



# CHINESE INVESTMENTS IN CENTRAL ASIA AND THE SOUTH CAUCASUS; THEIR FINANCIAL AND ENVIRONMENTAL IMPACT THEREIN



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## ABSTRACT

Since the launch of the Belt and Road Initiative (BRI) in 2013, Chinese investments have garnered significant global attention but also have sparked controversies related to geopolitical tensions, environmental concerns, and debt sustainability. This research, relying on the open sources available on the internet, explores Chinese investments in seven countries of Central Asia and the South Caucasus, with an overall focus on loan mechanisms and environmental issues. As findings reveal, Central Asia is burdened by Chinese investments with its growing debt and environmental issues. In the South Caucasus, the Chinese investment share is not that large, nonetheless, it poses environmental issues and suggests the potential debt risks mostly in Georgia. China, being one of the major contributors to environmental problems across the globe over the years committed to the reduction of emissions and increase of forest stock volume, however, its implementation of these commitments reveals inconsistency encouraged also by the weak local governmental approach to the environmental standards.

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# INTRODUCTION

Chinese investments have started to attract attention since China launched the Belt and Road Initiative (BRI) in 2013. Being one of the most ambitious and far-reaching global development strategies in contemporary history, the initiative spans over 140 countries and includes numerous international organizations. By financing and building roads, railways, ports, and other infrastructure projects, China aims to create an economic “belt” to stimulate economic growth, enhance cultural exchanges, and strengthen political ties. However, the BRI, like almost any other major project in the world, is not without its controversies, such as geopolitical tensions in the regions of investments, corruption and transparency issues, environmental concerns, and debt sustainability.

The BRI seeks to connect Asia with Africa, Europe, and beyond through an extensive network of trade routes.<sup>1</sup> These include both overland corridors, referred to as the “Silk Road Economic Belt,” and maritime paths, known as the “21st Century Maritime Silk Road”. The SC countries (Armenia, Azerbaijan, Georgia) and CA countries (Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan) fall under the “Silk Road Economic Belt” region. Therefore, our research will be conducted only within this framework of the Silk Road Economic Belt, which is mentioned by its general term as BRI, for this research purpose.

While developing countries are supporting BRI,<sup>2</sup> there is serious doubt about its profitability in the long term. The debt trap is one of the streaks spiking from the BRI partnership, and non-mutuality between China and a host country is another. One of the most significant cases which can be a perfect example of lessons learned from the BRI partnership is Sri Lanka’s debt trap. Construction of the Hambantota Port,<sup>3</sup> one of China's landmark projects in Sri Lanka, began in 2007.<sup>4</sup> Amid difficulties in repaying the loans, the Sri Lankan government handed over a 99-year lease of the port to China in 2017, effectively giving China control over the port.<sup>5</sup> Chinese loans of about 1.3 billion<sup>6</sup> in this project came with a twice as high interest rate,<sup>7</sup> 6.3 percent, than usual loans from other multilateral banks, usually 2 or 3 percent, even though the port had been previously assessed by experts as economically and commercially unviable.<sup>8</sup> Almost all the revenue generated by the port was servicing the Chinese loan itself, which was not profitable and led the country to give up and hand over 70 percent of the port equity to the Chinese end to control it for almost a century without cancellation of the debt.<sup>9</sup>

Another case of discord with China regarding financial return and benefits is Italy’s case. Italy chose to back out from the BRI plan earlier in 2023. Since Italy signed onto the BRI in 2019, its exports to China have minimally increased from 14.5 billion euros

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<sup>1</sup> <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC9779109/#B6-ijerph-19-17091>

<sup>2</sup> <https://www.cfr.org/blog/countries-chinas-belt-and-road-initiative-whos-and-whos-out>

<sup>3</sup> <https://www.thinkchina.sg/politics/sri-lanka-lesson-debt-trap-diplomacy>

<sup>4</sup> <https://www.econstor.eu/bitstream/10419/266592/1/1824423047.pdf>

<sup>5</sup> <https://www.thinkchina.sg/politics/sri-lanka-lesson-debt-trap-diplomacy>

<sup>6</sup> <https://shorturl.at/uAXsN>

<sup>7</sup> <https://www.cgdev.org/sites/default/files/chinese-and-world-bank-lending-terms-systematic-comparison.pdf>

<sup>8</sup> <https://www.tandfonline.com/doi/full/10.1080/19480881.2023.2195280>

<sup>9</sup> <https://www.csis.org/analysis/game-loans-how-china-bought-hambantota>

only to 18.5 billion euros, while Chinese exports to Italy have drastically increased from 33.5 billion euros to 50.9 billion euros.<sup>10</sup> BRI's reputation is also tainted by the implementation impediment that BRI significant projects, such as pipeline, railway, or power plant constructions, are characterized throughout the launch of BRI.<sup>11</sup> Those include:

- Failed construction projects. For example, in Ecuador, a massive \$2.6bn hydroelectric dam built at the foot of an active volcano has 17,000 cracks in its structure;<sup>12</sup>
- The Jakarta-Bandung High-Speed Rail project was delayed many times due to financial and environmental considerations;<sup>13</sup>
- Most of Pakistan's BRI-funded projects have run into trouble—20 percent have been canceled entirely or stalled indefinitely—and a third of Pakistan's \$100 billion foreign debt is owed only to China.<sup>14</sup>

In CA, Chinese investments are spread over various fields: the energy sector, such as oil pipelines and natural resource extraction fostering economic development; infrastructure projects, such as roads, bridges, and hydropower plants, aiming at improving connectivity, energy security, telecommunications, and mining industrial capabilities contributing to technological advancement. In the SC, Georgia and Azerbaijan attract the largest share of Chinese investments. As for Armenia, the country attracted little attention from the PRC. However, it is still in this game, with growing trade with the Chinese market and participating in the South-North Corridor investment project.<sup>15</sup> The investments in this region are primarily made in infrastructure projects and various transportation networks, contributing to economic growth and influencing regional dynamics, fostering closer ties between China and the broader Eurasia.

In the upcoming chapters, we will explore Chinese investments in each country of interest, providing specific examples and the issues that arise around them. Later, we will examine the loan mechanisms and debt trap challenges. Afterward, we will discuss the environmental impact, Chinese commitments under the Paris Agreement, and the existing policies on the country level to address these effects.

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<sup>10</sup> <https://www.ispionline.it/en/publication/italys-bri-dilemma-137315>

<sup>11</sup> <https://shorturl.at/QNkWv>

<sup>12</sup> <https://shorturl.at/4a48e>

<sup>13</sup> <https://shorturl.at/QadS5>

<sup>14</sup> <https://brownpoliticalreview.org/2024/01/china-pakistan-economic-corridor/>

<sup>15</sup> See more details in the chapter about Armenia

# CHAPTER 1

## CHINESE INVESTMENTS IN THE SOUTH CAUCASUS

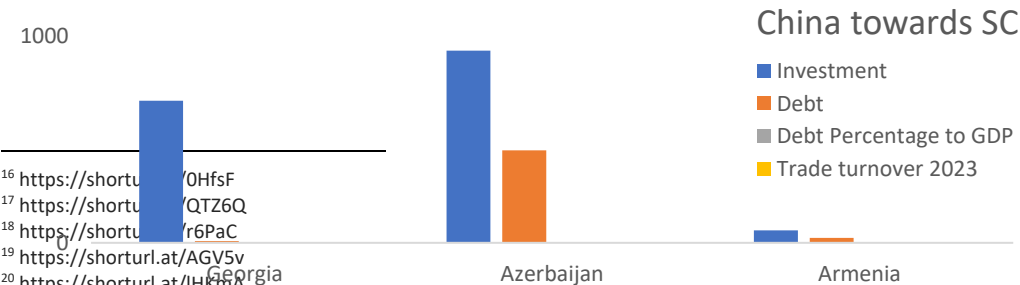
The South Caucasus countries support China’s Initiatives under the BRI. Georgia signed the Memorandum of Understanding on the Silk Road Economic Belt with the Chinese government in March 2015<sup>16</sup> and already, in October 2015, hosted the first “Silk Road International Forum.” Armenia signed this Memorandum in August 2015, while Azerbaijan - in December. In April 2015, Georgia and Azerbaijan became the founding members of the Asian Infrastructure Investment Bank (AIIB), which was initiated by China and provides financial investment for Belt and Road. Armenia joined the bank only in 2017.<sup>17</sup>

According to the World Bank, in recent years, China’s economic presence has increased immensely in Armenia,<sup>18</sup> Azerbaijan,<sup>19</sup> and Georgia,<sup>20</sup> but mostly in trade. For bilateral deals and country-specific projects, China has employed various public and private financial institutions to invest in projects of strategic significance.<sup>21</sup> Those are:

- Asian Infrastructure Investment Bank (AIIB),
- China Development Bank,
- Exim Bank,
- Bank of China,
- Industrial and Commercial Bank of China (ICBC)<sup>22</sup>.

China made several significant investments in Azerbaijan and Georgia. So far, Chinese interest in Armenia has been lesser, which can be attributed to economic rationale and geographic realities.<sup>23</sup> Chinese companies do not have significant business projects in Armenia. China invests mainly in constructing the “North-South” transport corridor.<sup>24</sup>

In the upcoming chapter, we will examine Chinese investments with a closer look at each country in the South Caucasus. In the case of Azerbaijan, there is a lack of resources on any specific Chinese investment case analyses due to the lack of free speech, democracy, and transparency; in the case of Armenia, however, Chinese investments are not represented enough to dive deep into any central Chinese investment scenario.



<sup>16</sup> <https://shorturl.at/OHfsF>

<sup>17</sup> <https://shorturl.at/QTZ6Q>

<sup>18</sup> <https://shorturl.at/r6PaC>

<sup>19</sup> <https://shorturl.at/AGV5v>

<sup>20</sup> <https://shorturl.at/IHkHA>

<sup>21</sup> <https://www.fpri.org/article/2021/11/chinas-growing-influence-in-the-south-caucasus/>

<sup>22</sup> <https://agenda.ge/en/news/2017/91#gsc.tab=0>

<sup>23</sup> <https://shorturl.at/PWkrK>

<sup>24</sup> Ibid



projects and the environmental issues stemming from them. The analysis will also include the geopolitical and transparency aspects, which are problematic issues of Chinese investments in the region and worldwide.

## SIGNIFICANT MILESTONES IN CHINA-GEORGIA RELATIONS

### 2015 Memorandum of understanding

- China and Georgia signed a memorandum of understanding to strengthen the construction of the Silk Road Economic Belt, agreeing to jointly promote trade and economic cooperation in the construction of the economic belt within the framework of the China-Georgia Trade and Economic Cooperation Committee and fully raise the level of trade, investment, and economic and technological cooperation and infrastructure interconnection.<sup>35</sup>

### 2017 Free Trade Agreement

- The two countries, deepening their partnership uniquely fast, signed a Free Trade Agreement, and by doing so, Georgia became the only country in the South Caucasus and Central Asia to have free trade with China.<sup>36</sup> While not a direct infrastructure investment, it is a pivotal aspect of BRI-related economic cooperation. The FTA eliminates tariffs on many goods, promoting increased bilateral trade and investment. This agreement facilitates market access for Georgian products in China and encourages Chinese companies to invest in various sectors of the Georgian economy, including agriculture, manufacturing, and tourism.<sup>37</sup>

### 2017 Economic Zone Construction and Promoting Capacity Cooperation

- In the same year, the two sides signed the Memorandum of Understanding on Launching Economic Zone Construction and Promoting Capacity Cooperation between the Ministry of Commerce of China and the Ministry of Economy and Sustainable Development of Georgia during the “Tbilisi Belt and Road Forum”.<sup>38</sup> China purchased 75 percent of Poti Free Industrial Zone shares (Poti is a major port in Georgia).<sup>39</sup>

### 2023 Strategic Partnership

- Georgia and China established a Strategic Partnership. According to this bilateral statement, the two sides decided to elevate bilateral relations to a strategic partnership in the following four domains: political, economic, people-to-people,

<sup>35</sup> <http://fta.mofcom.gov.cn/topic/engeorgia.shtml>

<sup>36</sup> <https://agenda.ge/en/news/2017/91#gsc.tab=0>

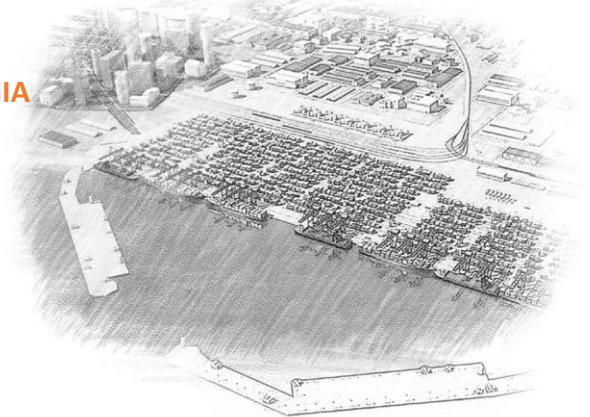
<sup>37</sup> <https://www.scirp.org/journal/paperinformation?paperid=132092>

<sup>38</sup> [http://fta.mofcom.gov.cn/enarticle/chinageorgiaen/chinageorgiaennews/201712/36302\\_1.html](http://fta.mofcom.gov.cn/enarticle/chinageorgiaen/chinageorgiaennews/201712/36302_1.html)

<sup>39</sup> <https://agenda.ge/en/news/2017/91#gsc.tab=0>

cultural, and international.<sup>40</sup> See the comprehensive analysis by Civic IDEA.<sup>41</sup>

## MAJOR CHINESE INVESTMENTS IN GEORGIA



### *Anaklia Deep Sea Port*

Anaklia Deep Sea Port, one of Georgia's key infrastructural initiatives, has been the subject of debate over the last few years regarding investment sources. According to the most updated information, Belgian company, Jan De Nul, as the winner of the international tender, will provide the construction works for the marine infrastructure of the Port<sup>42</sup>; as for funding, the investment bidding process is still in progress, however, according to the current temporary results, the Georgian Government will invest with a 51% share and the Chinese consortium might be declared as the winner of the bid with a 49% share<sup>43</sup>.

- **Historical Context:** The Anaklia Deep Sea Port, has a long and complex history dating back to the 1960s. Building a port in Anaklia was first considered by Soviet specialists. The proposal reappeared after the USSR's dissolution, during Eduard Shevardnadze's presidency from 1992 to 2003. The project was then revived by Mikheil Saakashvili back in 2012 (Daly, 2020). Strategically located, the port aimed to create a faster maritime corridor between Asia and Europe, with the capacity of handling 100 million tonnes of cargo annually by 2030. Despite its potential, the project has faced numerous challenges, primarily centered on political obstacles<sup>44</sup>.

- **Project Feasibility and Launch:** In 2014, under the new ruling party of the Georgian Dream, the Ministry of Economy and Sustainable Development conducted a feasibility study to assess the capacity and strategic importance of the Anaklia Deep Sea Port. After analyzing several potential sites along the Black Sea coast, Anaklia was identified as the optimal location for the new port<sup>45</sup>. In 2014, the Government of Georgia announced the tender for the construction and development of the Anaklia Deep Sea Port. In February 2016, the Anaklia Development Consortium (ADC), jointly established by TBC Holding and the U.S. firm Conti International, was selected as the winner. The Investment Agreement was signed in 2016, and construction began by the end of 2017. The Anaklia Development Consortium committed to investing \$2.5 billion,

<sup>40</sup> [http://ge.china-embassy.gov.cn/eng/xwdt/202308/t20230807\\_11123383.htm](http://ge.china-embassy.gov.cn/eng/xwdt/202308/t20230807_11123383.htm)

<sup>41</sup> <https://civicidea.ge/en/assessment-of-georgias-strategic-partnership-statement-with-the-prc/6272/>

<sup>42</sup> <https://www.economy.ge/?page=news&nw=2560&lang=en>

<sup>43</sup> <https://shorturl.at/xCL7q>

<sup>44</sup> <https://iset-pi.ge/storage/media/other/2024-07-11/de9697d0-3f5e-11ef-a4ce-a95fcfd80e1e.pdf> p.19

<sup>45</sup> <https://iset-pi.ge/storage/media/other/2024-07-11/de9697d0-3f5e-11ef-a4ce-a95fcfd80e1e.pdf>

with significant support from the Georgian government committed to providing 1,000 hectares of land for the port and Free Industrial Zone, as well as undertaking the construction of railway and road connections to the port, amounting to a total input cost of \$114 million<sup>46</sup>.

- **Project termination in 2020:** In 2020, the Georgian government suspended the project. As part of its project development efforts, ADC prepared a comprehensive Environmental and Social Impact Assessment (ESIA)<sup>47</sup> in accordance with policies of the International Financial Institutions (EBRD, ADB, AIIB, OPIC), which included rigorous environmental and social protection steps that satisfied not only all Georgian legal requirements but also the best international standards<sup>48</sup>. Even though it was becoming apparent in 2019 that the Government was actively trying to prevent the Anaklia Project from proceeding, ADC persevered in making every effort to continue project construction while protecting the environment from dust emissions<sup>49</sup>. Because of this expropriation, ADC was prohibited from further access to the site and thus was never able to carry out the plan it had designed. The sole responsibility for managing the property transferred to the Government<sup>50</sup>.

- **Revised Tender in 2024:** On March 18, 2024, the government of Georgia announced a closed international tender for the construction of marine infrastructure of the Anaklia port, but the tender documentation has not been made public. The winner was ultimately announced to be the Chinese-Singaporean consortium comprising China Communications Construction Company (CCCC) Limited (China) and China Harbor Investment Pte. Ltd (Singapore). According to Minister Levan Davitashvili, this consortium was the only entity that submitted a proposal for the Anaklia port development project<sup>51</sup>. The first phase of the port project involves an investment of about \$600 million with a 51 percent share of the Georgian government and 49 percent share of the consortium<sup>52</sup>.

- **Concerns Regarding CCCC and Financial Transparency:** CCCC Limited was founded in 2006 by the whole state-owned enterprise China Communications Construction Group (CCCCG), which holds a controlling share of 57.64% in CCCC<sup>53</sup>. It is currently the world's largest company in port design and construction, highway and bridge design and building, dredging, container crane manufacturing, and offshore oil drilling platform design<sup>54</sup>. CCCC was involved in numerous projects under the “Belt and Road Initiative”. Though, the company lacks a good international reputation. China Communications Construction Company was prohibited from bidding on World Bank finances projects for eight years, beginning in 2009, due to corrupt practices in the Philippines<sup>55</sup>. The company appears in the United States (US)’ list of sanctioned

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<sup>46</sup> <https://traceca-org.org/en/countries/georgia/transport-infrastructure-projects-in-georgia/>

<sup>47</sup> [http://46.101.231.22/wp-content/uploads/2018/02/GeorgianENG\\_EIA-Report\\_Submitted-15.09.17.pdf](http://46.101.231.22/wp-content/uploads/2018/02/GeorgianENG_EIA-Report_Submitted-15.09.17.pdf)

<sup>48</sup> <https://shorturl.at/SkfJG>

<sup>49</sup> Id

<sup>50</sup> Id

<sup>51</sup> <https://shorturl.at/DMh0n>

<sup>52</sup> <https://agenda.ge/en/news/2024/39341#gsc.tab=0>

<sup>53</sup> <https://en.ccccltd.cn/tzgx/dxbg/202403/P020240430625761317276.pdf>

<sup>54</sup> <https://en.ccccltd.cn/gyj/jggj/gsj/s/>

<sup>55</sup> <https://iset-pi.ge/storage/media/other/2024-07-11/de9697d0-3f5e-11ef-a4ce-a95fcfd80e1e.pdf>

entities<sup>56</sup>. In 2020, the US prohibits financial transactions by US citizens in CCCC due to its involvement in building artificial islands and contributing to the militarization of contested areas in the South China Sea and discouraged the People's Republic of China from leveraging CCCC and other state-owned enterprises as tools to enforce an expansionist agenda<sup>57</sup>. Regarding China Harbour Investment company, based in Singapore, it is affiliated with China Harbour Engineering Company, a subsidiary of CCCC and one of the largest state-owned enterprises in China. China Harbour Engineering Company itself has faced corruption allegations, including a notable case in Bangladesh where it was accused of attempting to bribe officials and was banned from future contracts<sup>58</sup>.

