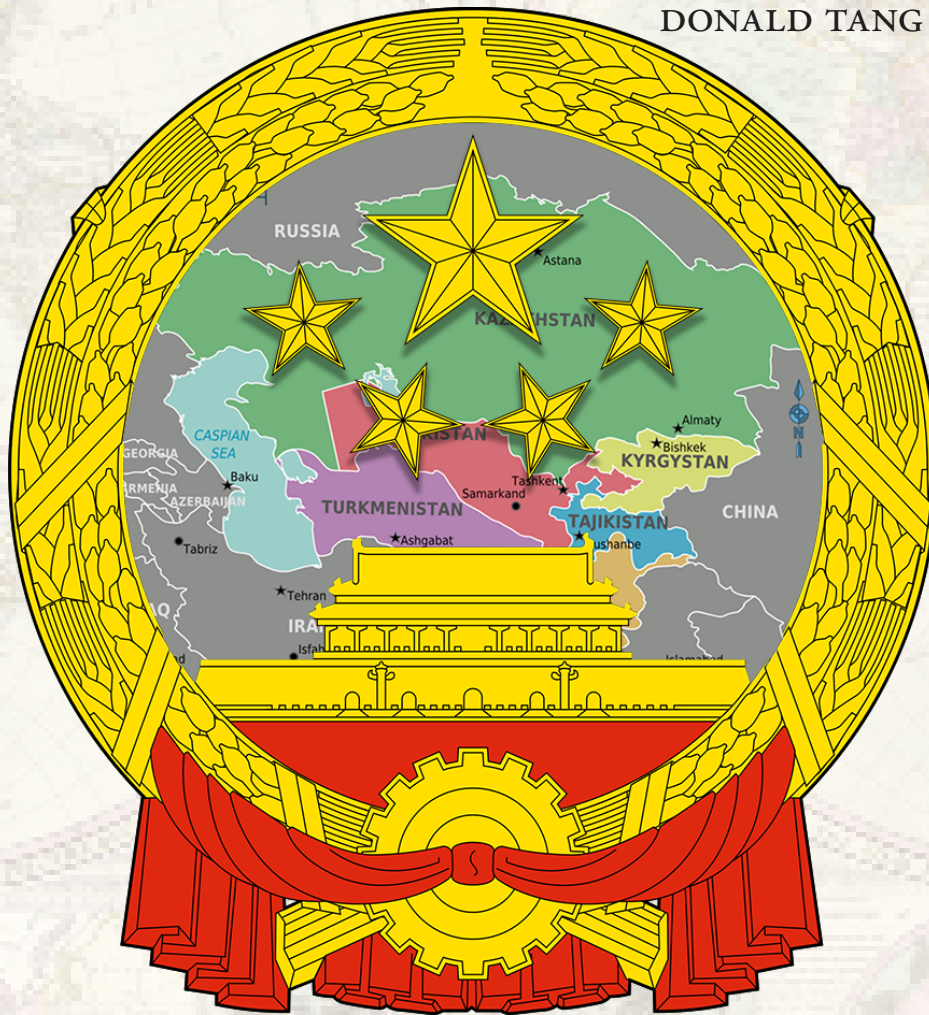




CHINA'S INVESTMENT IN THE CENTRAL ASIAN REPUBLICS

DONALD TANG



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Author Background

Born in China, Donald Tang graduated with a BA in linguistics from the University of California, Irvine; a BS in computer science from the California State University, East Bay; and an MS in computer engineering from Santa Clara University. He worked for twenty years as a silicon chip design engineer in the Silicon Valley. A native speaker of Mandarin and Cantonese, he has recently worked for the National Virtual Translation Center as a contract linguist.



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Introduction

Since the early 1980s China has embarked on an impressive economic reform program. Within some thirty years it has transformed from a closed authoritarian backward country to an economic powerhouse, but without the attendant political reforms. According to the CIA World Factbook,¹ China became the world's largest exporter in 2010 and the largest economy in 2014, with an estimated gross domestic product (GDP) of 17.63 trillion dollars. This represents more than a tenfold increase in its GDP since 1978.



Map 1: Central Asia
Source: Central Asia Cultures website

In order to maintain its tremendous economic growth, China has found it necessary to look beyond its borders. Central Asia is one such region, with its strategic location and natural resources. Ever since the five Central Asian republics – Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan – became independent following the collapse of the Soviet Union in the early 1990s, China has been investing in these five countries, three of which (Kazakhstan, Kyrgyzstan, and Tajikistan) share borders with it (See Map 1). The pace of investment has accelerated since the turn of the century. Surpassing Russia as Central Asia’s biggest trading partner in 2009, China’s trade with the region soared from \$700 million in 1998 to \$25 billion in 2008, and doubled again in 2013 to \$49 billion.²

Within the last two years China has further rolled out its “One Belt, One Road” (OBOR – the Silk Road Economic Belt and the 21st Century Maritime Silk Road) Initiative (See Map 2).³ The “One Belt” part of the initiative, which aims to connect western China through Central Asia all the way to Europe along the ancient Silk Road, will not only challenge Russia’s sphere of influence, but also attempt to diminish the influence of the United States in the region. In the official action plan for the initiative, “China will take full advantage of the existing bilateral and multilateral cooperation mechanisms to push forward the building of the Belt and Road and to promote the development of regional cooperation.”⁴ As concrete steps toward its implementation, China



Map 2: New and proposed trade routes

Source: Jeremy Page, “China Sees Itself at Center of New Asian Order,” *Wall Street Journal*, 9 November 2014.

has established the \$100-billion Asian Infrastructure Investment Bank⁵ (AIIB) and a separate, \$40-billion New Silk Road Fund⁶ (NSRF) to rival the U.S.-dominated World Bank and the International Monetary Fund (IMF).

This paper focuses on China’s investment in the Central Asian republics. It attempts to explore the types of investments, their influence on local economies, and their effect on Sino-Russian relations. China has concentrated its investment focus in hydrocarbon fields and pipelines, highway and railway construction projects, mining operations, and hydropower projects in the region, while the Central Asian republics are aware of their economic overdependence on their big economic neighbor and are trying to diversify their economic partners. Russia, its economy buckling under the West’s punishing economic sanctions because of its encroachment on Ukraine, is acquiescing to China’s growing economic presence in its sphere of influence in order to get economic relief from its neighbor to the east. In return, China is careful not to upset Russia’s military and cultural dominance in Central Asia, while trying to pacify the restive border province of Xinjiang, where there has been active resistance to Chinese rule by the Turkic-speaking Uyghur Muslim majority.

