

# **BENEFITING FROM ONE ROAD, ONE BELT INITIATIVE IN CENTRAL ASIA THROUGH POLICY REFORMS: A CASE STUDY OF KYRGYZSTAN**

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## Abstract

An analysis of China's *One Belt, One Road* (OBOR) initiative in the context of Central Asian countries, particularly Kyrgyzstan, shows that the countries should implement policy reforms. The existing literature points out that the ambitious project offers not only wide range of economic opportunities aiming global economic integration and international trade optimization, but also it is associated with a set of risks. Moreover, there is a little alignment between Kyrgyz domestic policies and the one suggested by the initiative. Having surveyed 115 citizens in Kyrgyzstan, this thesis reveals people's perception towards the risks and opportunities. Lastly, the policy recommendations drawn from the best practices of other countries are provided.

Key words: One Belt, One Road initiative, international trade, policy reform, Kyrgyzstan

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## List of Abbreviations

AIIB – Asian Infrastructure Investment Bank

CAREC – Central Asia Regional Economic Cooperation

OBOR - One Belt, One Road Initiative

CPEC – China – Pakistan Economic Corridor

CRBC – China Road and Bridge Corporation

FDI – Foreign Direct Investment

OECD - Organization for Economic Cooperation and Development

SME – Small and medium Enterprises

WEF – World Economic Forum

WTO – World Trade Organization

XUAR – Xinjiang Uyghur Autonomous Region

## Introduction

International trade development is one of the main goals of countries around the world as it potentially leads to economic prosperity and welfare improvements, although many countries still possess protective approach.<sup>1</sup> Throughout years the governments try to reduce trade barriers through different agreements that result in trade costs reduction. China has proposed very ambitious initiative *One Belt, One Road* (OBOR) as a tool to economic globalization and regional integration. The initiative consists of two main projects, which are Silk Road Economic Belt and 21<sup>st</sup> Century Maritime Silk Road.<sup>23</sup>

The initiative aims to establish regional cooperation and improve international trade globally by building appropriate infrastructure that connects Asian and African countries with Europe. The new infrastructure and alignment in trade policies are believed to reduce costs and, thus, foster trade between the countries. The Chinese initiative welcomes all interested states and currently more than 65 countries agreed to participate in developing this grand project.<sup>4</sup> In fact, the more country participants will be there, the more successful the implementation of the initiative is believed to be. According to existing literature, this initiative is a long-term strategy of China to achieve internal and external goals for its further development. However, China has slightly different view, stating that OBOR project is a tool to foster economic development not only of China, but also of other countries around the globe.

According to the existing literature the annunciation of the project brought big discussions among the professionals and experts in this field. Opinions of the people varied from negative

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<sup>1</sup> Somik V. Lall, *Who wins, Who loses? Understanding the Spatiality Differentiated Effects of the Belt and Road Initiative*, (World Bank Working paper, 2019).

<sup>2</sup> Francis de Soyres, *How Much Will the Belt and Road Initiative Reduce Trade Costs?* (World Bank Working paper, 2018).

<sup>3</sup> Maggie Xiaoyang Chen, *Foreign Investment across the Belt and Road: Pattern, Determinants and Effects*, (World Bank, Policy Research Working Paper, 2018).

<sup>4</sup> Maggie Xiaoyang Chen, *Foreign Investment across the Belt and Road: Pattern, Determinants and Effects*, (World Bank, Policy Research Working Paper, 2018).

and sceptic to positive and supportive, and basically were divided into two main camps. The available studies on this topic mostly focus on political and geopolitical aspects of the initiative and lack discussions on economical part of OBOR. Therefore, it is essential to understand the main concept and specifics of this big initiative's economics.<sup>56</sup>

The thesis contributes to two strands of the existing literature in international economic development. First strand stresses out the economic implications of the initiative to the development of Central Asian states. Secondly, this thesis implements qualitative and quantitative research methods, which ensure profound analysis based on data. Central Asian countries are one of the key participants of the grand project, as they are located on strategically important location and have economic partnerships with China.<sup>7</sup> The participation of these countries in developing the initiative might bring economic dividends, strengthen political and economic relationship with other countries in the region. Additionally, Central Asia – China cooperation in building the initiative might elevate the existing partnership to the next level. The understanding of the concept, comprehensive research and overall critical analysis of the initiative should be performed in order to define the possible options and outcomes of Central Asian countries.<sup>8</sup>

Moreover, the countries like Kazakhstan and Kyrgyzstan entered to Eurasian Economic Union (EEU) to foster regional economic development and cooperation with other participants like Russian Federation, Belorussia and Armenia. As there is overlap between EEU and OBOR projects, there are some chances that the initiative of second could harm the Russian-led Union

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<sup>5</sup> Maggie Xiaoyang Chen, *Foreign Investment across the Belt and Road: Pattern, Determinants and Effects*, (World Bank, Policy Research Working Paper, 2018).

<sup>6</sup> Roman Vakulchuk and Indra Overland, *China's Belt and Road Initiative through the lens of Central Asia*, (London, Routledge, 2019).

<sup>7</sup> Somik V. Lall, *Who wins, Who loses? Understanding the Spatiality Differentiated Effects of the Belt and Road Initiative*, (World Bank Working paper, 2019).

<sup>8</sup> Francis de Soyres, *How Much Will the Belt and Road Initiative Reduce Trade Costs?*, (World Bank Working paper, 2018).

as well as impede the process of Eurasian integration.<sup>9</sup> In this regard, it is indispensable to understand how these two projects can work together for regional economic benefits and stimulate integration as well as cooperation.<sup>10</sup>

Taking into consideration above said, the main purpose of this study is to analyze the initiative in a more complex matter, understand the OBOR's context, define the risks and opportunities, provide prioritized policy recommendations based on people's perceptions regarding the initiative in the Kyrgyz Republic. This will to identify the most mutually beneficial stand in the context of Sino-Central Asian cooperation.

The structure of this thesis is organized in the following way. The first chapter reviews the history and development of the initiative, defines its main ideas and concepts. The review of existing literature is provided in the second chapter, where it reveals China's motivation and identifies the potential benefits and existing risks for Central Asian states. Third chapter explains research methods, describe data and provides analysis of the survey. Policy recommendations for Kyrgyzstan and concluding remarks are provided in the last chapter.

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<sup>9</sup> Maggie Xiaoyang Chen, *Foreign Investment across the Belt and Road: Pattern, Determinants and Effects*, (World Bank, Policy Research Working Paper, 2018).

<sup>10</sup> Roman Vakulchuk and Indra Overland, *China's Belt and Road Initiative through the lens of Central Asia*, (London, Routledge, 2019).

## Chapter 1: Historical Background and Development of OBOR

On September 2013 China's President Xi Jinping announced the concept of the Silk Road Economic Belt when he delivered speech in Nazarbayev University, Kazakhstan.<sup>11</sup> He underlined and call upon the cooperation between China and Central Asian countries in developing the ambitious initiative.<sup>12</sup> One month later, the concept of a 21<sup>st</sup> Century Maritime Silk Road was introduced by the President at the Indonesian parliament. He suggested to construct Asian Infrastructure Investment Bank (AIIB) to finance and promote maritime interconnectivity.<sup>13</sup>

### *Motivation behind Chinese initiative "One Road, One Belt initiative"*

The OBOR initiative is one of China's solutions to economic development challenges, complicated international and regional situation faced by current generation of Chinese leaders. There are number of reasons behind the creation of the initiative.

Firstly, one of the main motivations behind the Chinese concept is to foster economic development of China itself. The country has formulated its strategy considering its new phase of openness. Not a long ago, China has opened its door to the world that help them to attract foreign direct investments, advanced technology and management expertise.<sup>14</sup> Consequently, China has adjusted its internal regulations and policies to global economic conditions. Thus, becoming a member of World Trade Organization gave China the opportunity to merge the country's economy with other external players.<sup>15</sup>

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<sup>11</sup> Cristina Constantinescu and Michele Ruta, *How Old is the Belt and Road Initiative? Long Term Patterns of Chinese Exports to BRI Economies* (World Bank Group, 2018).

<sup>12</sup> Maggie Xiaoyang Chen, *Foreign Investment across the Belt and Road: Pattern, Determinants and Effects*, (World Bank, Policy Research Working Paper, 2018).

<sup>13</sup> Somik V. Lall, *Who wins, Who loses? Understanding the Spatiality Differentiated Effects of the Belt and Road Initiative*, (World Bank Working paper, 2019).

<sup>14</sup> Roman Vakulchuk and Indra Overland, *China's Belt and Road Initiative through the lens of Central Asia*, (London, Routledge, 2019).

<sup>15</sup> Francis de Soyres, *How Much Will the Belt and Road Initiative Reduce Trade Costs?*, (World Bank Working paper, 2018).

Chinese economy developed rapidly for the last couple of decades and currently considered as one of the main economic drivers in the world. As a result, China plays important role not only in the region, but also in the whole world. Although it is considered as one the main economies in the world, China has faced imbalanced economic development among its provinces.<sup>16</sup> It is evident that eastern part of the country is much more developed than western part of China. The problem is considered as one the most important as it impedes economic development and modernization of the country.<sup>17</sup>

After facing rapid economic growth, the country is now in a phase of modest economic development and facing overproduction of the goods. As a result, they should have come up with a solution that would allow them to expand the market, where they could export overproduced products. The development of the OBOR initiative becomes one of the solutions as it aims to stimulate economic growth in less developed part of the country and expand potential market, which in turn guarantees sustainable economic development of the country. The state aims to expand markets for its products in Central Asia as well as South and Western Asia along with Europe through developing and opening up borders of Western part. In addition, it will might increase people's living standards and level of civil security by decreasing the risk of separatist sentiments (in the Xinjiang Uygur Autonomous Region and Tibet). This will ensure stability and security not only in the western regions, but in the whole country.<sup>18</sup>

The USA continues to strengthen its influence in Asia-Pacific region that adds to external challenges of China and weakens its position in the region. Therefore, in terms of geopolitics

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<sup>16</sup> Somik V. Lall, *Who wins, Who loses? Understanding the Spatiality Differentiated Effects of the Belt and Road Initiative*, (World Bank Working paper, 2019).

<sup>17</sup> Maggie Xiaoyang Chen, *Foreign Investment across the Belt and Road: Pattern, Determinants and Effects*, (World Bank, Policy Research Working Paper, 2018).

<sup>18</sup> Cristina Constantinescu and Michele Ruta, *How Old is the Belt and Road Initiative? Long Term Patterns of Chinese Exports to BRI Economies* (World Bank Group, 2018).

and security, the ambitious initiative is also considered as China's response to above mentioned actions of American counterparty. In this regard, access to the Eastern part of the world becomes more complicated and China is motivated to pay its close attention to Eurasian continent as a potential main actor where it can export its products.<sup>19</sup>

To sum up, it is important to conclude that development of the initiative by China is a smart way to solve several challenges, both internal and external. One of the main motivations behind the grand project is to ensure sustainable economic development of the country, stimulation of equal distribution and usage of resources throughout different provinces of China, strengthening regional integration and cooperation between country members of the initiative.<sup>20</sup>

#### *Define main ideas and concept of the initiative*

China has put its great effort in structuring and shaping the initiative after its official announcement in Kazakhstan. On November 2013 the Third Plenary Session of the 18<sup>th</sup> Central Committee of the main party in China took place, where they discussed importance of improving connectivity with neighboring countries to accelerate the Belt and Road Initiative. On March 2014, Bangladesh-China-India-Myanmar and China-Pakistan Economic Corridors were brought into discussion by Premier Li Keqiang. Kazakhstan and China built a logistic terminal, operation of which has started in May 2014. The AIIB was founded in October 2014 with twenty-one country members. China announced \$40 billion contribution towards the Belt and Road initiative dedicated to finance infrastructure.<sup>21</sup> Later, Thailand and China signed memorandum of understanding on common railway line.<sup>22 23</sup>

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<sup>19</sup> Somik V. Lall, *Who wins, Who loses? Understanding the Spatiality Differentiated Effects of the Belt and Road Initiative*, (World Bank Working paper, 2019).

