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Analysis of the Growing Chinese Influence in South Caucasus and Central Asia

Collection of Articles

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Tbilisi, Georgia

2021

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Dear readers

It is a great honor for us to share with you the first part of the publication initiated by “Civic IDEA” and prepared together with partners, which will tell you the story of the growing influence of foreign countries in the South Caucasus and Central Asia. The second part of this edition is planned for 2022.

This publication is a collection of 8 analytical articles, which mainly introduce the dynamics of various projects, loans, and debts initiated by the People’s Republic of China (PRC) in the South Caucasian and Central Asian countries, the growth and expansion of the role of the Chinese Communist Party (CCP), as well as the existing threats and most notable events. While much is being written today about the operations of the People’s Republic of China and the Chinese Communist Party by various research institutes and organizations worldwide, very little is said about region of our interest and even less about the dynamics and patterns that are unequivocally evident in these states.

“Civic IDEA” has been studying Chinese influence operations in our region for more than three years now. We are interested in the policies of the Chinese state, its universities, and other educational centers, companies, and financial institutions, etc. Accordingly, in our previous publications, you will find materials about the activities of the Confucius Institutes, student and scientific exchange programs, the so-called “debt trap” practices, and security risks for different countries, etc.

In this publication, you will get more detailed information and knowledge about seven countries: Georgia, Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Uzbekistan, and Tajikistan. Unfortunately, despite our numerous attempts, we could not find a suitable partner in Turkmenistan who would agree to participate in the joint study.

The work about Georgia was written by **Ani Kintsurashvili**, a senior researcher at the Civic IDEA. The paper summarizes the Civic IDEA’s China Watch reports and measures the growing Chinese influence in critical infrastructure and defense sectors of the country by reviewing the misconduct related to the notorious and blacklisted Chinese companies (CEFC, Sinohydro, Motor Sich, Nuctech, CRBC) actively operating in Georgia within the BRI. Moreover, the research stresses that these Chinese companies usually mediate the massive corruption schemes orchestrated by the Chinese state officials and local business and political elites. This occasion explains the ignorance of the Georgian government in failing to investigate the company’s

reputation with which they are signing the MoUs and handing the projects critical for Georgia’s natural security.

Artak Kyurumyan, an independent expert and a chairman of the board of Open Society Foundation, discusses Sino-Armenian political relations and the performance of Armenian investments in the People’s Republic of China. The paper highpoints the diversity of opinions in the experts’ community, as some believe that Armenia has working relations with China, while others think that Armenian-Chinese relations are in stagnation. Armenian authorities don’t have a vision or strategy on how to build ties with China. Russia had and has a significant impact on Armenian foreign policy and holds

leverages to influence them. For several years different Armenian governments were optimistic about the Armenian-Chinese joint venture Shanxi-Nairit. Shanxi Nairit does not utilize its full capacity and could not cover its costs and accumulated huge losses. After 2018 the representatives of the Revolutionary government were also represented in the board of Shanxi Nairit and were assuring that they are doing important job. However, large parts of the Armenian community think that government officials use such opportunities to travel and don't create any substantial value added.

Gubad Ibadoghlu, a senior policy analyst of the Economic Research Center, covers China's mounting interests and influence in Azerbaijan, emphasizing the boosted trade between China and Azerbaijan and between China and Europe through the Baku-Tbilisi-Kars railway, which forms an integral part of the Belt and Road construction and serves as a critical bridge that connects the eastern and western ends of Eurasia. Moreover, Azerbaijan is devoted to building a new corridor for cross-border transportation designed to cut through the territory of Armenia to join up the Azerbaijan mainland and the Autonomous Republic of Nakhchivan. For China, this corridor will serve as the second South Caucasus route leading to Europe via Armenia, Nakhchivan, and Turkey. Azerbaijan's economic diversification policy and China's willingness to transfer industrial capacity facilitate more extensive economic cooperation between the two countries. Besides, China has failed to close several critical financial agreements at the governmental level to boost economic ties with Azerbaijan. There are currently no agreements on currency swaps, industrial transfer, or free trade between the two countries.

Research on informing the people of Kazakhstan about the activities of Chinese

companies in the Kazakhstani extractive sector belongs to **Danil Bekturganov**, a political scientist and a Director of NGO "Civil Expertise" in Kazakhstan, who analyzes the coverage of activities of Chinese companies in the extractive sector of Kazakhstan by Kazakh media. In addition to analyzing the awareness of citizens, investigated the availability of statements and other documents issued by the government of Kazakhstan related to Chinese investments and BRI. The study examines specific cases related to the impact of the activities of Chinese extractive companies on local communities, and social, economic and environmental consequences of these activities. Mr. Bekturganov argues that Kazakhstan is one of the key places in the implementation of the BRI. Large Chinese extractive and construction companies operate on the territory of the country, railway and road routes, including the "Western Europe - Western China" corridor, pass through Kazakhstan's territory. One of the important parts of the BRI implementation is the informing of Kazakhstani citizens about the initiative and about the opportunities, provided to businesses and local communities. The absence or lack of information gives rise to a large number of myths and phobias, and does not contribute to increasing public confidence in the presence of Chinese business in Kazakhstan. Another important aspect is the environmental impact of Chinese projects, which should be objectively and publicly assessed.

Bakytbek Satybekov, an expert and a co-chairperson of the National Open Government Forum in the Kyrgyz Republic explains China's "debt trap" diplomacy in Kyrgyzstan by highlighting the obvious signs of the presence of such a policy in the country. Author starts with the description of a term China's "debt trap" with examples of experience of other countries. After that mr, Satybekov describes history of Kyrgyz borrowings from China with details, such as purposes of loans, financial and other

conditions and later emphasizes evolution of Kyrgyz debt management strategy with emphasis on limitation of share on a creditor in debt portfolio. At last, he provides the audience with the analysis of impact (outcome) the Chinese “debt trap” could bring to Kyrgyzstan.

Umedjon Majidi, political analyst and a postgraduate of the University of Sussex covers the topic of Corrosive inflows to the Republic of Tajikistan and how Chinese investments undermine good governance and transparency in Central Asian region. Corrosive capital coined by Center for International Private Enterprise based in Washington DC is defined the term “corrosive capital” to more clearly label financing that lacks transparency, accountability, and market orientation flowing from authoritarian regimes into new and transitioning democracies. It applies directly to big authoritarian countries which play a key role in Central Asia, they are Russia, China that lack true forms of transparency, accountability, good governance in their capital granting schemes. This paper based on wide variety of publications in various languages analyzes specifically how People’s Republic of China within its strategy of Belt and Road Initiative in Tajikistan brings bad governance schemes to Tajikistan local and national governance institutions in contrast of western countries when the capital and funds come usually with conditions to reform a local governance attached.

Farkhod Tolipov, a director of the non-governmental Research Institution “Bilim Karvoni” (“Caravan of Knowledge”) in Tashkent, finalizes the collection of articles with his input “China’s Power Projection in Central Asia and its Geopolitical Implications: The Case of Uzbekistan”. The state’s power projection capability means its ability to exert influence on other states by utilizing its real power. This utilization

of power can take different forms from diplomatic communications and political pressure to open demonstration and application, separately or in combination, of elements of soft and hard power. So this paper is constructed around the main question as to what we know about China’s power projection undertakings in the Central Asian region with some more focus on Uzbekistan. Public and experts’ opinions in Central Asian countries are quite ambiguous about Chinese influence in the region; Sino-phobia and Sinophilia coexist among people, officials, and experts. In particular, Beijing’s repressive attitude towards Uighurs in Xingjian province also affected the perception of China by Central Asians. China as a great power cannot, but pursues great-power politics, which per se can bring with it opportunities and challenges for neighboring areas including the Central Asian region. Moreover, all great powers historically have always competed with each other and this competition, in turn, always caused significant geopolitical implications

The Democracy Trap of the People's Republic of China

Tinatín Khidasheli

“There are two ways to conquer and enslave a nation.
One is by the sword. The other is by debt.”

— John Adams 1826

In 2013, during his visit to Kazakhstan and Indonesia, the President of the People's Republic of China announced the launch of the new multi-billion dollar One Belt, One Road initiative, more often called the new Silk Road Project. Just like centuries ago, the main goal of Chinese President Xi Jinping's ambitious plan was the connection of the Western and Eastern markets under Chinese leadership, which on the one hand would generate unprecedented wealth and [on the other hand] would ensure the cultural and religious unity of the world.

The project consisted of two organic parts: the land-based Silk Road Economic Belt and the sea-based Maritime Silk Road.

The initiative was to consolidate seaports, railroads and highways, energy pipelines, all types of communications and networks linking states, people, and businesses into a single system, both westward from China passing through the former Soviet republics to Europe and southward to India, and more specifically to Asia and Africa.

The initiative was shortly dubbed China's Marshall Plan, which would involve 71 countries and half the world's population by land and sea connections. Its primary objective was no less ambitious than its stated economic indicators: following economic recovery, better communication and cooperation among states on a global scale - as mentioned above, thus ensuring peace in the world.

Naturally, the critics have immediately perceived this project as an attempt by the People's Republic of China to establish a new world economic order in which China would play a central and key role, and its development model would become a univocal model to be emulated worldwide. The critics are indeed correct, as One Belt, One Road is a central component of the “Major Country Diplomacy” strategy proclaimed by Xi Jinping, with the only

Land and Sea Corridors of the Belt and Road Initiative
-- Silk Road Economic Belt -- 21st Century Maritime Silk Road



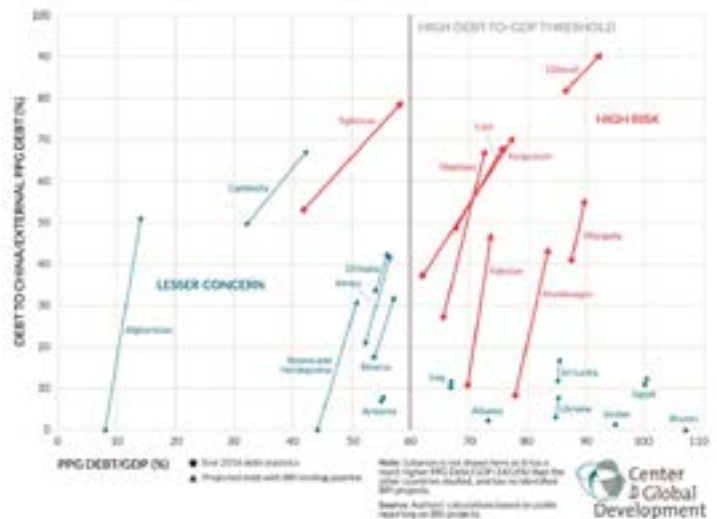
China's debt diplomacy

We should keep in mind that China's internationalization and declaration on world leadership not only serves to expand its geopolitical influence. In many instances, the particular manifestations of this policy of internationalization [serve as an essential weapon](#) to be used to subjugate states, gain their total loyalty, and practically turn them into puppets. As stated in an article in the American edition of [The Atlantic](#) in February 2021, *"Once a country is weighed down by Chinese loans, like a hapless gambler who borrows from the Mafia, it is Beijing's puppet and in danger of losing a limb (meaning its sovereignty)"*.

A well-informed person will certainly ask, but what is the purpose of such criticism? What is the difference between credits from the Chinese state or banking system and loans from, for instance, the International Monetary Fund, the World Bank, the European Bank for Reconstruction and Development (EBRD), and other similar financial institutions? At first glance, this question seems logical and correct, and the answer in fact, clearly shows the essence and scale of the problem. It is important to remember that, unlike the IMF, the EBRD, and the World Bank, Chinese debt is usually guaranteed either by the state or directly by strategically important facilities and the privilege of long-term exploitation of natural resources. That was the case, for example, with Sri Lanka's strategic seaport of [Hambantota](#), located in the Indian Ocean and one of the main lines connecting Asia with Europe, Africa, and the

Middle East. This port, in particular, was a guarantee of debt and ultimately ended up in the Chinese hands. (For more details on the Hambantota Port, see below).

The system works in a very simple way. China offers loans and credits to poor and relatively low-developed countries to build expensive critical infrastructure. These can include ports, HPPs, roads, bridges, tunnels, and more. Moreover, these loans are often followed by work performed directly by Chinese companies. Furthermore, as has been noted, such loans are usually guaranteed by various substantial assets and privileges from the borrowing states. It is perhaps rather difficult to object to the construction of roads and ports, while in many cases such projects bring minimal or no benefit to particular states and are not economically justified. And even more often, it occurs when, after completion of an infrastructure project, the country cannot mobilize the financial and human resources necessary for their uninterrupted and full-fledged operation. On the whole, the result is not long in coming. The project does not bring the promised economic boom to the country, one more debt is adding to the debts, and the state is forcing the transfer of



control of these facilities again to Chinese creditor banks or Chinese companies.

In the contemporary world, we are facing many examples of the grave consequences of China's attractive credit policy, and the number of countries at risk of partial loss/concession of sovereignty due to Chinese debt increases from year to year. Consequently, there are also a growing number of cases where countries are threatened with default as a result of unpaid debts. Thus, for example, the dilemma of getting out of the Chinese debt is particularly critical for the Kyrgyz Republic³. According to [data](#) as of 2021, the national debt is about \$5 billion, of which almost 40 percent is held by China's Exim Bank alone. When analyzing the costs incurred under China's One Belt - One Road initiative, various international organizations, including the International Monetary Fund and the World Bank, estimate that the country faces a high risk of default. Similarly, the situation is not better for [Montenegro](#), a member of NATO and on its way to EU membership.

The country indebted \$1 billion as a Chinese credit to the already mentioned Exim bank, taken in 2014 for construction of the highly [controversial](#) highway. It was after this decision that Montenegro's debt in relation to the gross domestic product amounted to [105 percent](#) in 2020, which was almost 30 percent higher than the similar figure in 2019. At the same time, we should not forget that according to two independent studies (studies conducted in 2006 by the French company Louis Berger and in 2012 by the American company URS), the project was characterized as economically unprofitable. Montenegro will have to start debt settlement in July 2021.

We are witnessing more cases where the People's Republic of China sometimes demands land in exchange for debts, as in the case of [Tajikistan](#)⁴, sometimes a seaport to realize its specific strategic economic interests, as in the case of [Sri Lanka](#)⁵, or both economic and military interests, as in the case of [Pakistan](#)⁶, sometimes the sole right to control the power supply network,

³ See also, <https://www.internationalaffairs.org.au/australianoutlook/chinas-debt-trap-diplomacy-in-kyrgyzstan/>

⁴ One of the earliest examples of Chinese debt-trap diplomacy was the case in 2011 in Tajikistan, an area of 1,158 square kilometers in the strategically important Pamir Mountains. The issue is about securing one's interests in exchange for the forgiveness of particular debts of this Central Asian state. In addition to the assignment of rights over these territories, Tajikistan has been forced to grant Chinese companies the right of development of mines rich in gold, silver, and similar precious resources, to secure these same debts. Naturally, every step taken by China is ultimately the result, to put it mildly, of the irresponsibility of the Tajik government. However, it is from the weakness of such failing democracies and their propensity for corruption that Beijing benefits the most.

⁵ The issue in question is the 99-year lease of the strategic port of Hambantota granted by Sri Lanka in December 2017 to the Chinese company China Merchants. No open tender was announced by the Sri Lankan government after deciding to lease the heavily indebted port. Only two companies expressed interest in the lease, and both were Chinese - China Harbor and China Merchants. The choice, as already mentioned, went to the latter.

The port of Hambantota is located in the southern part of Sri Lanka, just a few miles from one of the busiest trade routes of the Indian Ocean. To give you a full picture, this route accounts for almost 80 percent of international trade across the Indian Ocean and practically all trade between Europe and Asia. In case of interest, you can find many articles in the international media about how Beijing forced Sri Lanka to borrow specifically from Chinese banks for the port project. With debts encumbered by liability and low revenues, the port could not last long and was on the verge of bankruptcy. This was the time when Beijing demanded the port in exchange for debt, and consequently the Sri Lankan government was forced to transfer the port to a Chinese firm for 99 years of operation and full control through a closed "tender" in which, as already mentioned, only two Chinese companies took part.

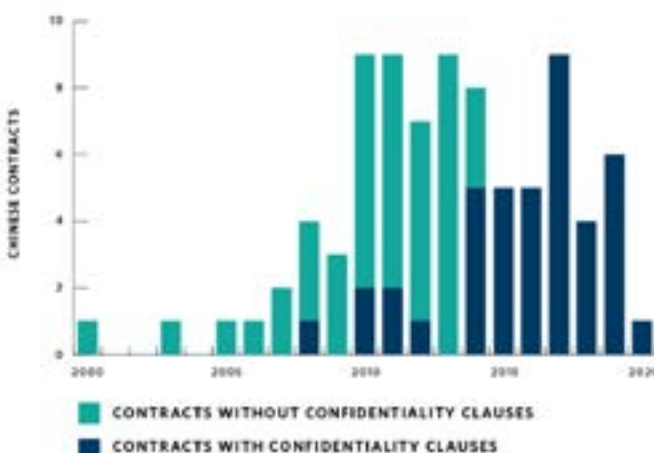
⁶ Pakistan is one of China's strategic partners in the region. However, this partnership has not prevented China from making the latter hostage to its "debt diplomacy" and, as a consequence, forced it to give the People's Republic of China full exclusive rights to the port of Gwadar. The latter will be administered by the Chinese for 49 years and will transfer 91 percent of its revenues to them. In addition, all activities are entirely exempt from taxes. There is an assumption that the port will also be used for the military purposes of China.

including selling electricity to other countries, as in the case of [Laos](#)⁷, or sometimes 100-year license conditions with a whole carte blanche over various natural resources, such as the example of many countries on the [African continent](#)⁸, etc.

The degree of dependence on China on the African continent today is large-scale and constantly increasing. Whereas in the 1950s China carried out mainly ideological expansion on the continent and tried to gain an advantage by spreading Maoism, nowadays the strategy has changed and has completely shifted to the possession of economic leverage. In particular, the People's Republic of China has made every effort to completely monopolize the continent's resources, people, and, more broadly, economic potential. It is precise regarding the African continent that one often finds fears of "new imperialism" or "Chinese imperialism" in the studies of leading Western institutions and the media.

Such a policy was echoed in 2018 in a famous speech by then U.S. Secretary of State [Mike Pompeo](#) in which he called China's foreign policy "*China's debt-trap diplomacy*". The term soon became very popular and widely used. It should also be noted that Mike Pompeo viewed "*debt-trap diplomacy*" from the People's Republic of China not only as an instrument of economic but also military advantage, which again leads to the destruction of state sovereignty.

FIGURE 3
Use of Confidentiality Clauses in Chinese Contracts Over Time



SOURCE: Anna Gilgert, et al., "How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments," Peterson Institute for International Economics, Kiel Institute for the World Economy, Center for Global Development, and AidData at William & Mary, March 21, 2021, 23. <https://www.aiddata.org/publications/how-china-lends>.

We should also recall that since 2014, China has required from almost every state that in the event of a loan, respective contract, as well as the terms of the loan shall be kept fully confidential; furthermore, in many cases, even the fact of granting the loan remains confidential and secret. The growing trend of demands for confidentiality can be clearly observed in the figure published by the [Carnegie Center](#). Such a requirement naturally violates the fundamental principle of publicity of government loans since the loan is budgetary and must be covered by public finances; therefore, anything that might imply its confidentiality would be absurd. But, naturally, this elementary and fundamental principle of democracy and publicity is not significant or at all interesting for a country operating under the monopoly of the Communist Party, which, as part of its strategy of turning debt into weapons, imposes on borrowing countries

7 As a result of the September 2020 agreement between Électricité du Laos and China Southern Power Grid Company, the Chinese company became the majority shareholder and thus gained control of Laos Energy for 25 years. According to a 2019 study by Australia's Lowy Institute, Laos' debt to China amounted to 45 percent of the gross domestic product (GDP), which has largely conditioned this small Asian country's dependence on China not only economically, but also politically. Laos, for example, was the first country to join Chinese leader Xi Jinping's initiative for "building of community of common destiny" and has consistently strengthened China's position in international forums on South Sea conflict issues and more.

8 See also, https://www.rand.org/pubs/research_briefs/RB9760.html

its non-transparent and unaccountable public finance management policy with the dependence.

It is evident from this particular case alone just how great a threat China's growing influence poses to the liberal democratic order, especially in the case of poor new democracies.

Case Study from Georgia

In 2018-2021, Civic Idea, a nongovernmental organization, actively worked on the issue of the growing influence of the People's Republic of China and the privileged attitude toward this country in Georgia. The subject of our special interest, along with operations of Chinese influence, was the Georgian political elite's ties with China, business interests, and lobbying activities. The subject of our particular interest, along with the operations of Chinese influence, was the Georgian political elite's ties to China, business interests, and lobbying activities. We investigated cases related to corruption, abuse of power, tailoring of tender requirements to specific companies, conditions of inequality, and ensuring success in infrastructure projects for companies of the People's Republic of China.

We first began our study on Chinese influence in Georgia with the activity of worldwide "well-known" company CEFC in Georgia. Our first report, under the title "Mr. Chkhartishvili Leads in the Closed Business Championship of China"⁹, was devoted specifically to the close ties of this company with the Georgian political elite.

CEFC's history in Georgia can expressly serve as a guide to how dangerous it

is to enter a company willing to act in defiance of the rule of law and procedural democracy in a small, underdeveloped, and poor country, where the accountability and responsibility of the political class are entirely symbolic and minimal.

According to our research and analysis of the materials we have obtained, it is quite clear that in Georgia, the interests of CEFC China Energy, the company exposed in various criminal offenses worldwide, have been lobbied in favor of their business interests by the former Prime Minister Bidzina Ivanishvili and Ivane Chkhartishvili, Deputy Prime Minister and Minister of Economy in the times of Eduard Shevardnadze. It is precisely they who are the main beneficiaries.

The findings we have published in the reports over the years are explicitly supported by Pandora papers revealed by the International Consortium of Investigative Journalists in late September 2021, which documented the connection between the former Prime Minister of Georgia and Brightstone Finance Limited, a company registered in the Virgin Islands.

We have investigated and substantiated how two branches of power: judicial and executive, handed over one of Georgia's most important strategic facilities, the Poti Free Industrial Zone, to the bankrupt and involved in criminal scandals Chinese company CEFC China Energy, and how, after the bankruptcy, in circumvention of the law, the latter came under the unfettered control of Bidzina Ivanishvili and Ivane Chkhartishvili. The decision of the court, notwithstanding any criticism, serves the only purpose - to maintain the former prime minister's complete control over the Poti FIZ, and to prevent the property from being returned to the state.

⁹ See also study from Civic IDEA, at <https://bit.ly/3iHenZk>

From open and accessible sources on the Internet, we learn that in 2014-2016 CEFC China Energy was one of China's fastest-growing companies, with assets valued at \$41 billion. Along with the vertiginous short-term success, CEFC's "portfolio" was soon supplemented by criminal scandals and sanctions, and at last, it permanently [took its place on the list of bankrupt companies regulated by the Supreme Court of China.](#)

On November 21, 2017, [the New York Times \(NYT\) published an article](#) reporting on the ongoing court case of the arrest of Patrick Ho one of the leaders of the CEFC in New York, the criminal network created by him, and corruption. We should recall that, on December 29 of the same 2017, based on a decree of the Georgian government, were signed contracts on the transfer of 75% of the Poti Free Industrial Zone to CEFC.

[According to the NYT](#), the purpose of **Patrick Ho's** trip to New York was the bribing of high-ranking African officials in favor of a Chinese private company, a fact later confirmed by the charges brought by the prosecutor. [Mr. Ho is currently in custody](#) and charged with violating international acts of money laundering and the Foreign Corrupt Practices Act.

In addition to Patrick Ho, the founder and head of the company, Mr. **Yu Jiangming**, who also visited Georgia and negotiated together with the government with Ivane Chkhartishvili, according to the NYT, also is a subject of interest of the investigation and is probably also in custody.

On March 27, 2018, the influential Bloomberg reported that all assets of a "Chinese conglomerate in trouble" were blocked, its chairman prosecuted, and the company itself was waiting to be taken over by the government. Finally, on April 24,

2020, the official announcement of CEFC bankruptcy was published, according to which CEFC itself and its subsidiaries were declared bankrupt by the Shanghai court.

At the same time when the company was under investigation in several countries, and an indictment was underway, the [Georgian government issued a decree](#) in September 2017 providing for the privatization by way of direct sale of 75% of the share of the state-owned company - Poti Free Industrial Zone LLC in favor of CEFC (Euro-Asian) LLC. The process was completed a few months later, on December 29, 2017, when the state transferred 75% of the share of Poti FIZ to the CEFC's filial branch in Georgian - CEFC (Euro-Asian) LLC.

Obviously, according to the government decree, the main conditions of privatization were defined, the fulfillment of which was entrusted to CEFC in exchange for shares of the Poti Free Industrial Zone. Among them was the payment of the privatization sum and investments of \$150 million for development of the Poti Free Industrial Zone. There were also defined terms and conditions according to which non-compliance with the conditions of privatization provided for the seizure of property, and compliance - the transfer of property into 99 years of ownership.

Naturally, the question that has to be answered is why the Georgian government decided to cede its strategically valuable property in favor of an internationally unfavorably known company?

The answer is absolutely trivial and corruption-related. The answer is that there are people with their own interests in the Managing Company of Poti FIZ. The managing company is Eurasian Management Group LLC, chairman of the board of which is the above mentioned Mr. Chkhartishvili, and in which Mr.

Garibashvili¹⁰ the former Prime Minister of the country, dismissed from office, was employed. 50% of the shares in the company belong to Eurasian Invest LLC, where **Brightstone Finance Limited**, registered in the UK, owns a controlling stake (**51%**), the latter, in turn, is owned by former Georgian Prime Minister Bidzina Ivanishvili.

Analysis of the above facts reveals that in 2017 by [government decree](#) Prime Minister Kvirikashvili handed over Poti FIZ to [Chinese state-owned company CEFC](#), although he could not have been unaware of the fact that management of this company was actually in the hands of former Prime Minister Mr. Ivanishvili and Mr. Chkhartishvili. It is even more doubtful that Prime Minister Giorgi Gakharia did not know about it either, who in 2020 had written off all their outstanding obligations and helped them gain complete control over Poti FIZ.

Meanwhile, the managing company is trying to gain complete over Poti FIZ, and in 2020, two weeks apart, as a result of two court decisions, the Eurasian Management Group LLC received full rights to make any decisions on behalf of CEFC LLC.

It is a reliable fact that the judge cannot justify the necessity of satisfying the claim and is guided by contradictory arguments for the simple reason that he is forbidden to focus on the main problem. The main problem is not that the Chinese company to whom the property was handed over by a government act, does not exist anymore, so the only sound decision would be to return the property to the state, which in itself implies the seizure of this property from Mr. Ivanishvili. The Georgian

judicial system is incapable of making such a decision.

Meanwhile, due to this simple corrupt scheme, the country's strategic interests in Anaklia have been sacrificed. During Georgian Prime Minister Bakhtadze's visit to the United States in June 2019, the then U.S. Secretary of State stated quite openly and publicly at a press conference that the successful completion of the Anaklia Port project was one of the main opportunities to ensure that the country does not fall under "Russian or Chinese economic influence. Those pretended friends do not have Georgia's best interests at heart".¹¹

10 Mr. Gharibashvili served as Prime Minister from 2013-2015 and returned to the position in February 2021.

11 See also, Secretary Mike Pompeo Reaffirms Strategic Partnership in Meeting PM Bakhtadze." Civil.ge, June 12, 2019. <https://civil.ge/archives/308115>

Georgia

Capital – Tbilisi

Total Area - 69 700 sq km

Population - 3,982,066

Ethnic Groups - Georgian (86.8%), Azerbaijanis (6.3%), Armenian (4.5%), Other (2.3%)

Religion - Orthodox (83.4%), Muslim (10.7%), Armenian Apostolic (2.9%), Other (1.2%)

Government - Unitary parliamentary constitutional republic

Global State of Democracy – [Mid-range performance Democracy](#)

Global Freedom Score – [60/100 Partly Free](#)

Corruption Perceptions Index – [56/100 \(2020 score\), 45/180 \(2020 rank\)](#)

GDP (Per capita) – [USD 4.36 thousand \(2021 est.\)](#)



Georgia is a part of the Caucasus region and is bounded by the Black Sea (from the West), Russia, Turkey, Armenia, and Azerbaijan. Georgia experienced substantial economic reforms before the pandemic. However, the economic growth did not create sufficient employment, and the unemployment rate stayed high. Georgia's economy faced a deep recession due to [the emergence of the coronavirus](#), also reflecting on the inflation of the local currency. According to the National Bank of Georgia, in 2019, the gross external debt of Georgia made [\\$18.6 billion](#), which accounted for 105.1% of its annual 2019 GDP. In the fourth quarter of 2020, it increased by \$640.1 million, and in 2021, Georgia's external debt reached [\\$20.3 billion \(127.7% of its annual 2020 GDP\)](#).

In 2020, Georgia's state budgetary revenues were set at [GEL 14.55 billion](#) (\$4,627,922,775.93), expenditures – [Gel 14.2 billion](#) (\$4,508,218,844.23). In December 2020, the Georgian parliament confirmed the 2021 state budget, according to which the revenues are expected to reach GEL 16.76 billion (\$5.1 billion), expenditures are set at [GEL 18.38 billion](#) (\$5,856,629,950.48). Compared to 2020, both expenditures and revenues have increased.

[Georgia's main exports](#) comprise copper

ore, cars, ferroalloys, wine, and medicaments, and its top imports are cars, refined petroleum, medicaments, petroleum gas, and copper ore.

China is among Georgia's top five largest economic partners, number one trading partner by exports ([\\$355.3 million in 2020](#)) and the [third largest partner](#) (after Turkey and Russia) in terms of the imports amounting to \$509.6 million in 2020. According to the National Statistics Office of Georgia, in 2020, Sino-Georgian trade turnover reached [\\$1.2 billion](#). By March 2021, Georgia's exports to China already accounted for [\\$55.983 million](#) and imports from China recorded [\\$43.759 million](#). If we compare the March export-imports to the February 2021 data (exports - \$26.939 million, imports - \$42.968 million), we will see that the numbers are increasing monthly.

TOP TRADING PARTNERS BY EXPORTS
IN JANUARY-SEPTEMBER 2020

	JANUARY-SEPTEMBER 2019	JANUARY-SEPTEMBER 2020	JANUARY-SEPTEMBER 2020	CHANGE AS % OF 2019
	VALUE IN MILLION GEL	VALUE IN MILLION GEL	VALUE IN MILLION GEL	
TOTAL EXPORTS	2 709 408.2	2 680.0	2 680 000.0	-0.1
EU states				
Greece	224 000.0	0.0	224 000.0	0.0
Azerbaijan	161 408.2	12.2	161 408.2	0.0
Russia	170 742.2	12.8	170 742.2	0.0
Belgium	162 000.0	7.9	162 000.0	0.0
France	160 000.0	4.8	160 000.0	0.0
Turkey	154 000.0	5.2	154 000.0	0.0
Germany	170 000.0	0.0	170 000.0	0.0
Armenia	17 000.0	0.0	17 000.0	0.0
Spain	16 000.0	0.0	16 000.0	0.0
United Kingdom	17 000.0	0.0	17 000.0	0.0
Other EU states	17 000.0	0.0	17 000.0	0.0
Other countries	1 100 000.0	17.0	1 100 000.0	0.0

Chinese Malign Economic and Security Influence in Georgia

Ani Kintsurashvili

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Introduction: PRC's impact on Georgia's critical infrastructure assets

It has been four years since the non-governmental organization Civic IDEA has been actively researching the influences of the People's Republic of China in Georgia. Our research is based on facts and analysis and aims to portray the dangers, which the growing leverage of the Chinese Communist Party poses to Georgia's national security and democratic development.

From the beginning of our activities until today, the domination of Chinese companies in Georgia's economic sector has been clearly involving the country in massive corruption schemes. Any genuinely democratic state can deal with such cases by taking adequate measures to further reduce corruption risks. Unfortunately, the Georgian state does not belong to their ranks and shows particular weakness in the fight against corruption. Moreover, members of the government elite are often involved in these fraudulent schemes and, therefore, turn a blind eye to the illegal or corrupt activities of the Chinese firms, usually explained by the personal interests of specific individuals or simply the weakness of state institutions. The fact remains that every year a new Chinese firm, wrapped in international scandals, conquers the Georgian market. Their activities are mainly limited to implementing critical infrastructure projects in Georgia; however, some of them also indirectly (and sometimes directly) expand their influence into education, defense, security and other spheres.

Below, we provide our audience with an incomplete list of Chinese companies operating in Georgia and carrying high corruption risks. Most of them have already become the object of our research:

- [CEFC China Energy Co., Ltd.](#)
- Toption Group Co., Ltd.
- China Nuclear Industry 23 Construction Co., Ltd. (subsidiary of China Nuclear Engineering Group Co. Ltd.)
- Fujian HADA Intelligence Technology Co., Ltd.
- [China Railway 23rd Bureau Group, Co., Ltd.](#)
- SHENZHEN SED INDUSTRY CO., Ltd. (China)
- China Energy Engineering Group Northwest Power Construction Engineering Co., Ltd.
- [TBEA Shenyang Transformer Group Co., Ltd.](#)
- [Nuctech Company Limited \(Nuctech Co., Ltd.\)](#)
- Tulip Import & Export Co Limited (Tulip Imp. & Exp. Co., Ltd.)
- [Sinohydro Corporation Limited.](#)
- China State Construction Engineering Corporation Ltd.
- [China Road and Bridge Corporation.](#)
- [Motor Sich \(Ukraine-based, China-owned company\).](#)

To better demonstrate the scale of the problems mentioned above, we can recall the case of David Saganelidze, Executive Director of the Georgian State Partnership Fund and a close associate of Georgia's shadow leader, Bidzina Ivanishvili. Mr. Saganelidze is one of the main inspirers of the growth of Chinese business and Chinese influence in Georgia in general. A former leader of the Georgian Dream party (2012-2016) in parliament, with a Soviet past, he currently serves as the Executive Director of the State Partnership Fund, a fund set up to attract foreign investment and promote Georgian business abroad. Many Chinese companies operate in Georgia under the leadership of the

Partnership Fund. Among them is the scandalous China Energy Company Limited which we will discuss in detail later. Simultaneously with his current post, Mr. Saganelidze has also been an advisor to Huahe International, a Xinjiang-based company founded in 2016 by a former Chinese government official, Liu Chuanwu. In 2016, Huahe International and the Partnership Fund signed a Memorandum of Understanding (MOU) on Strengthening Trade Relations Between Georgia-China, Business Development and Investment. This would seem to put Mr. Saganelidze and the Partnership Fund in an apparent conflict of interest, obscuring whom he was representing in negotiating the cooperation MOU.

We started investigating the shady ties between the Georgian business-political elite and the Chinese Communist Party from the Chinese company China Energy Company Limited, often referred to as CEFC. This company has a negative reputation worldwide and its major shareholders and owners have been accused of corrupt transactions and have been imprisoned in several countries throughout the world. For example, the Chairman of both the non-profit and the main commercial company CEFC China, Ye Jianming, was arrested in New York on several charges. In 2018, he disappeared and a Chinese state-owned investment company acquired the CEFC's foreign assets. As for the company's activities in Georgia, its representatives have established strong ties with Mr. Ivanishvili's trustees. One of them is Ivane Chkhartishvili (a Georgian businessman with a Soviet past and the Vice-Prime Minister and Minister of Economy of Georgia during Eduard Shevardnadze's rule). Mr. Chkhartishvili also heads the Georgian-Chinese Center for Economic and Cultural Development under which the Georgian-Chinese Friendship Association (GCFA) was established. The Chinese Communist Party has established similar friendship associations around the world in order to pursue its interests abroad.

Consequently, thanks to the Georgian business elite, Georgia is no exception. Moreover, in 2016, Qing Chan Zeng, CEO of the CEFC, was elected President of the GCFA which is a direct indication of the close connections between this company and the Chinese soft power inspiring organization.¹

In addition, CEFC China owns significant assets of critical infrastructure in Georgia; more specifically, the state transferred 75% of the Poti Free Industrial Zone (FIZ) to the CEFC branch in Georgia - CEFC (Euro-Asian) Ltd. on December 29, 2017. From June 22, 2018, 75% of the Poti FIZ has been managed by the Eurasian Management Group Ltd. whose directors are Gianwei Fan and Rati Ghvamberia and whose Chairman of the Supervisory Board is Ivane Chkhartishvili. In September 2020, Rati Ghvamberia was appointed as the sole director of the Eurasian Management Group Ltd. based on the utterly unsubstantiated and legally unfounded decisions of the Tbilisi City Court. Since the Chinese parent company CEFC is already officially bankrupt, the sole manager of its Georgian branch remains the Eurasian Management Group Ltd. which in turn is managed by Rati Ghvamberia and Ivane Chkhartishvili.