Country	Oil (billion barrels)	Gas (trillion cubic feet)	Oil Global Rank	Gas Global Rank
Kazakhstan	30	85	13	14
Turkmenistan	0.6	265	42	6
Uzbekistan	0.59	65	43	19
Kyrgyzstan	0.04	0.2	74	82
Tajikistan	0.01	0.2	80	82

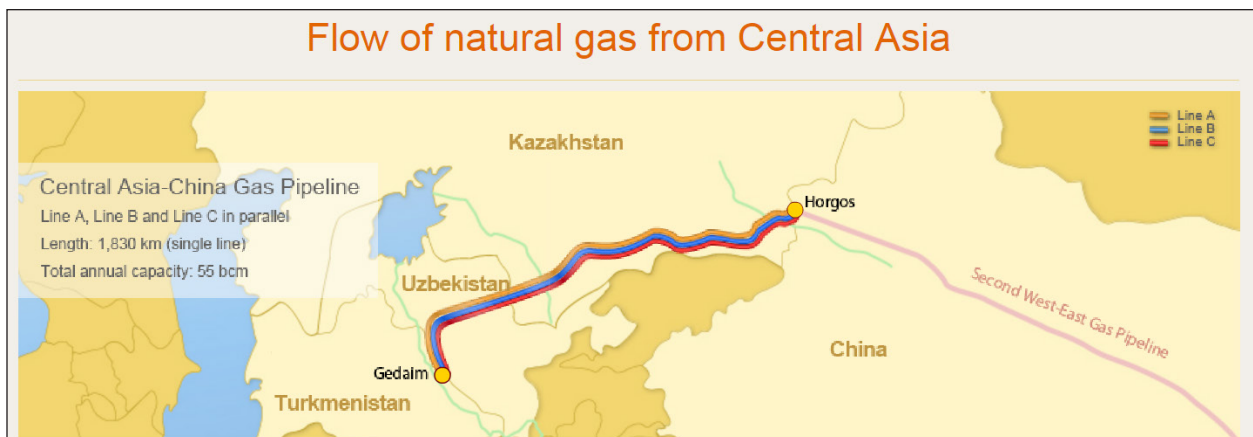
Table 1: Central Asia Proved Oil and Natural Gas Reserves (2014 Estimates)
Source: U.S. Energy Information Administration

Silk Road Redux: a Modern Revival

In ancient times traders carrying silk and spice on horseback traversed the backroads of Central Asia on their journey connecting the Middle Kingdom and Europe. Following the collapse of the modern-day Soviet Union, the route was revived. Since 2000, China has been investing heavily in infrastructure of all types in Central Asia. Due to its rapid economic development, China has an almost unquenchable thirst for energy and natural resources, with which Central Asia happens to be plentifully endowed (See Table 1). As a result, China is making a concerted effort to exploit the region’s resources. By far, the largest Chinese investment dollars have gone into Kazakhstan and Turkmenistan. An oft-quoted statement by General Liu Yazhou of China’s People’s Liberation Army makes China’s objective abundantly clear: Central Asia is “the thickest piece of cake given to the modern Chinese by the heavens.”⁷

Hydrocarbon Field and Pipeline Infrastructure

In Turkmenistan, which has the world's sixth largest gas reserves,⁸ China National Petroleum Corporation (CNPC), China's largest oil and gas producer and supplier and the only foreign company with direct access to the onshore gas projects,⁹ has invested billions of dollars to import more than half of Turkmen gas output.¹⁰ According to CNPC's corporate website,¹¹ the state-owned enterprise (SOE) started constructing three 1830-kilometer (km)-long parallel Central Asia-China gas pipelines in 2007. From the Turkmen border city of Gedaim all the way to the newly-built city of Horgos (latitude: 44° 7' 32.0016" longitude: 80° 24' 35.9984") in China's Xinjiang Uyghur Autonomous Region, the pipelines traverse Uzbekistan and Kazakhstan and pick up gas supplies along the many spurs (See Map 3). An additional 1000-km-long gas pipeline (D) starting in the Turkmen Galkynysh Gas Field, the world's second largest gas field,¹² is currently under construction. This fourth line, which takes a different route and traverses through Turkmenistan, Uzbekistan, Tajikistan, and Kyrgyzstan before reaching China's border, is scheduled to be completed next year. Altogether, the four gas pipelines will have a combined capacity to deliver a staggering 85 billion cubic meters (bcm) of natural gas to China annually, equivalent to 50% of China's total annual gas import.¹³