<sup>20</sup> Francis de Soyres, *How Much Will the Belt and Road Initiative Reduce Trade Costs?*, (World Bank Working paper, 2018).

<sup>21</sup> Roman Vakulchuk and Indra Overland, *China's Belt and Road Initiative through the lens of Central Asia*, (London, Routledge, 2019).

<sup>22</sup> Maggie Xiaoyang Chen, *Foreign Investment across the Belt and Road: Pattern, Determinants and Effects*, (World Bank, Policy Research Working Paper, 2018).

<sup>23</sup> Cristina Constantinescu and Michele Ruta, *How Old is the Belt and Road Initiative? Long Term Patterns of Chinese Exports to BRI Economies* (World Bank Group, 2018).

The initiative is frequently compared with US-financed Marshall Plan, however, foreign Minister of China, Wang Yi, assured that this initiative has nothing to do with the Plan as the Belt and Road is “the product of inclusive cooperation, not a tool of geopolitics, and must not be viewed with an outdated Cold War mentality.” As of today, there are more than 65 country members of the initiative.<sup>24</sup> In addition, as of March 2019, 173 cooperation agreements were signed, which involved 125 countries and 29 international organization.

In addition, while the structure of the initiative is still under discussion and shaping process, it is evident that it is built on two main blocks: a) the Silk Road Economic Belt and the New Maritime Silk Road. First component focuses on connecting China, Central Asia, Russia and Europe; giving opportunity China to access Persian Gulf and the Indian Ocean. The second block focuses on bringing together China to Europe using sea routes. That said, the Road will go through South China Sea and the Indian Ocean, as well as through South China Sea to the South Pacific. To date, six main economic corridors have been developed: (1) the China-Mongolia-Russia Economic Corridor; (2) the New Eurasian Land Bridge; (3) the China–Central Asia–West Asia Economic Corridor; (4) the China–Indochina Peninsula Economic Corridor; (5) the China-Pakistan Economic Corridor; and (6) the Bangladesh-China-India-Myanmar Economic Corridor (See Figure 1).<sup>2526</sup>

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<sup>24</sup> Xinkua, *Chronology of China's Belt and Road Initiative*, The State Council of the People's Republic of China. Last seen on May 30<sup>th</sup>, 2019. Retrieved from [http://english.gov.cn/news/top\\_news/2015/04/20/content\\_281475092566326.htm](http://english.gov.cn/news/top_news/2015/04/20/content_281475092566326.htm).

<sup>25</sup> Maggie Xiaoyang Chen, *Foreign Investment across the Belt and Road: Pattern, Determinants and Effects*, (World Bank, Policy Research Working Paper, 2018).

<sup>26</sup> Cristina Constantinescu and Michele Ruta, *How Old is the Belt and Road Initiative? Long Term Patterns of Chinese Exports to BRI Economies* (World Bank Group, 2018).

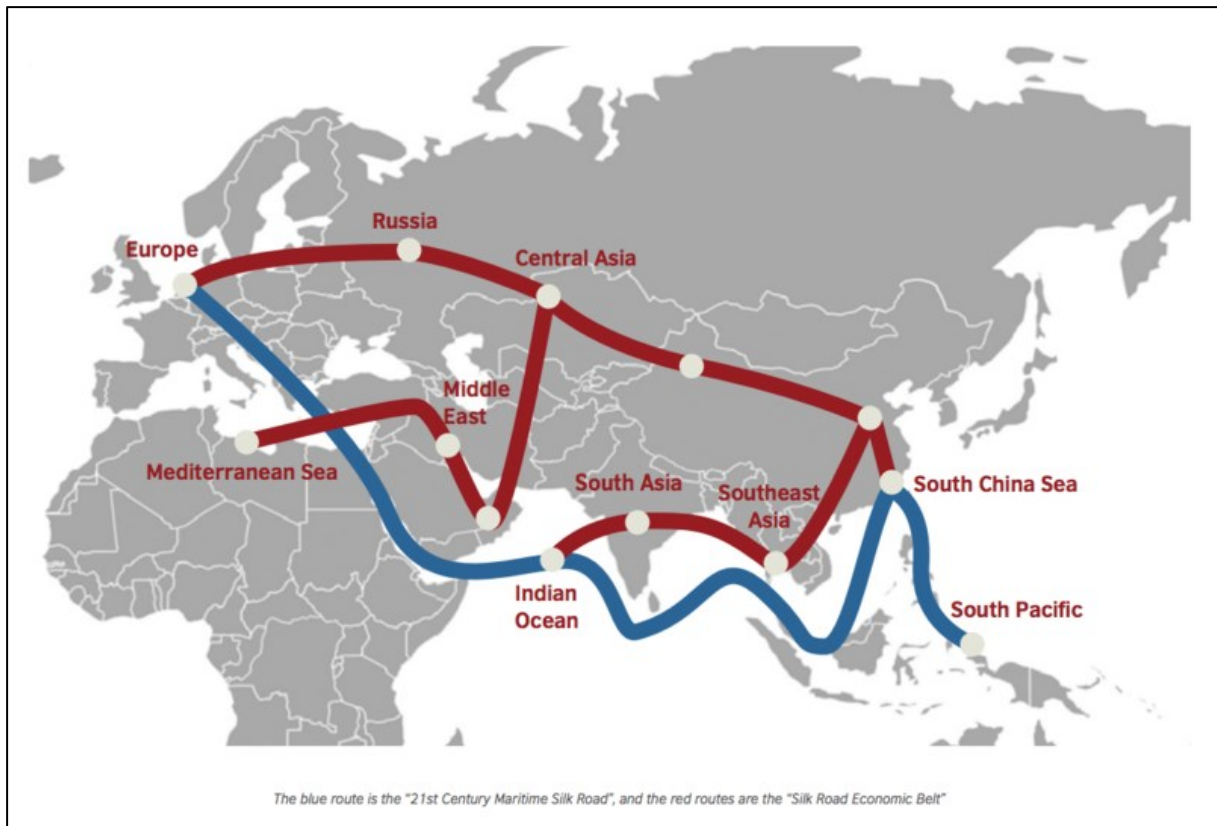


Figure 1: OBOR Economic Corridors  
Source: China-Britain Business Council

### China-Pakistan Economic Corridor (CPEC)

CPEC is the most eminent OBOR corridors that encompasses many infrastructure projects like building roads almost 3000 km long, the port of Gwadar, a rail road, oil pipeline, hydro and solar power stations. Estimated cost of building this corridor is \$56 bn. The construction of the corridor aims to not only develop infrastructure in two countries, but also promote cultural, institutional and regional information exchanges.<sup>27</sup> Bilateral trade agreement between China and Pakistan ensures and makes easier the implementation and usage of the corridor. One drawback of the corridor is that some part of it goes through disputed land between India and

<sup>27</sup> Somik V. Lall, *Who wins, Who loses? Understanding the Spatiality Differentiated Effects of the Belt and Road Initiative*, (World Bank Working paper, 2019).

Pakistan. Otherwise, when successfully constructed, the corridor will give the China opportunity faster and easier import oils from foreign countries.<sup>28</sup>

### **China-Mongolia-Russia Economic Corridor (CMREC)**

The China, Mongolia, Russian Economic Corridor is the straightest path from north-east China and its economic centers and markets in Russia and Europe with its key focus on rail infrastructure. In addition, the development of the corridor implies construction of roads, 1100 km of electrified rail routes, oil and gas pipelines.<sup>29</sup> Estimated costs of the corridor construction is \$50 billion. In 2015, three participated countries agreed to establish joint railway transportation and logistics company which will improve cooperation between the countries for economic benefits for all of them<sup>30</sup>.

### **New Eurasian Land Bridge**

The New Eurasian Land Bridge is considered as one the most ambitious projects in OBOR initiative. It represents longest railway route from eastern China to Western Europe, Netherlands. Countries like Kazakhstan, Russia, Belarus and Poland are part of the big project as well through which China reaches coastal part of the Europe. In addition, the success of the corridor is not obvious as many believe that even though transportation time will be reduced, but the prices of delivery will be way higher comparing to delivery through sea routes.<sup>31</sup> Also, the capacity of the corridor is not that high comparing to Shanghai port, for instance.<sup>32</sup> Therefore, the implementation of the project based on assumption that the future customers are

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<sup>28</sup> Maggie Xiaoyang Chen, *Foreign Investment across the Belt and Road: Pattern, Determinants and Effects*, (World Bank, Policy Research Working Paper, 2018).

<sup>29</sup> Somik V. Lall, *Who wins, Who loses? Understanding the Spatiality Differentiated Effects of the Belt and Road Initiative*, (World Bank Working paper, 2019).

<sup>30</sup> Roman Vakulchuk and Indra Overland, *China's Belt and Road Initiative through the lens of Central Asia*, (London, Routledge, 2019).

<sup>31</sup> Somik V. Lall, *Who wins, Who loses? Understanding the Spatiality Differentiated Effects of the Belt and Road Initiative*, (World Bank Working paper, 2019).

<sup>32</sup> Salvatore Babones, *The New Eurasian Land Bridge Linking China and Europe Makes No Economic Sense, So Why build it?* (Forbes). Last seen 30<sup>th</sup> of May, 2019. Retrieved from

willing to pay premiums for quicker delivery of their freight. To defend the implementation, “one declaration, one inspection, one cargo release” will take place that will add value and makes it more attractive to the potential shippers.<sup>33</sup>

### **China–Central Asia–West Asia Economic Corridor**

The following corridor is an international railway line running starting in China through Central Asian countries like Kyrgyzstan, Kazakhstan, Uzbekistan, Tajikistan, Turkmenistan and Afghanistan reaching to Middle East countries like Turkey and Iran. There is potential that the line would be widened to reach Ukraine via Azerbaijan, Georgia and Russia. The project implementation has already started. The longest railway tunnel line, the Kamchiq Tunnel, is already operating making easy to deliver goods between China and Central Asia. Both bilateral and multilateral agreements were reached and signed among the involved countries. These agreements mostly aim to improve infrastructure connectivity as well as to have a progress in building international economic corridor.<sup>34</sup> Express customs clearance services for agricultural products between China and Kazakhstan, Kyrgyzstan, and Tajikistan have reduced the clearance time by 90 percent.<sup>35</sup>

### **China–Indochina Peninsula Economic Corridor (CICPEC)**

The China–Indochina Peninsula Economic Corridor connects China with ASEAN countries which have established the most comprehensive and vigorous transport network in the world if

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<sup>33</sup> Maggie Xiaoyang Chen, *Foreign Investment across the Belt and Road: Pattern, Determinants and Effects*, (World Bank, Policy Research Working Paper, 2018) <https://www.forbes.com/sites/salvatorebabones/2017/12/28/the-new-urasian-land-bridge-linking-china-and-europe-makes-no-economic-sense-so-why-build-it/#43be7b5b5c9c>.

<sup>34</sup> Francois de Soyres, *Common Transport Infrastructure: A quantitative Model and Estimates from the Belt and Road Initiative*, (World Bank Working paper, 2019).

<sup>35</sup> Belt and Road Portal, *The Belt and Road Initiative Progress, Contributions and Prospects* (Official OBOR Document, 2019).

compared to other developing regions. The project plan to cover ten main cities in the region with 50 million population coverage.<sup>36</sup>

### **Bangladesh-China-India-Myanmar Economic Corridor (BCIMEC)**

The BCIMEC covers four countries that agreed to build high speed rail lines, air and sea ways, as well as oil and gas pipelines to power transition. It is estimated that the successful implementation of the corridor will cover over 400 million people. There are existing transportation systems established in these four countries, however, they are weak and face many problems like losing traffic. Therefore, they lack trust from the potential shippers. This problem is going to be addressed in implementation of the project.<sup>37</sup>

To sum up above mentioned, it is important to recognize the importance of cooperation of China with Central Asian countries as they play key strategic and geopolitical role in implementing the great initiative. Therefore, it is essential for China to develop good partnerships with these countries in order the grand project to be successful.<sup>38</sup>

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<sup>36</sup> Francois de Soyres, *Common Transport Infrastructure: A quantitative Model and Estimates from the Belt and Road Initiative*, (World Bank Working paper, 2019).