- **Financial Risks:** Regarding the financial aspects of the project, there are speculations of potential risks. The confirmed arrangement stipulates that the Anaklia New Deep Sea Port project will be executed as an institutional Public-Private Partnership (PPP). The government of Georgia will hold a controlling 51% ownership stake through the state-owned company Anaklia Sea Port LLL, with the Chinese-Singaporean consortium acquiring the remaining 49% share<sup>59</sup>. It is of note that the proposed PPP contract will follow a Build-Own-Operate (BOO) model rather than Build-Operate-Transfer (BOT)<sup>60</sup>. A noteworthy distinction here lies in compliance with the International Public Sector Accounting Standards (IPSAS), which requires all BOT contracts to be classified as debt on the government's books<sup>61</sup>. This recognition of debt demands a high level of transparency and ensures clarity about the financial obligations arising from the BOT contract, which contrasts with the typically opaque nature of Chinese loan agreements<sup>62</sup>. Although there is no contract in place yet, Georgia entering into an agreement with the state-owned company and not directly through the state also reinforces the hidden nature of Chinese lending<sup>63</sup>. Moreover, it is to be highlighted that the Chinese government does not report on its official international lending and does not publish any data on outstanding overseas debt claims<sup>64</sup>. Debt restructuring agreements between China and debtor countries that would constitute a “credit event” are largely off the radar screen of the credit rating agencies<sup>65</sup>. The financial obligations of the project raise serious concerns about the financial risks for the Georgian state budget. As discussed in the latest research about the Anaklia Port Development<sup>66</sup>, given the significance of the matter, the obligations to be assumed by the state concerning the construction of the Anaklia Deep Sea Port must be public and discussed with a wide range of stakeholders.
- **Potential Liabilities:** There are concerns that the government might take contingent liabilities, with the possibility that the contractual agreement could include

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<sup>56</sup> <https://sanctionssearch.ofac.treas.gov/Details.aspx?id=32072>

<sup>57</sup> <https://shorturl.at/CDQ6y>

<sup>58</sup> <https://iset-pi.ge/storage/media/other/2024-07-11/de9697d0-3f5e-11ef-a4ce-a95fcd80e1e.pdf>

<sup>59</sup> <https://shorturl.at/UWQZz>

<sup>60</sup> <https://iset-pi.ge/storage/media/other/2024-07-11/de9697d0-3f5e-11ef-a4ce-a95fcd80e1e.pdf>

<sup>61</sup> [https://www.ifac.org/\\_flysystem/azure-private/publications/files/B8%20IPSAS\\_32.pdf](https://www.ifac.org/_flysystem/azure-private/publications/files/B8%20IPSAS_32.pdf)

<sup>62</sup> <https://iset-pi.ge/storage/media/other/2024-07-11/de9697d0-3f5e-11ef-a4ce-a95fcd80e1e.pdf>

<sup>63</sup> Id

<sup>64</sup> See more details in the Chapter 3 of this research

<sup>65</sup> <https://www.sciencedirect.com/science/article/pii/S0022199621001197>

<sup>66</sup> <https://iset-pi.ge/storage/media/other/2024-07-11/de9697d0-3f5e-11ef-a4ce-a95fcd80e1e.pdf>

a state guarantee on cargo volumes (offtake guarantees), project-related or unrelated revenue streams, and liquid and physical asset pledges, such as land. If the projected cargo volume is not achieved and the investing company does not receive the anticipated income, the government could be liable to compensate for the shortfall from the state budget. If the state is unable to cover the difference from budget resources, other guarantee pledges might be activated. The literature indicates that Chinese contracts often contain various forms of collateral pledges and offtake guarantees, which have a cascading nature. Typically, these terms are confidential and may not be disclosed unless a breach occurs, as exemplified by Sri Lanka's Hambantota port. Similarly, the Anaklia project in Georgia might also entail such offtake guarantees and collateral asset pledges such as land surrounding the port and/or state's liquid assets. Initially considered contingent liabilities, these offtake guarantees and collateral asset pledges could evolve into direct liabilities impacting the state budget, potentially placing claims on international reserves, including gold, held by the National Bank of Georgia. Furthermore, the complex cascading structure of asset pledges and offtake guarantees might also draw upon the liquidity of the pension fund, especially if it decides to invest in the venture<sup>67</sup>. The profitability of the current Anaklia project is uncertain due to concerns about whether trade flows with Europe will meet the volumes projected in the economic feasibility study. It is known that the port of Anaklia was intended to serve as a transit hub between Europe and Asia, facilitating increased throughput. According to Ted Jonas, a member of the supervisory board of the Anaklia Development Consortium, ADC conducted several studies in the early stages of the port's development, confirming the economic viability of the Anaklia port. He further emphasized that the Anaklia project was never intended for Chinese cargo due to poor infrastructural connectivity between Asia and China. Instead, the project targeted cargo from Central Asia, Caucasus, and legal trade with Russia. Even before the war in Ukraine, the Anaklia project was seen as attractive, a fact the government was aware of. Its attractiveness has only increased since the start of Russia's full-scale war in Ukraine, evidenced by the support for the port's development from Kazakhstan, Uzbekistan, and Azerbaijan, as noted by Ted Jonas in his interview<sup>68</sup>. Another concern raised in the research<sup>69</sup> is how the Georgian government will finance its 51% share of the port's first phase development cost, amounting to US\$600 million, and whether it will resort to using pension fund for this purpose. According to the recent amendment to the Law on Funded Pension the current supervisory and investment boards of the pension fund, appointed by Parliament, will be replaced by a single governing board appointed solely by the Prime Minister. While this reform might aim to centralize management and streamline administrative processes, there are concerns about how this might affect investment decisions, transparency, stakeholder involvement, and the independence and effectiveness of the Fund's governance. The amendments also propose increasing investment limits, allowing the pension fund to invest in a wider range of assets, including those of higher-risk<sup>70</sup>. The vague term "other types of assets"

<sup>67</sup> <https://iset-pi.ge/storage/media/other/2024-07-11/de9697d0-3f5e-11ef-a4ce-a95fcfd80e1e.pdf>

<sup>68</sup> <https://www.facebook.com/watch/?mibextid=w8EBqM&v=1397058467668598&rdid=H1p9eKKy2OmaWudN>

<sup>69</sup> <https://iset-pi.ge/storage/media/other/2024-07-11/de9697d0-3f5e-11ef-a4ce-a95fcfd80e1e.pdf>

<sup>70</sup> Id

introduces risks, particularly regarding potential investments in government projects, such as Anaklia port development. There are concerns that these investments, if not carefully managed, could threaten the fund's integrity and financial security. On the other hand, there is a perspective that the required funds will be secured by the Georgian government through loans from Chinese companies. This raises concerns about the country falling into debt distress which, in the worst-case scenario, could lead to the loss of the government's stake in the Anaklia port<sup>71</sup>.

- **Environmental and Social Issues:** In terms of environmental issues, both sides of the project will least likely commit to the international obligations to lessen the environmental harm in the area if we take a look at their previous practice:
  - In 2020, the Georgian government neglected the health and environmental risks when they suspended the project as Anaklia Development Consortium (ADC), the company originally selected by the Government of Georgia to develop the strategic Anaklia Port Project reported. As part of its project development efforts, ADC prepared a comprehensive Environmental and Social Impact Assessment (ESIA)<sup>72</sup> in accordance with policies of the International Financial Institutions (EBRD, ADB, AIIB, OPIC), which included rigorous environmental and social protection steps that satisfied not only all Georgian legal requirements but also the best international standards<sup>73</sup>. Even though it was becoming apparent in 2019 that the Government was actively trying to prevent the Anaklia Project from proceeding, ADC persevered in making every effort to continue project construction while protecting the environment from dust emissions<sup>74</sup>.
  - Because of this expropriation, ADC was prohibited from further access to the site and thus was never able to carry out the plan it had designed. The sole responsibility for managing the property transferred to the Government<sup>75</sup>.
  - There were allegations that the site is now generating considerable volumes of dust, causing damage to the environment as well as threatening nearby residents with potentially serious respiratory health problems<sup>76</sup>. As ADC reported in the public statement “Even though the Government understood the steps it should take to manage these environmental and health risks, it took no action, leading to the situation which exists today. The Government of Georgia has been acting recklessly and irresponsibly by unlawfully terminating the investment agreement and ignoring the very real health and environmental problems it created when it failed to follow the plans that ADC had proposed for managing this site or taking any other remediation actions. The Government is putting peoples’ health at risk and harming the environment by allowing this site to deteriorate. ADC calls upon the Government to act immediately in the interest of the people of the region<sup>77</sup>.

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<sup>71</sup> <https://iset-pi.ge/storage/media/other/2024-07-11/de9697d0-3f5e-11ef-a4ce-a95fcfd80e1e.pdf>

<sup>72</sup> [http://46.101.231.22/wp-content/uploads/2018/02/GeorgianENG\\_EIA-Report\\_Submitted-15.09.17.pdf](http://46.101.231.22/wp-content/uploads/2018/02/GeorgianENG_EIA-Report_Submitted-15.09.17.pdf)

<sup>73</sup> <https://shorturl.at/QLTdd>

<sup>74</sup> Id

<sup>75</sup> Id

<sup>76</sup> Id

<sup>77</sup> Id

- Actions from the Georgian side in response to the abovementioned environmental harm were not taken, as there is no information provided about these issues in the reports of either 2020 or 2021 published by the National Environmental Agency<sup>78</sup>.
- As for the Chinese side, reliable sources claim that the company has a history of non-compliance with environmental standards and engagement in corrupt-tion. For example, according to the public statement of the U.S Embassy in Georgia, the “CCCC drives Beijing’s “One Belt, One Road” initiative, which promises new infrastructure to developing nations but delivers shoddy construction, labor abuses, unsustainable debt and environmental damage instead”<sup>79</sup>.
- Recently the CCCC was sued for environmental damages by two Serbian NGOs<sup>80</sup>. One of the claims was filed with the Higher Public Prosecutor's Office in Kraljevo against CCCC which allegedly committed illegal excavations of gravel needed for the construction of the Preljina-Pozega highway near wells used for the alternative supply of drinking water to the city of Cacak, PAKT noted<sup>81</sup>.
- According to the US statement "Since 2013, the PRC has used its state-owned enterprises to dredge and unlawfully reclaim more than 3,000 acres in the South China Sea, destabilizing the region, trampling on the sovereign rights of its neighbors, and causing untold environmental devastation. CCCC led the destructive dredging of the PRC’s South China Sea outposts and is also one of the leading contractors used by Beijing in its global Belt and Road Initiative (BRI) strategy. CCCC and its subsidiaries have engaged in corruption, predatory financing, environmental destruction, and other abuses across the world”<sup>82</sup>.
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## **Poti Industrial Zone**

Poti Free Industrial Zone (Poti FIZ) is in the western part of Georgia and plays a vital role in the Georgian economy. Since 2016, it has become the center of controversies

<sup>78</sup> <https://nea.gov.ge/Ge/Bill>

<sup>79</sup> <https://ge.usembassy.gov/chinas-construction-companies-sow-chaos-worldwide/>

<sup>80</sup> <https://shorturl.at/2AS9Z>

<sup>81</sup> <https://shorturl.at/CfwXb>

<sup>82</sup> <https://shorturl.at/t2ZlQ>

between notorious Chinese companies and Georgian elite business groups that hold power in the government.

According to intense discussion in the Georgian Parliament, Poti FIZ was worth \$100 million with a \$600 million investment package in 2016.<sup>83</sup>

In 2017, with an unreasonably lower price, 75 percent of Poti FIZ was handed over to CEFC China Energy for \$10 million on the condition of a \$150 million investment in the future.<sup>84</sup>

Civic IDEA studied this purchase, and according to its findings, CEFC China Energy was a state-owned Chinese company with a questionable reputation. It was exposed in several criminal cases and scandals and added to the list of bankrupt companies.<sup>85</sup> So, the Georgian government chose to make a deal with this company.

The study report shows that according to the purchase agreement between the Georgian government and CEFC China Energy, CEFC had only conditional ownership of the Poti FIZ, meaning that had the conditions not been fully met, its ownership would have been revoked in the register. However, in case of fulfilling the needs, CEFC would have received an unconditional tenure for the term of 99 years,<sup>86</sup> being free from the obligation to make any investment in the industrial zone, being quickly replaced by any other company without state control, authorized to sell shares without the prior consent of the state.<sup>87</sup>

In March 2018, Bloomberg reported that all the “problematic Chinese conglomerate” assets had been blocked, its chairman had been held accountable, and the company was awaiting transfer to state control. Finally, in April 2020, the news about the CEFC’s official bankruptcy case was published.<sup>88</sup>

In June 2018, Eurasian Management Group Ltd., co-founded by Bidzina Ivanishvili<sup>89</sup>, several times Georgian Prime Minister, started managing the Poti FIZ<sup>90</sup>. The asset management agreement was signed between the companies with the full privileges of the managing company, i.e., the company owned by Bidzina Ivanishvili<sup>91</sup>. The contract stipulated that even in the event of a loss of shares by the CEFC, such as a sale, the manager company still retains the rights of the manager; if this is not possible, for example, when returning to state ownership, the manager must receive appropriate compensation, which is determined by the average amount of income earned over the remaining years.”<sup>92</sup>

In September 2020, two court decisions were made, transferring all the powers to Eurasian Management Group Ltd. to manage Poti FIZ without the consent of CEFC. The plaintiff was filed by Eurasia Invest, owned by Bidzina Ivanishvili, the co-founder of Eurasian Management Group Ltd., the managing company of the Poti FIZ, against CEFC

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<sup>83</sup> <https://civicidea.ge/en/georgias-china-dream/1469/>

<sup>84</sup> <https://www.matsne.gov.ge/ka/document/view/3812499?publication=0>

<sup>85</sup> <https://shorturl.at/NCPj2>

<sup>86</sup> Ibid

<sup>87</sup> Ibid

<sup>88</sup> Ibid

<sup>89</sup> According to Civic IDEA’s report, China International Group Corporation Limited owns 50% of Eurasian Management Group, while Eurasian Invest LLC owns the other 50%. The founding companies of the latter are the UK-based BRIGHTSTONE FINANCE LIMITED (51%) owned by Bidzina Ivanishvili and the UK-based ECLITON COMMERCE CORP. (49%).

<sup>90</sup> <https://shorturl.at/NCPj2>

<sup>91</sup> Ibid

<sup>92</sup> Ibid

on the ground that the Chinese managing director from CEFC refused his obligations to participate in management.<sup>93</sup> When the court decision was made, CEFC had already been declared bankrupt months before, therefore not existing anymore, and the only right decision would have been to return the property to the state instead of transferring the power of management of the property to the Bidzina Ivanishvili's management company.<sup>94</sup>

## Hualing Group



JSC Hualing International Special Economic Zone (from now on referred to as Hualing) has been operating in the Georgian market since March 15, 2012. The company is by far the largest investor among companies affiliated with the PRC. Most large companies operating in Georgia, unlike Hualing, mainly operate under various contracts and on funds allocated from the state budget. However, Hualing's investment capital is 500 million US dollars, and the number of employees in the market exceeds 3000 people. The scope of the company's activities is multifaceted and includes, on the one hand, the construction and management of swimming pools, sports complexes, fitness clubs, and hotels, and on the other hand, the implementation of development projects, the construction, rentals, and management of shopping centers and wholesale markets.<sup>95</sup> Below there are projects listed belonging to Hualing Group:

- **Hualing Tbilisi Sea New City (TSNC) is the largest Chinese investment project in Georgia, which started years ago and is one of the first Chinese infrastructural projects.** The Tbilisi Sea Olympic Complex is a part of TSNC,<sup>96</sup> especially a large investment, with USD 200 million prepared for the 2015 Youth Olympic Festival.<sup>97</sup> This project is why Chinese investments reached their all-time high in 2014 in Georgia.
- **Tbilisi Sea Plaza, Hualing Hotel in Kutaisi, Hualing Free Industrial Zone:** These and other projects belonging to Hualing have been implemented or are in progress.<sup>98</sup>
- **Free Industrial Zone:** Besides development projects in Tbilisi, Hualing has also funded the Free Industrial Zone in Kutaisi. Opened in 2015, this project is marketed as an “excellent logistical hub for expansion to Caucasus, EU, and Central Asian markets in the heart of New Silk Road.”

<sup>93</sup> Ibid

<sup>94</sup> Ibid

<sup>95</sup> <https://www.bia.ge/en/Company/13387>

<sup>96</sup> <https://shorturl.at/fpRsY>

<sup>97</sup> [http://science.org.ge/bnas/t12-n1/25\\_Charaiia.pdf](http://science.org.ge/bnas/t12-n1/25_Charaiia.pdf)

<sup>98</sup> <https://civicidea.ge/wp-content/uploads/2024/03/Workers-Rights-Watch.pdf>

- **Forestry:** Hualing has also been involved in forestry in Georgia, obtaining a wood processing license for 20 years to produce 88,000 cubic meters of wood annually. Hualing's footprint in Georgia is large and diversified.<sup>99</sup>



Launched in 2012, TSNC is a large multi-purpose urban enclave project in Georgia's capital and has development plans stretching to 2025. The Chinese private company Hualing serves as both the investor and constructor of the urban megaproject, with 10-year-long on-site investment liabilities of \$150 million.<sup>100</sup>

- The company has benefited from exceptional preferential treatment, with the Georgian government approving the sale of the 4.2 million m<sup>2</sup> greenfield site for a symbolic price of \$0.001 per m<sup>2</sup>, providing a range of tax breaks and exemptions, and granting the company exclusive rights to develop a Free Industrial Zone, a Special Trade Zone, and a range of multi-purpose facilities. The Georgian government has also purchased sixteen residential buildings (about 200 apartments) from Hualing and distributed them to internally displaced persons as part of the state housing program.<sup>101</sup> However, the provision of social infrastructure (such as schools, hospitals, and cultural centers) promised by the Hualing group has been delayed, and the municipality has failed to provide sufficient public transport offers, leaving 200 households living in a remote enclave cut off from the rest of the city infrastructure.<sup>102</sup>
- Unlike most large-scale infrastructure projects in Georgia, TSNC did not cause major social grievances. Several years after the project's conception, urban planning professionals and researchers spoke out on behalf of the residents, emphasizing the adverse social consequences of the enclave's detachment from urban social infrastructures.<sup>103</sup>
- The most crucial kind of contestation of the TSNC project proceeded rather silently within the City Hall walls throughout 2019–20. In 2019, Hualing approached the City Hall with a request to approve an altered development plan. The City Hall representatives argued that while previously TSNC seemed willing to provide a humane

<sup>99</sup> <https://www.russiamatters.org/analysis/us-should-keep-eye-rising-chinese-investment-south-caucasus>

<sup>100</sup> <https://www.tandfonline.com/doi/pdf/10.1080/15387216.2024.2311712>

<sup>101</sup> Ibid

<sup>102</sup> <https://shorturl.at/kjxd2>

<sup>103</sup> Ibid

scale of construction, pedestrian, and social infrastructures, the altered development plan disregarded urban planning principles in favor of business interests. The new plan aimed to produce the maximum number of condominiums envisioned entirely car-oriented infrastructures and dismissed any other social needs for neighborhood development. The midrange professionals from the City Hall fiercely negotiated the new plan with Hualing and avoided approving it for almost two years. Nevertheless, in 2021, City Hall caved to pressure from investors and allowed the Hualing group to pursue its more commercially oriented plan.<sup>104</sup>

CHINESE CONTRACTORS IN GEORGIA’S INFRASTRUCTURE SECTOR



East-West Highway

East-West Highway (EWH) is the main route to neighboring Azerbaijan and Russia, also connecting to Turkey and Armenia. It links the nation’s eastern regions to its western ones, as well as to the Black Sea coast. Integral to the European Transit Road E60, it is a crucial link for transit between Europe and Asia and provides enhanced trade and investment opportunities. The highway’s most intricate section traverses the rugged and narrow Rikoti Pass, navigating through delicate mountainous terrain. This particular portion, known within Georgia as the Rikoti Road, extends over 50 kilometers.<sup>105</sup>

It should be stated at the very beginning that this is not a Chinese investment but rather a project of the Georgian state, with the financial support of international financial institutions: European Investment Bank (EIB), World Bank (WB), and Asian Development Bank (ADB),<sup>106</sup> where the bid winners were the Chinese companies to conduct the construction work.

Announced construction works were met with anticipation for its promised benefits: doubling the highway's capacity and increasing travel speed, significantly reducing journey times across the country. However, public perception has since shifted dramatically, as frequent landslides, accompanying road closures, and the collapse of newly built structures.<sup>107</sup>

Construction has been divided into four distinct sections. Each segment has been conceived as an individual project.<sup>108</sup> These four distinct sections are:

<b>F1 Chumateleti-Khevi Section</b> <b>Road Length:</b> 11.7 km 4-lane <b>Structure:</b> 17 bridges, 3 tunnels <b>Contractor:</b> China State Construction Engineering Corporation Limited	<b>F2 Khevi-Ubisa Section</b> <b>Road Length:</b> 12.2 km – 4 lane <b>Structure:</b> 36 bridges, 20 tunnels <b>Contractor:</b> Hunan Road and Bridge Construction
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<sup>104</sup> <https://www.tandfonline.com/doi/pdf/10.1080/15387216.2024.2311712>  
<sup>105</sup> <https://shorturl.at/W65wa>  
<sup>106</sup> [https://garibashvili.ge/en/n/all/rikotis\\_magistraluri\\_gzis\\_27\\_kmiani\\_monakvetis\\_gakhsna](https://garibashvili.ge/en/n/all/rikotis_magistraluri_gzis_27_kmiani_monakvetis_gakhsna)  
<sup>107</sup> <https://eurasianet.org/landslide-risk-disrupts-traffic-and-possibly-easter-in-georgia>  
<sup>108</sup> <https://shorturl.at/2AQ6r>

**Funding:** European Investment Bank  
**Budget:** 300 million GEL  
**Duration:** 2019-ongoing

### **F3 Ubisa-Shorapani Section**

**Road Length:** 13 km – 4 lane  
**Structure:** 27 bridges, 18 tunnels  
**Contractor:** China Road and Bridge Corporation  
**Funding:** European Investment Bank  
**Budget:** 901,973,206.57 GEL  
**Duration:** 2018-ongoing

**Funding:** Asian Development Bank  
**Budget:** 732 296 478 GEL  
**Duration:** 2019-ongoing

### **F4 Shorapani-Argveta Section**

**Road Length:** 14.7 km – 4 lane  
**Structure:** 14 bridges, 12 tunnels  
**Contractor:** Guizhou Highway Engineering Group Co. Ltd and China National Technical Import & Export Corporation  
**Funding:** Asian Development Bank  
**Budget:** 582,777,310.00 GEL  
**Duration:** 2020 - Ongoing

All of them have a complete environmental impact assessment<sup>109</sup>. Three international donors – the ADB, the World Bank, and the EIB – took over financing, while construction was passed on to several Chinese companies. The construction companies carrying out the four sections are:

China State Construction Engineering Corporation Limited;

- ✓ Hunan Road and Bridge Construction Group;
- ✓ China Road and Bridge Corporation;
- ✓ Guizhou Highway Engineering Group & China National Technical Import and Export Corporation.<sup>110</sup>

- Instead of bringing international finances together to fund the entire construction of the Rikoti Road, the linear infrastructure has been split into separate projects. This has fragmented the donors' monitoring responsibilities and diluted their accountability for the construction's cumulative impact.<sup>111</sup>

- Even though the environmental impact assessments were in place, the construction work appeared to be not implemented under the environmental and construction standards, as the aftermath showed. Experts have observed that landslides intensified after construction works in the Rikoti Pass commenced and have opined that the works have disturbed the delicate balance of the vulnerable and unstable slopes in the Rikoti Pass.<sup>112</sup>

- Questions swarmed around the role of poor-quality construction practices employed by the constellation of Chinese state-owned firms in the project's overall environmental and social impact and how the winning contracts were awarded to companies with murky backgrounds and histories of severe misconduct and corrupt practices.<sup>113</sup> For example, according to *civil.ge*<sup>114</sup> *Civic IDEA* found several red flags about all of these four Chinese companies:

**China Road and Bridge Corporation—The World Bank has sanctioned the China Road and Bridge Corporation for fraudulent practices related to the Philippines' National Road Improvement and Management Program (NRIMP 1).**<sup>115</sup>

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<sup>109</sup> <https://shorturl.at/X6eMI>; <https://www.eib.org/en/projects/pipelines/all/20170287>;  
<https://www.adb.org/projects/documents/geo-53178-001-eia>