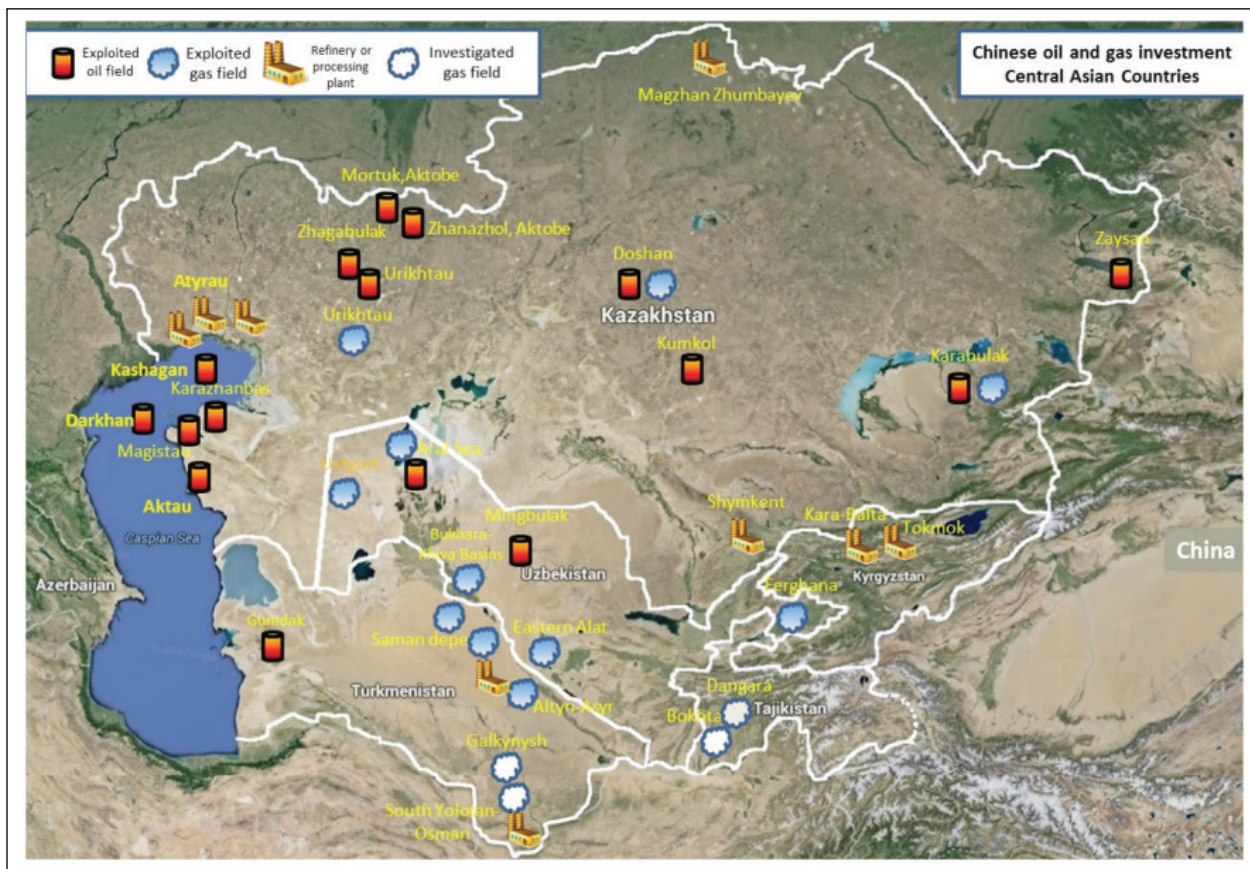


Map 3: Flow of Natural Gas from Central Asia
Source: China National Petroleum Corporation

In Kazakhstan, CNPC is investing in oil fields and operating pipelines to transport oil back to China.¹⁴ CNPC now owns an 85% majority stake in AktobeMunaisGas and has production licenses for the Zhanazhol (47° 18' 0" North 49° 3' 0" East), Kenkiyak Oversalt, and Kenkiyak Subsalt Oilfields, as well as a contract for an exploration block. Completed in 2005, the

1198-km-long Kazakhstan-China (Atasu-Alashankou) oil pipeline delivers more than 10 million tons annually; in 2013, the pipeline transported 86 million barrels of oil to China.¹⁵ In addition, CNPC owns a 100% stake in the North Buzachi Oilfield and the Ai-Dan-Munai Project, as well as a partial stake in Konys and Bektas Oilfields, among many other investment projects (See Maps 4 and 5 and Table 2). Finally, there is the massive Kashagan Oilfield, in which CNPC holds an 8.4% stake. This project, located in the North Caspian Sea, has been plagued by years of delays and cost overrun. Leaky pipelines shut down its production shortly after oil started flowing.¹⁶ Once production resumes by the beginning of 2017, Kazakhstan should be able to further increase its oil export to its energy-hungry neighbor.

Map 4: Chinese Oil and Gas Investment in Central Asia
 Source: Zhuwei Wang for the Energy Charter Secretariat



Map 5: Chinese Oil and Gas Pipelines in Central Asia
 Source: Zhuwei Wang for the Energy Charter Secretariat