<sup>37</sup> Maggie Xiaoyang Chen, *Foreign Investment across the Belt and Road: Pattern, Determinants and Effects*, (World Bank, Policy Research Working Paper, 2018).

<sup>38</sup> Francois de Soyres, *Common Transport Infrastructure: A quantitative Model and Estimates from the Belt and Road Initiative*, (World Bank Working paper, 2019).

## Chapter 2: Literature Review

Central Asian countries, namely Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan play important role in developing the initiative as they are located on strategic point that gives an opportunity for China to connect with the Russian Federation and Europe. In general, China and Central Asian countries have built good partnerships through bilateral agreements rooted back 1990s. Since then, economic activities between these parties increased, which lead to positive economic synergies, namely in bilateral trade, education and tourism. Increasing number of academic and empirical literature on OBOR and its potential impact on Central Asian countries is available out there.<sup>3940</sup>

Vakulchuk and Overland in *China's Belt and Road Initiative through the lens of Central Asia* tried to analyze the perception of local communities in Central Asian countries about OBOR initiative and its impact on economic cooperation, infrastructural connectivity and education in the region. They came to the conclusion that in general elite groups of people anticipate positive economic impact of OBOR. However, they mention that local people are left behind in terms of updated information regarding the initiative. Moreover, people perceive China as a threat, the reason for which goes back to Soviet Unit where it was regarded as danger to the union. The positive perception is created based on the potential economic opportunities projected by OBOR initiative, while negative perception refers to increasing population threat, cultural and religious difference as well as possibility to get into “debt trap” created by China. The scholars made recommendation to inform the general public about main China-Central Asia economic activities, so that more people are aware about potential opportunities. It is believed that

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<sup>39</sup> Francis de Soyres, *How Much Will the Belt and Road Initiative Reduce Trade Costs?*, (World Bank Working paper, 2018).

<sup>40</sup> Belt and Road Portal, *The Belt and Road Initiative Progress, Contributions and Prospects* (Official OBOR Document, 2019). Last seen on 26<sup>th</sup> of May, 2019. Retrieved from <https://eng.yidaiyilu.gov.cn/zchj/qwfb/86739.htm>.

transparency will increase positive perception of OBOR initiative which lead to positive impact in developing and implementing the initiative in the region.<sup>4142</sup>

Sarah Lain has discussed the initiative's meaning, opportunities and challenges for Central Asian countries. She has emphasized the importance of latter countries in building the megaproject and its impact to economic development, security and stability. Kazakhstan is the most proactive country of Central Asia who works and acts upon cooperation on building the grand project. The author states that there are both benefits and pitfalls behind the initiative. She claims that just building infrastructure and inflow of Chinese investments cannot guarantee sustainable economic development of the countries because China's personal interests of developing western regions of the country might impede the positive impact of the initiative.<sup>43</sup>

Particularly, the government aims to transfer production facilities in West China, which will basically increase competition for Central Asian countries as the latter's people demand higher wages than Chinese. This risk can have very negative impact especially because the country focuses on building its mineral, energy, food and textile industries, which are important fields of development for Central Asian countries. Another risk that the author points out is the risk of getting into debt trap especially because the terms of repayments are not clear and the whole process lacks the transparency. In addition, the money is given by Chinese government always incorporated with exploiting Chinese firms and its people which in turn reduces opportunities for development in Central Asian countries. Therefore, she calls upon investing in production

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<sup>41</sup> Maggie Xiaoyang Chen, *Foreign Investment across the Belt and Road: Pattern, Determinants and Effects*, (World Bank, Policy Research Working Paper, 2018).

<sup>42</sup> Roman Vakulchuk and Indra Overland, *China's Belt and Road Initiative through the lens of Central Asia*, (London, Routledge, 2019).

<sup>43</sup> Sarah Lain, *The Potential and Pitfalls of Connectivity along the Silk Road Economic Belt*, (Washington D.C, The George Washington University, 2018).

of goods and services in domestic economies by building up human resources that in turn will contribute to long-term development.<sup>44</sup>

Leksyutina analyzed the great initiative in the context of Russian Federation interests and Central Asian countries. The author emphasized potential benefits and challenges in building Sino-Russian cooperation on implementing Chinese grand project. Russia has faced economic challenges after Ukrainian crisis after which sanctions from Western world applied to the country. As a solution, Russian Federation tried to focus on Eurasian region and promoted Eurasian Economic Union in effort of increasing its influence in Central Asia and fostering economic development in the region. From one hand, there is overlapping strategies between the Chinese initiative and Eurasian Economic Union as they both aim to open the markets for its goods and services as well as to use natural resources of the region.

However, Leksyutina claims that these strategies can be aligned and give mutual benefits for both countries, if appropriate communications and agreements would be achieved between two states. Moreover, the author states that Russia can use economic power and investments from China to develop infrastructure not only in Russian Federation, but also in Central Asian countries which in turn will foster economic development of the region. The main benefit for China is that Eurasia is a region through which China can reach out to the European markets and use natural resources of Central Asian countries. In addition, she concluded that the implementation of the initiative and close cooperation with China would bring more economic benefits for Central Asian countries, since it finances the development of the infrastructure that directly influences economic wellbeing of the countries.

She also pointed out that China has finished some projects in Kyrgyzstan: building China-Kyrgyzstan-Uzbekistan rail road and Datka-Kemin transition line that give access to China to

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<sup>44</sup> Sarah Lain, *The Potential and Pitfalls of Connectivity along the Silk Road Economic Belt*, (Washington D.C, The George Washington University, 2018).

use the energy. To sum up, Leksyutina states that the implementation of the initiative is beneficial for not only less developed countries like Kyrgyzstan, but also for powerful country like Russia. The key in benefitting from the initiative are communication and cooperation.

Paulo Duarte claims that the initiative is a securitization tool against access to natural and mineral resources of Central Asian countries. He analyzed three critical components of the initiative, which are rail logistics, China-Pakistan Economic Corridor and water related topics. Firstly, Central Asian countries would benefit from railroad infrastructure as it will allow to collect transition fees because main idea of the rail road is to connect China with Europe, so it could deliver its products. Although, it is faster alternative to transportation via sea, it is much more expensive. Therefore, one cannot be sure how successful the construction would be. In addition, one size of gauge should be established in order to avoid delays in border controls due to offloading and uploading containers from wider size gauge of Post-Soviet countries to smaller sized European and other countries. Another range of opportunities lies in energy transition infrastructure as Chinese side is interested in assisting to construct and provide investments to ensure continuous energy inflow back to China, especially western regions. However, due to old energy system which interconnects post-Soviet countries it is difficult for countries to come into agreement. Therefore, author makes recommendation for the countries to unite for benefit of altogether.<sup>45 46</sup>

In addition, the author states that the grand project is a mechanism for country to increase its regional influence and power through focusing on military, culture and politics. In line with above mentioned authors, he emphasizes Chinese interest to get rid of economic development misbalance among its provinces to strengthen stability in the country. He claims that OBOR

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<sup>45</sup> Somik V. Lall, *Who wins, Who loses? Understanding the Spatiality Differentiated Effects of the Belt and Road Initiative*, (World Bank Working paper, 2019).

<sup>46</sup> Paulo Duarte, *China in the Heartland: The Challenges and Opportunities of OBOR for Central Asia*, (Washington D.C, The George Washington University, 2018).

initiative is a securitization tool to maintain existing political regime. China uses the initiative as a soft power, which is relatively new term in connection to the initiative, which will be discussed in more detail below. To support his argument, the author quoted China's President where he says the following: "We should increase China's soft power, give a good Chinese narrative, and better communicate China's message to the world."<sup>47</sup>

In his article the author Bhavna Dave analyzes China's strategy of promoting its long term interests and influence in Kazakhstan through the tool as a soft power. This big actor is implementing its soft power in the efforts of building the image of a peaceful player. China is seeking to reduce the hostile concerns of neighbours in the region. Also, the writer brings the economic and social perspective of the public diplomacy.<sup>48</sup>

The term of soft power was coined by Joseph Nye. He divided the power into hard power, which includes the control, military and attacks for achieving the preferable outcomes, and soft power, which is getting the desirable results through the ability of attraction. The writer describes in his work the influential military strength of China, as well as its economic influence, as it is the main trading partner and vast investor in Kazakhstan. The leaders of Kazakhstan declared about the coordination of the national development with the plan of Silk Road Economic Belt and signed the agreements and investment and partnership.<sup>49</sup> However, the population has different opinions in this regard. There are debates on the vague information of the plans, the lack of the data on the conditions, the flow of Chinese workers to Kazakhstan and overall the Chinese expansion. Bhavna Dave reports China's public diplomacy strategies are quite persuasive. However, the people of Kazakhstan perceive this actor with hostility and have a fear of its plans

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<sup>47</sup> Paulo Duarte, *China in the Heartland: The Challenges and Opportunities of OBOR for Central Asia*, (Washington D.C, The George Washington University, 2018).

<sup>48</sup> Bhavna Dave, *Silk Road Economic Belt: Effects of China's Soft Power Diplomacy in Kazakhstan*, (Washington D.C, The George Washington University, 2018).

<sup>49</sup> Somik V. Lall, *Who wins, Who loses? Understanding the Spatiality Differentiated Effects of the Belt and Road Initiative*, (World Bank Working paper, 2019).

for the region. According to the author, the attitude of people is becoming more amiable though it takes time.<sup>50</sup>

The researcher also provides an analysis of the protests going on in the main cities of Kazakhstan against the proposals of leasing the national land to China for agricultural purposes. The people see it as turning the country into a “transit corridor” and “opening the “countries’ rich resources for exploitation by China”. The activists debate that these measures are coming to the expenses of Kazakhstan due to the unfavorable conditions. The environmental side is also topical; it brings debates among the population. The idea of transferring the Chinese enterprises to territory of Central Asian states fears people. The civil society representatives question the true reasons of Chinese foreign policy. As they report this transfer would lead to the influx of the Chinese labor. People’s concern also goes to the conditions of credit loans, since there are no available statistics and data on it. The lack of reliable information as well the transparency level is greatly contributing to the ignorance and fear of local population.<sup>51</sup>

Further in the chapter Bhavna Dave reports that Chinas image changed among the students. This is a result of the educational programs and numerous scholarships provided by China. For the students in Kazakhstan China is the second most favorable study destination choice. Learning Chinese language is also getting high popularity for the people in Central Asia. People see this language as a good asset cause of the growing influence of China in the region.<sup>52</sup>

According to the author, the soft power of China is presented in contrary to the globalization by the United States. China is trying to make the self-image as a peaceful Asian power with the values and principles respecting the sovereignty, stability and economic development of the

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<sup>50</sup> Bhavna Dave, *Silk Road Economic Belt: Effects of China’s Soft Power Diplomacy in Kazakhstan*, (Washington D.C, The George Washington University, 2018).

<sup>51</sup> Bhavna Dave, *Silk Road Economic Belt: Effects of China’s Soft Power Diplomacy in Kazakhstan*, (Washington D.C, The George Washington University, 2018).