<sup>110</sup> <https://shorturl.at/UIM5q>

<sup>111</sup> *Ibid*

<sup>112</sup> <https://shorturl.at/CbWwE>

<sup>113</sup> <https://civil.ge/archives/578206>

<sup>114</sup> *Ibid*

<sup>115</sup> *id*

**China State Construction Engineering Corporation** – The World Bank blacklisted China State Construction Engineering Corporation Ltd. in the Philippines for its involvement in collusive practices and a corruption scandal involving the Philippine NRIMP 1 Program. In 2020, the Trump administration accused CSCEC of cyber espionage and banned U.S.-registered companies from becoming shareholders in CSCEC.<sup>116</sup>

**Hunan Road and Bridge Construction Group Co Ltd** —In 2009, the 328-meter Tuojiang Bridge in China collapsed due to poor construction. As a result, 64 people died, 22 were injured, and the economic loss reached 39.747 million yuan (about 6 million U.S. dollars). Twenty local government officials and HNRB board members were sentenced to 19 years in prison in China for bribery, malfeasance, negligence, and racketeering.<sup>117</sup>

**Guizhou Highway Engineering Group & China National Technical Import and Export Corporation** – violated the rules for environmental protection according to the report of Civic IDEA and caused severe social and ecological harm. According to their observations: “Within the Shorapani-Argveta section construction project, the ADB conducts regular assessments of social, financial, and environmental factors. The most recent social report indicates that the construction activities undertaken by the joint venture not only impact the social well-being of the local community but also have long-term environmental ramifications in the area.”<sup>118</sup>

The report goes into more detail regarding the gaps in the company’s performance:

- **Infrastructure and asset damage:** The joint venture's activities have jeopardized the water supply system and private properties. Construction works posed risks of flooding, leading to 113 complaints.
- **Land acquisition and resettlement issues:** Construction activities damaged land plots and restricted access to residential areas, prompting 35 complaints seeking compensation, design changes, and similar resolutions.
- **Access limitations:** Some residents faced restricted property access during construction, and 25 complaints were registered regarding this issue.
- **Noise, dust, and vibration:** Seven complaints reported deteriorating living conditions due to construction-related disturbances, as documented in the ADB report.
- **Flooding risks:** Due to flood risks, some residents have demanded the construction of a retaining wall and drainage channel, highlighting the need for additional measures.<sup>119</sup>

Violations such as the discharge of contaminated water directly into the environment, improper management of hazardous waste—such as neglecting storage conditions or leaving waste untreated— septic tank leakage into wastewater, and failure to adhere to sanitary regulations, among others, can significantly impact the ecological situation on the site in the future if appropriate preventive measures are not implemented.<sup>120</sup>

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<sup>116</sup> jd

<sup>117</sup> <https://civil.ge/archives/578206>

<sup>118</sup> <https://shorturl.at/h4V2O>

<sup>119</sup> ibid

<sup>120</sup> [https://www.adb.org/sites/default/files/project-documents/53178/53178-001-emr-en\\_5.pdf](https://www.adb.org/sites/default/files/project-documents/53178/53178-001-emr-en_5.pdf)

The joint venture's disregard for the mentioned issues goes against international standards, breaches environmental protection norms crucial for humans, and directly defies the obligations outlined in the agreement.<sup>121</sup>

The other allegations about the East-West Highway show the role of Chinese firms as significant in abysmal waste disposal practices:

- During construction, the haphazard disposal of waste polluted rivers and created further risks, as ravines and riverbanks across the Rikoti Road were chosen as disposal locations to save on transportation costs.<sup>122</sup>
- The ill-thought-out and botched arrangement of one of these waste rock dump sites is in the village of Khevi, in a dry ravine that overlooks the highway; the village itself and the river Rikotula now threaten nearby settlements and their public school. The slopes of the ravine appear destabilized, and the functionality of the dam, constructed to anchor the disposed waste rock, is poor – if it is functioning at all.<sup>123</sup>
- The waste disposal site has been abandoned after landslides cut off access in January. The disposal operations have now moved to a site in the village of Vertkvichala, which forms part of the ADB-funded Khevi-Ubisa section. This new location, nestled within a gorge, was previously ruled out in an Environmental Impact Assessment due to environmental risks. However, this decision was subsequently reversed. Experts now warn that the disorganized disposal practices at this site heighten the risk of mudflows.<sup>124</sup>

## PRC'S TRADE RELATIONS WITH GEORGIA

Analyzing the dynamics of China-Georgia bilateral trade turnover after 2015, we see significant growth. For example, while the trade turnover in 2015 amounted to \$712 million, in 2016, this figure reached 717 million; in 2017 – 939 million; in 2018 – 1,031 million; and 2019 – 1,100 million.<sup>125</sup> The same dynamics of exponential growth of bilateral trade turnover continued over the following years.<sup>126</sup> The trade turnover as of 2023 was 1.680 billion.<sup>127</sup> The data as of 2019 is shown in the Table #1

Table #1

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<sup>121</sup> <https://shorturl.at/h4V2O>

<sup>122</sup> <https://bankwatch.org/story/promise-and-perils-of-georgias-east-west-highway-project>

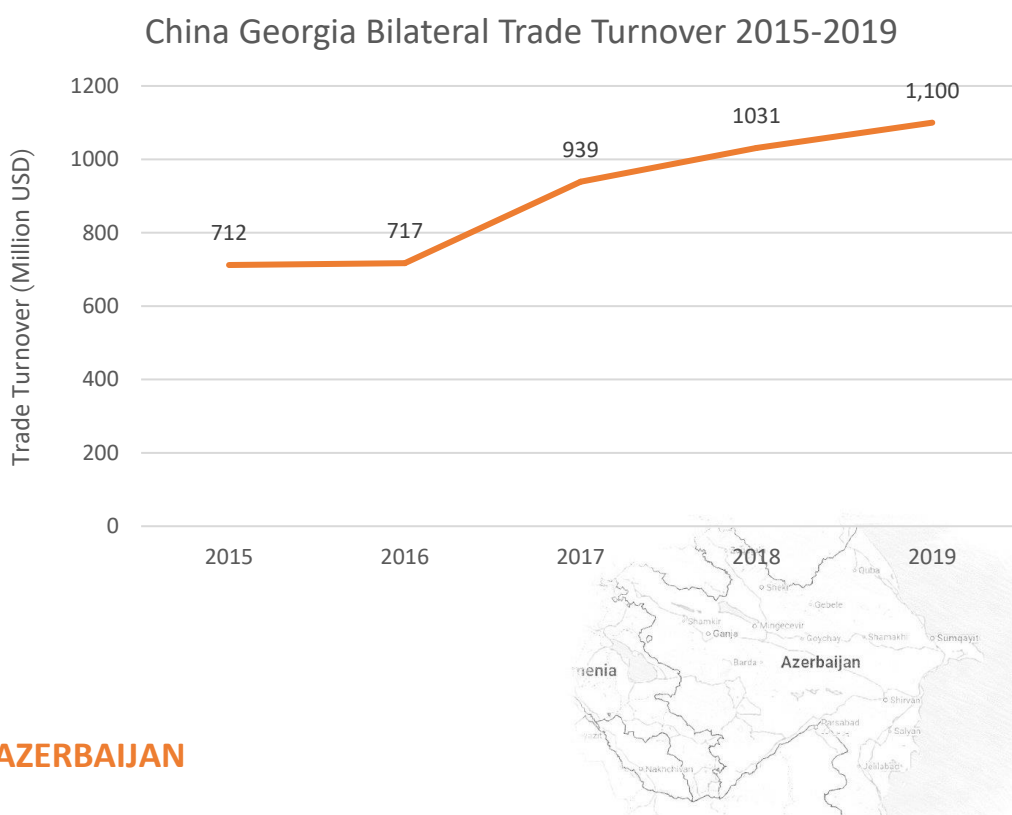
<sup>123</sup> <https://bankwatch.org/story/promise-and-perils-of-georgias-east-west-highway-project>

<sup>124</sup> <https://shorturl.at/4jhzB>

<sup>125</sup> <https://bakuresearchinstitute.org/en/azerbaijan-china-relations-2/>

<sup>126</sup> <https://www.geostat.ge/en/modules/categories/35/external-trade>

<sup>127</sup> <https://tradingeconomics.com/georgia/exports-by-country>



## AZERBAIJAN

Azerbaijan, located on the historic Silk Road, is one of the countries supporting China’s mega-project. Over the recent years, cooperation between the countries has grown in trade, investment, infrastructure projects, and energy cooperation.<sup>128</sup> Azerbaijan maintains its financially dominant position with more considerable investments than the Chinese shares.<sup>129</sup> As Yusif Abdullayev, Executive Director of the Export and Investment Promotion, highlighted that from 1995 to 2023, China made direct investments totaling 930.8 million US dollars in Azerbaijan:

- **754.1 million US dollars** of this amount were allocated to the oil and gas sector,
- **176.7 million US dollars** were directed to the non-oil and gas sectors.<sup>130</sup>

## AZERBAIJAN’S STRATEGIC ENGAGEMENT IN CHINA’S BRI: KEY DEALS AND PARTNERSHIPS

Over the last decade, the Azerbaijani President actively participated in BRI initiatives through bilateral and multilateral formats, securing investments from China in the oil and non-oil sectors, ending up with multiple deals and agreements:

<sup>128</sup> <https://www.azernews.az/business/223961.html>

<sup>129</sup> *Ibid*

<sup>130</sup> <https://www.azernews.az/analysis/228362.html>

## 2015 Memorandum of understanding

- During President Ilham Aliyev's official visit to China in 2015, a memorandum of understanding was signed to promote the establishment of the Silk Road Economic Belt jointly. This memorandum sets out priorities for the development of economic and trade relations.<sup>131</sup>

## 2019 Belt and Road Forum

- Azerbaijan's participation in the second Belt and Road Forum for International Cooperation, which took place in Beijing on April 25–28, proved successful for Baku, having resulted in several important new, non-oil-sector investment projects in the South Caucasus country. Specifically, during the Forum, Azerbaijani representatives signed ten agreements, cumulatively worth \$821 million, with Chinese companies.<sup>132</sup> Some of these investments include the following deals:  
**Sumgayit chemical-industrial park:** China National Electric Engineering Company (CNEEC) committed to invest \$300 million in a tire factory in the Sumgayit chemical-industrial park (about 25 kilometers northwest of Baku).<sup>133</sup> The investment promises to create 800 new factory jobs there and boost the plant's production potential to 3.3 million tires per year. CNEEC will acquire a 90 percent share in the project. The remaining 10 percent of the stock will belong to the Azerbaijan Investment Company.<sup>134</sup>  
**Baku International Sea Trade Port In Alat:** \$70 million in grants and equipment worth an additional \$2 million from China were secured to help with the process of Baku International Sea Trade Port In Alat.<sup>135</sup> The estimated \$544.74 million for the three-phase project and the impetus behind the port's creation comes from the Azerbaijani government.<sup>136</sup>  
**Greenhouse complex in the Kurdamir:** the building of a 300-hectare greenhouse complex in the Kurdamir region of Azerbaijan, the construction of agrological industrial parks in the Guba, Goychay, and Khachmaz regions, an agreement on the export of Azerbaijani wine to China, and the creation of the Azerbaijan Trade House in Chengdu, China.<sup>137</sup>

## 2022 Shanghai Cooperation Organization (SCO) Summit

- During the bilateral meeting between the leaders of Azerbaijan and China on the sidelines of the 2022 Shanghai Cooperation Organization (SCO) Summit in Samarkand, President Aliyev emphasized the excellent prospects for cooperation and partnership within the Middle Corridor and Belt and Road projects. He underlined that Azerbaijan plays an essential role in transport links between China and Europe, adding that the

<sup>131</sup> <https://bakuresearchinstitute.org/en/azerbaijan-china-relations-2/>

<sup>132</sup> <https://bit.ly/3MKwTP2>

<sup>133</sup> <https://www.azernews.az/business/150089.html>

<sup>134</sup> <https://bit.ly/3MKwTP2>

<sup>135</sup> <https://caspiannews.com/news-detail/china-pushes-for-stronger-ties-with-azerbaijan-2019-9-25-0/>

<sup>136</sup> <https://reconasia.csis.org/azerbaijans-port-on-chinas-road/>

<sup>137</sup> <https://bit.ly/3MKwTP2>

country's transport and logistical capabilities are of great importance in international cargo shipments.<sup>138</sup>

### **Reviving the Karabakh and Eastern Zangazur Economic Regions:**

During the SCO meeting, Azerbaijan showed willingness to welcome Chinese companies to invest in the Karabakh and Eastern Zangezur Economic Regions. It was emphasized that Azerbaijan is currently implementing large-scale reconstruction work in newly liberated territories of Azerbaijan. Many PRC companies have shown interest in participating in this work, and, of course, Azerbaijan supports the involvement of Chinese companies in reviving the Karabakh and Eastern Zangazur economic regions of Azerbaijan. In this regard, Huawei's participation in a "smart village" project in Azerbaijan's liberated city of Zangilan indicates the mutual trust and practical cooperation between the countries.<sup>139</sup>

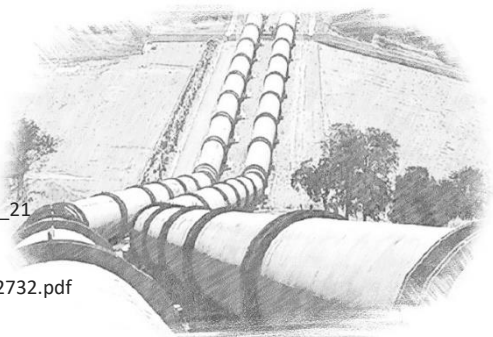
### **2024 SCO Summit**

- In 2024, Azerbaijan and China signed the Declaration of Strategic Partnership during the Astana Shanghai Cooperation Organization Summit to expand cooperation in the political, economic, and cultural spheres and strengthen interaction in international affairs.<sup>140</sup>

### **PRC'S FINANCIAL ROLE IN AZERBAIJAN'S ENERGY INFRASTRUCTURE: INVESTMENTS IN SHAH DENIZ, BTC PIPELINE, AND TANAP PROJECTS**



In 2015, the Bank of China contributed \$105 million to the \$1 billion syndicated loan to build the second stage of the Shah Deniz Gas.<sup>141</sup> Chinese finance came in concert with finance from multilateral financial institutions, including EBRD, the Black Sea Trade and Development Bank, and ADB, as well as European private banks such as ING Bank, Unicredit Bank Austria, and Société Générale.<sup>142</sup>



<sup>138</sup> [https://link.springer.com/chapter/10.1007/978-981-99-7512-9\\_21](https://link.springer.com/chapter/10.1007/978-981-99-7512-9_21)

<sup>139</sup> Ibid

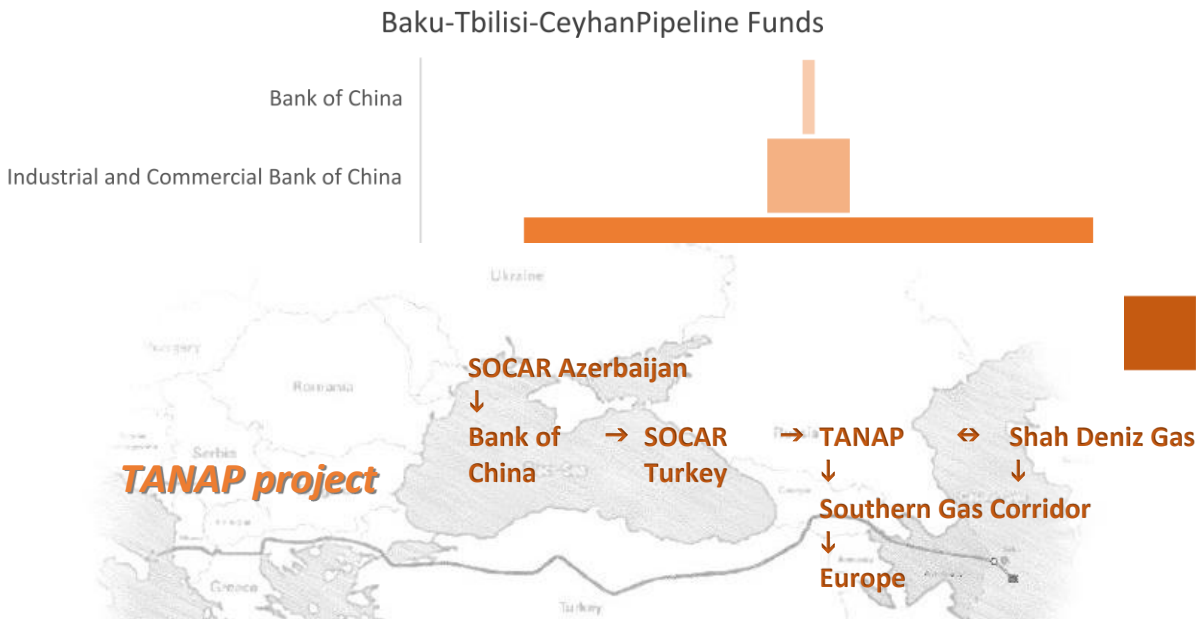
<sup>140</sup> <https://president.az/en/articles/view/66389>

<sup>141</sup> <https://www.econstor.eu/bitstream/10419/266146/1/1820832732.pdf>

<sup>142</sup> <https://china.aiddata.org/projects/66946/>

**Baku-Tbilisi-Ceyhan**  
**Pipeline Construction Project**

In 2015, the Bank of China provided \$260.26 million, and the Industrial and Commercial Bank of China provided \$173.51 million to a 1.63 billion syndicated loan facility for the Baku-Tbilisi-Ceyhan Pipeline Construction Project. The recipient was the Baku-Tbilisi-Ceyhan Pipeline Company (BTC).<sup>143</sup>



In 2016, China invested in energy resources for the so-called TANAP project. A syndicate of banks led by the Bank of China issued a \$1.3 billion loan to SOCAR Turkey Enerji A.S.—a Turkish subsidiary of the State Oil Company of the Azerbaijan Republic (SOCAR)—to purchase an ownership stake in the Trans-Anatolian Natural Gas Pipeline Project (TANAP).<sup>144</sup>

It is important to note that in 2016, the project was financed by the Asian Infrastructure Investment Bank (AIIB) through a loan of 600 million USD. Additionally, the World Bank's International Bank for Reconstruction and Development (IBRD) co-financed the project with a direct contribution of 400 million USD. The AIIB's loan was administered and supervised by the IBRD. Other International Financial Institutions also contributed to the project, including the European Bank for Reconstruction and

<sup>143</sup> <https://www.econstor.eu/bitstream/10419/266146/1/1820832732.pdf>

<sup>144</sup> <https://www.dailysabah.com/energy/2017/02/15/215-billion-in-external-finance-secured-for-tanap>

Development (500 million USD) and the European Investment Bank (270 million USD).<sup>145</sup>

Given the PRC's influence on the institution, AIIB's financial contribution to the project should be evaluated within the broader context of the Chinese investment strategy. The AIIB is widely regarded as a China-led bank that offers investment packages without imposing substantial reform requirements, making it a more appealing alternative compared to other Western financial institutions.<sup>146</sup>

- TANAP, together with the Shah Deniz Natural Gas Development Project and the Trans-Adriatic Pipeline Project, constitute the "Southern Gas Corridor Project," which aims to ensure the delivery of Azerbaijani gas to the European markets.
- Before this acquisition, the Southern Gas Corridor Closed Joint Stock Company, a joint investment vehicle established by the Government of Azerbaijan and SOCAR to implement the Southern Gas Corridor, held a 58% ownership stake in the TANAP.
- Through the Southern Gas Corridor, natural gas produced from the Shah Deniz-2 field located in the Caspian Sea in Azerbaijan is transported via Georgia to Turkey and then onwards to Europe. International opening ceremonies of the pipeline took place in mid-2018 for the Turkey-Georgia border section and at the end of 2018 for the Turkey-Greece border section. The first test pumping was held in April 2019. To date, TANAP is the longest and largest diameter natural gas pipeline in Turkey, the Middle East, and Europe, stretching 1,850 kilometers with 56-inch pipes in diameter and including a 17.6-km long sea crossing.<sup>147</sup>
- In 2017, the Bank of China helped SOCAR with \$21.43 million to refinance its liabilities.<sup>148</sup>

## PRC'S TRADE RELATIONS WITH AZERBAIJAN

Analyzing the dynamics of Sino-Azerbaijani bilateral trade turnover after 2015, we see significant growth. For example, while the trade turnover in 2015 amounted to \$561 million, in 2016, this figure reached 975 million; in 2017 – 1,298 million; in 2018 – 1,310 million and 2019 – 2,184 million.<sup>149</sup> The same dynamics of exponential growth of bilateral trade turnover continued over the following years.<sup>150</sup> The trade turnover as of 2023 was 3.099 billion.<sup>151</sup> The data as of 2019 is shown in the Table #2.

The Table #2

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<sup>145</sup> <https://shorturl.at/0XPvH>

<sup>146</sup> <https://civicidea.ge/en/georgias-foreign-debt-policies-prcs-bank-among-georgias-top-creditors/3759/>

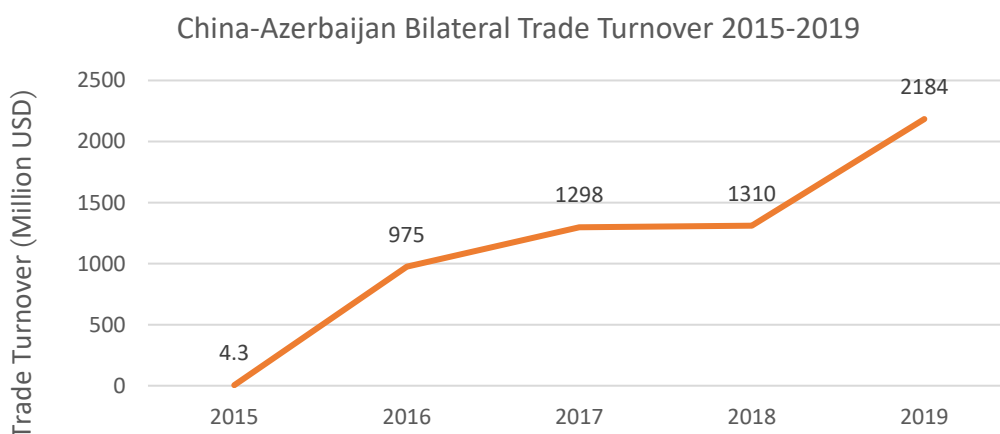
<sup>147</sup> <https://www.tanap.com/en/release-16>

<sup>148</sup> <https://www.econstor.eu/bitstream/10419/266146/1/1820832732.pdf>

<sup>149</sup> <https://bakuresearchinstitute.org/en/azerbaijan-china-relations-2/>

<sup>150</sup> <https://www.mfa.gov.az/en/category/asiya-ve-okeaniya/cin>

<sup>151</sup> <https://tradingeconomics.com/azerbaijan/exports-by-country>



During the first quarter of 2024, the trade turnover between Azerbaijan and China reached \$748,8 million. This figure represents a considerable surge compared to the same period in 2023, with an impressive increase of \$123,8 million, marking a notable rise of 19.8%<sup>152</sup>. See the Table #3.

