet deepening the regional trade resulted in improvement of infrastructure in Tajikistan and Kyrgyzstan due to the routes taken by Chinese products to reach neighboring markets. Pipelines are set to transfer natural gas from Turkmenistan and oil from Kazakhstan with a capacity of 20 million tons of oil per year. Uzbekistan also plays an important role by importing natural gas. Overall China-Central Asia pipeline from four different locations is aiming to supply more than 40% of Beijing's gas requirements. Both markets are gradually integrating and becoming more dependent on each other, thereby meeting their demands for economic growth.

⁵ Peyrose, S. (2007). *Economic Aspects of the Chinese–Central Asia Rapprochement*. Washington DC, USA: Johns Hopkins University-SAIS. [online]

Available at: https://www.silkroadstudies.org/resources/pdf/SilkRoadPapers/0709China-Central_Asia.pdf

⁶ S.Peyrose .(2016). *Discussing China: Sinophilia and sinophobia in Central Asia*. Eurasian Studies, 7(1), pp.14–23.[online] Available at: <https://www.sciencedirect.com/science/article/pii/S1879366515000251>

1. Chinese outward FDI and interests in Central Asia

1.1 Evolution and specifics of Chinese OFDI

The turning point in Chinese economic history began in 1979 with the birth of an idea to grant some space for liberalization in the market from state controlled plan through “open door” policy. There were multiple stages and levels of noninterference by the central authority. The success of the previous stages led to broadening the scope and depth of the trade policies. Reforms tackled serious problems within Chinese political layout, starting in agriculture into fiscal decentralization to opening up and dual price policies. Creation of SEZ in the area of south coast gave Chinese new vision or as the founder of the reforms Deng Xiaoping stated:” window for observing contemporary capitalism.” The evolution of communist ideology toward the market orientation and its development led to complete transformation by 1994. Progressive transition from central plan to planned commodity economy⁷ caused public endorsement of the market role. Investments were playing the key role together with loosening trade barriers and favorable environment for foreign capital inflow. As a result dramatic increase of FDI totaled from \$4.4 billion in 1991 to \$37.5 billion in 1995 China became the second country to attract foreign investment after USA.⁸

Chinese outward FDI wasn’t well known phenomenon until the recent time. Media dragged public attentions covering the topics with headlines of Chinese enterprise taking over some gigantic firms such as IBM, General Electric home appliance, and acquisition of Swiss company “Syngenta” (production of pesticides and seeds), which is the biggest foreign acquisition by Chinese firms up today.⁹ It was the positive impact of “open door” policy and inflow of FDI, which created the platform for outward Chinese FDI, in particular the official visit of Deng Xiaoping to the southern part of China, initially proposing the idea of liberalization and modernization of Chinese market. In the beginning of 1979 OFDI amounted zero rapidly growing to \$913 million in 1991.

⁷ Yingyi Qian (1999) *The Process of China's Market Transition (1978-98): The Evolutionary, Historical, and Comparative Perspectives*. [online]. Stanford University. Available at:

<http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.198.5013&rep=rep1&type=pdf>

⁸ Ibid., Dennis WEI, Y., (2011).

⁹ Forbes.com (2016) *China Hits Record High M&A Investments In Western Firms* [online]. Available at: <https://www.forbes.com/sites/wadeshepard/2016/09/10/from-made-in-china-to-owned-by-china-chinese-enterprises-buying-up-western-companies-at-record-pace/#7ccb261d5d87>

The substantial shifts and characteristic of FDI trends in 90's included the (i) purchase of advanced foreign technology and (ii) managerial skills, additionally (iii) merger and acquisition became the most wide-spread forms of investment.¹⁰

Under the “going global” policy and accession to WTO, China set its final destination to the global market in order to compete and take the most advantage from the rapid trade growth. This including the surge and shift of its investments from natural resources, toward exploration of highly technological industries and investments in agro commodities supply chains. The “going global” strategy guaranteed domestic firms the support and funding by state owned banks to facilitate the capital outflow of investments overseas. One of the successful and the largest state-owned banks is Industrial and Commercial Bank of China (ICBC), which assists corporations with banking and financial services for acquisition and greenfield projects abroad.¹¹ Along with other competencies ICBC acts as an investor with enlarged global network of 1516 correspondent banks in 134 countries and regions, with total assets in overseas subsidiaries surpassing \$100 billion.¹²

As a result of current account surplus in the balance of payments, particularly in the large amount of foreign reserves (\$3.12 billion in 2016) Chinese government set up China Investment Corporation (sovereign wealth fund). The government is aiming to transfer its traditionally safe assets to more diversify and high profit yield investments. However not only government policies drove Chinese firms to go abroad, but other motives did to the greater extent. For instance issues with high domestic tax rates - 33% of sale revenue taxed, encourages companies to transfer their investments abroad, where they benefit from the low tax rates either tax haven. Thus larger amount of investments, more than 80%, is being transferred to offshore financial centers in the British Virgin Islands, Hong Kong and the Cayman Island. Later on investments are supplied back to China to avoid the high tax rates; this operation is called “round-tipping”¹³ and should be treated as domestic investment.

In alternative cases investments received by OFC are being reinvested through subsidiaries in Latin American and African counties.

¹⁰ Cheng, L., Ma, Z. *China's Outward FDI: Past and Future*. SERUC Working Paper no. 200706001E [online]. Available at: <http://images.ruc.edu.cn/other/2007-09-07/1189148268632.pdf>

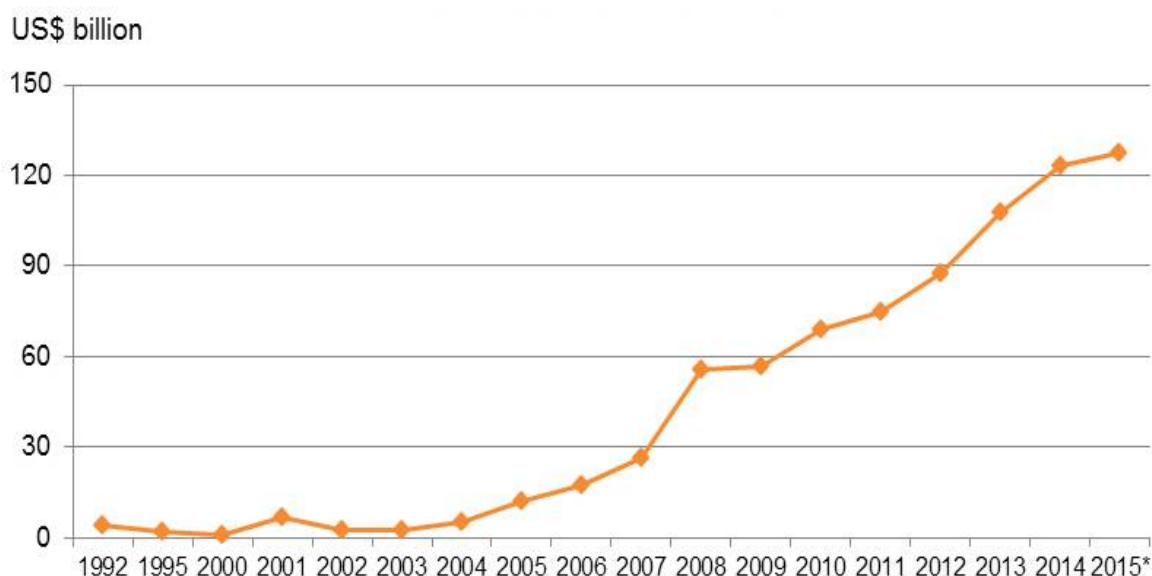
¹¹ Davies, K. (2013), “China Investment Policy: An Update”, *OECD Working Papers on International Investment*, 2013/01, OECD Publishing. [online] Available at https://www.oecd.org/china/WP-2013_1.pdf

¹² ICBC (2016) [online] Available at: <http://www.icbc.com.cn/ICBC/EN>

¹³ Korniyenko Y., Sakatsume T, (2009). Chinese investment in the transition countries. European Bank for Reconstruction and Development, (no. 107). [online] Available at: <http://www.ebrd.com/downloads/research/economics/workingpapers/wp0107.pdf>.

These operations sharply underestimate the data on real outflow of FDI from China. Consequently all of it creates shortcomings in the statistics provided by the China's Ministry of Commerce (MOFCOM) on OFDI. The numbers provided by the Ministry of Commerce in China has met critics regarding the reliability. Usually the overseas investments are done on approval basis by MOFCOM, whereas in reality the amounts of investment depends on the year of approval and therefore do not indicate the actual amounts of investment.¹⁴ Nevertheless the evolution of Chinese OFDI can be seen through combination of the data from UNCTAD and MOFCOM (Figure 1).¹⁵ FDI flows rising from the minimal amount of \$ 2.7 billion to \$ 68.81 billion in 2010. The observed upward sloping curve in Figure 1 reflects the doubled amount of investments between the following years: 2004 and 2005 (+\$6.8 billion); 2005 and 2006 (+9 billion) 2007 and 2008 (+29.4 billion).¹⁶

Figure 1: China's Outward FDI Flows.



* 1992-2014 data are derived from Ministry of Commerce figures, while 2015 ones are from UNCTAD figures.

Source: *Statistical Bulletin on China's Outward Foreign Direct Investment 2014*; *World Investment Report 2016*, UNCTAD.

¹⁴ Ibid, p.4

¹⁵ Kvetova, L. (2014) Foreign direct investment vs. development assistance as tools of foreign policy: Chinese policy in Africa. Bachelor Thesis. University of Economics

¹⁶ MOFCOM (2010) *Statistical Bulletin of China's Outward Foreign Direct Investment*

During 2008 when the rest of the world experienced one of the worst global financial crises, according to the graph Chinese outbound investments boosted in the same time period. Chinese investors were in secured position; thereby they were able to get an advantage from the critical situation and hit the competition in developed countries.

The peak of non-financial OFDI was reached in 2010, assisting up to 88% of the total Chinese OFDI. The increasing trend of Chinese outward investment curve in subsequent years is explained by the rising amount of investment projects under One Belt One Road initiative. Hence the budget for funding is accelerated substantially from \$400 million in 2004 to \$13.6 billion in 2014 with the average annual growth rate of 43%¹⁷.