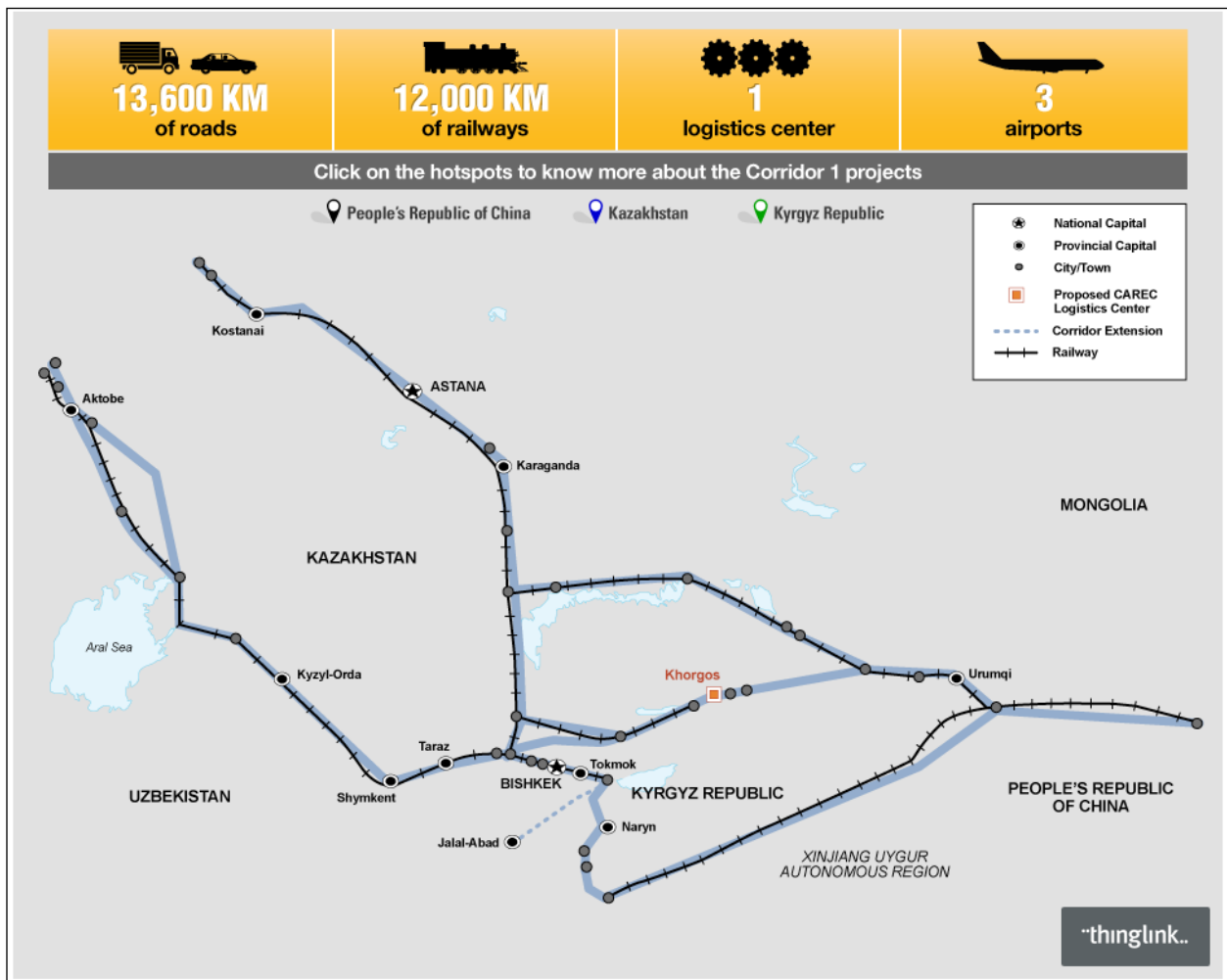


Kazakhstan	Kazakhstan-China Oil Pipeline: CNPC and Kazakhstan’s largest state-owned oil company, KazMunaiGaz, built a \$3 billion, 3,000 km pipeline from the Caspian Sea to Xinjiang in 2006. It has a capacity of 400,000 bpd.
Turkmenistan	Central Asia-China Gas Pipeline: CNPC built a \$7.3 billion, 7,000 km natural gas pipeline beginning in Turkmenistan and passing through Uzbekistan and Kazakhstan en route to China. The first part of the pipeline was completed in 2009 and currently has a capacity of 30 bcu per year, with a projection for 80 bcu per year by 2020.
Uzbekistan	Central Asia-China Gas Pipeline: China first imported Uzbek natural gas in 2012.
Kyrgyzstan	Junda Oil Refinery: Zhongda China Petrol Company opened Kyrgyzstan’s first oil refinery in 2013, drawing on oil imported from Chinese fields in Kazakhstan. It has a capacity of 12,000 bpd.
Tajikistan	Danghara Oil Refinery: In April 2014, a Chinese company agreed to invest upwards of \$500 million in an oil refinery with a total expected capacity of 24,000 bpd.

Table 2: Select Major Chinese Energy Investments in Central Asia
 Source: Compiled by the staff of the U.S.-China Economic and Security Review Commission

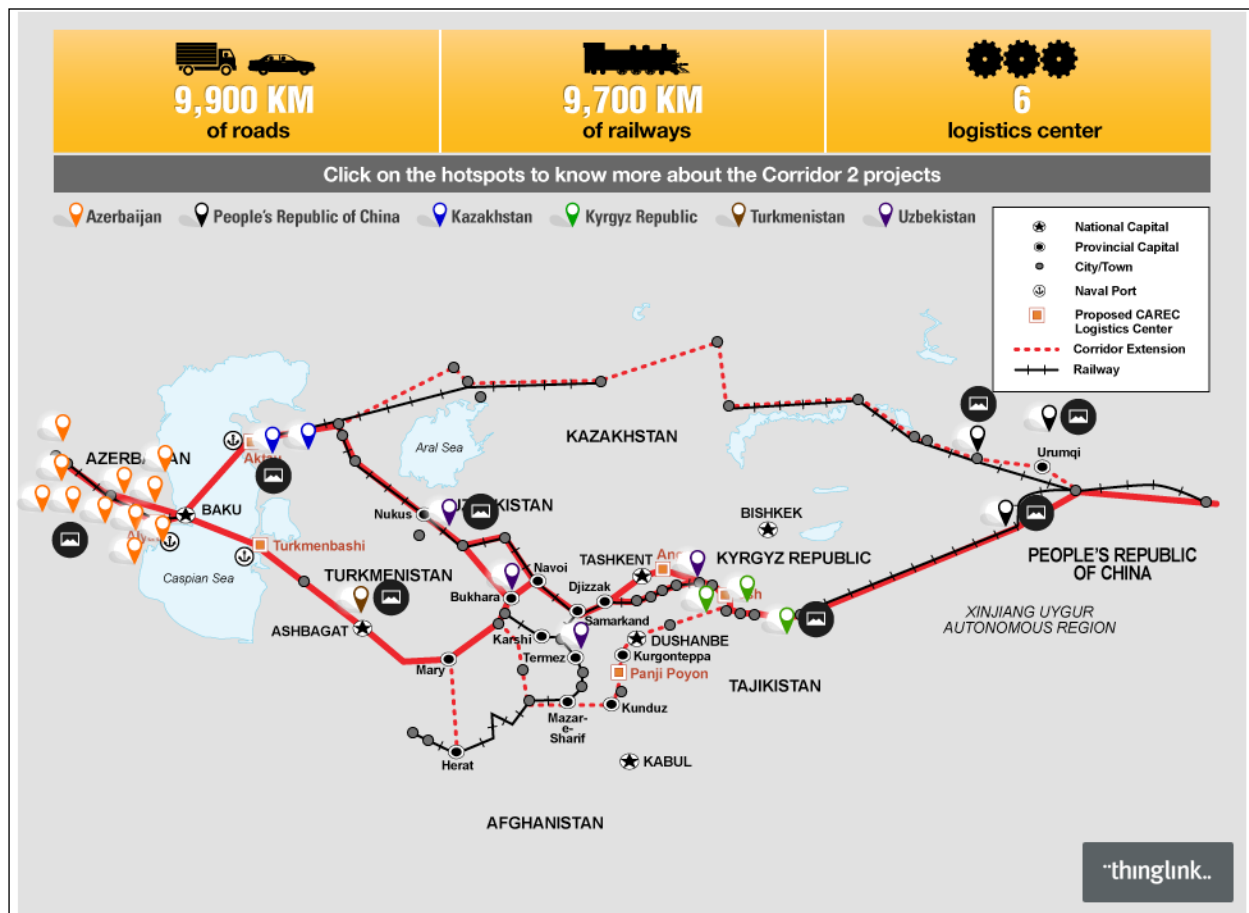
Highway and Railway Infrastructure

In order to transport Chinese-produced goods to Central Asia, as well as all the way to Europe, Chinese companies have been busy resurfacing existing crumbling Soviet-era roads and building new ones (See Maps 6, 7, and 8). During a testimony before the U.S.-China Economic and Security Review Commission hearing in March 2015, Professor Peyrouse of George Washington University noted that “China is investing ever greater sums in the Central Asian transport system.” With financial allocations coming from Chinese policy banks like the Export-Import Bank, Beijing directs the investment mainly at the two weakest Central Asian states, Kyrgyzstan and Tajikistan. In Kyrgyzstan, China has partly financed and taken over the reconstruction of the Irkeshtam-Osh Highway, and built about 100 km of the Madaniyat-Shamaldysay-Tashkumyr-Razan Road to the Krupsay Hydroelectric Station. The China Road and Bridge Corporation (CRBC), meanwhile, has won the tender to construct an 80-km section on the Osh-Dushanbe Highway in Tajikistan.¹⁷



Map 6: Central Asia Economic Corridor 1

Source: Central Asia Regional Economic Cooperation Website (www.carecprogram.org)