The Table #3



## **AZERBAIJAN'S BRI STRATEGY: INDEPENDENT INVESTMENTS AND MILITARY COOPERATION WITH CHINA**

Azerbaijan seeks to participate in BRI without assuming Chinese loans—thus avoiding China's "debt-trap diplomacy." Furthermore, it prefers to deal mainly with state-owned companies on investment projects to decrease the scope for economic pressure. Due to their success to date, these tactics will undoubtedly remain the main components of Azerbaijani policy toward China going forward.<sup>153</sup>

In addition, over the past few years, Azerbaijan's government has invested heavily in infrastructure projects along the Trans-Caucasus Transit Corridor (TCTC). The investment projects, both completed and ongoing, include the following:

- new Baku port in Alat;

<sup>152</sup> <https://www.azernews.az/analysis/225774.html>

<sup>153</sup> <https://bit.ly/3MKwTP2>

- construction, repair, electrification, and upgrading of the Baku-Tbilisi-Kars railway;
- rehabilitation of the E-60 road between Baku and Ganja and onward to the Georgian border.

It should be noted that most of these projects are financed not by China but by the Government of Azerbaijan (including through Azerbaijan's State Oil Fund, a sovereign wealth fund) and international financial institutions, such as the World Bank Group, the EBRD, the AIIB, and the EIB.<sup>154</sup>

It is noteworthy that China has also shown interest in providing weapons to Azerbaijan. The Polonez Multiple Launch Rocket System, sent to Azerbaijan from Belarus, was developed in conjunction with China.<sup>155</sup> Azerbaijan has also purchased the Qasirga T-300 system, which was produced in Turkey and has a Chinese license, and China has also offered several systems to the Azerbaijani military. In 2019, Azerbaijan and China signed<sup>156</sup> a document on mutual military aid and purchasing Chinese arms.<sup>157</sup>

Given the lack of transparency, accountability, and free speech in Azerbaijan, any data regarding BRI and Azerbaijani investments, similar to other governmental affairs, are challenging to be found in open sources. The objective assessments of the project implementations on finances or environmental risks are not easy to conduct and publish for public review either. Therefore, the open resources do not allow us to dive into any major project and discuss the details thereof. The environmental risks and commitments from both sides and financial instruments of Chinese investments in Azerbaijan will be discussed in the relevant sections of this research.

## ARMENIA



Out of the countries of the SC, China has invested the least development finance in Armenia. Armenia's economy and foreign policy goals differ from those of its

<sup>154</sup> <https://shorturl.at/EBTS9>

<sup>155</sup> <https://jamestown.org/program/azerbaijan-shows-off-polonez-lora-missiles-from-belarus-israel/>

<sup>156</sup> <https://shorturl.at/doljb>

<sup>157</sup> <https://www.russiamatters.org/analysis/us-should-keep-eye-rising-chinese-investment-south-caucasus>

neighbors. Armenia's economy is heavily intertwined with Russia, which exerts ongoing influence on the economic and political atmosphere in Armenia and Armenian culture. Armenia is rich in copper, precious metals, and stones. Nevertheless, China's interest in natural resources focuses on energy sources as China itself is abundant in copper, metal, and other raw materials it uses for production. Also, Armenia and its western neighbor Azerbaijan are in a territorial dispute over the Nagorno-Karabakh region and face war situations.<sup>158</sup> Armenia's public relations with its eastern neighbor Turkey are tense as well.<sup>159</sup>

Armenia is neither geographically nor economically part of a major BRI trade route. This could be attributed to Chinese aversion to instability, as the conflict with Azerbaijan has isolated Armenia from the world, making it an unstable and undesirable trade partner. As signs of normalization between the conflicting countries appear, China's interest in Armenia might increase.<sup>160</sup>

Due to its tense relationship with two neighboring countries (Azerbaijan and Turkey), Armenia has open borders only with Georgia to the north and Iran to the south. Considering this, Armenia has limited options under the BRI. There are some bilateral relations and economic cooperation between China and Armenia, but they are primarily reflected in trade; as for investments, there is almost no Chinese investment in Armenia at the moment.

## ARMENIA'S BRI INVOLVEMENT: DIPLOMATIC RELATIONS, INFRASTRUCTURE PROJECTS, AND NGO PARTICIPATION

### 2015 Joint Declaration of Friendly Cooperation

● Former Armenian president Serzh Sargsyan paid a state visit to China in March 2015, emphasizing the importance of developing bilateral relations and cooperation within the BRI and signed the Joint Declaration on Further Development and Enhancement of Friendly and Cooperative Relationship between the Republic of Armenia and the People's Republic of China.<sup>161</sup>

### 2019 Presidential visit

● The incumbent Prime Minister Nikol Pashinyan visited China in May 2019, showing an interest in participating in BRI by implementing joint programs in transportation, railway, and information infrastructure areas.<sup>162</sup>

<sup>158</sup> <https://www.gisreportsonline.com/r/nagorno-karabakh-armenia/>

<sup>159</sup> <https://www.econstor.eu/bitstream/10419/266146/1/1820832732.pdf>

<sup>160</sup> <https://shorturl.at/MN3pw>

<sup>161</sup> <https://www.president.am/en/foreign-visits/item/2015/03/25/State-visit-of-President-Serzh-Sargsyan-to-China/>

<sup>162</sup> <https://armenpress.am/en/article/974966>

### Armenian NGOs' participation in BRI-related networks:

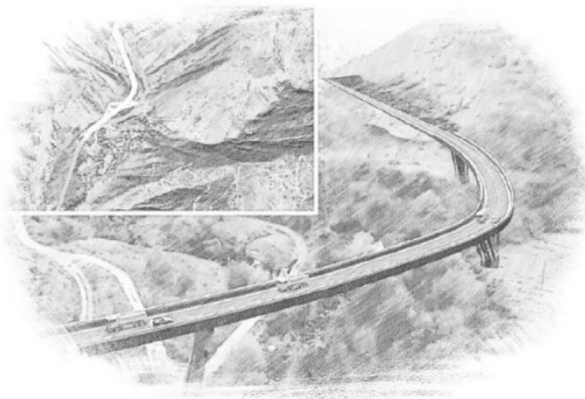
Non-governmental organizations in Armenia and China within the BRI cooperate closely. Armenian NGOs and think tanks participate in initiatives such as the Silk Road Think Tank Network and the Silk Road NGO Cooperation Network.<sup>163</sup>

### North-south corridor: China does not invest in Armenia as much as in other

South Caucasian states. One investment option may be the ongoing north-south corridor development, which connects the Indian Ocean and the Persian Gulf to the Black Sea through Iran, Armenia, and Georgia, a project financed mainly by the ADB with \$60 million.<sup>164</sup>

### Meghri–Yerevan–Bavra highway:

Another project relevant to the BRI (part of the north-south connection) is the Meghri–Yerevan–Bavra highway, which links Armenia's southern border with Iran to its northern border with Georgia.<sup>165</sup> Chinese interest in this project can be related to the current involvement of Sinohydro. The Chinese state-owned construction firm has assumed responsibility for completing a stretch of road connecting Gyumri, Armenia's second-largest city, to the Georgian border, thus helping to accelerate the much-delayed project (EC, 2019).<sup>166</sup> However, the construction company extended the work deadline several times and delayed the construction.<sup>167</sup>



## PRC'S TRADE RELATIONS WITH ARMENIA

Trade with China and Armenia increased over the past decade.<sup>168</sup> For the latest date, China has been Armenia's second largest Asian trade partner, and these relations are developing.<sup>169</sup> Trade turnover after 2015 declined but grew steadily over the next few years. For example, while the trade turnover in 2015 amounted to \$480 million, in 2016, this figure reached 463 million; in 2017 – 584 million; in 2018 – 771 million; and in 2019 – 941. The same dynamics of exponential growth of bilateral trade turnover continued over the following years.<sup>170</sup> The trade turnover as of 2023 was 2.055 billion.<sup>171</sup> The data as of 2019 is shown in the Table #4.

<sup>163</sup> <https://www.chinadaily.com.cn/a/202310/25/WS653858daa31090682a5ea800.html>

<sup>164</sup> <https://www.econstor.eu/bitstream/10419/261206/1/1809040345.pdf>

<sup>165</sup> <https://www.research-collection.ethz.ch/bitstream/handle/20.500.11850/368298/CAD111.pdf>

<sup>166</sup> Ibid

<sup>167</sup> <https://www.adb.org/sites/default/files/project-documents/42145/42145-023-pcr-en.pdf>

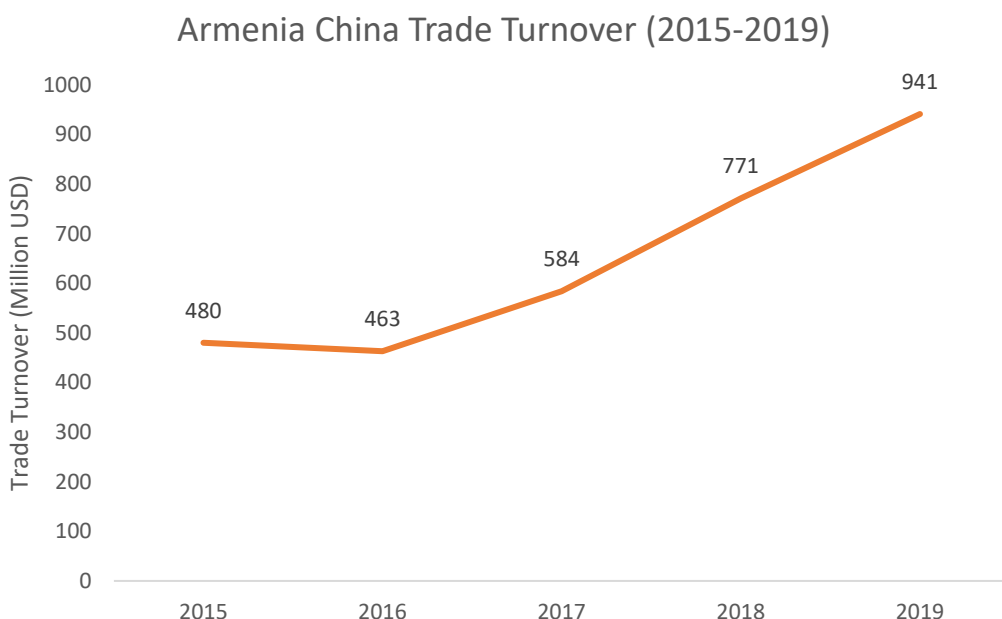
<sup>168</sup> <https://trendeconomy.com/data/h2/Armenia/TOTAL>

<sup>169</sup> <https://news.am/eng/news/775982.html>

<sup>170</sup> <https://wits.worldbank.org/CountryProfile/en/Country/GEO/Year/2019/TradeFlow/EXPIMP/Partner/by-country>

<sup>171</sup> <https://tradingeconomics.com/armenia/exports-by-country>

#### The Tabe #4



China also implements technological, cultural, and other elements of soft power throughout Armenia.<sup>172</sup> Huawei signed an agreement with Yerevan to develop a “Smart city” project.<sup>173</sup> While China’s economic presence in Armenia is currently relatively low, its engagement in digital infrastructure development processes is expected to grow substantially.<sup>174</sup>

## GEOPOLITICAL AND TRANSPARENCY CONCERNS OVER CHINESE BRI INVESTMENTS

Backed by solid promotion and ambitious action plans, the BRI has encountered significant criticism, as China's expanding influence presents a challenge for nations whose geopolitical interests diverge from Beijing's. Critics of BRI believe that through this initiative, China is trying to establish a new world economic order and become a role model for others globally. Nevertheless, China's foreign policy objectives extend far beyond this ambiguous statement, positioning the BRI as a strategic tool for exerting control over states, securing their loyalty, and advancing its ambitions to become a global superpower. Additionally, it is believed in the West that Beijing is leveraging the initiative to exert political influence over developing nations, as its projects are aimed primarily at developing countries.<sup>175</sup> More precisely, it serves to sway foreign business and political elites, exploiting foreign states’ natural resources, territory, and internal political setting, securing advantages that can later be used to

<sup>172</sup> <https://www.fpri.org/article/2021/11/chinas-growing-influence-in-the-south-caucasus/>

<sup>173</sup> <https://chinaobservers.eu/the-us-china-and-the-race-for-5g-in-the-south-caucasus/>

<sup>174</sup> <https://www.fpri.org/article/2021/11/chinas-growing-influence-in-the-south-caucasus/>

<sup>175</sup> <https://carnegieendowment.org/posts/2017/05/xis-vision-for-chinas-belt-and-road-initiative?lang=en>

shape these countries' relations with the West or influence their voting behavior in international bodies such as the UN Security Council and the UN Human Rights Council.

Some recipient countries are already experiencing the adverse geopolitical consequences of China's Belt and Road Initiative. For instance, following Xi Jinping's 2016 state visit to Phnom Penh, Cambodia's relations with China and the U.S. shifted significantly. Cambodia ended military exercises with the U.S. and launched the "Dragon Gold" joint drills with China, which expanded in subsequent years, while U.S.-Cambodian ties steadily declined. This was particularly visible by the demolition of U.S.-built facilities, a failed visit by the U.S. defense attaché, sanctions on Cambodian officials, and the suspension of U.S. military education for Cambodian officers.<sup>176</sup>

As mentioned previously, the PRC has skillfully leveraged the BRI to expand its geopolitical influence by exploiting economic dependencies and strategic resources as well. Tajikistan and Ghana are the best examples of China's so-called "Debt Trap" diplomacy. Unable to repay the debt, Tajikistan had to transfer its gold and ore mines to the Chinese company TBEA and, more recently, cede part of its territory to China.<sup>177</sup> Meanwhile, Ghana's government agreed with the Chinese firm Sinohydro, which pledged to deliver USD 2 billion in infrastructure projects in return for access to Ghana's bauxite mines.<sup>178</sup>

The willingness to conduct large financial deals with little transparency creates further opportunities for political leverage. In Sri Lanka, Chinese construction funds were allegedly used to support former President and PM Mahinda Rajapaksa's unsuccessful reelection campaign.<sup>179</sup> The country faces severe challenges due to Chinese loans, struggling economically to repay them while gradually losing political autonomy to the PRC government.

Chinese companies involved in the BRI often play a crucial role in large-scale corruption schemes orchestrated by Chinese state officials in collaboration with local business and political elites. Because members of the government elite are frequently implicated in these schemes, they tend to overlook these Chinese firms' illegal or corrupt activities, often due to personal interests or the general weakness of state institutions. Consequently, the following outcomes<sup>180</sup> emerge - lack of due diligence in state agencies; signing contracts in violation of state law; continuous changes in the bidding terms and conditions; delayed and low-quality service/equipment; violation of the rights of local workers; threat to the environment; threat to national security. In this context, the Tanzanian case illustrates the challenges of transparency in cooperation with Chinese companies. In 2014, the former Director General of the Tanzania Ports Authority and his deputy were charged with fraud for allegedly awarding an inflated contract worth over \$523 million to expand the city's main port.<sup>181</sup>

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<sup>176</sup> <https://www.usip.org/publications/2023/09/how-small-states-navigate-us-china-rivalry-case-cambodia>

<sup>177</sup> <https://www.bbc.com/news/world-asia-pacific-12180567>

<sup>178</sup> <https://dailyguidenetwork.com/ndc-sabotages-2bn-chinese-deal-petitions-imf-world-bank/>

<sup>179</sup> <https://www.csis.org/analysis/corruption-flows-along-chinas-belt-and-road>

<sup>180</sup> <https://shorturl.at/Vn3tA>

<sup>181</sup> <https://news.trust.org/item/20140715205110-works/?source=fiOtherNews2>

One of the most challenging aspects of Chinese loan agreements is the lack of transparency, not only regarding the terms of the contracts but also due to the frequent absence of public disclosure<sup>182</sup> of the agreements themselves. Consequently, citizens, as taxpayers, often remain uninformed about the loan agreements their governments enter with Chinese state-owned banks and other affiliated institutions. Moreover, these agreements often include confidentiality clauses that prevent the borrowing governments from disclosing the loan's size or other critical details.

For example, in 2016, the China Development Bank (CDB) invoked a confidentiality clause after an investigative journalist released a video revealing the terms of Ecuador's multi-billion-dollar oil-backed debt to CDB. The video sparked public debate over the prudence of the borrowing arrangement. In response, Wang Hongjun, head of CDB's Resident Mission in Ecuador, sent a letter to William Vasconez, the Undersecretary of Public Financing of Ecuador's Ministry of Finance, reminding the government of its obligations under the Confidentiality Letter. Wang Hongjun called for an investigation into the leak and demanded actions to mitigate the damage to CDB's reputation. The letter also warned that failure to comply could result in CDB withholding future financing from Ecuador's government.<sup>183</sup>

Looking back to the South Caucasus, Georgia, with the closest ties to China in the region, offers a vivid example of swayed geopolitical priorities favoring the PRC. We can observe a notable shift in its foreign policy trajectory—from focusing on integrating with Western alliances to gradually aligning with the Eastern flank. Georgia is deepening its relationship with China, evolving it into a strategic partnership, and adhering to Xi Jinping's security and economic initiatives.<sup>184</sup> This shift is accompanied by a growing inclination to transfer critical infrastructure into Chinese hands, as well as a rising number of notorious Chinese companies operating in Georgia's infrastructure sector, leaving no space for healthy competition in the field.

Additionally, all South Caucasian states view the Middle Corridor as an opportunity to enhance their strategic significance by serving as a transit corridor and attracting increased Chinese investment to the region. This is evidenced by the active participation of all three countries in numerous intergovernmental meetings aimed at maximizing the corridor's potential. Local governments have also proactively engaged with Central Asian and Chinese leaders recently.<sup>185</sup> However, alongside its opportunities, this initiative poses risks, including the potential influx of Chinese corrosive capital, which could increase the region's political dependency on the PRC, as has been observed in Central Asia.

The following cases turn out as the clearest illustration of the Chinese hidden risky agenda while ploughing the funds generously in Sri Lanka, Tajikistan, and Italy.

## HAMBANTOTA

- The Hambantota Port is located in southern Sri Lanka close to the east-west sea route.

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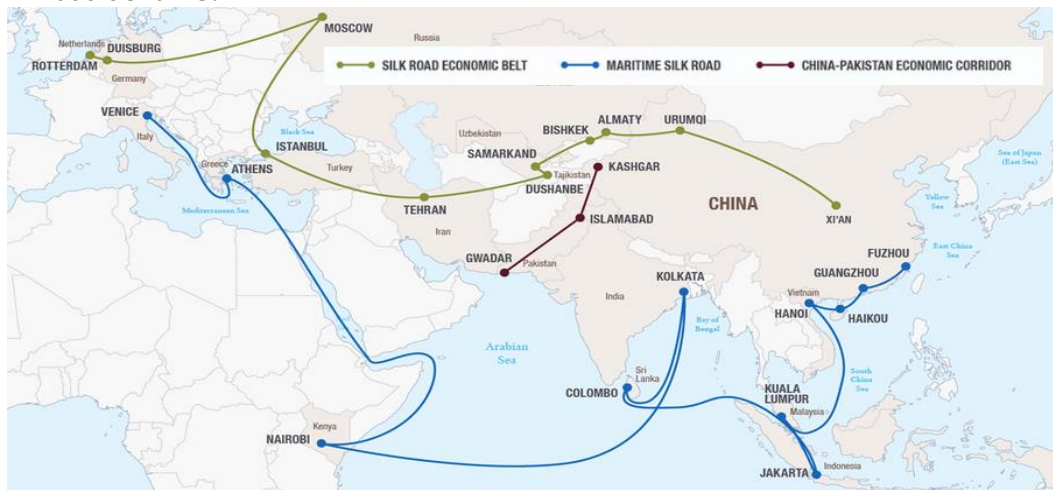
<sup>182</sup> <https://docs.aiddata.org/reports/how-china-lends.html>

<sup>183</sup> <https://china.aiddata.org/projects/58839/>

<sup>184</sup> <https://civicidea.ge/en/assessment-of-georgias-strategic-partnership-statement-with-the-prc/6272/>

<sup>185</sup> <https://www.tbilisisrf.gov.ge/>

- Feasibility studies were conducted several times about the economic potential of the port, however, investors, such as the U.S., India, and the Asian Development Bank did not move forward with the port project, as assessments from experts questioned the economic potentiality<sup>186</sup>.
- In 2007, it was funded through Chinese loans of about US\$ 1.3 billion and the construction began in 2008 through a joint venture of China Harbor Engineering Company (CHEC) and the Sino Hydro Corporation<sup>187</sup>. It took several phases:
- The first phase of the project began in 2008 and became operational in 2010, with an estimated investment of U.S. \$361 million, ultimately totaling \$508 million<sup>188</sup>. China's Export Import (EXIM) Bank funded 85% of the first phase at a relatively high interest rate of 6.3%, and the Sri Lanka Ports Authority (SLPA) funded the additional 15%.<sup>189</sup>



- The second phase commenced in November 2012 amounting to \$810 million and finished in 2015<sup>190</sup>. This time, the Chinese bank provided preferential export buyers' credit and government concessional loans with a much lower two percent fixed interest rate<sup>191</sup>.
- Sri Lanka Ports Authority (SLPA) operated the Hambantota port from 2012 to the end of 2016, but failed to meet profitability due to inadequate governance, lack of commercial and industrial activities, and its inability to attract passing vessels to dock at the port.
- In 2016, Sri Lankan ministers considered selling an 80 percent stake in the port to the state-controlled China Merchants Port Holdings. But that agreement sparked protests from unions and opposition groups, forcing the government to renegotiate it<sup>192</sup>. Under the new plan, signed in July, the Chinese company held a 70 percent stake in a joint venture with the state-run Sri Lanka Ports Authority, and

<sup>186</sup> <https://www.tandfonline.com/doi/full/10.1080/19480881.2023.2195280#d1e554>

<sup>187</sup> <https://shorturl.at/GM3wu>

<sup>188</sup> <https://shorturl.at/79PMs>

<sup>189</sup> <https://maritimeindia.org/8813-2/>

<sup>190</sup> <https://www.ft.lk/columns/then-and-now-hambantota-international-port/4-721196>

<sup>191</sup> <https://www.econstor.eu/bitstream/10419/266592/1/1824423047.pdf>

<sup>192</sup> <https://www.ft.com/content/e150ef0c-de37-11e7-a8a4-0a1e63a52f9c>

as a result, Sri Lanka has formally handed over its southern port of Hambantota to China on a 99-year lease, which government critics have denounced as an erosion of the country's sovereignty<sup>193</sup>.