China is classified among the group of countries with transition economy even though according to UNCTAD investment report, it's placed third, accumulating in \$134 billion of FDI in 2016, bypassed by USA and UK. Yet the statistics on OFDI, rates China the world's second-largest source of FDI distributing \$183 billion. The displayed numerical figure is comparatively greater than outbound investments in 2015, which was \$126 billion. Predictions are made today regarding the Chinese OFDI development theory since there is sensitive rise and narrowing gap between inward and outward flows. The general pace of ODI growth has been rapid in the last 10 years, with statistical data analyzed from China's outward flows in 2007 to 2016 shows the increase of 578%, while the inward FDI grew by 60% over the same period of time.¹⁸

The transition to net supplier and increased level of OFDI according to the quantitative statistical assessment will have negative effect on Chinese GDP and labor in the short run, by turning positive only in the long run.¹⁹ Since Chinese economic growth rate slows down in accordance with 2015 indicators, it is an important factor to consider in the short term.

The augmented Chinese ODI reflects the internationalization of Chinese firms, which allow them to seize bigger part in the higher end of global value chains.

¹⁷ unctad.org (2017) *World Investment Report* [online] Available at: http://unctad.org/en/PublicationsLibrary/wir2017_en.pdf

¹⁸ Wayne, M. (2017). *China's Economic Rise: History, Trends, Challenges, and Implications for the United States*. [online] Available at: <https://fas.org/sgp/crs/row/RL33534.pdf>

¹⁹ Xianfeng, C., Yan, L. (2013). *The influence of OFDI on economic growth: A quantitative assessment for China and EU*. [online] DOI: 10.2991/icssr-13.2013.28

Even taking into account all the potential adverse effects of increased volumes of outbound investments based on current trend, they will ultimately enable to reinforce Chinese influence and global economic dominance.

1.2 Geographical and Sectorial Distribution

The top destinations of Chinese OFDI according to the annual reports do not tend to change over the recent years. However there are visible changes in motives and sectorial distribution of outward investments in respect of general government policies and goals. According to Chinese government the largest recipients of cumulative outflows from China in 2015 were: Hong Kong (59.8%), the Cayman Islands (5.7%), British Virgin Islands (4.7%), and United States (3.7%).²⁰ As I mentioned previously these offshore financial centers usually behave as intermediaries and reinvest the outbound investments into different countries, so the actual data by MOFCOM on ODI might not determine the final destination and thereby be inaccurate. The American Enterprise Institute created a valuable dataset- China Global Investment Tracker, which operates by investigating the terminal destinations of Chinese ODI.

According to the findings and presented graph (Figure 2), the top destinations of China's cumulative outward non-bond investments in 2005-2017²¹ were in the following countries: US, Australia, UK, Brazil, Russia, Pakistan and Canada.²²

The data on regional distribution from the Statistical Bulletin of China's OFDI disclosed the share of 2.8% from the total ODI directed to transition countries. The outflows to transition economies were mainly concentrated in CIS countries, with the highest rates of growth in 2008.²³ The percentage might seem relatively small, although in practice post-Soviet republics in CA evidently benefited by inflows. Credit granting is the prevalent form of investment directed from China.

²⁰Ibid., Wayne M. (2017).

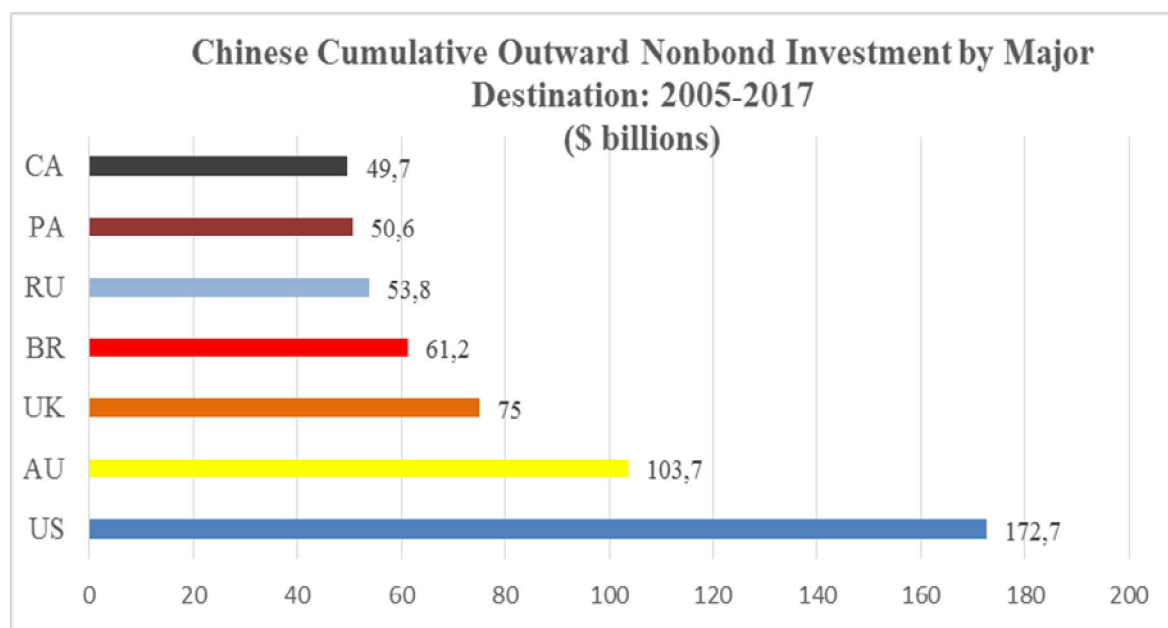
²¹ FDI valued at \$100 million or more

²² AEI/Heritage Foundation, China Global Investment Tracker [online]. Available at://www.aei.org/china-global-investment-tracker

²³ Ibid., Korniyenko Y., Sakatsume. T. (2009). p7-8

In the beginning of 2016 credit resources in the form of borrowing reached \$30 billion. Majority of the provided loans by China are long-term (up to 20 years) with low interest rate (in the range of 1.5-3%) and a grace period.²⁴

Figure 2: Nonbond Investment by Major Destination: 2005-2017



Source: AEI/Heritage Foundation, China Global Investment Tracker]. fas.org (2017). *China's Economic Rise: History, Trends, Challenges, and Implications for the United States*. [online]

The tendency of Chinese investment allocation in developing countries usually involves conducting numerous contractual projects in transportation sector; building seaports, airports and railroads. As specified in the World Investment Report (2016), China is the leading investor in developing countries, predominantly in infrastructure and mining industries. For instance in Tanzania Chinese MNE's contributed 70% of its investments in manufacturing sector.²⁵ The extraction of natural resources were the main motives for outbound Chinese investments during the last decades; however this FDI trend is gradually transferring from

²⁴Glinkina,S., M.Turaeva., A.Yakovlev. (2016). *China's development strategy of post-soviet space and fate of Eurasian Union*. Russian Academy of Sciences Institute of Economics. Moscow. [online]. Available at: https://inecon.org/docs/Glinkina_Turaeva_Yakovlev_paper_2016.pdf

²⁵Unctad.org. World Investment Report 2016 [online] Available at: http://unctad.org/en/PublicationsLibrary/wir2016_en.pdf

resource-intensive investment to service consumption.²⁶ Following this, the growth of Chinese investments in developed countries surpass the outbound flows to developing countries. The indicators derived from 2014 OFDI demonstrate the increase by 23.9% in US, and 1.7 times in EU respectively.²⁷

USA remains the leading country receiving the largest cumulative Chinese investment since the rapid expansion of its ODI. While investing in the EU countries, Chinese enterprises are driven by the market size, so Germany, UK, Sweden, Netherlands and Portugal are the top countries in EU in terms of assets to host, they maintain 85% from total assets share in Europe. Investments outflows to EU countries are directed to subsequent sectors: fossil fuel assets and renewable projects are the leading sector (29%), advanced manufacturing with automotive, information and machinery are highly prioritized sectors (15.5%). Agriculture (12%) and commercial real estate (12.4%) are comparatively smaller in share of total OFDI, but rapidly growing industries in the past two years.²⁸

The present tendency of resource allocation will remain identical, since investments in the western industrial economies are more secured and bring the earned turnover back to corporations. In contrary with cases in some developing countries affected by the poor governance, where investments are at high level of risk and funds provided are misused. Chinese petrochemical corporation „Sinopec“ deal with Angolan oil state group, or an attempt to invest in infrastructure in exchange for 68% share in cobalt and copper mine in Congo can be the examples of Chinese investments “going down the drain”²⁹ During the press conference in the Ministry of Commerce in October 2017, the spokesmen of MOFCOM, Gao Feng made a clear statement regarding the state goal on effective restraint of irrational ODI, paying attention to the quality of investments to prevent risks and promoting policies supporting the rights and interests of enterprises aiming to go global.

²⁶ Dollar.D (2016) *China as a Global Investor*. Asian Working Group[online] Available at: https://www.brookings.edu/wp-content/uploads/2016/07/China-as-a-Global-Investor_Asia-Working-Paper-4-2.pdf

²⁷ MOFCOM

²⁸ Zhang.H. (2014). Chinese Outward Foreign Direct Investment in the EU. EU SME Centre. [online] Available at: from http://ccilc.pt/wp-content/uploads/2017/07/eu_sme_centre_report_chinese_outward_foreign_direct_investment_in_the_eu.pdf

²⁹ Ibid., Dollar.D (2016)

1.3 Chinese Geopolitical Interest and Foreign Policy in Central Asia

The strategic geographical location and the natural resource abundance of CA region caused political confrontation between Russian and British Empires in 19th century. In diplomacy it is known under the term “Great Game”. Chinese reaction to the battle of interests was neutral without any intentions to seek hegemony due to unresolved internal issues at that period. However with the surge of Chinese economic growth and power, multiple geopolitical movements in the end of the 20th century engaged China’s attention to Central Asia.

The collapse of the Soviet Union, and emergence of new independent states is marked as substantial milestone in Sino-Central Asian relations. Beijing quickly established diplomatic ties with all five Central Asian states, in accordance with its “Five Principles of Peaceful Coexistence and hoped to maintain good neighbor diplomacy and expansion of its “open door” policy to CA”³⁰

The Uighur conflict is mentioned in many academic papers as the catalyst of Chinese and Central Asian economic and political cooperation. Xinjiang autonomous region is mainly inhabited by the multiple ethnic groups, majority of the population are Uighurs, Turkic-speaking Muslim community. The Uighurs living in Xinjiang³¹ was seeking the greater autonomy. Non-stop ethnic unrests escalated in 90’s and demanded immediate actions. The instability caused in Xinjiang provoked the biggest fear of ethno-nationalism and resurgent of Islam in China.