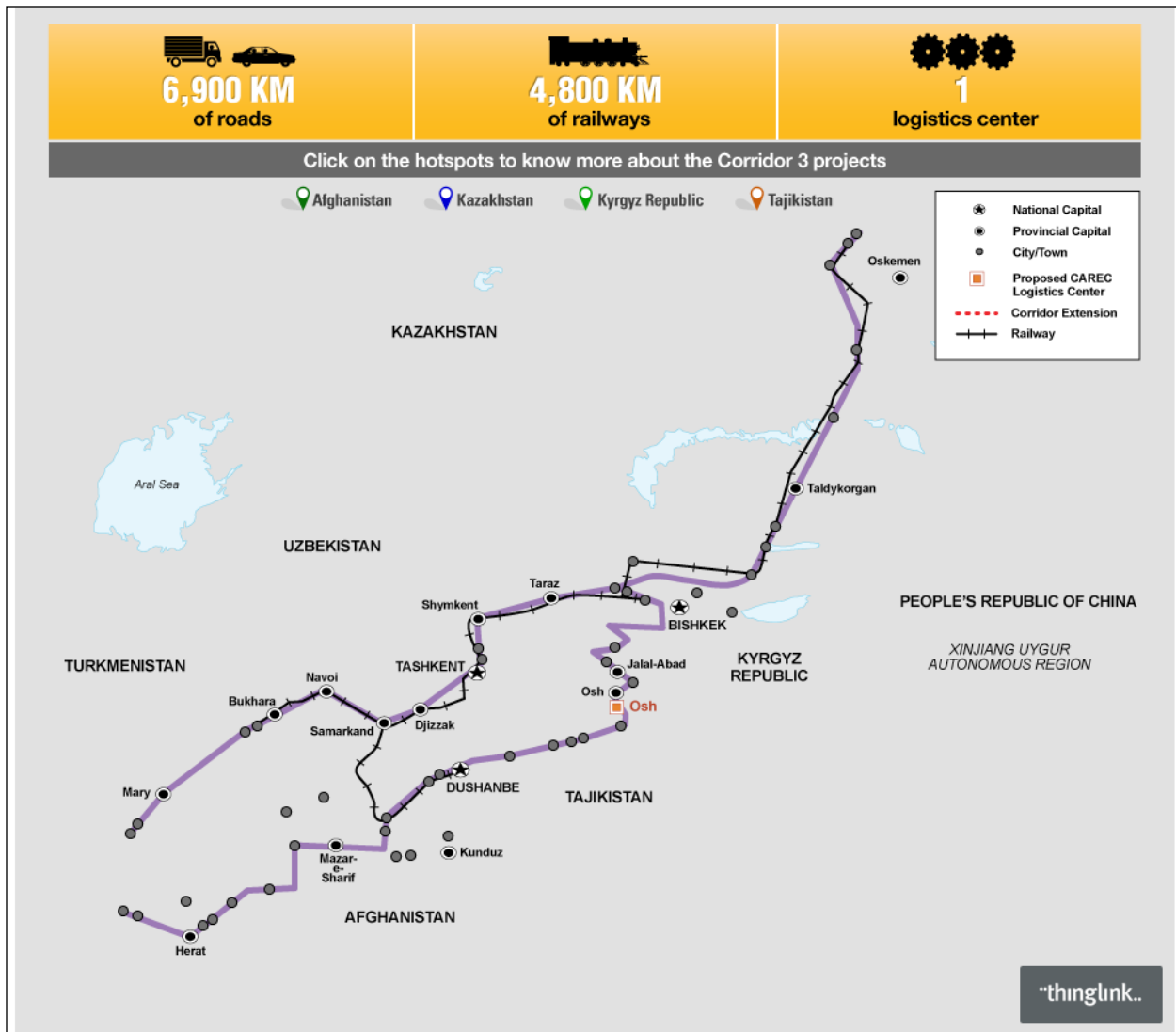


Map 7: Central Asia Economic Corridor 2

Source: Central Asia Regional Economic Cooperation Website (www.carecprogram.org)

On its corporate website the same Chinese engineering company showcases the construction of the 60-km-long “ADB60km Road” as one of its ongoing projects. The company claims to have improved the transportation conditions at the border between China and Kyrgyzstan and to have greatly facilitated the trade between the two countries.¹⁸ In addition, CRBC announced the completion of the principal part of Dushanbe-Kulma Road Rehabilitation Project, Phase One. According to CRBC, this road will “greatly promote the trade contacts between China and Tajikistan and lay a solid foundation for the construction of ‘the Silk Road Economic Belt.’”¹⁹

While the long-awaited China-Kyrgyzstan-Uzbekistan railway project remains only on paper due to geopolitical roadblocks,²⁰ China is proceeding with other railway projects in Central Asia. According to Tajik Railway, a state-owned rail company, workers have already built an 8-km-long stretch on the Vahdat-Yavan section. Financed by a \$60 million loan from China’s Exim Bank and undertaken by the China Railway Construction Corporation, this railway will connect Dushanbe, Vahdat, Yovon, and Kurgan-Tube when completed by 2016.²¹ In addition, at the end of last year China, Kyrgyzstan, Tajikistan, Afghanistan, and Iran signed a preliminary agreement



Map 8: Central Asia Economic Corridor 3

Source: Central Asia Regional Economic Cooperation Website (www.carecprogram.org)

to build a railway connecting the five countries.²² In a separate development negotiations are underway for a separate Kyrgyz-Chinese railway project while the China-Kyrgyzstan-Uzbekistan railway project remains stuck at the discussion stage.²³ In Kazakhstan, China Railway Group Limited and a Kazakh light rail transit company signed a framework agreement to build a new light railway transportation system in Astana in time for the Astana World Expo 2017.²⁴