- There are claims that the port was never determined as a guarantee for the repayment, in other words as “debt-equity swap”<sup>194</sup> according to the loan contracts<sup>195</sup>, however, the preconditions of the entire loan and the context of the port were paving the way for the debt trap:
  1. The economic potential of the port was questionable<sup>196</sup>,
  2. Other frequent lenders like India<sup>197</sup> had already rejected the proposal,
  3. The country was in a crisis<sup>198</sup>, just emerging from the tsunami, and going through a reescalation of its civil war. All these risky conditions put together do not allow any MDB (Multilateral Development Bank), in general, to give the loan due to the risk that the loan will not be repaid. The Chinese EXIM bank, however, gave a non-concessional buyer's credit loan i.e. a loan with less generous terms that typically carried much higher interest rates<sup>199</sup>. Obtaining such a loan for a major project was a huge deal<sup>200</sup>.

As well summarized by Constantino Xavier, the researcher and the expert on the issue, the lease is part of a larger *modus operandi* by China in the region... Beijing typically finds a local partner, makes that local partner accept investment plans that are detrimental to their country in the long term, and then uses the debts to either acquire the project altogether or to acquire political leverage in that country<sup>201</sup>.

## ITALY'S BAILOUT FROM BRI

- Italy is the only country of the Group of Seven industrialized nations that signed deals worth an initial 2.5 billion euros (\$2.8 billion) and, by doing so, joined the BRI of China<sup>202</sup>. Italy's decision to join the BRI unsurprisingly disappointed EU and American administrations. Analyst Filippo Fasulo once wrote that Italy's allies “thought we were selling our soul to the devil”<sup>203</sup>.
- In December of 2023, however, Italy withdrew from the initiative<sup>204</sup>. The decision to withdraw was not surprising. Several Italian ministers had expressed their discontent with the BRI, including Italian Prime Minister, Giorgia Meloni herself, who had earlier fiercely criticized the initiative and referred to the MoU as a “big mistake” during her electoral campaign for the September 2022 general elections<sup>205</sup>.

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<sup>193</sup> id

<sup>194</sup> <https://bit.ly/3zkclEs>

<sup>195</sup> <https://www.econstor.eu/bitstream/10419/266592/1/1824423047.pdf>

<sup>196</sup> <https://www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html>

<sup>197</sup> <https://www.tandfonline.com/doi/full/10.1080/19480881.2023.2195280#d1e554>

<sup>198</sup> <https://www.econstor.eu/bitstream/10419/266592/1/1824423047.pdf>

<sup>199</sup> <https://www.cgdev.org/sites/default/files/chinese-and-world-bank-lending-terms-systematic-comparison.pdf>

<sup>200</sup> <https://www.econstor.eu/bitstream/10419/266592/1/1824423047.pdf>

<sup>201</sup> <https://nyujilp.org/wp-content/uploads/2019/09/NY1401.pdf>

<sup>202</sup> <https://www.reuters.com/article/idUSKCN1R40KN/>

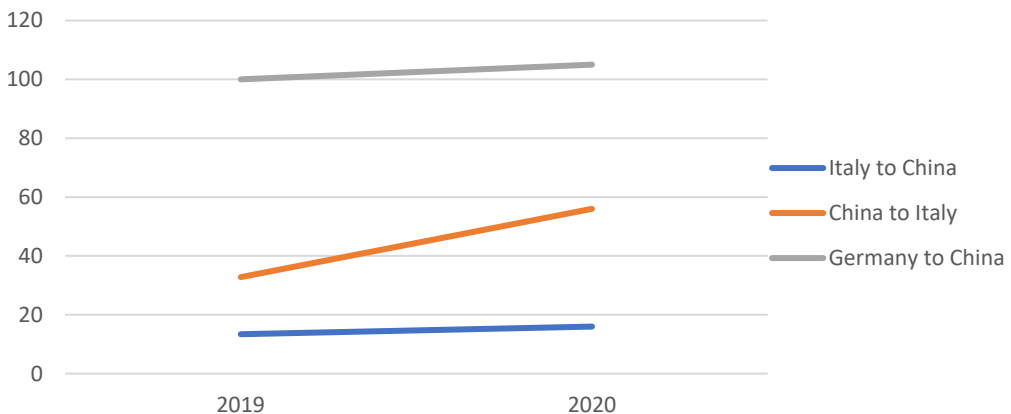
<sup>203</sup> <https://www.nbcnews.com/news/world/italy-suggests-exit-chinas-belt-road-shift-us-rcna97230>

<sup>204</sup> <https://www.csis.org/analysis/italy-withdraws-chinas-belt-and-road-initiative>

<sup>205</sup> <https://www.cnn.com/2023/05/01/italy-is-thinking-about-whether-to-quit-china-belt-and-road-initiative.html>

- Italy's withdrawal from the BRI was on the one hand triggered by the change of the government which opposed the encouragement of Chinese empowerment in the region as a betrayal of the EU policy and the US alliance<sup>206</sup>, on the other hand, the economic results were not as promising as during signing of the deals.
- According to UN Comtrade data, Italy's exports to China were valued at 13.4 billion euros in 2019 and increased to 16 billion euros in 2022<sup>207</sup>. At the same time, China's exports to Italy were valued at 32.8 billion euros in 2019 and increased to 56 billion euros in 2022, indicating a widening Italy-China trade deficit (from -US\$20.9 billion in 2019 to -US\$47.3 billion in 2022<sup>208</sup>, with only a mild increase in Italian exports. During this period, Chinese exports to Italy increased, by about 71 percent, to 55.8 billion euros (US\$60.5 billion)<sup>209</sup>. Germany's exports to China were valued at 100 billion euros in 2019 and increased to 105 billion euros in 2022<sup>210</sup>, exceeding Italy's exports, despite Germany not being a signatory to the BRI.

The Tabe #5



- Overall figures demonstrate that Italy's participation in the BRI framework did not deepen its economic integration with China. As suggested by Shairee Malhotra, expert of the issues, it is likely that Italy's internal political instability and inefficient bureaucracy, compared to markets in other countries, played a role<sup>211</sup>. Nevertheless, the paradox of BRI non-signatory European countries such as France, Germany, Finland, and the Netherlands having closer trade ties with China and gaining much more from Chinese FDI led to waning enthusiasm within Italy's business community and politicians and the country's subsequent withdrawal from the BRI<sup>212</sup>.

<sup>206</sup> <https://www.orfonline.org/research/italy-s-briexit-not-all-roads-lead-to-beijing>

<sup>207</sup> <https://shorturl.at/8rl47>

<sup>208</sup> <https://www.bruegel.org/first-glance/can-italy-leave-belt-and-road-initiative-without-backlash>

<sup>209</sup> <https://shorturl.at/1R1ag>

<sup>210</sup> <https://shorturl.at/VX7jF>

<sup>211</sup> <https://www.orfonline.org/research/italy-s-briexit-not-all-roads-lead-to-beijing>

<sup>212</sup> Ibid

## DEBT LED TO THE CONCESSION OF PAMIR MOUNTAINS

The Pamir Mountains have multiple significance for Tajikistan: It is an ecological reservoir, providing numerous glaciers, rivers, and lakes, and is geopolitically important as being a crucial economic route to communicate with other countries<sup>213</sup>. Over the years China's claim on a substantial portion of the Pamir Range has been a source of concern for Tajikistan<sup>214</sup>. Ironically, the unfair and large debt to China forced the country to peacefully cede a substantial portion of its territory and hand it over to the PRC without conflict or gunfire, and by doing so, somewhat undermine national sovereignty and territorial integrity:

- Because of the inability to pay loans back, in 2011, Tajikistan handed over 1,158 square kilometers of territory – in the remote Pamir Mountain range – to China in exchange for writing off the country's already mounting debt<sup>215</sup>.
- It seems that subsequent changes in the territory also occurred in 2017, with much less publicity. According to the data of the Agency on Statistics under the President of the Republic of Tajikistan, the country's territory decreased again, this time by 600 sq. km. Thus, over 30 years, Tajikistan has lost a total of 1,700 square kilometers. While it is unclear what country the land was given to, it has been suggested that the territory was obtained by China due to the unrepaid expensive loans<sup>216</sup>.
- In 2017, Tajikistan allowed Beijing to secretly open a military base in its Gorno-Badakhshan province<sup>217</sup>. A decade later, almost nothing has changed. In 2019, struggling to pay off the costly construction of the TETs-2 power plant in Dushanbe, Tajikistan had to allow Beijing to gain control of its gold mines<sup>218</sup>.

## CHAPTER 2

### CHINESE INVESTMENTS IN CENTRAL ASIA

By the time the BRI was launched, bilateral relations between China and countries in Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan) were already extensive. Beijing sought to strengthen economic ties with the region, particularly to help boost the economic development of China's less wealthy western provinces.<sup>219</sup> Indeed, in 2013, China was the top trading partner of Uzbekistan and the second-largest trading partner for the other countries in the sub-region.<sup>220</sup> Central Asia has also played an essential role in expanding China's access to energy imports from the region and Russia. Energy and transportation projects had already started before the

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<sup>213</sup> <https://shorturl.at/R1eR3>

<sup>214</sup> *Ibid*

<sup>215</sup> Tajikistan cedes land to China - BBC News

<sup>216</sup> <https://forbes.ge/en/chinethis-dzvirad-ghirebuli-sainvestitsio-seskhis-usaphrthkhoebis-riskebi/>

<sup>217</sup> <https://gfsis.org.ge/blog/view/1491>

<sup>218</sup> *Ibid*

<sup>219</sup> <https://www.iiss.org/en/publications/strategic-dossiers/asia-pacific-regional-security-assessment-2023/aprsa-chapter-4/>

<sup>220</sup> IMF, 'Direction of Trade Statistics', <https://data.imf.org/regular.aspx?key=61013712>. Analysis based on trade statistics for each country's exports to and imports from China in 2013.

launch of the BRI, as China became a net oil importer in 1993 and turned to Russia and Central Asia for energy imports.<sup>221</sup> In the late 1990s, China National Petroleum Corporation acquired the rights to two major oilfields in Kazakhstan and constructed a Kazakhstan–China oil pipeline.<sup>222</sup> BRI energy-focused projects thus expanded on an existing network of oil and gas pipelines. Central Asian governments welcomed Chinese investments and have focused on energy and transport corridors. Since 2018, they have helped Central Asian countries diversify their economic bases, notably through investments in digital infrastructure.<sup>223</sup>

Large flagship BRI projects for Central Asia were announced soon after the BRI's launch, focused primarily on power-generation projects, extractive industries, and railway networks that carry gas and oil to China while also facilitating the export of goods from China.<sup>224</sup> Most of the investment from China is hosted by Kazakhstan.<sup>225</sup> Then, Kyrgyzstan, Tajikistan, and Uzbekistan are listed according to data from 2019.<sup>226</sup> The data collected and made available by the China Global Investment Tracker<sup>10</sup> of the American Enterprise Institute and the Heritage Foundation suggests that Chinese companies invested almost \$50 billion in these countries in 2005 – 2020: \$35.58 billion in Kazakhstan, 5.79 billion in Uzbekistan, 4.73 billion in Kyrgyzstan, and 2.15 billion in Tajikistan.<sup>227</sup>

All four Central Asian states have upgraded to the “comprehensive strategic partnership” with China: Kazakhstan in 2011, Kyrgyzstan in 2018, Tajikistan in 2017 and Uzbekistan in 2016.<sup>228</sup>

In addition to signing numerous memoranda of understanding and trade agreements, Chinese-built and operated special economic zones (such as those in Kazakhstan) were intended to facilitate trade with China.<sup>229</sup> However, from 2017 onwards, Chinese investment in the sub-region through the BRI diversified to include more significant investment in roads and highways, as well as in low-carbon power-generation infrastructure through solar and wind parks and hydroelectric power plants. From 2020 onwards, new BRI projects focused almost entirely on health initiatives aligned with China's health diplomacy during the coronavirus pandemic. Though Chinese tech companies have invested in Central Asia since the early 2000s, such firms have expanded into the sub-region more significantly since 2018, taking leading shares in national Information and Communications Technology network infrastructures and rolling out surveillance-related technologies and ‘smart city’ projects.<sup>230</sup>

Apart from the above, it is to be noted that China's investing policy has left these countries burdened with significant debt. Kazakhstan has accumulated many hidden debts (\$27 Billion), nearly 16% of its total GDP in recent years.<sup>231</sup> Overall, as of 2021,

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<sup>221</sup> <https://www.iiss.org/en/publications/strategic-dossiers/asia-pacific-regional-security-assessment-2023/aprsa-chapter-4/>

<sup>222</sup> <https://jia.sipa.columbia.edu/china-kazakhstanenergy-relations-1997-2012>.

<sup>223</sup> <https://www.iiss.org/en/publications/strategic-dossiers/asia-pacific-regional-security-assessment-2023/aprsa-chapter-4/>

<sup>224</sup> *Ibid*

<sup>225</sup> [https://osce-academy.net/upload/file/CADGAT\\_24\\_BRI\\_Industry.pdf](https://osce-academy.net/upload/file/CADGAT_24_BRI_Industry.pdf)

<sup>226</sup> <https://www.arcjournals.org/pdfs/ijmsr/v8-i8/5.pdf> p.46 table

<sup>227</sup> [https://www.ituc-csi.org/IMG/pdf/belt\\_and\\_road\\_initiative\\_in\\_central\\_asia.pdf](https://www.ituc-csi.org/IMG/pdf/belt_and_road_initiative_in_central_asia.pdf)

<sup>228</sup> Operation Reality of the Belt and Road Initiative in Central Asia, Niva Yau Tsz Yan, p. 24

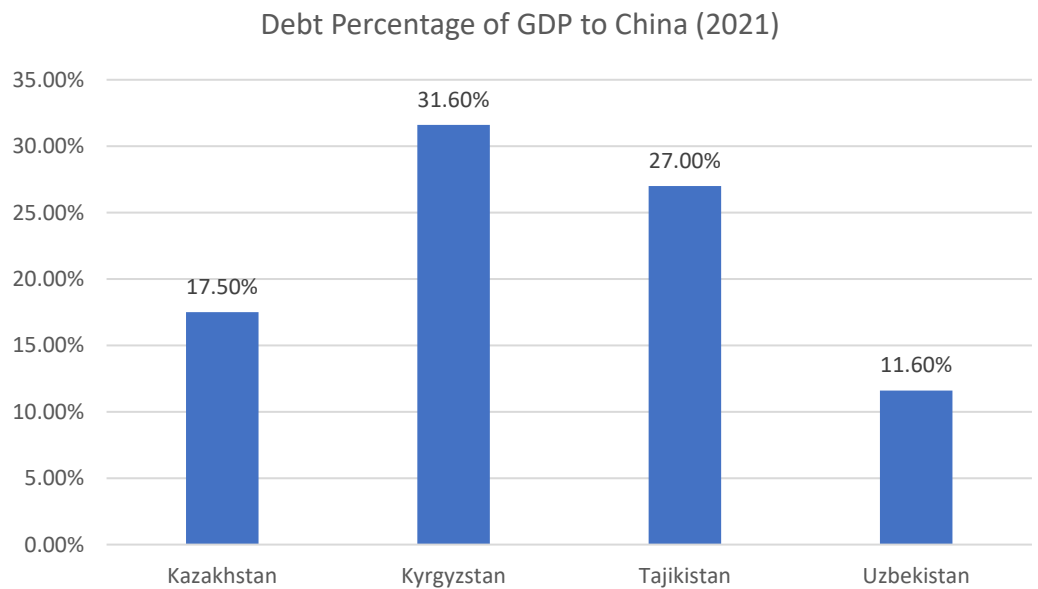
<sup>229</sup> <https://www.iiss.org/en/publications/strategic-dossiers/asia-pacific-regional-security-assessment-2023/aprsa-chapter-4/>

<sup>230</sup> IISS, ‘China Connects’.

<sup>231</sup> <https://shorturl.at/IW1Yi>

Kazakhstan’s debt to China is \$30.443 billion (including exposed debt figure), 17,5% of GDP, Kyrgyzstan - \$2,338 billion, 31.6% of GDP; Tajikistan - \$2,373 billion, 27.0% of GDP, and Uzbekistan - \$7,562 billion, 11,6% of GDP.<sup>232</sup> See the table #6

The Table #6



Interestingly enough, BRI has not been spared in Central Asia from political concerns over undue Chinese influence or corruption scandals, which in some cases have led to the cancellation of Chinese projects.<sup>233</sup> As mentioned by Civic IDEA,<sup>234</sup> in 2019, former prime minister of Kyrgyzstan Sapar Isakov was charged with corruption following his attempted lobbying for the interests of a Chinese company in a project to modernize the Bishkek Thermal Power Station.<sup>235</sup> In 2019, for example, Kazakhstan decided to end infrastructure financing from China for a light-railway transit project due to embez-zlement of the funds.<sup>236</sup> BRI development in the region, however, is still steady. Trade between China and Central Asia grew to \$89bn in 2023, an increase of 27% on the previous year. More than \$60bn of the total was Chinese exports.<sup>237</sup> Trade rose with every Central Asian country.<sup>238</sup>

<sup>232</sup> <https://shorturl.at/xDj5D>

<sup>233</sup> <https://www.rferl.org/a/two-former-kyrgyz-prime-ministersreceive-prison-terms-/30311583.html>

<sup>234</sup> In 2013, the Chinese company Tebian Electric Apparatus Stock Co LTD (TBEA) won a tender to modernize the aforementioned power plant from the 1960s, supplying heat and electricity to the country. The project’s outcome was disastrous. An investigation revealed the issue was not improper maintenance but poor modernization. On May 10, 2018, a parliamentary commission launched a three-month inquiry into alleged corruption, uncovering that Kyrgyzstan had secured a 20-year loan from China at a 2% interest rate, with a 0.18% management fee, totaling \$470 million. For more information, refer to Civic IDEA’s 4<sup>th</sup> China Watch Report:

<https://civicidea.ge/en/civic-ideas-4th-china-watch-report/2782/>

<sup>235</sup> <https://civicidea.ge/en/what-central-asian-countries-think-about-china/4658/>

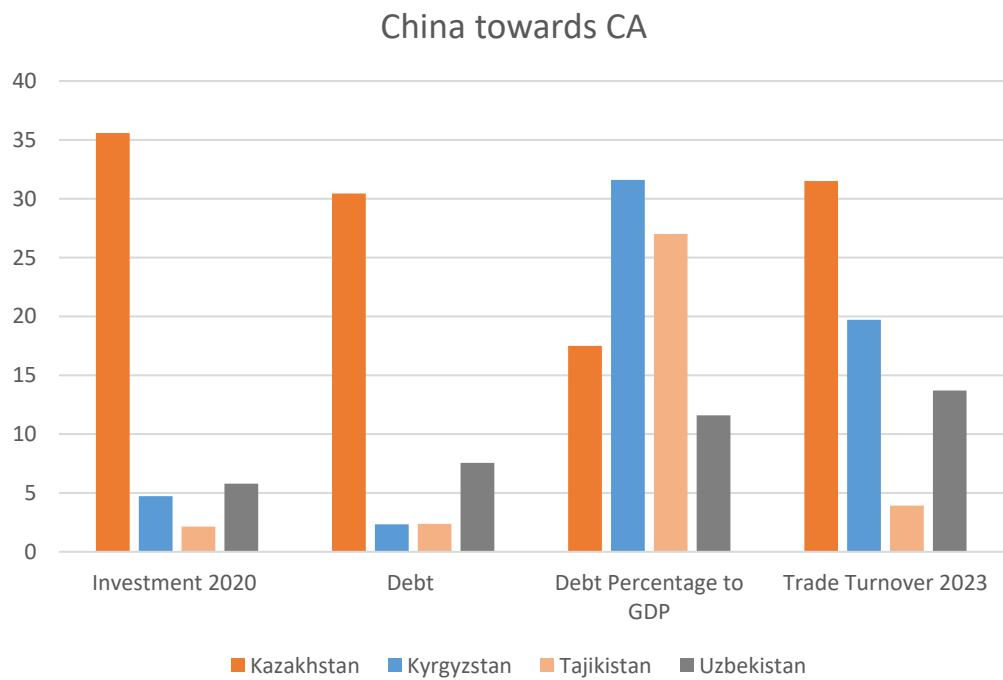
<sup>236</sup> <https://eurasianet.org/kazakhstan-anti-graft-agents-spring-intoaction-over-lrt-scandal>.

<sup>237</sup> <https://cepa.org/article/china-uses-crises-to-build-central-asia-influence/>

<sup>238</sup> Id.

From around 2017, BRI shifted its focus from infrastructure to manufacturing.<sup>239</sup> In addition, renewable energy accommodated by the region's local needs has recently become a primary focus of Chinese investments in Uzbekistan and Kazakhstan.<sup>240</sup>

The Table #7



In the upcoming chapter, we will examine Chinese investments, taking a closer look at each Central Asian country and providing some specific investment cases and concerns around them regarding loans or environmental issues.