The Xinjiang region has borders with Kazakhstan, Kyrgyzstan and Tajikistan thereby they share ethnic, linguistic and cultural ties. Chinese feared that Uighurs would find support in Central Asia, where the phenomenon of ethno-nationalism and Islamic fundamentalism was common as the effect of USSR disintegration. The weapon and drug smuggling in the borders of China and Central Asia worsened the existing pressure. So, China tried to avoid any commercial exchange with the neighboring countries on the northwestern frontiers. One of the primary root causing instability and insurgence in Xinjiang was poverty, so Chinese government stepped further, strategically transforming their views on the region, and aiming for economic growth. “Investment in development offers the best guarantee for security”- an idea which laid behind the foundation of “harmonious society “ in China announced by Hu

³⁰ Walsh, R. (1993). *China and the New Geopolitics of Central Asia*. Asian Survey, 33(3), 272–284. [online] Available at: <http://doi.org/10.2307/2645251>

³¹ Xinjiang is a provincial-level autonomous region of China in the northwest.

Jintao:³² Fostering the trade, improving the infrastructure, building S.E.Z, industrial parks and exhibition centers of Chinese goods in Xingjian was the method to maintain social stability in the north-west. Eventually this approach proved that economic power had capability to alleviate the ethnic and political unrests in north-west.

The next turning point in China's foreign policy occurred in the beginning of 21st century. When 9/11 terrorist attack happened in USA, China and Central Asia were also concerned with ultra-religious organizations in Tajikistan, Kyrgyzstan and Uzbekistan committing numerous terrorist attacks. In 2001 Kazakhstan, Uzbekistan, Tajikistan, Kyrgyzstan, Russia and China established the Shanghai Cooperation Organization to maintain and protect peace, regional security and stabilization, as well as tightening economic links between members. It was the first international organization which clearly defined terrorism, extremism and separatism in international arena.³³ Even behind these specific target goals, each country pursued their interests and benefits. Chinese perspective on joining SCO was defined by obtaining tool for fighting Uighur separatism. The control on borders remained the primary concern; therefore China was trying to reach dialogue with neighboring countries via the SCO and eliminate any ideas of Uighur's pro-independence movements outside XUAR. In the result the economic and trade relationship boosted among all 6 members within the SCO framework. According to CNPC report, the oil production rate in China lagged behind its required output rates since the beginning of 1980s.³⁴ As a result of predicted rise on demand for energy consumption, China was prompted to bring CA states to conduct a strategic agreement in order to benefit from their natural resources. SCO set a favorable political framework for China to become a major player and gain an access over natural resources in CA. This is due to the intensive Chinese financial assistance and leadership behind the SCO activity. After 2 years of SCO establishment China proposed gradual shift toward the regional economic integration and creation of free trade zone. The goal of SCO by 2020 to maintain free flows of goods, capital, service and technology between member states.³⁵

³² Mariani B. (2013) "China's role and interests in Central Asia". Safeworld [online]. Available at: <https://www.files.ethz.ch/isn/172938/chinas-role-and-interests-in-central-asia.pdf>

³³ Craig, T. (2003) *The Shanghai Cooperation Organization : Origins and Implications*. Master Thesis. Naval Postgraduate School [online] Available at: <http://www.dtic.mil/dtic/tr/fulltext/u2/a418555.pdf>

³⁴ Rabbaland, G., Andresy.A. (2007) *Why Should Trade between Central Asia and China Continue to Expand?* Asia Europe Journal 5(2), p235-252 [online] DOI: <http://dx.doi.org/10.1007/s10308-007-0115-5>. ISSN 16102932.

³⁵ Sun Zhuangzhi. (2007). The Relationship between China and Central Asia.[online] Available at: http://src-h.slav.hokudai.ac.jp/coe21/publish/no16_1_ses/03_zhuangzhi.pdf

American scholar and political scientist John Mearsheimer in the “Clash of the Titans” evaluates the behavioural patterns of great powers and: „ The ultimate goal of every great power to maximize its share of the world power and eventually dominate the system „The theory of Mearsheimer on the “Rise of China” is sceptic supported by claims that the process of Chinese economic growth will be aggressive.³⁶ The main idea behind this turbulent rise lays upon the substitution and dominance of one power over another. I strongly agree with this statement, as we observe the profound Chinese interference to Central Asia, which clearly represents threat to eliminate Russian economic and political influence in the region. Chinese trade interconnectedness with CA countries brought Russian trade and business to the relatively minor significance. An evidence for this statement can be the scope of the accumulated Chinese investments, which exceeded eleven times the Russian ODI in the end of 2015 in Kazakhstan, Uzbekistan and Turkmenistan.³⁷

Consequently the active Chinese role in CA region guarantees the economic prosperity to states in CA through strategically important cooperation. On the other side Central Asia emerged and still continues to play the role of periphery for China. However the region represents an important starting point mapping the Chinese global influence and geopolitical strategy.³⁸ Since the rapid economic development and expansion of Chinese interests around the world, it has to “gain weight” to be the great power in the world and Central Asia accommodates this goal by both economic and political means.

³⁶ Brzezinski.Z., Mearsheimer.J (2005) Foreign Policy; Jan/; 146; ABI/INFORM Global p47-48 [online] Available at: <http://www.risingpowersinitiative.org/wp-content/uploads/brzezinski1.pdf>

³⁷ Mkhitarian, M. (2018). *China's investments in Central Asia*. Bc. MGIMO, International Institute of Energy Policy and Diplomacy. №1(44) [online] Available at: <http://mirec.ru/upload/ckeditor/files/chinas-investments-in-central-asia.pdf>

³⁸ Ibid Hsiu-Ling Wu., Chien-Hsun Chen. (2004). p1062

2. China and Central Asia trade patterns

2.1 Main features of economic growth in Central Asia

Less than three decades ago none of the states in Central Asia had sovereignty. Nevertheless under the new economic order and globalization countries went through complex transformation processes in the short period of time.

By the end of the 20th century the transition to the market-based economy was over. The example of the five CIS demonstrates all possible reactions to the emerging globalization. Despite the common inherited political layout, the newly adopted economic strategies differed in each country. Almost complete liberalization of market was initiated in Kyrgyzstan under the auspices of western institutions; the same liberal path was taken with delay in Tajikistan. In the beginning Kazakhstan seemed to aspire to open its market, however as the economy progressed the vector of its transformation fell under the interests and influence of export-orientation. Uzbekistan was in the search for some intermediate options. In contrary Turkmenistan undertook attempts of isolationism and absolute authority by the head of state.³⁹ The following inverse approaches to market transformation have been implemented in the region: shock therapy (Kyrgyzstan, Kazakhstan), gradualism (Uzbekistan), policies combined with market elements (Turkmenistan).⁴⁰

In order to comprehend the factors and features behind the economic growth in Central Asia, we must take a look into the common characteristics between the economies. According to the head of the center for Energy Studies in Primakov Research Institute of World Economy Dr. Stanislav Zhukov; among the essential attributes of economies in CA are informalization in labor market, dollarization and booming shadow economy.

The reasons behind the dollarization of national economies in CA are rooted back to the times of economic instability and increased inflation. The lack of confidence, poor governance and underdeveloped financial sector induce citizens to hold reserves in foreign currency.

³⁹ Anderson, K., Pomfret, R. (2003). *Consequences of Creating a Market Economy: Evidence from Household Surveys in Central Asia*. [e-book] Cheltenham: Edward Elgar, pp.6-7. Available at: <https://www.elgar.com/shop/consequences-of-creating-a-market-economy>

⁴⁰ Zhukov, S. (2005). *Central Asia: imperatives of economic growth in the conditions of globalization*. Ph.D. Primakov National Institute of World Economy and International Relations. [online] Available at: <http://www.dissercat.com/content/tsentralnaya-aziya-imperativy-ekonomicheskogo-rosta-v-usloviyakh-globalizatsii>

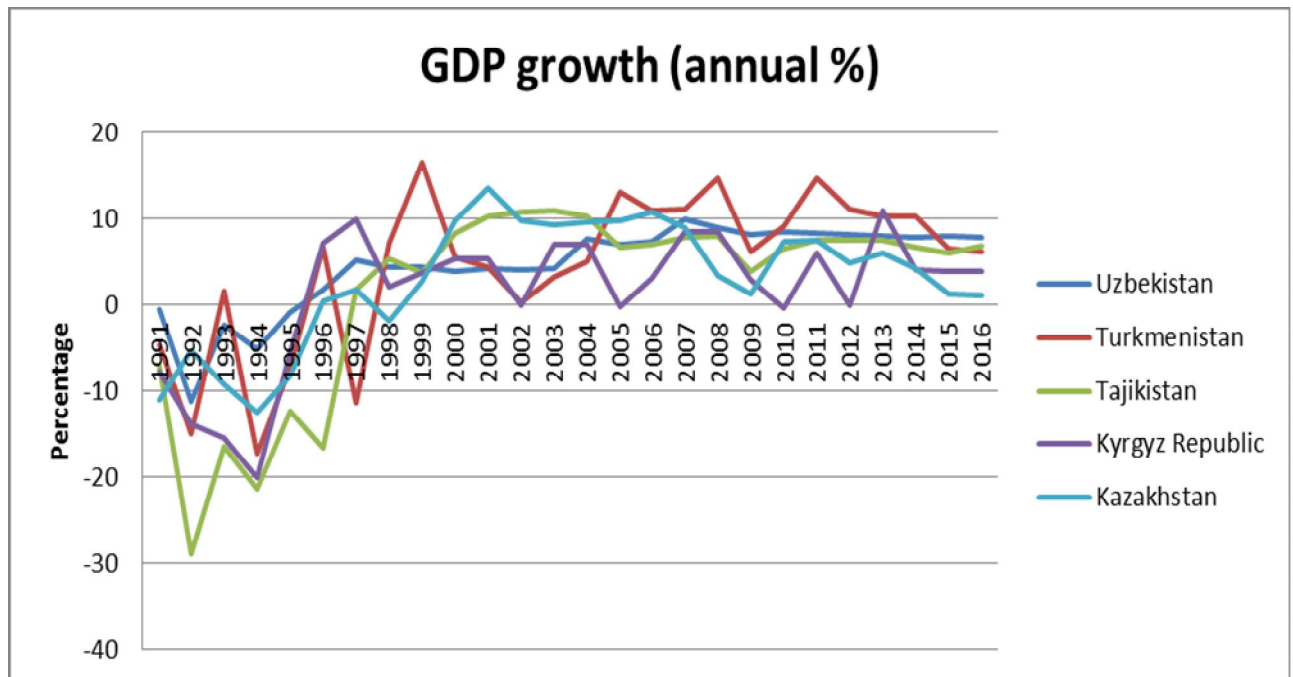
In addition the remittances, which are the crucial part of GDP in the region directly contribute to the financial dollarization of the domestic economy.⁴¹ Generally all the features mentioned above are practiced in transition economies, yet the possibilities to overcome them taking into account the present conditions in CA are not so optimistic.