<sup>52</sup> Bhavna Dave, *Silk Road Economic Belt: Effects of China’s Soft Power Diplomacy in Kazakhstan*, (Washington D.C, The George Washington University, 2018).

states. Kazakhstan is supporting the China's attempts and building the strategic collaborations, though the legitimacy of the officials are posing the questions for the civil society activists.<sup>53</sup>

Hao Tian analyzes mechanisms of China's foreign aid in the frame of OBOR initiative, tries to understand its conditionality and its influence on Central Asian countries. The foreign aid is not free of conditionality as it is perceived by many people mostly because China requires receiving countries to use at least half of Chinese resources and employ its people. It is believed that this in turn will allow Chinese companies to enter foreign markets and compete with western companies who have already established their stands in the market. Another implicit conditionality of China's foreign aid is that the recipient countries should repay the loan in terms of natural resources.<sup>54</sup>

It goes back to Paulo Duarte's idea that China's initiative is a securitization tool to access natural resources of Central Asian countries. The author brings an example of Kazakhstan where it took loan worth of USD 10 billion in return to exporting gas and oil to China. Hao Tian emphasizes the vulnerability of Central Asian countries to Chinese aids, because they are not in best economic conditions and landlocked geographic location provide lack of economic development opportunities. Therefore, in this sense the countries are very much receptive and happy to get loans or any aid forms from neighboring country, China.<sup>55</sup>

It is evident that Vakulchuk and Hao Tian are in agreement stating that local public perceive the initiative as a treat to their sovereignty as China continuously increases its influence in the region by providing very "liberal" loans. It is emphasized that people are afraid of how migrants from China are taking jobs from local population, and poor working conditions in Chinese

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<sup>53</sup> Bhavna Dave, *Silk Road Economic Belt: Effects of China's Soft Power Diplomacy in Kazakhstan*, (Washington D.C, The George Washington University, 2018).

<sup>54</sup> Hao Tian, *China's Conditional Aid and Its Impact in Central Asia*, (Washington D.C, The George Washington University, 2018).

<sup>55</sup> Hao Tian, *China's Conditional Aid and Its Impact in Central Asia*, (Washington D.C, The George Washington University, 2018).

companies.<sup>56</sup> Therefore, Sinophobia can be one of the main challenges in building the initiative, which in turn will not allow Central Asian countries experience economic development in full. The author brings two case studies of Kazakhstan and Kyrgyzstan, where these countries experience stronger Sino phobia sentiment. The Hao Tian's paper reported that 70 percent of jobs created using Chinese investments are given back to its people, and local community end up with only 30 percent only. In addition, Chinese companies offer relatively cheaper wages and poorer working conditions. Consequently, it is crystal clear that China should prioritize its actions and build better partnerships with local communities in order to be able to implement the grand project for economic development in the region.<sup>57</sup>

Safovudin Jaborov described China's investments and giving foreign aid as "predatory aid" as the country mainly follows its own economic and political interests. As it was already mentioned before, the author confirms that China aims to get rid of overcapacity and develop its western region on expense of Central Asian countries.<sup>58</sup> He claims that OBOR initiative will bring short-term economic benefits to Central Asian countries through construction of infrastructure and foreign direct investments inflow. The author calls countries' governments upon initiation of more strategic approach, whereby they will focus on longer-term economic development. As for now, he believes trade relationship in the region is built in such a way, where Central Asian countries provide limited natural resources and China provides higher value-added final products. He urges current government to think about future generations through decreasing the dependency on China, diversifying its portfolio of creditors, implementing external debt sustainability analysis and strengthening their currencies.

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<sup>56</sup> Hao Tian, *China's Conditional Aid and Its Impact in Central Asia*, (Washington D.C, The George Washington University, 2018).

<sup>57</sup> Hao Tian, *China's Conditional Aid and Its Impact in Central Asia*, (Washington D.C, The George Washington University, 2018).

<sup>58</sup> Somik V. Lall, *Who wins, Who loses? Understanding the Spatiality Differentiated Effects of the Belt and Road Initiative*, (World Bank Working paper, 2019).

Consequently, he believes that the initiative's ideology shaped as of now will bring mostly short-term benefits. But if implemented correctly, the grand project might lead to long-term economic success.<sup>5960</sup>

According to Alexander Wolters, who discussed impact of OBOR initiative to Central Asian countries like Kyrgyzstan and Tajikistan, strategic partnerships between the later countries and China have been strengthened through linking and aligning their economic strategies and approaches. The People's Republic provides enormous number of loans to these countries increasing its share in credit portfolio. These credits mostly spent on building grand infrastructure projects. For instance, the biggest heating plants were repaired in both countries using Chinese funds. In addition, electricity power plant was built connecting south and north of the Kyrgyzstan. In general, those money come in terms of small and big loans from Exim Bank.<sup>6162</sup>

The author pays special attention to Kyrgyzstan. Both Kyrgyzstan and China, being WTO members, experienced fruitful trade relationship, where the first country benefitted from re-exporting cheap and affordable Chinese products to countries with less beneficial opportunities, like Kazakhstan, Russian Federation and Belorussia. However, Kyrgyzstan after entering to Eurasian Economic Union lost this advantageous position and bilateral trade volumes has decreased significantly. It is believed that after full implementation of China's grand project both countries will be able to get back to old numbers of relatively high trade volumes and activities. However, it is important to note that Kyrgyzstan has failed in attracting Chinese

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<sup>59</sup> Hao Tian, *China's Conditional Aid and Its Impact in Central Asia*, (Washington D.C, The George Washington University, 2018).

<sup>60</sup> Safovudin Jaborov, *Chinese Loans in Central Asia: Development Assistance or "Predatory Lending?"* (Washington D.C, The George Washington University, 2018).

<sup>61</sup> Somik V. Lall, *Who wins, Who loses? Understanding the Spatiality Differentiated Effects of the Belt and Road Initiative*, (World Bank Working paper, 2019).

<sup>62</sup> Alexander Wolters, *Hegemonic or Multilateral? Chinese Investments and the BRI Initiative in Tajikistan and Kyrgyzstan* (Washington D.C, The George Washington University, 2018).

investment and implementing the other projects in frame of the OBOR project in comparison to Kazakhstan and Tajikistan as later countries have experienced higher inflow of Chinese investments.<sup>63</sup>

The author proclaims that in Tajikistan the discussion of the public and official discourses are the same since the government portrays good image of China and the cooperation. However, Kyrgyzstan experiences slightly different situation: official representatives see the project full of economic opportunities, while the local communities show its fear toward losing Kyrgyzstan's sovereignty and increasing financial and political dependencies. In addition, public discourse raises concerns regarding environmental issues.<sup>64</sup> In a conclusion, Alexander Wolters states that China mainly follows its own interests creating hegemonic approach rather than building cooperation based on multilateral mutually beneficial approach.<sup>65</sup>

Madina Bizhanova has analyzed how OBOR initiative can impact agricultural sector in Kazakhstan. The country's main goal for the last couple of years is economic diversification. It mostly relied on export of crude oil, which constitutes around 70 percent of total exports. It became even more critical since the oil price decrease in recent years around the globe. GDP of the country is very sensitive to the oil price shocks. Therefore, the author claims that OBOR initiative is a great opportunity for the country to attain economic diversification through focusing on development of agricultural sector. However, she specifies that it is extremely important to concentrate on development of not only urban areas, but also rural areas where around 50 percent of population live.<sup>66</sup>

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<sup>63</sup> Alexander Wolters, *Hegemonic or Multilateral? Chinese Investments and the BRI Initiative in Tajikistan and Kyrgyzstan* (Washington D.C, The George Washington University, 2018).

<sup>64</sup> Somik V. Lall, *Who wins, Who loses? Understanding the Spatiality Differentiated Effects of the Belt and Road Initiative*, (World Bank Working paper, 2019).

<sup>65</sup> Alexander Wolters, *Hegemonic or Multilateral? Chinese Investments and the BRI Initiative in Tajikistan and Kyrgyzstan* (Washington D.C, The George Washington University, 2018).

<sup>66</sup> Madina Bizhanova, *Can the Silk Road Revive Agriculture? Kazakhstan's Challenges in Attaining Economic Diversification* (Washington D.C, The George Washington University, 2018).

One of the main challenges for development of agricultural sector is transport infrastructure and lack of access to other markets in the region. This is the main goal of the initiative, and therefore it is extremely important for Kazakh people to collaborate on implementing the project. The Kazakh government has already started the building of strong cooperation with China and has already aligned its economic strategies with the initiative. One of such examples is economic policy “Nurly Zhol” that focuses on infrastructure development. In addition to that Madina advocates to build internationally recognized laboratories to certify Central Asian products, so they can be exported to foreign markets. Moreover, she proclaims that development in this sector will guarantee food sustainability for the country and the whole region. To sum up, she believes that the initiative is very fruitful project for the Kazakh people as she sees ways of benefiting from it through economic diversification of the countries portfolio, which can be reached through the development of agricultural sector.<sup>67</sup>

Marek Johec and Jenny Jenish Kyzy in their work have assessed risks and benefits of investments in the frame of the OBOR initiative based on personal interviews and online survey of 300 young and educated people. They have focused on two Central Asian countries: Kyrgyzstan and Kazakhstan. It was indicated that construction of infrastructure, securitization of energy and natural resources, elimination of overcapacity are the main priorities of OBOR initiative. The initiative provides great opportunities like infrastructure development, jobs creation, and transition fees inflow.<sup>68</sup> However, the survey identified that people from Kazakhstan and Kyrgyzstan are afraid of Chinese labor migration, ecology problems associated with accelerating production facilities, loss of independence and sovereignty<sup>69</sup>.

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<sup>67</sup> Madina Bizhanova, *Can the Silk Road Revive Agriculture? Kazakhstan's Challenges in Attaining Economic Diversification* (Washington D.C, The George Washington University, 2018).

<sup>68</sup> Somik V. Lall, *Who wins, Who loses? Understanding the Spatiality Differentiated Effects of the Belt and Road Initiative*, (World Bank Working paper, 2019).

<sup>69</sup> Marek Johec and Jenny Jenish Kyzy, *China's BRI Investments, Risks, and Opportunities in Kazakhstan and Kyrgyzstan* (Washington D.C, The George Washington University, 2018).

Like Madina Bizhanova they have emphasized the importance of domestic policies alignment with vision and ideas of the grand project in order to benefit from it fully.<sup>70</sup> On one of the personal interviews Chinese representative of business community has stated the following: “serious investment projects must be guided by government policy. If not, we would not be interested in coming here (Central Asia)”. In this regard, it was recommended that Kyrgyzstan could implement best practices from Kazakhstan, as they have achieved more success in aligning their policies and strategy with the one proposed by the mega project. In addition, the authors claim that analyzed countries should come up with alternative plan if the initiative would be found as too ambitious and overly optimistic. To reduce identified risks, Kyrgyz and Kazakh governments should analyze and assess OBOR’s projects under local and regional conditions. It might be the case that the initiative would not succeed globally as promised by Beijing.<sup>71</sup>

Corruption and rent-seeking issues in Central Asia were discussed in the frame of OBOR initiative by Kemel Toktomushev. The author claims that development and implementation of the grand Chinese project gives great rent-seeking schemes and impedes even further the governance in analyzed countries, where these issues are identified the most problematic. Also, he claims that public discourse associates OBOR initiative with increasing Sino phobia. Toktomushev, like other scholars mentioned above, states that for successful implementation of the ambitious project the governments should address this problem in a very rigorous manner.<sup>7273</sup>

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<sup>70</sup> Madina Bizhanova, *Can the Silk Road Revive Agriculture? Kazakhstan’s Challenges in Attaining Economic Diversification* (Washington D.C, The George Washington University, 2018).

<sup>71</sup> Marek Johec and Jenny Jenish Kyzy, *China’s BRI Investments, Risks, and Opportunities in Kazakhstan and Kyrgyzstan* (Washington D.C, The George Washington University, 2018).

<sup>72</sup> Somik V. Lall, *Who wins, Who loses? Understanding the Spatiality Differentiated Effects of the Belt and Road Initiative*, (World Bank Working paper, 2019).

<sup>73</sup> Kemel Toktomushev, *One Belt, One Road: A New Source of Rent for Ruling Elites in Central Asia?* (World Bank Working paper, 2019).