KAZAKHSTAN



The launch of the “Belt and Road Initiative” was first introduced in the largest country of Central Asia, Kazakhstan, in September 2013.<sup>241</sup> According to the China Global Investment Tracker, the total amount of Chinese investments and contracts in

<sup>239</sup> <https://eurasianet.org/china-diversifies-in-central-asia>  
<sup>240</sup> <https://shorturl.at/LjqkD>  
<sup>241</sup> The China factor in Central Asia through its Belt and Road Initiative, Nurgaliyeva Lyailya p.7

Kazakhstan within the framework of the BRI (in 2013 – 2020) was \$35.58 billion. Over half of the total amount was allocated to the energy sector, while the rest was invested in transport, chemicals, and metals.<sup>242</sup>

Among Five Central Asian countries, the biggest trade of China is with Kazakhstan, amounting to \$30 billion.<sup>243</sup>

After the BRI was proposed, China adjusted its investment and commodity trade structure with Kazakhstan. In 2014, the Kazakhstani infrastructure modernization program “Nurly Zhol” was initiated, and international financial organizations, such as the World Bank, ADB, etc., were invited. In 2015, Kazakhstan and China signed an agreement tying together “Nurly Zhol” and BRI.<sup>244</sup>

Nurly Zhol is a significant infrastructure program designed to remove existing infrastructure constraints and bottlenecks in logistics and allow the country to become a transcontinental transport corridor. It is financed by the National Fund of Kazakhstan and complemented by partnership agreements with international financial institutions.<sup>245</sup>

It has to be highlighted that, unlike other CA countries, China’s participation in the Kazakhstan construction projects has been modest, as Kazakhstan implements most of the projects at its own expense; however, there is no open-source data available on the concrete investments provided by China and the terms of financing.<sup>246</sup>

Since 2015, Kazakhstan and China's import and export trade volume has continuously grown. Chinese investments in Kazakhstan have grown significantly, reaching \$1.81 billion in 2023, a 16.4% increase from the previous year. From 2005 to 2023, Chinese investments in Kazakhstan totaled \$25.3 billion.<sup>247</sup>

Within the framework of BRI, by the year 2024, the following major infrastructure projects have been launched in Kazakhstan:

- Kazakh-Chinese Logistics Centre in Lianyungang;
- Khorgos Dry Port;
- Western Europe-Western China Transit Highway;
- Railway Corridor from China to Iran.<sup>248</sup>

The construction in Kazakhstan of the Middle Corridor, otherwise known as the Trans-Caspian International Transport Route (TITR), designed to connect China, Central Asia, and Europe, should play a special role in implementing the Chinese Initiative.<sup>249</sup>

The two sides are also exploring cooperation in renewable energy. The inter-governmental framework agreement signed between Kazakhstan and China in 2015 aimed to strengthen cooperation in industrialization and investment, leading to several joint projects, including renewable energy projects.<sup>250</sup> Chinese enterprises have been actively investing in Kazakhstan's solar and wind energy projects. The 100-megawatt photo-voltaic project invested in and constructed by Universal Energy was connected

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<sup>242</sup> Belt and Road Initiative in Central Asia, Desk study, p.11

<sup>243</sup> Ibid

<sup>244</sup> <https://www.emergingmarketsforum.org/wp-content/uploads/2019/02/Yersultan-Zhanseitovs-presentation.pdf>

<sup>245</sup> Ibid

<sup>246</sup> Ibid

<sup>247</sup> <https://astanatimes.com/2024/07/china-kazakhstan-economic-cooperation-paving-way-for-next-golden-thirty-years/>

<sup>248</sup> [https://aail.org/wp-content/uploads/2024/07/2024\\_Colloquium\\_PPT\\_Panel\\_I\\_Zholymbet\\_Baishev.pdf](https://aail.org/wp-content/uploads/2024/07/2024_Colloquium_PPT_Panel_I_Zholymbet_Baishev.pdf)

<sup>249</sup> [https://aail.org/wp-content/uploads/2024/07/2024\\_Colloquium\\_PPT\\_Panel\\_I\\_Zholymbet\\_Baishev.pdf](https://aail.org/wp-content/uploads/2024/07/2024_Colloquium_PPT_Panel_I_Zholymbet_Baishev.pdf)

<sup>250</sup> <https://shorturl.at/pLGdf>

to the grid for power generation in 2019, contributing to the country's goal of achieving carbon neutrality by 2060.<sup>251</sup>

Following the Intergovernmental Framework Agreement signed at a high political level in 2015, 55 joint Kazakh-Chinese projects worth \$27.6 billion are being implemented in Kazakhstan. The projects cover various industries, such as metallurgy, oil and gas processing, chemistry, machine building, energy, transportation, production of building materials, and agribusiness.<sup>252</sup>

From 2015 to June 2022, 20 projects worth \$4,453 million were launched, 15 projects worth \$5,326 million were under implementation, and 17 projects were under consideration.<sup>253</sup> About these projects and Chinese funding, there is little information available publicly. This information vacuum has generated rumors and speculation in the country.<sup>254</sup>

At the Kazakhstan-China roundtable in 2024, with the support of "NC "KAZAKH INVEST" JSC, 44 documents amounting to over \$3.7 Billion were signed. The agreements aim to develop joint projects in energy, transport, industry, agriculture, and high technology. These signings demonstrate the strengthening of the partnership between Kazakhstan and China, fostering investment attraction and the creation of new jobs.<sup>255</sup>

Chinese investments in Kazakhstan have not gone without troubles and public annoyance because of the lack of environmental and social responsibilities. Findings from the non-governmental environmental organization Crude Accountability illustrate cases throughout the monitoring results:

**The pollution of the Aktobe region by CNPC-Aktobemunaigaz's oil and gas production:** Based on their findings, one of the examples is the pollution of the Aktobe region by CNPC-Aktobemunaigaz's oil and gas production. The company is a subsidiary of China National Petroleum Corporation (CNPC).<sup>256</sup> The project has caused particular public concern over the apparent transfer of environmentally polluting production facilities from China to Kazakhstan. This was one of the reasons for the spring 2016 land protests in Kazakhstan and the anti-Chinese protests against the 55 projects held in September 2019.<sup>257</sup> However, transparency regarding Chinese projects has not changed dramatically over the past two years. Using the coronavirus pandemic as an excuse, government agencies and Kazakh-Chinese companies have drastically limited possibilities for public environmental monitoring of polluters' activities.<sup>258</sup>

**The Shymkent oil refinery of the PetroKazakhstan Company (a subsidiary of CNPC)** is another example of the environmental issues the Chinese investments bring to the country. The survey of residents conducted by the Crude Accountability non-governmental organization's team near the refinery showed that after an increase in the volume of oil refining, emissions from the refinery have risen sharply. The

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<sup>251</sup> <https://astanatimes.com/2024/07/china-kazakhstan-economic-cooperation-paving-way-for-next-golden-thirty-years/>

<sup>252</sup> <https://shorturl.at/MwWAR>

<sup>253</sup> Ibid

<sup>254</sup> <https://crudeaccountability.org/clear-as-oil-transparency-of-chinese-projects-in-kazakhstan/>

<sup>255</sup> <https://invest.gov.kz/media-center/press-releases/kazakhstan-i-kitay-podpisali-dokumenty-na-3-7-mlrd/>

<sup>256</sup> <https://crudeaccountability.org/clear-as-oil-transparency-of-chinese-projects-in-kazakhstan/>

<sup>257</sup> Ibid

<sup>258</sup> <https://crudeaccountability.org/clear-as-oil-transparency-of-chinese-projects-in-kazakhstan/>

community members sent messages and complaints to local social network platforms about the suffocating night-time odors in the city. Another serious problem for the villagers was the drying up of local wells, which is most likely the result of the continuous pumping of groundwater by the oil refinery for its needs.<sup>259</sup>

**Gezhoubu Shieli cement plant:** According to the report of Crude Accountability, cement manufacturing in Gezhoubu Shieli cement plants causes irreparable damage to human health and the environment. This cement manufacturing plant was relocated from China to Kazakhstan. After the launch of the Shieli Cement Plant, complaints about its activities came from local residents of the Tonkeris village, who complained of smoke, dust, and an unpleasant odor from the plant. As soon as the plant was operational, many of the village's children developed skin and respiratory diseases, which had not been the case prior to the construction of the plant. In none of these cases, the government reacted properly.<sup>260</sup>



## KYRGYZSTAN

While Kazakhstan is China's major energy resource partner, Kyrgyzstan offers essential transit routes and is the region's wholesale market for affordable Chinese consumer goods.<sup>261</sup>

Trade from China to Kyrgyzstan in 2016 amounted to about \$1.6 billion (exports—\$80 million; imports—\$1.5 billion), accounting for a 45 percent increase over 2015. Also, in 2017, Kyrgyzstan's imports and exports from and to China accounted for 33.4 percent and 5.4 percent of the total imports and exports, respectively. PRC contributed 37 percent of the total \$814 million FDI received in 2016, making it their biggest contributor.<sup>262</sup> In 2023,<sup>263</sup> the PRC became Kyrgyzstan's primary provider of foreign direct investment (FDI). With a total influx of \$798.2 million into the Kyrgyz economy, contribution stood at \$220.8 million, overshadowing investments from Russia and Kazakhstan, which amounted to \$180.3 million and \$132.1 million, respectively.<sup>264</sup>

Some of the projects in Kyrgyzstan under the BRI include the alternative North-South artery, which leads from Balykchy in the Northeast to Djalal-Abad in the South, the refurbishment of the heat and power station, and the new high-voltage power line to connect the north and south of the country.<sup>265</sup>

The investment cooperation between the two countries within the BRI is based on the reconstruction of existing railways and highways and the construction of new railways and highways, pipelines, and logistic infrastructure, ensuring the transportation of energy resources such as Turkmen and Uzbek gas to China, relocation

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<sup>259</sup> Ibid

<sup>260</sup> Ibid

<sup>261</sup> A Critical Analysis of the Belt and Road Initiative in Central Asia, Diana Toktogulova, Weiqing Zhuang, p.46

<sup>262</sup> Ibid

<sup>263</sup> FDI in previous years: <https://www.statista.com/statistics/1271965/fdi-inflow-from-china-into-kyrgyzstan/>

<sup>264</sup> <https://shorturl.at/xMvhC>

<sup>265</sup> <https://bit.ly/3zmWOct>

of Chinese production facilities to Kyrgyzstan to meet the demand for Chinese goods in the Eurasian Economic Union, provision of Chinese investments, improving cooperation in many fields, and strengthening border cooperation by establishing a free trade zone.<sup>266</sup>

As of 2019, from the total of 261 Chinese projects in Central Asia, 46 have been implemented in Kyrgyzstan, with the country coming just after Kazakhstan with 102 projects.<sup>267</sup> From 46 BRI and bilateral projects between China and Kyrgyzstan, 17 of these have been related to trade and industrial development, including mineral extraction, industry, agriculture, food, finance, and IT; of the remaining, 11 have been related to rail and road connectivity, 5 to energy and 13 to people-to-people projects.<sup>268</sup> According to CADGAT, total Chinese investments in Kyrgyzstan were \$5.3 billion by 2019, with \$1.7 billion going to rail and road, \$2.7 billion to energy, \$676 million to mineral and petroleum exploration, and \$31.5 million to agriculture and food.<sup>269</sup> In addition to loans and direct investments, China provided Kyrgyzstan with more than \$300 million in non-refundable aid to build roads and supply potable water to remote regions.<sup>270</sup>

The most critical infrastructure projects financed by the Chinese government and implemented by Chinese companies are public infrastructure projects concentrating on automobile road rehabilitation, energy system rehabilitation/development, and urban development.<sup>271</sup> Almost all the projects in this list have been financed through concessional loans.<sup>272</sup>

The government debt of the Kyrgyz Republic to the Government of China through its Eximbank grew dramatically from almost zero at the end of the 2000s to \$1.7 billion (42% of total government external debt or 22% of GDP) in 2017. After that, however, the government's debt to China slowed down significantly: by 2021, its total amount had increased by \$290 million, more than the 2017 level. For comparison, in the previous four years (2013-2017), the debt grew by \$950 million. At the end of 2021, the debt to China was at \$2.0 billion, or 46% of the total government's external debt or 23% of GDP.<sup>273</sup> Such slower dynamics are explained by the pandemic, which delayed the implementation of many debt-related projects and, hence, slower-than-expected absorption of the borrowed resources. Another reason is the lack of large new debt-financed infrastructure projects mentioned above. Some reduction of the debt in 2021 is a result of the debt service suspension provided by the Government of China to the Government of the Kyrgyz Republic in the framework of the pandemic-related Debt Service Suspension Initiative by G20.<sup>274</sup>

In 2022, in the city of Samarkand, at the Shanghai Cooperation Organization meeting, was signed a trade and cooperation agreement between China–Kyrgyzstan

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<sup>266</sup> <https://bit.ly/3zmWOct>

<sup>267</sup> <https://shorturl.at/fDqtj>

<sup>268</sup> Ibid

<sup>269</sup> <https://bit.ly/3zmWOct>

<sup>270</sup> [https://www.ituc-csi.org/IMG/pdf/belt\\_and\\_road\\_initiative\\_in\\_central\\_asia.pdf](https://www.ituc-csi.org/IMG/pdf/belt_and_road_initiative_in_central_asia.pdf)

<sup>271</sup> See the tables and more details: <https://www.ucentralasia.org/media/mxkawtsu/uca-ippa-wp50-eng.pdf> p.6-8

<sup>272</sup> Ibid p.6

<sup>273</sup> <https://bit.ly/3MJkaMu>

<sup>274</sup> <https://bit.ly/3MJkaMu>

and Uzbekistan regarding the construction project of the section of the China-Kyrgyzstan-Uzbekistan railway. This project also can be included in one of the most strategic railways that were part of the Belt and Road initiative.<sup>275</sup> Construction of the railway is set to commence on August 25 of this year - according to an announcement made by Kyrgyz Prime Minister Okilbek Japarov at the inauguration of a hydropower station in the Chuy region, as reported by qalampir.uz, a local media outlet.<sup>276</sup>

BRI has faced many challenges over time in Kyrgyzstan, from continued protests against Chinese investment and infrastructure due to the perceived limited local benefits, such as limited employment creation and low wages, to the debt burden associated with Chinese-funded infrastructure projects, which has strained not only on Kyrgyz public finances but also on the China-Kyrgyzstan relationship; to major corruption scandals, such as that of the Bishkek Thermal Power Plant, which led to the arrest of thirty people, including two former Kyrgyz prime ministers, a former mayor of Bishkek, a former energy minister and a representative of the Chinese company.<sup>277</sup> Consequently, some projects previously agreed upon, such as the Kyrgyz-Chinese Ata-Bashi Free Trade Zone Joint Venture project, approved by President Xi in 2019, were subsequently canceled due to repeated anti-China protests.<sup>278</sup> In this case, the main reason for the protest was the fear of losing lands to China. Many people, including riders on horseback carrying Kyrgyz flags, gathered to protest China's logistic center project, leasing 200 hectares of land in the At-Bashi district to the Chinese-Kyrgyz joint venture for 49 years. The main slogan of the demonstration was "No Kyrgyz land to China!"<sup>279</sup>

Although the Kyrgyzstani government refers to only limited and insignificant cases of breaches of contracts by Chinese investors, the attitude of the population can be described as distrust that has led to several protest actions against Chinese companies, including stoppages at their operations due to the environmental risks and damages.<sup>280</sup>

One such case is the Chinese-owned Junda oil refinery in Kara-Balta, which has invested around \$300 million into the plant.<sup>281</sup> The plant is believed to have wrought on people's health and crops, not to mention the stinking sulfurous fumes; the pause has come as a welcome reprieve. For instance, in 2016, the same company was fined for unlawfully pumping hydrocarbon gas into the atmosphere.<sup>282</sup>

The Shambesai gold mine in the Kadamjai district was closed after numerous protests due to its harmful environmental effects. The Chinese company Tiandi's license was suspended. The last rally in the area took place in 2018. Residents opposed gold mining, explaining that it was harmful to the environment.<sup>283</sup>

In April 2018, residents of the Toguz-Toro district held a rally and set fire to a gold extraction factory under construction at the Makmal deposit. The protesters demanded that the Chinese company GL Makmal Development stop working.

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<sup>275</sup> <https://www.econstor.eu/bitstream/10419/265258/1/181838034X.pdf>

<sup>276</sup> <https://www.globaltimes.cn/page/202407/1316746.shtml>

<sup>277</sup> <https://link.springer.com/article/10.1057/s41287-024-00632-1#Sec5>

<sup>278</sup> Ibid

<sup>279</sup> <https://etd.lib.metu.edu.tr/upload/12625699/index.pdf>

<sup>280</sup> Ibid

<sup>281</sup> <https://eurasianet.org/kyrgyzstan-living-in-the-shadow-of-a-sleeping-chinese-oil-refinery>

<sup>282</sup> Ibid

<sup>283</sup> [https://24.kg/obschestvo/144008\\_sem\\_aksiy\\_protesta\\_posle\\_kotoryih\\_investoriy\\_prekratili\\_rabotu\\_vkyrgyzstane/](https://24.kg/obschestvo/144008_sem_aksiy_protesta_posle_kotoryih_investoriy_prekratili_rabotu_vkyrgyzstane/)

According to the protesters, the enterprise causes environmental harm to the region. Damages resulting from the riots totaled \$2.3 million.<sup>284</sup>

The gold mine Solton-Sary is another example of conflict between the local community and the investor, the Chinese Zhong Ji Mining Company. In August 2019, a long-lasting, low-intensity dispute between local people and the company erupted into massive looting on the mining site and attacks on Chinese personnel. The immediate reason for this conflict was the alleged losses of local people's livestock after explosions at the mine.<sup>285</sup>



In recent years, China has become an important economic partner for the Republic of Tajikistan. The trade volume between China and Tajikistan increased by a factor of more than 500, from \$3 million in 1992 to \$1.68 billion in pre-pandemic 2019. While trade between the two countries plunged in 2020 due to the COVID-19 pandemic, in 2021, bilateral trade gradually recovered, registering a year-on-year growth of 44.6 percent. China has become the largest source of investments in Tajikistan, the largest donor country, and one of Tajikistan's major trading partners along with the Russian Federation and Kazakhstan.<sup>286</sup> The FDI of China in the country reached its peak in 2019, amounting to \$540 million, then gradually declined later and bounced back again in 2022, reaching \$480 million.<sup>287</sup>

Official Dushanbe treats the BRI as one of the critical funding sources to help implement the National Development Strategy (NDS-2030), especially when it comes to funding large infrastructure projects such as roads, railways, airports, and energy facilities (power plants, power lines, etc.).<sup>288</sup> The details of the agreements reached bilaterally are usually not disclosed.<sup>289</sup>

As of January 2022, total investments received by Tajikistan from China totaling \$4.4 billion break down into:

- ✓ soft loans 36%;
- ✓ grants 17%;
- ✓ direct investments 47%.<sup>290</sup>

It should be noted that the funds allocated by China in the form of grants and soft loans are exclusively utilized by Chinese contractors who use Chinese-made equipment and technology when implementing projects and involve Chinese workers.<sup>291</sup>

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<sup>284</sup> Ibid

<sup>285</sup> <https://bit.ly/3MJkaMu>

<sup>286</sup> <https://bit.ly/47uYHAn>

<sup>287</sup> <https://www.aei.org/china-global-investment-tracker/>

<sup>288</sup> <https://bit.ly/47uYHAn>

<sup>289</sup> Ibid

<sup>290</sup> See the details tables for each investment section: <https://bit.ly/47uYHAn> pp 3-10

<sup>291</sup> See the details tables for each investment section: <https://bit.ly/47uYHAn> p.4.

The main areas of direct investment from China to Tajikistan include: Mining industry – development of deposits of gold, silver, rare earth metals, coal, etc., Metallurgy – production of non-ferrous and ferrous metals; Energy – construction of generating facilities, oil and gas exploration Production of building materials – cement, brick, drywall, etc. Agriculture – production of cotton, wheat, corn, vegetables and fruits, gourds.<sup>292</sup>

Chinese funds are typically accompanied by low levels of transparency and poor compliance with social and environmental safeguards, which lead to substantial environmental degradation, resource depletion, and social tensions<sup>293</sup>. Given its lax lending arrangements, China became Tajikistan's main creditor within a decade.<sup>294</sup> In 2022, Tajikistan's external debt reached \$3.3 billion, from which around \$2 billion - 60 percent of the overall debt - has to be repaid to the Chinese Exim Bank. The size of the loans is incredibly disproportionate to the size of the economy (the GDP of Tajikistan is \$8.7 billion).<sup>295</sup>

Unfair and enormous debt to China somewhat undermined the country's sovereignty and territorial integrity. Because of the inability to repay loans, in 2011, Tajikistan handed over 1,158 square kilometers of territory – in the remote Pamir Mountain range – to China in exchange for writing off the country's already mounting debt.<sup>296</sup> In 2017, Tajikistan allowed Beijing to open a military base in its Gorno-Badakhshan province secretly. A decade later, almost nothing has changed. In 2019, struggling to pay off the costly construction of the TETs-2 power plant in Dushanbe, Tajikistan had to allow Beijing to gain control of its gold mines.<sup>297</sup>

In recent decades, China has consistently implemented a policy of transferring industries that adversely affect the environment from its territory to neighboring countries. Chinese investments in the Tajik cement and coal sectors reflect this policy.<sup>298</sup>

Several large cement plants in Tajikistan have been built in recent years, turning the country from an importer of cement to a net exporter. While this offshoring of production has been beneficial from an industrial development point of view, it has also resulted in significant environmental challenges for the country. Additionally, due to Chinese investments, coal production has developed rapidly in Tajikistan. According to the Tajik National Coal Industry Development Program, various industrial enterprises are transitioning their fuel intake to coal. The coal-fired Dushanbe-2 thermal power station was built with Chinese funds as part of this program. As a result, coal production grew tenfold. It reached a record level of 2.2 million tons in 2020—higher even than during Soviet times, when coal production stood at barely 300 thousand tons, according to the Ministry of Industry and New Technologies. Environmentalists note that one ton of coal used to generate electricity may cause environmental damage of around \$21 a year.<sup>299</sup> Using this reference number, potential environmental costs for Tajikistan can surpass \$40 million a year.<sup>300</sup>

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<sup>292</sup> Ibid p.8

<sup>293</sup> Ibid

<sup>294</sup> Ibid

<sup>295</sup> <https://gfsis.org.ge/blog/view/1491>

<sup>296</sup> Tajikistan cedes land to China - BBC News

<sup>297</sup> <https://forbes.ge/en/chinethis-dzvirad-ghirebuli-sainvestitsio-seskhis-usaphrthkhoebis-riskebi/>

<sup>298</sup> <https://gfsis.org.ge/blog/view/1491>

<sup>299</sup> <https://tj.sputniknews.ru/20170630/somnitelnyy-rekord-tadzhikistan-tonny-uglya-1022714783.html>

<sup>300</sup> <https://bit.ly/47uYHAN>

Chinese mining companies in Tajikistan are accused of causing severe environmental pollution and health problems in nearby villages. The Tajik government, heavily reliant on Chinese investment, often overlooks these issues, allowing the companies to operate with impunity. Local communities feel their concerns are being ignored and fear for their health and the future of their environment.<sup>301</sup>

Finally, a large oil refinery in Tajikistan is being built with Chinese funds. All of these developments are impacting the speed of climate change being observed, which is already considered one of the most at-risk countries in the region. Environmental costs for Tajikistan (and other downstream countries) could pose critical risks for sustainable development and food security in the area and affect the overall volume and quality of the water supply in Central Asia, both for irrigation and drinking purposes.<sup>302</sup>

This is happening against the backdrop of the enormous potential to expand the use of renewable energy sources (despite the current lack of investment in these sources), especially solar energy (Tajikistan enjoys over 300 sunny days per year) and relatively cleaner hydropower resources, which currently are the main source of energy. Taken together, these developments certainly do not fit well with the commitments made by Tajikistan under the Paris Agreement.<sup>303</sup>



