

## CHINA'S GEO-ECONOMIC POLICY TOWARDS CENTRAL ASIA (2014-2020)

\*Dr. Ahmed Farhan Saeed (Assistant Professor, Area Study Centre, University of Peshawar, Drfarhan@uop.edu.pk)

\*\*Muhammad Idress (Area Study Centre)

\*\*\* Dr. Fariha Sami (Assistant Professor, SBBWU Peshawar)

### ABSTRACT

*International politics are largely determined by geo-economic factors, particularly, in the post-Cold War era. The pursuit of divergent geo-economic-cum-political interests has led to competition and conflict among a number of states, where states are exercising power through economic means. Geo-economics strategy offers states a new way - in contrast with territory-based geopolitics - of conducting power politics by exploiting the inherent asymmetric vulnerabilities of these economic interconnections. Similarly, China through its increasing financial leverage is cultivating closer diplomatic relations with nations around the world, where institutions such as the Asian Infrastructure Investment Bank and the Belt and Road Initiative are playing a big part. Following the same footings, over the last decade the relationship between China and the Central Asian Republics has undergone remarkable changes. Following its geo-economic interests and availability of space for investment in CARS, China has undeniably become a major player in Central Asia. This study focused on Chinese's Geo-economics policy towards CARS because China is consider Central Asia as an important source of energy resources, a promising market for goods, a transportation hub for Eurasia, and an area that will contribute to its national security and development as a global leader. The study used the theoretical framework of Complex Interdependence. Moreover, the research methodology of mixed method approach was applied and Secondary data was used. The findings of the study shows that the initiatives such as, the AIIB and the NDB are playing a vital role in forging closer diplomatic ties. Furthermore, the BRI project is creating an impact through infrastructure development, people to people goods will, new jobs and tax revenues. It is concluded that as far as China's geo-economic policy towards Central Asia is concerned, regional stability in the short term and energy trade in the long term will be the determining factors.*

**Key Words:** Geo-economics, Complex Realism, New Great Game, Belt & Road Initiative, Great Rejuvenation, Competition and Cooperation

## **1.1. Introduction**

Over the past century, China has played a marginal role in Central Asia despite its geographical proximity. Before 1991, Kazakhstan, Kyrgyzstan, Turkmenistan, Uzbekistan, and Tajikistan were in orbit of the Russian empire. Following their independence, dramatic changes have taken place, particularly with the opening of the "Bamboo Curtain" by China to the West<sup>1</sup>. In the beginning, it was restricted to shuttle traders who moved goods from China to Central Asia. China has become a major player in the region within a decade, owing to its expanding economy and growing political influence.

Historically, China and Central Asian states have had formal diplomatic relationships since as far back as January 1992, when the Central Asian states achieved their independence from the Soviet Union<sup>2</sup>. Chinese, Russian, Tajikistan, Kyrgyzstan, and Kazakhstan, which together formed the Shanghai Five, established this organization in 1996 for regional cooperation. Another member, Uzbekistan, was added to the "Shanghai Five" in 2001 when the organization was renamed as Shanghai Cooperation Organization (SCO).

There are a number of geopolitical and geo-economic factors that have caused China to consolidate closer ties with Central Asian Republics (CARs). In its economic-cum-strategic policies since 9/11, China has sought to develop international economic cooperation, curb terrorism and religious extremism, Uyghur independence movement, and collaborate with other countries while opposing the influence of other major powers that are hostile toward China. China assumes Central Asia to be an important source of energy resources, a promising market

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<sup>1</sup>Bransten, J. (2020, 7 30). *Central Asia: China's Mounting Influence*. Retrieved from Radio Free Europe/Radio Liberty : <https://www.rferl.org/a/1055956.html>

<sup>2</sup>Khan, S. A., & Akhtar, N. (2011). China's Policy Towards Central Asia Since 1991: An Overview. *Central Asia*.p61-73.

for goods, a transportation hub for Eurasia, and an area that will contribute to its national security and development as a global leader<sup>3</sup>.

In order to defend its interests in Central Asia, China has taken several major steps to ensure the protection of its geo-economic and geopolitical interests. In addition to good neighborly alliances, the reduction of military forces at the border, and resolution of border disputes, increasing military trust, and establishing friendship partnership agreements through improved mutual relations with Central Asian states are among the factors influencing the development of the economic cooperation.