In September 2020, Civic IDEA applied to the National Agency for State Property and requested a copy and all the appendices of the contract signed between the LEPL - National State Property Agency (affiliated with the Ministry of Economy and Sustainable Development of Georgia) and the CEFC (Euro-Asian) Ltd. for the purchase of the share of the Poti FIZ. However, the agency refused to provide us with the necessary documents, basing its decision on the contract's confidentiality. We have appealed this refusal to the Tbilisi City Court. According to the case law of Georgia, "the right to disclose information is opposed to

¹ See information on the shady deals between the Chinese CEFC and the Georgian business/political elite: <https://civicidea.ge/en/georgias-china-dream/>

the obligation of the governmental agency to conduct administrative proceedings publicly and transparently, to ensure the interests of the citizens.” Due to its strategic importance, the Poti FIZ is of special importance for the country’s economic development as well as for the attraction of investors and new capital. Therefore, when it comes to privatization, there is a high public interest in implementing the transaction and the terms of privatization. Hence, this information should be as transparent and accessible as possible. Nevertheless, the Tbilisi City Court did not comply with our request and refused to instruct the National Agency for State Property to provide us with this agreement. This circumstance points out the opacity of state structures and impedes the control of citizens and civil society over the international obligations adopted by or towards the state.

Although the CEFC bankruptcy case is currently closed, there is still another essential and dangerous circumstance for Georgia’s national security. According to CEFC bankruptcy documents, their largest creditor, the Russian-owned VTB Bank, **can fully own any of the company’s assets under the mortgage guarantee, including shares of the Poti Free Industrial Zone.** Despite Civic IDEA’s numerous appeals, the Georgian government has refrained from any explanation.

It is also important to note that Irakli Gharibashvili, the re-elected Prime Minister, previously serving as the Minister of Defense and the Minister of the Internal Affairs, served as an advisor to the CEFC Governing Board on regional project management after initially resigning from the Prime Minister’s post in 2015. According to his property declaration, during his service as an advisor, he received a total of a substantial salary of GEL 169,926.²

PRC Interests in Georgia’s Security Sector

Unfortunately, the CEFC is not the only company associated with Irakli Gharibashvili’s name and the corruption threats of the Georgian business and political elite. On January 23, 2021, during Mr. Gharibashvili’s tenure as the Minister of Defense, a Ukraine-based China-owned military-industrial company, Motor Sich, signed a trilateral memorandum with the Georgian State Military Scientific-Technical Center DELTA and Tbilisi Aircraft Manufacturing (TAM), also known as JSC Tbilaviamsheni. Within the framework of the document, Motor Sich was planning to modernize the aircraft belonging to the Georgian defense forces. According to the official statement of Georgia’s Defense Ministry, the company had cooperated with the Georgian state institutions before. It is of particular interest when the cooperation between the two sides was concluded as, since 2017, Motor Sich has been under scrutiny of the security services of different countries and the object of attention of Georgia’s strategic partner, the United States. Back in 2017, the Ukrainian security service launched a criminal investigation concerning the purchase of Motor Sich by the Chinese company Skyrizon Aviation Industry Investment Co. Ltd. and later froze its shares (controlling stake). In 2019, statements by the US Presidential Adviser John Bolton also directly opposed the interests of the Chinese military industry in Ukraine. “We laid out our concerns about ... unfair Chinese trade practices, threats to national security we’ve seen in the United States...” he noted during his visit to Ukraine. In 2019, the Ukrainian SBU launched a new investigation and accused the executives of the Motor Sich plant in Donbas of “financing terrorism” as manifested in their illegal payments

² Tinatin Khidasheli Comments on the Chinese Company CEFC: <https://bit.ly/3IdECSq>

to the Russian-backed military forces in the conflict region. Later in 2021, the US Department of Commerce and the President of Ukraine included the Chinese Skyrizon Aviation Industry Investment Co. Ltd. in the list of sanctioned companies.

The Motor Sich company is associated with many other scandals worldwide, including Belarus, Nigeria and India. Nevertheless, the Georgian Defense Ministry continues to negotiate new memorandums and agreements with the controversial company, suggesting that this cooperation is in the personal interests of specific individuals and, at the same time, poses significant risks to Georgia's defense and national security. With the growing Chinese influence, we can assume that at the request of the Chinese Communist Party, Motor Sich will be ready to provide them with critical information about Georgia's defense sector.³

The Chinese Nuctech Company Limited, which manufactures security X-ray scanners mainly for border checkpoints, customs, ports and airports, poses a similar threat to Georgia's national security. The company was founded by the son of Hu Jintao, the former Secretary-General of the Chinese Communist Party. First, it appeared on the Georgian market in March 2008 when the then Georgian Finance Minister, Nika Gilauri, signed an agreement with Nuctech on behalf of the Georgian government on the implementation of the project for the supply of inspection complexes to the government. Two years prior to this agreement, Nuctech's name had already been featured in corruption, money laundering, bribery and fraud scandals in the Philippines and Namibia. In 2010, the European Union charged the Nuctech Company Ltd. with dumping and imposed a temporary anti-dumping ban on imports of its scanning systems. However, these events did not prevent the then Georgian government

from deepening its future cooperation with the company.

In June 2010, the Vice-Minister of Commerce of the People's Republic of China, Fu Xing, visited Georgia with a Chinese government business delegation to establish close ties between the two countries. Already in 2012, the State Revenue Service procured X-ray scanner systems for the Kazbegi and Red Bridge customs checkpoints in violation of Georgian legislation.⁴ The latter purchased the goods from the Nuctech Company Limited through a simplified procurement without competition, eventually paying about GEL 667,640.8 (USD 215,368) extra. In 2011-2013, the other bidder companies submitted substantiated claims that the specifications of the technical assignment at the procurement facility were tailored to the Nuctech Company Limited and were so complicated that many suppliers were barred from participating. In the next procurement initiated by the Revenue Service, with the tender also won by the Chinese Nuctech, the contractual obligations of the company had to be fulfilled by January 8, 2015, although it has not been completed yet.

Despite the violations identified in Georgia, the Revenue Service continues to actively cooperate with the company within the framework of simplified public procurements. In 2018-2020 alone, this state agency purchased products worth a total of GEL 18,227,139,68.8 (USD 5,870,722.48) from the Nuctech Company Limited.

While the Chinese Nuctech was actively winning tenders in Georgia, the US Transportation Security Administration restricted its access to critical domestic industries and banned the use of its safety equipment. The Lithuanian government followed the US and officially banned

³ See our report on Motor Sich: <https://civicidea.ge/en/echo-of-the-rocket-fraud-in-georgia-defense-memorandum-with-motor-sich/>

⁴ See our report on the activities of the Nuctech Company Limited: <https://civicidea.ge/en/civic-ideas-6th-china-watch-report-nuctech-company-ltd-in-georgia/>

equipment manufactured by the company. However, Georgian government agencies have made little or no attempt to investigate the company's reputation, either due to personal interests or general ignorance. The reality is that if necessary, the Chinese Communist Party can easily access Georgia's critical customs/border information through this particular company.

Corruption Deals of the Georgian Roads Department with Notorious Chinese Companies

The Georgian Roads Department is incredibly lenient to Chinese companies known for corruption scandals and, unfortunately, they hand them the country's most critical infrastructure projects. These companies have several common characteristics:

- Private or state, all companies are directly or indirectly controlled by the Chinese government, serving the foreign policy goals of the Chinese Communist Party.
- These Chinese companies mainly operate in developing, or less developed countries, where the level of transparency of state structures is low, the lack of democratic principles is visible and corrupt deals are relatively easy to achieve.
- All Chinese companies that have been the subject of our research so far are being blacklisted by many international institutions (e.g., World Bank, African Development Bank, International Monetary Fund, etc.) and the governments of various countries worldwide.

The Chinese company Sinohydro has been actively operating in the Georgian market for 11 years already. Its name is associated not only with numerous cases

of misconduct or breach of contracts, but also with the winning of a GEL 37 million dispute against the Georgian state in a Dispute Board which was not objected by the Georgian government. On the contrary, government members often make mutually exclusive or positive comments about this company. For example, the former Minister of Infrastructure, Maia Tskitishvili, once mentioned that she is satisfied with Sinohydro because it performs work faster and with a high quality. However, the opposite is indicated by Sinohydro's completed, unfinished and quickly damaged roads in Georgia. Contrary to her statement, the Minister herself called the Samtredia-Grigoleti highway project, won by Sinohydro, as particularly problematic in a video posted on the YouTube page of the Ministry of Infrastructure as she talked about drawbacks and the multiple postponements of the project's completion deadlines.⁵ As for the Kobuleti bypass road, the Minister's comments on Sinohydro's efficient work were contradicted by the statement of her deputy minister, Irakli Karseladze. In 2018, the latter met with representatives of Sinohydro and threatened them with sanctions in the case of not completing the second section of the Kobuleti road on time. The government's lies and contradictory statements make the issue of the construction of important infrastructure projects by Sinohydro even more obscure. The company itself is associated with scandals in Malaysia, the Philippines, the Congo, Botswana, Mali, Ghana, Nigeria, Uganda, Kenya, Zimbabwe, Zambia, Romania and North Macedonia. Even more doubtful is the fact that, while the African Development Bank⁶ and the World Bank⁷ were reviewing

5 Statement of the former Minister of Infrastructure, Maia Tskitishvili, on Sinohydro's overdue deadlines: https://www.youtube.com/watch?v=yS_8Wzw21E8

6 See information on the African Development Bank blacklisting Sinohydro: <https://www.herald.co.zw/afdb-blacklists-sinohydro/>

7 See information on the World Bank blacklisting Sinohydro: <https://business.inquirer.net/217467/chinese-company-banned-by-world-bank-bags-ph-infrastructure-project>

Sinohydro's inclusion in the blacklist and when the International Monetary Fund⁸ was discussing plans to pull different countries out of Sinohydro's debt-trap, the company was signing a contract in Georgia in hopes of getting even more benefits.

The lack of due diligence in Georgian state structures, if not the personal interests of specific individuals, has ultimately led to the occasion that five critically important infrastructure projects in Georgia are officially in the hands of Sinohydro. Within the existing projects, the following records occur:

- **Sinohydro damages the Georgian environment and illegally extracts natural minerals.** More specifically, the company illicitly removed inert materials and gravel which led to the flooding of the area and the destruction of agricultural land. In addition, Sinohydro illegally felled 841 trees in Rustavi for which a criminal case was initially launched. However, it is still unknown whether the company fulfilled its duty imposed by a court decision.
- **Sinohydro violates the labor rights** of its workers. The company has systematic problems with protecting the health and safety of its employees which is in direct conflict with the rules and procedures set out in labor safety legislation. Employees do not undergo periodic medical examinations, they do not have first aid kits, fire and electrical safety is not provided, heavy equipment is not fully maintained, employees do not have personal protective equipment and the area is not cleaned, etc.

Despite the violation of the deadlines stipulated in the contracts of various projects, the damage to the environment, the violation of labor rights and the winning

of a dispute filed against the Georgian state, Sinohydro continues to succeed in winning new infrastructure tenders announced by the Georgian Roads Department. After all the misconduct discussed above, Sinohydro won a new international tender in 2020 for the 42-km section of the Khulo-Zarzma road in Georgia.⁹

Like Sinohydro, the Chinese company China Railway 23rd Bureau Group Co., which first appeared on the Georgian market in 2010 and established a permanent branch, is also known for violating local worker rights. The company won a USD 278 million tender announced by the Georgian Roads Department and commissioned the construction of a tunnel on the Zestaponi-Kharagauli and Moliti-Kvishkheta road sections. During the project, three workers were injured during a tunnel explosion in 2018 and two workers died while performing their work earlier in 2017.

Moreover, due to the misconduct within the East-West highway corridor improvement project in Georgia, the World Bank imposed a nine-month ban on the China Railway 23rd Bureau Group Co. In 2019. It turned out that under the USD 164 million project, the Chinese firm had misrepresented the information about the number of staff and equipment. Also, there were certain inaccuracies observed regarding the experience of the company and its subsidiaries which is considered a fraudulent practice within the framework of the World Bank administrative sanctions system. We have learned from the information requested from the Ministry of Infrastructure that the Roads Department assigns the responsibility for the participation of the company blocked by the World Bank in the construction of the Kvasheti-Kobi highway to the Asian Development Bank (ADB). Indeed, this project belongs to the North-South highway corridor sponsored

8 The IMF has intervened in writing off a USD 9 billion debt deal between the Congo and Sinohydro as it found such a loan too expensive and risky. <https://www.ft.com/content/fd323eda-a032-11e2-88b6-00144feabdc0>

9 See the invitation for bids published by the Georgian Roads Department: <http://www.georoad.ge/?lang=geo&act=tenders&func=menu&uid=1583761969>

by the Asian Development Bank which also started in 2019 (until 2021) with a total cost of GEL 324,242,222.86. Nevertheless, the Ministry of Infrastructure did not comment on the abovementioned East-West highway corridor. This information was initially requested by us and became the main reason for the ban by the World Bank.¹⁰

The scandalous China Road and Bridge Corporation (CRBC) collaborates with the Georgian Roads Department on two significant projects. Like the other companies mentioned above, this Chinese company was blacklisted by the World Bank in 2009 for its fraudulent activities in the first phase of the Philippine National Roads Improvement and Management Program (NRIMP 1) tender. The Chinese firm was banned from participating in all World Bank-funded infrastructure projects for eight years. The controversial activities of the China Road and Bridge Corporation are also observed in Kenya, Uganda, Kyrgyzstan, Croatia and Ukraine. However, despite the shortcomings in other countries, the Georgian government continues to actively cooperate with the representatives of the CRBC and signs new contracts with them.¹¹

In 2020, one of the employees of the Ubisa-Shorapani road section provided the Georgian TV channel Rustavi 2 with footage of labor safety violations at the construction site. According to the tapes, the China Road and Bridge Corporation did not adhere to minimum sanitary norms in the workplace. Local employees were obliged to work overtime without any safety conditions created in the area. The employee also provided footage to the Labor Inspectorate which later became the real reason for his

dismissal. Two days later, the tin roof of the workshop collapsed at the construction site, slightly injuring two Chinese nationals and seriously injuring one Georgian national. A few months later, while working on a construction site, a China Road and Bridge Corporation bulldozer operator was again seriously injured when a bulldozer hit him in the leg which required amputation of the limb and left him incapacitated. The Labor Inspectorate gave only a few recommendations to the China Road and Bridge Corporation, and in fact, no sanctions were imposed on the company.

Fraudulent Deals between the Georgian State Electric System and the Scandalous Chinese Company TBEA

Another subject of our research was the CCP-owned company, TBEA Shenyang Transformer Group, which appeared on the Georgian market relatively late in 2017 and won two of the JSC Georgian State Electric System's significant tenders. Looking at its victory in the tenders, we get the impression that the tender commission is doing everything it can for TBEA to win the bids by beating out other bidders. The following circumstances serve as evidence:

- The range of some technical specifications was changed in the first tender, limiting the opportunity for other bidders to participate in and win the tender. Subsequently, the tender was won by TBEA but the fulfillment of the contract obligations was delayed by nine months.
- In the case of the second tender, the best offer was again made by Shoreteli Holding Group Ltd. but it was disqualified due to the suspicious disappearance of the price table from the system. The tender commission

¹⁰ See our report on the activities of Sinohydro and the China Railway 23rd Bureau Group Co.: <https://civicidea.ge/en/civic-ideas-third-china-watch-report-covers-the-controversies-over-sinohydro-china-railway-23rd-bureau-group-co/>

¹¹ See our report on the activities of the China Road and Bridge Corporation in Georgia: <https://civicidea.ge/en/3306-2/>

further disqualified the bidder with the best offer - Ensol Ltd., for not agreeing to the technical assignment. Following the disqualification of the bidders, TBEA finally became the winner of the tender again. The latter was not able to fulfill the terms of the contract this time either. Therefore, its contract was extended for one year and other terms of the contract were changed as well.

Like other Chinese companies, TBEA is distinguished for its international scandals. The company's activities extend to almost every continent, including Asia, Europe, North and South America, Australia and Africa. The main driving force of its activities worldwide is the Chinese Communist Party and the Chinese state-owned Exim Bank. Moreover, the TBEA Chairman, Zhang Xin, is a member of the Chinese Communist Party. In addition, the company participated in the illegal machinations of the Xinjiang Changji Forced Labor Camp where prisoners were subject to extreme cruelty, torture, starvation and inhuman treatment. The company violated the labor rights of prisoners, forcing them to work without any compensation. The company also left the population of Kyrgyzstan without electricity and heating in -27 C-degree weather. It is intriguing why the Georgian state electricity system turns a blind eye to TBEA's international legal violations while granting various privileges to it.¹²

Conclusion

We continue to investigate the Georgian and international practices of scandalous Chinese companies in order to expose further their misconduct, corrupt and fraudulent transactions, low-quality work and violations. Although, it is already

clear that the Georgian government fails to properly investigate the companies to which it hands expensive projects which are often critical for Georgia's national security. The personal interests of the Georgian business and political elite are often behind this behavior which leads to a continuous chain of corrupt deals. Unfortunately, such actions and disrespect for the democratic principles of the Georgian government show a sense of future insecurity. The fact is that despite the COVID-19 pandemic and numerous suspended business activities, Chinese companies are still actively establishing themselves in Georgia.

Summary is based on Civic IDEA's China Watch Reports:

Georgia's China Dream, 2020, <https://civicidea.ge/en/georgias-china-dream/>

SinoHydro & China Railway 23rd Bureau Group Co. in Georgia, 2020, <https://civicidea.ge/en/civic-ideas-third-china-watch-report-covers-the-controversies-over-sinohydro-china-railway-23rd-bureau-group-co/>

Tebian Electric Apparatus Stock Co Ltd. (TBEA) in Georgia, 2020, <https://civicidea.ge/en/civic-ideas-4th-china-watch-report/>

Echo of the Rocket Fraud in Georgia: Defense Memorandum with "Motor Sich", 2021, <https://civicidea.ge/en/echo-of-the-rocket-fraud-in-georgia-defense-memorandum-with-motor-sich/>

Nuctech Company Ltd. in Georgia, 2021, <https://civicidea.ge/en/civic-ideas-6th-china-watch-report-nuctech-company-ltd-in-georgia/>

China Road and Bridge Corporation in Georgia in Georgia, 2021, <https://civicidea.ge/en/3306-2/>

¹² See our report on the TBEA Shenyang Transformer Group: <https://civicidea.ge/en/civic-ideas-4th-china-watch-report/>

Armenia



Capital – Yerevan

Total Area - 29,743 sq km

Population - 2,968,327

Ethnic Groups - Armenian (98.1%), Yazidis (1.2%), Kurds (0.1%), Assyrians (0.1%), Russians (0.4%), Other (0.1%)

Religion - Armenian Apostolic (92.6%), Evangelical (1%), other (2.4%), none (1.1%), unspecified (2.9%)

Government - Unitary parliamentary republic

Global State of Democracy – [Weak/low performance Democracy](#)

Global Freedom Score - [55/100 Partly Free](#)

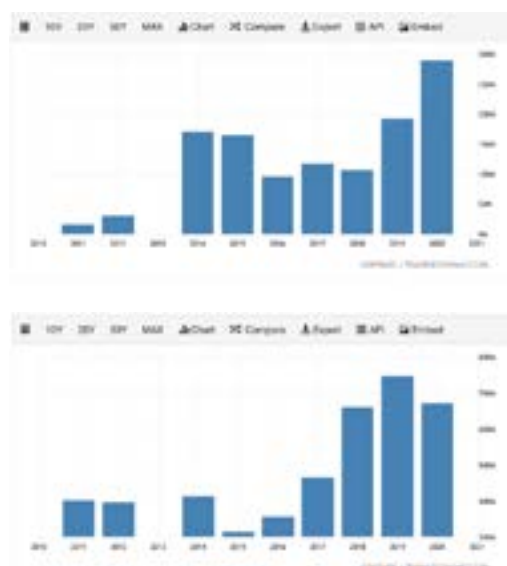
Corruption Perceptions Index – [49/100 \(2020 score\), 60/180 \(2020 rank\)](#)

GDP (Per capita) – [USD 4.13 thousand \(2021 est.\)](#)

The Republic of Armenia is part of the Caucasus region and is bordered by Georgia, Azerbaijan, Turkey, and Iran. Before the pandemic, Armenia experienced strong economic growth and specific progress in its business environment and macroeconomic policies. According to [World Bank statistics](#), the value of Armenia's external debt reached \$5,793,995.16 ([45.60% of the country's GDP](#)) in 2019. Loans and borrowings [financed the deficit](#) invoked by the pandemic, tax revenues, and military expenditures in 2020 while pushing the public debt above 60% of the country's GDP. As recently published by the [VisualCapitalist](#), in 2021, Armenia's external debt equals 70% of its GDP ratio.

In 2020, [Armenia's state budget revenues](#) were expected to be 1.7 trillion drams (about \$3.6 billion), expenditures - 1.9 trillion drams (\$4 billion) and [deficit - 182.6 billion drams](#) (\$353,508,258.76). In December 2020, the Parliament of Armenia adopted the draft state budget for 2021. The [revenues of the RA state budget](#) are projected at AMD 1,509.5 billion, equating to \$2,904,335,530.15. The deficit of RA state budget is AMD 341.4 billion (\$657,087,196.86). Therefore, in contrast with 2020, budget revenues decreased and the deficit increased.

China is Armenia's [third-largest export partner](#) after Russia and Switzerland. In 2019, the PRC was among the [three most common destinations](#), where Armenia exports its primary goods and natural resources, copper ore, gold,



tobacco, liquor, and ferroalloys. Surprisingly, the Covid-19 outbreak and the global recession did not prevent the improvement of the Sino-Armenian trade relations. Even though Armenia's overall imports/exports fell in 2020, trade between the two countries [rose by 2%](#), making the trade turnover [almost \\$1 billion](#). According to the UN COMTRADE data, in 2020, Armenia's exports to China [were \\$289.92 million](#).

Despite the rise in exports, Armenia's imports from China decreased in 2020 and amounted to [\\$672.35 million](#). Nevertheless, China remained [the second-largest imports partner](#) of Armenia (15% share), after Russia (33% share).

Sino-Armenian Political Relations and Armenian Investments in China

Artak Kyurumyan

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Acronyms & Abbreviations

AIIB - Asian Infrastructure Investment Bank
BRI - Belt and Road Initiative
CSTO - Collective Security Treaty Organization
DCFTA - Deep and Comprehensive Free Trade Area
EAEU – Euro-Asian Economic Union
FDI - Foreign Direct Investment
FTA - Free Trade Agreement
IRFBA - International Religious Freedom or Belief Alliance
MESCS - Ministry of Education, Science, Culture and Sports of the Republic of Armenia.
RAU - Russian Armenian University

Abstract

The paper reviews Sino-Armenian political relations and the performance of Armenian investments in China. Sino-Armenian relations are described by high-level mutual trust between leaderships. Expert community was hoping that relations with China may help Armenia reduce dependence on Russia. Armenian high-level government officials regularly had face-to-face and online meetings and discussions with Chinese diplomats and business representatives and three first Presidents of Armenia had state visits to China. Despite commitment by authorities, Chinese investment in Armenia is at extremely low level. Some members of expert community think that Armenia has working relations with China while others think that Armenian-Chinese relations are in stagnation. Armenian authorities don't have vision or strategy on how to build relations with China. Russia had and has huge impact on Armenian foreign policy and holds levers to influence them.

Nevertheless, the case of Armenia stays important as for several years different Armenian governments were positive about Armenian-Chinese joint venture Shanxi-Nairit. Shanxi Nairit does not utilize its full capacity and was not able to cover its costs and accumulated huge losses. After 2018 the representatives of the Revolutionary government were also represented in the board of Shanxi Nairit and were assuring that they are doing important job. However, large parts of the Armenian community think that government officials use such opportunities to travel and actually don't create any substantial value added.

Introduction

Armenia experienced a devastating 2020 because of COVID-19, failures in domestic politics and the war in Artsakh (also known as Nagorno-Karabakh). Domestic political tensions led to snap elections on June 20,

2021. The election campaign was very hostile. The election agenda was dominated by the security issue; that is, whether or not Armenia has diplomatic, military, material and financial capacity to assure the security of its borders and its citizens and build reliable alliances with Russia or the West.

Relations with China were not a priority on the agenda of any party participating in the elections. Although China is considered an important partner, it does not make large investments in Armenia and is not represented in or covered by the Armenian media. The program of the ruling party highlighted that it is going to be proactive in strengthening the friendly and mutually beneficial links and establishing new cooperative relations with China, India and Japan. Despite the rhetoric, Armenia does not build any visible relations with the above-mentioned countries, including China. China builds relations with Armenia by means of Russia and the Eurasian Economic Union (EAEU).

The results of the Armenian elections were surprising for many. The victory of Pashinyan's Civil Contract Party can be largely attributed to the fact that the majority of Armenians participating in the elections did not want the return of the old guard, considered as Pashinyan's main adversaries, and rejected the power bid of representatives of the previous corrupt regime. However, alliances representing forces ousted from power and kicked out of the Parliament in 2018 will be the only opposition to Pashinyan in the new Parliament. Tensions in the Armenian Parliament will be high.

The fact that the previous regime was able to recover is evidence of the failure of Pashinyan's government over 2018-2021. It was not surprising given the fact that back in 2018 observers were highlighting that the Armenian Velvet Revolution was led by a person with substantial demagogic qualities.¹ A large part of Armenian

1 "Армении деваться некуда": почему Кремль так спокоен, 24 апреля 2018 года, <https://www.bbc.com/russian/features-43884519>

society is disappointed with Pashinyan's performance and his inability to carry out judicial and some other major reforms. For example, instead of carrying out large scale public administration reform and amending legislation regulating the salaries of public sector employees, Pashinyan adopted a Prime Ministerial decree awarding regular monthly mammoth bonuses from the state budget to ministers and deputy ministers. Members of Parliament also get bonuses.

The expectations of Pashinyan's new government are not high as large parts of society do not see political will and vision to promote major reforms. In early July 2021, a group of civil society organizations signed an appeal to Armenian authorities on the priority challenges faced by Armenia, highlighting that security and the situation on the border, the return of the prisoners of war held in Azerbaijan, the issue of Nagorno-Karabakh, constitutional amendments, transitional justice and the political assessment of the state capture by previous regimes, the recovery of illegal assets, judicial reforms, inquiry into the causes, consequences and problems of the war, overcoming the crisis in education and improvement in local self-governance are major challenges for modern Armenia.²

Sino-Armenian Political Relations

Over the last 30 years, the People's Republic of China (hereafter, PRC or China) experienced fascinating economic growth and, in recent years, is making large scale investments around the world. However, the Chinese invested very little in Armenia. According to the Armenian ambassador in China, the volume of investments in

Armenia is low because of the weak rule of law.³ However, China invested in many other countries in Asia, Africa and Latin America with a much weaker rule of law. China donated 249 buses to Armenia over 2011-2012,⁴ 88 ambulances in 2010 and another 200 in 2018.⁵ In February 2020, China donated vehicles to the Armenian police.⁶

Despite the low level of investments in Armenia, there was high level of mutual trust between the leaderships of China and Armenia.⁷ The presidents of Armenia had state visits to the PRC in 1996, 2004 and 2015.⁸ During the state visit of Serzh Sargsyan to China in March 2015, the parties adopted a Joint Declaration according to which the Chinese side committed to encouraging and supporting its enterprises to make investments in Armenia on the basis of equality, mutual benefit and commercial criteria. In a Joint Statement of 2004, China and Armenia advocated for dialogue and cooperation in the area of international human rights while opposing

3 Level of Chinese investments in Armenia low. 12 June 2019, <https://www.aysor.am/en/news/2019/06/12/armenia-china/1574594>.

4 GoA Decree №1840-A from 22 December 2011, available at <https://www.arlis.am/DocumentView.aspx?DocID=75975>.

5 GoA Decree №874-A from 17 June 2011 about 88 ambulances donated by PRC, <https://www.arlis.am/DocumentView.aspx?DocID=77045>, Ambulance fleet replenished with 200 new vehicles, 17 October, 2018, <https://www.primeminister.am/en/press-release/item/2018/10/17/Urgent-Medical-Aid-to-New-Cars/>. Decree №970-A from 30 August 2018 about 200 ambulances donated by PRC, <https://www.arlis.am/DocumentView.aspx?DocID=133199>.

6 GoA Decree №190-A from 20 February 2020, available at <https://www.arlis.am/DocumentView.aspx?DocID=139534>.

7 Ambassador Tian Erlong highly assesses relations between two countries, 27 September 2019, <https://armenpress.am/eng/news/989739.html>.

8 MFA Armenia: Bilateral relations with China. <https://www.mfa.am/en/bilateral-relations/cn> Presidents Ter-Petrosyan in 1996, Kocharyan in 2004 https://www.fmprc.gov.cn/mfa_eng/wjb_663304/zjzg_663340/dozys_664276/gjlb_664280/3130_664282/3132_664286/t163561.shtml and Sargsyan in 2015 <https://www.president.am/en/foreign-visits/item/2015/03/25/State-visit-of-President-Serzh-Sargsyan-to-China/>.

2 Appeal of Civil Society to the Armenian Authorities on the Priority Challenges Faced by Armenia, 2 July 2021, <https://www.osf.am/2021/07/appeal-of-civil-society-to-the-armenian-authorities-on-the-priority-challenges-faced-by-armenia/>.

double standards and the politicization of human rights issues. The sides committed to deepening mutual understanding through human rights consultation and exchanges in a bid to jointly promote the sound development of bilateral ties and the cause of international human rights.⁹ In 2015, the parties set out in a declaration that they were against interference in the affairs of other countries under the guise of human rights defense.¹⁰

Human rights issues were highlighted in both documents (Joint Statement of 2004 and Joint Declaration of 2015). The consideration of human rights issues evolved over time and as China's economy grew stronger, it became more assertive in its foreign policy and started to consolidate ties and cooperate with its partner countries in order to resist pressure from the West.

Sino-Armenian relations are multi-faceted and several other factors, such as Armenian-Russian and Sino-Russian relations, regional conflict, the lack of policy options, the Velvet Revolution of 2018 and various other factors have their own special impact.

Russian influence in Armenia. It is always necessary to look at Sino-Armenian relations via the prism of Armenian-Russian relations. Armenia is a member of the Russian led Collective Security Treaty Organization (CSTO) from 1992¹¹ and the EAEU from 2015.¹² Russia had and has a strong influence on every aspect of Armenia's foreign policy, especially Armenia's relations with the superpowers, including relations with China.¹³ Russia considers any effort on the Armenian side to build long lasting relations with any third party as a threat to leaving its area of influence.

Russia has huge leverages to affect Armenian domestic policies. Based on the assessment of taxes paid, it was estimated that companies owned or co-owned by Russian companies or companies that

depend on supplies from Russia generated about 15 percent of Armenia's GDP for a long period of time.¹⁴ Armenian Presidents Serzh Sargsyan and Robert Kocharyan embraced the Russian takeover of the Armenian economy but hoping that political control would remain in their hands.¹⁵

Russia has dominant role not only in the Armenian economy, but also on the country's domestic and external policies. In 2004, the speaker of the lower house of the Russian Parliament called Armenia "Russia's outpost in the South Caucasus."¹⁶

On the other hand, China has highest level strategic partnership with Russia (presented later in the text) and coordinates all major issues related to Armenia in the new era with its strategic partner.

Lack of policy options. Poor and unbalanced policies made the Armenian economy less competitive, created social tensions and needed diversification. Public discontent erupted after the 2008 presidential elections.¹⁷ International observers highlighted "the lack of public confidence in the electoral process, and, as a result, its outcome."¹⁸

To address public concerns and diversify the economy and external relations, President Sargsyan started looking westward. However, after approximately

14 Kyurumyan, Artak. (2020). Privatization and Foreign Investments in the Republic of Armenia over 1997-2000. Transparency International, <https://transparency.am/hy/publications/view/353>, accessed 1 June 2021.

15 De Waal, Thomas. (2013). An Offer Sargsyan could not Refuse, 4 September 2013, Carnegie Moscow Center, <https://carnegie.ru/commentary/52841>, accessed 30 May 2021.

16 Boris Grizlov. Armenia is Russia's Outpost in South Caucasus, 15 December 2004, <https://regnum.ru/news/376296.html>.

17 Human Rights Watch. (2009). Democracy on Rocky Ground. Armenia's Disputed 2008 Presidential Election, Post-Election Violence, and the One-Sided Pursuit of Accountability, 25 February 2009, <https://www.hrw.org/report/2009/02/25/democracy-rocky-ground/armenias-disputed-2008-presidential-election-post-election>

18 Parliamentary Assembly of Council of Europe. (2008). Observation of the Presidential Election in Armenia (19 February 2008), <http://assembly.coe.int/nw/xml/XRef/Xref-XML2HTML-en.asp?fileid=11961&lang=en>

13 Based on interviews with experts that served as a source for study on Sino-Armenian relations.

four years of negotiations on the Deep and Comprehensive Free Trade Agreement (DCFTA) with the European Union (EU), the Armenian President unexpectedly announced during a meeting with his Russian counterpart on September 3, 2013 that the country would join the customs union of Russia, Belarus and Kazakhstan.¹⁹ It was impossible to be member of the customs union and have the DCFTA with the EU because of incompatible tariff levels.

Before meeting his Armenian counterpart, President Putin visited Baku.²⁰ During the visit, Russia and Azerbaijan signed mostly technical documents that were not worth a presidential visit.²¹ One may assume that the visit to Baku provided Putin with some of the arguments necessary to “convince” Sargsyan to join the customs union and later the EAEU. The expert community was unanimous in claiming that Armenia joined the customs union because of security concerns in order not to alienate the only major military ally.²² One Russian expert claimed that Sargsyan did not have many options.²³ Some questioned Armenia’s ability to make its own decisions.²⁴ Others highlighted Sargsyan’s desire to get Russia’s support in keeping the

power after his second term.²⁵

The September 3, 2013 announcement strengthened Russian positions in Armenia. Armenia started reinforcing ties with Russia, Belarus and Kazakhstan, countries that the West considers having autocratic regimes and all having good relations with China. In 2018, the EAEU and China signed an Agreement on Economic and Trade Cooperation (Agreement) that envisaged the “conjunction” of the EAEU and the BRI.²⁶ EAEU members enjoyed substantial benefits from the agreement as two corridors of the BRI cross Russia, Kazakhstan and Belarus. Armenia did not manage to increase trade and economic cooperation with China with the help of the agreement, mainly because all BRI routes bypass Armenia.

Conflict resolution. Armenia and China always highlighted the importance of the peaceful and the just settlement of the Nagorno-Karabakh conflict. In a 2004 statement, China declared that it “supports the resolution of the Naka issue through peaceful means, supports the efforts of the international community to this end and hopes the Naka issue will be addressed in a just and rational way based on the generally recognized principles of international law as soon as possible.” A 2015 Declaration stated that: “The Chinese side stands for a peaceful and just settlement of the Nagorno-Karabakh conflict in favor of the main objectives and principles of the UN Charter

19 Stepanyan, Ruzanna. (2013). Armenia announces about joining the Customs , 3 September 2013, <https://www.azatutyun.am/a/25094650.html> , accessed 1 June 2021.

20 Press release of administration of Russian President. (2013). Working visit to Azerbaijan, 13 August 2013, <http://kremlin.ru/events/president/news/19028> , accessed 29 May 2021.

21 Press release of administration of Russian President. (2013). Documents signed during the working visit of the President of Russian Federation to the Republic of Azerbaijan, 13 August 2013, <http://kremlin.ru/supplement/1508>

22 Grigoryan, Armen (2013) Armenia: Joining under the Gun, <https://www.silkroadstudies.org/resources/pdf/publications/8-1409GrandStrategy-Armenia.pdf> , accessed 1 June 2021.

23 Stamboltsyan, Gevorg. (2013). Vadim Dubnov: “Sargsyan did not have much choice”, 4 September 2013, Radio Liberty, <https://www.azatutyun.am/a/25094694.html> , accessed 4 June 2021.

24 Bulgadyan, Naira. (2013). There are problems with Armenian sovereignty, 4 September 2013, Radio Liberty, <https://www.azatutyun.am/a/25095275.html> , accessed June 2021.