The author in his analyses presents numerous cases of corruption and struggle of good governance establishment which involved Chinese parties. One of the main reasons contributing to the problem is failure of Beijing to follow responsible development principles. In addition, Kemel Toktomushev discusses Chinese politics of “guanxi” that identified as endemic corruption in the People’s Republic. It is worth to mention that “guanxi” is considered as cultural norm within China, but this very norm puts the implementation of OBOR initiative under danger. Therefore, he calls upon more transparent process of foreign direct investment by Chinese representatives and compliance with normative norms of economic development, where basic anti-corruption activities are taken into account and followed accordingly.<sup>74</sup>

Sobir Kurbanov claims that trade and investment climates in Central Asian countries are distorted by presence of corruption. It puts in danger the successful implementation of the OBOR project, which can be achieved if only countries harmonize its logistical and other related infrastructural policies, align its economic strategies, diversify trade portfolios, and ensure security and safety in the countries.<sup>75</sup> The author claims that it is not enough to build physical infrastructure, but it is extremely important to get rid of trade barriers, to ensure favorable business and investment climates to attract foreigners to Central Asian markets. This allows to create long term economic benefits by creating jobs and investing to human resources. All these problems are rooted in presence of corruption and its inability to fight against it.<sup>7677</sup>

Sobir Kurbanov by bringing case studies of corruption reiterates that Chinese businessmen are afraid of investing and dealing with Central Asian market. They are forced to make “gifts” to

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<sup>74</sup> Kemel Toktomushev, *One Belt, One Road: A New Source of Rent for Ruling Elites in Central Asia?* (World Bank Working paper, 2019).

<sup>75</sup> Somik V. Lall, *Who wins, Who loses? Understanding the Spatiality Differentiated Effects of the Belt and Road Initiative*, (World Bank Working paper, 2019).

<sup>76</sup> Kemel Toktomushev, *One Belt, One Road: A New Source of Rent for Ruling Elites in Central Asia?* (World Bank Working paper, 2019).

<sup>77</sup> Sobir Kurbanov, *The Importance of Anticorruption, Trade, and Investment Climate Reforms in Central Asia in the BRI Context* (World Bank Working paper, 2019).

government official in border control for their goods to be released. These types of unexpected expenses are added to the final price of the products making them less competitive. Therefore, in conclusion he calls the governments upon solid policy reforms to curb corruption and creation of favorable investment and trade climates to get all opportunities provided by the initiative. According to the author, it is a great chance for Central Asian countries to develop and level up their economies and get integrated globally.<sup>78</sup>

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<sup>78</sup> Sobir Kurbanov, *The Importance of Anticorruption, Trade, and Investment Climate Reforms in Central Asia in the BRI Context* (World Bank Working paper, 2019).

## Chapter 3: Research Methodology, Data and Analysis

### *Research Methodology*

As it was emphasized above, official and public discourses regarding the grand initiative are different throughout Central Asian countries and the question whether it will lead to economic development in these countries is still open.<sup>79</sup> This section of the thesis provides analysis of the survey data to assess risks and opportunities that Chinese project proposes. As Chinese initiative is in shaping phase, it is difficult to assess empirically the impact of the initiative and state whether it will lead to regional economic development. To address this problem, combination of qualitative and quantitative research methods was chosen to assess the potential advantages and disadvantages of the project in Kyrgyzstan. Specifically, an anonymous online opinion survey was carried out. This type of survey was chosen in order to avoid biases related to people's identification.

This thesis uses the same survey sampling method as Marek Jochec and Jenny Jenish Kyzy exploited in “China's BRI Investment, Risks, and Opportunities in Kazakhstan and Kyrgyzstan,” where they aimed “informed, influential people” by sending out emails.<sup>80</sup> Additionally, in the framework of this research, virtual snowball sampling was incorporated to reach out more people in Kyrgyzstan and receive more representative sample size. In this regard, participants of the survey were asked to share the link of the questioner with their peers, coworkers and other people related to the initiative. Moreover, the survey was distributed through social platforms like WhatsApp, LinkedIn, Facebook, Twitter etc.

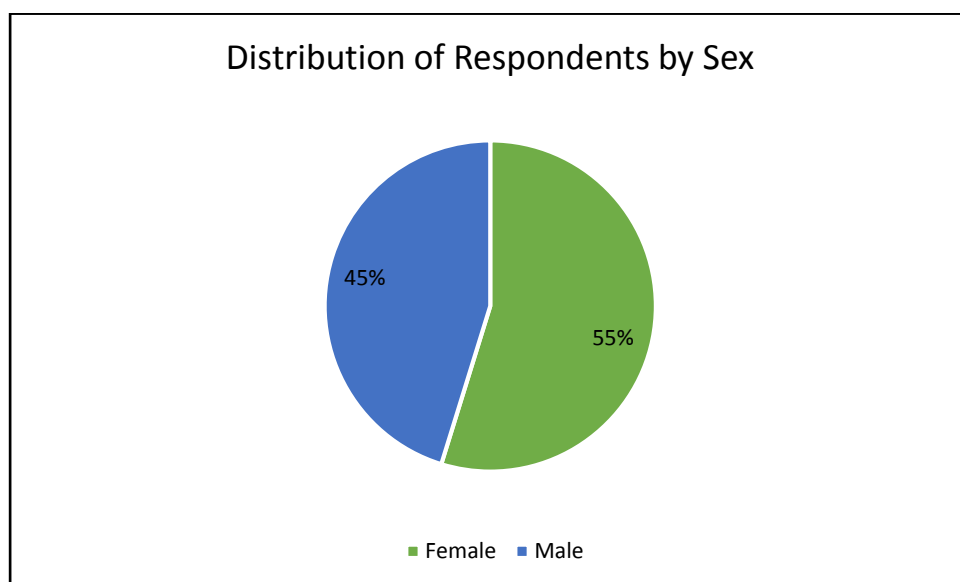
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<sup>79</sup> Sobir Kurbanov, *The Importance of Anticorruption, Trade, and Investment Climate Reforms in Central Asia in the BRI Context* (World Bank Working paper, 2019).

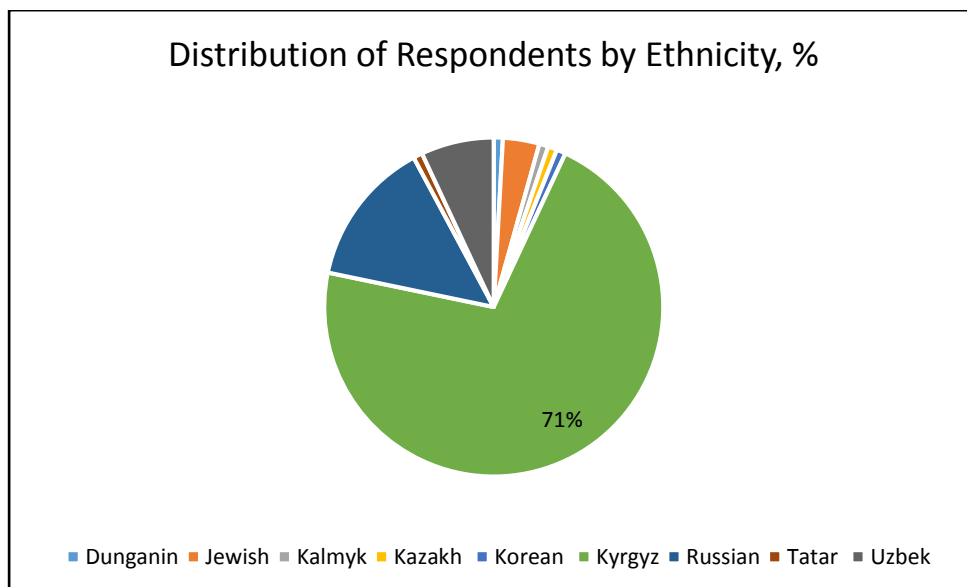
<sup>80</sup> Marek Jochec and Jenny Jenish Kyzy, *China's BRI Investments, Risks, and Opportunities in Kazakhstan and Kyrgyzstan* (Washington D.C, The George Washington University, 2018).

### *Data: Population and Sample*

In total, 115 people participated in the survey. One of the main reasons for high survey participation rate can be attributed to simple structure of the survey that required little time. Another reason for relatively high response rate is that more people are getting aware of the initiative and debates around the project are discussed on a larger scale in the Kyrgyz Republic. In addition, snowball sampling is very effective as people were approached personally in the frame of the survey method and they tend to agree to fill the survey out due to importance of respect in Kyrgyz culture. 45% of all participants represented males, and 55% females (See Figure 1). Most of the respondents identified themselves as Kyrgyz (71%), Russians (14%) and Uzbek (7%) (See Figure 2). This was expected as these nationalities constitute the majority of the country's ethnicity portfolio. Age of respondents varied drastically with youngest registered as 19 years old and oldest 69. It is worth to mention that majority of the survey participants fell under 26-38 group range (See Figure 3). One of the explanations for that would be that older people are less likely to use social networks through which the survey was distributed.

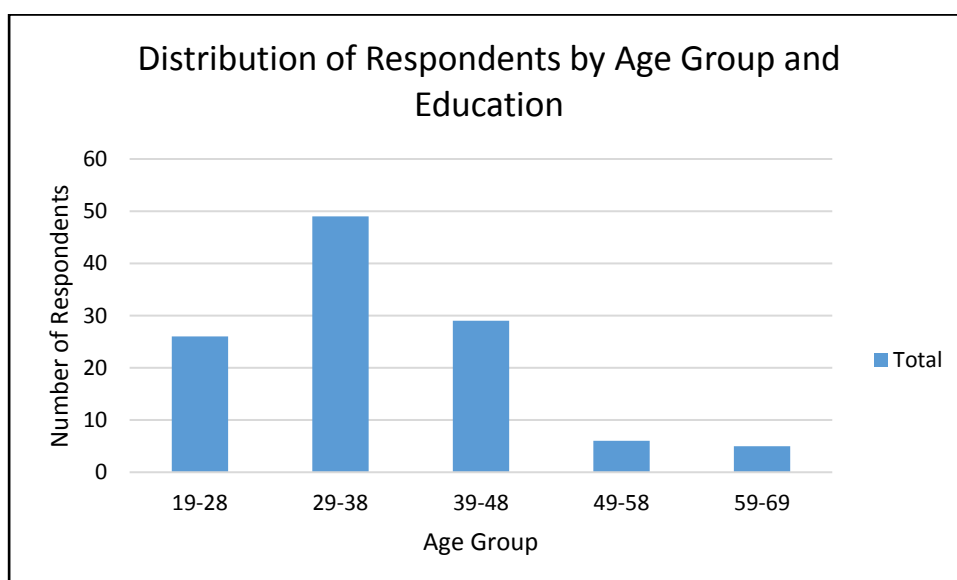


*Figure 2: Distribution of Respondents by Sex*  
*Source: Self-conducted Survey, 2019*



*Figure 3: Distribution of Respondents by Ethnicity*  
*Source: Self-conducted Survey, 2019*

As for the level of education, the majority of the respondents have at least Bachelor's degree (46% of total), with the second largest group made up of those who accomplished Master's degree (38%). People pursuing or holding PhD degree represented 3% of population sample size (See Figure 3 and Table 1).