China has more recently made contributions toward regional integration by putting forth a clearly defined model of economic and political integration. The Chinese have reestablished the historical image of the Silk Road by connecting the different regions of Asia and Europe. In many ways, the Belt and Road Initiative(BRI) is the geo-economic and geo-political backdrop to the regional integration process<sup>4</sup>. With the BRI, China is building huge infrastructure projects in Central Asia. Among the categories of infrastructure development in Central Asia that China has invested in are energy, transportation, and information and communication technology<sup>5</sup>. The platform of the SCO has consistently been used by China to promote stability in Central Asia. China's role as SCO's leading member presents a limited opportunity for countering the dominance other powers in Central Asia. China's foreign direct investments in Central Asian states and their trade volume has continued to expand in recent years. All these discussions and present Scenario implies that China is using its Geo-Economic policy effectively and as tool to enhancing closer diplomatic ties with CARs.

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<sup>3</sup>Melnikovová. (2020). China's interests in Central Asian economies. *Human Affairs*, 239-252. <https://www.degruyter.com/document/doi/10.1515/humaff-2020-0022/html?lang=en>

<sup>4</sup>Thornton, S. A. (2020). China in Central Asia: Is China Winning?. *The Brookings Institution*. <https://www.brookings.edu/research/china-in-central-asia-is-china-winning-the-new-great-game/>

<sup>5</sup>Xie, Z. (2021). China's Energy Infrastructure Development in Central Asia and Its Impact on Regional Energy Supply and Geopolitics. *Inter-Regional Studies: Regional and Global Perspectives*, 1-14. [https://www.waseda.jp/inst/oris/assets/uploads/2021/03/0315-vol-4\\_02\\_-Zhihai-Xie.pdf](https://www.waseda.jp/inst/oris/assets/uploads/2021/03/0315-vol-4_02_-Zhihai-Xie.pdf)

Therefore, the present study analyzes China's Geo-Economic policy towards Central Asia by using the theoretical framework of complex interdependence. Furthermore, the concept of geo-economics is explained along with the multiple determinants of China's geo-economic policy from 2014 to 2020. Moreover, the determinants of China's geo-economic policies such as financial leverage and BRI are discussed in the context of its significance for Central Asia. The research methodology of mixed method approach was applied and Secondary data from multiple sources was used.

## 1.2. Theoretical Framework

In the years following the end of the Cold War, the international political climate has undergone significant changes. The focus of international relations was not conventional realpolitik, but rather the search for a peaceful and stable global order which would promote their economic development<sup>6</sup>. As developed states have realized, having a large military is not enough to achieve power alone. They are required to have an economically based foundation and technological progress to go along with it.

The model of Complex Interdependence was developed in the late 1970s. Traditional approaches to realism that explain state behavior through the prism of military might were significantly challenged by the results of this study. In contrast, complex interdependencies highlight the importance of translational actors' vis-à-vis the state.

A globalized world characterized by interdependence implies that all actors, both states and non-states, are interdependent. In the literal sense, the word 'interdependence' refers to mutual dependence. This definition of dependency means that it involves a condition in which an actor is dependent upon or affected by an external force. In world politics, interdependence refers to a situation in which various countries or actors have reciprocal effects on one another<sup>7</sup>. It is

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<sup>6</sup>Rana, W. (2015). Theory of Complex Interdependence: A Comparative Analysis of Realist and Neoliberal Thoughts. *Undefined*. <https://www.semanticscholar.org/paper/Theory-of-Complex-Interdependence%3A-A-Comparative-of-Rana/6149df52c27a3fd2e175e8e8556e0bea89405aaa>

<sup>7</sup>Keohane, R. O., & Nye, J. S. (1977). *Power and Interdependence: World Politics in Transition*. Boston: Little, Brown & Co. p8

imperative to realize that interdependence between the actors has costly reciprocal effects. An actor's actions can directly influence those of other actors, and vice versa. The relationship between these actors in the context of interdependence is not only characterized by peaceful coexistence, but also by interaction, dependence, and cooperation across a number of different areas. The concept of interdependence was defined by Waltz as "a link between trading partners that is expensive to break"<sup>8</sup>. The "complex" in complex interdependence refers to the fact that there are intricate ways in which translational actors interact, which leads to them becoming dependent on each other, vulnerable to their actions, and sensitive to their needs.