25 Danielyan, Emil. (2013). Armenian U-Turn On EU Not as ‘Objective’ as Thought, 30 December 2013, <https://www.rferl.org/a/caucasus-report-armenia-customs-union/25216605.html> , accessed 7 June 2021.

26 Agreement signed on trade and economic cooperation between EAEU and PRC, 17 May 2018, <http://www.eurasiancommission.org/en/nae/news/Pages/17-05-2018-5.aspx>

“Agreement on Economic and Trade Cooperation between the Eurasian Economic Union and its Member States, of the One Part, and the People’s Republic of China, of the other Part”, <http://www.eurasiancommission.org/ru/act/trade/dotp/Pages/Соглашение-с-Китаем.aspx> Agreement came into force, 25 October 2019, <http://www.eurasiancommission.org/en/nae/news/Pages/25-10-2019-5.aspx>

Although the Agreement recognizes the importance of conjunction of the EAEU and BRI, it is not clear what it means in real life.

as well as according to the universally recognized norms of international law.”

At the beginning of the century, China was highlighting the importance of the quick resolution of the Nagorno-Karabakh issue (“as soon as possible”).²⁷ However, a decade later, China was urging for a peaceful and a just settlement according to international law. Although China was not a member of the OSCE Minsk Group²⁸ and was not directly involved in negotiations on a peaceful resolution of the conflict, most probably Russia updated China – with its “comprehensive strategic partnership of coordination” at the time (see below for explanation) – on the difficult and time-consuming negotiation process which led to conclusion that it is not realistic to expect a quick resolution of the conflict.

In 2004, the statement used the word “Naka.” Four years earlier, the Joint Communiqué issued during the working visit of the Armenian Prime Minister, Andranik Markarian, to the PRC referred to the “Nagorno-Karabakh issue.”²⁹ The later documents also used the full name of “Nagorno-Karabakh.” It was strange that the sides refrained from using the full name of the region in the official bilateral document of September 2004.

Sino-Armenian relations after the Velvet Revolution of 2018. After the Velvet Revolution of 2018, the Armenian authorities tried to promote a more independent foreign policy. However, the independent expert community in Armenia did not notice any substantial effort on the Armenian side to develop relations with China and highlighted the ignorance,

shortsightedness and the irresponsibility of the Armenian authorities who enjoyed a high popularity domestically.³⁰ The young revolutionary government in Armenia was continuously highlighting the exceptional nature of change that happened in Armenia and did not put any substantial effort to try to build solid relations with any one of the global powers (the US, Europe, Russia or China). Relations were superficial and had mostly a working nature.

Upon the invitation from President Xi Jinping, Prime Minister Pashinyan had a working visit to China in May 2019 and participated in the Dialogue of Asian Civilizations conference. During a personal meeting, President Xi Jinping spoke about the deeply rooted Armenian-Chinese cultural and historical ties due to the Silk Road. China assured Armenia that it was ready to participate in the construction of the North-South Highway and other infrastructure projects in Armenia. President Xi Jinping and Prime Minister Pashinyan noted that the problem of Nagorno-Karabakh should be settled through dialogue.³¹

Armenian high-level government officials regularly had face-to-face and online meetings and discussions with Chinese diplomats and business representatives. In October 2019, the Armenian deputy prime minister participated in the Silk Road Conference in Tbilisi, Georgia.³²

Although in the Joint Declaration of 2015 “the parties noted that the joint initiative of the Silk Road Economic Belt will create new historic opportunities for cooperation between the two countries,” Armenia did not

27 The Joint Statement between the People’s Republic of China and the Republic of Armenia, 29 September 2004, https://www.fmprc.gov.cn/mfa_eng/wjb_663304/zzjg_663340/dozys_664276/gjlb_664280/3130_664282/31_664284/t163562.shtml

28 OSCE Minsk Group, <https://www.osce.org/mg>, accessed on 7 June 2021.

29 China and Armenia Issue Joint Communiqué, 6 December 2000, https://www.fmprc.gov.cn/mfa_eng/wjb_663304/zzjg_663340/dozys_664276/gjlb_664280/3130_664282/3131_664284/t16612.shtml

30 Based on interviews with experts that served as a source for study on Sino-Armenian relations.

31 Nikol Pashinyan’s Working Visit to People’s Republic of China, 14-16 May 2019, <https://www.primeminister.am/en/foreign-visits/item/2019/05/14/visit-to-Chine/>

32 Official News of the GoA: Tigran Avinyan Attends Silk Road Conference, 22 October 2019, <https://www.gov.am/en/news/item/9610/>

Deputy Foreign Minister Robert Harutyunyan participated in the online conference with the leaders of business and management sector of China, 24 February, 2017, <https://www.mfa.am/en/press-releases/2017/02/24/dfm-china/6946>

participate in the first Belt and Road Forum for International Cooperation and was not among the countries that signed the Joint Communique of the Belt and Road Initiative (BRI). Armenia's strategic ally, Russia, and CSTO allies, Belarus, Kazakhstan and the Kyrgyz Republic, joined the initiative from the start.³³

To fund activities within the framework of the BRI, China also initiated the creation of the Asian Infrastructure Investment Bank (AIIB). The US urged its allies to think twice before joining the AIIB.³⁴ Armenia was not one of the 57 countries that established the AIIB. However, some of the key US allies (e.g., Australia, Belgium, Canada, Denmark, Finland, France, Germany, Israel, Jordan, Korea, the Netherlands, New Zealand, Poland, the UK and several others) as well as all four of Armenia's neighbors (Georgia, Turkey, Iran and Azerbaijan) and CSTO allies (Russia, Belarus Kazakhstan, the Kyrgyz Republic and Tajikistan) joined the AIIB. On March 23, 2017, the AIIB accepted applications from Armenia, Afghanistan, Hong Kong and East Timor and approved the membership of the last three.³⁵ Armenia is included in the list of prospective members.³⁶

Armenia and China cooperate within the framework of the Ancient Civilizations

Forum initiated by the foreign ministers of Greece and China.³⁷ Armenia joined the initiative during the 2nd Ministerial Conference of the Forum in La Paz, Bolivia.³⁸

“One China” policy

Armenia always considered the government of the PRC as the sole legal government of the whole of China. In 2004, Armenia reaffirmed that “the government of the People's Republic of China is the sole legal government representing the whole of China and Taiwan is an inseparable part of China's territory.”³⁹ Armenia reconfirmed its commitment to the “One China” policy in a 2015 Joint Declaration.⁴⁰

Armenia cooperates with China within the framework of the “One China” policy. In August 2016, Armenia arrested 129 Chinese and Taiwanese individuals on telecom fraud suspicion. A total of 78 of the arrested were Taiwanese.⁴¹ In September, Armenian authorities deported the arrested individuals to China. The Government of Taiwan protested.⁴² Armenia did not allow Taiwan's

33 Joint Communique of the Leaders Roundtable of the Belt and Road Forum for International Cooperation, 16 May 2017, <http://2017.beltandroadforum.org/english/n100/2017/0516/c22-423.html>

34 U.S. urges allies to think twice before joining China-led bank, By [Matthias Sobolewski](#), [Jason Lange](#), 17 March, 2015, <https://www.reuters.com/article/us-europe-asia-bank-idUSKBN0MD0B320150317>

Japan, Sticking With U.S., Says It Won't Join China-Led Bank, By [Martin Fackler](#), March 31, 2015, <https://www.nytimes.com/2015/04/01/world/asia/japan-says-no-to-asian-infrastructure-investment-bank.html>

35 Sahakyan, Mher. (2018). Chinese “One Belt, One Road” Initiative and Armenia, Noravank, p64: The author refers to “AIIB Welcomes New Prospective Members”, 2017, https://www.aiib.org/en/news-events/news/2017/20170323_001.html

36 AIIB, Members and Prospective Members of the Bank, Prospective Members, <https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html>, accessed on 5 June 2021.

37 MFA of Hellenic Republic. (2017). Ancient Civilizations Forum, 29 March 2017, <https://www.mfa.gr/en/foreign-policy-issues/cultural-diplomacy/ancient-civilizations-forum-athens-24-april-2017.html>

38 MFA of Hellenic Republic. (2018). Opening Remarks of the Minister of Foreign Affairs, N. Kotzias, at the 2nd Ministerial Conference of the Ancient Civilizations Forum (La Paz, 13.07.2018), 13 July 2018, <https://www.mfa.gr/en/current-affairs/top-story/opening-remarks-of-the-minister-of-foreign-affairs-kotzias-at-the-2nd-ministerial-conference-of-the-ancient-civilizations-forum-la-paz-13072018.html>

39 The Joint Statement between the People's Republic of China and the Republic of Armenia, 29 September 2004, https://www.fmprc.gov.cn/mfa_eng/wjb_663304/zjzg_663340/dozys_664276/gjlb_664280/3130_664282/3131_664284/t163562.shtml

40 Joint Declaration on Friendly Cooperation and Further Development and Enhancement of Relations between Armenia and China, March 2015, <https://www.president.am/en/press-release/item/2015/03/25/President-Serzh-Sargsyan-state-visit-to-China-day-1/>

41 Armenia Deports 129 Telecom Fraud Suspects to China: Taiwan protests, Radio Free Europe, 8 September 2016, <https://www.refworld.org/publisher/REFL/CHN/58189d523.0.html>

42 Taiwan lodges protest as Armenia deports fraud suspects to China, Reuters staff, Reuters, 8 September 2016, <https://www.reuters.com/article/taiwan-china-armenia-idINKCN11E04L>

representative in Russia to enter Armenia.⁴³

A discussion of the internal affairs of China and the issue of Taiwan were never among the priorities of Armenian society. Armenian society did not pay attention to the deportation of Taiwanese to China⁴⁴ because it was preoccupied by discussions of consequences and results of the four-day war in Artsakh in April of the same year⁴⁵ and the seizure of an Armenian police station by armed men in July.⁴⁶ The stand-off at the police station continued for two weeks and led to street clashes of several thousand opposition protestors with police.

“Anti-Chinese” activities of the Armenian government. In 2019 the US announced about the creation of the International Religious Freedom or Belief Alliance (IRFBA).⁴⁷ The IRFBA is based on Article 18 of the Universal Declaration for Human Rights and is an effort to protect and advance the freedom of religion or belief around the world. Armenia joined the IRFBA.⁴⁸

Based on media publications and the fact that within the framework of the creation of the IRFBA the US Secretary of State, Mike Pompeo, harshly criticized China’s (and Iran’s) human rights records,⁴⁹ the

Armenian expert community considers it an “anti-Chinese” alliance.⁵⁰ A member of the Armenian Parliament representing the opposition party addressed a question about Armenia’s joining the IRFBA to the Armenian minister of foreign affairs (MFA).⁵¹ According to the MFA, the protection of the religious freedom of ethnic minorities is important for Armenia taking into account the history of the Armenian genocide in the Ottoman Empire and the need to protect the Armenian diaspora in different countries.

It was considered that the US will use the IRFBA to put more pressure on China vis-à-vis protecting human rights in Tibet and the Uyghurs in Xinjiang. Azerbaijan and Turkey (a NATO ally of the US), Armenia’s neighbors in the east and the west that have kept the border with Armenia closed since the early 1990s and blockade Armenia, did not join the “anti-Chinese” alliance despite the fact that it targets the protection of ethnic Turkic-speaking Uyghurs. A number of Turkish leaders and politicians consider the Uyghurs the forefathers of primordial Turkism.⁵²

None of Armenia’s CSTO allies joined the IRFBA.

43 “MOFA strongly protests Armenia’s deportation of ROC nationals to mainland China”, 7 September 2016, https://en.mofa.gov.tw/News_Content.aspx?n=539A9A50A5F8AF9E&sms=37B41539382B84BA&s=2F1176140E06D04A

44 Several representatives of Armenian CSOs interviewed, including the ones working on human rights, did not know about deportation

45 “Nagorno-Karabakh violence: Worst clashes in decades kill dozens”, 3 April 2016, <https://www.bbc.com/news/world-europe-35949991>

46 Armed men who seized Armenian police station surrender, Hasmik Mkrtchyan, Reuters, 31 July 2016, <https://www.reuters.com/article/us-armenia-violence-idUSKCN10B0QT>

47 International Religious Freedom of Belief Alliance, <https://www.state.gov/international-religious-freedom-or-belief-alliance/>.

48 Armenia joins the International Religious Freedom of Belief Alliance, 12 June 2020 <https://en.armradio.am/2020/06/12/armenia-joins-the-international-religious-freedom-alliance/>

49 Pompeo announces new global body on religious

freedom, 18 July 2019, <https://www.france24.com/en/20190718-pompeo-announces-new-global-body-religious-freedom>.

50 Suren Sargsyan. Armenia joined anti-Chinese Alliance, 12 June 2020, <https://www.panorama.am/am/news/2020/06/12/Unipln-Uupqujuu/2308802> (available in Armenian)

Naira Hovhannisyanyan. Why Armenia joined American Alliance and what problems there will be with China, 17 June 2020, <https://armilur.am/1013621/> (available in Armenian)

Ararat Kostanyan, Armenia joined anti-Chinese Alliance, that is in Turkish interests, 10 July 2020 (video), <http://politik.am/am/tesanyut-hayastany-miacel-e-hakachinakan-alyansi-vory-turqiayi-shaheric-e-bkhum-ararat-kostanyan> (available in Armenian)

51 Answers of Foreign Minister Zohrab Mnatsakanyan to questions of the members of the National Assembly during the questions and answers session with the Government of Armenia, 17 June 2020, https://www.mfa.am/hy/press-conference/2020/06/17/na_int/10313 (available in Armenian).

52 Shichor, Yitzhak. (2009). Ethno-Diplomacy: the Uyghur Hitch in Sino-Turkish Relations. Policy Studies 53. <http://www.jstor.com/stable/resrep06509>

The expert community was hoping that relations with China may help Armenia reduce its dependence on Russia.⁵³ However, it does not take into account the fact that China has a special relation with Russia.

China has a hierarchical structure of partnerships with about 80 countries and five organizations around the world. The different levels of “strategic partnerships” indicate the degree of cooperation between the parties and the level of interest. There are 25 levels of partnerships presented below in Table 1. The higher the country is in the list it means the closer the relations are with China. It also means that China considers the country as a more important partner.

Before 2019, Russia was the only country that had the highest-level partnership with China in terms of a “comprehensive strategic partnership of coordination.” However, the two countries agreed to upgrade their relations to a new level in 2019 with the “comprehensive strategic partnership of coordination for a new era.”⁵⁴ The new status means that the two countries have core common interests, cooperate on issues related to the fight against terrorism, security, international and regional issues, space, economic and cultural issues, and have a military exchange.

25 Comprehensive Strategic Partnership of Coordination for a New Era

⁵³ Relations with China May Help Armenia Reduce Dependence on Russia, 16 August 2017 <https://www.civilnet.am/news/2017/08/16/Relations-with-China-May-Help-Armenia-Reduce-Dependence-on-Russia/319774>

⁵⁴ China, Russia agree to upgrade relations for new era, Xinhua, 6 June 2019, http://www.xinhuanet.com/english/2019-06/06/c_138119879.htm

⁵⁵ Li, Quan and Ye, Min. (2019). China’s emerging

24 Comprehensive Strategic Partnership of Coordination

23 All-weather Strategic Partnership of Cooperation

22 All-round Strategic Partnership

21 Global Comprehensive Strategic Partnership for the 21st Century

20 Comprehensive Strategic Partnership of Cooperation

19 Comprehensive Strategic Partnership

18 Mutually Beneficial Strategic Partnership

17 Innovative Strategic Partnership

16 Strategic Partnership of Coordination

15 Strategic Partnership of Cooperation

14 Strategic Partnership

13 Strategic Cooperation

12 Closer Developmental Partnership

11 All-round Partnership of Friendship and Cooperation

10 Comprehensive Partnership of Friendship and Cooperation

09 All-round Partnership of Cooperation

08 Comprehensive Partnership of Cooperation

07 Important Cooperative Partnership

06 Partnership of Friendship and Cooperation

05 Partnership of Friendship/Friendly Partnership for Common Development

04 Long-term Friendly and Cooperative Partnership

03 Comprehensive Cooperation

02 Partnership of Good Neighborliness and Mutual Trust

01 New Partnership

All of Armenia’s all CSTO allies – Russia, Belarus, Uzbekistan, Kazakhstan, the Kyrgyz Republic and Tajikistan – have a different level partnership with China.

The expert community does not place Armenia at any level of the partnership China has with countries around the world. During a May 24, 2021 regular press conference, China’s foreign ministry spokesperson described Armenia (and Azerbaijan) as

partnership network: what, who, where, when and why, International Trade, Politics and Development, Vol. 3 №2, 2019, pp. 66-81.

“friendly cooperative partner.”⁵⁶ Most probably, this indicates that relations with Armenia are at the 6th level of the hierarchy, far below Russia and other CSTO allies and neighboring Turkey and Iran.

Thus, despite a strong partnership with all of Armenia’s CSTO and EAEU allies, China does not try building any sort of strong ties and does not prioritize relations with Armenia. This can be one of the reasons explaining the low level of Chinese investments in Armenia (discussed later in the text).

25 Comprehensive Strategic Partnership of Coordination for a New Era

Russia, after 2019

20 Comprehensive Strategic Partnership of Cooperation

Belarus

19 Comprehensive Strategic Partnership

Uzbekistan, Iran

14 Strategic Partnership

Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, Ukraine

13 Strategic Cooperation

Turkey

06 Partnership of Friendship and Cooperation

Armenia, Azerbaijan

Economy

China has had strong economic growth over the last three decades. The Chinese economic model is inspiring for Armenian politicians.⁵⁷ If compared to the free-market development reforms implemented in

⁵⁶ Foreign Ministry Spokesperson Zhao Lijian’s Regular Press Conference on May 24, 2021, https://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/2511_665403/t1878214.shtml

⁵⁷ Official news of the GoA. Deputy Prime Minister of Armenia participated in celebrations dedicated to 70th anniversary of Peoples Republic of China, 26 September 2019, <https://www.gov.am/am/news/item/13959/>

transition economies over the last 30 years and supported by international financial institutions, Chinese development and growth over the same period has been incredible.

As highlighted above, Armenia is an EAEU member. The EAEU is a customs union with a common external tariff that effectively sets Armenia’s trade policy. Armenia’s membership to the EAEU limits its ability to negotiate trade agreements with others. Armenia can negotiate free trade agreements (FTAs) with third countries taking into account the EAEU framework. The first EAEU FTA entered into force in October 2016 (Vietnam).⁵⁸ In 2018, the EAEU signed a framework of economic cooperation agreement with China⁵⁹ and a temporary FTA with Armenia’s southern neighbor, Iran.⁶⁰

Despite the commitment by authorities to encourage and support its enterprises, Chinese investment in Armenia is at an extremely low level. At the end of 2019, the net stock of Chinese investments in Armenia was about USD 3.5 million. It was substantially less than the net stock of investments of Russia (USD 2165.6 million), the UK (USD 213.7 million), France (USD 85.3 million) and even Cuba (USD 4.8 million). Over 2014-2019, the net stock of Chinese foreign direct investment (FDI) constituted 0.06-0.07 percent of the net stock of the total FDI.

Several of the investment promises made by Chinese companies did not materialize. For example, Fortune Oil announced plans to

⁵⁸ Free Trade Agreement with Viet Nam, www.eurasiancommission.org/en/act/trade/dotp/Pages/Free-Trade-Agreement-With-Viet-Nam.aspx, accessed 11 June 2021.

⁵⁹ Agreement on Economic and Trade Cooperation between the Eurasian Economic Union and Its Member States, of the One Part and the People’s Republic of China, of the other Part, www.eurasiancommission.org/en/act/trade/dotp/Pages/Agreement-With-China.aspx, accessed 11 June 2021.

⁶⁰ Interim Agreement Leading to Formation of a Free Trade Area between the Eurasian Economic Union and its Member States, of the One Part and the Islamic Republic of Iran, of the other Part, www.eurasiancommission.org/en/act/trade/dotp/Pages/Free-Trade-Agreement-With-Iran.aspx, accessed 11 June 2021.

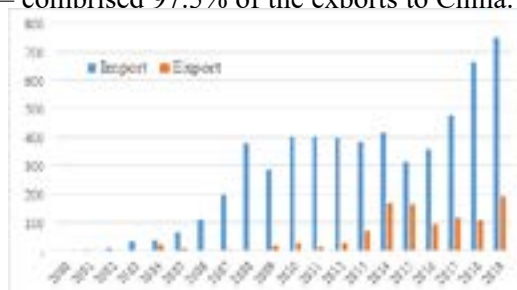
invest USD 500 million in Armenia⁶¹ And the Chinese company Gumming committed to investing about USD 100 million and create 300-400 new jobs in furniture production.⁶²

In recent years, China has become a major trading partner for Armenia. In 2019, China was the fourth export market for Armenian products that absorbed 7.3 percent of the total exports (seventh in 2018). Armenia exports more only to Russia, Switzerland and Bulgaria. Armenia exports mostly ores, slag and ash to Switzerland and Bulgaria. For 2017-2019, China was Armenia's second partner in terms of goods imported to Armenia (Russia was the first). Chart 1 presents data on Sino-Armenian trade.

Chart 1. Armenia's Trade with China (USD million)

Source: Statistical Committee of Armenia

Compared to the other global superpowers – Russia, the USA and the EU – Armenia's exports to China are the least diversified. While in 2019 there were 21 products which comprised 95% or more of the exports to Russia, only two products – ore, slag and ash, and vehicles other than railway or tramway rolling stock and parts and accessories thereof – comprised 97.5% of the exports to China.



Armenia mainly exports ore, slag and ash

61 Danielyan, Emil, (2011). Chinese Firm Vows Massive Investments in Armenian Iron Mining, 24 February 2011, <https://www.azatutyun.am/a/2318792.html>, accessed on 9 June 2021.

62 The GoA press release. (2019). Deputy Prime Minister Tigran Avinyan hosted delegation of Chinese Businessman, 27 February 2019, <https://www.gov.am/am/news/item/13757/> accessed on 9 June 2021.

to China. Over 2012-2019, the share of the ore, slag and ash commodity group reached 88.4-99.4 percent of the dollar value of exports to China.

Sources: www.armstat.am and www.trademap.org

Note:

Ores, slag and ash – Ores, slag and ash as a percent of exports to that specific country or the EU in 2019.

Table 3. Armenia's Exports to Global Superpowers (2019, USD million)

	USA	China	EU	Russia	Other	Total
Exports to	53.5	193.7	582.7	720.0	1,070.2	2,620.1
Share in						
Armenian exports (%)	2.04	7.39	22.24	27.47	40.86	100
Share of ores, slag and ash (%) in exports to different countries	0.0%	91.3%	39.5%	0.1%		
Number of commodities constituting 95% of experts	9	2	6	21		
Armenian imports as percent of total imports of host country (%)	0.00	0.01	0.01	0.30		

Number of items = Number of items constituting 95% of exports in 2019.

The case of Shanxi Nairit

The Nairit chemical plant was one of the major industrial factories of Armenia at Soviet times. It was established in 1936 and produced 20 types of polychloroprene rubber and latex.

After the collapse of the Soviet Union, economic ties with major suppliers and users of Nairit products were broken. Nairit became a headache for authorities in independent Armenia. In 2000, the government of Armenia approved the plan of activities to regulate Nairit operations.⁶³ However, the plan did not succeed (as several other efforts). There were numerous discussions in the government related to the payment of the salaries of Nairit employees and reviving the factory (one such meeting took place in 2015).⁶⁴ In 2015 upon a request from the government of Armenia, the World Bank assessed the technical and financial viability of the operation of the Nairit chemical plant and concluded that it was an unsustainable liability for the government and continued to drain a substantial volume of financial resources.⁶⁵

Nairit was declared bankrupt in 2016 based on a claim from the Russian owned Electricity Networks of Armenia.⁶⁶ Initially, the new government put some efforts in order to rehabilitate the factory.⁶⁷ In early 2020, Nairit owed USD 162 million to the CIS inter-state bank (seeded to the government of Armenia) and USD 100 million to 300 companies and individuals. In February 2020, Armenian authorities were negotiating with the Iranian Tabriz Petrochemical Company regarding restarting Nairit.⁶⁸ According to the US Department of the Treasury, the Tabriz Petrochemical Company had been under US sanctions since 2018.⁶⁹

68 Sargis Harutiunyan. (2020). The Government of Armenia is negotiating about restarting “Nairit” factory with an Iranian company that is under US sanctions. 10 February 2020, <https://www.azatutjun.am/a/30426527.html>

69 US Treasury announces new sanctions against Iran, 31 may 2013, <https://www.treasury.gov/press-center/press-releases/Pages/j11965.aspx>

All efforts to restore Nairit operations did not succeed. Nairit was recognized as bankrupt and the liquidation manager was unsuccessfully trying to sell the remaining assets of the factory.⁷⁰

However, Nairit had a second life in China and while Chinese companies were not investing in Armenia, the Armenian government invested in China.

In 2000, the delegation of the Chinese Communist Party discussed the possibility to use Armenian technologies to produce artificial rubber in China with the Armenian Prime Minister, Andranik Margaryan.⁷¹ The Chinese side also expressed interest regarding the “Iran-Armenia” pipeline project. In September 2001, the government of Armenia approved the list of equipment of the Nairit factory to be used as a contribution of the Armenian side to create a joint venture with China.⁷² In October 2001, the Armenian government approved the agreement about signing the “ChinArmpren” joint venture.⁷³ During his visit to Armenia, the PRC foreign minister discussed the specifics of the deal and it was decided that China would fund the construction of the factory while Armenia would provide scientists, technology and equipment.⁷⁴

Shanxi-Nairit was established in 2010.

70 About organization and conduct of repetitive auction to sell the property of “Nairit Factory” CJSC on 19 February 2021, 3 February 2021, Official announcements, <https://www.azdarar.am/announcements/org/46/00811489/>

71 The GoA press release. (2000). <https://www.gov.am/am/news/item/1180/>, accessed on 7 June 2021.

72 The GoA Decree №904 from 27 September 2001 about establishing a joint venture in Peoples Republic of China to produce chloroprene rubber, <https://www.arlis.am/DocumentView.aspx?DocID=8910>, accessed on 7 June 2021

73 The GoA Decree №972 from 10 October 2001 about approving the agreement to create in Peoples Republic of China “ChinArmpren” joint venture to produce chloroprene rubber, <https://www.arlis.am/DocumentView.aspx?docid=8937>, accessed on 7 June 2021

74 Melkumyan, Hrach. (2001). Chinese Foreign Minister is satisfied by the Results of His Meetings in Armenia, 19 October 2004, <https://www.azatutjun.am/a/1574641.html>, accessed on 7 June 2021

The Shanna Synthetic Rubber Co., Ltd. was jointly funded by the company and the Armenia-based Nairit. The Armenian President, Serzh Sargsyan, participated in the opening of the factory.⁷⁵ The Shanxi-Nairit Synthetic Rubber Co. (Shanxi-Nairit) was established according to agreement from December 10, 2003 with a CNY 280 million capital. Armenia owns 40 percent of Shanxi-Nairit or CHY 112 million.⁷⁶ Based on the average exchange rate of CHY for 2010, the capital of Shanxi-Nairit is about USD 41.4 million. The Armenian share was worth USD 16.5 million.⁷⁷

Nowadays, Shanxi-Nairit Ltd. is a large-scale Chinese state-owned enterprise (SoE).⁷⁸ It is affiliated with the ChemChina Group, the largest domestic chemical group. Shanxi-Nairit is based in Datong, Shanxi province. The factory covers an area of 1.97 square km with 2,950 staff members. The group is mainly engaged in the production of chloroprene rubber and supporting products such as caustic soda and liquid chlorine.

According to company's website, the enterprise successfully passed the ISO9001:2000 Quality Certification in 2001. It passed the SHEQ certification of "quality, environment and vocational health and security" in 2005 and was appraised to be one of the first groups of "high-tech enterprises" of Shanxi in 2007. In 2008, the "Reclining Tiger" chloroprene rubber was awarded with the title of "Shanxi landmark famous-brand product." The company also

received the honorary reputation of AAA quality and credibility in the province of Shanxi. The domestic market share of the company's chloroprene rubber (CR) products has reached more than 37 percent. The products are sold in 38 countries and regions. The production capacity of the dominant CR products is 55,000 t/y. It is now the largest production base of CR in China. However, according to Armenian representative in the board of directors of Shanxi-Nairit, the production capacity is 30,000 while the company utilizes two-thirds of it or produces approximately 20,000 tons.⁷⁹

The year 2014 was one of the best for the company's operations. However, it did not manage to break even. The cost of the production of 1 ton of artificial rubber was USD 3,900 while the market price was USD 3,800.

High-level Armenian government officials claimed that Shanxi-Nairit was not able to cover its costs because it did not utilize its full capacity. As of 2015, it accumulated a USD 150 million loss. Supposedly, Shanxi-Nairit will pay dividends after it recovers losses.⁸⁰ Taking into account that the capital at the time of the establishment of company was approximately USD 41.4 million, Shanxi-Nairit had a negative capital of approximately USD 108.6 million as of 2015.

In 2009, the government of Armenia appointed members representing Armenia on the Shanxi-Nairit board of directors.⁸¹ Before the Velvet Revolution of 2018, the Armenian prime minister changed the country's representatives on the Shanxi-

75 Armenian President was present during inauguration of Armenian-Chinese "Shanxi Nairit" Joint Venture, 4 May 2010, <https://www.azatutyun.am/a/2032099.html>, accessed 7 June 2021.

76 Official letter of the General Secretary of the Ministry of Territorial Administration and Infrastructure №HB/24.2/2040-2021 from 1 February 2021.

77 The average exchange rate of Chinese yuan against USD in 2010 was 6.77 per USD. The end of year closing rate was 6.60, <https://www.macrotrends.net/2575/us-dollar-yuan-exchange-rate-historical-chart>, accessed on 7 June 2021.

78 Shanxi-Nairit Synthetic Rubber Co., Ltd. Website: <http://www.lxsx.chemchina.com/sxjten/index.htm> <https://bluestar.chemchina.com/lanxingen/gywm/zzjg/webinfo/2012/01/1325312701475167.htm>

79 Armenpress. Armenian-Chinese Shanxi-Nairit to bring profit to Armenia after negative profits are overcome, 28 July 2015,

<https://armenpress.am/eng/news/813545/eng/>

80 Mr Iosif Isayan was Deputy Minister of Energy (Deputy Minister of Energy and Natural Resources of several years).

81 Prime Minister of Armenia Decree №737-A from 4 September 2009 about appointing members representing Armenian side on the board of directors of Armenian-Chinese "Shanxi-Nairit" joint venture, <https://www.arlis.am/DocumentView.aspx?DocID=148015>, accessed on 7 June 2021.

The Chinese economic success is inspiring for many in Armenia. Some think that the policy of a “strong hand” is getting the upper hand over the “invisible hand.”

Armenia did not succeed in building meaningful long-lasting sustainable relations with China and was not able to develop strong political and economic ties. Despite the fact that China has strategic relations with most of Armenia's CSTO allies, Armenia has working relations with China. Armenian authorities did not have and still do not have a vision or a strategy on how to build relations with China. The Armenian authorities who came to power after the Velvet Revolution of 2018 and enjoyed high popularity domestically did not build strong and lasting ties with China because of ignorance, shortsightedness, irresponsibility, inexperience and unwillingness to learn or listen to advice.

While Chinese companies made substantial investments in several countries in Asia, Africa and Latin America, they do not invest in Armenia despite declarations in high-level bilateral documents.

China considers Armenia as Russia's area of interest and builds relations with Armenia based on consultations with its comprehensive strategic partner of coordination for a new era. Armenia is not able to reduce its dependence on Russia by strengthening relations with China because China has special relations with Russia. China is probably not investing in Armenia because any effort to invest a substantial amount in the country may lead to competition and a confrontation with its strategic partner, Russia. Russia already has leading positions in such key sectors as energy, telecommunications, finance,

railway and mining, etc. Armenia is not a big market for China and thus it does not need to worry about influence in that market.

Joining the International Religious Freedom or Belief Alliance and not joining the group of countries that initiated the BRI and established the AIIB may have alienated China.

China does not behave like other global superpowers, it concentrates mostly on economic issues, engages in trade and investments and does not enter into resolving regional conflicts.

Armenia is stuck in the transition from autocratic rule to democracy and while under strong Russian influence and pressure needs to balance its way out of isolation and build long lasting stable relations with countries in the West, in the North, in the East and in the South.

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Azerbaijan

Capital – Baku

Total Area - 86,600 sq km

Population - 10,224,120

Ethnic Groups - Azerbaijanis (91.6%), Lezgins (2.02%), Russians (1.35%), Armenians (1.35%), Talyshs (1.26%), Avars (0.56%), Turks (0.43%), Tatars (0.29%)

Religion - Muslim (96.9%) (predominantly Shia), Christian (3%), other (<0.1%), unaffiliated (<0.1%)

Government - Unitary semi-presidential republic

Global State of Democracy – [Authoritarian regime](#)

Global Freedom Score - [10/100 Not Free](#)

Corruption Perceptions Index – [30/100 \(2020 score\)](#), [129/180 \(2020 rank\)](#)

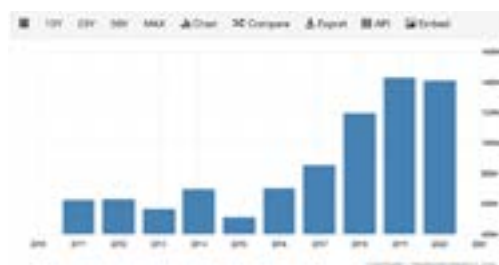
GDP (Per capita) – [USD 4.88 thousand \(2021 est.\)](#)



The Republic of Azerbaijan is the biggest country in the South Caucasus and is bounded by the Caspian Sea, Russia, Georgia, Armenia, Turkey, and Iran. Its economy grew by [2.2 %](#) in 2019. Nevertheless, the fall of the oil and gas prices during the Covid-19 and the costs of the war negatively affected [Azerbaijan's oil-dependent economy](#). According to the [WB data](#), the value of Azerbaijan's external debt was 14,345,643.20 USD making [17.70% of the country's GDP in 2019](#). The government debt increased to 20.10% in 2020, while in 2021, the government [debt already amounts to 31%](#) of its GDP ratio.

Azerbaijan's [2020 state budget](#) revenues were projected as 27.60 billion manats (\$16,25 billion), expenditures - 25.62 billion manats (\$15.07 billion) and deficit - 586 million manats (\$344.70 million). According to the Law on the execution of the state budget of the Republic of Azerbaijan, in 2020, the state budget revenues amounted to [24 681.7 million manats, expenses 26416.3 million manats](#). On December 29, 2020, the Parliament of Azerbaijan adopted the [2021 state budget](#). The budget revenues for 2021 make 23.83 billion manats (\$14.02 billion), budget expenditures - 31.16 billion manats (\$18.34 billion), while the deficit is 7.335 billion manats (\$4.317 billion). As we see, compared to 2020, budget revenues and deficit decreased, while expenditures increased.

In 2020, Azerbaijan's primary exports included [crude petroleum, petroleum gas, refined petroleum, tomatoes, cotton fiber, hazelnuts, and chemical products](#). PRC is among



the ten common destinations where Azerbaijan exports goods. Nevertheless, pursuant to [UN COMTRADE 2020 data](#), Italy, Turkey, and Russia occupy the top places. Last year, Azerbaijan's exports to China reached [\\$432.76 million](#), making it Azerbaijan's [4th largest trading partner](#).

As for the Sino-Azerbaijani trade turnover, in 2019, Azerbaijan accounted for about [43% of China's trade](#) in the South Caucasus region. If we look at China-Azerbaijan bilateral trade turnover over the past several years, we will notice that it has a growing tendency. As reported by [Baku Research Institute](#), "the trade turnover in 2015 amounted to 561 million USD, in 2016 this figure reached 975 million, in 2017 – 1,298 million, in 2018 – 1,310 million, and in 2019 – 2,184 million." In other words, Azerbaijan's turnover with China impressively increased in 2019.

Azerbaijan's top imports are [gold, cars, refined petroleum, wheat and medicaments](#). China is [the third-largest importer country](#), after Russia and Turkey, for Azerbaijan. In 2020, its imports from PRC amounted to [\\$1.41 billion](#).