*Figure 4: Distribution of Respondents by Age Group and Education*  
*Source: Self-conducted Survey, 2019*

Education Level	Number of Respondents	% share
Bachelor's Degree	53	46%
PhD Degree and Higher	4	3%
Master's Degree	44	38%
Highschool Degree	4	3%
Secondary Vocational Degree	10	9%
<b>Grand Total</b>	<b>115</b>	<b>100%</b>

*Table 1: Distribution of Respondents by Education*

*Source: Self-conducted Survey, 2019*

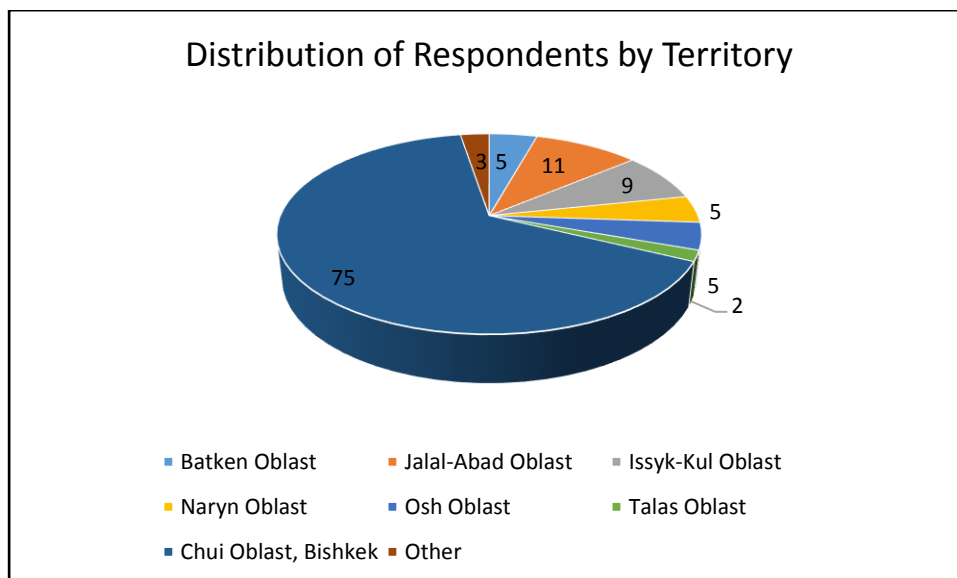
One of the survey questions asked about occupation and field of occupation in order to understand respondents more and take the insights from it. So, most of the people said they are employed (58%) and rest of the people responded that they run their own business. Among those employed, 18% of people responded that they work for the government, 21% of people in production and manufacturing, with rest spread to consulting, non-governmental organization and other (See Table 2).

Occupation Sector	employed	self-employed/business owner	unemployed	Grand Total
Services Sector	33	14	0	51
Manufacturing & Production Sector	14	21	0	37
Educational Sector	5	2	0	7
Government Sector	12	0	0	15
Agricultural Sector	0	5	0	1
Finance Sector	3	0	0	4
Other	0	0	6	0
<b>Grand Total</b>	<b>67</b>	<b>42</b>	<b>6</b>	<b>115</b>

*Table 2: Distribution of Respondents by Occupational Sector*

*Source: Self-conducted Survey, 2019*

As for territorial belongings, most of the survey participants pointed out to Chui and southern regions including Osh, Jalal-Abad oblasts, where formal and informal capitals of the country are located. It was expected as these are the most populated regions in the country.



*Figure 5: Distribution of Respondents by Territory*  
Source: Self-conducted Survey, 2019

Although the survey aimed educated, informed representatives of public and private sectors as well as non-governmental organizations, 11% of respondents revealed that they are not aware of the concept and idea of the grand project. One of the reasons for that might be that the initiative has several alternative names as was mentioned above. Another 67% of sample size pointed out that they are informed or at least heard about the initiative. This percentage was expected since the social media and other mass communication channels devoted quite good portion of attention towards this ambitious global economic integration effort. Additionally, this topic became very popular and broadly discussed since the society and experts do not come to one opinion regarding the impact. The rest belongs to such group of people who were not sure whether they were aware of the topic or not.

Surprisingly enough, almost half of the participants (42%) responded that they are not sure about potential impact of the initiative. As it was already mentioned, the difference in official and public discourses might be the explanation. The literature review revealed that scholars and experts have different opinion on this issue. First, it is too early to assess the impact because the whole picture of the project is not defined, and it is being formulated currently. Secondly,

financing projects provided by China are not transparent to the public. Debt trap and fear regarding the country's sovereignty and independence are one the main fears of Kyrgyz citizens. Therefore, complication in assessing risks and economic opportunities contributes to the fact that respondents had difficulties in identifying the overall impact of the initiative. It is worth to mention that 28% of respondents left chose negative impact, while 29% claimed that the initiative comes along with positive influence on the country.

The rest of the survey was structured in the following way. Ten main opportunities and risks were identified based on the existing literature and private interviews. Later, the participants were asked to rate the degree to which they agree or disagree with the following statements:

- Corruption rate increases during formation and implementation of the initiative.
- The risk of weakening of country's sovereignty and independence will increase.
- Inflow of Chinese labor migrants will increase.
- The risk of land loss increases with the construction of the project.
- The implementation of OBOR initiative within territory of Kyrgyzstan will increase ecological problems.
- Infrastructure development will be resulted due to inclusion of Kyrgyzstan in the grand project.
- The initiative will lead to creation of new jobs and business opportunities.
- OBOR project will give an opportunity to access new markets and trade volume increase for Kyrgyzstan.
- Transit fees will increase.

### *Analysis, Findings and Discussion*

Most of the respondents indicated that the corruption rate will increase during construction and implementation of the project. Central Asian countries including Kyrgyzstan face difficulties

in fighting corruption. It is well spread issue that the region is dealing with it on every day basis. Additionally, projected inflow of foreign direct investments gives more options and opportunities for those who seek to earn money in illegal ways. As it was mentioned by Sobir Kurbanov in preceding chapter, several cases of corruption connected to the project implementation were detected. Consequently, it fueled the negative attitude toward this risk. The survey's results confirm people's fear that corruption will increase with the implementation of the project, since the vast majority chose the range between 7-10 (See Figure 6). It indicates higher degree of agreement for increasing rate of corruption.

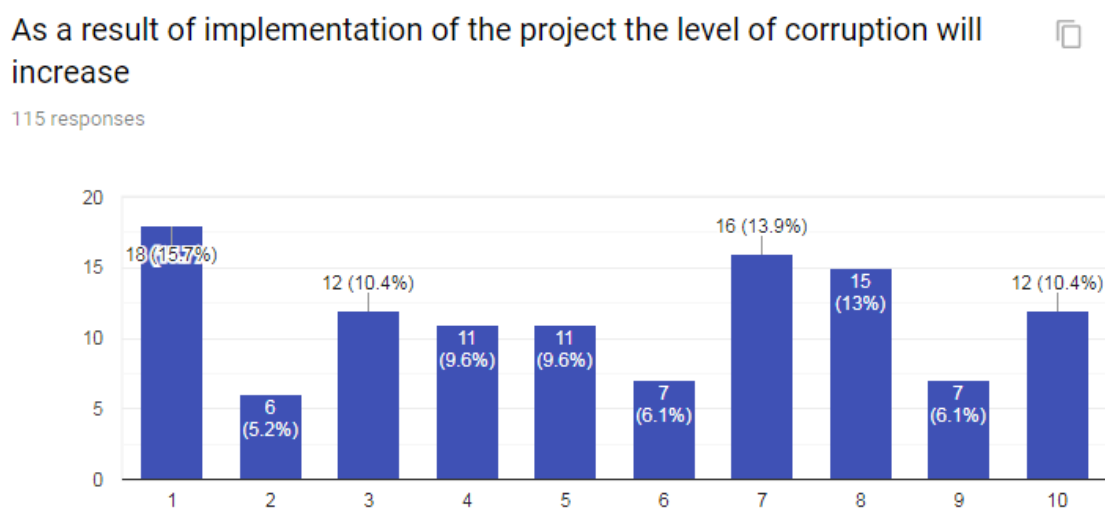


Figure 6: Responses of the survey participants regarding corruption rate  
Source: Self-conducted Survey, 2019

As literature review suggested, people are worried that the Kyrgyz territories will be lost due to the initiative. It is associated with increasing Sinophobia sentiment in the region, in Kyrgyzstan particularly. One of the explanation would be that the case when the country's territory in North-East of Kyrgyzstan was disputed with Chinese government. In final open-ended question of the survey around 30% of respondents mentioned this risk. Some stated that

the initiative would be “successful if China won’t take Kyrgyz lands as a repayment for loans.”

According to survey results, this problem seems to be one the critical ones (See Figure 7).

#### As a result of implementation of the project the risk of loss of Kyrgyz territory and land will increase

115 responses

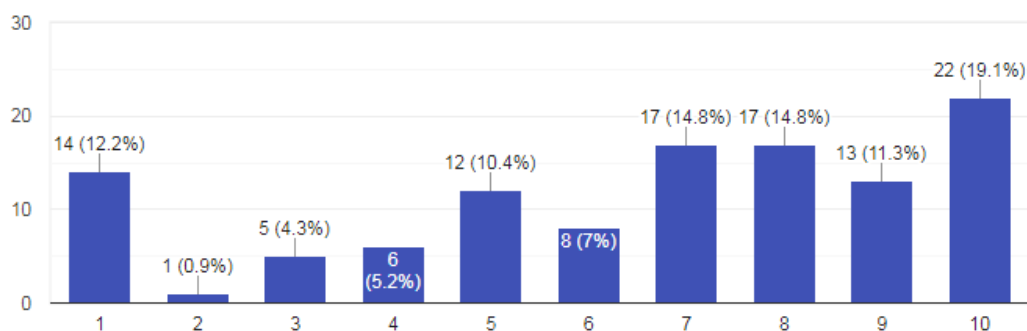


Figure 7: Responses of the survey participants regarding risk of loss of Kyrgyz territory

Source: Self-conducted Survey, 2019

Moreover, the Kyrgyz Republic owns high percentage of foreign debt to the People’s Republic of China. Indeed, as it shown in the Table 3 and 4, the loans to be repaid is increasing for the last couple of years not only for Kyrgyzstan, but also to other Central Asian countries. It might be one of the reasons why population’s fear towards the Chinese expansion is increasing and getting stronger.

	2013	2014	2015	2016	2017	2018	2019
Kyrgyzstan total debt	3,158.69	3,437.07	3,601.09	3,742.74	4,089.83	3,825.75	3,839.77
Loans from China	758.43	1,115.89	1,296.40	1,482.83	1,708.13	1,719.38	1707.35
Loans from China (in percent, total)	24	32	36	40	42	45	44
Kazakhstan total debt	148,753	157,062	153,456	163,758	167,890	161,281	158,787
Loans from China	15,840	15,969	13,248	12,589	11,975	12,779	11,589
Loans from China (in percent, total)	11	10	9	8	7	8	7
Tajikistan total debt	2,188.50	2,095.90	2,194	2,274.00	n/a	n/a	n/a
Loans from China	915	915	1,080	1,197	n/a	n/a	n/a
Loans from China (in percent, total)	42	44	49	53	n/a	n/a	n/a

*Table 3: China's Loans as Reported by Kyrgyzstan, Kazakhstan and Tajikistan (in US\$, million)*  
Source: Ministry of Finance of the Kyrgyz Republic; Tajikistan: National Bank of the Republic of Kazakhstan.

Country	Type of Loan	2011	2013	2015	2016	2017	2018	2019
Kazakhstan	Total	125,321	150,033	153	165,364	163,758	167,485	158,787
	Bilateral	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	Chinese	n/a	16,600	13,600	12,328	12,588	12,779.40	11,588.90
Kyrgyzstan	Total	2,803	3,159	3,602	3,743	4,089.83	3,825.75	3,792.46
	Bilateral	1,032	1,518	2,060	2,210	2,430.22	2,201.89	2,180.94
	Chinese	273	758	1,296	1,483	1,708.13	1,719.38	1,704.20
Tajikistan	Total	2,124	2,188	2,195	2,276	n/a	n/a	n/a
	Bilateral	1,018	1,058	1,216	1,296	n/a	n/a	n/a
	Chinese	878	900	1,069	1,163	n/a	n/a	n/a

*Table 4: Share of Chinese Loans in the External Debt Burden of Selected Central Asian Countries (in US\$, million)*  
Source: National Bank of Kazakhstan; Ministry of Finance of the Republic of Tajikistan; Ministry of Finance of Kyrgyz Republic.