China's policy towards Central Asia can be explained and accurately predicted by examining it from the perspective of Complex Interdependence. In the 1970s, Robert O. Keohane and Joseph S. Nye developed the theory of complex interdependence<sup>9</sup>. In international relations, interdependence refers to a dynamic characterized by reciprocal effects between states or players within or between states. In 1996, Marc A. Genest defined complex interdependence as a transnationalist theory that views states alongside welfare issues and security issues in global politics as the key actors, and cooperation as an important aspect of international politics (Genest, 1996). As highlighted in Robert O. Keohane and Joseph S. Nye's book titled 'Power and Interdependence: World Politics in Transition,' complex interdependence can be summed up in three main characteristics<sup>10</sup>. Three characteristics can be identified: multiple channels, lack of hierarchies among issues, and the role of military force being minimal.

The various societies are connected to one another via a large number of channels, including all inter-governmental and transnational transactions. Both international and domestic relations are greatly affected by the activities of Non-Governmental Organizations (NGOs), Multinational Cooperation (MNC), multinational firms, and banks. Keohane and Nye suggest that these actors

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<sup>8</sup>Copeland, D. C. (1996). Economic Interdependence and War: A Theory of Trade Expectations. *International Security*, 20(4), 5–41. <https://doi.org/10.1162/isec.20.4.5>

<sup>9</sup>Keohane, R. O., & Nye, J. S. (1977). *Power and Interdependence: World Politics in Transition*. Boston: Little, Brown & Co.

<sup>10</sup>Keohane, R. O., & Nye, J. S. (1977). *Power and Interdependence: World Politics in Transition*. Boston: Little, Brown & Co.

serve as transmission belts, enabling the policies of different countries to interact more effectively<sup>11</sup>.

In the global politics of complex interdependence, international issues have no hierarchy. A clear distinction between domestic and foreign policy does not exist, nor are security issues prioritized over others. Therefore, it is evident that the increased interdependence in international politics has resulted in the division of power. There is no single factor that determines the relationship between states.

The survival of a state is a basic necessity in any realistic view of international relations. Comparatively speaking to realism, Complex Interdependence has reduced the driving force for international politics. Global politics do not require military agendas because of the interdependence and mutual cooperation among states. Mutual alliances and cooperation enable states to attain their goals.

### **1.3. Geo-economics**

Geo-economics is a term coined by Edward Luttwak in 1990 to describe how after the Cold War, economic competition would become the main arena of conflict between nations<sup>12</sup>. He elaborated these ideas in a book entitled *The Endangered American Dream* published three years later in 1993<sup>13</sup>. After the USSR's threat to Europe and the subsequent withdrawal of the United States, Luttwak viewed any possible military confrontation between the two countries as unlikely. In this regard, Samuel Huntington also argued that in a world where war was unlikely, economic power would become a more significant factor in determining a nation's primacy and

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<sup>11</sup>Keohane, R. O., & Nye, J. S. (1977). *Power and Interdependence: World Politics in Transition*. Boston: Little, Brown & Co. p26

<sup>12</sup>Luttwak, E. (1990). From Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce. *The National Interest*, pp. 17-23.

<sup>13</sup>Luttwak, E. (1993). *The Endangered American Dream: How to Stop the United States from Becoming a Third World Country and how to win the Geo-economic Struggle for Industrial Supremacy*. Simon & Schuster.

subordination<sup>14</sup>. States would still pursue adversarial goals in the new geo-economics era, but through economic rather than military means.

According to Valerie M. Hudson, geo-economics is the use of economic means to exert control over territory, most importantly through investment and trade<sup>15</sup>. As a strategic practice, geo-economics refers to the use of economic means of power by states to accomplish geostrategic goals. Or to state it more explicitly, it refers to the use of economic means of power by states to achieve geostrategic goals. It is imperative that geo-economic strategies be geographically delimited to ensure their success, as in the case of spheres of influence controlled by the hegemon, increasing its economic dependence on its neighbors. Recent years have seen a revival of interest in geo-economics, which broadly refers to the use of economic means to achieve strategic objectives, while incorporating a clear geographic dimension.

Currently, most nations base their foreign policy decisions on economic factors. They determine their interests largely in economic terms and deal almost exclusively with economic power. As a result, national security strategies have been adjusted to emphasize economic security<sup>16</sup>. In the twenty-first century, emerging powers increasingly depend on economic instruments to strengthen their positions of influence and engage in geopolitical conflict. Nevertheless, the Chinese economy has greatly benefited from the changes in the world economy, and it is described as a "leader in geo-economics" and a "master" in modern economics<sup>17</sup>.