China's Mounting Interests and Influence in Azerbaijan

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Acronyms & Abbreviations

ADB - Asian Development Bank

CNPC - China National Petroleum Corporation

ICT - Information and Communication Technology

WTO - World Trade Organisation

Abstract

In this paper, we try to assess the history, current state, problems and prospects of China's relations with Azerbaijan in the context of China's growing economic authority and influence in the region and the world. Although these relations have historically been based on cultural and trade relations, in the current period the areas of cooperation have expanded to include industry, agriculture, tourism, Information and Communication Technology (ICT), transport and logistics, construction, military, security, medicine, education and sports, among others. Trends and structural assessments in all of these areas show that the relations between Azerbaijan and China are developing steadily and continuously, especially after the restoration of Azerbaijan's independence. Political relations between the two countries have played a particularly important role in this development.

Background

With the recognition of the independence of Azerbaijan by the People's Republic of China (PRC) on December 27, 1991 and the establishment of diplomatic relations on April 2, 1992, the modern stage of relations between the two countries began. China opened an embassy in Baku in 1992 and Azerbaijan opened an embassy in Beijing in 1993. The first state visit between the two countries took place as early as in 1994 when the Azerbaijani President, Heydar Aliyev, visited Beijing. There were two state visits by president Ilham Aliyev (2005 and 2015). He also participated in three high-level international events at different times.

During the last official visit of President Ilham Aliyev to China in 2015, a document¹ was signed between the two countries to jointly promote the establishment of the Silk Road Economic Belt. On April 24-27, 2019, a delegation led by President Ilham Aliyev visited China to participate in the 2nd Belt and Road Forum for International Cooperation. Within the framework of this international forum, ten documents with projects valued at USD 821 million were signed between Azerbaijani and Chinese companies in various fields. These included the:

- Construction of a tire plant in the Sumgayit Chemical Industrial Park,
- Construction of a modern greenhouse complex on 300 hectares in Kurdamir,
- Creation of agro-logistics industrial parks in Guba, Khachmaz and Goychay,
- Creation of the Asia-Europe telecommunications corridor under the Azerbaijan Digital HUB program,²
- Transportation of up to 2,500 containers to Baku via the Trans-Caspian Transport Corridor and in transit through Azerbaijan to other countries,
- Export of Azerbaijani wine and other alcoholic beverages to China,
- Establishment of the Azerbaijan Trade House in Chengdu, China, etc.

According to the Co-chair of the Azerbaijan-China Intergovernmental Trade and Economic Cooperation Commission and Head of the Eurasia Department of the Ministry of Commerce, Luo Weidong, the PRC is interested in increasing the import of agricultural, chemical and industrial products from Azerbaijan as well as

¹ <http://www.e-qanun.az/framework/31817>

² <https://www.telecompaper.com/news/azertelecom-china-telecom-sign-data-traffic-agreement--1290301>

deepening cooperation on the creation of the digital Silk Road and the development of Silk Road e-commerce.

The Chinese government made four official visits to Azerbaijan at the foreign affairs ministerial level (1996, 2004, 2010 and 2019). In addition, a delegation, led by the Vice-Premier of the State Council of the People's Republic of China, Zhang Gaoli, and a member of the Political Council of the Communist Party and Secretary of Central Political and Legal Affairs Commission of the Central Committee, Meng Jianzhu, visited Azerbaijan in May and June 2016.

Economic Relations

In 2019, the 7th meeting of the Azerbaijan-China intergovernmental commission was held. Azerbaijan joined the initiative of China and became a co-founder of the Asian Infrastructure Investment Bank. The agreement on the establishment of the bank was signed by 57 countries on June 29, 2015 in Beijing.

Thus far, eight business forums have been held with the participation of Azerbaijani and Chinese businessmen. As a result of these measures, an agreement was signed on the export of wine to China with Azerbaijani wine receiving an award. In 2016 and 2017, Azerbaijani export missions were organized to Hong Kong, Guangzhou and Shanghai where national wines were displayed with a single country stand.³ Azerbaijan has a trade mission in China. Azerbaijani trade houses have been opened in Urumqi, Luco and Shanghai.

The commissioning of the Alat International Seaport with a carrying capacity of 15 million tons across the Caspian Sea in May 2018 and the fact that the Baku-Tbilisi-Kars railway connecting Asia and Europe is considered

to be the shortest transport route from China to Europe and back create potential opportunities for transport links between the two countries. Therefore, Azerbaijan is interested in supporting the Trans-Caspian Transport Route as part of China's Belt and Road Initiative. Thus, Chinese companies can be involved in the Alat free trade zone and cargo can be transported to and from Azerbaijan through the Baku International Sea Trade Port Complex.

On February 5, 2018, a delegation of officials and businessmen, led by the former Economy Minister, Shahin Mustafayev, visited China. The minister said that⁴ Azerbaijan had great potential for the export of a number of agricultural, processing and industrial products to China and China's support in issuing relevant permits for the export of these products was important. He also added that there are wide opportunities for expanding cooperation regarding the participation of Chinese businessmen in industrial parks and agro-parks created in Azerbaijan, projects implemented in the construction sector, the establishment of joint ventures, especially the production of agricultural equipment, the joint production of cotton and food products, ICT, the Chinese company Huawei and the tourism sector.

Baku also sees itself as a hub on the trans-Eurasian telecommunications corridor which would connect internet exchange points in Frankfurt and Mumbai while complementing China's Digital Silk Road initiative. To this end, AzerTelecom and China Telecom signed a memorandum of cooperation⁵ in 2019.⁶

4 https://apa.az/az/xeber/maliyye/xeber_nazir_oten_il_azerbaycanla_cin_arasind_-502024

5 <https://www.telecompaper.com/news/azertelecom-china-telecom-sign-data-traffic-agreement--1290301>

6 The signing of a Strategic Memorandum of Understanding between "AzerTelecom", which implements the "Azerbaijani Digital HUB" program to transform Azerbaijan into a Digital Hub, and "China Telecom", a large Chinese ICT company, is of great importance. Thus, this document reflects mutual understanding and cooperation between large ICT companies of the two

3 <https://report.az/biznes-xeberleri/azerbaycan-ve-cin-ticaret-dovriyyesini-67-e-qeder-artirib/>

Azerbaijan is China's largest trading partner in the South Caucasus. There are positive dynamics in trade turnover between Azerbaijan and China. According to customs statistics,⁷ the trade turnover between the two countries amounted to USD 1.846 billion in 2020 which is 7.55% of the total turnover. Thus, according to the results of 2020, China is the fourth partner of Azerbaijan in terms of trade turnover, the third in terms of imports and the ninth in terms of exports.⁸

Last year, the volume of imports from China to Azerbaijan amounted to USD 1.413 billion which is 13.18% of total import operations. As for export operations between China and Azerbaijan, Azerbaijan sent USD 432.760 million worth of goods to China last year which is 3.15 percent of Azerbaijan's exports. In order to increase exports to China, Azerbaijani trade houses have been opened in Urumqi, Luco and Shanghai and Azerbaijan regularly organize trade missions to various regions of China.

As a result, the dynamics of imports and exports between Azerbaijan and China have increased significantly over the past

five years. The trade turnover amounted to USD 561 million in 2015 and reached USD 975 million in 2016, USD 1 billion 298 million in 2017, USD 1 billion 310 million in 2018, USD 2 billion 184 million in 2019 and USD 1 billion 846 million in 2020.

For a comparison, when independent trade relations between Azerbaijan and China began in 1992, the trade turnover between the two countries amounted to USD 1.5 million and this figure increased 1,500 times in 2019. Azerbaijan's share in China's trade with the South Caucasus is 43 percent.⁹

In 2020, indicators in this area deteriorated as compared to the previous times as the COVID-19 pandemic had a negative impact on trade between China and Azerbaijan. While Azerbaijan's exports to China amounted to USD 752 million in 2019, this figure fell to USD 433 million last year. This change has also negatively affected the trade turnover between the two countries. In 2019, the trade turnover increased by 66.7 percent as compared to 2018 despite the fact that Azerbaijan's total foreign trade reached 6.56 percent. In 2020, the trade turnover decreased by 15.5 percent as compared to 2019.

The dynamics of the foreign trade turnover, import and export operations between China and Azerbaijan over the past ten years can be seen in the table below.

countries in the direction of establishing the Asia-Europe telecommunication corridor (Digital Silk Road) within the framework of the "Digital HUB" program.

"AzerTelecom" is currently implementing the "Azerbaijan Digital HUB" program to transform Azerbaijan into a Regional Digital Hub in addition to its status of Energy and Transport Hub. The goal of the "Digital HUB" program is to transform the country into a Regional Digital Hub for the Caucasus, Central and South Asia, the Middle East, and surrounding regions. The transformation of Azerbaijan into the Digital Center of the Region as a result of the "Digital HUB" program will contribute to Azerbaijan's participation in the "One Belt, One Road" project initiated by the Chinese government. With the implementation of the "Digital HUB" program, Azerbaijan will become a telecommunication corridor of the "One Belt, One Road" project. Source: https://samenacouncil.org/samena_daily_news?news=73097

⁷ https://customs.gov.az/modules/pdf/pdfFolder/93/FILE_E7B3B9-B46FB9-AA0331-12CB1C-A0451C-E46BD4.pdf

⁸ https://customs.gov.az/modules/pdf/pdfFolder/93/FILE_E7B3B9-B46FB9-AA0331-12CB1C-A0451C-E46BD4.pdf

**Table 1. Azerbaijan's Trade Relations
with China in 2011-2020**

	2011 ¹⁰	2012 ¹¹	2013 ¹²	2014 ¹³	2015 ¹⁴	2016 ¹⁵	2017 ¹⁶	2018 ¹⁷	2019 ¹⁸	2020 ¹⁹
Trade turnover, in USD million	767	815	655	761	565	975	1,298	1,310	2,184	1,846
Imports, in USD million	628	632	566	697	512	704	854	1,197	1,432	1,414
Exports, in USD million	39	183	89	64	53	271	444	113	752	432
Balance, in USD million	-589	-449	-477	-633	-459	-433	-410	-1,084	-680	-982

Source: Customs Statistics of Foreign Trade of the Republic of Azerbaijan

Although there has been a significant increase in the dynamics of Azerbaijan-China bilateral trade over the past ten years, this is mainly due to increased imports from China to Azerbaijan. As a result, there is always a positive balance

in favor of China in mutual trade between the two countries. Although Azerbaijan's exports to China in 2019 were the highest for the analyzed period (USD 752 million), imports from China also increased sharply in the same year, exceeding USD 1 billion 432 million. The highest negative balance between China and Azerbaijan in the last ten years was USD 1,084 million in 2018 and the lowest negative balance was USD 410 million in 2017. Although the foreign trade deficit between China and Azerbaijan decreased in as 2019 compared to 2018, the deficit increased again last year.

Azerbaijan's exports to China are mainly crude oil and petrochemical products while a wide range of products (from electronic products to perfumes) is imported from China to Azerbaijan.

The data of the past five years show that there are positive dynamics in investment cooperation between the two countries. In 2016, 77 companies operated in Azerbaijan based on Chinese capital. In 2017, their number exceeded 100. At present, about 120 companies operate in Azerbaijan based on Chinese capital. This factor, of course, has a positive effect on the dynamics of mutual investment.

However, there is an imbalance in mutual investments. While Chinese companies invest more than USD 800 million in Azerbaijan, Azerbaijan's investments in the Chinese economy amount to USD 1.7 billion. In addition, the Chinese-led Asian Infrastructure Investment Bank has provided a USD 600 million loan to finance the TANAP gas project.

Chinese companies operate in various sectors of the country's oil, industry, energy, finance, banking, communications, ICT, agriculture and non-oil sectors. On October 3, 2018, SOCAR and BGP Inc., a subsidiary of the China National Petroleum Corporation (CNPC), signed a Memorandum of Understanding on the establishment of a joint venture.²⁰ BGP's main areas of activity include onshore, transition and offshore exploration as well as the acquisition, processing and interpretation of seismic data through complex operations, the production of seismic equipment and the provision of related information and communication technology (ICT) services.

People to People Contacts

One of the priorities of Azerbaijan's cooperation with China is education and culture. In 2016-2019, about 500 young Azerbaijanis studied at various universities in China with government scholarships from the People's Republic of China within the framework of the Intergovernmental Scholarship Programs concluded between the Republic of Azerbaijan and the People's Republic of China. In addition, 10,000 students from the One Belt, One Road Initiative countries are currently studying at bachelor's, master's and doctoral levels at various prestigious Chinese universities,²¹

²⁰ <https://oilgas.az/socar-ve-cin-sirketi-birge-muessise-yaradir-mugavile-imzalandi/>

²¹ Nanjing University (medium risk) holds consultations in the field of international education with the staff of the Confucius Institute at the Azerbaijan University of Languages.

including talented Azerbaijani youth as well.

As countries with similar cultures and ethno-cultural values, cultural ties also play an important role in Azerbaijan-China relations. There are not many Chinese living and working in Azerbaijan. According to statistics from the Chinese embassy in Baku in 2020, only 110 Chinese citizens live and work in Azerbaijan. For comparison, 1,768 Chinese citizens live and work in Georgia and 96 in Armenia. The number of Chinese citizens living and working in Armenia was 252 in 2019 and continues to decline. This means that although the potential for the development of human relations is high, the rate of its use is low.

Azerbaijan applies a simplified visa procedure for Chinese citizens. The visa can be obtained at the international airports of Azerbaijan. There are regular direct flights between Azerbaijan and China. As a result, there has been a positive trend in the number of foreigners and stateless persons coming to Azerbaijan from China in the last five years. Although Chinese tourists visiting Azerbaijan began to play an important role in the development of the tourism sector before the COVID-19 pandemic, China has not yet entered into the top-ten in the number of countries of origin of tourists. It is true that the number of Chinese tourists increased by 53% in 2019 as compared to the previous year; however, due to the objective effects of the pandemic, the number of Chinese visitors to Azerbaijan in 2020 decreased significantly.

Although the highest number of Chinese visitors to Azerbaijan was recorded in 2019, the share²² of more than 25,000 Chinese

Shandon Academy of Agricultural Sciences (very high risk) and ADAU signed a memorandum of cooperation in 2017. Azerbaijan State University of Economics (UNEC) and Lanzhou University (medium risk) of Finance and Economics in Gansu Province of the People's Republic of China have signed a memorandum of cooperation. Baku State University and Anhoy University cooperate in the establishment of Confucius Institute. Source: <https://unitracker.aspi.org.au/>

²² <https://fins.az/turizm/223715/2019-da-azerbaycana-gelmis-turistlerin-sayi-aciqlandi/>

tourists visiting the country that year in the total number of tourists was less than 1 percent or, more precisely, 0.78 percent.

The table below provides information on tourists from China to Azerbaijan.

Table 2. Indicators on Tourists from China to Azerbaijan²³

	2015	2016	2017	2018	2019	2020
Number of foreigners and stateless persons coming to Azerbaijan from China	5,094	7,363	10,274	15,730	25,542	1,532
Number of foreigners and stateless persons from China accommodated in hotels and hotel-type enterprises	3,905	6,210	11,231	8,917	19,120	1,530
Amount of services provided by hotels and hotel-type enterprises to foreigners and stateless persons from China, AZN thousand	174.5	178.7	245.6	1,599.1	3,083.0	232.0
Number of overnight stays for foreigners and stateless persons from China	8,125	13,143	20,212	17,240	34,238	34,238

Source: State Statistical Committee, Tourism in Azerbaijan, 2021

Relations between China and Azerbaijan have been established not only centrally but also locally. At present, there is a bilateral cooperation between the regions of Azerbaijan and the regions of China. In 2001, the city of Zhou in the Chinese province of Zhejiang and the city of Sumgayit in Azerbaijan became sister cities. In 2017, the Garadagh District Executive Power and the Shenzhen Regional Economic Cooperation Association signed an agreement on the establishment of the Azerbaijan-China Free Economic Industrial Campus in the Alat settlement.

In addition to political ties, the two eastern countries are also linked by cultural ties. According to the agreement on cultural cooperation signed between the Republic of Azerbaijan and the PRC, an exhibition of works by the famous Azerbaijani artist, Sattar Bahlulzade, was held at the Beijing International Exhibition Center on April 12-21, 1995. Azerbaijan Day was held on August 10, 2008 at the China World Hotel in Beijing, the capital of the People's Republic of China, as part of the XXIX Summer

Olympic Games. Azerbaijan Culture Days were held in China in May 2011 and the People's Republic of China Culture Days were held in Azerbaijan on December 10-14, 2012. In November 2019, a concert, entitled Evenings of Azerbaijani Music, was held in Beijing with the support of the Heydar Aliyev Foundation and the Embassy

of the Republic of Azerbaijan in China.

There are two Confucius Institutes²⁴ in Azerbaijan. Interest in Chinese culture and the Chinese language is growing in Azerbaijan.

²⁴ The Confucius Institute at Baku State University is an Azerbaijani-Chinese educational and research center. In April 2011, the Confucius Institute of the Government of the People's Republic of China was established on the basis of the Faculty of Oriental Studies of Baku State University. Baku State University and Anhoy University cooperate in the establishment of this Institute. The two universities have already signed "Memorandums of Cooperation" and the Confucius Institute has started its activities.

Available at the Confucius Institute:

- Chinese language courses;
- conversation club;
- Commercial courses;
- In-service training courses for Chinese language teachers;
- Thai classes;
- Calligraphy classes

The Confucius Institute offers Chinese-language teaching opportunities with the participation of highly qualified teachers from Anhui University:

- Chinese language courses consist of 4 levels (3 months, 6 months, 9 months and 12 months)
- Students who fully master the program receive an international certificate
- Preparation for the State Chinese Language Examination (HSK) of the Ministry of Education of the PRC.

The government of Azerbaijan attaches great importance to the development of bilateral political relations with the People's Republic of China, a permanent member of the UN Security Council, and the world's second-largest economy. In formulating its foreign policy, Azerbaijan pays special attention to the extent to which partner states support the principle of territorial integrity and the inviolability of existing borders in international law. The Chinese government, in turn, is susceptible to its problems in the Xinjiang Uyghur (East Turkestan) and Tibet Autonomous Regions, as well as Taiwan, and urges its partners to take a position following its interests. Therefore, the interests of China and Azerbaijan generally coincide on the issue of territorial integrity. The joint declaration signed²⁵ between the Azerbaijani President, Ilham Aliyev, and the Chinese leader, Hu Jintao, during the former's official visit to China in 2005, reflected the sensitivity of both sides on these issues. Article 9 of the declaration states:²⁶

"Azerbaijan confirms that there is only one China in the world. The People's Republic of China government is the only legitimate state representing China and Taiwan is an integral part of Chinese territory. Azerbaijan reaffirms its commitment not to establish any official relations with Taiwan, not to have any official contacts with it and opposes the efforts to establish 'two Chinas,' 'one China, one Taiwan,' or an 'independent Taiwan.' Azerbaijan understands and supports China's efforts to ensure and strengthen peace and stability in the Taiwan Straits and the Asia-Pacific region."

In Article 11,²⁷ China reaffirms its support for the sovereignty and territorial integrity of the Republic of Azerbaijan and

calls for the implementation of UN Security Council resolutions on the Nagorno-Karabakh conflict, supporting the peaceful settlement of the conflict and the efforts of the international community toward this end.

The joint declaration signed²⁸ between Aliyev and the Chinese leader, Xi Jinping, during the former's visit to Beijing in 2015 also reflects the typical approach of the parties to each other's problems. Article 2 of the declaration states:

"The parties will continue to support each other's positions on issues related to efforts to strengthen state independence, sovereignty, security and territorial integrity. Azerbaijan reaffirms its support for the principle of a united China, opposes any form of 'Taiwan independence,' recognizing that the Taiwan issue is entirely China's internal affair, reaffirms its refusal to establish any official relations with Taiwan, and supports the Chinese government's efforts to unite the country. China reaffirms its support for the sovereignty and territorial integrity of the Republic of Azerbaijan and calls for adherence to UN Security Council resolutions on the Nagorno-Karabakh conflict, supports the peaceful settlement of the conflict, and supports the efforts of the international community toward this end. The Parties state that neither has participated in any alliance or bloc against the sovereignty, security and territorial integrity of either country, have not taken steps to conclude such agreements with third parties, have not allowed the establishment of organizations and groups in their territories that harm the other's sovereignty, security, and territorial integrity and have banned their activities in their territories."

Article 6 states²⁹ that: "The parties believe that the protection of human rights at the international level should be based on unshakable principles such as respect

25 Hu Vows to Further Political, Economic Ties with Azerbaijan, Xinhua News Agency March 18, 2005, <http://www.china.org.cn/english/international/123172.htm>

26 <http://az.china-embassy.org/eng/sbjw/t1833366.htm>

27 <http://az.china-embassy.org/eng/sbjw/t1833366.htm>

28 <http://www.e-qanun.az/framework/32179>

29 *ibid*

for the sovereignty of all countries and non-interference in their internal affairs, and oppose the application of double standards on human rights issues, as well as the politicization of these issues and interference in the internal affairs of other states under the guise of protecting human rights.”

The declaration signed in 2015 differs from that of ten years earlier. The parties undertook not to participate in any alliance or bloc against each other, to prevent the establishment of organizations and groups in their territories that would harm the security and territorial integrity of the other party and to ban the activities of such groups on their territories. It should be noted that this obligation mainly concerns Azerbaijan.

The Chinese government is seriously involved in the global activities of the Uyghur emigré community and its anti-Chinese propaganda. For this reason, the Chinese government requires other countries not only hinder the activities of Uyghur organizations but also refuse asylum to Uyghur migrants and detain and deport them to China. It is no accident that there is no instance of any Turkic-speaking Uyghur who left China legally or illegally coming to Azerbaijan. However, in July this year, Azerbaijan did not sign a statement³⁰ to the UN to support the “fight against terrorism and separatism” in China’s Uyghur Autonomous Region. Presumably because of the Uyghurs’ historical and cultural ties to the Azerbaijanis, or to avoid isolating themselves from the West which criticizes China for its human rights actions, the Azerbaijani government chose not to join the list of 46 countries which actively support China on this issue even though it supports China in bilateral formats.³¹

Although the sale of eight Typhoon missile systems by the PRC to the Republic of Armenia in May 1999 cast a chill over Azerbaijani-Chinese relations at the time³² and China signed an agreement on the provision of free military assistance to Armenia valued at CNY 10 million during the visit of the Armenian Defense Minister to China in 2017,³³ military relations between Azerbaijan and China have been recently developing.³⁴

Azerbaijan-China cooperation also encompasses military issues. The two countries periodically sign agreements on “free military assistance by China to Azerbaijan.” The first such agreement was signed in December 2009 in Beijing. The three-article document states that China will provide free military property assistance to Azerbaijan in the amount of CNY 3 million. Another agreement was signed in January 2013 in Beijing. China once again provided free military property assistance to Azerbaijan in the amount of CNY 3 million. Finally, the latest agreement with the same content was signed³⁵ on April 27, 2018 in Beijing.

In January 2019, a delegation led by the Minister of Defense of the Republic of Azerbaijan, Colonel-General Zakir Hasanov, paid an official visit to Beijing at the invitation of a member of the State Council of the People’s Republic of China (PRC), Colonel-General Wei Feng. During the visit, a document on military assistance

32 Interfax (Moscow), 18 May 1999, in ‘Azerbaijan protests Chinese missiles to Armenia’, FBIS-SOV1999-0518, 19 May 1999; and Snark (Yerevan), 20 Feb. 2001, in ‘Armenia to develop military cooperation with China’, FBIS-SOV-2001-0221, 22 Feb. 2001.

33 <https://armhitec.com/ru/media/news/novosti-bezopasnosti/kitay-predostavit-10-mln-yuaney-dlya-sfery-oborony-armenii/>

34 Azerbaijan, China discuss military-technical cooperation, 26.09.2018 https://azertag.az/en/xeber/Azerbaijan_China_discuss_military_technical_cooperation-1198525

35 <https://azvision.az/news/144029/azerbaycanla-cin-arasinda-herbi-muqavile-imzalandi-fotolar.html>

30 See <http://www.china-un.ch/eng/hom/t1794034.htm>

31 Shahin Jafarli, Azerbaijan-China relations BRI, 2020, <https://bakuresearchinstitute.org/en/azerbaijan-china-relations/>

was signed between the Ministry of Defense of the Republic of Azerbaijan and the Ministry of National Defense of the People's Republic of China. Thus, a new stage in the Azerbaijani-Chinese military relations has begun.

The People's Republic of China and the Republic of Azerbaijan mutually recognize each other's sovereignty and the inviolability of their lands. China, as a permanent member of the UN Security Council, has always supported Azerbaijan. The other side also appreciates Azerbaijan's foreign policy which supports China's position on Taiwan, Tibet and East Turkestan.

Azerbaijan is vital for China in terms of the development of the most cost-effective and reliable telecommunications middle corridor within the Belt and Road initiative. Azerbaijan, located in the center of the so-called middle corridor of the transportation links between China and Europe, remains a reliable transit partner for China. This ongoing successful business cooperation will contribute to increasing the economic trade links between the two countries.

Oil-rich Azerbaijan, a participant in the Belt and Road Initiative, is also keen on more Chinese investment. Azerbaijan has welcomed Chinese investment in Azerbaijan in the past. While participating in the second Belt and Road Forum in 2019, deals were signed between Azerbaijani and Chinese companies worth USD 821 million. Azerbaijan should work on a framework to welcome more Chinese investment which would be a win-win for both countries.

Azerbaijan's membership of the World Trade Organization (WTO) could accelerate the flow of China's private investments into Azerbaijan and create a legal framework to build trust. However, WTO membership is not a priority for the government of Azerbaijan at the moment

as the country is instead busy strengthening the competitiveness of its national economy. Possible WTO membership may become a reality in the future. Given that WTO membership is not currently a priority for Azerbaijan, both Azerbaijan and China would benefit if Baku gives more market space to Chinese private investors through bilateral agreements.

In addition, if China decides to prioritize the economically and geographically advantageous middle corridor passing through Azerbaijan, it will further bolster economic and trade relations between the two countries. Bilateral agreements on investment and trade could be agreed upon in order to create a framework for allowing more significant Chinese private investments in various sectors of Azerbaijan's economy. These types of agreements between the two countries would benefit both sides.

The development of the middle corridor to its full potential is only possible with the mutual commitment of China and Azerbaijan. Without the participation, technical support and investment of China, it would be almost impossible for Azerbaijan to reach the full potential of this transport corridor.

In conclusion, I would like to note that there are also unresolved issues between China and Azerbaijan. So far, China has signed bilateral swap currency agreements with about 20 countries but even though the State Oil Fund of Azerbaijan places a small part of the funds in CNY, no swap currency agreement has been reached between the two countries. Chinese companies have not been able to operate in the financial sector of interest to Azerbaijan due to the existence of barriers vis-à-vis the entry of foreign companies to this market. At the same time, it is impossible to find Chinese companies in the mining industry and the

oil and gas sector.

There are also disparities in trade and investment cooperation between China and Azerbaijan. The trade surplus belongs to China and the investment balance belongs to Azerbaijan. In fact, the opposite is in the economic interests of Azerbaijan. Although Azerbaijan treats China as a potential export market and, at the same time, as an innovative investor for the country's economy, no significant changes have been observed in either exports or investment cooperation.

Although Azerbaijan's relations with China are multi-profile, the main areas of cooperation between the two countries are transport and telecommunications. In the negotiations with China under the One Belt, One Road Initiative, Azerbaijan has made significant progress in connecting to both the physical and the digital infrastructure. Some of results have been recorded on the platform of international cooperation. One of the routes among them is the Silk Road project which will pass through Azerbaijan and connect China with major economic regions. This project is implemented on both physical and digital bases.

Azerbaijan has stepped up its efforts to enter large markets such as China on the basis of a more favorable trade regime. The Azerbaijani government, which has recently opted for stimulating activities to sell non-oil exports to China, as well as to attract tourists from China to Azerbaijan, has not yet achieved significant results in these areas. Despite the fact that China is the fourth largest partner in Azerbaijan's foreign trade turnover, this was achieved not through the export of Azerbaijani products to China but through foreign trade in the import of Chinese products to Azerbaijan. In fact, since there is only Kazakhstan between Azerbaijan and China, the world's second-largest economy, opportunities for exports and imports of goods and services remain vast.

There has been no participation of

Chinese companies in the large industrial parks of Azerbaijan in recent years. There are no official or private Chinese trading houses in Azerbaijan. All of this is an indication of Azerbaijan's cautious attitude to cooperation with China. One of the main reasons for this is to avoid China's debt-trap diplomacy because the dependence created by China's debt-trap diplomacy in Central Asia and Iran has prompted Azerbaijan to be cautious in its investment cooperation with China. Therefore, it is impossible to find Chinese companies in the financial sector or the mining industry of Azerbaijan.

There is neither a bank nor an insurance company of Chinese origin operating in Azerbaijan and Chinese mining companies cannot be found either in the oil and gas sector of Azerbaijan or in the production segment of the mining industry.

So far, no swap agreement has been signed between Azerbaijan and China. This is despite the fact that in the Joint Declaration³⁶ on the Further Development and Deepening of Friendship and Cooperation between the Republic of Azerbaijan and the People's Republic of China, approved by the Decree of the President of Azerbaijan on February 1, 2016, the parties expressed their readiness to continue deepening cooperation in the field of finance, including the study of the possibility of setting the national currency in bilateral trade and investment, to assist in creating favorable conditions for trade and investment, to expand cooperation between banks to finance trade and projects and to provide financial support to priority joint projects.

The Asian Development Bank (ADB) and the Asian Infrastructure Investment Bank (AIIB), two international financial

³⁶ On Approval of the Joint Declaration on Further Development and Deepening of Friendship and Cooperation between the Republic of Azerbaijan and the People's Republic of China <http://www.e-qanun.az/framework/32179>

institutions established at the initiative of the Chinese government, play an important role in the financial relations between Azerbaijan and China. The ADB supports Azerbaijan in diversifying its economy, supporting new economic opportunities and strengthening inclusive economic growth as well as reducing inequality between urban and rural areas.

Azerbaijan joined the ADB in 1999 with the ADB approving USD 4.95 billion in loans, grants and technical assistance from then until March 2021 of which USD 1.69 billion was directed to 14 projects in the energy sector, USD 1.46 billion to 20 projects in the transport sector, USD 1.01 billion to 16 projects in public sector management and USD 560.19 million to ten projects in water and urban development and services.³⁷ Furthermore, the ADB finances projects in the private sector related to trade, finance, small and medium enterprise expansion and infrastructure development. To this end, the ADB has allocated USD 39.81 million for 34 projects of which USD 19.90 million goes to finance and the same amount for industry and trade.

In line with the 2019-2023 Country Partnership Strategy for Azerbaijan, the ADB supports synergies between sovereign and overseas activities, increased information sharing and the promotion of innovation.

The Asian Infrastructure Investment Bank allocates funds for strategic projects important for Azerbaijan. The AIIB has allocated USD 800 million for the construction of the TANAP gas pipeline.³⁸ At the same time, the AIIB and the ADB provided USD 100 million and USD 250 million, respectively, in assistance to the Azerbaijani government during the COVID 19 pandemic under the budget

support program.³⁹

One of the main reasons for the rapid development of cooperation between Azerbaijan and the Asian Development Bank and the Asian Infrastructure Investment Bank, two international financial institutions established on the initiative of the Chinese government, is the fact that these banks do not make program commitments when allocating loans which is unlike the European Bank for Reconstruction and Development and the World Bank.

³⁷ <https://www.adb.org/countries/azerbaijan/main>

³⁸ https://www.aiib.org/en/projects/approved/2016/download/trans-anatolian/document/approved_project_document_anatolian_natural_gas_pipeline.pdf

³⁹ <https://www.aiib.org/en/projects/details/2021/download/azerbaijan/AIIB-PSI-P000505-Azerbaijan-Budget-Support-CRF-ConceptAppraisal.pdf>

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Kazakhstan

Capital – Nur-Sultan (*On March 20, 2019, Kazakhstan's capital city "Astana" was renamed "Nur-Sultan" in honor of the first president Nursultan Nazarbayev*)

Total Area - 2,724,900 sq km

Population - 18,986,540

Ethnic Groups - Kazakh (68.5%), Russian (18.9%), Uzbek (3.3%), Uyghur (1.5%), Ukrainian (1.4%), Tatar (1.1%), German (1.0%), Others (4.5%)

Religion - Islam (72%), Christianity (23.1%), Other religions (Hinduism, Buddhism, etc.) (0.9%), Not religious (4%)

Government - Unitary dominant-party presidential constitutional republic

Global State of Democracy – [Authoritarian regime](#)

Global Freedom Score - [23/100 Not Free](#)

Corruption Perceptions Index – [38/100 \(2020 score\)](#), [94/180 \(2020 rank\)](#)

GDP (Per capita) – [USD 9.83 thousand \(2021 est.\)](#)



The Republic of Kazakhstan is the largest country in Central Asia and shares land borders with China, Russia, Kyrgyzstan, Uzbekistan, and Turkmenistan. Kazakhstan ranks ninth in terms of its oil reserves in the world. Particularly, the Republic's hydrocarbon production constituted [70% of its exports](#) in 2020. Nonetheless, the pandemic restrictions have reduced the domestic demand and mobility, causing the falling of Kazakhstan's GDP for the first time in the last 20 years. In 2019, Kazakhstan's [external debt](#) accounted for \$29,059,162.05 (19.90% of its GDP). As reported by the IMF, in 2020, its government debt amounted to [23.40% of GDP](#), and in 2021, the debt reaches [27% of its GDP](#) ratio.

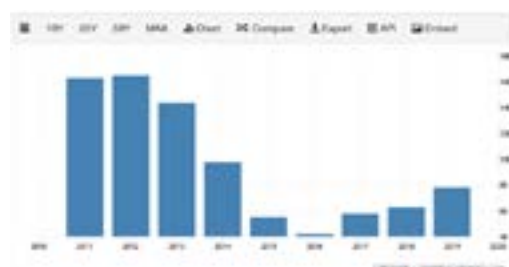
In 2020, [Kazakhstan's state budget revenues](#) were presumed at 11.3 trillion KZT (\$2.9 billion), expenditures - 172 billion KZT (\$442 million) and deficit-1.6trillionKZT(US\$4.1 billion).According to [CEIC Data](#), in March 2021, Kazakhstan's state [budget revenues](#) amounted to 2,485,049,027.867 KZT (\$5,793,304.08), expenditures were reported at 3,815,103,799.144 KZT (\$8,898,975.90), while the surplus or [deficit data](#) got to 1,436,336,839.051 KZT (\$3,348,896.35). Hence, in comparison with 2020, revenues and expenditures increased, while deficit decreased.

Kazakhstan's [major exports](#) include crude petroleum, petroleum gas, refined copper, ferroalloys, and radioactive chemicals, while the imports involve medicaments, cars, petroleum gas, broadcasting equipment, and aircraft.

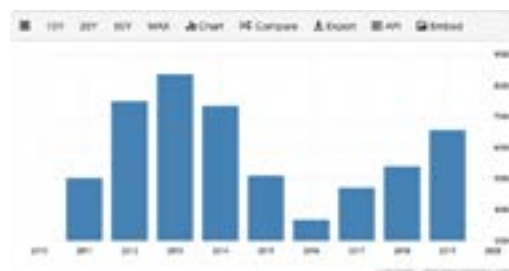
China is Kazakhstan's second-largest trading

partner after Russia. In 2019, Sino-Kazakh trade turnover exceeded [\\$8 billion](#) and in 2020, it comprised [18.1% of Kazakhstan's total trade](#). By the end of 2020, mutual trade between the countries increased by 4% and came to \$15.4 billion.

In 2019, Kazakhstan imports to China amounted to [\\$6.57 Billion](#), while the exports to PRC reached [\\$7.82 Billion](#).



Kazakhstan exports to China (2019)



Kazakhstan imports to China (2019)

In 2020, [exports to China accounted for \\$9 billion](#) and [imports from China – \\$6.4 billion](#).

Research on Informing the People of Kazakhstan About the Activities of Chinese Companies in the Kazakhstani Extractive Sector

Danil Bekturganov

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Acronyms & Abbreviations

ADB - Asian Development Bank

CNPC - China National Petroleum Corporation

ICT - Information and Communication Technology

WTO - World Trade Organisation

Abstract

Kazakhstan is one of the key places in the implementation of the BRI. Large Chinese extractive and construction companies operate on the territory of the country, railway and road routes, including the “Western Europe - Western China” corridor, pass through Kazakhstan’s territory. One of the important parts of the BRI implementation is the informing of Kazakhstani citizens about the initiative and about the opportunities, provided to businesses and local communities. The absence or lack of information gives rise to a large number of myths and phobias, and does not contribute to increasing public confidence in the presence of Chinese business in Kazakhstan. Another important aspect is the environmental impact of Chinese projects, which should be objectively and publicly assessed.