However in terms of exogenous factor influencing the economic growth i.e. natural reserves, countries in CA differentiate among each other in terms of structure and the level of economic development. In the end of 90's the state of inequality between five countries was even more evident. Kazakhstan and Turkmenistan shifted the Soviet undervalued prices of their energy resources to the world prices. Relatively rich oil and gas reserves theoretically gave both countries a chance for advanced growth. During the first half of 1990's Uzbekistan was benefiting from the escalation of cotton prices, whereas Tajikistan and Kyrgyzstan held limited amount of exploitable reserves. Therefore, the newly emerged countries in CA entered the new first phase of independent economic development in fairly distinctive conditions.

To visualize the transition period and its gradual development I chose to use the data on the annual GDP growth rate provided by the World Bank, in Figure 3 from 1991 up to 2016. It clearly demonstrates the economic slowdown in the end of the 20th century, and moderate increase in the beginning of the 21st. In 1992, Tajikistan GDP growth rate was negative, hitting the record minimum of 29%, which was due to the continuous civil war and economic shutdown. The position of all states in CA significantly deteriorated in comparison with other transition economies in Central and Eastern Europe, and the Baltic States, as well as other groups of developing countries.

⁴¹ Isakova, A (2010). *Financial Sector Development and Dollarization in the Economies of Central Asia*. RRC IX-69. [online] Available at: https://cerge-ei.cz/pdf/gdn/rrc/RRCIX_69_paper_01.pdf [Accessed 17 Mar. 2018].

Figure 3. Annual GDP Growth (in percentage) in Central Asian Countries (1991-2016)



Own elaboration of data from the source: *The World Bank Database (2018)*

Even though in terms of development Kyrgyzstan, Tajikistan and Uzbekistan were located on average position among the third-world countries, later, in the beginning of 2002 with advancing growth they plunged into the rock bottom among landlocked developing countries, with no access to maritime routes. In the start of the century the GDP per capita in Kazakhstan converged to the level of oil-exporting states⁴², and later Turkmenistan gained similar status. The aftermath of the sharp downturn in the first phase of independence, resulted in different years of complete economic recovery and began in sectors previously most affected by the decline: those were the industrial sector in Kazakhstan and Kyrgyzstan, and agricultural in Tajikistan⁴³. Thus Kazakhstan and Kyrgyzstan reached the post recovery phase by 2006, and Tajikistan achieved it only by 2010 with the average annual growth rate of 4%.⁴⁴

Each country is still subjected to economic, political and social challenges that shape its present and outline the potential growth. The valuable statistical research was performed by

⁴² Ibid., Zhukov, S. (2005). P 14

⁴³ Rumer, B. (2002). Central Asia: A Gathering Storm?. [ebook] New York: M.E.Sharpe, pp.332-336 Available at: <https://www.taylorfrancis.com/books/9781317475224>

⁴⁴ Ibid., Rumer, B. (2002). p336.

Dr. Ilkhom Sharipov identifying the exogenous and endogenous factors affecting economic growth on the regional CA level during the 2000-2015 time frames, through Pearson correlation. Afterwards, in order to explain the variability between correlated variables he carried 3 factor analyses.⁴⁵ In accordance with retrieved outcomes, there was strong correlation of growth in one and weak correlation for other country. For instance the demographic trends have positive correlation in all states, and factors relating to geography and natural resources positively correlate with economic growth in Kyrgyzstan and Tajikistan, and negatively for Turkmenistan and Uzbekistan (no correlation is detected in Kazakhstan). The factor analysis reveals the better position of Turkmenistan and Kazakhstan and its GDP per capita, due to variables such as political stability, active demographic trend and high natural resource rents,⁴⁶ the following analysis of data set is presented in Annex 1.

2.2 Dynamics of China-Central Asian trade

Since China generated trade surplus and became the leading exporter of the world, it had to expand the search for alternative markets to satisfy the demand from industrial sector and used ODI to transfer the scarce resources to its domestic economy. Among the key resources are minerals, timber, petroleum, fishery, iron ore and agricultural products⁴⁷. On other side the GDP of CA countries heavily relies on exportation of raw materials due to the narrowed specialization of economy on export dominated commodities; thus over 10% of China's oil and gas imports come from Central Asia.⁴⁸

Sustainable partnership between Europe and Central Asia is vital for China in terms of both export and import. Russia and CA states have the strongest ties with China, due to the intensive production of natural resources. Consequently both parties contributed to an increase in export volume of natural resources to PRC. From the total ECA⁴⁹ export share to China; coal products, oil, minerals and natural gas surged up from 1% (1996) to 12% (2014).

⁴⁵ Sharipov, I. (2016). *Exogenous VS Endogenous growth in the EU's Eastern Partnership and Central Asian countries*. Scientific Annals of Economics and Business, Vol 63 [online]. Available at:

<https://www.degruyter.com/downloadpdf/j/saeb.2016.63.issue-s1/saeb-2016-0138/saeb-2016-0138.pdf>

⁴⁶ Ibid., p118-119

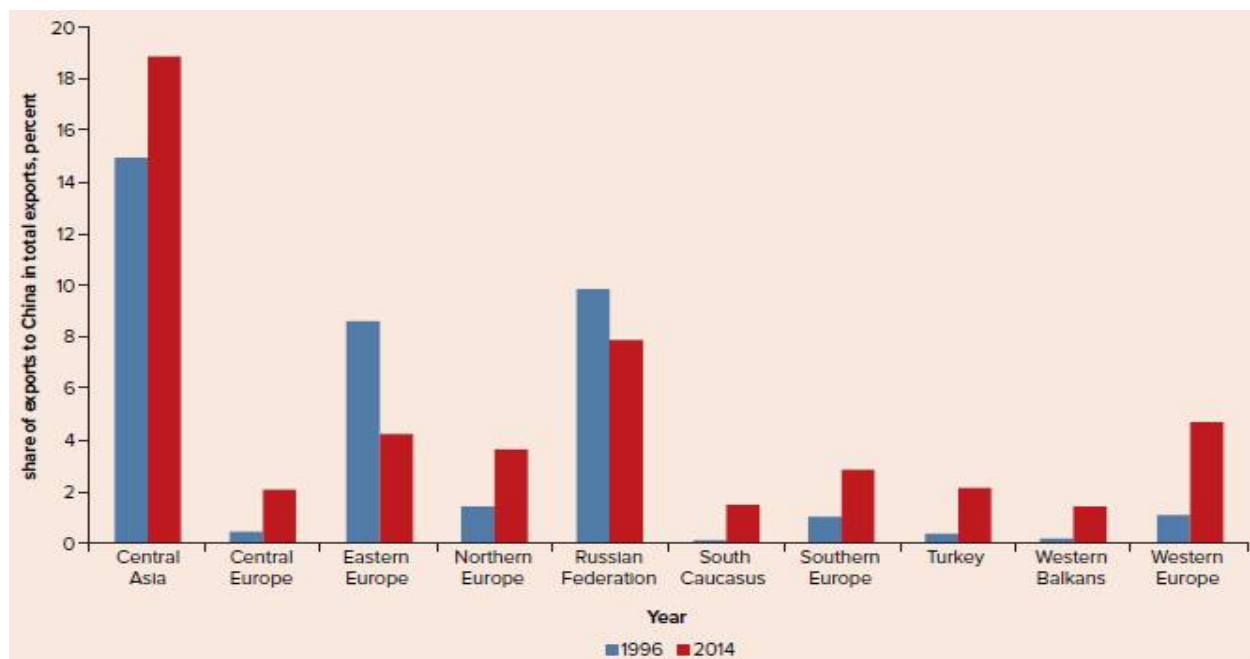
⁴⁷ Buckley, P., Clegg J., Cross A., Liu, X., Voss H., Zheng P. (2007). *The Determinants of Chinese Outward Foreign Direct Investment*. Journal of International Business Studies, 38(4), 499-518. [online] Available at: <http://www.jstor.org/stable/4540439>

⁴⁸ Ibid., Mariani. B.(2013)

⁴⁹ Europe and Central Asia

The trade dynamics with China escalated in region, in the beginning of the century. In short period of time China's share in CA total export as of 2014 reached 19%⁵⁰. The following magnitude of export observed from Figure 4 indicates heavy reliance of CA region on trade relations with China compared to other economic actors engaged in trade with China.

Figure 4. China's share of export from Europe and Central Asia



Source: UN COMTRADE, United Nations, World Bank Group (2016) *The Impact of China on Europe and Central Asia* [online] Available at: <http://documents.worldbank.org/curated/en/136351467990956476/pdf/104605-REVISED-ECA-2016.pdf>

In terms of official trade volumes with China, IMF distinguish the increase—from under \$1 billion in 2000 to \$50 billion in 2013—the numbers might be low, given the tendency of CA customs officials to underreport the trade statistics with China.⁵¹ China's share in total export from CA progressed from 15% in 1996 to 19% in 2014. Albeit these indicators are

⁵⁰ World Bank Group (2018). *The Impact of China on Europe and Central Asia*. ECA Economic Update. [online] Washington DC: The World Bank, pp.35-37. Available at: <http://documents.worldbank.org/curated/en/136351467990956476/pdf/104605-REVISED-ECA-2016.pdf>

⁵¹ Cooley, A. (2016). *The Emerging Political Economy of OBOR: The Challenges of Promoting Connectivity in Central Asia and Beyond*. Center for Strategic and International Studies [online]. Available online: <https://www.csis.org/analysis/emerging-political-economy-obor>

numerically minor in regards to growth of Chinese import to CA states; the volumes of import increased from 20% to 83% during the same period.⁵²

The value of export to China (Table 1) similarly to its volume reveals the main patterns of export coming from CA. So, the numbers in Table 1, indicate three main exporters to PRC: Kazakhstan, Turkmenistan and Uzbekistan, Kyrgyzstan and Tajikistan contribute relatively small share. Bilateral trade between Kazakhstan and China accounts for half of the trade with CA countries. Hence the Sino- Central Asian trade is unevenly distributed. In order to obtain the comprehensive rationale behind the trade dynamics and allocation of investments we must glance at export commodity structure and investment incentives in Central Asia.