The survey asked also about Chinese labor migrants. It is evident that the respondents agreed on increasing number of people coming from China. Beijing has rang the bell of over population and implemented policies to reduce population growth rate (See Figure 8). In addition, the People's Republic give the loans to Central Asian countries under the condition of hiring Chinese people (50% of total labor force needed to build OBOR's projects). This concern is brought up in the last question as well as many respondents indicated that China is pursuing its own interest through creating new jobs and other economic opportunities in Central Asian countries for the benefit of Chinese citizens. This is reasonable since China's GDP growth rate

slowed down considerably for the last few years. In other words, OBOR initiative is a tool to respond to the current economic challenges in China.

### Chinese labor migration will increase

115 responses

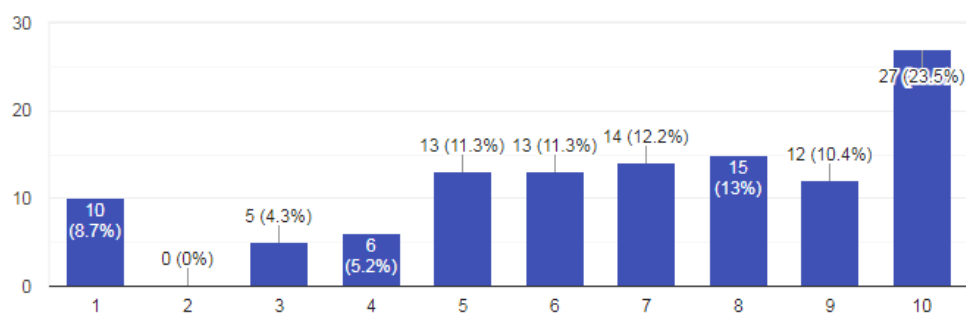


Figure 8: Responses of the survey participants regarding Chinese labor migration

Source: Self-conducted Survey, 2019

Moreover, the statistics below indicate that the investments to the Central Asian countries increased for the past few years. It is worth to mention that along with investment the value of fulfilled projects increased since the annunsation of the project (See Table 5). It is also clear that the number of labor skyrocketed as seen in the table below, suggesting both creation of jobs and new business opportunities for analyzed countries.<sup>81</sup>

Value of Turnover Fulfilled of Contracted Projects (US\$, million)					
	2011	2012	2013	2014	2015
Kazakhstan	1,242	1,568	2,917	2,358	2,347
Kyrgyzstan	209	351	712	587	549
Tajikistan	228	252	445	409	644
Uzbekistan	228	252	445	409	644
Central Asia, total	1,907	2,423	4,519	3,763	4,184

<sup>81</sup> Maggie Xiaoyang Chen, *Foreign Investment across the Belt and Road: Pattern, Determinants and Effects*, (World Bank, Policy Research Working Paper, 2018).

Number of Dispatched Labour of Contracted Projects (number of workers)					
	2011	2012	2013	2014	2015
Kazakhstan	3,455	3,394	7,109	9,720	13,588
Kyrgyzstan	1,575	3,049	3,258	2,153	1,947
Tajikistan	1,060	1,199	2,032	2,033	1,670
Uzbekistan	763	943	2,505	1,970	1,352

*Table 5: China's Projects and Labor in Central Asia*  
*Source: National Bureau of Statistics of China.*

One of the risks associated with the Beijing's grand project is weakening of Central Asian's sovereignty and its independence. Although rejected by Chinese representatives, experts shared their opinion on China's desire to form hegemony in the region. However, the survey results show that respondents did not come into one opinion. Moreover, the majority of participants chose the range between 4-7 range (See Figure 9). This can be interpreted that people are in doubt and cannot identify whether they absolutely agree or disagree. It is worth to mention that 31 respondents (out of 115) were fully confident that the initiative will weaken Kyrgyzstan's sovereignty. China is one the main trade partners of Kyrgyzstan and its economic prosperity partially depends on domestic conditions of the country. Therefore, it is suggested to diversify trade partners in order not to depend on one country.

## The risk of weakening of Kyrgyzstan's sovereignty and independence will increase

115 responses

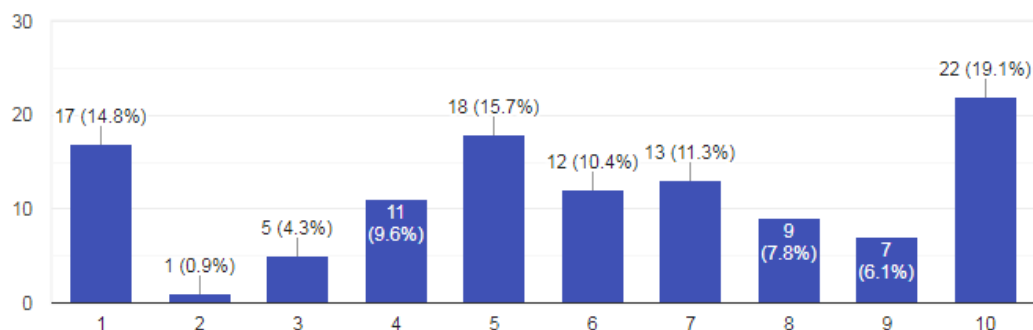


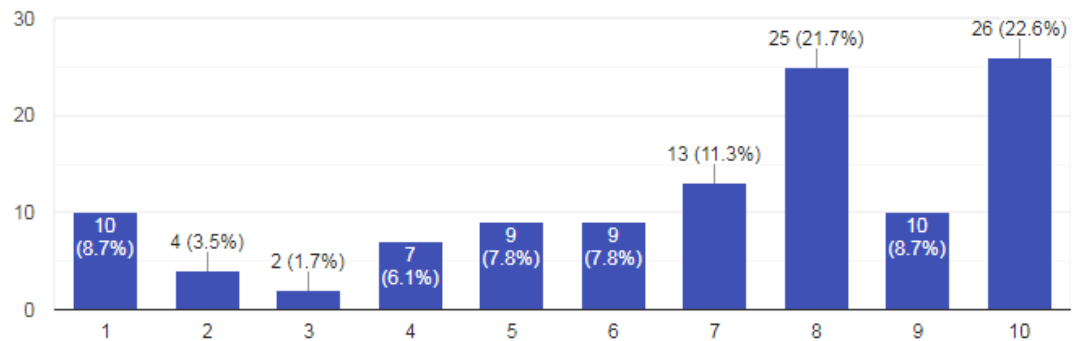
Figure 9: Responses of the survey participants regarding the risk of weakening of Kyrgyzstan's sovereignty and independence

Source: Self-conducted Survey, 2019

Climate change and environmental problems are discussed more and more these days. For last few decades, there was no such urge need to discuss it in the context of Kyrgyzstan as industrial production, that pollutes air and nature, was not developed to critical points. However, this topic became one of the important problems all over the world and governments started to pay more attention. Kyrgyzstan is not an exception in this case. Environmental problems in the frame of OBOR initiative were mentioned by experts and scholars above. As the project aims to develop infrastructure and Central Asia will be a transit hub for products from China to Europe, it is expected that the air pollution will increase even further. Additionally, it is believed that new manufacturing sites will be created, which will add more problems to ecology of the country. Participants of the survey anticipate that the implementation of the project will lead to increase of environmental problems within Kyrgyzstan (See Figure 10).

## The implementation of the project will lead to ecological problems in Kyrgyzstan

115 responses



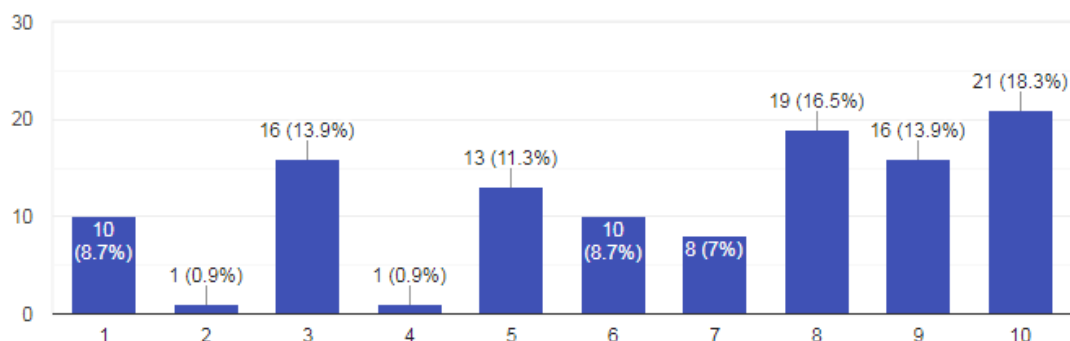
*Figure 10: Responses of the survey participants regarding the risk increasing environmental problems*  
*Source: Self-conducted Survey, 2019*

Rest four questions focused on the main opportunities that the project provides. The respondents agreed that the implementation of the project leads to infrastructure development. This was anticipated as it is the main goal and focus of OBOR initiative. In addition, several projects have been already implemented: Datka-Kemin transmission line and road that connects south with north of the Kyrgyz Republic. Hence, people agreed on the infrastructure development (See Figure 11).

## The Implementation of the project will lead to development of the infrastructure



115 responses



*Figure 11: Responses of the survey participants regarding the infrastructure development*  
*Source: Self-conducted Survey, 2019*

The responses of participants varied for the question regarding creation of new jobs and other economic opportunities in the frame of the Beijing's grand project. It seems like respondents were divided into two groups: one that believed that good economic prospective is awaiting Kyrgyzstan, and the second group shared the opposite opinion. However, it is clear that people know about their stands. Only small share of participants reported that they are not sure or in doubt to answer the question. From one hand the initiative will provide new jobs as at least all infrastructural developmental projects require solid share of workers to build it. However, it is also important to mention that loans and investments dedicated to constructions come under some conditions. Consequently, another group might have reported the opposite. For most of the projects within OBOR initiative, Chinese side requires to hire its people, companies and materials as well as resources. So, in a nutshell, it might end-up creating more jobs and opportunities to its own people (See Figure 12).

## The Implementation of the project will lead to job creation and other business opportunities

115 responses

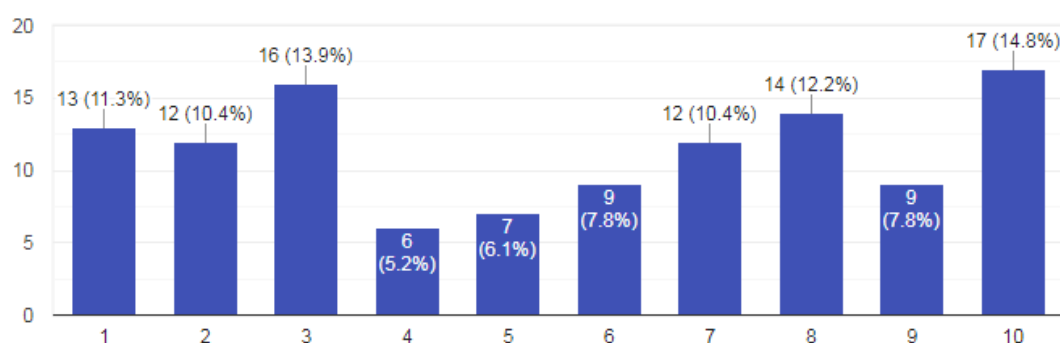


Figure 12: Responses of the survey participants regarding the job creation and business opportunities  
Source: Self-conducted Survey, 2019

In continuation to previous question, the respondents were asked whether the initiative implementation will lead to increase of international trade volumes and access to foreign markets. Although there were some deviations and variations in answers, majority reported negatively. In other words, they said the initiative will not promote export of domestic products. Manufacturing and production industries are less developed in the Kyrgyz Republic. Moreover, domestic goods are not competitive with Chinese products which are manufactured using cheap Chinese labor and resources.<sup>82</sup>

<sup>82</sup> Marek Jochec and Jenny Jenish Kyzy, *China's BRI Investments, Risks, and Opportunities in Kazakhstan and Kyrgyzstan* (Washington D.C, The George Washington University, 2018).