The study analyzes the coverage of activities of Chinese companies in the extractive sector of Kazakhstan by Kazakh media. In addition to analyzing the awareness of citizens, investigated the availability of statements and other documents issued by the government of Kazakhstan related to Chinese investments and BRI. The paper examines specific cases related to the impact of the activities of Chinese extractive companies on local communities, and social, economic and environmental consequences of these activities.

Acronyms & Abbreviations

APG – Associated Petroleum Gas

BRI – Belt and Road Initiative

CGNPC – China General Nuclear Power Group, China’s second largest nuclear power company.

CITIC Group – China International Trust and Investment Corporation

CNPC – China National Petroleum Company

EAU – Euro Asian Union

EGSU – Kazakhstani Unified State Subsoil Management System

EITI – Extractive Industry Transparency Initiative

NCOC – North Caspian Operating Company

RFE/RL – Radio Free Europe/Radio Liberty

SCO – Shanghai Cooperation Organization, includes China, Russia, Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan, India and Pakistan

Sinopec – China Petroleum & Chemical Corporation, a Chinese integrated energy and chemical company

TAGPC Ltd – Trans-Asia Gas Pipeline Company Limited

Introduction

The Kazakhstani geographic location predetermines the inevitability of closer economic ties with China. The presence of a long land border and a large number of natural resources make investments in Kazakhstan very attractive for Chinese businesses.

In this context, the Kazakhstani participation in the BRI¹ was predetermined; it is no coincidence that Chinese leader Xi Jinping announced this initiative during his state visit to Astana, the capital of Kazakhstan, in 2013.² The use of Kazakhstani territory for organizing a land route from China to Europe is only a part of this initiative. Within the BRI, in addition to transport and logistics, we observe the development of many other projects and initiatives related to production, energy, infrastructure and construction. Concurrently, extractive companies recognize the importance of the initiative for oil and gas business development.³

One of the important parts of the BRI implementation is informing the citizens of Kazakhstan about the initiative and the opportunities it provided to businesses and representatives of local communities. The absence or lack of information gives rise to a large number of myths and phobias and does not contribute to increasing public confidence in the presence of Chinese business in Kazakhstan. Another important aspect is the environmental impact of the Chinese extractive industry which also should be assessed objectively and publicly. Kazakhstani environmentalists and civic activists are already raising the problem of the lack of information about the BRI.⁴

The Research on Informing the People of Kazakhstan About the Activities of Chinese Companies in the Kazakhstani Extractive Sector study analyzes the coverage of the activities of Chinese companies in the extractive sector of Kazakhstan by the Kazakhstani media. In addition to the analysis of informing citizens, the study also investigates the availability of statements and other documents issued by the government of Kazakhstan related to the topic of Chinese investments and the BRI.

Methodology

The study collected information on the largest Chinese companies which are active in the extractive sector of Kazakhstan and scrutinized their tax deductions. It analyzed the nine major Kazakhstani media outlets, both public and private, for the period of January 1, 2020 to June 1, 2021 according to articles relating to Chinese extractive companies. The study also reviewed earlier publications on the most publicly debated topics: corruption, anti-China sentiments and Chinese expansion. In addition, the author investigated the availability of statements and other documents issued by the Government of Kazakhstan related to the topic of Chinese investment and the BRI while also examining the available open sources of additional information.⁵

The research format did not involve any additional tools - requests to companies, government agencies or monitoring of social media. All of the information used in this study is in the public domain.

1 <https://www.ebrd.com/what-we-do/belt-and-road/overview.html>

2 https://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpfwzysiesgjtfhshzzfh_665686/t1076334.shtml

3 <https://jpt.spe.org/what-does-new-silk-road-mean-oil-and-gas>

4 <https://livingasia.online/2021/01/11/odin-poyas-i-odin-put-proigrana-li-informaczionnaya-kampaniya/>

5 <https://bit.ly/3G9mes1>

Official Statements and Documents About Kazakhstani-Chinese Relations

All official statements or documents on the topic of Kazakhstani-Chinese relations issued by the Government of Kazakhstan, are available publicly.

In accordance with Article 4 of the Constitution of the Republic of Kazakhstan: “International agreements ratified by the Republic have primacy over its laws. The legislation of the Republic determines the procedure and conditions of operation of international agreements on the territory of the Republic of Kazakhstan to which Kazakhstan is a party. All laws and international agreements, where the Republic is a party, shall be published. The official publication of regulatory and legal acts, dealing with the rights, freedoms, and responsibilities of citizens, shall be the necessary condition for their application.”⁶

The total amount of the legal framework of Kazakhstani-Chinese relations is more than 250 documents. The most important is the Treaty on Good Neighborliness, Friendship and Cooperation between the Republic of Kazakhstan and the People’s Republic of China which serves as the basis for relations between the two countries.⁷

There are also about 50 agreements between Kazakhstan and China in such areas as energy, environmental protection and the nuclear industry, etc. In addition, there are policy documents that define the goals and objectives of cooperation between the two countries, including:

- Program of Cooperation Between Kazakhstan and China for 2003-2008,⁸

- Strategy and Concept for the Development of Cooperation Between Kazakhstan and China in the XXI Century,
- Agreement on Trade and Economic Cooperation Between the EAU (Euro Asian Union) and its Member States and China.⁹

During the period of implementation of the BRI, Kazakhstan and China adopted a program for the medium-term and long-term development of trade and economic cooperation (until 2020).¹⁰ Chinese business is represented in the Council of Foreign Investors under the President.¹¹ Currently, there is one Chinese company among the 34 members of the Council – the CNPC.

All documents regulating Kazakhstani-Chinese relations published on the website of the Legal Information System of Regulatory Legal Acts of the Ministry of Justice (Adilet legislative database)¹² in the Kazakhstani (state) and Russian (official) languages and are available free of charge.

Unfortunately, the concluded inter-governmental agreements do not contain specifics in relation to contracts made with Chinese subsoil users. There are no details on the conditions, obligations and terms of subsoil use contracts in the public domain.

Chinese Extractive Companies in Kazakhstan

Big Chinese business has been present in Kazakhstan for a long time now and the area not limited only to the BRI initiative. Since the mid-1990s, Chinese companies have shown interest in participating in large oil and gas projects, the construction of gas and oil pipelines

6 <https://adilet.zan.kz/eng/docs/K950001000>

7 <http://adilet.zan.kz/rus/docs/Z030000420>

8 <https://adilet.zan.kz/rus/docs/U030001097>

9 <https://adilet.zan.kz/rus/docs/Z1900000259>

10 <https://adilet.zan.kz/rus/docs/P1300000940>

11 <https://adilet.zan.kz/rus/docs/P040000545>

12 <https://adilet.zan.kz/rus>

and the development of polymetallic ore deposits. It can be argued that the BRI was not the first step of Chinese business in Kazakhstan; long before the BRI, Chinese companies were successfully operating in Kazakhstan and the BRI became, rather, a tool for strengthening and developing their presence in the country.

In general, the topic of foreign investment and attracting foreign capital is one of the priorities for the government of Kazakhstan. After gaining independence in 1991, the country needed new technologies and investments. Since then, in every state program document, strategy and project, the topic of attracting foreign investment has been on the top of the list. Therefore, the government welcomed the emergence of large foreign companies in Kazakhstan which invested money and modern technologies in exchange for the opportunity to extract natural resources. Chinese companies were actively involved in this process. It was then, in the late 1990s and early 2000s, that the Chinese oil giant, CNPC,¹³ began operations in the Aktobe region, entered into the share of projects in the Atyrau and Mangistau regions and acquired a stake in the Kumkol project¹⁴ in the Kyzylorda region. The next step was the participation of Chinese companies in the construction and operation of the Atasu-Alashankou oil pipeline¹⁵ and the purchase of a stake in the Shymeknt oil refinery,¹⁶ thereby strengthening China's presence in the oil and gas extractive regions. Moreover in 2013, the CNPC purchased an 8.33% share in one of the largest extractive consortia in Kazakhstan, the NCOC (North Caspian Operating Company, a Kashagan oil field operator).¹⁷ At the same time, Chinese

companies are continuing their work: building new pipelines and opening new production facilities, etc.

In describing any foreign participation in the Kazakhstani extractive industry, it necessary to take into account one important circumstance. At the time of the conclusion of subsoil use contracts and agreements with major international companies, there was no legal requirement in Kazakhstan for the publication or the public access to the content of the contracts (briefly, this requirement started to work from January 1, 2021¹⁸ and contracts signed before this date are able to remain secret). Thus, it is now impossible to establish:

- What conditions were accepted at the time of the conclusion of the contract,
- What terms are included,
- What tax preferences apply for the subsoil user,
- What the Kazakhstani content is in related goods and services,
- What the share of Kazakhstan is in production,
- What environmental commitment, etc.

The closed nature of the contracts creates difficulties not only in the analysis of the operations of subsoil users; in relation to Chinese companies, this situation is alarming and reinforces the mistrust vis-à-vis both Chinese companies and Kazakhstani authorities.

Currently, the main companies with Chinese participation operating in the oil and gas sector of Kazakhstan are:

- **NCOC:** KazMunayGaz (KZ) – 16,88%, Eni (Italy) – 16,81%, ExxonMobil (USA) – 16,81%, Shell (GB) – 16,81%, Total (France) – 16,81%, CNPC (China) – 8,33%, Inpex (Japan) – 7,56%.

13 http://www.cnpc.com.cn/en/aboutcnpc/aboutcnpc_index.shtml

14 <https://bit.ly/3rmGOKo>

15 https://www.kep.kz/projects/atasu_ashankou?language=en

16 https://www.petrokazakhstan.kz/rus/pages/oil_processing.html

17 <https://www.ncoc.kz/en>

18 Article 77 of Code on Subsoil and Subsoil Use, <https://adilet.zan.kz/eng/docs/K1700000125>

- **MangistauMunaiGas:** KazMunayGaz (KZ) – 50%, CNPC (China) – 50%.
- **CNPC-AktobeMunayGaz:** CNPC (China) – 100%.
- **KazGerMunai:** KazMunayGaz (KZ) – 50%, CNPC (China) – 50%.
- **KarazhanbasMunai:** KazMunayGaz (KZ) – 50%, CITIC Group (China) – 50%.
- **Buzachi Operating:** CNPC (China) – 50%, Sinopec (China) – 50%.
- **Petro Kazakhstan Inc.:** CNPC (China) – 67%, KazMunayGaz (KZ) – 33%.

In Kazakhstan, as a country supporting the EITI (Extractive Industry Transparency Initiative), information about the payments of extractive companies is available in the public domain. However, information about the payments of companies that carry out processing, service and pumping through pipelines, etc., is available only upon the submission of a request to the Ministry of Finance. Therefore, this study will consider only those data that are publicly available in the EITI resources.

At the time of the study, not all of the data for 2020 were yet available; some companies published data by June 1, 2021 and some did not. Therefore, the data for 2019 are used and data for 2020 which were available on June 1, 2021. A general summary of tax and non-tax payments by the companies is presented in Table 1.

Table 1¹⁹

Company	Tax and Non-tax Payments, \$, 2019	Tax and Non-tax Payments, \$, 2020
CNPC-AktobeMunayGaz	410 360 680,5	No data
Petro Kazakhstan Inc.	119 909 185,7	35 630 588,4
MangistauMunaiGas	965 789 263,2	No data
KazGerMunai	325 120 263,3	169 910 758,3
Buzachi Operating	225 528 468,3	104 562 100
KarazhanbasMunai	297 376 399,8	74 428 005,8

The CNPC itself does not provide reports for the EITI²⁰ because, as noted in the Kazakhstan EITI Reports,²¹ it reports on activities under those projects that it carries out in Kazakhstan through its subsidiaries. The NCOC also does not provide reports on its activities, arguing that it is an operator and not an extractive company.

An analysis of the data shows a significant decrease in the payments of companies to the state in 2020. There are several reasons for this.

COVID-related restrictions have severely affected the industry and there was an increase in the costs of companies owing to the different measures enforced amid the pandemic. The virus also affected the workforce of the companies since oil workers live in a shift camp where the disease is spread very quickly and covers the entire team. As a result, production fell and with it, payments to the state also decreased.

In addition, the demand for raw materials decreased worldwide due to a combination of various factors, including the lockdowns, and prices fell as a result. Consequently, the financial income from the sale of raw materials decreased.

It is also important to note that companies make payments to the state in the Kazakhstani national currency – the *tenge* (KZT). The average exchange rate of KZT against USD,²² which was KZT 382.2

appendix_1_5.jsf?faces-redirect=true
20 <https://eiti.org/countries>

19 The data in the table obtained from the site of the Unified State Subsoil Management System (EGSU).
<https://egsu.energo.gov.kz/webapp/pages/ipdo/>

21 <https://www.gov.kz/memleket/entities/miid/press/article/details/24655?lang=ru>

22 <https://www.nationalbank.kz/en/news/oficialnye-kursy>

in 2019, fell to KZT 412.95 in 2020 and this trend continues in 2021. Therefore, the USD equivalent of payments has decreased even more.

Despite all of the difficulties, the tax and non-tax incomes to the state from the activities of subsoil users with Chinese participation in the pre-crisis 2019-year amount to more than USD 2.3 billion which constitutes a rather serious amount. Chinese subsoil users play an important role in the Kazakhstani economy. However, information on their activities is scarce and not always readily available. The closeness to the press and public scrutiny fosters mistrust and indirectly confirms the view that giving Chinese companies access to oil and gas production is a bad deal for Kazakhstan. Moreover, the attitude towards Chinese business in Kazakhstan is very ambiguous.

Attitude Towards Chinese Business in Kazakhstan

From the very beginning of the presence of Chinese companies in Kazakhstan, information about various unpleasant incidents related to the activities of Chinese companies has been leaked to the press. Back in 2009, some deputies of the Parliament of Kazakhstan expressed concern about the dominance of Chinese companies in the oil and gas sector.²³ At the same time, it was argued by Adil Kaukenov, the Deputy Director of the Institute for Economic Strategies, that: “Chinese companies win tenders because, firstly, they have not only their financial capabilities behind them, but also the financial capabilities of all of China. Second, they work very well in the gray schemes.” It should be noted that indeed both state-owned and private companies in China belong and are governed by the Chinese Communist Party.

Confirmation of the use of “gray schemes”

²³ <https://kursiv.kz/news/tendencii-i-issledovaniya/2009-11/kitayskiy-yaschik-pandory>

is the presence of cases of corruption related to the actions of Chinese managers of extractive enterprises. In 2010, the Deputy General Director of CNPC-AktobeMunayGaz, a Chinese citizen Yan Engbiao, was prosecuted for bribing an official.²⁴ Yan Engbiao approached the head of the Employment Coordination and Social Programs Department for a quota to attract foreign labor. For assistance in obtaining permission to import Chinese workers, he gave a bribe of KZT 300 thousand (USD 2,000) According to the results of the trial, he was found guilty, given a fine and left the country.²⁵

Corruption cases related to the CNPC also took place in China. In 2015, the head of CNPC Jiang Jiemin was sentenced to 16 years for corruption. “A statement from a court in Hubei province carried by the Chinese local media said Jiang was found guilty of receiving bribes, possessing large amounts of assets of unknown provenance and abusing power as a state-owned company employee” was reported by the BBC.²⁶

In addition to facts of corruption, there were reports of land disputes related to the activities of Chinese subsoil users. In 2014, there was a number of court decisions related to the allotment of land for subsoil use. There have been cases when Chinese subsoil users blocked roads, motivating their actions by the fact that the land along which the roads passed was assigned to them for subsoil use. CNPC-AktobeMunayGaz was fined.²⁷ Then in 2014, these cases went almost unnoticed; however, two years later, there were the so-called “land rallies”²⁸ in Kazakhstan in 2016 in which citizens actively protested against the sale of land to foreigners, particularly calling for a complete ban on the sale of

²⁴ <https://tengrinews.kz/money/v-aktobe-nachali-sudit-zamgendirektora-cnpc-aktobemunaygaz-68078/>

²⁵ <https://vesti.kz/crime/zamgendirektor-cnpc-aktobemunaygaz-priznan-vinovnyim-dache-70974/>

²⁶ <https://www.bbc.com/news/world-asia-china-34503469>

²⁷ <https://akt.sud.kz/rus/news/v-otnoshenii-ao-snp-s-aktobemunaygaz-rassmotreny-6-administrativnyh-del>

²⁸ <https://rus.azattyq.org/a/kazakhstan-prodazha-zemli-protest-v-atyrau/27695526.html>

land to the Chinese.²⁹ These rallies provoked a serious reaction from the Kazakhstani authorities. Civil activist, Maks Bokaev,³⁰ who organized a rally in Atyrau, a city in western Kazakhstan, was sentenced to five years for “discord excitement.” President Nazarbayev announced a moratorium on the sale of land to foreigners.³¹ In 2021, President Tokayev extended this moratorium and amendments were made to the Land Code expressly prohibiting the sale and long-term lease of land to foreign citizens.³²

Strikes by Kazakhstani workers in Chinese enterprises are also widespread and strikes at oil and gas fields owned by Chinese companies caused a great public outcry. In 2010, oil workers of the Zhanazhol field, owned by CNPC-AktobeMunayGaz, went on strike.³³ The reason for the strike was that “Chinese workers gain much more income than Kazakhstani workers, their living conditions are better and environmental allowances are a ridiculous amount.”³⁴ Labor strikes related to the unequal wages of Kazakhstani and Chinese employees occur quite regularly. The situation became so serious that in November 2019, President Tokayev of Kazakhstan demanded that the CNPC equalize the salaries of Kazakhstani and Chinese employees.³⁵ This happened after another strike of oilfield service company employees in October 2019.³⁶ However, no official statements or changes to the law were made - the task of equalizing the salaries of Kazakhstani and Chinese employees was set

during a meeting between President Tokayev and Chairman of the Board of Directors of the CNPC, Van Iling.

Unequal wage conditions for Kazakhstani and Chinese workers are pushing anti-China sentiments in Kazakhstani society. This problem has already gone beyond the scope of labor disputes and became political with many opposition political movements in Kazakhstan using it to promote their own agenda. In 2019, before President Tokayev’s visit to China, a series of anti-Chinese rallies took place. According to the press reports covering these rallies, it became clear that: “Although the demands of the protesters are unlikely to be met, the rallies reflect wider ongoing anti-China sentiments which have long been seen with ordinary Kazakhstanis who typically see China as an economically invasive force.”³⁷ This was reported by IntelliNews.

In 2021, rallies were also held in several cities against Chinese plans to set up businesses in Kazakhstan. The protesters demanded to stop allocating land for Chinese enterprises and generally limit the presence of Chinese companies in Kazakhstan. “At the protests, they raised the problem of the harassment of ethnic Kazakhstanis in Xinjiang, a region in northwestern China, from where, since 2017, there have been reports of reprisals against indigenous Turkic-speaking people, professing primarily Islam.”³⁸

The problem of the persecution of the Kazakhstanis and other ethnic groups who practice Islam in Xinjiang has appeared in the Kazakhstani agenda relatively recently. It became especially acute after the publication of the Concluding Observations on China³⁹ in August 2018 regarding credible reports of mass detention, efforts to restrict cultural

29 https://www.bbc.com/russian/international/2016/04/160429_kazakhstan_land_rent_protests

30 <https://pana-defenders.info/person/bokaev-maks/>

31 <https://adilet.zan.kz/rus/docs/U1600000248>

32 <https://adilet.zan.kz/rus/docs/Z2100000039>

33 https://rus.azattyq.org/a/aktobemunaigaz_workers_strike/2075743.html

34 https://rus.azattyq.org/a/oil_china_company_workers_strike/2176156.html

35 <https://informburo.kz/novosti/tokaev-postavil-zadachu-pered-cnpc-uravnyat-zarplaty-kazahstanskih-i-inostrannyh-rabotnikov--98313.html>

36 <https://informburo.kz/novosti/neftyaniki-v-aktyubinskoy-oblasti-priostanovili-raboty-oni-trebuyut-povysheniya-zarplaty.html>

37 <https://intellinews.com/wave-of-anti-china-protests-poses-dilemma-for-kazakhstan-s-new-president-167356/?source=kazakhstan>

38 <https://rus.azattyq.org/a/kazakhstan-opposition-rally-almaty-regions/31172593.html>

39 [https://www.ohchr.org/EN/NewsEvents/Pages/DisplayNews.aspx?NewsID=23452#:~:text=GENEVA%20\(13%20August%202018\)%20-,All%20Forms%20of%20Racial%20Discrimination](https://www.ohchr.org/EN/NewsEvents/Pages/DisplayNews.aspx?NewsID=23452#:~:text=GENEVA%20(13%20August%202018)%20-,All%20Forms%20of%20Racial%20Discrimination)

and religious practices and mass surveillance disproportionately targeting ethnic Uighurs and other human rights violations and abuses in Xinjiang. On October 29, 2019, Ambassador Karen Pearce, Permanent Representative of the UK to the UN, made a statement on behalf of 23 countries.⁴⁰ The statement expressed concern about the violations of human rights in Xinjiang and asked for concrete measures to be taken by the international community to stop these violations. Kazakhstan, being China's closest neighbor, did not join the statement or take any political steps to clarify the situation. On the contrary, after the topic of the persecution of Muslims in Xinjiang became public in Kazakhstan and a wave of anti-Chinese rallies swept across the country, the First Deputy Foreign Minister, Shahrhan Nuryshv, issued a statement⁴¹ on March 31, 2021 urging the non-politicization of this matter. In addition, he made it quite clear that in releasing information about the persecution of Muslims in Xinjiang, the Kazakhstani authorities see the maneuverings of some "third force" that wishes to "destroy the dynamically developing relations between Kazakhstan and China."

Dosym Satpayev, Director of the Risk Assessment Group, named three reasons for anti-Chinese sentiment in Kazakhstan: "The first is historical memory. In the memory of many Kazakhstanis, China for many centuries was perceived more often as an enemy than as a partner. The second is the policy of the Kazakhstani authorities. Many people in Kazakhstan suspect that the government is signing contracts with China that are unfavorable for the country. Third: China itself gives the reasons - the creation of the re-education camps in Xinjiang caused a harsh negative reaction from many Kazakhstanis. Therefore, anti-Chinese sentiments will intensify, since they have deep roots".⁴²

⁴⁰ <https://kz.usembassy.gov/joint-statement-on-xinjiang/>

⁴¹ <https://www.kazpravda.kz/articles/view/o-nashih-otnosheniyah-s-kitaem>

⁴² <https://zonakz.net/2019/09/12/otkuda-beretsya-sinofobiya/>

Informing About the Activities of Chinese Extractive Companies in the Media

A very serious factor contributing to Chinophobia is the poor information in the press about the activities of Chinese companies in Kazakhstan. In the absence of objective information, people begin to listen more to rumors and spread anti-Chinese messages on social networks and instant messengers, thereby forming and strengthening anti-Chinese sentiments. The role of the media in shaping the image is of decisive importance.

As in many other post-Soviet countries, the media in Kazakhstan can be roughly divided into state-owned and private; this division involves a different approach to the coverage of the same events. The state-owned media carry out activities to promote state policy and, based on this function, are de facto not an information source but an instrument of state propaganda. The private media (they are usually called "independent" but this is not entirely true) are formally freer both in the choice of topics and in the tone of their coverage. However, the large private media outlets in Kazakhstan are usually owned by large financial-industrial groups and are not fully independent. There are media outlets that are part of large holdings controlled by members of the family of the first president of Kazakhstan and media owned by other elite groups and oligarchs but in any case, these media cannot express a completely independent point of view. In addition, even formally independent media are often funded by the state within the framework of the State Information Order and cannot express a point of view that contradicts certain guidelines due to the risk of losing funding.

Another important circumstance in the context of the media coverage of the activities of Chinese companies is the lack

of a serious presence of the Chinese media in Kazakhstan. In contrast, for example, there is the Russian media which occupy a large share in the Kazakhstani media market. Chinese news agencies are present in Kazakhstan but they produce content for China without publishing it in Kazakhstan. However, any influence or indirect ownership of the Kazakhstani media by Chinese investors cannot be completely ruled out; it is also impossible to confirm it. Regarding legal restrictions, in accordance with Article 5 of the Law on Mass Media,⁴³ foreigners and foreign legal entities are prohibited from holding more than 20% of shares in Kazakhstani media.

How does the Kazakhstani media, both state-owned and private, cover the activities of Chinese subsoil users in the country? To answer this question, we monitored nine of the largest Kazakhstani media outlets representing both state and private information resources.

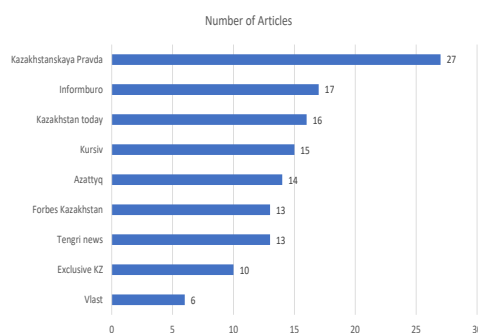
- *Kazakhstanskaya Pravda* (Kaz-Pravda) – a national newspaper, the main source of official information and a state information resource.
- *Kazakhstan today*, *Tengrinews*, *Informburo*, *Kursiv*, *Vlast*, *Exclusive KZ* – private Kazakhstani information resources.
- *Forbes KZ* – Kazakhstani edition of the international financial and economic magazine.
- *Azattyq KZ* – Kazakhstani edition of Radio Free Europe/Radio Liberty, (RFE/RL).

Publications were analyzed for the period from January 1, 2020 to June 1, 2021. Articles were selected articles that mentioned the Chinese companies CNPC, CITIC and Sinopec and companies with Chinese participation such as Petro Kazakhstan, CGNPC (China General Nuclear Power Group), TAGPC Ltd. (Trans-Asia Gas Pipeline Company Limited),

NCOC, MangistauMunaiGas, CNPC-AktobeMunaiGaz, KazGerMunai, KarazhanbasMunai and Buzachi Operating.

A total of 264 articles were found initially. Reprints and duplications were then removed from the list since some of the same articles were included in the sample. The final list for analysis consisted of 131 articles.

The number of published articles selected are shown in the chart.



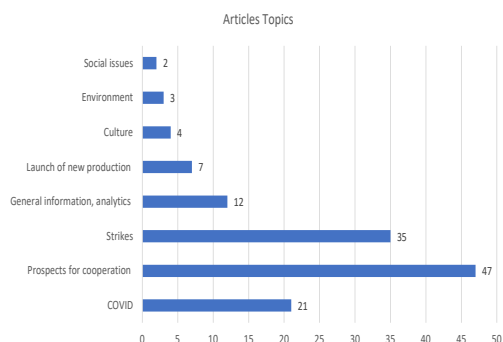
In the context of the companies, the distribution of the articles is as follows:



The topics of the articles, taking into account the specifics of the situation with the COVID epidemic in the study period, shifted from general overviews of activities, prospects of ongoing projects and the opening of new production facilities to the topic of the participation of companies in the fight against the

⁴³ <https://adilet.zan.kz/rus/docs/Z990000451>

epidemic. Another important topic is the coverage of worker strikes. The smallest number of articles related to environmental and social issues.



It is difficult to determine the general tone of the publications since the analysis covered very different media - from state-owned to independent and international. In addition, the tone of the publications varies depending on the topic - if the topic is about the prospects of cooperation and the launch of new production, they are described in a positive way while the topic of strikes – the coverage is more negative. The topic of combating COVID is described in a positive tone - financing the procurement of masks, drugs and medical equipment, etc.⁴⁴

In general, the topic of assistance from different countries for combating COVID in Kazakhstan is widely covered in the Kazakhstani media, both state-owned and private.⁴⁵ China's aid included sending doctors to fight the epidemic in April 2020,⁴⁶ delivering multiple supplies of medical equipment and masks throughout the year⁴⁷ and supplying the CoronaVac vaccine in 2021.⁴⁸ In addition to the Government

of China, Chinese businesspersons also provided aid - for example, there were reports in the media about humanitarian aid sent to Kazakhstan by the founder of the Alibaba Group, Jack Ma.⁴⁹ Of course, all publications of this kind are made only in a positive tone and contain words of gratitude for the help of Chinese partners. Thus, at a meeting of the Council of the Heads of States of the Shanghai Cooperation Organization (SCO), President Tokayev expressed gratitude to the Chinese side for their help in combating the epidemic.⁵⁰ Gulmira Isimbayeva, Vice-Speaker of the Mazhilis (Lower Chamber) of the Parliament, also expressed gratitude to Chinese doctors for the provision of advisory and practical assistance.⁵¹ There is no doubt that all publications about China's assistance in the fight against COVID contribute to the promotion of a positive image of China in the eyes of Kazakhstanis.

The state newspaper, *Kazakhstanskaya Pravda*, made the largest number of publications in a positive manner with all of them relating to the topics of cooperation prospects, the fight against COVID, the launch of new production and culture. Even in a publication about a worker strike of the M-Technoservice service company serving the Kenkiyak field and owned by CNPC-AktobeMunaiGaz, the state newspaper emphasized the positive role of the authorities of the Aktobe region: “On behalf of the head of the region, the deputy akim (head of the local executive authority) of the region, Kairat Bekenov, went to the field to meet with oilmen. Together with him, the management of the service company and representatives of the labor inspectorate arrived there. All sides were heard; the acting director of company, Van Iling, expressed his gratitude

44 <https://www.kazpravda.kz/fresh/view/glava-cnpc-international-in-kazakhstan--v-period-krizisa-mi-usililisotsialnuu-podderzhku-kazahstantsev>

49 <https://inbusiness.kz/ru/last/vtoraya-partiya-gumanitarnoj-pomoshi-ot-osnovatelya-kitajskoj-kompanii-alibaba-group-pribyla-v-almaty>

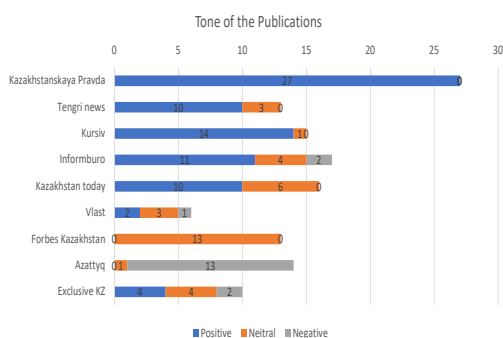
50 https://www.akorda.kz/ru/speeches/external_political_affairs/ext_speeches_and_addresses/vystuplenie-prezidenta-kazahstana-kasym-zhomarta-tokaeva-na-zasedanii-soveta-glav-gosudarstv-chlenov-shos

51 https://www.inform.kz/ru/deputaty-mazhilisa-proveli-onlayn-vstrechu-s-kitayskimi-kollegami_a3707014

to the regional authorities for resolving the issue and promised that no penalties will be applied to the workers.”⁵²

The Kazakhstani edition of RFE/RL Azattyq KZ publishes the most critical articles. Almost all of the articles from this media cover strikes, lawsuits and rallies associated with Chinese companies in Kazakhstan. For example, one of the articles states: “The police literally pushed activists into police wagons and buses belonging to CNPC-AktobeMunaiGaz. ... Earlier, the police used the buses of the local bus depot to transport the detained activists.”⁵³ Almost all of the articles from this media are negative. At the same time, all of the events reported by Azattyq KZ had indeed taken place and were supported by photos from the field and comments of witnesses and participants. The agency, in addition to the description of the events, provides an estimate in terms of human rights violations and so the tone of the publications becomes critical and negative.

The private media, both Kazakhstani and foreign, make their publications in a neutral or benevolent tone, thereby avoiding harsh statements and direct criticism. In general, the share of negative articles in the sample does not exceed 23.6% of all of the publications and all of them refer to worker strikes and anti-Chinese rallies.



Of course, what the press writes about is very interesting; but much more interesting is what the press practically does not write about. The extraction and

transportation of hydrocarbons is a very laborious and dangerous process, including in terms of industrial injuries and risks to the environment. International companies operating in Kazakhstan regularly face problems related to accidents, emissions and other emergencies. As for Chinese extractive companies, there is almost no such information about these issues. The most well-known case is an accident at the Kashagan field which was being developed by the NCOC in 2013⁵⁴ but this accident was not in any way connected with the participation of the Chinese subsoil user CNPC in the project.

As for the activities of CNPC-AktobeMunaiGaz itself, there were several reports of incidents in the period of 2010-2013 and 2016. Quite serious allegations against the company were put forward in 2013: “Environmentalists have accused the company of concealing information about the pollution of the environment, providing false data and searching for judicial loopholes for the non-payment of fines.”⁵⁵ Environmentalists argue that CNPC-AktobeMunaiGaz has avoided the environmental monitoring department of the Aktobe region in the last ten years. The following claims were brought against the company:

- In February 2012, an oil spill occurred over an area of more than 1 hectare. The company eliminated the consequences of the accident within eight months. The environmental department filed a lawsuit against the company. Four lawsuits were won and CNPC-AktobeMunaiGaz was fined. The fine was KZT 1.28 million (approximately USD 8,500 at the 2012 exchange rate).
- In 2012, the company emitted about 40 thousand tons of pollutants into the air. The specific emission per ton of produced oil is 6.9 kilograms. At

⁵⁴ <https://kapital.kz/info/avariya-na-kashagane>

⁵⁵ https://tengrinews.kz/kazakhstan_news/cnpc-aktobemunaygaz-obvinili-protivostoyanii-ekologicheskomu-243455/

the same time, other companies have specific emissions of about 1 kilogram per ton of produced oil.

- In March 2013, CNPC-AktobeMunaiGaz allowed the release of oil-contaminated water into the filtration fields. This caused the death of 30 waterfowl. In order to hide this fact, the company illegally mined and used clay from the remediation fields. Damage to nature and the cost of the work to eliminate the soil pollution was estimated at almost KZT 826 million (approximately USD 5.5 million at the 2013 exchange rate). In the process of checking, CNPC-AktobeMunaiGaz provided false information to the request of the environmental department on the amount of injected produced water which confirms the company's level of compliance with environmental requirements. Because of opposition from the company, verification took more than five months.
- CNPC-AktobeMunaiGaz burned flares of approximately 316.1 million cubic meters of APG between 2010 and 2012, thereby increasing the greenhouse effect.
- In 2016, two workers died at the Kenkiyak oil field. The company claimed that the incident was not related to the company's production activities and that the workers died of poisoning from low-quality alcohol. However, the use of alcohol in the shift camp is prohibited and the investigation of this case was halted. The incident was only reported in the regional press.⁵⁶

CNPC-AktobeMunaiGaz did not comment on these publications in any way and there were no new reports about this or other incidents. Taking into account the fact that the company has already been convicted of withholding information and opposing environmental audits, it can be assumed that the negative impact on the environment

continues; however, the media do not report on such incidents.

While examining publications in the Kazakhstani media on the activities of Chinese subsoil users, one cannot help but pay attention to the general situation of the press in Kazakhstan. In general, the Kazakhstani media is not very active in covering the activities of Chinese subsoil users as indicated by the small number of articles in the sample. This is due to many reasons with the main one being the fear of possible sanctions - the media outlets do not want to find themselves in a situation where they have to prove the accuracy of the published information and the lack of intentions to incite discord.

Kazakhstani legislation provides many opportunities for putting pressure on the media:

- First of all, wording such as “inaccurate information” does not have a clear legal definition; in fact, in the case of filing with the court, each judge is free to independently interpret the accuracy or inaccuracy of the information.
- Secondly, although the composition of “slander” ceased to be criminal, very serious fines appeared in administrative judicial proceedings which could lead to the closure of the media. This is in addition to the risks of litigation.
- Thirdly, there is a practice of the extrajudicial blocking of online media resources which also leads to serious financial losses and may cause the closure of media outlets.

In the World Press Freedom Index, which is annually compiled by the Reporters Without Borders organization, Kazakhstan ranked 157 out of 180 in 2020⁵⁷ and 155 out of 179 in 2021.⁵⁸ Reporters Without Borders noted the desire of the governments of Central Asia to control information. As for the situation in Kazakhstan: “The state is modernizing its methods of repression

⁵⁶ <https://mgorod.kz/nitem/eshhe-odin-neftyanik-snp-aktobemunajgaz-naxoditsya-v-bolnice/>

⁵⁷ <https://rsf.org/en/ranking/2020>

⁵⁸ <https://rsf.org/en/ranking/2021>

and, in particular, exercising more control over the Internet, where surveillance is now widespread, news sites, social media and messaging services are now subjected to more ‘effective’ periodic cuts and bloggers have been jailed or confined to psychiatric clinics. It is high time to wind up the legacy of censorship,”⁵⁹ noted the organization in its 2021 report.