Table 1 Value of Export from CA to China and its share of GDP

Country (region)	Export(2014) USD (10000)	Export(2015) USD (10000)	Export(2015) % of GDP
Asia	108509736	95430936	-
Kazakhstan	974182	584895	3
Kyrgyzstan	5542	5857	0.7
Tajikistan	4770	5204	0.4
Uzbekistan	159791	126706	2
Turkmenistan	951616	782766	18

Own elaboration of data from the source: stats.gov.cn (2016) |

China Statistical Yearbook Value 2016. Imports by Country (Region) of Origin [online]. Available at: <http://www.stats.gov.cn/tjsj/ndsj/2016/indexeh.htm>

2.3 Close outlook on macroeconomic trends, trade and investment patterns

Kazakhstan- is China's number one trading partner among states located in CA. The export nature of Kazakhstan is enriched with mineral products and raw materials. It attracts demand

⁵²Ibid., Glinkina, S., Turaeva, M.,Yakovlev,A. (2016)

from all over the world, so the country doesn't exclusively rely on trade with PRC relatively to its neighbors. Starting in 2000 until 2008 trade growth was recorded at the fastest pace. The expansion was due to the increase in price of export commodities and greater purchases by main buyers - EU and China.⁵³ In 2015 the fluctuations in macroeconomic stability deteriorated because of the weak export demand from major importers China and Russia, subsequently undermining the GDP growth from 1.2% to 0.1% in 2016. Although with the recovery of oil prices growth rate is expected to overtake in 2017-2018⁵⁴.

China is the 1st export and 2nd import country by destination. Kazakh export structure is not diversified; the ratio of crude petroleum in 2017 made up 53% from the total export share. The effect of resource-driven economy resulted in the following ratio of commodities in trade with China. Radioactive chemicals-24%, refined copper-21%, crude petroleum-17%, ferroalloys- 15% and copper ore -7.9%; other products account for less than 5% from total export to PRC.⁵⁵

Scrutinizing Chinese investment trends to CIS, enables to elaborate on strategic Sino-Kazakh ties. According to EDB Centre for Integration Studies by 2015 the accumulated Chinese ODI to the largest economies in CIS reached \$27 billion and \$23.6 billion was forwarded to Kazakhstan⁵⁶. In addition CNPC plays pivotal role as foreign company in Kazakh oil market, as a result of gaining large stake and purchasing leading oil companies' i.e. Petro Kazakhstan (67%), MangistauMunayGaz, AktobeMunayGaz (85%). The national oil company KazMunayGaz reported that CNPC currently controls up to 33% of oil production in the country. The Atyrau-Alashankou oil pipeline is the joint venture between KazMunayGaz and CNPC, the pipeline runs from Atyrau port in northern Kazakhstan to Alashankou region in China with capacity of 400,000 barrels per day.⁵⁷ In fact it is the only overland oil pipeline that does not cross Russian territory.

The spokesmen of MOFCOM Sun Jiwen noted that Kazakhstan is the largest investment destination among economies participating in OBOR project; early bilateral agreements on 51

⁵³ Mogilevskii, R. (2012). *Trends and Patterns in Foreign Trade of Central Asian Countries*. University of Central Asia. [online] 1. Available at: http://www.ucentralasia.org/Content/Downloads/IPPA-WP1_Trends_PatternsForeignTradeCA-En.pdf

⁵⁴ Ibid., World Bank Group (2018). p89

⁵⁵ The Observatory of Economic Complexity. Kazakhstan (2016) [online] Available at: https://atlas.media.mit.edu/en/visualize/tree_map/hs92/import/chn/kaz/show/2016/.

⁵⁶ Ibid., Glinkina, S., Turaeva, M., Yakovlev, A. (2016)

⁵⁷ Indeo, F. (2014). *Kazakhstan and Turkmenistan, Strategic Energy Partners for China*, Energy Policy Group. Available at: https://www.enpg.ro/wp-content/uploads/2017/10/EPG_2015-02-03_Fabio-Indeo_-Kazakh.-and-Turkm.-partners-China.pdf

deals are worth more than \$26 billion.⁵⁸ Kazakhstan's advantage within OBOR is in capacity of its transport network, geographical proximity to China and the ability to ease the delivery of Chinese goods to Europe through its transshipment hubs e.g "Khorgos Easter Gates" S.E.Z⁵⁹.

Turkmenistan- holds the position of world's 4th largest country with proven natural gas reserves. It entered the global market after it gained sovereignty and confidently placed 2nd in the region in terms of partnership with China and the size of its GDP (\$36.2 billion) in 2016⁶⁰. The ideological affinity with China, as well as complementarity in trade preserved balanced bilateral relationship.⁶¹

Significant step to development of trade policy was diversification of Turkmenistan export destinations in 2009 via the construction of Turkmenistan-China pipeline. The project is highly important for China as well since it planned to join the pipeline with other gas pipelines coming from Kazakhstan and Uzbekistan to create single gas transportation system. It was financed by CNPC and moved China to top importer in Turkmenistan. The hydrocarbon sector is the major area of Sino-Turkmen investment cooperation followed by transport, telecommunication and textile industries. Turkmenistan export to PRC comprise energy sources - 86.3%, leather and textile products (cotton fiber) -5.1% and 8.6% of other commodities⁶². According to BP Statistical Review of World Energy, in 2016 China imported 34 billion cubic meters of LNG, thereupon Turkmenistan accounted 77% from China's total import of natural gas via Central Asia Gas Pipeline.⁶³ Turkmenistan export pattern heavily relies on single Chinese market, and center on single product-liquefied natural gas.

To sustain economic development Turkmenistan must diversify the export portfolio and increase the export capacity of natural gas to the maximum rates; along with improvement of pipeline infrastructure to compete with Russia, Uzbekistan and Myanmar in Chinese gas market.

⁵⁸ Shuiyu J., Nan Z. (2017) Sino-Kazakh trade ties set to flourish - Business - Chinadaily.com.cn. [online] Available at: http://www.chinadaily.com.cn/business/2017-06/09/content_29678407.htm .

⁶⁰ The World Bank in Turkmenistan (2017).

⁶² Frolenkov, V. (2009). *Modern trade and economic relations between PRC and Central Asian countries and SCO member states*. Ph.D . Institute of Far Eastern Studies, Russian Academy of Science. [online]. Available at: <http://www.ifes-ras.ru/old/aspirant/Frolenkov-avtoeref.pdf>

⁶³ Eurasianet (2017). *China Striving to Boost Energy imports from Turkmenistan*[online]. Available at: <https://eurasianet.org/s/china-striving-to-boost-energy-imports-from-turkmenistan>

Uzbekistan- represents the successful model of economic transformation assisted by continuous government policies resulted in attainment of energy and food self-sufficiency. It increased the share of industrial output in GDP compare to all post-Soviet countries that underwent through deindustrialization.⁶⁴ In 2015 GDP growth rate was at 8% despite of unfavorable external conditions. Uzbekistan's dependence on trade is relatively less compare to its neighbors⁶⁵; yet the growth is positively correlated with increase sales of top export commodity i.e. natural gas⁶⁶.

In 2014 China overtook Russia's position as the biggest trading partner with Uzbekistan and trade turnover rapidly raised to \$4.25 billion in 2016. The trends in merchandise exports tracked from 2000-2010 featured fluctuation in primary commodities; rise in energy products from 11.9% to 25.4%; and share of machinery and equipment from 2% to 7%,⁶⁷ The export dominated commodities to PRC in 2016 included natural gas, cotton fiber, precious metals, plastic products, foodstuff, copper and uranium. The total factor productivity is highest in engineering, light and food industries, in contrary to petrochemical.⁶⁸

Most attractive industry for Chinese investments is undoubtedly energy sector. In 2005 the CNPC and National Holding Company Uzbekneftegaz signed deals incorporating 23 oil fields in Uzbekistan; as a result investments were made worth \$600 million. By 2012 Chinese investments in Uzbekistan totaled \$4 billion.⁶⁹ Among other bilateral strategic projects, Uzbekistan plays an important role as gas transit state in Central Asia-China pipeline, which starts in the border between Turkmenistan and Uzbekistan, the city of Gedaim and reaches Horgos in XUAR. Under the agreement in 2010 Uzbekistan will provide 10bcm of natural gas per year.⁷⁰ Beside the oil and gas sector, China also invested in electricity and transportation,

⁶⁴ Popov V., Chowdhury. A (2016). What can Uzbekistan tell us about industrial policy that we did not already know? UN Department of Economic and Social Affairs No.147. [online] New York. Available at: http://www.un.org/esa/desa/papers/2016/wp147_2016.pdf

⁶⁶ Ibid., Mogilevskii, R. (2012)

⁶⁷ Ganiev, B. and Yusupov, Y. (2012). *Uzbekistan: Trade Regime and Recent Trade Developments*. University of Central Asia, No 4. [online] Available at: <http://www.ucentralasia.org/Content/Downloads/UCA-IPPA-WP4-Uzbekistan%20and%20Regional%20Trade.pdf>

⁶⁸ Uzbek Institute of Forecasting and Macroeconomic Research

⁶⁹ Madiyev, O. (2017). Why have China and Russia become Uzbekistan's biggest energy partners? Exploring the role of exogenous and endogenous factors. *Cambridge Journal of Eurasian Studies*, [online] (41). Available at: <https://www.veruscript.com/journals/cambridge-journal-of-eurasian-studies/china-s-and-russia-s-energy-cooperation-with-uzbekistan>

⁷⁰ Central Asia-China Gas Pipeline, Turkmenistan to China - Hydrocarbons Technology. [online] Available at: <https://www.hydrocarbons-technology.com/projects/centralasiachinagasp/>

equipping Tashkent with electricity supply system worth \$ 26 million. Both countries over the short period made notable and strategic shifts in previously frozen bilateral trade relations.