#### **1.4. China's Geo-Economic Policy**

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<sup>14</sup>Huntington, S. P. (1993). Why International Primacy Matters. *International Security*, 17(4), 68–83. <https://doi.org/10.2307/2539022>

<sup>15</sup>Hudson, V., Ford, R., Pack, D., & Giordano, E. (1991). Why the Third World Matters, Why Europe Probably Won't: The Geo-economics of Circumscribed Engagement. *The Journal of Strategic Studies*, 14, 255–298. <https://doi.org/10.1080/01402399108437453>

<sup>16</sup>Blackwill, R. D., & Harris, J. M. (2017). *War by Other Means Geoeconomics and Statecraft*. Cambridge: Belknap Press.

<sup>17</sup>Troxell, Col. J. F. (n.d.). *Geoeconomics*. Army University Press. Retrieved January 20, 2022, from <https://www.armyupress.army.mil/Journals/Military-Review/English-Edition-Archives/January-February-2018/Geoeconomics/>

The Chinese geo-economic policy is aimed to the real revival of the Middle Kingdom. In a similar vein to how all roads lead to Rome, China is building a variety of highways, high speed rails, bridges, pipelines, ports, shipping routes, and optical fibers that lead to China. Beijing gains leverage and persuasiveness by positioning itself at the center of all regions. In addition to promoting trade and investment, China aims to increase productivity and export surplus capacity.

The geo-economic toolkit of China contains five key instruments that Parag Khanna and Wu Xinbo describe: trade, finance, investment, China's infrastructure alliances, and the internationalization of the Chinese currency<sup>18</sup>. In 2020, the Chinese economy in term of GDP was the number 2, number 1 in total exports, the number 2 in total import. Being the world's largest exporter, China exported approximately U.S. \$ 2.6 trillion worth of goods in 2020<sup>19</sup>. China is the world's largest trading partner for more than 130 countries. The fact that China is the world's largest assembling hub for manufacturing products has resulted in a boost to trade with regional economies that participate in the global supply chain and thus contribute to their economic development. Having been the most important engine of economic growth in Asia, China has contributed over 50 percent to that growth. China has become a significant indicator of Asian economic growth.

China is also world's fastest growing consumer market. It has become the major source of investment from being a source of cheap imports. The capital stock of Chinese direct investments (FDI) has reached 2.58 trillion dollars at the end of 2020<sup>20</sup>. The Chinese are ranked

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<sup>18</sup>Xinbo, W. (2016). *Geo-economics with Chinese Characteristics: How China's economic might is reshaping world politics*. Davos: World Economic Forum. [https://www3.weforum.org/docs/WEF\\_Geoconomics\\_with\\_Chinese\\_Characteristics.pdf](https://www3.weforum.org/docs/WEF_Geoconomics_with_Chinese_Characteristics.pdf)

<sup>19</sup>China: Export of goods 2020. (n.d.). Statista. Retrieved January 3, 2022, from <https://www.statista.com/statistics/263661/export-of-goods-from-china/>

<sup>20</sup>China ranks No.1 globally in outward FDI for the first time—*Global Times*. (n.d.). Retrieved January 3, 2022, from <https://www.globaltimes.cn/page/202109/1235451.shtml>



first in the world in terms of Foreign Direct Investment (FDI) in 2020, with an increase of 12.3% year-on-year, reaching 153.71 billion US dollars<sup>21</sup>.

China initiated the establishment of multilateral financial institutions, including the Asian Infrastructure Investment Bank (AIIB) and the BRICS New Development Bank (NDB), in addition to the China Silk Road Fund, the South-South Cooperation Fund, the Maritime Silk Road Bank, and the Maritime Silk Road Management Fund to provide financial support and assistance as well as infrastructure development in foreign countries. In aggregate, these banks and funds command a capitalization of almost 300 billion US dollars and are projected to make annual loans of more than 60 billion US dollars to infrastructure projects to neighboring countries<sup>22</sup>.