The Kazakhstan Foundation for the Defense of Freedom of Expression, Adil Soz,⁶⁰ released an analytical report on the situation about the freedom of speech in Kazakhstan. The organization points out: “At the level of governance, there is a clearly manifested fear of the growing activity of society and the desire to control the freedom of expression and freely receive and disseminate information by strengthening the regulatory and supervisory functions.”⁶¹

Obviously, in terms of legal restrictions and the excessive regulation of reporting, the media do not tend to inform widely the public about the activities of Chinese subsoil users in Kazakhstan.

1. Chinese extractive companies play an important role in the Kazakhstani economy. In fact, Chinese companies own the entire oil production sector in the Aktobe region, Chinese production companies operate in the Atyrau, Mangistau and Kyzylorda regions and they have a share in the Shymkent refinery. Even a decline in production and other negative factors associated with the COVID epidemic did not affect the presence of Chinese subsoil users in Kazakhstan.

2. Information on the activities, incomes and payments of Chinese subsoil users is accessible for citizens of Kazakhstan due to the availability of information within

the framework of the EITI; however, this information only concerns the extractive companies directly and the activities of the processing and transport (pipeline) companies remain non-transparent. In addition, the Internet resources of EITI KZ themselves are unknown to most citizens and their use requires additional efforts.

3. The activity of Chinese subsoil users causes a rather ambiguous reaction from ordinary Kazakhstanis. The terms of the contracts with Chinese extractive companies continue to remain hidden or closed. The lack of complete and objective information about the terms of the contracts and the activities of companies, the “closed” management and the possible environmental impact of production on the local environment and local communities create a negative reaction to the activities of the extractive companies. This causes conflicts between the companies and the local residents, and controversial management decisions cause conflicts between local and Chinese employees.

4. Informing Kazakhstani citizens about the activities of Chinese extractive companies by the Kazakhstani media is rather weak. For the period of 2020-2021, the Kazakhstani media analyzed in this study published less than 150 articles mentioning the largest Chinese subsoil users. For example, during the same period in the same media, the Kazakh state-owned company KazMunayGaz was alone more than 500 times and the Dutch-British Shell company was mentioned about 180 times, etc.

5. This lack of information is due, on the one hand, to the closed nature of the Chinese companies and, on the other hand, to the reluctance of the media to cover sensitive topics for reasons of security. Legislation on the media in Kazakhstan allows punishing the media for publishing “inaccurate information” and the media is then forced to resort to self-restriction in their statements. The main findings about the media coverage of the Chinese extractives are:

- The most popular topic in the sample

59 <https://rsf.org/en/kazakhstan>

60 <http://www.adilsoz.kz>

61 <http://www.adilsoz.kz/politcor/show/id/304>

regarding the activities of the Chinese extractive companies and Chinese business in general is the description of the prospects for cooperation and benefits. Most articles on this topic are published on the state resource, *Kazakhstanskaya Pravda*.

- Most of the neutral publications in the sample are presented on the website of the Kazakhstani edition of *Forbes*. All of the articles by this source are either informational or analytical and do not contain any clear positive or critical comments.
- The subject of worker strikes in Chinese companies is highlighted in all of the media in the sample but in a different tone - the state media reported that the problems were resolved and provided information about the strike in a positive manner while the independent media prefer to give neutral information without details.
- The Kazakhstani edition of RFE/RL Azattyq KZ most actively uses the topic of anti-Chinese rallies and protests, conflicts between Kazakhstani and Chinese workers and strikes. This is the only media resource from the sample that publishes mainly critical materials about the activities of Chinese companies in Kazakhstan.
- The only critical remark against the Chinese CNPC subsoil user from the government is the November 2019 requirement of the President of Kazakhstan to the head of the company to equalize the salaries of Kazakhstani and Chinese workers.
- For the period of January 1, 2020 to June 1, 2021 not a single item of material was found in the sample about accidents, emissions and other incidents related to the activities of Chinese subsoil users. In addition, not a single item of material in the sample was found in relation to the negative

impact of the Chinese extractive companies on the environment.

- The Kazakhstani media broadly covered the assistance of the Chinese government and Chinese companies in the fight against the COVID epidemic and all publications about this are exclusively positive. China's "COVID Diplomacy" promotes a positive image of China and Chinese companies in Kazakhstan.
6. Official documents regulating Kazakhstani-Chinese relations are published and available in the public domain. The publication of these documents is carried out in the Adilet legislative acts database although a large number of citizens are not aware of them. The use of this database, while free of charge, is quite difficult for untrained users. The search for documents with only a name or content but without baseline data, such as the date of signature and the document number, etc., significantly impedes usage. Moreover, the published interstate agreements concerning the activities of Chinese subsoil users are of a general nature and specific contracts on subsoil use are not available in the public domain.
7. In the course of this study, there were no additional measurements, surveys of local residents, research of local media and social networks or requests to state agencies, etc., which are necessary vis-à-vis making more studies, having a regional focus and identifying the points of growth and risks affecting the activities of Chinese subsoil users in Kazakhstan. Measures are also needed to increase the capacity of Kazakhstani researchers to conduct such studies at the regional and local levels.

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Kyrgyzstan

Capital – Bishkek

Total Area - 199,951 sq km

Population - 6,625,565

Ethnic Groups - Kyrgyz (73.5%), Uzbek (14.7%), Russian (5.5%), Dungan (1.1%), Uyghur (0.9%), Tajik (0.9%), Turk (0.7%), Other (2.7%)

Religion - Islam (90%), Christianity (7%), Other (3%) (includes Jewish, Buddhist, Bahá'í)

Government - Unitary presidential constitutional republic

Global State of Democracy – [Hybrid regime](#)

Global Freedom Score - [28/100 Not Free](#)

Corruption Perceptions Index – [31/100 \(2020 score\), 124/180 \(2020 rank\)](#)

GDP (Per capita) - [USD 1.12 thousand \(2021 est.\)](#)



The Kyrgyz Republic is a landlocked country in Central Asia and is bordered by China, Tajikistan, Kazakhstan, and Uzbekistan. Due to the internal political disorder, Covid-19 pandemic, and lack of effective social-economic policies for crisis management, Kyrgyzstan's economy has immensely suffered. [Inflation rose from 3.1 to 9.7 percent](#), and the rise of expenditures and weaker revenues led to the widening of the government deficit in 2020. Following the [World Bank data](#), Kyrgyzstan's external debt reached \$3,226,708.03 in 2019. Due to a higher deficit, its debt increased [to 68% of its GDP in 2020](#), and by 2021, accounted for [73% of the country's GDP](#).

In 2020, [Kyrgyzstan's state budget](#) revenues were predicted to reach 163,710 billion soms (\$1,933,542,860.56), expenditures — 173,663 billion soms (\$173,663,000,000). The budget deficit amounted to 9,953 billion soms (\$9,953,000,000). In December 2020, the parliament of Kyrgyzstan [adopted the 2021 state budget](#), pursuant to which the budget revenues equal to 172,891.6 billion soms (\$2,049,108,501,811.51) and the expenditures to 181,354.8 billion soms (\$2,149,434,136,592.04). The maximum

deficit of its budget was set at 8,463.2 billion soms (\$100,307,044,923.84). As a result, compared to 2020, in 2021, revenues and expenditures increased and deficit decreased.

Kyrgyzstan's [major exports](#) comprise gold, precious metal ore, dried legumes, refined petroleum, and scrap copper, while the top imports include refined petroleum, rubber footwear, and men/women clothes.

According to the [UN Economic and Social Commission for Asia and the Pacific](#), in 2017, China was the largest trading partner of the Kyrgyz Republic, embodying 5.5% of its exports and 32.5% of its imports. However, this occasion changes annually. As reported by the UN COMTRADE, already in 2019, China was listed as [6th importer country](#) of Kyrgyz goods and [the 1st exporter country](#) (35% share) to Kyrgyzstan. More precisely, in 2019, the Kyrgyz Republic's [exports](#) to China amounted to \$81.47 Million, while its imports from PRC were [\\$1.73 Billion](#). In 2020, the turnover kept falling, and Kyrgyzstan's exports to China amounted to \$43 million, while its imports came to \$736 million. As a result, [Russia \(with a share of 32%\) surpassed China](#) in importing goods from Kyrgyzstan, leaving PRC as the country's second-largest trading partner.

China's Debt-trap Diplomacy in Kyrgyzstan

Bakytbek Satybekov

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Abstract

In 2020, the global economy reduced drastically due to the COVID-19 pandemic. Many governments had to stimulate their economies and this has led to the largest borrowing in peacetime, increasing public debt worldwide by 15 percent. Many middle- and low-income countries are now desperate for liquidity to avoid defaulting on their debts.

China is the world's largest official creditors which is providing trillions of dollars in infrastructure financing to developing countries in Asia, Europe and Africa through its Belt and Road Initiative (BRI). But during recent years, Chinese loans to developing countries are associated with the so-called debt-trap diplomacy which leads to over-indebtedness and further losses of assets.

This paper analyzes China's debt-trap policy, the appearance of "hidden debts," reviews the Kyrgyz Republic's borrowings from China and the evolution of Kyrgyz debt management strategies. An evaluation is also made of the situation vis-à-vis Kyrgyzstan able to find itself in a debt trap in parallel with providing systematic recommendations to avoid such a debt-trap occurrence.

Acronyms & Abbreviations

BRI - Belt and Road Initiative
CGD - Center for Global Development
CNBC - Consumer News and Business Channel
DAC - Development Assistance Committee
DTD - Debt-trap Diplomacy
DW - Deutsche Welle
GDP - Gross Domestic Product
IATI - International Aid Transparency Initiative
IFIs - International Financial Institutions
IfW- Kiel Institute for the World Economy
IMF - International Monetary Fund
MOFCOM - China's Ministry of Commerce
ODA - Official Development Assistance
OGP - Open Government Partnership
PRC - People's Republic of China
TBEA - Tebian Electric Apparatus Stock Co., Ltd.
USD - United States Dollars

Introduction

In 2020, the global economy contracted by 4.3 percent which is more than two and a half times greater than during the 2009 global financial crisis. The expected moderate recovery of 4.7 percent in 2021 will hardly offset the previous year's losses.¹

The total of USD 12.7 trillion spent on emergency measures to stimulate the world economy, according to UN experts, was able to prevent a new Great Depression. But funding government programs to stimulate the economy has led to the largest borrowing in peacetime, increasing the public debt worldwide by 15 percent. Such a massive increase in debt will place a heavy burden on the shoulders of future generations.²

The Kyrgyz Republic was as well affected by the pandemic. The gross domestic product of Kyrgyzstan fell by 8.6%, making it the country with the largest economic decline in Central Asia. Official Bishkek has requested USD 774 million from foreign donors to fight COVID-19. Of these, USD 343 million were received.³ For example, the Kyrgyz Republic was the first beneficiary of loans within the Rapid Financing Instrument and the Rapid Credit Facility provided by the International Monetary Fund.⁴

“Many middle- and low-income countries are now desperate for liquidity to avoid defaulting on their debts,” said the UN Secretary General in his speech at the World Economic Forum in Davos. “We see an urgent need for solidarity and financial support from all stakeholders, including private lenders. The main goal of such consolidation is to ease the debt burden on

vulnerable countries so that they do not have to choose between providing vital services to the population and servicing their debts.”⁵

The problem of hidden debts, according to Jessica Hickle, makes it difficult for international financial institutions (IFIs) to accurately estimate the debt burdens of countries, provide recommendations to limit debt distress and determine appropriate debt relief packages.⁶

The term “hidden debt” mainly refers to China's massive lending to large infrastructure projects as well as other debt flows from bilateral creditors. These hidden debts complicate efforts to mitigate debt crises.

Therefore, this paper will address the following issues:

1. Description of China's debt-trap policy.
2. Review of the Kyrgyz Republic's borrowings from China.
3. Review of the evolution of Kyrgyz debt management strategies.
4. Evaluation of the situation vis-à-vis Kyrgyzstan able to find itself in a debt-trap.
5. Conclusion and recommendations.

China's Debt-trap Policy

According to the Collins dictionary, the term “debt-trap” is defined as: “A situation in which a debt is difficult or impossible to repay, typically because high interest payments prevent the repayment of the principal.”⁷ This term has often recently been associated with the term debt-trap diplomacy (DTD) which in turn was introduced by the Indian academic, Brahma Chellaney, in early 2017⁸ and has been

1 The UN World Economic Report. <https://news.un.org/ru/story/2021/01/1395082>.

2 The UN World Economic Report. <https://news.un.org/ru/story/2021/01/1395082>.

3 <https://rus.azattyk.org/a/31158992.html>

4 <https://www.imf.org/en/Publications/CR/Issues/2020/03/27/Kyrgyz-Republic-Request-for-Purchase-Under-the-Rapid-Financing-Instrument-and-Disbursement-49296>

5 The UN World Economic Report. <https://news.un.org/ru/story/2021/01/1395082>.

6 <https://www.opengovpartnership.org/stories/debt-transparency-an-open-government-solution-to-mitigating-debt-crises/>

7 <https://www.collinsdictionary.com/submission/7098/Debt+trap>

8 <https://www.project-syndicate.org/commentary/china->

widely used in recent years to allege China's lending policies.

According to Chellaney, the theory of debt-trap diplomacy is that the creditor country intentionally extends excessive credit to a debtor country, thereby inducing the debtor into a debt-trap. In the case of China, this is done with the intention of increasing China's influence on the debtor country when it becomes unable to meet its debt repayment obligations.

The obvious signs of such a policy include the following:

1. Granting loans without an assessment of the economic efficiency of projects and the country's solvency.
2. Hiding information about the details of loans or about these debts.
3. Tied loans.

A more detailed look at each of the three aforementioned signs is as follows.

Ineffective projects

In his article, entitled "China's Debt-trap Diplomacy," Chellaney provides examples of Chinese loans that did not lead to economic growth: "Sri Lanka's Mattala Rajapaksa International Airport, which opened in 2013 near Hambantota, has been dubbed the world's emptiest.⁹ Likewise, Hambantota's Magampura Mahinda Rajapaksa port remains largely idle, as does the multibillion-dollar Gwadar port in Pakistan."

When the borrower has problems with repayments of debts, China takes the assets of the debtors such as, for example, when Sri Lanka handed over control of the newly-built port of Hambantota to a Chinese operator in December 2017 in order to satisfy a part of its significant debt to Chinese lenders.¹⁰

⁹ <https://www.forbes.com/sites/wadeshepard/2016/05/28/the-story-behind-the-worlds-emptiest-international-airport-sri-lankas-mattala-rajapaksa/?sh=75e758397cca>

¹⁰ <https://www.trtworld.com/africa/how-china-s-debt-trap-diplomacy-works-and-what-it-means-32133>

This political approach is already called neo-colonialism¹¹ which allows the exploitation or seizure of the resources of debtor countries: "The latest to fall prey to China's debt-trap diplomacy is small Laos which recently signed a 25-year concession agreement allowing a majority Chinese-owned company to control its national power grid, including electricity exports to neighboring countries."

Hidden debt

Additionally, many Chinese loans have not been publicly disclosed, thus spawning a "hidden debt" problem. Although China has undertaken extensive development assistance programs relating to other developing countries since 1950, the Chinese government has never reported Official Development Assistance (ODA)¹² statistics to the public; not only because it is a non- Development Assistance Committee (DAC)¹³ state but also due to the gap between the ODA standard and China's notion of development assistance.¹⁴

China's Ministry of Commerce (MOFCOM) is in charge of the country's development policy and projects. At present, China-MOFCOM is not an International Aid Transparency Initiative (IATI)¹⁵ member

¹¹ <https://www.japantimes.co.jp/opinion/2021/05/09/commentary/world-commentary/china-debt-trap-development-aid/>

¹² Official development assistance (ODA) is defined by the OECD Development Assistance Committee (DAC) as government aid that promotes and specifically targets the economic development and welfare of developing countries (<https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/official-development-assistance.htm>).

¹³ The OECD Development Assistance Committee is a unique international forum of many of the largest providers of aid, including 30 members (<https://www.oecd.org/dac/development-assistance-committee/>).

¹⁴ <https://www.loc.gov/law/help/foreign-aid/china.php>

¹⁵ The International Aid Transparency Initiative (IATI) is a global campaign to create transparency in the records of how aid money is spent. The initiative hopes to thereby ensure that aid money reaches its intended recipients. (<https://iatistandard.org/en/about/>).

and does not publish in the IATI Registry.¹⁶ Due to that, China-MOFCOM remains in the ‘very poor’ category, taking the lowest position in the Aid Transparency Index.¹⁷

The hidden debt problem can reduce the ability of countries to raise funds from international markets. The World Bank stated: “Debt transparency is essential for economic development. So, when debts are ‘hidden,’ that is a problem for everyone — not just the World Bank or the International Monetary Fund (IMF). It is especially a problem for the citizens of countries whose hidden debt is suddenly discovered, since uncertainty can lead to higher funding costs or, in the worst case, cut them off from funding.”¹⁸

The hidden debt problem could also spark a worse-than-expected slowdown of borrowing countries because the lack of transparency surrounding the loans meant that there is also uncertainty around the sustainability of the projects. According to Kaho Yu, Senior Asia Analyst at Verisk Maplecroft, another problem is: “...the uncertainty about the long-term viability of the projects supported by China’s under-reported loans due to the lack of transparency and accountability. Although there will be a surge in (foreign direct investments) in the early stage of the projects, the deficit will widen in the long run.”¹⁹

“Many of the contracts contain or refer to borrowers’ promises not to disclose their terms — or, in some cases, even the fact of the contract’s existence,” says a study from Germany’s Kiel Institute for the World Economy (IfW) which could be giving Beijing undue influence over their economic and foreign policies.²⁰ The study analyzes

100 Chinese loan agreements from 24 countries. It is the first systematic analysis of the legal terms of China’s foreign lending policies. The study was carried out with the support from several United States research institutions and it compares agreements made with Chinese state-owned banks against 142 publicly available contracts of other major creditor countries.²¹

The study of the Chinese foreign loan contracts reveals a number of insights:²²

- The contracts are in contradiction with narratives of the UN office for South-South cooperation.²³
- There is widespread use of the “No Paris Club”²⁴ and “no comparability of treatment” clauses that expressly prohibit the borrower country from restructuring their outstanding debts to China in coordination with Paris Club creditors and/or on comparable terms with them. This practice suggests that Chinese state-owned banks are effectively seeking to position themselves as “preferred creditors” exempt from restructuring.
- More generally, Chinese contracts give lenders considerable discretion to cancel loans and/or demand the full repayment ahead of schedule. Such terms give lenders an opening to project policy influence over the sovereign borrower and effectively limit the borrower’s policy space to cancel a Chinese loan or to issue new environmental regulations.
- Some of the debt contracts in the sample could pose a challenge for multilateral cooperation in debt or financial crises, since so many of their terms run directly counter to recent multilateral commitments, long-established practices and institutional policies.

As noted above, loans from China are not registered in the ODA flows because of the gap between the ODA standard and

16 <https://www.publishwhatyoufund.org/the-index/2020/china-mofcom/>

17 https://reliefweb.int/sites/reliefweb.int/files/resources/PWYF_AidTransparency2020_Digital.pdf

18 <https://www.cnbc.com/2019/06/12/chinas-loans-causing-hidden-debt-risk-to-economies.html>

19 <https://www.cnbc.com/2019/06/12/chinas-loans-causing-hidden-debt-risk-to-economies.html>

20 https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Journal_Article/2021/How_China_Lends.pdf

China's notion of development assistance and often because these are loans for the commercial operations of Chinese companies. For instance, Matt Ferchen, a scholar from the Carnegie-Tsinghua Centre for Global Policy in China, explains that: "China's aid is only a very small part of what it considers to be development engagement which often simply means doing business deals."²⁵ These are mainly so-called tied loans (or export/trade credits).

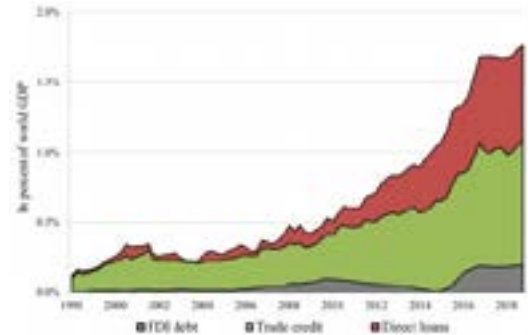
However, evidence has shown that "tied" aid - offering aid on the condition that it be used to procure goods or services from the provider of the aid - can increase the costs of a development project by as much as 15 to 30 percent. Untying aid, on the other hand, avoids unnecessary costs and gives the recipient the freedom to procure goods and services from virtually any country.²⁶

From China's overseas lending study,²⁷ one can observe that China's direct loans and trade credits have climbed from zero in 1998 to more than USD 1.6 trillion, or close to 2 percent of the world gross domestic product (GDP), in 20 short years by 2018. More than half of them are trade credits to low- and middle-income countries.

Figure 1. China's Overseas Lending Boom
(Source: https://www.nber.org/system/files/working_papers/w26050/revisions/w26050.rev0.pdf)

The likelihood of debt problems in 68 countries identified as potential borrowers

was assessed by the Policy Paper of the Center for Global Development (CGD), entitled *Examining the Debt Implications*



of the Belt and Road Initiative (BRI) from a Policy Perspective, in March 2018.²⁸ The paper concluded that eight countries are at particular risk of debt distress based on an identified pipeline of project lending policies and practice associated with the BRI:

- Djibouti
- Maldives
- Laos People's Democratic Republic
- Montenegro
- Mongolia
- Tajikistan
- Pakistan
- Kyrgyz Republic

The assessment has shown that Kyrgyzstan is a relatively poor country with significant new BRI-related infrastructure projects being constructed, much of them financed by external debt. By the end of March 2017, public and publicly guaranteed debt amounted to roughly 65 percent of the GDP of which external debt represented about 90 percent of the total. Among others, China's Exim Bank is the largest single creditor with reported loans totaling USD 1.5 billion by the end of 2016 or roughly 40 percent of the country's total external debt. Kyrgyz and

25 <https://www.dw.com/en/how-unconditional-is-chinas-foreign-aid/a-43499703>

26 <https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/untied-aid.htm>

27 https://www.nber.org/system/files/working_papers/w26050/revisions/w26050.rev0.pdf

28 <https://www.cgdev.org/sites/default/files/examining-debt-implications-belt-and-road-initiative-policy-perspective.pdf>

Chinese authorities are reportedly discussing a number of large infrastructure projects including a chain of hydropower plants, a China-Kyrgyzstan-Uzbekistan railway, an additional highway and the Central Asia-China gas pipeline. While currently considered to be at a “moderate” risk of debt distress, Kyrgyzstan remains vulnerable to shocks resulting from a sizeable exchange rate depreciation exacerbated by the scaling up of public investments.²⁹

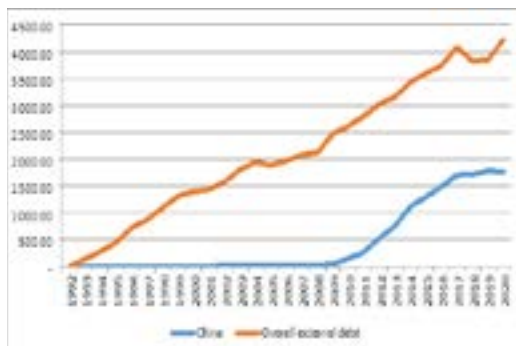
Due to the shock of COVID-19 to the end of 2020, the Kyrgyz Republic was faced with the problem of debt repayment, including debt to China. By the end of 2020, China's Exim Bank was the Kyrgyz Republic's largest creditor with a share in the debt portfolio of 41.8% or USD 1766,00 million.³⁰ The republic's external debt in 2020 increased from 52-54% to 62% of the GDP in six months. The main drivers of debt accumulation were the weakening of the national currency and the decline in the GDP.³¹

As can be seen from the chart below, the share of loans from China was insignificant in the first two decades of the sovereign development of Kyrgyzstan but large infrastructural projects have begun to be implemented since 2009, financed by China's Exim Bank. The rate of borrowing from Exim Bank was especially noticeable after the emergence of the BRI which has only slowed down since 2017 when restrictions on borrowing from a single source were introduced.

Figure 2. Disbursed Outstanding Debt of the

Kyrgyz Republic, MM USD (Source: www.minfin.kg)

During the period of 2008-2015, only nine loans from China's Exim Bank were attracted on concessional conditions³² because restrictions were introduced vis-à-vis non-concessional borrowings with the adoption of



the Medium-Term Strategy for Reducing the External Debt of the Kyrgyz Republic in 2001.

These loans were attracted to finance infrastructural projects; in particular, for the reconstruction of roads and for the energy sector. In all of the loan agreements, suppliers were pre-identified. The China Corporation was for the construction of roads and bridges and the Tebian Electric Apparatus Stock Co., Ltd. (TBEA) is for energy projects.³³ For this reason, these loans all have the characteristics of tied loans. Additionally, the economic efficiency of some of the road projects is not obvious. Information about the details of these loans is not publicly available nor are the full texts of the agreements.

32 Concessional loans are loans that are extended on terms substantially more generous than market loans. The concessionality is achieved either through interest rates below those available on the market or by grace periods, or a combination of these. Concessional loans typically have long grace periods. (<https://stats.oecd.org/glossary/detail.asp?ID=5901>).

33 Chinese company Tebian Electric Apparatus Stock Co Ltd. (TBEA) was also involved in several infrastructural projects in Georgia and similar to Kyrgyzstan, did not prove itself in either transparent or high-quality works and service delivery. For more info, please visit <https://civicidea.ge/en/civic-ideas-4th-china-watch-report/>

After the 1998 economic crisis, Kyrgyzstan experienced external shocks which showed the existence of problems with the external public debt. Taking measures to reduce the burden of the public debt, Kyrgyzstan began to adopt strategic documents for debt management in 2001.

The Government of Kyrgyzstan has consistently approved:

- Medium-term Strategy for Reducing the External Debt of the Kyrgyz Republic dated 19.07.2001.³⁴
- Strategy for Public Debt Management of the Kyrgyz Republic for 2009-2011.³⁵
- Strategy for Public Debt Management of the Kyrgyz Republic for 2012-2014.³⁶
- Strategy for Public Debt Management of the Kyrgyz Republic for 2016-2018.³⁷
- Strategy for Public Debt Management of the Kyrgyz Republic for 2020-2023.³⁸

The first debt management strategies focused on the overall reduction of the public debt burden as well as the development of the government securities market and helped to bring public debt to economically acceptable levels.

A restriction appeared in the Strategy for Public Debt Management of the Kyrgyz Republic for 2016-2018: “In order to diversify the external debt portfolio and reduce potential risks associated with debt concentration, the Government of the Kyrgyz Republic in the process of attracting external borrowings will be guided by a quantitative

limitation of the formation of debt to one the creditor of not more than 50 percent of the total amount of the public external debt.” This means that the government cannot borrow from a lender whose loan portfolio is already close to 50 percent of the total public external debt and is forced to turn to other multilateral or bilateral lenders.

This restriction was due to the rapid dynamics of borrowing from China’s Exim Bank which was detected by the Supreme Audit Institution of Kyrgyzstan (Account Chamber). Its head, Elmira Ibraimova, noted consistently increasing shares of repayments on bilateral loans over the years due to the attraction of significant borrowed funds from bilateral creditors in 2009-2015 (loans from China’s Exim Bank were mainly attracted during this period) and the beginning of repayments of the principal amounts of some existing bilateral loans. It was noted that the growth of bilateral borrowing impedes a proper diversification of a loan portfolio and creates the risk of dependence on the largest bilateral lenders; in this case, China’s Exim Bank.

In the conclusions of the abovementioned Account Chamber, it was noted that Exim Bank is an institution for promoting the export of the goods and the services of the People’s Republic of China (PRC) and for financing critical imports for China. Accordingly, unlike traditional multilateral donors (Asian Development Bank, World Bank, International Fund for Agricultural Development, etc.), as well as developed creditor countries (Germany, France, etc.) whose main objectives are to promote the long-term growth and development of Kyrgyzstan, Exim Bank of China’s financial conditions are tougher.³⁹

The comments of the Account Chamber were considered and, based on its recommendations, the aforementioned restrictions were introduced by the Ministry of Finance in the public debt management

34 <http://cbd.minjust.gov.kg/act/view/ru-ru/33421>

35 <http://cbd.minjust.gov.kg/act/view/ru-ru/90071?cl=ru-ru>

36 <http://cbd.minjust.gov.kg/act/view/ru-ru/92971?cl=ru-ru#p1>

37 <http://cbd.minjust.gov.kg/act/view/ru-ru/99467>

38 <http://cbd.minjust.gov.kg/act/view/ru-ru/157632>

39 <https://www.esep.kg/images/docs/reports/2017/otchet-rb-sa-2015-g1.pdf>

strategy which helped to stabilize the dynamics of the growth of the share of China's Exim Bank in Kyrgyzstan's debt portfolio.

In order to avoid debt concentration, the government of the Kyrgyz Republic introduced a quantitative limitation on the formation of debt to one creditor to no more than 50 percent of the total amount of public external debt which slowed down the dynamics of borrowings from China.

At the same time, all infrastructure loans provided by the Government of China on concessional terms were with effective interest rates of 1.86-2.5% per annum with loan repayment periods of 20-25 years and grace periods of 5-11 years. For this reason, the burden of servicing this debt will begin to be felt only after the end of grace periods on most loans in the 2020s.⁴⁰

But taking into account the dubious economic efficiency of these loans, as well as the growth factor of “hidden debt” around the world as well as the consequences of the COVID-19 pandemic, then as noted by Jonathan Eales, a Research Analyst at the Strategic Intelligence Research Group @StratInt_RG based in Canberra: “If Kyrgyzstan still cannot pay back its debts to China, it is likely that major infrastructure projects like the Bishkek thermal power plant, the North-South alternate highway and the Datka-Kemin power transmission line could be transferred to Chinese management.”⁴¹

The “debt diplomacy trap” is a real modern challenge for Kyrgyzstan.

40 https://www.ucentralasia.org/Content/downloads/UCA-IPPA-WP50_Kyrgyzstan%20and%20Belt%20Road%20Initiative_RUS.pdf

41 <https://www.internationalaffairs.org.au/australianoutlook/chinas-debt-trap-diplomacy-in-kyrgyzstan/>

Because of this threat to truly avoid a debt-trap, the Open Government Partnership (OGP)⁴² is recommending that member countries⁴³ introduce the Open Government Approach – incorporating transparency, participation and public accountability.⁴⁴

Here are a few reform recommendations for OGP members:⁴⁵

Create a clear legal framework for public borrowing which includes transparency and oversight. Public debt management objectives, strategy and processes should be publicly accessible and may be outlined in legislation. Such legislation should cover borrowing from private and public sources.

Publish an annual strategy defining how the composition of the debt is projected to evolve over the medium term. This should include an analysis of risk and cost, and take into account the constraints the country faces.

Increase the transparency of macro-economic indicators related to debts, including the government debt-to-GDP ratio, debt-carrying capacity, the stock of domestic and external debts and the interest due on these debts. For each indicator, publish the underlying data sources and the method used in calculations.

Increase the transparency of parallel indicators, including the current account balance, GDP growth, remittance payments and reserve coverage.

Conduct and publish debt sustainability analysis to assess debt vulnerabilities and minimize debt distress.

Chellaney, B. (09/05/2021). “Colonization by other means: China’s

42 <https://www.opengovpartnership.org/about/>

43 Kyrgyz Republic is a member of Open Government Partnership since 2017.

44 <https://www.opengovpartnership.org/stories/debt-transparency-an-open-government-solution-to-mitigating-debt-crises/>

45 Kyrgyz Republic is a member of Open Government Partnership since 2017.

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Tajikistan

Capital – Dushanbe

Total Area - [142,326 sq km](#)

Population - [9,504 000](#) (2021 est.)

Ethnic Groups - Tajik (84.3%) (includes Pamiri and Yagnobi), Uzbek (13.8%), other (2%) (includes Kyrgyz, Russian, Turkmen, Tatar, Arab)

Religion - Muslim (98%) (Sunni 95%, Shia 3%), other (2%)

Government - Unitary dominant-party presidential republic

Global State of Democracy – [Authoritarian regime](#)

Global Freedom Score - [8/100 Not Free](#)

Corruption Perceptions Index – [25/100 \(2020 score\), 149/180 \(2020 rank\)](#)

GDP (Per capita) - [USD 810.34 \(2021 est.\)](#)



The Republic of Tajikistan is a landlocked country in Central Asia and is bordered by Afghanistan, Uzbekistan, Kyrgyzstan, and China. Over the past ten years, Tajikistan improved its economic rate in a stable manner and reduced poverty [from 83 to 27.4 percent](#). Nevertheless, the Covid-19 outbreak and border closure posed a threat to the country's steady economic growth, reflected in the fall of its GDP. According to [World Bank data](#), by 2019, the value of Tajikistan's external debt was \$2,713,776.94 making 43.10% of its GDP, and in 2020, [it increased to 47.77%](#). Already in 2021, it amounted to [50% of the country's GDP](#).

Tajikistan's budget mainly depends on taxpayers due to the lack of any other subsistence (the country is not rich with oil, gas, and other natural resources). In [2020, Tajikistan's state budget](#) revenues were projected to amount to 26.1 billion somoni (\$2.3 billion), expenditures - 26.4 billion somoni (\$2.3 billion) and deficit - 349.5 million somoni (\$36 million). Tajikistan's planned [state budget's](#) revenue is 27.6 billion somoni (\$2.4 billion), and the expenditures are expected to be 28.1 billion somoni (\$2.5 billion). As a result, compared to 2020, both budget revenues and expenditures increased.

Tajikistan's [top exports](#) include gold, raw

aluminum, cotton, zinc, and other ores, while refined petroleum, wheat, petroleum gas, aluminum oxide, aircraft, and spacecraft are among its main imports.

Currently, China is Tajikistan's key investor and the third largest economic partner. Earlier in 2019, PRC was Tajikistan's [largest trading partner](#) comprising 4,7% of its export market and 18.1% of its import market. In 2019, the trade turnover between the two countries had grown [from \\$ 2.75 million to \\$ 600 million](#). However, with the COVID-19 challenges and the decrease in the prices of natural resources, the country's interest in its closest neighbors (including Russia) has slowly faded. Hence, already in 2020, [only 2.6%](#) of Tajikistan's exports went to China.

In 2020, PRC imports from Tajikistan amounted to [\\$45.27 Million](#), while [its exports](#) to Tajikistan made \$1.02 Billion.

Chinese Exim Bank remains the largest creditor of Tajikistan and has already [allocated \\$1,123,310,000](#) as a loan to the Republic.

Belt and Road Initiative Impact on Governance and Corruption in Tajikistan

Umedjon Majidi'

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Abstract

Corrosive capital coined by the Center for International Private Enterprise based in Washington DC has defined the term “corrosive capital” to more clearly label financing that lacks transparency, accountability, and market orientation flowing from authoritarian regimes into new and transitioning democracies. It applies directly to big authoritarian countries which play a key role in Central Asia, they are Russia, China that lack true forms of transparency, accountability, good governance in their capital granting schemes. Based on a wide variety of publications in various languages, this paper will analyze specifically how the People’s Republic of China (China) within its strategy of Belt and Road Initiative in Tajikistan brings bad governance schemes to Tajikistan local and national governance institutions in contrast to western countries when the capital and funds come usually with conditions to reform local governance attached.