Kyrgyzstan- was the first country in CA to liberalize domestic market during the transitional period. From 2001 to 2010, Kyrgyzstan growth rate was at 3.9% with modest decline in 2015 to 3.5%. The geographic remoteness, high poverty rate and regional disparities are defined as the key obstacles of development. Kyrgyzstan critically depends on Chinese import, the ratio of Chinese import volume to GDP in different years varied from 20% to 30%.

Along with that in 2016 China's share in Kyrgyzstan external debt amounted in 38.3%⁷¹, which made Kyrgyzstan 2nd indebted country in region surpassed by Tajikistan. All the loans are preferential and distributed to finance infrastructure and energy projects. China imports from Kyrgyzstan raw materials for textiles (mainly leather and wool) – 23%, ferrous metal waste and scrap-27.6%, non-ferrous metal waste -32%, chemical production-10.4 and other 7% are unclassified.⁷² By 2013 China became the leader among countries to invest in Kyrgyzstan accounting for 48.6% from total FDI⁷³, the main areas that receive FDI are manufacturing 35.9%, real estate, commercial and financial sectors (26.2%).⁷⁴

Currently Kyrgyzstan is pending for the implementation of „Kyrgyzstan-Uzbekistan-China railway” project⁷⁵. The proposal expenditure is estimated at \$6 billion, while terms and conditions are still under negotiation. Chinese side agreed to finance the project via grant. In case of execution Kyrgyzstan will prosper economically, the industrial oriented Osh province will gain advantage by creating more jobs. Additionally it'll enable to promote Kyrgyz export abroad with higher competitiveness as the result of reduction in transportation costs.

The erratic aspect of Sino-Kyrgyz trade is smuggling Chinese goods to Kyrgyz market and afterwards re-exporting them without any custom duties to the countries in EEU⁷⁶. Kyrgyz custom officials are accused facilitating illegal cross-border trade and falsify the statistics on Chinese import as the Prime Minister of Kazakhstan expressed his concern in Eurasian

⁷¹ Kyrgyz National Statistic Committee

⁷² Paramonov, V. (2005). China & Central Asia: Present & Future of Economic Relations. Conflict Studies Research Centre, [online] pp.3-4. Available at: https://www.files.ethz.ch/isn/92589/05_May.pdf

⁷³ Turaeva, M. (2016). *The Economy of Kyrgyzstan: Institutions and Resources of the Development*. Russian Academy of Sciences, Institute of Economics. [online] Moscow. Available at: https://inecon.org/docs/2016/Turaeva_paper_2016.pdf

⁷⁴ Ibid., Glinkina, S., Turaeva, M., Yakovlev, A. (2016) p32

⁷⁵ Stratfor Worldview (2018) *China-Uzbekistan-Kyrgyzstan Railway To Improve Attractiveness of Central Asia* [online] Available at: <https://worldview.stratfor.com/article/china-kyrgyzstan-uzbekistan-railway-improve-attractiveness-central-asia>

⁷⁶ Eurasian Economic Union

Intergovernmental Council.⁷⁷ Since 2006 the re-export of goods from PRC through Dordoi market- the biggest trading point for Chinese market created jobs and economic opportunities.

Tajikistan is lagging behind economies in CA, the outcomes of civil war in 1991 hindered the path to economic development. Damaged industrial and manufacture base, brain drain and instability were the effects of turbulent times. For the long period Tajikistan maintains large trade deficit. In 2017 the share of deficit widened to 31% from GDP, in spite of that annual growth rate is still sustained above 6%. The informal trade plays substantial role, and has estimated size of \$2 billion.⁷⁸ The of National Bank of Tajikistan provides active assistance to top two banks which remain operationally insolvent, thus government bailout of banks resulted in the rise of inflation rate.

The Sino-Tajik trade turnover has its contradicting features; according to trade statistics between 2000 and 2010, Chinese import drastically surpassed export. Yet, within this time frame particularly in 2007 till 2010 export volumes from Tajikistan peaked and rose 54 times.⁷⁹ The trend occurred because of the high Chinese demand and purchase of core export element i.e. aluminum. The given scenario questions the stability of trade with China.

The primary export commodities are cotton fiber, aluminum and gold, comprise 80% of total export. The first two products declined sharply in 2017; aluminum by 21.6% and cotton by 18.5%.⁸⁰ In 2016 China's share in export accounted for 4.9%, nevertheless PRC is Tajikistan 2nd largest import partner with Russia remaining first. FDI inflows declined in 2017, the ratio of FDI to GDP reached 1.9% as stated by World Bank⁸¹. The sectors that concentrate FDI are construction materials (\$85 million), communication (\$40 million) and textiles (\$million.).

Tajikistan is the second largest hydroelectric producer in post-Soviet space. By 2020 authorities hope to export half of the produced hydropower (approx. 3400 megawatt) per year. The electricity shortage in XUAR induced China's interest toward hydroelectric resources in Tajikistan. Moreover it looks for gaining revenue via transit fees by selling hydroelectricity

⁷⁷ Kakto.com (2017) *How Kyrgyz custom officials understate trade turnover with China*. [online] Available at: <https://kaktakto.com/analitika/kak-kyrgyzskaya-tamozhnya-zanizhaet-tovarooborot-s-kitaem-shokiruyushhie-cifry/>

⁷⁸ US. Department of State(2014) *2014 Tajikistan Investment Climate Statement* p.3-4[online] Available at: <https://www.state.gov/documents/organization/228816.pdf>

⁷⁹ Umarov, K. (2013). *Comparative Analysis of Tajikistan's Trade and Economic Relations with Russia and China*. Central Asia and Caucasus, 14(3). Available at: <https://cyberleninka.ru/article/n/comparative-analysis-of-tajikistan-s-trade-and-economic-relations-with-russia-and-china>

⁸⁰ Swiss Cooperation Office Tajikistan., *Annual economic report (2016), Tajikistan I*. [online] Available at: <https://www.s-ge.com/sites/default/files/cserver/publication/free/economic-report-tajikistan-eda-2017-06.pdf>

⁸¹ IMF reports 3% ratio of FDI in GDP

from Tajikistan to India and Pakistan. Subsequently Chinese S.O.E “Sinohydro” invested in construction of two hydroelectric stations - Zarafshan (\$ 242 million) and Yavan (\$200 million).⁸² China Exim Bank invested in construction of two electric lines; one was set in Khatlon (southern) region 350km in length and the other “North-South” line transferred electricity (8 billion kWh) to Afghanistan, Iran and Pakistan.

China remains the top lender for public investments, since 2015 China’s share in the external public debt of Tajikistan reached 43% (or \$ 2 billion in dollar value)⁸³ According to the Finance Ministry, Tajikistan owe Exim Bank more than \$1.2 billion. Geographic proximity, China’s superiority and Tajikistan debt dependency ratio binds the following countries despite of negligible trade turnover.

⁸² Peyrose.S. (2007).The Hydroelectric Sector in Central Asia and Growing Role of China. Central Asia-Caucasus Institute & Silk Road Studies Program.,2(5), pp.131–148.[online] Available at: http://isdpeu/content/uploads/images/stories/isdpeu-main-pdf/2007_peyrouse_the-hydroelectric-sector-in-central-asia.pdf

⁸³ Ibid., Umarov, K.(2013), p135

3. Current and Future Partnership

3.1 “One Belt One Road” framework

The platforms hosting Sino-Central Asia economic cooperation are various, but most prominent ones are the SCO and One Belt and One Road Initiative. In the beginning of 2000's SCO was among the forerunners to set multilateral cooperation with strategic alliance. Later on with an emergence of new vision to strengthen economic ties the model for regional cooperation between China and CA was updated accordingly.

It's important to emphasize that relatively new OBOR proposal covering 890 projects gives hopeful insights and great potential to enhance the volume and significance of trade with CA states in international perspective⁸⁴. It denotes the unique opportunity for CA countries to capitalize on inflows of investments and numerous subsidiaries from China to improve the infrastructure and stimulate economic growth offered by the Silk Road Economic Belt.⁸⁵ China's National Development and Reform Commission identified five tasks, which have to be fulfilled within SREB framework, the following objectives are:

1. Policy Coordination
2. Facility Connectivity
3. Unimpeded Trade
4. Financial Integration
5. People-to-People Bond

After two years since the announcement, the idea gradually transferred and became more complex. Based on committee wording OBOR is free trade area with free flows of capital, technology and people. Along with that under OBOR framework China attempts to strengthen policy coordination and financial integration of countries along the belt. In reality the goals are hard to implement, so countries must accelerate the infrastructure system and prioritize secure land network to spur economic, cultural and social links.

⁸⁴ Sternberg, T., Ahearn, A. and McConell, F. (2017). *Central Asia "Characteristics" on China's New Silk Road: The role of landscape and the policy of infrastructure*. School of Geography, University of Oxford.[online] Available at: www.mdpi.com/2073-445X/6/3/55/pdf

⁸⁵ Toktomushev, K. (2016). *Central Asia and the Silk Road Economic Belt*. International Development Research Centre (IDRC), Ottawa.[online] Available at: <http://ucentralasia.org/Content/Downloads/Central Asia and the Silk Road Economic Belt.pdf>

However the absence of common administrative and institutional ground in SREB prevents from successful implementation and obedience to principles⁸⁶. Like any major transnational infrastructure program covering such vast amount of territories with different level of development, OBOR should have institutional structure. In order to balance the benefits, standardize the system of business operations and act under legislative constraints.