In 2015, Uzbekistan became a partner of the BRI and simultaneously joined the AIIB. Both countries signed over 100 bilateral agreements, further strengthening economic cooperation. Sino-Uzbek bilateral trade has increased “140 times” in the last 30 years, and since 2017, the PRC has invested more than \$10 billion in Uzbekistan.<sup>304</sup>

While public resentment grows in other Central Asian countries over Chinese investments, causing its withdrawal from progress, Uzbekistan’s relationship with China has steadily improved since President Shavkat Mirziyoyev sponsored market liberalization reforms.<sup>305</sup> Relations in numbers say a lot:

- ✓ In 2021, China’s share in Uzbek’s foreign trade turnover amounted to 17.7%.
- ✓ By 2020, Uzbekistan’s debt to China has reached \$3 billion, or 20% of the country’s total foreign debt.<sup>306</sup>
- ✓ Trade between the countries increased by 21.8 percent to nearly “\$9.78 billion” in 2022-2023.<sup>307</sup>
- ✓ FDI reached its peak in 2023, amounting to \$400 million.<sup>308</sup>

<sup>301</sup> <https://oilprice.com/Metals/Gold/Chinese-Mining-Operations-in-Tajikistan-Spark-Environmental-Backlash.html>

<sup>302</sup> <https://bit.ly/47uYHAn>

<sup>303</sup> Ibid

<sup>304</sup> Ibid

<sup>305</sup> <https://shorturl.at/I9x0E>

<sup>306</sup> <https://www.eurasian-research.org/publication/economic-cooperation-between-uzbekistan-and-china/>

<sup>307</sup> <https://www.azernews.az/region/210212.html>

<sup>308</sup> More data available: <https://www.aei.org/china-global-investment-tracker/>

Chinese investments in Uzbekistan vary from oil and gas to agriculture and logistics.<sup>309</sup> More specifically, through BRI, there were investments in raw materials, energy, infrastructure, telecommunications, advanced technology, construction of thermal power plants and upgrading hydroelectric power plants, development of digital and fiber optic infrastructure, and 5G. Construction, manufacturing, and food and agriculture are the leading investment fields.<sup>310</sup>

More than “120 companies” registered in Uzbekistan are 100 percent Chinese-capitalized, while the number of enterprises with Chinese capital participation in Joint Ventures has exceeded 2,000. Furthermore, bilateral agreements for implementing more than 150 joint projects will either be implemented in the future or are ongoing. Significant Chinese companies such as Huawei, ZTE, and China’s Eximbank operate in Uzbekistan.<sup>311</sup>

Major BRI projects in Uzbekistan are the following:

- Kamchiq tunnel
- Repair 3 hydropower stations in Shahrisabz, Tashkent and Bozsu
- China-Kyrgyzstan-Uzbekistan-Turkmenistan-Iran-Turkey-Europe via Irkeshtam (train)
- Angren Thermal Power station modernisation<sup>312</sup>

The ambitious project to construct the China-Kyrgyzstan-Uzbekistan railway remains a high-priority agenda.<sup>313</sup> The Construction had long been planned, but little was done, mainly due to questions about financing.<sup>314</sup> After a long delay, the agreement<sup>315</sup> between the countries was finally published by the Kyrgyz Parliament, showing that China enjoys a controlling interest in the project and is responsible for 51 percent of construction costs.<sup>316</sup> In comparison, Kyrgyzstan and Uzbekistan will each bear 24.5 percent,<sup>317</sup> from which Kyrgyzstan will finance construction through loans provided by Chinese banks and, by doing so, raising serious concerns about the country’s ability to pay the debt, which already accounts for 40 percent of the country’s GDP to China.<sup>318</sup> Another issue for the delay of the project for almost thirty years to get off the ground was the railway routes: While China and Uzbekistan have favored the southern route, representing the shortest transit route to Europe and the Middle East, Kyrgyzstan has prioritized the northern route, which would pass through major population centers and potentially connect the country’s north and south.<sup>319</sup> Beijing and Tashkent have considered Bishkek’s proposal too costly and less efficient, creating a major bottleneck for moving forward on the project.<sup>320</sup>

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<sup>309</sup> <https://www.eurasian-research.org/publication/economic-cooperation-between-uzbekistan-and-china/>

<sup>310</sup> <https://shorturl.at/mCLPf>

<sup>311</sup> <https://www.azernews.az/region/210212.html>

<sup>312</sup> [https://www.osce-academy.net/upload/file/BRI\\_08\\_07.pdf](https://www.osce-academy.net/upload/file/BRI_08_07.pdf)

<sup>313</sup> See more details in the section about Kyrgyzstan

<sup>314</sup> <https://eurasianet.org/kyrgyzstan-uzbekistan-china-when-is-a-done-deal-really-done>

<sup>315</sup> Соглашение между Правительством Китайской Народной Республики, Кабинетом Министров Кыргызской Республики и Правительством Республики Узбекистан о сотрудничестве в совместном продвижении проекта железной дороги “Китай – Кыргызстан – Узбекистан”; 06/06/2024

<sup>316</sup> <https://eurasianet.org/kyrgyzstan-uzbekistan-china-when-is-a-done-deal-really-done>

<sup>317</sup> <https://shorturl.at/9pQZs>

<sup>318</sup> <https://kloop.kg/blog/2024/06/18/kyrgyzstan-poluchit-ot-kitaya-kredit-na-stroitelstvo-zheleznoj-dorogi/>

<sup>319</sup> <https://shorturl.at/MPJ95>

<sup>320</sup> <https://bit.ly/47zYBru>

## CHAPTER 3

# THE TYPES OF LOANS AND LENDING MECHANISMS USED BY CHINESE DEVELOPMENT INSTITUTIONS IN THESE REGIONS

Given their opaque nature, Chinese lending systems are usually unknown, unreported, and unstudied. While China's dominant footprint in world trade and global output is well known, its expanding role in international finance is poorly understood. The most notable feature of China's capital exports is their opacity. Data is scarce, and the lending process is not transparent. This helps to explain why relatively little work exists on China's large-scale cross-border lending.<sup>321</sup>

Unlike other major economies, much of China's external lending is undertaken by the Chinese government, state-owned policy banks, or state-owned commercial enterprises and banks. The Chinese government does not report on its official international lending or publish any data on outstanding overseas debt claims. Debt restructuring agreements between China and debtor countries that would constitute a “credit event” are mainly off the radar screen of the credit rating agencies.<sup>322</sup>

Three primary insights emerge according to 100 debt contracts studied jointly by Georgetown Law, the Peterson Institute for International Economics, AidData, the Center for Global Development, and the Kiel Institute for the World Economy of Germany.<sup>323</sup>

- ❖ Chinese contracts contain unusual confidentiality clauses that bar borrowers from revealing the terms or even the existence of the debt.
- ❖ Chinese lenders seek the advantage over other creditors, using collateral arrangements such as lender-controlled revenue accounts and promises to keep the debt out of collective restructuring (“no Paris Club” clauses).
- ❖ Cancellation, acceleration, and stabilization clauses in Chinese contracts potentially allow lenders to influence debtors’ domestic and foreign policies.<sup>324</sup>

China's overseas lending boom resulted in the build-up of high debt servicing burdens in the developing world. For the 50 countries most indebted to China, the average stock of debt to China's state-owned creditors increased from less than 1% of debtor country GDP in 2005 to 15% of GDP in 2017. For these countries, debt to Chinese creditors now accounts for more than 30% of total reported external debt, on average. In addition, China's official lending abroad typically involves relatively high interest rates and short maturities, in contrast to the primarily concessional lending terms of other official lenders such as the World Bank or OECD governments.<sup>325</sup>

What differentiates China from other financiers is its ability to bankroll large-scale development projects in risky institutional and economic environments at favorable terms. Beijing's ability to do what others cannot lies in its unique position to coordinate

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<sup>321</sup> <https://bit.ly/47zYBru>

<sup>322</sup> Ibid

<sup>323</sup> [http://km.china-embassy.gov.cn/fra/zxd/t202107/t20210731\\_9115614.htm](http://km.china-embassy.gov.cn/fra/zxd/t202107/t20210731_9115614.htm)

<sup>324</sup> <https://academic.oup.com/economicpolicy/article-abstract/38/114/345/6827797#no-access-message>

<sup>325</sup> <https://shorturl.at/LAIRQ>

policy banks and commercial banks, as well as a large number of Chinese enterprises and workers. Rather than financing small-scale independent projects as traditional donors do, China undertakes to encompass development projects in the first step and then specifies smaller, interrelated development projects in later stages of the cooperation.<sup>326</sup>

Rather than focusing on aid-financed social infrastructure projects conditioned on economic reforms undertaken by recipient countries' governments, most Chinese development finance comes as semi-concessional and non-concessional loans to finance economic infrastructure and production projects, promising to keep "hands off internal affairs".<sup>327</sup> Chinese finance comes on more concessional terms if loans are collateralized, insured, or come with repayment guarantees.<sup>328</sup> These credit enhancements allow Beijing to undertake large-scale investment projects at favorable terms in countries with bad-quality economic and political institutions, which are neither bankrolled by private investors nor by Western bilateral and multilateral financiers. The centralized planning of the Chinese economy allows the bankrolling and implementation of projects much faster than traditional donors.<sup>329</sup>

Providing the broad and overall picture, the following key takeaways emerge from the analysis of Banking on BRI conducted by the AIDDATA, a research lab at William and Mary in 2021:<sup>330</sup>

- With annual international development finance commitments hovering around \$85 billion a year, China outspends the U.S. and other major powers by 2 to 1 basis or more.
- China has used debt rather than aid to establish a dominant position in the international development finance market. Since introducing the BRI, China has maintained a 31- to-1 ratio of loans to grants and a 9-to-1 ratio of Other Official Flows (OOF) to Official Development Assistance (ODA).
- China's international lending program has reached record levels because of domestic challenges—specifically, an oversupply of foreign currency, high levels of industrial overproduction, and the need to secure natural resources that the country lacks in sufficient quantities at home. It has responded by ramping up dollar- and euro-denominated lending at or near market rates, contractually obligating its overseas borrowers to source project inputs (like steel and cement) from China, and allowing countries to secure and repay loans with the money they earn from natural resource exports to China.
- Most overseas lending is provided on less generous terms than loans from OECD-DAC and multilateral creditors. The average Chinese loan has a 4.2% interest rate, a grace period<sup>331</sup> of less than two years, and a maturity length<sup>332</sup> of less than ten years.

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<sup>326</sup> <https://shorturl.at/LAIRQ>

<sup>327</sup> Ibid

<sup>328</sup> [https://docs.aiddata.org/ad4/pdfs/Banking\\_on\\_the\\_Belt\\_and\\_Road\\_Executive\\_Summary.pdf](https://docs.aiddata.org/ad4/pdfs/Banking_on_the_Belt_and_Road_Executive_Summary.pdf)

<sup>329</sup> <https://www.econstor.eu/bitstream/10419/266146/1/1820832732.pdf>

<sup>330</sup> [https://docs.aiddata.org/ad4/pdfs/Banking\\_on\\_the\\_Belt\\_and\\_Road\\_Executive\\_Summary.pdf](https://docs.aiddata.org/ad4/pdfs/Banking_on_the_Belt_and_Road_Executive_Summary.pdf)

<sup>331</sup> Grace Period means the period when the interest and the fees do not accrue on the loans.

<sup>332</sup> Maturity Length is the date when the final loan payment is due

- Collateralization is the main risk-mitigating mechanism for Chinese investments. Forty of the 50 largest loans from Chinese state-owned creditors to overseas borrowers are collateralized. Beijing also favors collateralization when transacting with risky borrowers.
- Nearly 70% of China's overseas lending is now directed to state-owned companies, state-owned banks, special purpose vehicles, joint ventures, and private sector institutions. These debts, for the most part, do not appear on government balance sheets in lower-middle-income countries. However, most benefit from explicit or implicit forms of host government liability protection, which has blurred the distinction between private and public debt and introduced significant public financial management challenges for these countries.
- Chinese debt burdens are substantially larger than research institutions, credit rating agencies, or intergovernmental organizations with surveillance responsibilities previously understood: 42 countries now have levels of public debt exposure to China above 10% of GDP. In general, the higher a country's debt-to-GDP ratio climbs, the higher its risk of failure to repay the debt generally becomes.<sup>333</sup> Also, if a country's external debt solely to China is over 10%, while a country typically owes a debt to multilateral creditors or other countries at the same time, plus a country is developing with not steady economic growth (BRI creditor countries are mainly developing countries), then, it is highly likely that a country's debt-to-GDP ratio is unreasonably high, and will sooner or later face the risk of default – the inability to repay the debt which has already happened in Tajikistan costing it the country's national territories.
- These debts are systematically underreported to the World Bank's Debtor Reporting System (DRS) because, in many cases, central government institutions in low- and middle-income countries are not the primary borrowers responsible for repayment.<sup>334</sup>

## THE CASE OF THE SOUTH CAUCASUS

In the South Caucasus, a great deal of Chinese finance for development projects in Azerbaijan and Georgia came as loans, i.e., debt finance. Loans coming as an export buyer or export seller credits under the roof of development finance ultimately benefit the Chinese economy.<sup>335</sup> Export buyer credits enable foreign government agencies, state-owned enterprises, private companies, and joint ventures to purchase Chinese goods and services.<sup>336</sup>

Besides creating immediate business opportunities, these development finance projects may allow Chinese firms to secure future exports of their infrastructure products and services by Georgia and Armenia, eventually creating trade dependencies. Business loans provided by Chinese banks support Chinese firms in exporting their goods and services. For example, the syndicated loan of China Development Bank and China Construction Bank helped Sichuan Machinery and

<sup>333</sup> <https://www.investopedia.com/terms/d/debtgdpratio.asp#toc-the-bottom-line>

<sup>334</sup> Ibid

<sup>335</sup> <https://www.econstor.eu/bitstream/10419/266146/1/1820832732.pdf>

<sup>336</sup> Ibid

Equipment Import and Export Co Ltd overcome its limited cash flow issue and cease business opportunities in Azerbaijan. Similarly, loans financing foreign direct investment of Chinese firms under the roof of development finance ultimately profit the Chinese economy by allowing high returns on Chinese capital. In other words, through foreign direct investment, Chinese funds support their business, starting in the host country and returning with a profit to their home country (China). Besides ceasing investment opportunities, Chinese capital investment abroad may pave the way for reaching political goals. The loans of China Eximbank and China Development Bank given to Hualing Industry & Trade Group Co Ltd to acquire a 90% equity stake in Georgian JSC BasisBank, to build Hualing Tbilisi Sea New City, and to set up the Hualing International Special Economic Zone in Georgia, for example, indeed has served multiple economic and political goals of several Chinese private and official parties.<sup>337</sup>

In contrast to many developing countries, however, and specifically some Central Asian countries, which are heavily indebted to China, South Caucasus countries' debt to China is insignificant. As of July 31, 2021, Chinese EximBank's share in Armenia's external government debt was only 0.5 % (or \$22.7 million), and the largest countries-creditors were Russia and Germany, with shares at 7.3 % and 6 %, respectively. In general, Georgia and Armenia primarily borrow from multilateral development banks.<sup>338</sup> However, the Georgian picture gradually changed regarding foreign debt to China. As of November 2021, for example, AIIB was the second largest creditor after the ADB.<sup>339</sup> Azerbaijan is not also indebted to China, having insignificantly more debt to the PRC than those two South Caucasian countries. Overall, as of 2021, Armenia's external debt to China was USD 24 Million, 0.0% of GDP; Azerbaijan - USD 448 Million, 1.1% of GDP; and Georgia – USD 8 Million, 0.0% of GDP and also insignificant as of 2021, accounting for only 1.1% of.<sup>340</sup>

## THE CASE OF CENTRAL ASIA

Over the last decade, China's significant economic influence in Central Asia has significantly increased foreign debts among Central Asian countries.<sup>341</sup> While Kazakhstan and Uzbekistan have effectively managed their debts within acceptable risk parameters, Kyrgyzstan and Tajikistan are grappling with significant challenges due to their considerable indebtedness to China. Kyrgyzstan risks losing strategic assets such as power plants and highways if it defaults on its Chinese debts.<sup>342</sup>

President Zhaparov of Kyrgyzstan warned that several infrastructure facilities would be transferred to China if the country could not repay Beijing's Exim Bank loans.<sup>343</sup>

Kyrgyzstan's predicament directly results from its participation in the Belt and Road Initiative (BRI), launched in 2013. Since then, its debt to China has increased by 22 percent: if in 2008 it was only \$10 million, today it is \$4 billion and counting. Tajikistan finds itself in a similar situation. Almost half of its sovereign debt, which amounts to

<sup>337</sup> <https://www.econstor.eu/bitstream/10419/266146/1/1820832732.pdf>

<sup>338</sup> <https://shorturl.at/TBLSw>

<sup>339</sup> <https://civicidea.ge/wp-content/uploads/2022/04/Report-9-1.pdf>

<sup>340</sup> <https://shorturl.at/OaEMt>

<sup>341</sup> <https://prorereforms.uz/publications/chinas-debt-trap-kyrgyzstans-example-as-a-lesson-for-uzbekistan-207>

<sup>342</sup> *Ibid*

<sup>343</sup> <https://jamestown.org/program/chinas-debt-trap-diplomacy-and-central-asia/>

over 27 percent of its GDP, is owed to China. For Kyrgyzstan, these numbers are 45 percent and over 30 percent, correspondingly.<sup>344</sup> Unlike Kazakhstan and Uzbekistan, Kyrgyzstan and Tajikistan have less diversified and resource-rich economies and, thus, lack collateralizable assets to secure loans. Hence, most of the loans China has extended are sovereign loans—i.e., direct loans to the government, whose repayment the latter guarantees regardless of the project’s profitability.<sup>345</sup>

The other Central Asian states are in a better position. Their sovereign debt to China is minimal: in all three, it is no more than 2 percent of GDP, and loan repayments are collateralized with the proceeds from sales of oil, natural gas, and other resources to the PRC. These countries have also incurred what is known as “hidden debts”—loans contracted by state-owned enterprises, banks, etc., without explicit host government guarantees. These loans amount to 16 percent of GDP in Kazakhstan and 9 percent in Uzbekistan. However, their repayment is directly tied to the profitability of the respective project as it is made exclusively with the cash flow generated by the asset. Thus, the terms of these loans do not pose a threat to their economies or national sovereignty.<sup>346</sup>

Excessive reliance on Chinese investments has forced Tajikistan and Kyrgyzstan to accept China’s terms, which explicitly exclude transparency of the loan terms and sometimes even hide the fact of the loan issuance.<sup>347</sup>

According to the opinions shared by the experts, there could be two options to leave this financial trap.

1. There is restructuring and rescheduling of the debt, which both countries have already repeatedly pursued.<sup>348</sup> That, however, would provide only short-term relief and lead to the repayment of a substantially more considerable sum over the lifetime of a loan. Beijing is unlikely to extend the repayment of the loans indefinitely.
2. There is the Sri Lanka scenario—i.e., defaulting on the debt and losing control of a significant economic asset—in Colombo’s case, a major port.<sup>349</sup>

Given the state of the economy in Kyrgyzstan and Tajikistan, the second option looks more realistic and poses a direct threat to these countries. The only undeniable asset Kyrgyzstan and Tajikistan have that could be of value to Beijing is their water resources and hydropower-based energy. By virtue of geography, Kyrgyzstan and Tajikistan are upstream countries that control the water resources of the three downstream republics—Kazakhstan, Turkmenistan, and Uzbekistan. Should Bishkek or Dushanbe default on their ever-growing debt, which is not unlikely, as attested by President Zhaparov (see above), Beijing could demand the transfer of their water resources and hydropower stations under its control.<sup>350</sup>

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<sup>344</sup> <https://jamestown.org/program/chinas-debt-trap-diplomacy-and-central-asia/>

<sup>345</sup> Ibid

<sup>346</sup> Ibid

<sup>347</sup> <https://rus.azattyq.org/a/china-loans-around-the-world/31218741.html>

<sup>348</sup> <https://kloop.kg/blog/2021/10/04/vneshnij-dolg-kitaj-dal-kyrgyzstan-otsrochku-po-vyplatam-kreditov-na-6-let/>

<sup>349</sup> <https://jamestown.org/program/chinas-debt-trap-diplomacy-and-central-asia/>

<sup>350</sup> Ibid

## CHAPTER 4

# CHINA'S COMMITMENTS UNDER THE PARIS AGREEMENT AND THE REFLECTION OF THESE COMMITMENTS ON ITS FOREIGN INVESTMENT STRATEGIES IN THE BROADER REGION OF CA AND SC

According to various studies, China's BRI Projects have been known to raise problems with low environmental standards. Massive environmental pollution in coal mining projects has caused local ecosystem devastation and high Greenhouse Gas emissions problems.<sup>351</sup> The primary energy project of China's BRI is to develop fossil fuel infrastructure, such as gas and oil pipelines from the Central Asia region to China, as well as coal-fired power plants in Kazakhstan, Pakistan, and Southeast Asia.<sup>352</sup> According to an Institute for Energy Economics and Financial Analysis report in 2018, China has committed about \$36 billion in financing for 102 gigawatts of coal-fired capacity in 23 countries, which represents more than a quarter of all coal-fired capacity under development outside of China (IEEFA).<sup>353</sup> A growing international criticism of Chinese projects and their damaging effect on the local environment and high GHG emissions to the atmosphere has spread across the globe. To some extent, the BRI had become synonymous with environmental degradation and high air pollution.<sup>354</sup>

In response to mitigate the environmental risks caused by China, in June 2015, the PRC submitted its first intended nationally determined contribution (INDC), in other words, commitments to the new Global Climate Agreement known as the Paris Agreement.<sup>355</sup> Paris Agreement is an international Governmental framework operating under the United Nations to join countries worldwide and tackle environmental issues, setting out at the UN Climate Change Conference in Paris.<sup>356</sup>

These commitments under the Paris Agreement, which were updated in 2021, are the following actions by 2030:

- Peaking of carbon dioxide emissions around/before 2030 and making best efforts to peak early;
- Lowering carbon dioxide intensity (carbon dioxide emissions per unit of GDP) by 60-65/>65 percent from the 2005 level;
- Increasing the share of non-fossil fuels in primary energy consumption to around 20/25 percent and
- Increasing the forest stock volume by around 4.5/6 billion cubic meters from the 2005 level

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<sup>351</sup> <https://journalijec.com/index.php/IJECC/article/view/4288/8449>

<sup>352</sup> Ibid

<sup>353</sup> Ibid

<sup>354</sup> Ibid

<sup>355</sup> <https://www.c2es.org/wp-content/uploads/2015/07/chinas-contribution-paris-climate-agreement.pdf>

<sup>356</sup> <https://www.un.org/en/climatechange/paris-agreement>

- Achieving carbon neutrality before 2060<sup>357</sup>

The basic formula for achieving these targets in all potential scenarios<sup>358</sup> is to replace much of the fossil fuel used in industry, transport, and households with electricity and produce that from clean energy sources. This, in turn, requires an enormous expansion of clean electricity production. The majority of this expansion is delivered by wind and solar. All scenarios project only a modest expansion in gas-fired capacity. Enhancement of forest carbon sequestration and other land carbon sinks is also essential.<sup>359</sup>

Along with the international commitments, the Chinese government adopted several documents regarding BRI reflecting the climate issues from 2015 onwards: In March 2015, the National Development and Reform Commission, the Ministry of Foreign Affairs, and the Ministry of Commerce jointly issued their “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road.” The document proposes that China promote ecological progress by conducting investment and trade and increasing cooperation in ecological conservation, biodiversity protection, and climate change mitigation and adaptation. In 2017, the Ministry of Ecology and Environment issued the “Belt and Road Ecological and Environmental Cooperation Plan”. It launched the “Guidance on Promoting Green Belt and Road,” which identified the roadmap for developing a green BRI with the abovementioned authorities.<sup>360</sup> A directive issued in November 2021 emphasized a shift from large-scale fossil fuel and infrastructure efforts to smaller, more sustainable projects that include scalable solar and wind energy.<sup>361</sup>

The most recent climate talk, the EU-China High-Level Environment and Climate Dialogue (HECD) in Brussels, Belgium, in June 2024, reaffirmed both sides' commitments to the Paris Agreement.<sup>362</sup>

Unfortunately, the first 10 years of the BRI were dominated by fossil fuel investment, with \$52 billion invested in coal power alone.<sup>363</sup> Nevertheless, the next decade must have a different picture. At the 2021 UN General Assembly<sup>364</sup> and the latest BRI summit in October 2023, China committed to ceasing the construction of new coal plants abroad instead of stepping up its investment in renewable energy.