Acronyms & Abbreviations

BRI – Belt and Road Initiative

CA – Central Asia

CPI – Corruption Perception Index

EITI – Extractive Industries Transparency Initiative

OBOR – One Belt One Road

PRC – People’s Republic of China

RT – Republic of Tajikistan

SREB – Silk Road Economic Belt

TI – Transparency International

Introduction

The Belt and Road Initiative (BRI, formerly known as the OBOR - One Belt One Road) is a foreign policy initiative of the Chinese President, Xi Jinping, first announced in 2013 at Nazarbayev University in Astana. The BRI combines China's land-based Silk Road Economic Belt with the sea-based 21st Century Maritime Silk Road.¹ In December 2014, China established a Silk Road Fund with USD 40 billion for infrastructure development including the Central Asian region, West Asia, the Middle East, Europe, Southeast Asia, Oceania and North Africa.² China's stated policy in establishing the BRI is to connect the underdeveloped border provinces of China with developing countries in Eurasia, Africa and the Middle East. This initiative is focused on creating mechanisms for policy dialogue, infrastructure connectivity, tariff reductions, financial support and people-to-people exchange between these countries and China. The BRI, as some critics claim, also covers/includes countries with limited transparency and weak governance standards (and, sometimes, state capacity) that could facilitate or worsen corruption practices and fraud (around its projects). TI's Corruption Perception Index indicates that countries impacted by the BRI are among the most corrupt countries in the world.³ Many countries that have taken Chinese loans, as recounted in a *Washington Post* investigation, are now reconsidering

their deals with China due to allegations of corruption and low transparency.⁴

Chinese capital is of increasing importance in many of the BRI member states and a significant amount of foreign capital influx comes to the participating regions within this initiative. Since there is not an oversight and transparency function on the funds, investments and loans within this initiative, the ruling kleptocratic elite may consider Chinese capital as a new source of rent – illicit practices in the political system and China's BRI will both create challenges to advance good governance and curb corruption.⁵ There is an influx of “corrosive capital,” that is, “money that exploits weaknesses in governance and risks amplifying them with the result of large agreements that are not well-documented, ending with countries losing ownership of key resources to their donor”⁶ (Center for International Private Enterprises).

In this light, advancing good governance and curbing corruption is a challenging task for Tajikistan. Tajikistan is a country whose ruling elite has historically shown skill in capturing state resources through corrupt schemes since the 1990s and which, by now, involves all key sectors of the economy (mineral exploitation, aluminum and cotton). This presents a danger that any investment or aid coming to the country will ultimately benefit the ruling elite. Corruption in this country is a result of the confluence of a weak state and powerful criminal networks that mix illicit with licit activities and with state and non-state actors. Only well connected/networked privileged

1 Mobley, Terry “The Belt and Road Initiative: Insights from China's Backyard”, *Strategic Studies Quarterly*, Fall 2019. Pp.52-72; see also Paul Tae-Woo Lee, China's Belt and Road Initiative, Editor(s): Roger Vickerman, International Encyclopedia of Transportation, Elsevier, 2021, Pp 495-506

2 Cui, Angie (2018) Building the Belt and Road: The overlooked unveiling of China's boldest. *Harvard International Review*, Winter 2018. Vol XXXIX No.1. pp.16-18

3 Transparency International, Berlin

4 Shih, Gerry, In Central Asia's forbidding highlands, a quiet newcomer: Chinese troops. *The Washington Post*. February 18, 2019

5 Tokhtomushev, Kemel, One Belt, One Road: A new source of rent for ruling elites in Central Asia? in *China's Belt and Road Initiative and its impacts on Central Asia*. (Editor: M. Laruelle) Washington, D.C.: The George Washington University, Central Asia Program, 2018

6 Center for International Private Enterprise, *Channeling the Tide: Protecting Democracies amid a Flood of Corrosive Capital*. Washington DC, 2018.

groups/individuals can participate in and enrich themselves through corrupt practices as well as through lobbying, legal and semi-legal activities.⁷ These groups traditionally consist of the country's presidential family and networked actors. The Chinese may also cause elite infighting.

Contextualizing

In April 2019, during the second Belt and Road Forum, Xi Jinping vowed “zero tolerance” for corruption, pledged more transparency, good environmental practices and expressed the commitment of China to open up and that the cooperation within BRI initiative “will be open, green and clean.”⁸

One of the elements of traditional the Chinese social fabric is *guanxi* which is used for achieving political goals. *Guanxi* is translated as relationship or, generally, corruption, a bribe (facilitation payment) or nepotism. *Guanxi* is a network of trusted relationships where people perform favors for one another, up to and including bribery and nepotism. It provides an exclusive access to resources and operates through informal connections. The Tajik equivalent would be *taghabazi*, using one's relative (uncle) or friend as a connection to reach political or economic goals. *Guanxi* and the local Central Asian traditions of graft create a perfect opportunity for more corruption but less governance and integrity.

The impact of China Belt and Road Initiative investments on governance and corruption in Central Asia is not yet fully covered by scholars and analysts and, in general, little research exists on the

ground. The few exceptions are Aminjonov and Kholmatov (2019) – “BRI in Central Asia and the South Caucasus: View from Tajikistan,”⁹ Kassenova (2009), in her publication *New International Donor: China aid to Tajikistan and Kyrgyzstan*,¹⁰ and Cooley (2020) from Columbia University.¹¹

Chinese companies use corruptive schemes and activities in order to win bids.¹² It exacerbates the so-called “resource curse”¹³ and encourages the corruption of authoritarian countries where the rule of law is non-existent and bad governance persists.¹⁴ Isaksson and Kotsadam (2018) conducted an economic analysis of the Chinese investment impact in Africa and found that Chinese investment projects have no positive impact on the local economy whereas World Bank and other donor investments do.¹⁵ According to Marlene

9 Aminjonov, R., and M. Kholmatov, 2019, “The BRI in Central Asia and the South Caucasus: A View from Tajikistan” in Aitzhanova, A. et al (2019): Impact of BRI on Central Asia and South Caucasus, An Inside-Out Perspective, Background papers, *Eurasia Meeting Switzerland*, Emerging Markets Forum, January

10 Kassenova, Nargis (2009) *Novy mezhdunarodny donor: pomosh Kitaya Tadzhiistanu and Kyrgyzstanu (Kassenova, N. China as an Emerging Donor in Tajikistan and Kyrgyzstan)*. Russië. Nei. Visions. IFRI

11 Cooley, Alexander, (2021) *Beyond Governance: Understanding Corruption Opportunities and Networks in China's BRI Projects in Central Asia. Belt and Road in Global Perspective*. University of Toronto. 12 February 2021

12 Cissé, D., Grimm, S., & Nolke, A. (2014). State-directed multi-national enterprises and transnational governance: Chinese investments in Africa, corporate responsibility, and sustainability norms. Stellenbosch: *Centre for Chinese Studies* (CCS Discussion Paper 1/2014).

13 The resource curse refers to problematic issue of governance and structures that prevent democracy and citizen engagement See more Karl, T. L. (2007). Ensuring fairness: The case for a transparent fiscal social contract. In M. Humphreys, J. D. Sachs, & J. E. Stiglitz (Eds.), *Escaping the resource curse* (pp. 256–85). New York: Columbia University Press.

14 Tull, D. (2006). China's engagement in Africa: Scope, significance, and consequences. *Journal of Modern African Studies* 44(3).

15 Isaksson A., Kotsadam, A. (2018) Chinese Aid and Local Corruption. *Journal of Public Economics*. Pp.146-159

7 Khan, M., & Jomo, K. (Eds.). (2000). *Rents, Rent-Seeking and Economic Development: Theory and Evidence in Asia*. Cambridge: Cambridge University Press.

8 Bloomberg News (2019) “China's Xi Defends Belt and Road, Vows ‘Zero tolerance’ of graft”. <https://www.bloomberg.com/news/articles/2019-04-25/china-s-xi-to-sell-belt-and-road-2-0-to-world-leaders-in-beijing>

Laruelle, some of the money committed is lost to corruption and administrative dysfunction.¹⁶ They secure their success in the region through corruption and unfair competition and EITI standards suggest that “implementing countries are required to report related government policies and disclose information about signed contracts and issued licenses.”¹⁷

As said by a Dutch forester working in an area of Africa with high amounts of Chinese investment: “They (the Chinese) go straight to the top officials and bribe them lavishly, and then nobody can stop them.”¹⁸ One Chinese businessman in Nigeria commented on how to pass bureaucratic gatekeepers for permits and licenses: “To visit a government official in Nigeria, you best have around \$6,000 to \$10,000 with you, otherwise forget about getting an appointment.”¹⁹

Prelec (2020) analyzed that China’s non-transparent investments are often advanced through using informal political links or a close relationship between top actors, bypassing competition rules and public procurement procedures; legislative changes introduced to favor investors and the political cultures underpinning these linkages are significant.²⁰

16 Laruelle, Marlene 2018, “Introduction: China’s Belt and Road Initiative: Que Vadis” in *China’s Belt and Road Initiative and its impacts on Central Asia*. (Editor: Marlene Laruelle) Washington, D.C.: The George Washington University, Central Asia Program, 2018 ISBN 978-0-9996214-0-0

17 EITI Standards

18 Lawrence, William (2017) *The Dark Legacy of China’s Drive for Global Resources*. *Yale School of Environment*. 28 March 2017.

19 Feng, Emily & Pilling, David (2019). “The other side of Chinese investment in Africa: Beyond the Belt and Road infrastructure projects, thousands of entrepreneurs from China are also setting up on the continent”. *The Financial Times*. 27 March 2019.

20 Prelec, T. (2020). FDI in Balkans: The Good, the Bad and the Ugly. in Fruscione, G. *The Balkans: old, new instabilities. A European region looking for its place in the world*. First edition. Milano - Italy: ISPI: LedizioniLediPublishing, May 2020.

Corrosive Capital

“Corrosive capital”²¹ is financing that lacks transparency, accountability and market orientation flowing from authoritarian regimes into countries in transformation. It applies directly to big authoritarian countries which play a key role in Central Asia. Major economies such as Russia and China lack true forms of transparency, accountability and good governance in their foreign aid and capital granting schemes. Corrosive capital exploits and exaggerates governance gaps in order to influence the economic, political and social developments in recipient countries. Specifically, China deploys corrosive capital in these societies and the lack of transparency does real damage to the accountability of institutions and good governance and impedes public sector reform efforts. These practices significantly affect Central Asia countries.

Mutual Perception and the “China Threat Theory”

Both at the official level as well as the public level (the narrative is controlled and supported by the state) in Tajikistan, China is considered as a great friend as it “offers help” without strings attached (a narrative that was established by the president and elite circles). The state imposed this narrative which welcomes an emerging blind dependency on Chinese investment in Tajikistan. This will see Chinese investment in all spheres of the economy. In 2014, China was described by the local media, including the government-run *Narodnaya Gazeta*, as a “good neighbor, true friend and reliable partner.”²² Even the leading

21 Corrosive capital coined by Center for International Private Enterprise (CIPE) based in Washington DC. CIPE (2018) *Channeling the Tide: Protecting Democracies Amid a Flood of Corrosive Capital*, 2018.

22 See at www.narodnaya.tj

sinologists Abdugani Mamadazimov and Rashid Gani Abdullo do not see the “China threat theory” but express their optimism that the Chinese vector of Tajik foreign policy as the “path toward the future well-being of an independent Tajikistan.”²³

The “China Threat Theory”²⁴ is non-existent in public spheres in Tajikistan; however, it does exist in the private sphere. Some publications speak about the negative impacts of China, the hidden agenda of the Chinese investments around the environment problems of the renovation and the construction of heating plants by the TBEA in Dushanbe in exchange for two gold deposits in the Sughd region (Duoba and Kumarg) in the north of Tajikistan and about the invasion of Chinese workers as well as the leasing of agricultural land to Chinese farmers.²⁵ *Asia Plus*, an independent newspaper, covered the issue of the disappearance of flora and fauna – snakes, turtles etc., on Tajikistan construction sites where Chinese labor is present. Unfortunately, with the lack of reporting about the BRI, or even the lack of any systematic discussion of the challenges and the risks for Tajikistan in the BRI, there is no public discussion and awareness about China’s BRI rapidly increasing resource extraction in Tajikistan. The public has limited access to information related to Chinese involvement.²⁶

Tajik Sociologist, Rustam Haidarov, warns that the entry of Chinese farmers is only the first step towards something bigger:

“It is China’s strategy to resettle its people in different countries. It’s China’s policy,” he said. “They occupy slowly, cautiously. They realize their own goals in Tajikistan and affect our economic policy. In time, this will lead to an influence in politics.”²⁷ In an indicative online survey conducted by Jacob Mirdall, 40% of the respondents in Central Asia considered the Chinese role in Central Asia as a “threat.” In Tajikistan, the Chinese issue is a sensitive one²⁸ and the consequences can be dangerous. The survey was in English and Russian and 134 respondents aged 25–45 years (students, academics, government employees, business professionals, journalists and thinktank researchers) participated. A total of 53 of the respondents were from Tajikistan.

In 2006, Tajikistan did not have any debt to China; however, it increased to USD 1.15 billion (to Exim Bank) by 2017. This constituted 88% of Tajikistan’s bilateral debt portfolio which amounted to 50% of its total national debt. The year 2017 was characterized by a higher fiscal deficit and a large depreciation of the *somoni* (TJS, Tajik currency).²⁹ The IMF Debt Sustainability Analysis from 2020 classified Tajikistan at a high risk of debt distress. This relationship, according to Jacob Mardell, is one of extreme dependency. When China offered aid within the Shanghai Cooperation Organization (SCO) in the amount of USD 900 million, USD 600 millions of it went to Tajikistan.³⁰

23 Wolters, A (2018), Hegemonic or Multilateral? Chinese Investments and the BRI Initiative in Tajikistan and Kyrgyzstan, in *China’s Belt and Road Initiative and its impacts on Central Asia*. (Ed.: Marlene Laruelle) Washington, D.C.: The George Washington University, Central Asia Program, 2018

24 See for details: Emma V. Broomfield (2003) Perceptions of Danger: The China threat theory, *Journal of Contemporary China*, 265–284

25 Central Asia Monitor (2016) Naskolko gluboko kitaytsy pronikly v Tajikistan (How deep China embed to Tajikistan).

26 Ozodi (2017). Tajikistan i Kitay proshupali nedra Badakhshana. (Tajikistan and China felt the resources of Badakhshan)

27 Pannier, Bruce and Aliiev, Iskandar (2011) Tajikistan Agrees to Allow Chinese Farmers to Till Land. *EurasiaNet*.

28 Due to its informal links to highest levels of government officials, journalists and civil activists avoid covering it not wanting to be in possible trouble

29 World Bank (2020). South Caucasus and Central Asia: Belt and Road Initiative – Tajikistan Country Case Study. *Macroeconomics, Trade Investment, South Caucasus and Central Asia: Equitable Growth, Finance and Institutions*. World Bank, Washington DC, 2020

30 Mardell, Jacob, China’s footprints in Central Asia. Asia Policy Brief. Bertelsmann Stiftung. 14.08.2020.

Chinese Military Presence in Tajikistan

Murghab, a district located in the mountainous Badakhshan Autonomous Region of Tajikistan, is a strategic district located near the borders of Afghanistan's Wakhan Corridor and China. A *Washington Post* journalist,³¹ visiting the border outpost built by Chinese funds in the Murghab in 2019, saw a complex similar to a military base complete with lookout towers, barracks, training grounds, shipping containers and about a dozen buildings. It was manned by what appeared to be uniformed soldiers with the collar insignia of the People Liberation Army's paramilitary police. Local citizens confirmed that over the last three or four years, hundreds of Chinese soldiers would periodically visit to the Murghab public market incognito (one of the soldiers remarked to the *Post* journalist – "You never saw us here"). However, the officials reject the terms of a military base: Tajikistan's Foreign Ministry said there are "no People's Republic of China military bases on the territory of the Republic of Tajikistan" nor "any talks whatsoever" to establish one. The PRC also denied the existence of the military outpost.

The 2016 agreement between the governments of China and Tajikistan discusses the construction of seven border outposts and a training center at the Tajik-Afghan border with Chinese funds. A House of Officers (*Qasri afsaron*) was constructed in the center of Dushanbe for USD 19 millions of grant money. In addition, China initiated a new regional institution with the involvement of Tajikistan, Pakistan and Afghanistan. Paramilitary troops organize military trainings and defense heads of China and their Central Asian counterparts meet frequently (during 2003 and 2016, a

31 Shih, Gerry (2019) In Central Asia's forbidding highlands, a quiet newcomer: Chinese troops. The Washington Post. February 18, 2019

total of 102 meetings of Chinese defense establishments were held with Central Asian countries) which means that the military presence is omnipresent more than ever.³²

China BRI Initiative Impacts on Governance in Tajikistan

The formal basis of bilateral cooperation between China and Tajikistan is the Friendship Pact which was formed in 2007-2010 to cede 1,000 square km of land to China. In May 2013, during Tajikistan President Emomali Rahmon's visit to Beijing, a Strategic Partnership between Tajikistan and China was endorsed and signed. The National Development Strategy of Tajikistan (NDS-2030) to 2030 identifies the main national strategic goals as: (1) ensuring energy independence and efficient use of electricity, (2) breaking communication isolation – ensuring better transportation and communication routes to enable the country emerge from the communication deadlock and help transform the country into a viable transit country, (3) ensuring food security and public access to quality nutrition – sustainable food security and (4) expanding productive employment.³³ For the Chinese, the BRI – Silk Road Economic Belt (SREB) comes in handy as Tajikistan is a source of copper, zinc, titanium, aluminum, gold, pig iron, radioactive isotopes and other mining metals and stones – all needed for the Chinese economy.³⁴ China prioritizes building hard infrastructure which, it believes, will catalyze the improvement of the investment climate,

32 Umarov, Temur (2020), Na puti k Pax Sinica: Chto neset Tsentralnoy Azii ekspansiya Kitaya (Toward to Pax Sinica: What brings the Chinese expansion to the Central Asian region), Moscow Carnegie Center. 25.03.2020

33 National Development Strategy until 2030. <https://medt.tj/ru/strategiy-i-programmi/hcp-2030>

34 Jaborov, Safovudin, Chinese Loans in Central Asia: Development Assistance or "Predatory Lending"? in *China's Belt and Road Initiative and its impacts on Central Asia*. (Editor: Marlene Laruelle) Washington, D.C.: The George Washington University, Central Asia Program, 2018

good governance and human skills. However, Chinese firms engaged in the BRI lack transparency on contract negotiation, they lack corporate social responsibility and they have a low degree of respect for environment and governance laws. The socio-economic impact of the Chinese BRI is minimal since China employs mostly Chinese citizens in infrastructure and other projects. Herein, we also look to analyze Tajikistan's perspectives vis-à-vis the BRI projects and their impact on good governance and possible corruption in the country.

When China provides loans, in addition to repaying the principal and the accrued interest, the main precondition is involving Chinese companies in the implementation of projects such as debt financed infrastructure projects that provide short-term employment, create some growth abroad, unload industrial overcapacity and cement influence and ownership of assets.³⁵ There is a clause in the case of defaulting on the repayment of a loan wherein greater control over the assets will be transferred to China.³⁶ China uses a resource-backed model where a loan for infrastructure is to be repaid in the form of the exports of an agreed natural resource over time.³⁷ There is a speculation that Tajikistan ceded its territory in the Pamir region (about 1,137 square km) in 2011 due to its inability to make payment on the loan taken for the renovation of the Dushanbe-Chanak highway. Although there is no documentary evidence to support this, there was an unofficial debt writing-off agreement in 2013.³⁸

Beijing provided a state loan of USD

280 million to Tajikistan to renovate the Dushanbe-Chanak highway connecting Tajikistan's capital city of Dushanbe with the Uzbekistan border city of Chanak. This project was completed in 2010 by the China Road and Bridge Corporation. However, when the project was completed, the Dushanbe elite thought it could be used in a scheme and soon the highway transformed into a toll road to be run by a previously unknown company, Innovative Road Solutions.³⁹ This company has no corporate history, no prior experience in running highway projects and was registered in the British Virgin Islands, effectively becoming an offshore company located in a hyper secret tax haven. According to reporting from *Deutsche Welle*, it was traced to owned by Jamoliddin Nuraliev, a deputy chairperson of the National Bank of Tajikistan, and the son-in-law of the President of Tajikistan.⁴⁰ Furthermore, the company enjoyed various tax exemptions. Investigative reporting for *Deutsche Welle* was conducted by a journalist from Tajikistan, Khayrullo Mirsaidov, who was soon after persecuted, undoubtedly due to his involvement in uncovering corruption among the country's elites. Chinese business and individuals have a "cover" in Tajikistan and when violations occur that can be traced to Chinese individuals, they usually get covered up. This is one example of how the BRI offered a rent-seeking opportunity to connected insiders⁴¹ and the local elite. It will likely continue to provide incentives to engage in illicit income. According to Tajik economists, the annual revenue of this toll road will be USD 49 million.⁴²

Another interesting case is the bribing of

35 Tricket, Nicholas, and Tomas, Oliver (2017) "China, Russia, Iran – Ports and Power along the Belt and Road", the *Diplomat*. 23 March 2017.

36 Gelpern A., et al (2021) How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments. Center for the Global Development. March 2021

37 World Bank (2020). South Caucasus and Central Asia: Belt and Road Initiative – Tajikistan Country Case Study. Macroeconomics, Trade Investment, South Caucasus and Central Asia: Equitable Growth, Finance and Institutions. World Bank, Washington DC

38 Sattori Anvar (2013) China as Tajikistan lender of Last Resort. The Jamestown Foundation. 7 June 2013.

39 www.irs.tj (Innovative Road Solution)

40 Mirsaidov, Kh., Platnye dorogi v Tajikistane sdalali gosudarstvennoy taynoy. (Toll roads made a state secret in Tajikistan) *Deutsche Welle*.

41 Cooley, Alexander, (2021) Beyond Governance: Understanding Corruption Opportunities and Networks in China's BRI Projects in Central Asia. *Belt and Road in Global Perspective*. University of Toronto. 12 February 2021

42 Lyadskiy, Viktor (2010), "Kampaniya s bolshoy dorogi" [Viktor Lyadskiy, "The company from a big road"], *Asia Plus*, 25 June 2010

an influential individual close to President Rahmon, another son-in-law named Shamsullo Sokhibov. He “helped” the Chinese company China Nonferrous Gold Limited get a license for extracting gold in Tajikistan. A total of 80% of gold mines in Tajikistan are run by companies from China. The Tajik economist, Khojimuhammad Umarov, argues that Chinese businesses are more active in mining and gold extraction in Tajikistan due to their knowledge about “local game rules” in this industry.⁴³ He states that in China, there is transparency and accountability domestically but abroad in Tajikistan they are expanding business using corrupt means. Maria Adele Carai calls this “adaptive governance.”⁴⁴ Bribing including payments to foreign government officials and officials of international public organizations is considered a criminal offence in China; however the implementation of anti-corruption laws outside of China is far from perfect.⁴⁵ They do not listen to the World Bank Doing Business rating but take risks and do and work with local people, fixers and senior government officials. Jacob Mardell, a researcher of the Belt and Road Initiative based at Oxford, observed an arising group of *fixers* while travelling to Tajikistan in 2019. These were lawyers who help Chinese individuals and businesses and play the role of an intermediate between China and the Tajik government. According to one of the fixers: “As a foreigner, you need a *krysha* (roof) to work in Tajikistan – a local can protect you.” Chinese people work with local people and they know how to work – whom to bribe – and with whom to make

connections.⁴⁶ Yes, the roof is essential here. So: do the Chinese worsen corruption or do they adapt to it?

Conclusions and Policy Recommendations

Fighting with corrosive capital will not be an easy task for a developing state like Tajikistan. But is there willingness to this end given the fact that the practice is so deeply embedded? It will have to improve the quality of institutions and ensure the rule of law and improve governance. It will be especially challenging when the sole donor of infrastructure investment is not the traditional donor who provides aid on the conditionality of good governance reform.

In Tajikistan, journalists, political scientists, economists and the general public should exercise scrutiny over BRI loans and credit projects but is this a realistic expectation? To assess possible risks, governance and ecological impact and minimize corruption, these funds should be returned eventually. Public discussion about equality, justice, governance and equal business opportunities would be beneficial not only for Tajikistan’s future but for China’s BRI trust, image and legitimacy. More professional civil servants with mortal integrity are needed in order to fight against corrosive capital. Civil society activists need to strengthen their oversight on investment and aid implementation. Civil society in Tajikistan was significantly circumscribed.

For building huge infrastructure objects, the country should have a greater regulation, transparency, law enforcement, integrity of elected officials and members of the parliament, and civic activism so that the negative externalities caused by the adaptive governance approach promoted by China can collectively be overcome.

43 Azattyq (2019) *Kitay vzyal v razrabotku mestorozhdeniya zolota v Tadjzhikistane* (China to develop gold mining extraction in Tajikistan)

44 Governance model behind BRI shaped by interactions between Chinese and recipient country economic, political and social actors, producing context-specific results, adapts to each country - context

45 Nurgozhayeva, Roza, “How is China’s Belt and Road Changing Central Asia? To what extent does the BRI lead to the expansion of China’s institutions and legal norms in Central Asia?” *Diplomat*, 09 July 2020

46 Mardell, Jacob, *China in Tajikistan: Corrupt, Risky, but Desperately Needed*. 25 November 2019. *Berlin Policy Journal. On the New Silk Road*. Berlin, 2019

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Uzbekistan

Capital – Tashkent

Total Area - 447,400 sq km

Population - 33,924,372

Ethnic Groups - Uzbeks (82.9%), Tajiks (4.9%), Russians (2.7%), Kazakhs (2.5%), Karakalpaks (2.3%), Tatars (1.4%), Kyrgyzs (1.3%), Koryo-sarams (0.7%), Turkmen (0.6%), Others (0.7%)

Religion - Muslims (88%), Christians (9%), Zoroastrian (0.1%), non-religious and others (1.0%)

Government – Unitary Presidential Republic

Global State of Democracy – [Authoritarian regime](#)

Global Freedom Score – [11/100 Not Free](#)

Corruption Perceptions Index – [26/100 \(2020 score\), 146/180 \(2020 rank\)](#)

GDP (Per capita) - [USD 1.77 thousand \(2021 est.\)](#)



The Republic of Uzbekistan is a landlocked country in Central Asia and is surrounded by Kazakhstan, Kyrgyzstan, Tajikistan, Afghanistan, Turkmenistan. Uzbekistan was among those countries that [retained positive economic growth](#) due to its solid agricultural turnout and effective anti-crisis policies in 2020. Nevertheless, the trade disturbances and pandemic restrictions had a negative impact on its GDP growth. As stated in the World Bank statistics, in 2019, Uzbekistan's [external debt value](#) was \$9,174,987.42 ([20.40% of the country's Gross Domestic Product](#)) and in 2021, it accounted for [42% of its GDP](#).

In [2020, Uzbekistan's state budget](#) revenues amounted to 128 460 billion Uzbek soums, expenditures were expected to 162 385 billion Uzbek soums. In December 2020, Uzbekistan's Senate approved [the 2021 state budget](#), according to which the revenues are expected to reach 147.2 trillion soums (\$14.1 billion), expenditures – 165.8 trillion soums (\$15.6 billion). The budget deficit is projected to range 18.6 trillion soums (\$17.6 billion). Thus, in contrast with 2020, budget revenues and expenditures increased.

Uzbekistan mainly [exports](#) gold, petroleum gas, cotton yarn, refined copper, and ethylene polymers and imports medicaments, refined

petroleum, cars (including their parts), aircraft and/or spacecraft and their fragments.

China has become Uzbekistan's number one economic partner, leaving Russia behind. In 2019, Uzbekistan-China's trade turnover [reached \\$7.6 billion](#), while in 2020, due to COVID-19 restrictions and new challenges to Sino-Uzbek economic relations, the numbers were slightly reduced and amounted to [\\$6.4 billion](#). Nevertheless, Russia was still lagging, as its bilateral trade turnover with Uzbekistan came to \$5.6 billion.

Uzbekistan's imports surpass its exports to China. According to the UN COMTRADE data, during Uzbekistan [exports](#) to China made \$1.2 Billion, its [imports](#) from China accounted for \$4.44 Billion.

As of the beginning of 2020, more than [1500 Chinese companies](#) were operating in Uzbekistan.

China's Power Projection in Central Asia and its Geopolitical Implications: The Case of Uzbekistan

Dr. Farkhod Tolipov

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Abstract

The state's power projection capability means its ability to exert influence on other states by utilizing its real power. This utilization of power can take different forms from diplomatic communications and political pressure to open demonstration and application, separately or in combination, of elements of soft and hard power. The paper is constructed around the main question as to what we know about China's power projection undertakings in the Central Asian region with some more focus on Uzbekistan.

Public and experts' opinions in Central Asian countries are quite ambiguous about Chinese influence in the region; Sino-phobia and Sinophilia coexist among people, officials and experts. In particular, Beijing's repressive attitude towards Uighurs in Xingjian province also affected the perception of China by Central Asians. China as a great power cannot but pursue great-power politics which per se can bring with it opportunities and challenges for neighboring areas including the Central Asian region. Moreover, all great powers historically have always competed with each other and this competition, in turn, always caused significant geopolitical implications.

Acronyms & Abbreviations

BRI – Belt and Road Initiative

EAEU – Euro-Asian Economic Union

OBOR – One Belt, One Road

PRC – People's Republic of China

SCO – Shanghai Cooperation Organization

SREB – Silk Road Economic Belt

Introduction

The state's power projection capability means its ability to exert influence on other states by utilizing its real power. This utilization of power can take different forms from diplomatic communications and political pressure to the open demonstration and application, separately or in combination, of elements of soft and hard power. This paper is constructed around the main question as to what we know about China's power projection undertakings in the Central Asian region with particular focus on Uzbekistan.

Public and expert opinions in Central Asian countries are quite ambiguous about Chinese influence in the region. Sinophobia and Sinophilia coexist among people, officials and experts. In particular, Beijing's repressive attitude towards the Uighurs in Xinjiang province also affected the perception of China on the part of Central Asians. China as a great power cannot but pursue great-power politics which *per se* can produce opportunities and challenges for neighboring regions including the Central Asian states. Moreover, all great powers historically have always competed with each other and this competition, in turn, always triggered significant geopolitical consequences. The great power competition in the 21st century is no different and we see real-time challenges and effects daily in so many different parts of the world.

Soft Power

China is the number-one foreign trade partner of Uzbekistan and its share in Uzbekistan's trade is about 20 percent. More than 700 companies with Chinese capital work in Uzbekistan. The Chinese side invests in projects in such domains as industry, energy, infrastructure, agriculture,

healthcare, culture, science and education.

Undoubtedly, BRI-related activities comprise a significant part of the China-Uzbekistan economic cooperation. Overall, like in all Central Asian countries, all BRI-related deeds cover quite a broad spectrum of spheres, modalities and dynamics. Perhaps, one of the most illustrative and successful examples is the construction of the Kamchik Pass Tunnel. On June 22, 2016 in Tashkent, an official ceremony took place devoted to the completion of the most strategically important grand project symbolizing Uzbekistan-China cooperation – the construction of the Angren-Pap railroad segment (in the south-east of Uzbekistan) and the Kamchik tunnel. The general contractor of the project was the China Railway Tunnel Group. During the opening ceremony, the then President of Uzbekistan, Islam Karimov, and the Chairman of the PRC, Xi Jinping, made solemn speeches and emphasized that the project was accomplished within 32 months, resulting in a 19.2-km-long tunnel.

Actually, the need for transport corridors connecting Central Asia to China began to be discussed in the 1990s. For instance, starting from 1998, Uzbekistan and Kyrgyzstan have been engaged in negotiations on the construction of a strategically important 600-km-long highway and the 577-km-long Andijan-Osh-Kashgar railroad. As a central segment of the reviving Silk Road routes, this project as envisaged will serve the Ferghana Valley's adjoining countries mainly through spurs and connectors.

The highway started operating on February 25, 2018 when the first convoy of trucks began moving on this transport corridor. The passage of the Uzbek-Kyrgyz border (point "Dustlik") took an hour-and-a-half and the passage of the Kyrgyz-Chinese border ("Irkeshtam") took about two hours. This is the shortest way from the Ferghana Valley of Uzbekistan towards China. Delivery of cargo on this new itinerary takes

only two days as compared to eight to ten days along the previous route. For senders and receivers of cargo in the Andijan province of Uzbekistan, the multi-modal transport-logistical center will operate on the base of the “Akhtachi” station.¹

As for the railroad, thanks to the further connections from Kashgar to Urumchi, and from Andijan west to the Caspian, 25 million tons of freight will be able to pass through the Ferghana Valley annually.² Good news came in the first days of June 2020: the first block-train which consisted of 25 containers with electro-technical products started from the railway station “Lanzhou” in China and passed the transport corridor “China-Kyrgyzstan-Uzbekistan.”³

Transport corridors, trade and investments are not the only instruments in the toolkit of China’s presence in the region. China as a great power also resorts to the so-called soft power instruments to promote its strategic interests. One of the instruments is in the form of the Confucius schools. In Uzbekistan, there are two such schools where thousands of people learn the Chinese language and culture.

On the initiative of President Mirziyoev, the People Diplomacy Centre of SCO has been functioning in Tashkent, the capital of Uzbekistan, since 2017. In the National Library of Uzbekistan, the Hall of Knowledge of SCO was recently opened in Tashkent. At the opening ceremony, a Chinese representative said that people

diplomacy includes various activities, international ties and contacts through the realization of cultural, scientific, educational programs, exchanges of delegations, art exhibitions, musical festivals and so on.⁴

The branch of the Tzyansi University of Traditional Chinese Medicine will be opened in Uzbekistan. This was announced during the visit of ten doctors and specialists from China to Uzbekistan in August 2020 whose purpose was to help in reducing the spread of COVID-19.⁵

Meanwhile, some observers argue that Beijing’s intention of scaly strategic penetration into the Central Asian region is obvious. They believe that Beijing wants to reorient these countries through financial-economic and technological dependence on China.⁶ This is quite a typical perception of the neighboring Eastern great power. Therefore, the spectrum of visions of soft power operations fluctuates between Sinophilia and Sinophobia.

The case of Uzbekistan well illustrates the controversial situation existing in all Central Asian countries regarding the vision of China, in general, and implications of the BRI, in particular. Geopolitics, values, the transformation of societies, the neighborhood and the immanent great power authority of China, investments, credits and loans, business interests – all are mixed in the public consciousness, thereby making Central Asian countries hopeful in some instances and vulnerable in others.

In Dushanbe in 2014, the Chinese President, Xi Jinping, highlighted the need for fostering a sense of common interests. He said: “... member states should firmly establish a sense of community of common destiny and community of common interests, helping each other and sharing

1 Объявлена дата открытия автодороги Узбекистан-Киргизия-Китай

<https://stanradar.com/news/full/28495-objavlena-data-otkrytija-avtodorogi-uzbekistan-kirgizija-kitaj.html>
20/02/2018

2 Bobokulov, I. ‘The Ferghana Valley and the International Community’, in S. Frederick Starr(eds), *Ferghana Valley, The Heart of Central Asia*, (New York: M.E. Sharpe, 2011), p. 386.

3 «Запущен первый поезд по транспортному коридору Китай-Кыргызстан-Узбекистан» <https://uz.sputniknews.ru/economy/20200609/14316074/Zapuschen-pervyy-poezd-po-transportnomu-koridoru-Kitay---Kyrgyzstan---Uzbekistan.html> , 2020.

4 <http://uzdaily.uz/ru/post/47850> , 27/11/2019.

5 <https://www.gazeta.uz/ru/2020/08/24/china-med>
24/08/2020.

6 <https://www.ritmeurasia.org/news--2019-11-05--strategicheskoe-partnerstvo-uzbekistana-i-kitaja-nabiraet-oboroty-45760> 05/11/2019.

weal and woe ... and take maintaining regional security and stability as one's own responsibility.”⁷

The meanings of the concepts of common destiny and community of interests are still vague. Henry Kissinger, in his famous book, *On China*, mentioned one important conceptual idea: “The cultivation of harmony did not preclude the pursuit of strategic advantage.”⁸ He demonstrates this idea with the following observation: “The previous stages of the national destiny debate asked whether China should reach outward for knowledge to rectify its weakness or turn inward, away from an impure if technologically stronger world. The current stage of the debate is based on the recognition that the great project of self-strengthening has succeeded and China is catching up with the West. It seeks to define the terms on which China should interact with a world that – in the view of even many of China's contemporary liberal internationalists – gravely wronged China and from whose depredation China is now recovering.”⁹

Two years ago, the Australian Prime Minister, Kevin Rudd, also made a very important observation of China's international behavior in the 21st century: “...to sum up the question on China's view of itself in the world, we have been told for a long, long time that Deng Xiaoping's action was this: ‘Hide your strength, bide your time, never take the lead.’ Xi Jinping in his last five years turned that on its head, and now we see consciously and deliberately a more overtly activist Chinese foreign policy and security policy and international economic policy in the world at large.”¹⁰

7 Quoted in: Nirmala Joshi. “The Shanghai Cooperation Organization: An Assessment”, Vivekananda International Foundation, 2015.

8 Henry Kissinger. “On China”. (Penguin Books, 2012), p. 502.

9 Henry Kissinger. “On China”. (Penguin Books, 2012), p. 504.

10 Emperor Xi's China is Done Biding its Time <https://www.belfercenter.org/publication/emperor-xis-china-done-biding-its-time> March 03, 2018.