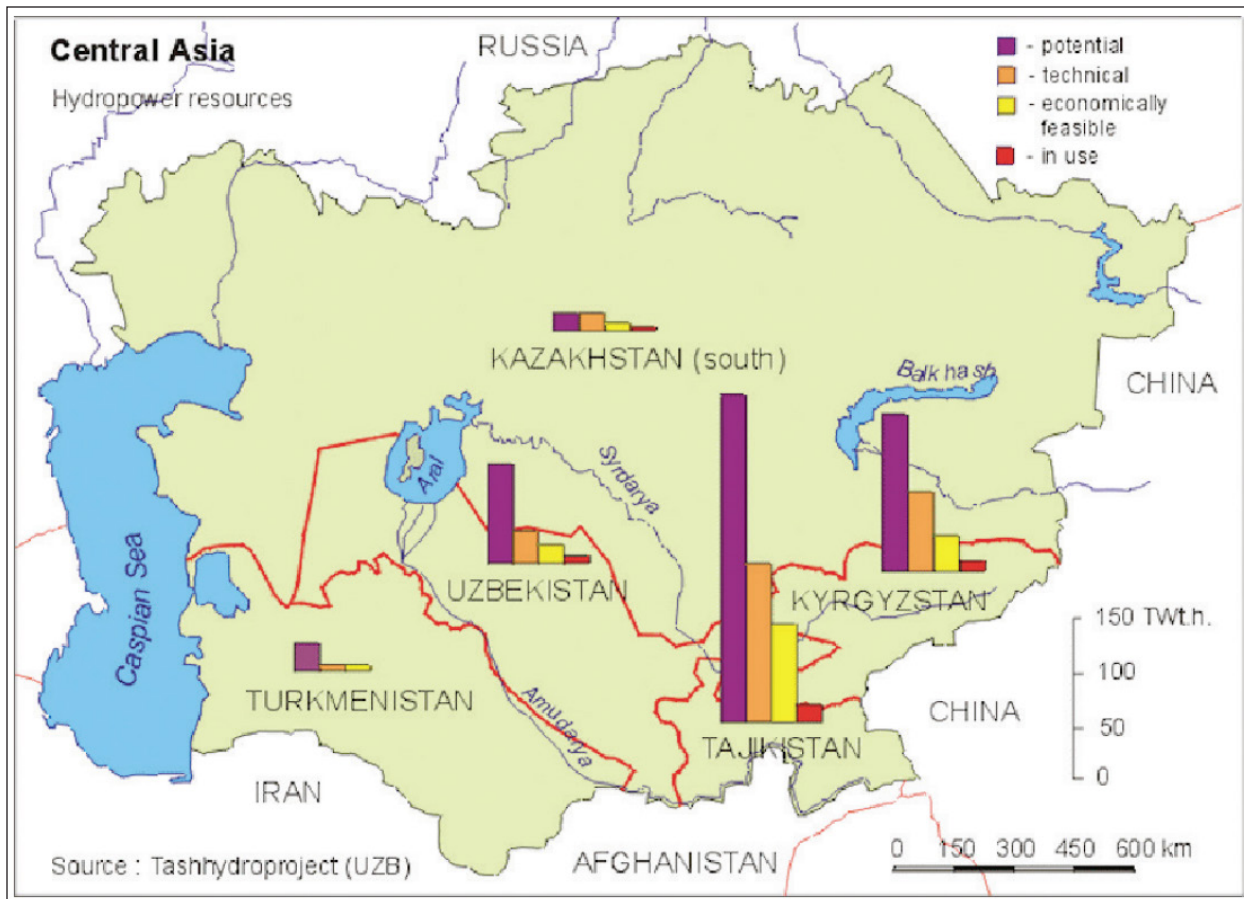
Uranium and Other Mineral Infrastructure

China needs from Central Asia not only oil and gas energy resources, but also uranium (see Map 9) to power its numerous domestic nuclear generators currently under construction. Through a series of cooperation agreements six years ago among Kazatomprom, which is a

Kazakh state-owned nuclear holding company, China General Nuclear Power Group (CGNPG), and China National Nuclear Corporation (CNNC), Kazakhstan became the largest foreign supplier of uranium to China. In return, both Chinese companies invested a considerable amount of money in three joint extraction ventures. Kazakhstan has agreed to supply about 24,000 tons of uranium to China by 2020.²⁵ In Uzbekistan, CGNPG formed a joint venture, Uz-China Uran, with the State Committee on Geology and Mineral Resources of Uzbekistan, which was scheduled to start uranium production during the second half of 2014. The Chinese company is set to receive primary rights to purchase Uz-China Uran products at world prices.²⁶ It is worth noting, however, that both countries have been silent regarding the latest status of this joint venture. According to the Ministry of Industry and New Technologies of the Republic of Tajikistan website, Chinese SOE Zijin Mining Group Co. Ltd acquired a 75% stake in the shares of Joint Venture “Zarafshan” in 2007, with the Tajik government owning the remaining 25%. Employing more than 2,000 people, the leading gold mining company in the country will be producing five tons of gold annually in the coming years.²⁷ In the Chinese version of its own company website, Zijin also lists its 60% acquisition of Alтынken, a gold mining company in Kyrgyzstan, in 2011. The



Map 9: Uranium Mines Status in Central Asia
 Source: Zhuwei Wang for the Energy Charter Secretariat



Map 10: Hydropower Resources in Central Asia
 Source: Zhuwei Wang for the Energy Charter Secretariat

joint venture owns the Zuoan Gold Mine (north latitude 42° 39' and east longitude 72° 40'), the third largest in the country, with an estimated 77 tons of gold and 64 tons of silver reserves. On 29 July 2015 Kyrgyz Prime Minister Temir Sariyev was on site to cut the ribbon for production start, and 1200 local residents found employment opportunities in the project.²⁸

Electricity Transmission and Generation Infrastructure

China's chronic shortage of electricity supply is serving as a motivation to beef up Central Asia's electricity generation and transmission infrastructure. China is late to investing in large-scale hydroelectric dam projects, which Russia has undertaken. Instead, China concentrates on small-to-medium thermal and solar electricity generation and high-voltage transmission line projects. Through these projects it transports electricity to China's Xinjiang region, as well as to Central Asia's southern neighbors. In this sector Tajikistan and Kyrgyzstan appear to have the most potential (See Map 10).

As Professor Sebastien Peyrouse notes in his testimony:²⁹

Tajikistan is the second largest producer of hydroelectricity in the CIS [Commonwealth of Independent States] after Russia, and accounts for more than half of the total hydroelectric resources of Central Asia. With Dushanbe's support, China has decided to invest mainly on the Zarafshan River in the Penjikent region near Uzbekistan. The Chinese [Tebian Electric Apparatus Stock Company (TBEA)] built two strategic electric lines: the Lolazor-Obi Mazor in the Khatlon region in the country's south; and the 350-km-long 500 kV high-voltage North-South line, which can transfer eight billion kWh to Afghanistan, Iran, and Pakistan and was completed in 2010.