After 2021, China mostly followed through and ceased grid-connected coal-fired power project finance.<sup>365</sup> According to a study by the International Institute of Green Finance (Nedopil Wang, 2021), in 2019 and 2020, Chinese-backed coal plants worth \$65 billion were canceled, mothballed, or shelved. According to an assessment by the

<sup>357</sup> <https://www.c2es.org/wp-content/uploads/2015/07/chinas-contribution-paris-climate-agreement.pdf>

<sup>358</sup> Potential scenarios in detail: <https://shorturl.at/jYnq1>

<sup>359</sup> Ibid

<sup>360</sup> <https://bit.ly/4grY4vO>

<sup>361</sup> <https://shorturl.at/V5ruW>

<sup>362</sup> <https://shorturl.at/ffh4q>

<sup>363</sup> <https://www.wri.org/research/china-overseas-finance-inventory-database>

<sup>364</sup> <https://www.wri.org/news/statement-president-xi-china-stop-building-new-coal-power-projects-abroad>

<sup>365</sup> <https://www.wri.org/insights/whats-after-coal-accelerating-chinas-overseas-investment-renewables>

non-profit Centre for Research on Energy and Clean Air (CREA), between 2017 and 2021, 4.5 times as much capacity had been shelved or canceled as began construction (Suarez, 2021).<sup>366</sup> Exceptions still showed up, however, in coal plant planning after 2019. In Kyrgyzstan, for example, the coal plant was still financed by China Exim Bank in 2019;<sup>367</sup> in Kazakhstan, Pavlodar region, Ekibastuz 2 coal plant was financed by CDB in 2024.<sup>368</sup>

In the South Caucasus, no coal investments were initiated after 2021.<sup>369</sup> However, in 2015, Chinese state-owned Dongfang Electric Corporation pledged \$180-\$200 million to construct Georgia's 150 MW Gardabani power station. It is also known as Tkibuli-150, Tkibuli power station. The reason for the contract change from Tkibuli to Gardabani area was the alleged presence of large landslide zones in the construction area of Tkibuli. In contrast, the Gardabani area was considered safe even though the company had not conducted the Environmental Impact Assessment report before the construction starting date of 2016, according to Green Alternative.<sup>370</sup> The project is canceled for the present moment.<sup>371</sup> As of December 2022, there have been no further known developments to the power station since November 2017. A media source from February 2022 referred to the failure to build the plant.<sup>372</sup>

China started transitioning its investment policy abroad, including Central Asia, into renewable energy. Chinese firms, such as Universal Energy, Risen Energy, and SPIC, are among the top investors in Kazakhstan's solar and wind farms. China Development Bank was Kazakhstan's third largest financier of renewable energy projects until 2020, trailing only the EBRD and the Development Bank of Kazakhstan.<sup>373</sup> Chinese policy banks have loaned hundreds of millions of dollars to construct and renovate Uzbek hydropower stations, while Chinese companies are building solar power plants and wind farms in Uzbekistan. In Kyrgyzstan, China Power International Development Limited has committed to building the country's first large-scale solar power plant of 1000 MW in Issyk-Kul Oblast.<sup>374</sup>

PRC dominated the global renewables supply chain and became the number one exporter of environmental goods and services throughout the BRI countries. However, China has not built an independent transfer platform and market strategy for clean energy technologies. China lacks market formation and research and development cooperation with recipient countries. Central Asian states also have not forged a clean energy technologies market mechanism.<sup>375</sup>

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<sup>366</sup> <https://shorturl.at/PLwqT>

<sup>367</sup> <https://shorturl.at/Qq2Bi>

<sup>368</sup> *Ibid*

<sup>369</sup> [https://www.gem.wiki/International\\_Chinese\\_coal\\_projects#Kyrgyzstan](https://www.gem.wiki/International_Chinese_coal_projects#Kyrgyzstan)

<sup>370</sup> [https://greenalt.org/app/uploads/2021/04/Gardabani\\_Coal\\_fired\\_20161.pdf](https://greenalt.org/app/uploads/2021/04/Gardabani_Coal_fired_20161.pdf)

<sup>371</sup> [https://www.gem.wiki/Gardabani\\_power\\_station](https://www.gem.wiki/Gardabani_power_station)

<sup>372</sup> *Ibid*

<sup>373</sup> <https://dccollection.share.library.harvard.edu/files/original/GreenerPastures.pdf>

<sup>374</sup> *Ibid*

<sup>375</sup> <https://journalijecc.com/index.php/IJECC/article/view/4288/8449>

China shifted its focus to renewable energy in Central Asia because of its commitments to the Paris Agreement and the local demand, as the countries are heavily focused on solar and wind power projects<sup>376</sup>. Global climate change has posed severe threats to the ecological systems and socio-economic development of Central Asian countries. Central Asian countries have significantly contributed to global warming by generating large volumes of greenhouse gas emissions.<sup>377</sup> All Central Asian countries have already established an environmental, legal, and regulatory framework for meeting their national commitments to global climate commitments under the UN Framework Convention on Climate Change (UNFCCC).<sup>378</sup> However, Chinese overseas energy finance flows are currently concentrated on fossil fuels, particularly gas, in Central Asia.<sup>379</sup>

In **Uzbekistan**, solar and wind power accounted for only about 253 megawatts (MW), or 1 percent of total renewable energy capacity in 2022.<sup>380</sup> By 2030, Uzbekistan aims to increase solar and wind capacity by 5 gigawatts (GW) and 3 GW, respectively.<sup>381</sup>

**Kazakhstan** successfully met its interim target of generating 3 percent of its electricity from renewable sources by 2020. Solar and wind power accounted for 23 percent and 22 percent, respectively, of Kazakhstan's total renewable energy capacity in 2022.<sup>382</sup> Kazakhstan has set clear targets for developing renewable energy sources, aiming to generate 15 percent of its electricity from renewables by 2030 and 50 percent by 2050.<sup>383</sup>

Under the 2021 INDC, by 2030, **Kyrgyzstan** commits to reducing greenhouse gas emissions by 15.97 percent and 43.62 percent with international support<sup>384</sup>. In 2021, the President of Kyrgyzstan, Sadyr Zhaparov, stated that by 2050, the country will try to achieve carbon neutrality, primarily through developing hydropower plants.<sup>385</sup>

It is important to note that **Tajikistan** set a target emission limit in its initial INDC: "The unconditional target was to limit emissions from 80 to 90 percent of greenhouse gas emissions at the 1990 level, and the conditional target was to limit emissions from 65 to 75 percent of greenhouse gas emissions at the 1990 level".<sup>386</sup>

**Increasing the forest stock volume** is one of the commitments of the Chinese BRI, and it is also aligned with the Sustainable Development Goals (SDG), 15 – to promote global biodiversity conservation. As data shows, most countries in Central Asia and the South Caucasus revealed stagnation in their implementation.<sup>387</sup> China's "green

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<sup>376</sup> <https://shorturl.at/V5ruW>

<sup>377</sup> <https://journalijecc.com/index.php/IJECC/article/view/4288/8449>

<sup>378</sup> Ibid

<sup>379</sup> <https://dccollection.share.library.harvard.edu/files/original/GreenerPastures.pdf>

<sup>380</sup> <https://shorturl.at/qPQFQ>

<sup>381</sup> <https://iea.blob.core.windows.net/assets/0d00581c-dc3c-466f-b0c8-97d25112a6e0/Uzbekistan2022.pdf>

<sup>382</sup> [https://www.irena.org/-/media/Files/IRENA/Agency/Statistics/Statistical\\_Profiles/Asia/Kazakhstan\\_Asia\\_RE\\_SP.pdf](https://www.irena.org/-/media/Files/IRENA/Agency/Statistics/Statistical_Profiles/Asia/Kazakhstan_Asia_RE_SP.pdf)

<sup>383</sup> <https://iea.blob.core.windows.net/assets/fc84229e-6014-4400-a963-bccea29e0387/Kazakhstan2022.pdf>

<sup>384</sup> <https://shorturl.at/9hAyo>

<sup>385</sup> <https://news.un.org/ru/story/2021/10/1412922>

<sup>386</sup> [https://unfccc.int/sites/default/files/NDC/2022-06/NDC\\_TAJIKISTAN\\_RUSS.pdf](https://unfccc.int/sites/default/files/NDC/2022-06/NDC_TAJIKISTAN_RUSS.pdf)

<sup>387</sup> <https://bit.ly/4grY4vO>

development guidelines” are not legally binding for Chinese companies; on the other hand, the host countries and their policy towards environmental commitments are also the main indicators of the degree of the implementation of the Paris Agreement commitments.

A recent example of the Pamir Highway upgrade in Tajikistan is a clear illustration. Starting in 2022 with Chinese funding, the investment plan is not aligned with the Green Belt and Road policy standards. Its construction could result in habitat loss and fragmentation, disruption of migratory routes, and loss of crucial breeding areas. Other environmental impacts from large infrastructure projects in mountainous areas can include water table changes, mountain slope destabilization, and increased risk of landslides.<sup>388</sup>

As discussed above, energy and construction projects in Georgia, Kazakhstan, Tajikistan, and Kyrgyzstan have raised numerous climate problems.

Chapter 5- the Environmental Impact of the Chinese Investments in the Regions and Policies in Place to address these effects on the Country level

China’s investments in Central Asia are primarily concentrated in the transport and energy sectors. Both sectors cause environmental concerns. **Transport infrastructures** are environmentally costly for host countries because they fragment ecosystems and have the potential to destroy biodiversity. As for the energy sector, energy projects remain mainly linked to nonrenewable resources (such as coal, oil, and gas).<sup>389</sup>

The BRI’s Central Asian segment spans a large territory that comprises numerous cultural and natural sites. According to UNESCO, the BRI currently crosses no less than thirteen world heritage sites in Central Asia, mainly protecting unique ecosystems and crop and animal species. The BRI risks aggravating many environmental challenges affecting Central Asia today.<sup>390</sup> Above all, expanding transport infrastructures is bound to reduce/fragment natural habitats and endanger roaming species. Also, greater mobility through transport infrastructures runs the risk of introducing invasive species, affecting crop production and, eventually, food security.<sup>391</sup>

Moreover, as China-financed regional energy projects mainly involve coal, oil, and gas, they are bound to have a substantial impact on climate and increase waste: at least for now, China’s aim to build greener societies has not entirely traveled along the BRI. Indeed, Central Asian countries have launched several environmental rehabilitation projects to confront Soviet-era mine tailings. Similar problems arising from BRI mine projects, though, risk piling upon existing mining issues, especially as standards on sustainable resource governance are seldom adopted in full.<sup>392</sup>

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<sup>388</sup> <https://www.nature.org/content/dam/tnc/nature/en/documents/latin-america/Friendlyroads.pdf>

<sup>389</sup> [https://www.ispionline.it/sites/default/files/publicazioni/climate\\_change\\_in\\_the\\_post-soviet\\_space\\_04.21.pdf](https://www.ispionline.it/sites/default/files/publicazioni/climate_change_in_the_post-soviet_space_04.21.pdf)

<sup>390</sup> Ibid

<sup>391</sup> Ibid

<sup>392</sup> Ibid

The same environmental concerns should be extrapolated to the South Caucasus region, respectively, as the BRI projects in the region are also transport and energy-oriented, considering that Chinese FDI in these sectors is not that heavily engaged.

**The energy sector** is the largest greenhouse gas emitter in Central Asia (64%) and the South Caucasus (70.8% average). As broadly discussed above, the energy sector is heavily represented by Chinese investments in CA, which is different from the South Caucasus. Therefore, the critical environmental impact as of 2023 in Central Asian countries is mainly caused by Chinese investments.

The significant difference between Central Asia and the South Caucasus regarding the impact of Chinese investments on their environment, respectively, is the emission level caused by coal-fired plants. Central Asia, as we already know, can be seen as the hub of coal-related projects funded by China, while in the South Caucasus, Chinese investments are not coal-oriented.

While GHG emission is not mainly caused by the Chinese investments in the SC, roads and highway-related projects implemented by Chinese companies can be considered one of the factors for climate-related problems. As the evidence discussed above shows, several construction projects, specifically in Georgia, raised questions about potential or post-factum environmental damages, presumably caused or to be caused by the implementation plans not aligned with climate-related standards.

As for the response of the host countries to addressing the environmental effects of Chinese investments, none of the countries in the region have any systemic approach or mechanism specifically focused on Chinese investments. Case by case approach, as evidence shows above, is not practical. The governments do not appropriately address the alarms raised by local communities or civil society about their complaints about the environmental damage the Chinese investments are causing in the areas. The cases discussed in the previous chapters showed the governments' ineffective approach to the climate issues caused by the Chinese investments in the areas, which caused severe health problems for local communities.

All the countries in these regions have pledged to reduce carbon dioxide emissions under the Paris Agreement and have submitted nationally determined contributions (NDCs), i.e., an action plan to reduce emissions and adapt to climate change. Each party to the Paris Agreement is required to develop an NDC and update it every five years.<sup>393</sup>

**Kazakhstan's** new environmental law<sup>394</sup> establishes adaptation priorities. **Kyrgyzstan** is adopting laws and programs to develop climate-sensitive mountain ecosystems and renewable and efficient energy, and it is also developing a national action plan for climate change adaptation. **Tajikistan's** new adaptation and green development strategy<sup>395</sup> requires a multi-sectoral approach targeting energy, water

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<sup>393</sup> <https://cabar.asia/en/central-asia-s-progress-at-cop-28-paris-agreement-and-climate-policy-review>

<sup>394</sup> [https://online.zakon.kz/Document/?doc\\_id=39768520&pos=21;-166#pos=21;-166](https://online.zakon.kz/Document/?doc_id=39768520&pos=21;-166#pos=21;-166)

<sup>395</sup> <https://faolex.fao.org/docs/pdf/taj190980.pdf>

resources, agriculture, industry, and construction. **Uzbekistan** has adopted a low-carbon energy strategy<sup>396</sup> and is developing an adaptation plan focusing on irrigation, agricultural chains, and green energy.<sup>397</sup>

Since 2021, **Azerbaijan** adopted several climate-related policy documents, including the action plan.<sup>398</sup> A new Memorandum of Understanding (MoU) on a Strategic Partnership between Azerbaijan and the EU in the energy field was signed in 2022, allowing for enhanced energy partnership cooperation. The new MoU supports doubling the capacity of the Southern Gas Corridor as of 2027, reflecting the long-term nature of the energy partnership between the EU and Azerbaijan. The first-ever investment project backed by an E5P grant has been signed. It will help upgrade around 80% of the street lighting infrastructure in Ganja and produce significant energy savings.<sup>399</sup>

**Georgia**, in addition to an updated NDC, has developed a 2030 Climate Change Strategy and 2021-2023 Action Plan (CSAP). CSAP is an underlying strategy and short-term action plan for implementing the updated NDC. In addition, Georgia is finalizing its Long-term Low Emission Development Strategy currently undergoing consultations within the Government of Georgia. In 2021, Georgia developed documents on climate mainstreaming in the energy, agriculture, and health sectors. The Ministry of Environmental Protection and Agriculture of Georgia is responsible for the development and implementation of national climate change policy, as well as the coordination of international climate change negotiations.<sup>400</sup>

The National Strategy on Disaster Risk Management (2017) **in Armenia** integrates climate change and incorporates Sustainable Development Goals (SDGs). The Program on Energy Saving and Renewable Energy for 2022-2030 and its Action Plan for 2022-2024 were approved by the Government of Armenia in March 2022. The National Action Programme of Adaptation to Climate Change and the list of Measures for 2021-2025 were approved by the Government in May 2021. The Water Sector Adaptation Plan and its Program of Measures for 2022-2026 were adopted in November 2022. The designated authority for climate change in Armenia is the Ministry of Environment and the Inter-Agency Coordination Council for implementing the Requirements and Provisions of the UNFCCC, established in 2012 and revised in 2021.<sup>401</sup>

While focusing on developing their integrated climate change adaptation strategies, these regions face challenges related to the vulnerability of approaches. Low awareness of climate change, limited data, lack of appropriate policy and legislative mechanisms, and lack of financing present significant barriers to successfully implementing adaptation strategies.<sup>402</sup>

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<sup>396</sup> <https://minenergy.uz/ru/lists/view/77>

<sup>397</sup> <https://cabar.asia/en/central-asia-s-progress-at-cop-28-paris-agreement-and-climate-policy-review>

<sup>398</sup> <https://eu4climate.eu/azerbaijan/>

<sup>399</sup> Ibid

<sup>400</sup> <https://eu4climate.eu/georgia/>

<sup>401</sup> <https://eu4climate.eu/armenia/>

<sup>402</sup> Ibid

## CONCLUSION

Chinese investments got the world's attention since the launch of the BRI in 2013. The ambitious plan spread across the globe through the marine and land corridors, with the latter covering Central Asia and the South Caucasus Region. Next to economic growth, connectivity, and development, BRI also sparked controversies regarding geopolitical tensions, environmental concerns, and debt sustainability based on the BRI practice and their operational strategy.

While Central Asia is one of the main fields of Chinese investments, the South Caucasus, with a far smaller scale, still has some share of the projects. Georgia stands out with its Free Trade Agreement as the key trade partner in the region. In Central Asia, Chinese investments cover the energy sector, such as oil pipelines and natural resource extraction, infrastructure, energy security, and mining. In the South Caucasus, investments have been made primarily in infrastructure, transportation, and energy. Both in Central Asia and the South Caucasus, Chinese investments bring out environmental and social issues; as for the debt trap, Central Asian countries are currently facing this problem, while in the South Caucasus, mainly in Georgia, this threat is coming on the horizon as the cooperation grows.

Most significant projects implemented by Chinese investments in **Georgia** illustrated different aspects of the actual and/or potential problems. The involvement of Chinese companies with questionable reputations adds to concerns. Construction of the East-West Highway (EWH), mainly through the challenging Rikoti Pass, has highlighted the challenges of large-scale infrastructure development, especially when environmental standards and local community needs are not adequately addressed. Even though Hualing Group's investment was considered to have been implemented rather well, it still neglected the social needs of the residents. **Azerbaijan's** economic partnership with China across various sectors of energy and infrastructure with major projects such as the Shah Deniz Gas project, the Trans-Anatolian Natural Gas Pipeline (TANAP), as well as in infrastructure developments like the Baku-Tbilisi-Ceyhan Pipeline, and the Baku International Sea Trade Port illustrated the potential growth of the partnership between the two sides. It also suggests Azerbaijan maintains its financial dominance and steers clear of China's potential financial trap. On the other hand, the country's lack of transparency and accountability poses challenges for obtaining detailed insights into these investments, particularly regarding environmental risks and financial instruments. Chinese investments have been notably limited in Armenia because of its heavy reliance on Russia and ongoing territorial disputes with Azerbaijan. However, the development of the north-south corridor, which links Iran and Georgia through Armenia, trade growth between the two countries, and China's involvement in Armenia's digital infrastructure presents a potential avenue for future Chinese investment.

Central Asia provides a comprehensive overview of how BRI has influenced and shaped the economic landscapes of Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan. The investments are focused on energy, transportation, and infrastructure projects, with **Kazakhstan** receiving the largest share, followed by Kyrgyzstan, Uzbekistan, and Tajikistan. Trade between the two sides keeps growing as well. Because of the local demand of recipient countries and the Paris Agreement commitments, China had to shift its focus towards renewable energy over the last couple of years. Intense investments have also led to significant challenges, such as mounting debt burdens in the recipient countries, environmental degradation, and social tensions.

Chinese international lending policy highlighted opacity and a distinct approach compared to other major financiers. China relies predominantly on official loans rather than aid, often providing relatively high interest, short maturities, and collateralization against project inputs, sharply contrasting with the more concessional terms of Western aid. Chinese international loans have led to substantial debt burdens for many developing countries. In the South Caucasus, Chinese loans primarily benefit the Chinese economy by promoting exports and securing future trade opportunities while creating trade dependencies through projects financed by export buyer and seller credits. The debt levels in Armenia and Georgia to China remain relatively low, with multilateral development banks being significant creditors. In Central Asia, however, China's financial influence is more pronounced, with countries like Kyrgyzstan and Tajikistan facing severe debt burdens due to their substantial borrowing from China and potential risks of asset loss and economic vulnerability. Conversely, Kazakhstan and Uzbekistan have managed their debt more effectively, maintaining lower sovereign debt levels and collateralizing loans with natural resource revenues.

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