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total FDI in Kyrgyzstan	666	849	591	965	727	1,573.20	814	617	852
FDI from China	70.8	149.6	141.2	468.3	221.6	474.4	301.3	303	338
<b>Percent of Chinese FDI inflows</b>	<b>11</b>	<b>18</b>	<b>24</b>	<b>49</b>	<b>30</b>	<b>30</b>	<b>37</b>	<b>49</b>	<b>40</b>
Total FDI in Kazakhstan	22,246	26,467	28,885	24,098	23,726	14,847	21,006	20,765	24,276
FDI from China	1,718	1,693	2,415	2,246	1,861	504	961	999	1,489.40
<b>Percent of Chinese FDI inflows</b>	<b>8</b>	<b>6</b>	<b>8</b>	<b>9</b>	<b>8</b>	<b>3</b>	<b>5</b>	<b>5</b>	<b>6</b>

Table 6: Gross Inflow of Foreign Direct Investment (FDI) (in US\$, million)

Source: National Statistic Committee of the Kyrgyz Republic; National Bank of the Republic of Kazakhstan

Quality wise as well, Kyrgyz items are not associated with the highest quality. Linked to this topic, another question regarding transit fees was asked. To transit goods through Central Asian countries other parties should pay fees. This allows to generate additional revenue for the country. In accordance with survey results, it seems like most of the people believe that there will be increase in transit fees thanks to central location of the country (See Figure 13 and 14). It is worth to mention that two main economic corridors are expected to be built in the Kyrgyz Republic, which contributes to higher chances of earning revenue.<sup>83</sup>

<sup>83</sup> Marek Jochec and Jenny Jenish Kyzy, *China's BRI Investments, Risks, and Opportunities in Kazakhstan and Kyrgyzstan* (Washington D.C, The George Washington University, 2018).

### It will give an access to foreign markets



115 responses

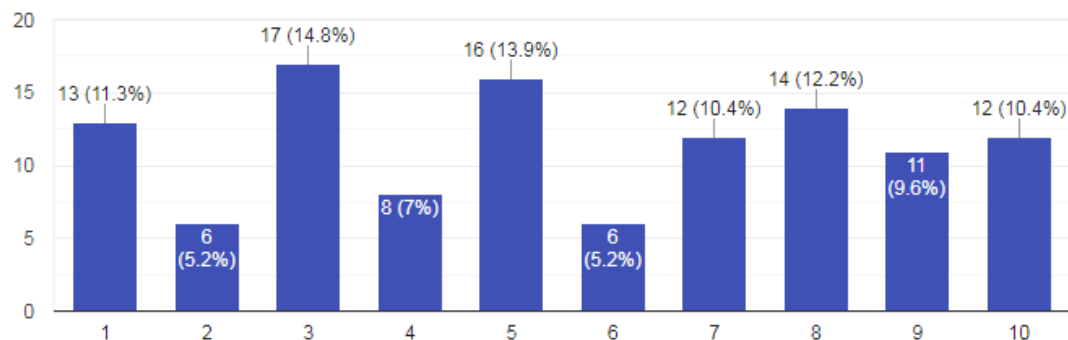


Figure 13: Responses of the survey participants regarding the foreign market's access  
Source: Self-conducted Survey, 2019

### The Implementation of the project will increase transit fees

115 responses

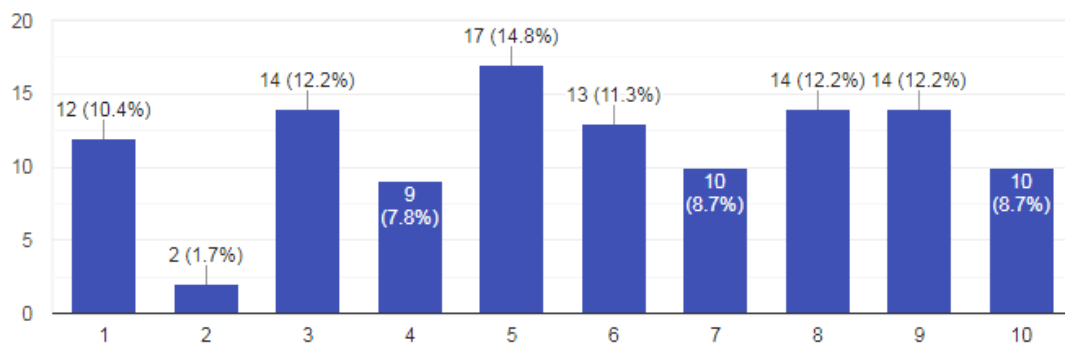


Figure 14: Responses of the survey participants regarding the increasing transit fees  
Source: Self-conducted Survey, 2019

Based on all mentioned above, one can say that Sino phobia sentiment continues to increase in Kyrgyzstan as its people tend to relate more risks than benefits to the OBOR project. It is also clear that the government should implement policy reforms in order to benefit from the

initiative. Specifically, these policy reform should aim curbing corruption, improving Sino-Kyrgyz cooperation image, information awareness and transparency of Chinese loans and investments.

## Chapter 4: Policy Recommendation and Conclusion

The survey results clearly showed increasing Sinophobia sentiment due to implementation of China's grand initiative. Presence of this problem might create difficulties in shaping and realization of OBOR project, due to the lack of support by the majority of Kyrgyzstani people. Hence, the Kyrgyz government together with China should pay special attention to portray good image of Sino – Kyrgyz cooperation. As it was mentioned above, it became more difficult for Kyrgyztani citizens to obtain Chinese visas after the incident happened in the embassy based in Bishkek, capital city of the Kyrgyz Republic. Such cases have a big influence on people contributing to creating and sustaining the negative perception of China.<sup>84</sup>

Based on the literature review and results of the survey proposed in this thesis<sup>85</sup>, there are few ways of decreasing Sino phobia sentiment and creating more positive portrait of Sino-Kyrgyz cooperation. One of such solutions is the implementation of small and medium projects based on people-to-people approach. The main focus should be given to education and human resources. Particularly, China and Kyrgyzstan should agree on more educational grants and opportunities for students. Thus, it will lead to successful implementation of Chinese soft power in the Kyrgyz Republic. Additionally, investments in human resources through the short-term and long-term trainings, as well as cultural and education forums are other sources of influence. These activities will allow to get rid of negative attitude towards Beijing and create good climate for both countries to successfully implement its projects. Both states should work in

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<sup>84</sup> Kemel Toktomushev, *One Belt, One Road: A New Source of Rent for Ruling Elites in Central Asia?* (World Bank Working paper, 2019).

<sup>85</sup> Hao Tian, *China's Conditional Aid and Its Impact in Central Asia*, (Washington D.C, The George Washington University, 2018).

cooperation in establishing tools for communication of fruitful outcomes of the initiative to the society.<sup>86</sup>

Secondly, the Kyrgyz Republic should create favorable investment and business environment within its territory to attract new projects. In order to achieve that goal, the Kyrgyz government should fight corruption, decrease bureaucratically complicated activities and eliminate other trade barriers mainly concentrated at the border. These are the main reasons why foreign businessmen might get demotivated in investing their capital in the Kyrgyz Republic.<sup>87</sup> As the survey results show, the governments should try to curb corruption in both analyzed countries. Kyrgyzstani people associate China with high corruption rates due to historical cases within the country. Accordingly, not only Kyrgyzstan but also China should try to eliminate corruption related activities. It is worth to mention that China has been successful in doing so as new president of the country announced and implemented quite stringent punishments against corruption.<sup>88</sup>

Thirdly, the analysis on the international trade in the Central Asian countries and China should be conducted. All countries should identify its comparative advantages as Ricardian theory suggests in order to allow all participants to benefit from the initiative. Specifically, the interested countries should ideally diversify product and service portfolio to avoid unnecessary competition between countries as they might focus on the same sector. In order to achieve this purpose the OBOR governments should analyze supply and demand for its products and services. This will help to identify its relative comparative advantage over other participated counties, which will lead to optimized international trade activities. Consequently, it will create

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<sup>86</sup> Marek Jochec and Jenny Jenish Kyzy, *China's BRI Investments, Risks, and Opportunities in Kazakhstan and Kyrgyzstan* (Washington D.C, The George Washington University, 2018).

<sup>87</sup> Kemel Toktomushev, *One Belt, One Road: A New Source of Rent for Ruling Elites in Central Asia?* (World Bank Working paper, 2019).

<sup>88</sup> Hao Tian, *China's Conditional Aid and Its Impact in Central Asia*, (Washington D.C, The George Washington University, 2018).

favorable environment to economic development for all member states, especially, less developed countries. Thus, the fear of Chinese hegemony in the region will deprive and sustained economic growth will be achieved. The Kyrgyz Republic being one the least developed states in the region will also benefit from such activities.<sup>89</sup>

Fourthly, Kyrgyzstan should assess each sub projects provided by China in the frame of OBOR. The researcher, Jenny Jenish Kyzy, claimed that the project sounds very ambitious. On the other hand, there is a probability that the initiative might not bring expected results and succeed in a promised degree. In consequence, it is important to evaluate small, medium and big projects in the frame of regional development and consider the probability of failure of the grand project. So, if the economic corridors and other OBOR projects are found to be beneficial for Kyrgyzstan no matter the grand project succeed or not, then the country should fully support it. If it is not the case, then it should come up with conditions under which it is going to benefit and dictate its position to China. As Kyrgyzstan has key geographical position, it has a leverage over China that could be used. Otherwise, the Kyrgyz Republic should have “Plan B” in order not to depend on China’s success in implementing the project. The thesis recommends to take proactive approach by supporting domestic initiatives and defending its positions in front of China.

Another policy recommendation that this thesis suggests is to increase information awareness and transparency related to Chinese investments and loans. As literature review concluded China has been giving finances under blurry conditions. However, it is important to mention that requirements like hiring migrants from the People’s Republic, contracting Chinese companies and procuring intermediate as well as final goods are always embedded with loans

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<sup>89</sup> Marek Jochec and Jenny Jenish Kyzy, *China’s BRI Investments, Risks, and Opportunities in Kazakhstan and Kyrgyzstan* (Washington D.C, The George Washington University, 2018).

and investments.<sup>90</sup> The high degree of transparency will allow the Kyrgyz government to plan and make rational decisions regarding finance and budget planning. Moreover, it will reduce Sinophobia among Kyrgyzstani citizens as they are afraid that China is pursuing only its own interests and goals. In addition, debt sustainability analysis should be implemented as it was suggested by one the papers earlier. The Kyrgyz Republic's government should diversify its credit portfolio in order to get rid of avoidable risks in the future. Moreover, Central Asian countries should strive for domestic currency stability considering high volumes of external debt.

### **Conclusion**

China has proposed a grand project One Belt, One Road which aims to develop global economic integration and foster international trade among all country-participants. Importantly, it seeks to connect China with Europe through constructing Economic Silk Road as well as 21st Maritime Silk Road, which, theoretically, will allow countries with complicated economic conditions to develop. Although China emphasizes the initiative's benefit for all participating countries, it is clear that the project is a part of its external foreign policy. Particularly, the implementation of the project is a Chinese tool to address its domestic economic challenges as imbalanced economic development among its provinces and production overcapacity.

As mentioned above, OBOR initiative provides numerous opportunities for Central Asian countries. However, it is important to mention that a set of risks comes along with potential benefits for Kyrgyzstan. The country is not ready to compete with Chinese products and services offering lower prices. In addition, the Kyrgyz Republic continues to receive Chinese loans, conditions for which are vaguely described. So, there is a risk of falling into debt trap and financial dependency on China, which leads to weakening of independency and sovereignty

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<sup>90</sup> Hao Tian, *China's Conditional Aid and Its Impact in Central Asia*, (Washington D.C, The George Washington University, 2018).

of Kyrgyzstan. As the survey results show, Kyrgyzstani businessmen as well as other educated and informed people are in agreement with stated risks.

The Kyrgyz Republic's government should take comprehensive and proactive approach in shaping and building the initiative. It should make its own assessment of projects proposed in the frame of the initiative and lobby its interests to ensure long-term economic development in Kyrgyzstan. It should create favorable climate for investments and businesses, which will contribute to long-term economic development by curbing corruption and decreasing bureaucracy.

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