In 2014 TBEA invested approximately \$386 million to modernize the thermal power plant in the Kyrgyz capital city of Bishkek. The power plant now generates almost a billion kWh of electricity and more than two million giga-calories of heat energy per year, meeting 85% of Bishkek's heating and hot water requirement.³⁰

In Kazakhstan, China and Russia have agreed to jointly fund the construction of Ekibastuz GRES-2 Power Plant (coordinates: 52.023972, 75.47625), a coal-fueled power generation plant, for \$400 million.³¹ In addition, TBEA completed the construction of a first-ever 500-kw photovoltaic grid-connected plant in 2013.³²

Uzbekistan, on the other hand, is one of the Central Asian nations with the greatest solar power potential. In early 2013 a joint venture was formed by Chinese Suntech Powers Holdings Co. Ltd and Uzbek state energy company Uzbekenergo, with \$10 million investment from the Chinese to construct a solar panel manufacturing facility. However, as a reminder that not all Chinese investments are successful, global market conditions forced Suntech Powers into bankruptcy in February 2014. Nevertheless, later that year Uzbekenergo announced that a facility to produce solar collectors had opened in the Jizzakh Special Industrial Zone. Uzbekistan and China jointly commissioned the \$3.34 million Solar Thermal Power Project, which is slated to manufacture 50,000 solar water heaters annually.³³

China's Economic Orbit Stretches West

As China becomes the ascending major economic power player in the region, the Central Asian republics find their state treasuries increasingly tied to their neighbor to the east, prompting them to look to the west and the south to diversify their trading partners. As the Russian economy deteriorates and Russian-Turkman energy-supply disputes arose,³⁴ less gas is piped north to Russia from Turkmenistan, while increasingly more is piped east to China through newly built pipeline infrastructure. Indeed, now half of all Turkmen gas is exported to just one insatiable customer, China.³⁵

Similarly, according to Tajik Deputy Finance Minister Jamoliddin Nuraliev in an interview with *Financial Times*, China will be investing at least \$6 billion in Tajikistan's infrastructure through 2017.³⁶ This figure not only represents nearly 70 percent of Tajikistan's 2013 GDP, but it is "more than 40 times [Tajikistan's] annual foreign direct investment."³⁷

During his visit to Beijing in March 2015, Kazakh Prime Minister Karim Massimov signed 33 deals worth \$23.6 billion dollars covering co-operations on steel, nonferrous metals, sheet glass, oil refining, hydropower and automobiles.³⁸ This followed a visit by China's Premier Li Keqiang to Astana only three months earlier, in which the two politicians reached a preliminary consensus on another 18-billion-dollar infrastructure deal.³⁹

In 2004 the trade volume between China and Uzbekistan was only \$800 million, but has since increased to more than \$5 billion, according to the Uzbek Ministry of Foreign Affairs.⁴⁰ During his visit to Central Asia in September of 2013, Xi Jinping inked deals in Tashkent worth \$15 billion plus numerous high-tech production agreements to be financed by China's investment banks.⁴¹

With deals like these, China is systematically pulling the Central Asian republics closer to its own economic orbit. The countries in the region, however, do not wish to escape the economic embrace of one powerful state only to find themselves in the grip of another. As a result, they are trying to find ways to diversify their economy and trading partners. At the urging of the Turkmen government, the Turkmenistan-Afghanistan-Pakistan-India Pipeline (TAPI), first proposed in the 1990s and delayed many times due to security and financial issues, is finally moving ahead (See Map 11). Supported by the Asian Development Bank (ADB) and the United States, the leaders of the four countries have just attended the groundbreaking ceremony of the 1800-km-long, \$7.6-billion TAPI gas pipeline projects.⁴² A similar motivation also led Turkmenistan to sign a deal with Turkey to supply gas to Turkey and Europe through the TANAP pipeline.⁴³ In a further step toward diversifying economic cooperation, Ashgabat signed an agreement worth \$13 billion with South Korea on "natural gas-to-liquids (GTL) plant construction and the modernization of essential oil factories."⁴⁴ Similarly, Kazakhstan also looks to South Korea for cooperation projects, signing an agreement last year on the Balkhash coal-fired power plant construction by Samsung worth \$18 billion and the expansion of the Tengiz Oilfield totaling \$5 billion.⁴⁵

Impact of Chinese Influence: from Suspicion to Resentment

As Chinese money moves in, Chinese influence inevitably follows suit. Many Chinese companies working on large infrastructure projects bring their own Chinese labor force to work on the projects. Sultan Sarigaev, a Kyrgyz official at the Foreign Investment Department of the

Map 11: The proposed TAPI gas pipeline:
Source: U.S. Energy Information Administration



Transport and Communication Ministry, says that joint Kyrgyz-Chinese projects usually reserve 70 percent of the available jobs for Chinese engineers and technical staff and only offer the remaining 30 percent to local hiring.⁴⁶ In Tajikistan, Chinese migrant farmers till the cotton and rice fields in the southern part of the country. By 2010 some 80,000 Chinese migrants were working as merchants and laborers in bazaars, electricity substations, and mines and on roads.⁴⁷ Cultural influence also expands. Confucius Institutes promoting the Chinese language have opened in all of the Central Asian republics except Turkmenistan.⁴⁸ The large number of university students from these republics attending universities in China is another indication of this growing influence.⁴⁹ Even government officials are going to China for training. In May 2015 a delegation of Tajik Interior Ministry senior officials arrived in Shanghai to attend an inaugural seminar on judicial and law-enforcement training.⁵⁰

While the region's autocratic rulers keep signing meta-projects with Beijing and enthusiastically welcome its investment, the sentiment on the ground is turning from suspicion to resent-

ment and outright antagonism toward migrant Chinese traders and workers, especially in the two poorest countries bordering China -- Kyrgyzstan and Tajikistan. An upsurge of Chinese laborers has escalated competition with local communities for jobs in mining, agriculture, construction, trade and transportation. The consistent increase of Chinese small and medium businesses bringing in a flood of Chinese goods is also breeding anger among Kyrgyz and Tajik populations.⁵¹ Muzaffar Olimov, Director of the independent Sharq Informational-Analytical Center in Dushanbe, fears that Tajikistan could come to resemble China's Xinjiang Province, where the government has a local face but the ethnic Han Chinese make all of the important decisions.⁵² Kurbanov, an Osh-based trader who lost his business to the Chinese competitors, puts it more concretely: "First they started sending their goods, then they started moving in, and finally they marry our local women."⁵³ In his testimony to Congress, Raffaello Pantucci, Director of International Security Studies at Royal United Services Institute (RUSI), goes so far as to put Sinophobia as the biggest regional problem that China faces with its Silk Road Economic Belt policy in Central Asia.⁵⁴

A Partnership of Convenience: The China-Russia Connection

China and Russia have long had a history of turbulent relationships. After centuries of hostile periods, under what China considered forced unequal territorial treaties with Russia,⁵⁵ relations between China and the Soviet Union warmed up in the early 1950s. With both countries being communist, China considered the Soviet Union its big brother. However, the cozy relationship lasted only for a short time. By 1969 the two countries were engaged in border wars.⁵⁶ The frosty relationships continued until after the dissolution of the Soviet Union, after which Russia's economy had weakened because of failed economic reforms. Meanwhile, China's economy was on an upswing. With Russia no longer having the economic means to keep the Central Asian republics in its economic orbit, the country acquiesced to China's intense investment activities in its backyard.