### **1.5. China's Foreign Policy with respect to Central Asia**

Historically, China's policy towards its northern border was characterized by a single word: defense. However, the focus of Chinese policy has now shifted to opening borders. In addition to its landlocked position, China also became a natural choice for Central Asian states<sup>23</sup>. Beijing faced both opportunities and challenges in Central Asia following the dissolution of the Soviet Union. Among the opportunities was the revitalization of the Silk Road. China's economic and geopolitical policies have aimed at developing international economic cooperation, curbing terrorism and religious extremism, fighting the Uyghur independence movement, and collaborating with other countries. These are provided in order to counteract the influence of countries hostile to China. China assumes Central Asia to be an extremely valuable source of

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<sup>21</sup>*Data and Statistics\_State Administration of Foreign Exchange*. (n.d.). Retrieved January 3, 2022, from <https://www.safe.gov.cn/en/DataandStatistics/index.html>

<sup>22</sup>Freeman, C. W. (n.d.). The Geoeconomic Implications of China's Belt and Road Initiative. *Middle East Policy*. <https://mepc.org/speeches/geoeconomic-implications-chinas-belt-and-road-initiative>

<sup>23</sup>Ehteshami, A., Zhang, Y., &Azizian, R. (2000). Ethnic Challenges beyond Borders: Chinese and Russian Perspectives of the Central Asian Conundrum. *Slavic Review*, 58, 220. <https://doi.org/10.2307/2673022>

energy resources, a promising market for goods, a transportation hub for Eurasia, and an area that will contribute to its national security and development as a global leader<sup>24</sup>.

### **1.6. China's Geo-economic Policy towards Central Asia**

China has been establishing relations with Central Asia and encouraging economic development since their independence. These efforts are usually aimed at achieving pragmatic goals. A key objective of China's geo-economic policy is access to export markets, development of intercontinental transportation, and securing its supply of crude oil and gas. Turkmenistan, Kyrgyzstan, and Uzbekistan now count China among their most important trading partners. Additionally, China is the largest investor in Tajikistan and Kyrgyzstan. China views Central Asia as: A vital source of the energy resources. Energy is one of the most important resources for the rapidly growing economy of China<sup>25</sup>. Chinese goods are likely to find success in this market. Central Asian republics could become Eurasia's transportation hub - an alternative route for accessing international transport corridors. China's development is dependent on Central Asia, which plays a crucial geo-economic and strategic role in ensuring the country's national security and its emergence as a global power<sup>26</sup>.

### **1.7. China's Energy Security**

Since the 1970s reforms, China's economy has grown at double-digit rates each year, making it the world's second largest economy. As a result of market-oriented reforms, export-oriented policies, enterprise ownership changes, and a development strategy centered on foreign direct

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<sup>24</sup>Melnikovová. (2020). China's interests in Central Asian economies. *Human Affairs*, 239-252. <https://www.degruyter.com/document/doi/10.1515/humaff-2020-0022/html?lang=en>

<sup>25</sup>Arsentyeva, I. (2014). China's policy in Central Asia and Russia's strategy. *News of Saratov University (Izvestiya Saratovskogo Universiteta)*, 85-89. <https://imo.sgu.ru/en/articles/chinas-policy-in-central-asia-and-russias-strategy>

<sup>26</sup>Kerr, D. (2010). Central Asian and Russian Perspectives on China's Strategic Emergence. *International Affairs (Royal Institute of International Affairs 1944-)*, 86(1), 127–152.

investment, China's nominal GDP has increased from US\$440 billion to approximately US\$13,400 trillion from 1993 to 2019<sup>27</sup>.

A reliable energy supply is essential to China's remarkable economic growth. Consequently, China has become the largest energy consumer, accounting for 23 percent of global energy consumption, as its presence in global energy markets has grown rapidly along with its energy needs<sup>28</sup>. The Chinese government desires to reduce its reliance on sea lines of communication for oil transportation due to the possibility of disruption in the event of a conflict, as demonstrated by the "Malacca Dilemma", which describes China's vulnerability to a naval blockade preventing energy imports<sup>29</sup>.

With the discovery of the huge Kashagan oil field in Kazakhstan, China's interest in Central Asia further grew, since Kashagan is a major oil field with significant reserves<sup>30</sup>. In order to meet its growing energy demands, China seeks to participate in the development and support of energy industries in Central Asia. China's primary energy demand increased by 4.3 percent in 2018, reaching its highest level since 2012. It is estimated that in December 2020, China will purchase 10,853 barrels of crude oil per day, surpassing Japan as the world's largest importer of liquefied natural gas (LNG).