Ruslan Izimov, a scholar of Chinese studies from Kazakhstan, noted China's adaptability to the global reality and rightly argues that its realpolitik and soft power mutually complement each other because soft power is somewhat “wisdom expressed during the application of hard power.” Talking about China's soft power, he argues that it helps increase Chinese international competitiveness. China today is the main competitor of the West and in order to avoid the faults of the Soviet Union, it should increase its soft power alongside hard power. The following principles reflect a deviation from Deng Xiaoping's dictum:

- Chinese diplomacy is the diplomacy of the major state;
- Foreign policy should be distinctive with its clear Chinese peculiarity, Chinese style and Chinese position;
- By no means should Chinese interests be given up;
- Sovereignty, territorial integrity and the sea rights of the country should be firmly defended and territorial disputes over islands should be properly resolved.¹¹

The current generation of the Chinese leadership seems to adhere to the ideas of the famous scientist, Yan Xuedong, who noted: “Cultural events abroad help foreign people understand and get acquainted with China, but it does not mean at all that due to it, foreign people will love China and begin to support its policy... Among those who foment the theory of a Chinese threat, many like Chinese culture and talk positively about it. Therefore, it is necessary to move from spreading Chinese culture to strengthening the strategic reputation of

11 Изимов Р. 36 стратегем во внешнеполитической стратегии Китая, https://www.caa-network.org/archives/18142?fbclid=IwAR0efGpUv7Dv5qihXK1OQf-l21bhrz_X1EQ9iH5IrgiJeccbvv1KzNHrjka 26.09.2019.

the country which is more important for a rising power than its economic benefits.”¹²

The realization of the Chinese concept of a ‘common destiny and a community of interests’ in the Central Asian context encounters the similar concept being realized within this region and by Central Asian countries themselves. The idea of a common past and the close cultures of the people of Central Asia themselves, and their brethren relationships, is even stronger than any other alternatives and highly expressed on the official level.

Therefore, as one can see, the normative idea of commonality (a long history of interaction, harmony, a common past, a common destiny, a community of interests, etc.) is differently articulated, differently understood and differently advanced by different actors. Summing up, we can assume that despite the economic advantages of some Chinese projects and investments (including BRI-related ones, see below), China’s overall soft power projection can cause controversial implications because any soft power endeavor is implicitly or explicitly accompanied by strategic and geopolitical calculations. From this perspective, despite its spoken normative connotation, the concept of a ‘common destiny and a community of interests’ lacks a just and impartial normative dimension because it is not clearly defined.

OBOR/BRI/SREB

The Chinese One Belt, One Road (OBOR) Initiative or the Belt and Road Initiative (BRI) and its Europe-Asia continental part, called the Silk Road Economic Belt (SREB), is perhaps the major topic widely discussed by the expert

community and political circles due to its overambitious and global character. The SREB is envisaged to cover the Central Asian region as perhaps the most essential and indispensable part, a somewhat “turning point” in China’s Go West dream projection. In other words, if Central Asia is fully and successfully attached to the SREB, then the OBOR will provide China with direct and quick access to the Middle East and Europe.

It is to be noted that analysts predicted as early as the 1990s: “A new Silk Road of modern railroads and highways that would effectively give China a land route far to the west, ultimately to Europe and to an Iranian opening on the Persian Gulf, would have enormous strategic consequences, possibly comparable to the impact that the advent of the Suez and Panama Canals once had.”¹³ Some analysts recalled the notion of the Marshall Plan as applied to China’s endeavor in Central Asia. This endeavor created an impression of Chinese tutelage over the region in some version of the Marshall Plan. At the very commencement of the BRI, China’s leader, Xi Jinping, made a robust attempt to gain support from Kazakhstan, Kyrgyzstan, Turkmenistan and Uzbekistan by visiting those countries one after another. During the ten-day tour, President Xi Jinping signed an estimated USD 48 billion worth of investment and loan agreements with a focus on the energy, trade and infrastructural sectors.

According to some assessments,

- the purpose of China’s economic focus on Central Asia is to integrate the region, not to create barriers, contradictory to Russia’s inclusive economic operation in the form of the Eurasian Customs Union.
- China possesses a surplus of capital to offer, resulting in immediate deliverable

12 Изимов Р. 36 стратегем во внешнеполитической стратегии Китая, https://www.caa-network.org/archives/18142?fbclid=IwAR0efGpUv7Dv5qihXK1OQF-I21bhrz_X1EQ9ih5IrgiJcccbvv1KzNHrjKA 26.09.2019.

13 Munro, R.H. “China, India, and Central Asia”, in J.Snyder, ed., *After Empire. The Emerging Geopolitics of Central Asia* (Washington: National Defense University Press, 1995), p. 130.

and robust investments and loans; any other single-nation investor is incapable of the same feat.

- Finally, China's financial support is not contingent upon concessions – particularly, political – made by the beneficiary, unlike conditional circumstances surrounding support promised by Russia or tied up to the democracy agenda by the European Union and the US.¹⁴

These are, undoubtedly, important arguments. However, the question is whether such advantages on the part of China can really create the ground for a comprehensive and efficient Marshall Plan for Central Asia. It seems there are many controversial aspects of such a plan in economic, political, cultural and social terms.

Take, for instance, the 2018 Qingdao Declaration of the SCO. It has a provision in which the member states (except India) express full support to the One Belt, One Road and noted their joint action on its realization including efforts on the connectivity of the Eurasian Economic Union (EAEU) and the OBOR.¹⁵ This very provision itself reveals at least two controversies: a) India does not support the OBOR and so there is no unity regarding this initiative among SCO member states and b) the concept of the connectivity of the EAEU and the OBOR is a very dubious one since the EAEU is not so much an economic organization but rather a geopolitical format serving Russia in order to maintain its dominance in the former Soviet space.

When it comes to India, it has to be noted that India seeks its own direct access to Central Asia and is busy striving to work out its Connect Central Asia Policy

launched in 2012. Since China has been able to leverage its geography, finances and population to ensure that its projects can contribute toward making its dream of a new and improved Silk Road a reality, India is also committed to expanding the scope of its economic relations with the region.¹⁶ For instance, the Republic of Uzbekistan and India established a strategic partnership during the state visit of the Uzbek President, Islam Karimov, to India on May 17-18, 2011. The Joint Statement that was adopted during the visit declared that bilateral relations had been elevated to the level of a long term and strategic partnership based on equality and mutual understanding.

As a comprehensive study, *China and India in Central Asia: A New "Great Game?"* showed: "China and India have common visions for the stabilization of Afghanistan, but mostly growing differences in the analysis of their interests in the post-Soviet Central Asia. Although both countries want the settlement of the Afghan issue and stability in Central Asia, they differ on many levels in their reading of the global geopolitical environment. On one side, China is deeply concerned about the US presence in Central Asia and Afghanistan because it could reduce its room to maneuver in the region over the long term and even more in its settlement of the Uyghur and Tibetan issues. For its part, Delhi did not see any major disadvantages in US presence in the middle of the continent and instead sought a strategic rapprochement with Washington. On the other side, China has developed a modus vivendi with Russia in Central Asia, leaving Moscow with the impression of control in the region, while India has lost status with the Kremlin and is hardly close to regaining it. China sees Central Asia as a means to access the Iranian-Turkish Middle East while Delhi frames the situation primarily in terms of

14 Temuri Yakobashvili. "A Chinese Marshall Plan for Central Asia?" <http://cacianalyst.org/publications/analytical-articles/item/12838-a-chinese-marshall-plan-for-central-asia?.html> 16/10/2013 issue of the CACI Analyst.

15 Qingdao Declaration <http://kremlin.ru/supplement/5315>, 9-10 June 2018.

16 Rhea Menon, Sh. Rajiv. "Realizing India's Strategic Interests in Central Asia", in Carnegie India, 01 December 2019, <https://carnegieindia.org/2019/12/01/realizing-india-s-strategic-interests-in-central-asia-pub-80576>

Sino-Pakistani encirclement. Finally, China benefits from a multilateral instrument, the Shanghai Cooperation Organization, while India, though an associate member since 2005, has no regional platform to better structure its interest in the region. But Beijing and Delhi agree on one point: boosting Iran's presence in regional affairs and stopping its economic marginalization which penalizes all neighboring states in terms of freight and hydrocarbon exports."¹⁷ This was written when India was not yet a member of the SCO.

As we see, the traditional competition between the great powers in Central Asia is complemented – and getting more complicated – with Chinese-Indian competition. Although India (together with Pakistan) became a SCO member in 2016, India and China did not converge their interests in Central Asia, especially when it comes to BRI modalities.

Meanwhile, by 2016 Uzbekistan had special economic zones (SEZs) in the cities of Navoi, Jizzakh, Angren and Jizzakh. They were created with Chinese investment and a number of Chinese companies have vested interests there. The Chinese firm ZTE (HK) Ltd. agreed to invest just over USD3 million in the production of mobile phones and accessories in Jizzakh in 2013. The Chinese firms Nang Yang Mulanhu, Henan Sine, Pinmian Co. Ltd. and Hebey An Feng Da Group have allocated USD 56 million in six textile projects in Jizzakh alone. Other Central Asian SEZs are also receiving funds. In February 2016, a Chinese firm invested USD 5 million into producing JAC cars with the Kazakh company, Saryarka AvtoProm LLP, in the industrial zone in Kostanay.¹⁸

17 "Why Central Asia? The Strategic Rationale of Indian and Chinese Involvement in the Region", in *China and India in Central Asia A New "Great Game"?* Edited by Marlene Laruelle, Jean-Francois Huchet, Sebastien Peyrouse, and Bayram Balci, published in 2010 by PALGRAVE MACMILLAN.

18 Sarah Lain. Trade Connectivity: The Missing Link in the Belt and Road <https://thediplomat.com/2016/11/trade-connectivity-the-missing-link-in-the-belt-and-road/> 23

According to the American Institute of Entrepreneurship, Chinese companies invested almost USD 50 billion in Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan in 2005-2020, including projects within the BRI. A researcher from the Chinese thinktank Charkhara Van Tzin argues that projects in Central Asia can be threatened: "The political course of Afghanistan remains uncertain. If security problems exacerbate in this country, they can escalate into neighboring countries, thereby causing negative implications for regional projects."¹⁹

By and large, Beijing periodically sends signals to interested countries and the international community that it is flexible and open to various debates about and inputs into the BRI concept and modality. One official document, entitled Vision and Actions on Jointly Building the Silk Road Economic Belt and the 21st-Century Maritime Silk Road, states: "Though proposed by China, the Belt and Road Initiative is a common aspiration of all countries along their routes. China is ready to conduct equal-footed consultation with all countries along the Belt and Road to seize the opportunity provided by the initiative, promote an opening-up, communication and integration among countries in a larger scope with higher standards and at deeper levels while giving consideration to the interests and aspirations of all parties. The development of the Belt and Road is open and inclusive and we welcome the active participation of all countries and international and regional organizations in this initiative."²⁰

Generally speaking, the advancement of the SREB puts the countries of Central Asia and the region as whole in a situation of a key to unlock the land gate to the West. And

November, 2016.

19 «Пекин втягивает Центральную Азию в борьбу с тремя силами зла», https://vestikavkaza.ru/material/348430?utm_referrer=https%3A%2F%2Fzen.yandex.com 14.05.2021

20 <http://uz.china-embassy.org/rus/slfy/sczljjd/> March 2015.

that is to say that Central Asia is going to reincarnate as the center of the ancient Great Silk Road. Peter Frankopan from Oxford University, in his famous book, entitled *Silk Roads. A New History of the World*, wrote: “We are witnessing nowadays the birth pains of the region that once dominated in intellectual, cultural and economic terms and now is reborn. We see how the center of gravity of the world is shifting to the area where it was a thousand years ago. And that area was a center of the ancient Great Silk Road – Central Asia.”²¹



Source: PwC, “Repaving the Ancient Silk Routes”

Also: <https://voicesoncentralasia.org/chinas-belt-and-road-initiative-and-its-impact-in-central-asia/>

Geopolitics, Hard Power and Security

The analysis of any great power cannot be free from a geopolitical aspect. Both various soft power instruments and the BRI obviously have a geopolitical connotation and can serve Beijing’s long-term geopolitical ambition. But contemporary geopolitics differs essentially from what used to be in the 19th and 20th centuries. It does not imply occupation, invasion or other forms of direct control of certain territories. Instead of direct control, other

instruments are used as soft power tools such as proxy wars, financial support, economic dependence, information and cyber security means and so on.

When it comes to Central Asia, on the one hand, the century-long geopolitical rivalry of the great powers in this region, known under the name of the “Great Game,”²² was revitalized and, on the other hand, it has essentially been modified, at least in three ways. First, the “Great Game” is played not only by the two main great powers of today, as it used to be in the past, but by several powers like Russia, China, the USA, Turkey, Iran and others. Second, the Central Asian countries are no longer passive objects; by their status of independent states and members of the UN and other international organizations, they are the subjects of international law and can play their own game. Third, as already mentioned, the instruments and methods of the geopolitical game itself have been changed.

From this perspective, we can assume that the Central Asian states are facing somewhat of a dilemma: how to take advantage of the multidimensional great power geopolitics (which is *per se* even awkward for these powers themselves) by skillful maneuvering between them and how to escape falling into a new dependence vis-à-vis one of the great powers. Central Asia bordering China and Russia became an attractive area for the United States to play off the Central Asian card in its double geopolitical game – against Russia and China. It is not by accident that almost all of the great and mid-ranking powers “invented” the so called “C5+1” format of a special and a separate communication with the five Central Asian states. But interestingly, such an arithmetic means a different sum for different powers.²³

²² https://en.wikipedia.org/wiki/The_Great_Game

²³ Толипов Ф. Геополитическая арифметика «5+1» в Центральной Азии», https://cabar.asia/ru/geopoliticheskaya-arifmetika-5-1-v-tsentralnoj-azii?fbclid=IwAR2IIpW_28MYbqZzYR3Yn08v_ZbI3SqQ9-oc4apaWwSjXaVFhaz0ux-MURs, 06.11.2020.

On February 1-4, 2020, the US Secretary of State, Mike Pompeo, paid a visit to Kazakhstan and Uzbekistan where he met with the countries' two leaders and attended the "C5+1" meeting in Tashkent. As expected, Russian experts and the media immediately reacted to the visit. The typical comment from the Russian media and analytical circles sounded as follows: "The United States is interested in deterring the trade-economic expansion of China and offers its own alternative to the five Central Asian states."²⁴

In the wake of Pompeo's visit and statements made during the tour, the Astana (now Nur-Sultan) and the Tashkent Chinese embassies reacted in quite a hostile manner. The reaction of Chinese diplomats can be grouped into two typical statements:

- Pompeo's statements about the detrimental character of Chinese and Russian investments for Kazakhstan are deceitful and reveal unhidden geopolitical intentions, namely: unleashing animosity in the region and establishing its regional monopoly.²⁵
- Any attempts at slandering China and sowing discord in the friendly relations between China and the Central Asian states are doomed to failure.²⁶

24 'Николайчук о визите Помпео в Узбекистан и новой политике Трампа в ЦА' [Nikolaichuk on Pompeo's visit to Uzbekistan and Trump's new policy in Central Asia]', 3 February, accessed 06/03/2020 at <https://uz.sputniknews.ru/radio/20200203/13380762/Nikolaychuk-rasskazal-ob-istinykh-tselyakh-vizita-Pompeo-v-Uzbekistan.html>

25 'Заявление Чрезвычайного и Полномочного Посла КНР в РК Чжан Сяо по поводу высказываний Майка Помпео [Statement of the Extraordinary and Plenipotentiary Ambassador of the PRC in Kazakhstan Chjan Xiao on Mike Pompeo's statement]', 4 February, accessed 02/10/2020 at <http://kz.china-embassy.org/rus/sxxx/sgdt/t1740172.htm?fbclid=IwAR0Oe3ePEaHoo3SHgPYttCJ565P0jPQNpVp-vSl8j5LufgazGMUiDSBil8s>

26 'Любые попытки клеветать на Китай и вбивать клин между Китаем и странами Центральной Азии обречены на поражение [Any attempts at slandering China and driving a wedge between China and Central Asian countries are doomed to defeat]', 4 February, accessed 02/10/2020 at <http://uz.china-embassy.org/rus/sxxx/sgsd/t1739690.htm?fbclid=IwAR0evb569HEkkTh3dfjNg8ms6c66ly3ryFcyzime>

As many experts pointed out, "connectivity" is the buzz word of the BRI. The Chinese leadership explicitly links connectivity with economic development and, by extension, security and stability. But are there also risks of an over-connectivity with China, an over-dependence on China and an over-reliance on China? China is progressing unimpededly toward uncontested economic and, as might be expected, political hegemony.²⁷

As Sarah Lain, from RUSI, rightly argued: "If tangible benefits are not identified and communicated to local populations, then the SREB will not only fail to reach its full potential; it could also raise suspicions that this is more of a geopolitical project than China says, with China benefiting far more than the Central Asian populations and gaining further leverage over the region's political elites through economic influence."²⁸

Meanwhile, the image of China has recently been damaged in the eyes of the international community and Central Asian peoples because of China's treatment of its Muslim Uighur people who are brethren of the Turkic nations of Central Asia. More than one million Muslim Uighurs in the Xinjiang region of China, which is their native land, are believed to have been interned in so-called re-education camps by the Chinese authorities. The number may be as high as two or three million – out of a population of 11 million. Beijing invented such a measure under the pretext of fighting the threat of extremism and terrorism.

wpDa9LKhfItDXAs_ljA

27 "China's Belt and Road Initiative and its Impact in Central Asia", in *Voices on Central Asia*, edited by Marlene Laruelle, <https://voicesoncentralasia.org/chinas-belt-and-road-initiative-and-its-impact-in-central-asia/> January 19, 2018.

28 Sarah Lain. Trade Connectivity: The Missing Link in the Belt and Road <https://thediplomat.com/2016/11/trade-connectivity-the-missing-link-in-the-belt-and-road/> 23 November, 2016.

Trapped along with them are the Kazakhs, the Kyrgyz, the Uzbek and other Muslim minorities, although in smaller numbers. The Uighurs still on the outside [the camps] are living in one of the world's most pervasive and heavy-handed surveillance regimes in which the camps are just one form of containment and punishment. The Uighurs live in constant fear of arbitrary detention and can expect swift retribution for any expression of Turkic or Muslim identity – to the absurd extent that giving your child a traditional Muslim name is illegal... The Uighurs also cannot expect much sympathy from their other Turkic Muslim neighbors across the border in Kyrgyzstan, Kazakhstan or any of the other Central Asian republics. They may share the religion of Islam, and even a common ethnic and cultural history, but all of the governments in the region are looking to curry favor with Beijing as China is building its Belt and Road westward.²⁹

With such a repressive treatment of its Muslim population, Beijing tested the tolerance of the Central Asian nations and also the length to which the international community can go in its condemnation of the Chinese behavior. By controlling its western Muslim province, Beijing seems to check, among other things, the geopolitical front which it can face in the mid-term perspective. Silence on the part of the Central Asian nations as well as Turkey on the plight of the Uighurs contrasted with the principled criticism expressed by the West toward China and revealed how specific/lucrative interests policy (that is, policy prioritizing national interests) prevailed over normative considerations, thereby making the geopolitical environment in the region much more sophisticated.

American analyst Stephen Blank noted that: “While primarily an economic initiative and policy framework, the BRI also has a large military component. China already has one base in the intersection

of Tajikistan's Gorno-Badakhshan area and probably another in Afghanistan even if this remains unconfirmed. Moreover, the Pentagon's annual report on China's military power indicates the Pentagon's belief that the Chinese command intends to set up a full-scale base infrastructure and logistics systems abroad so that the PLA has the resources to project and sustain military power at greater distances.”

Indeed, we are witnessing the early stages of a gradual unfolding of this comprehensive economic-military-informational strategy buttressed by Chinese diplomacy and power throughout the entire expanse of Central Asia. All instruments of power: military, diplomatic, economic and informational are clearly tied together and working in harmony to effectuate a major transformation of Chinese strategy in Central Asia and beyond.”³⁰

So, as one can see, geopolitics, hard power and security interests go hand in hand with soft power projection activities.

Conclusion

Whether one likes it or not, countries like the Central Asian ones are doomed to live, so to speak, in the shadow of great powers. This does not mean that they will just be silent spectators of the geopolitical power games. This only means that they must find the right way in the labyrinth of geopolitics and be capable of adequately responding to power projection aspirations. Each great power has its own tradition and arsenal of geopolitical competition. Smaller countries – the targets of geopolitics – must overcome the, so to speak, complex of small/vulnerable objects and be capable of

30 Stephen Blank. “China Places Central Asia in its Gunsights”, in December 14, 2020, the CACI Analyst, <http://cacianalyst.org/publications/analytical-articles/item/13654-china-places-central-asia-in-its-gunsights.html>

working out their prudent policy vis-à-vis the great powers based on their own and genuine national interests.

As one analyst noted: “Transit alone, however, is not necessarily going to develop economies... In Central Asia, China’s economic dominance and surge in investment have been met with both optimism and suspicion, given the likely increase in the political and geo-economic influence that might accompany it.”³¹

The G7 Group recently announced that it plans to launch a green alternative to the Chinese OBOR. For instance, Germany, France and Italy are interested in supporting activities in Africa while the United States insists on Latin America and Asia. Not surprisingly, Japan stands for more of a focus on the Indo-Pacific region. In any case, all agree in general with the necessity of the creation of a transparent alternative to the Chinese program.³² How Central Asians will respond to such a challenge is still an open question. Should they also follow the strategy of the creation of an alternative to the BRI/SREB or just follow the BRI-led process? Or, perhaps, is there the third way? It seems that a third way may be hidden in a special translation of the OBOR as “Own Belt, Own Road” which means that Central Asians should be more focused on their own regional format aiming at the completion of the regional integration which was proclaimed right after the dissolution of the former Soviet Union but slowed down and was suspended, again, for geopolitical reasons. In other words, they must consolidate their efforts, power, resources and policies with respect to the BRI and other great power-led activities. Only then will the five states of Central Asia be better prepared to respond to the different challenges of the time.

Through the BRI, China is and will certainly remain the largest investor in Central Asia. It is the only country that can mobilize huge investment in the region, far beyond what Western countries and

Russia can offer. However, the success of this connectivity is relative: in practice, some of the money committed is lost to corruption and administrative dysfunction while projects are not held to higher sustainability standards and are primarily assessed on their profitability. In addition—and this is a critical issue—it seems that the Chinese projects have trouble achieving the kind of higher economic impact that could translate into more local jobs and a transfer of knowledge. Yet whatever its outcomes, China’s growing involvement in Central Asia is a long-term phenomenon and a turning point in Central Asia’s post-Soviet history and economic development.³³

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Glossary

ADB - Asian Development Bank “is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. Established in 1966, it is owned by 68 members—49 from the region... [ADB assists](#) its members, and partners, by providing loans, technical assistance, grants, and equity investments to promote social and economic development.”

AIIB - Asian Infrastructure Investment Bank is an [international development bank](#) providing funds for the infrastructure projects in Asia since 2016. The headquarter of the bank is situated in Beijing, China.

APG - Associated petroleum gas – [flare gas – field gas](#) coming from oil wells.

BRI - Belt and Road Initiative, also called as “New silk road initiative”, global infrastructure development strategy adopted by the Chinese government in 2013. The name derived from “the [Silk Road](#) established during the Han Dynasty 2,000 years ago – an ancient network of trade routes that connected China to the Mediterranean via Eurasia for centuries.”

CA – Central Asia “is [central region of Asia](#), extending from the Caspian Sea in the west to the border of western China in the east. It is bounded on the north by Russia and on the south by Iran, Afghanistan, and China. The region consists of the former Soviet republics of Kazakhstan, Uzbekistan, Tajikistan,

Kyrgyzstan, and Turkmenistan.”

CGD - Center for Global Development is an [independent, nonpartisan “think-and-do tank”](#) that works for more than 20 years to reduce global poverty and improve lives in the developing countries. The HQ of the CGD is in Washington DC.

CGNPC - China General Nuclear Power Group, China’s second largest nuclear power company; the scope of activities includes hydropower, wind and solar energy, power grids, uranium mining, nuclear fuel production, construction of energy facilities, utilities and financial services, real estate transactions.

CITIC Group - China International Trust and Investment Corporation, one of the largest state-owned investment corporations in China.

CNBC - Consumer News and Business Channel is a [business and financial news network](#) headquartered in Singapore and London, broadcasting business and financial news in more than 385 million homes worldwide.

CNPC - China National Petroleum Company, the world’s 3rd largest oil company based in China and plays a leading role in China’s petroleum industry.

CNPC - China National Petroleum Corporation “is the [world’s 3rd largest oil company](#) based in China and plays a leading role in China’s petroleum industry” having the oil and gas assets in over 30 countries.

CPI – Corruption Perception Index is an index which ranks countries “by their [perceived levels of public sector corruption](#)”.

CSTO - Collective Security Treaty Organization originated from the Collective Security Treaty signed by Armenia, Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan in 1992 and later joined by Azerbaijan, Belarus and Georgia (1993). According to [the Treaty](#), if one state is a subject of aggression, other states are obliged to provide it with necessary support of military assistance.

DAC - Development Assistance Committee “is a unique international forum of many of the largest providers of aid, including 30 members.” The [objective of the forum](#) is to “contribute to implementation of the 2030 Agenda for Sustainable Development, including sustained, inclusive and sustainable economic growth, poverty eradication, improvement of living standards in developing countries, and to a future in which no country will depend on aid.”

DCFTA - Deep and Comprehensive Free Trade Area is a trade regime introduced by the Association Agreement signed between the European Union and Georgia. “This regime [increases market access](#) between the EU and Georgia based on having better-matched regulations.”

DTD - Debt-trap diplomacy is a situation where a powerful lending country or institution seeks to [saddle a borrowing](#) nation with debt so as to increase its leverage over it. The term was used by former Vice President Mike Pence in 2018 and meant “the loading poor countries up with debt, refusing to renegotiate terms, and then taking control of the infrastructure itself”

([as explained](#) by erstwhile Attorney General William Barr).

DW - Deutsche Welle is a German International Broadcaster based in Germany and operating in 30 languages. [The topics](#) they broadcast are the following: “freedom and human rights, democracy and good governance, free trade and social justice, health education and environmental protection, technology and innovation.”

EAEU – Euro-Asian Economic Union “is an [international organization](#) for regional economic integration. It has international legal personality and is established by the Treaty on the Eurasian Economic Union... The Member-States of the Eurasian Economic Union are the Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic and the Russian Federation.”

EAU - Euro Asian Union, Economic union that includes post-Soviet Russia, Kazakhstan, Belarus, Kyrgyzstan and Armenia.

EGSU - Kazakhstani Unified State Subsoil Management System, the website, that contains data on payments by mining companies in Kazakhstan and data on payment recipients - government agencies.

EITI - Extractive Industry Transparency Initiative, implements the global standard to promote the open and accountable management of oil, gas and mineral resources. The EITI Standard requires the disclosure of information along the extractive

industry value chain from the point of extraction, to how revenues make their way through the government, and how they benefit the public.

FDI - Foreign Direct Investment “is a [purchase of an interest](#) in a company by a company or an investor located outside its borders”.

FTA - Free Trade Agreement is an agreement between two or more nations to [facilitate imports and exports](#) among them by selling or bringing the good or services with little or no government tariffs, quotas, subsidies, or prohibitions.

GDP - Gross Domestic Product “is the [total monetary](#) or market value of all the finished goods and services produced within a country’s borders in a specific time period.”

IATI - International Aid Transparency Initiative is a [global initiative](#) uniting governments, multilateral institutions, private sector and civil society organizations and others to improve the transparency of development and humanitarian resources and their results for addressing poverty and crises.

ICT - Information and Communication Technology is the [infrastructure](#) (all devices, network components) that enables modern computing.

IFIs - International Financial Institutions “is a [financial institution](#) (IMF, World Bank, etc.) that has been established (or chartered) by more than one country, and hence are subjects of international law. Its owners or shareholders are generally national governments, although other

international institutions and other organizations occasionally figure as shareholders.”

IfW - Kiel Institute for the World Economy is a [research institute](#) based in Germany and working on globalizations issues. It was founded in 1914 and currently investigates “the drivers and effects of international economic activity, the integration and disintegration of global markets as well as the opportunities and limits of political action in open economies.”

IMF - International Monetary Fund is an organization established in 1944, currently uniting 190 countries. The IMF works “to [foster global monetary cooperation](#), secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.”

IRFBA - International Religious Freedom or Belief Alliance is a [network of 32 countries](#) craving to advance the freedom of religion or belief worldwide.

MESCS - [Ministry of Education, Science, Culture and Sports](#) of the Republic of Armenia.

MOFCOM - China’s Ministry of Commerce is a [government Agency of the People’s Republic of China](#) working on the issues related to domestic and foreign trade, investments and international economic cooperation.

NCOC - North Caspian Operating Company, Kashagan oil field operator. Kashagan is the supergiant oil field located on the shelf of the Caspian Sea.

OBOR – One Belt One Road is the old name

of China's Belt and Road Initiative, the brainchild of Chinese President Xi Jinping, and [an ambitious economic development and commercial project](#) spread across the continents of Asia, Africa, and Europe. "Dubbed as the "Project of the Century" by the Chinese authorities, OBOR(BRI) spans about 78 countries."

ODA - Official Development Assistance "is defined by the OECD Development Assistance Committee (DAC) as [government aid](#) that promotes and specifically targets the economic development and welfare of developing countries. The DAC adopted ODA as the "gold standard" of foreign aid in 1969 and it remains the main source of financing for development aid."

OGP - Open Government Partnership is a [unique partnership](#) created by the Seventy-eight countries, thousands of CSOs and seventy-six local governments in 2011, to promote transparent, participatory, inclusive and accountable governance.

PRC - People Republic of China, commonly known as China, is the world's most populous country with a population of [1.3 billion people](#). It was established [with the communist victory](#) in the Chinese Civil War in 1949 and since then is governed by the Chinese Communist Party.

RAU - Russian Armenian University is [a leading educational and scientific center](#) in Armenia, founded following the agreement signed between these two countries in 1997 and rectored by the former Prime-Minister of the Republic of Armenia, Armen

Darbinyan.

RFE/RL - Radio Free Europe/Radio Liberty, international non-profit broadcasting organization funded by the US Congress.

RT – Republic of Tajikistan is [a landlocked country](#) in Central Asia ordered by Afghanistan to the south, Uzbekistan to the west, Kyrgyzstan to the north and China to the east. Tajikistan's estimated population counts 9,537,645 people and its capital is Dushanbe.

SCO - Shanghai Cooperation Organization "is a [permanent intergovernmental international organisation](#), the creation of which was announced on 15 June 2001 in Shanghai (China) by the Republic of Kazakhstan, the People's Republic of China, the Kyrgyz Republic, the Russian Federation, the Republic of Tajikistan, and the Republic of Uzbekistan. It was preceded by the Shanghai Five mechanism... The SCO's main goals are as follows: strengthening mutual trust and neighbourliness among the member states; promoting their effective cooperation in politics, trade, the economy, research, technology and culture, as well as in education, energy, transport, tourism, environmental protection, and other areas; making joint efforts to maintain and ensure peace, security and stability in the region; and moving towards the establishment of a democratic, fair and rational new international political and economic order."

SCO - The Shanghai Cooperation Organization, includes China, Russia, Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan, India and Pakistan; the

main objectives of the organization are the strengthening of stability and security, the fight against terrorism and drug trafficking, the development of economic cooperation, energy partnership, scientific and cultural interaction.

Sinopec - China Petroleum & Chemical Corporation, Chinese integrated energy and chemical company. Second, after PetroChina oil and gas company in the country in terms of production volumes.

SREB – Silk Road Economic Belt is a component of the Belt and Road Initiative and “[extends throughout Eurasia in six corridors](#): from East Asia to Western Europe and South through Africa. Two vital corridors; the New Eurasian Land Bridge Economic Corridor and China-Central Asia-West Asia Economic Corridor pivot around Central Asia. Its other tranche - the Maritime Road - wraps around the Western Pacific and Indian Ocean in a String of Pearls. This initiative is China’s most ambitious soft power project and part of its attempt to position itself at the centre of a redrawn geopolitical and economic map of Eurasia.”

TAGPC Ltd - Trans-Asia Gas Pipeline Company Limited, project company, managing construction and operation of the Kazakhstan-China Gas Pipeline since 2008.

TBEA - Tebian Electric Apparatus Stock Co., Ltd. is a [notorious Chinese state-owned company](#) established in 1938 and manufacturing electrical products. For more information about TBEA

and its activities please visit: <https://civicidea.ge/en/civic-ideas-4th-china-watch-report/>

TI – Transparency International, International Anti-Corruption NGO based in Berlin and working in over [100 countries](#) to end the issues related to corruption.

WTO - World Trade Organisation is a global organization [dealing with the rules of trade between nations](#) such as, negotiating trade rules, overseeing WTO agreements, maintaining open trade, settling disputes, etc. It was officially established in 1995 and its HQs are in Geneva, Switzerland.

Authors' Biographies



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Previously, he served in the Ministry of Finance of Armenia (1995-2001) and later was assigned as the Director of the Armenian Deposit Guarantee Fund (2005-2008).

Mr. Kyurumyan received his Master's degree in Engineering from the American

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Publications:

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Publications:

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Previously, Mr. Tolipov also served as a National Professional at the OSCE Center in Tashkent. He was a fellow at the NATO Defense College in Rome (1997-2013); a fellow at Harvard University (1999) and a visiting professor at the University of Georgia in the USA (2004); a visiting professor at the Middle East Technical University (2015) and a visiting researcher at the Atilim University in Ankara, Turkey (2016); a Lecturer at the George Marshall European Center for Security Studies (2004-2005), and Geneva Center for Security Policy (2008, 2009, 2010, 2011); a Lecturer at the OSCE Academy in Bishkek (2004, 2009, 2012).

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Publications:

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Mr. Majidi has 12 years of experience in leadership and management, including in a leadership role. He is committed to advancing social development, research, and innovation in Central Asia / Tajikistan and previously, coached/mentored and advised dozens of talented young scholars. He previously researched the Chinese influence in Central Asia and contributed to the blog of <https://chinaincentralasia.com/>.

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Mrs. Khidasheli at different times served as the first female Minister of Defense of Georgia, she chaired the Parliamentary Committee for European Integration as well as the Inquiry Commission into Violations of Freedom of Speech and Telecommunication laws at the Parliament of Georgia. Before that, she was an elected member of the Tbilisi City Council and founder and chair of the largest Human Rights advocacy group in the entire post-soviet space Georgian Young Lawyers' Association. Tinatin was a member of the National Anti-Corruption Council for four years, under the president of Georgia.

Mrs. Khidasheli is a lawyer by education. She holds LLM in International Law from Tbilisi State University and MA in Political Science from Central European University in Hungary. She was awarded a Human Rights Lawyers' scholarship and spent a year at the Washington College of Law and as well as was selected as a Yale World Fellow. Mrs. Khidasheli was presented Freedom Fighter Award by President GW Bush and the CEU Impact award for the outstanding Career Achievement. She is a fellow at the Prague Civil Society Center and CEVRO. She has published numerous articles and reports in scholarly journals and media outlets.

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Development Program at AIESEC Georgia. The topics of her research have included the following: the geopolitics of cybersecurity, hybrid warfare and disinformation campaigns, energy security, violent and non-violent conflicts, global terrorism, China and Russia's foreign policies, and the EU-NATO politics. She has contributed with numerous publications to international and local outlets and academic institutions.



Civic Initiative for Democratic and Euro-Atlantic Choice – Civic IDEA is a nongovernmental organization based in Georgia, covering global issues. It was established by the former minister of defense of Georgia, Tinatin Khidasheli, and the Strategic Communications Team of the MoD.

The mandate of the organization serves the realization of Democratic and Euro-Atlantic choice, institutionalizing it and bringing it to every citizen. Democratic and Euro-Atlantic choice means the formation of a free and fair state based on equality, where citizens equipped with the rule of law feel safe and secure.

Civic IDEA has been actively monitoring China's growing influence in Georgia. Civic IDEA case studies Georgia, however, the reports are written with a comparative perspective of similar practices in other countries. Today, China's activities in Georgia do not pose a direct, visible and immediate threat, but the ignorance of respectable and authoritative organizations, security services of our partner countries, numerous EU studies, recommendations and decisions by the Georgian government is another clear example of the disruption of foreign policy incentives and a vague vision concerning Georgia's long-term success and the development.