“One Belt One Road Initiative” is the spread topic for discussion on international arena in terms of implementation, strategy and feasibility of the project. The world’s vastest infrastructure project aims to encompass both land-based route (SREB) and Maritime Silk Road (MSR) allowing China to connect to Europe via South East Asia, Central Asia and Middle East. Nowadays more than 65 international organizations and countries (including 18 European), announced their intention to join projects under OBOR framework. Chinese government has already signed partnership agreements with 40 states⁸⁷. The blueprint of OBOR was announced in Nazarbayev University in 2013 during Xi state visit to Kazakhstan. It was symbolic step, since Kazakhstan is featured prominently in OBOR due to its geo-economic links. Xi Jinping proposed to set long term commercial links with new prosperity for Asian continent.⁸⁸ Consequently this offer entitled CA countries to be at the core of implementation via construction of roads, bridges, railways and gas pipelines. All the proposed projects under the OBOR framework are capable to create new and update old transportation linkages in Central Asia. As an outcome business operations will speed up more efficiently, cutting the delivery time of goods traded in Asian and European markets through New Eurasian Land Bridge⁸⁹

Hence the main goal of the SREB to transfer goods from China to Europe, it’s important to mention the EU outlook on advantages from CA region and the OBOR respectively. The High Representative of EU for Foreign Affairs, Federica Mogherini expressed the EU political position toward CA in the following statement:

⁸⁶ Francisco GÓMEZ M, (2017). China’s “One Belt, One Road Initiative”: challenges and requirements for its successful implementation in Central Asia1. Available at: <http://przeglad.amu.edu.pl/wp-content/uploads/2017/10/pp-2017-3-10.pdf>

⁸⁷ Xinhuanet.com (2017). China stresses role of Belt and Road Initiative in UN 2030 Agenda [online] Available at http://www.xinhuanet.com/english/2017-05/24/c_136311484.htm

⁸⁸ Du, M.M. (2016). *China’s “One Belt, One Road” Initiative: Context, Focus, Institutions, and Implications*. The Chinese Journal of Global Governance, 2(1), pp.30–43. [online] Available at: <http://booksandjournals.brillonline.com/content/journals/10.1163/23525207-12340014>

⁸⁹ Idid., Sternberg, T., Ahearn, A., McConell, F. (2017).

“What happens in this region of the World is extremely important for EU”,⁹⁰ which recognize the significance of external relation with CA states. Moreover the EU has been supporting the regional economic integration, trade and investment through various programs in CA; those are Development Cooperation Instrument, Multiannual Indicative Program, and Partnership and Cooperation Agreements with each country. The following projects escalated the trade turnover and FDI between EU and CA. Nevertheless there are more promising gains from EU trade particularly under SREB. The results derived from the statistical calculation confirm EU trade gains being the largest under OBOR initiative. The data reveals the 6% increase in trade by taking into account the reduction of the transportation cost, tariffs, gravity model and the potential effects on third economies.⁹¹ The countries to benefit the most from the reduction of transportation cost in European Union are Belgium, Netherlands, Slovakia, Austria, Hungary and Germany.

Focusing on infrastructure along the belt, China established Asian Infrastructure Investment Bank and Silk Road Fund under its financial supervisory. The banks set mechanisms to foster regional integration⁹² and development in Asia. AIIB provides financial aid in energy, telecommunication, agriculture and rural infrastructure projects. In essence AIIB is the key tool for the implementation of “connectivity” principle. All five states are member states in AIIB and began receiving financial assistance primarily to upgrade the infrastructure projects counting in the regional benefits and perspectives.

Yet both, AIIB and Silk Road Fund are not positively viewed by western financial institutions, especially those operating in US, questioning credibility and transparency of these institutions.⁹³ Hence skepticism spread in the west toward Chinese funding mechanism in AIIB and its disposition to intervene into “internal affairs and sovereignty of applicant countries”.⁹⁴ Such views negatively impact the international status of the project and undermine other countries and organizations to become a member of AIIB.

⁹⁰ The Diplomat (2015) *Central Asia ‘Extremely Important’ to the European Union* [online] Available at: <https://thediplomat.com/2015/12/central-asia-extremely-important-to-the-european-union/>

⁹¹ Garcia, A. & Juanwei, X., (2016). *China’s Belt and Road initiative: can Europe expect trade gains?* Bruegal, (5). [online] Available at: <http://bruegel.org/wp-content/uploads/2016/09/WP-05-2016.pdf>

⁹³ Eurasianet.org (2017) *New Bank serves as financial catalyst for Central Asia’s “Belt and Road Development”* [online] Available at: <https://eurasianet.org/s/new-bank-serves-as-financial-catalyst-for-central-asias-belt-and-road-development>

⁹⁴ Swaine, M. (2015) *Chinese Views and Commentary on the “One Belt, One Road” Initiative*. China Leadership Monitor. №4 [online] Available at: <https://www.hoover.org/sites/default/files/research/docs/clm47ms.pdf>

Therefore only 14 EU Members states signed up to become AIIB members describing their accession mode possibly as “early warning” for other EU states.⁹⁵

Although all accusation of China’s hidden intentions to pursue absolute hegemony are strongly rejected by the central government. Ambassador of China to UK commented on OBOR goals more like as “offer of a ride on China’s economic express train”⁹⁶ with no geopolitical rivalry involved.

China ambitiously continues to build solid steps toward execution of SREB principles despite of the numerous regional and international obstacles, which are on the way. Nevertheless China’s determination and global power can remove the existing constraints.

Simultaneously CA perform secondary role and follow the given instructions with minimum expenses on their side. CA countries heavily rely on the funds flowing from China cumulating \$40 billion to be engaged in OBOR initiative. In the long term to comply with objectives and become transit hubs for transcontinental trade, CA states must primarily work on solving issues of regional integration. Thus lessening mistrust and tensions on borders, efficiently use natural resources and improve interregional connectivity.⁹⁷ The obstacles significantly hindering the efficiency of mutual cooperation are poor governance and corruption in the region. In addition the nature of China generous distribution of funds doesn’t put a pressure and accountability on recipient countries. Thus Chinese officials expect to lose on 30% of the investment in Central Asia due to corruption⁹⁸

3.2 Overland Transportation Links

In the course of time with emerging interconnectedness between economies the perception of transportation in trade has changed. Nowadays the vibrant dynamics of international trade emphasize the importance of modes of transportation. Transport activities can be the

⁹⁵EPSC. (2016). *The Asian Infrastructure Investment Bank. A New Multilateral Financial Institution or a Vehicle for China’s Geostrategic Goals*. European Commission. [online] Available at: https://ec.europa.eu/epsc/publications/strategic-notes/asian-infrastructure-investment-bank_en

⁹⁶ Ibid., Swaine, M.(2015)

⁹⁷ ADB(2016) Asian Economic Integration Report [online] Available at: <https://www.adb.org/sites/default/files/publication/214136/aeir-2016.pdf>

⁹⁸ Ibid., Sternberg, T., Ahearn, A. and McConell, F. (2017).

“premises for economic cooperation”⁹⁹. Thereupon the transport linkages between Central Asia and China are essential features in cooperation to sustain regional trade. Moreover CA countries opportunities to benefit and promote local added value into supply chains via transportation corridors crossing their borders travelling from China to Europe¹⁰⁰ connecting the world biggest producer with consumer. The first attempts to connect through Xingjian backs to 1978. The railway route from Urumqi (China) to Aqtoqay city in Kazakhstan expanded later to Rotterdam and was referred as “historical creation of Eurasian Land Bridge”.¹⁰¹

Consequently, Chinese intentions to expand through its sphere of influence and reach European market via overland routes have been on plan since the collapse of the Soviet Union. After decades of determination to enrich the economic growth, China is at the state of achieving the objective. Famous Chinese proverb recalls: “If you want to get rich, build roads first.” It corresponds with Chinese action plan in Central Asia to turn the region into transit area. By expanding its export routes through CA, China diversifies its export destinations and addresses the issues of sluggish economic growth and most importantly the surplus of production. Increase volume of export in Chinese inland provinces by 25% on annual rate¹⁰² and its poor access to port urged China to trade via inland routes. Simultaneously CA region recently began to attract more attention as the effect of merchandise boom in China.

CA is planning to be the economic gateways to Europe by facilitating the influx of freight rails via its transportation corridors. Railway transportation considered to be major part of CA economic performance, even nowadays its total share in transport industry (including domestic) is large; it varies in each country from more than 60% in Kazakhstan and 80-90% in Tajikistan and Uzbekistan.¹⁰³

Furthermore the lower labor cost due to low-skill workforce in CA than in China should stimulate the region to become part of China-Europe supply chain coordinating with high skill

⁹⁹ Nistor, F., Popa, C. (2014). *The Role of Transport in Economic Development*. Naval Academy Press, Romania. [online]. Available at: https://mpira.ub.uni-muenchen.de/70586/1/MPRA_paper_70586.pdf

¹⁰⁰ Worldbank.org (2014). *The Eurasian Connection. Supply-Chain Efficiency along the Modern Silk Route through Central Asia* [online] Available at: <http://documents.worldbank.org/curated/en/730031468030581540/pdf/888910PUB0Box300EPI199120June122014.pdf>

¹⁰¹ Garver, J., (2006). *Development of China's Overland Transportation Links with Central, South West, South East Asia*. The China Quarterly. [online] Available at: <http://www.jstor.org/stable/pdf/20192573.pdf?refreqid=excelsior:f1a3d996318146ee8352cf8cf390766c>.

¹⁰² Debreczeni, G., (2015). *The New Eurasian Land Bridge*. [online] Available at: http://publicspherejournal.com/wp-content/uploads/2016/02/02.eurasian_land_bridge.pdf

¹⁰³ Ibid., World Bank(2015) p 36

workers in China's western regions.¹⁰⁴ Following scenario can be beneficial notably for Kyrgyzstan, Tajikistan and Uzbekistan due to their remoteness, lower living standards and high unemployment. The excessive numbers of cargos travelling from China to Europe via maritime rout arrive in 20 to 40 days. Unlike the inland trade routes destined to Eastern Europe from Xingjian estimate to take approximately 11 days to reach the final stop.¹⁰⁵ This gives an incentive to enhance the trade via the transcontinental route. The security aspect along the inland trade should be highlighted, due to the unstable political situation in neighboring countries. However the overlapping interests and close partnership with main regional security provider the Shanghai Cooperation Organization adds guarantee to the feasibility of transit projects. Under the goal of OBOR i projects high priority is given to expansion of transportation links and increase in production capacity of Eurasian market. In order to evaluate the extent of current and future cooperation we should scrutinize some of the projects in terms of their effects on all five states and China respectively

Tripartite negotiation on terms and conditions on 270 km China-Kyrgyzstan-Uzbekistan railway construction is still in the process. Railway project with estimated cost of \$6 billion is pending for the final decision. The rail route crossing Kyrgyzstan makes the country outstand in terms of gains enhancing its position as transit country. Compare to relatively progressed Uzbekistan, Kyrgyzstan railroad system remain rudimentary.