In recent years Russia's foreign policy has forced it to look to Asia for economic development. The flagrant violation of international law by Russia in annexing Crimea and destabilizing the eastern part of Ukraine sent shockwaves through the West and the Central Asian republics.⁵⁷ The West's punishing economic sanctions against Russia and the precipitous drop in world oil prices have resulted in the collapse of the Russian ruble and the flight of capital, bringing the Russian economy to its knees.⁵⁸ Given such circumstances, Russia has not been in a position to prevent or control Chinese investment in Central Asia. Because a large part of Russia's economy relies on exporting natural resources, such as oil and gas, it finds itself having to create regional partnerships and to make multibillion-dollar business deals with China as well in order to bail out

its energy industry. For instance, in May 2014 China and Russia signed a \$400 billion, 30-year deal to deliver gas through a new pipeline from the Kovyktin and Chayandin Fields in eastern Siberia to the Beijing-Tianjin metropolitan area in the north of China and the Yangtze River Delta in the east.⁵⁹ A \$5 billion Chinese-financed high-speed railway project between Moscow and Kazan, part of the Moscow-Beijing route, was also signed in 2015.⁶⁰

Despite China's economic success in Central Asia, the country has shown deference to Russia, being careful not to provoke it over its traditionally cultural and military dominance in the region. Because China views Central Asia mainly as a natural resource reservoir for extraction to fuel its economic development, it has no burning desire to compete with Russia for the local inhabitants' hearts and minds. China's western Xinjiang province has a large restive Uyghur population who are culturally and linguistically akin to the Central Asians. Therefore, China wants the governments of these republics to cooperate in fighting what it calls the three evils – terrorism, separatism, and religious extremism. However, it conducts joint military exercises with the Central Asian republics only through the auspice of the Shanghai Cooperation Organization (SCO), of which Russia is a member.⁶¹ Sino-Russian military cooperation has become so close in recent years that in May 2015 they conducted their first-ever joint Sino-Russian naval exercise in the Mediterranean,⁶² and Russia has agreed to sell to China the S-400, its most advanced air and missile defense system, despite Russian reservations about the Chinese reverse engineering the technology for domestic productions.⁶³

According to one report, in a sign of possible Chinese policy change, for the first time China has sold its anti-aircraft missile systems to both Turkmenistan and Uzbekistan.⁶⁴ While Russian reactions have been muted, it is uncertain whether further steps taken by China along this line will be met with a similar Russian response.

A Rising Dragon or a Paper Tiger?

Behind the rush to revive the Silk Road corridor lies a strategic imperative. To a large degree, the OBOR initiative seems to be a direct countermeasure to the perceived policy of encirclement by the United States' "Pivot to Asia." Based on the "March West" strategy first proposed by Wang Jisi, China's most prominent international relations scholar,⁶⁵ President Xi announced the government's formal adoption of OBOR during his visits to Kazakhstan in 2013. For years China has viewed the alliance building by the United States along East and South East Asia as a containment wall meant to keep China from becoming a strong and powerful nation on the world stage. The Obama Administration's "Pivot to Asia" strategy only further solidified Chinese leaders' conviction of this conspiracy.

While the implementation of the “Pivot to Asia” strategy has proved to be slow moving due to legacy issues in the Middle East, the OBOR initiative is on a fast track. Central Asia, the “One Belt” part of the initiative, is but the first stop on China’s Silk Road westward express connecting to Europe. In the latest development a Chinese state-owned company signed a 40-year lease to manage Gwadar Port, a strategically important maritime facility in Pakistan close to the Strait of Hormuz.⁶⁶ This gives China access to the Gulf States and allows China to transport Middle Eastern oil through planned pipelines, thus alleviating overwhelming reliance of transport through the Indian Ocean and the South China Sea, where the US Navy could easily put a chokehold on the Malacca Strait.

Recent flare-ups in the South China Sea territory dispute⁶⁷ are also indicative of China’s desire to start building protection capabilities for its fleet of ships sailing on the sea lanes in South-East Asia (the “One Road” part of OBOR) to the Middle East, Europe, and Africa. For the first time ever China recently announced its plan to build its first overseas military base in East Africa’s Djibouti.⁶⁸ From Beijing’s perspective, China has finally arrived at the world stage and should start rightfully flexing its muscles after two centuries of humiliation.

While China does have the ambition of displacing the United States as the most important power in the Asia-Pacific region, it is far from certain this is a realistic goal. China may look formidable from the outside; from within, though, things look much less rosy. It is conceivable that the Chinese Communist Party in the longer term could eventually collapse.⁶⁹ This black swan scenario, though highly controversial, is not without precedent: the quick collapse of the Soviet Union after seven decades of communist rule surprised even the most seasoned analysts. Contemporary China faces the most daunting problems within its borders – political oppression, official corruption, social injustice, wealth polarization, and environmental degradation. The unwillingness of the Chinese Communist Party to institute even modest political and judicial reforms means that a sudden health problem suffered by autocratic Xi, off-the-chart pollution levels,⁷⁰ or the pervasive corruption at all levels of government could trigger another social upheaval. A bankrupt communist ideology cannot prop up a political system that allows no dissent. The fierce-looking dragon may turn out to be a paper tiger after all.

Conclusion

To continue its economic growth and to break the perceived encirclement by the United States, China must secure energy resources abroad and sell its products overseas. The OBOR initiative is one such grand strategy toward that goal. While China seems to be winning by investing heavily in Central Asia and establishing strategic relationships with all five Central Asian republics, internal Chinese politics and regional geopolitics could still derail the strategy.

As constant ethnic unrest in Xinjiang shows,⁷¹ the majority of Muslim Uyghurs living in the province present a major political and social problem to the central government, which resorts to employing only heavy-handed measures in dealing with opposition of any kind. With the United States military presence absent in Central Asia, the Taliban, ISIL, or other new forms of Islamic extremism could spread into the Central Asian republics and even into Xinjiang. The infrastructures are relatively easy targets of sabotage.

In an attempt to check China's westward economic expansion, Russia has just orchestrated the creation of the Eurasian Economic Union (EEU) at the beginning of this year.⁷² Even though the Central Asian republics show little enthusiasm, it does raise tariffs on imported Chinese goods within the union's borders. Both the Chinese and the Russians know that their latest round of partnership of convenience rests on their mutual antagonism toward the West, and no one is under the illusion that it will be solid or long lasting. As the popular saying around the world goes, "a near neighbor is better than a distant cousin." China is putting it into practice as a national strategy.

END NOTES

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