The Minister of Economy emphasized the benefit of the project to target unemployment, since he predicts the creation of 13 500 jobs for Kyrgyz people.¹⁰⁶ The ongoing issue with implementation includes the inability of Kyrgyzstan to invest into the construction of the railway. The shares of budget between states demand \$2 billion investments from Kyrgyzstan, the requested amount is too costly for Kyrgyzstan since the equivalent of 74% of its GDP.¹⁰⁷ Nevertheless all parties are determined to implement the agreement. President of Uzbekistan, Mirziyoyev expressed his hope to integrate this railway project into Belt and Road initiative

¹⁰⁴ Ibid., Debreczeni, G. (2015)

¹⁰⁵ Brugier, C (2014). *China's way: the new Silk Road*. European Union Institute for Security Studies [online] Available at: https://www.iss.europa.eu/sites/default/files/EUISSFiles/Brief_14_New_Silk_Road.pdf

¹⁰⁶ Smith, M (2012) *China-Kyrgyzstan-Uzbekistan Railway Project Brings Risks*. Available at: <https://www.cacianalyst.org/publications/analytical-articles/item/12459-analytical-articles-caci-analyst-2012-3-7-art-12459.html>

¹⁰⁷ Muzalevsky, R., (2012). *China-Kyrgyzstan-Uzbekistan Railway Scheme: Fears, Hopes and Prospects*. Eurasia Daily Monitor, 9(102).[online] Available at: <https://jamestown.org/program/china-kyrgyzstan-uzbekistan-railway-scheme-fears-hopes-and-prospects/>

by enlisting support from Afghanistan in order to access ports in Pakistan and Iran.¹⁰⁸ China is ready to start the construction immediately therefore it proposed to either share the cost or issue a loan to Kyrgyzstan.

Driven by “connectivity” principle, China recreated the first freight route to Europe through the New Eurasian Land Bridge. It’s one of the six major corridors under OBOR. The route starts in the city of Chengdu bypasses Kazakhstan, Russia reaches Poland within 14 days and lastly stops in Rotterdam. Kazakhstan’s railway system benefits collecting \$100 million in revenue only from freight operations¹⁰⁹. In addition it employ 2% of country’s labor force. The example of Kazakhstan can demonstrate the advantages countries in CA can gain by engagement in facilitation transcontinental trade.

Along with inland trade routes, the creation of overland gas and pipeline projects are the key components of China-Central Asia cooperation. The construction of oil pipelines from Kazakhstan and gas pipelines from Turkmenistan and Uzbekistan over few decades has relatively reduced China’s “dependence on maritime and Russian imports”¹¹⁰. China expresses strong ambitions to lessen the level of dependence on Russia, therefore China will keep the focus on inland trade and transportation of raw materials from CA states.

There are several bilateral and fewer multilateral contracts aiming to deliver energy resources through pipelines to China. (Figure 5)

The China-Central Asia gas pipeline transfer natural gas to China with total capacity of 55 billion cubic meters per year, through the three lines (A,B,C). Uzbekistan and Kazakhstan altogether with Turkmenistan supply a mix of gas equivalent to one-fifth of China’s consumption.¹¹¹ Five states in 2013 signed an agreement to create the D line, which will cross all countries in CA, with the terminal stop in China. It expected to transfer 30 billion cubic meters per year. However there are challenges to face in construction due to the high seismic risk and relative minor gas reserves in Kyrgyzstan and Tajikistan.

¹⁰⁸ Diplomat.org (2017) *What's Next for the Belt and Road in Central Asia?* [online] Available at: <https://thediplomat.com/2017/05/whats-next-for-the-belt-and-road-in-central-asia/>

¹⁰⁹ Kaztermirtrans (2012)

¹¹⁰ Ghiasy, R., Zhou, J., (2017). *The Silk Road Economic Belt. China's Eurasian Pivot.* [online] Available at: <https://ru.scribd.com/document/361663254/The-Silk-Road-Economic-Belt>

¹¹¹ Lize, C. *China's interest in the Central Asian Natural Gas Pipeline for its Energy Security and Diplomatic Strategy.* London School of Economics. [online] Available at: https://www.sant.ox.ac.uk/sites/default/files/university-consortium/files/clemence_lize_chinas_interest_in_the_central_asian_natural_gas_pipeline.pdf

Although Tajikistan and Kyrgyzstan will primary earn from transit fees. The wide range of projects under China and Central Asia cooperation tends to rise in significance driving inclusive economic growth. Collaborative work between China and states in Central Asia has strategic support from Eurasian Economic Union, Shanghai Cooperation Organization and many other international organizations. Thus the long-term partnership ensures secure and strong trade relations between China and Central Asian countries in respect with their economic interests and development.

Figure 5 Map of Central Asia with geographical features and existing infrastructure



Source: School of Geography, University of Oxford. *Central Asia "Characteristics" on China's New Silk Road: The role of landscape and the policy of infrastructure*. [online] Available at:

www.mdpi.com/2073-445X/6/3/55/pdf

Conclusion

Following the collapse of USSR and transition in economies, trade volume boosted by opening up the trade borders between China and Central Asia. Geographical proximity and natural resource endowments made Central Asia an attractive region for Chinese interest. Current geopolitical and economic scenario defines Chinese dominance over the region. China's quest for natural resources as analyzed in the thesis indicates the impetus for trade and investments. Moreover retention of economic development and stability in Xinjiang region are among principal goals of Chinese government, so trade relations with neighboring countries along the border will remain indispensable.

China's unequal distributions of trade and investment allocation indicate wide gaps in trade turnover with the CA economies. Hereby featuring Kazakhstan as strategically important trade partner among other countries in CA region. Turkmenistan and Uzbekistan prevail in import of energy sources i.e. natural gas. In contrary the volume of trade with Kyrgyzstan and Tajikistan are relatively minor, however in terms of financial assistance they receive majority of loans issued by China.

The analysis of export and import structure reveals trade complementarity on the basis of raw materials in exchange for finished goods. China dominates in CA market as the leading importer thus it maintains trade balance with all five states.

It's worth to mention the dynamics of Chinese investments to CA countries, which are concentrated in energy and infrastructure industries. Chinese SOE's are actively engaged in primary export industries by purchasing large shares, CNPC is known as the largest investor in energy sector in Kazakhstan and Turkmenistan. Quote made by General of China's Liberation Army states: "Central Asia is the thickest piece of cake given to modern China by the heavens." This statement summarizes interest and intentions behind China's strategic moves in the region. China attempts to preserve its dominance, thus ease an access to natural resources in CA to "feed" its growing economy and consumption. The unequal "weight" in terms of economic potential and size lead CA countries voluntarily fall under China's regional patronage. Essentially due to its promising benefits and support in form of concessional loans and grants, which require less in return.

Emerging OBOR initiative shifted former China neutrality toward international economic order, by expanding along its peripheries and reshaping regional dynamics. However in spite of wide and somehow ambiguous plan to implement, China aims to integrate OBOR into current global order. This hold valuable gains for the region in long term perspective since Central Asia is an intermediary connecting Asian and Eurasian landmass. The geographical location of CA states along the belt will transfer their position from “landlocked to land-linked” via dynamic trade and give opportunity to reach world largest markets.

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Annex 1: Analysis of Sets of Data (independent variables) Related to Endogenous and Exogenous Determinants of Economic Growth in Central Asian Countries

Correlations							
Determinants of growth	Variables / Indicators	Coefficients	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
			GDP_per capita_c urrentUS\$	GDP_per capita_c urrentUS\$	GDP_per capita_c urrentUS\$	GDP_per capita_c urrentUS\$	GDP_per capita_c urrentUS\$
Accumulation of Physical Capital	FDI inflows	Pearson Corr	-.418	.615	-.270	.320	.344
		Sig. (2-tailed)	.121	.015	.331	.245	.209
		N	15	15	15	15	15
	GFCF	Pearson Corr	-.178	.903	.541	.732	.504
		Sig. (2-tailed)	.526	.000	.046	.004	.055
		N	15	15	14	13	15
Human Capital	Tertiary education	Pearson Corr	.429	.796	.804		-.734
		Sig. (2-tailed)	.337	.001	.000	n/a	.007
		N	7	14	15		12
	Tertiary education total %	Pearson Corr	.518	.703	.860		-.824
		Sig. (2-tailed)	.234	.005	.000	n/a	.001
		N	7	14	15		12
R&D	R&D expenditure	Pearson Corr	-.675	-.299	.620		
		Sig. (2-tailed)	.008	.346	.024	n/a	n/a
		N	14	12	13		
	Hightech exports	Pearson Corr	.984	.215		n/a	n/a
		Sig. (2-tailed)	.000	.460		n/a	n/a
		N	15	14			
Economic Policies and Macroeconomic Conditions	Inflation	Pearson Corr	-.178	.061	-.669	-.385	-.667
		Sig. (2-tailed)	.527	.830	.006	.156	.007
		N	15	15	15	15	15
	Exports	Pearson Corr	-.568	.408	-.797	-.059	-.446
		Sig. (2-tailed)	.027	.131	.001	.849	.096
		N	15	15	14	13	15
Demographic trends	Population growth	Pearson Corr	.736	.731	.835	.860	.573
		Sig. (2-tailed)	.002	.002	.000	.000	.026
		N	15	15	15	15	15
	Active population share	Pearson Corr	.627	.859	.942	.916	.874
		Sig. (2-tailed)	.012	.000	.000	.000	.000
		N	15	15	15	15	15
Geography	Natural resources rents	Pearson Corr	-.444	.830	.886	-.851	-.799
		Sig. (2-tailed)	.098	.000	.000	.032	.001
		N	15	15	15	6	14
	Government effectiveness	Pearson Corr	.719	-.215	.720	.678	.729
		Sig. (2-tailed)	.004	.460	.004	.008	.003
		N	14	14	14	14	14
Institutions	Rule of law	Pearson Corr	.899	-.508	.135	.228	.281
		Sig. (2-tailed)	.000	.064	.646	.432	.330
		N	14	14	14	14	14
	Control of corruption	Pearson Corr	.733	-.518	-.320	-.223	-.644
		Sig. (2-tailed)	.003	.058	.264	.443	.013
		N	14	14	14	14	14
Political Factors	Political Stability and absence of violence/terrorism	Pearson Corr	-.405	.081	.612	.444	.882
		Sig. (2-tailed)	.151	.783	.020	.112	.000
		N	14	14	14	14	14

Notes:

	Strong correlation (r= 0,6-1)
	Moderate correlation (r= 0,4-0,6)
	Weak, no correlation and/or insignificant (r= 0-0,4)