During the first decade following Central Asia's independence, Russia controlled the pipelines out of the region. Despite this, China has quickly constructed pipelines even prior to the formal announcement of the BRI. In order to disrupt Russia's monopoly over Turkmenistan's gas supply,

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<sup>27</sup>*IMF Annual Report 2019*. (n.d.). Retrieved January 4, 2022, from <https://www.imf.org/external/pubs/ft/ar/2019/eng/index.htm>

<sup>28</sup>*Statistical Review of World Energy | Energy economics | Home*. (n.d.). Retrieved January 4, 2022, from <https://www.bp.com/en/global/corporate/energy-economics/statistical-review-of-world-energy.html>

<sup>29</sup>China and the "Malacca Dilemma." (2021, February 28). *Warsaw Institute*. <https://warsawinstitute.org/china-malacca-dilemma/>

<sup>30</sup>Parkhomchik, L. (n.d.). *Current Challenges for the Kashagan Offshore Oil Field Project*. Retrieved January 4, 2022, from <https://www.eurasian-research.org/publication/current-challenges-for-the-kashagan-offshore-oil-field-project/>

China constructed the Turkmenistan gas pipeline and the Kazakhstan oil pipeline. As an example of energy cooperation in the region, the Central Asia-China Gas Pipeline, which has been operational since 2009, exemplifies the connection between Central Asia and China, while the Kazakhstan-China Crude Oil Pipeline represents the first direct connection between Central Asia and China.

While Turkmenistan does not share a border with China, China is investing in Turkmenistan's energy industries due to its considerable gas reserves, which are estimated to be 19.5 trillion cubic meters at the end of 2018, making Turkmenistan the world's fourth-largest gas producer<sup>31</sup>. As China's gas demand increases to reduce carbon emissions, Beijing has contributed \$4.1 billion to the development of Galkynysh<sup>32</sup>.

### 1.7.1. Central Asia-China Gas Pipeline

Construction of the Central Asia-China Gas Pipeline began in 2007. It spans 3,666 kilometers, beginning at Gedaim on the Turkmenistan-Uzbekistan border and terminating at Horgos in the Chinese province of Xinjiang. It consists of two parallel lines, Line A and Line B, each measuring 1,833 kilometers in length and 1,067 meters in diameter. Line C, an additional parallel line, was completed in 2014. The capacity of lines A and B is 30 billion cubic meters per year, while the capacity of line C is 25 billion cubic meters per year<sup>33</sup>. These projects cost between \$14 billion and \$20 billion and are financed by the China Development Bank. It is estimated that Line D, which is the shortest of the pipelines, will become the largest gas transmission system in Central Asia once it is completed with a capacity of 85 billion cubic meters per year<sup>34</sup>.

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<sup>31</sup>*Energy Outlook / Energy economics / Home*. (n.d.). Retrieved January 4, 2022, from <https://www.bp.com/en/global/corporate/energy-economics/energy-outlook.html>

<sup>32</sup>Melnikovová. (2020). China's interests in Central Asian economies. *Human Affairs*, 239-252. <https://www.degruyter.com/document/doi/10.1515/humaff-2020-0022/html?lang=en>

<sup>33</sup>Aminjonov, F., Abylkasymova, A., Aimée, A., Eshchanov, B., Moldokanov, D., Overland, I., & Vakulchuk, R. (2019). *BRI in Central Asia: Overview of Chinese Projects* (SSRN Scholarly Paper ID 3505264). Social Science Research Network. <https://papers.ssrn.com/abstract=3505264>

<sup>34</sup>Aminjonov, F. (n.d.-b). Central Asia–China Gas Pipeline (Line D). *The People's Map of Global China*. Retrieved January 5, 2022, from <https://thepeoplesmap.net/project/central-asia-china-gas-pipeline-line-d/>

During 2009 and 2010, Russia was the primary buyer of Turkmen gas, purchasing 10 billion cubic meters in 2010, while Iran purchased 6 billion cubic meters. As of 2018, however, China has overtaken both countries as Turkmenistan's largest customer, acquiring over 33 billion cubic meters of natural gas from the country<sup>35</sup>.

### **1.7.2. Kazakhstan- China Crude Oil Pipeline**

The Kazakhstan-China Oil Pipeline stretches 2,798 kilometers and transports crude oil from Western Kazakhstan's oil fields to the Dushanzi refinery in Xinjiang. This pipeline has a diameter of 813 millimeters and a capacity of 10 million tons per year<sup>36</sup>. The pipeline was jointly constructed by KazMunaiGaz and Chinese National Petroleum Corporation for an estimated cost of 3 billion US dollars.

Through the Kazakhstan-China Pipeline, oil is transported through the Kenkiyak-Kumkol and Atasu-Alshankou pipelines. There were 10.5 million tons of oil transported via the Atasu-Alshankou pipeline in 2020, while 5.7 million tons of oil were transported via the Kenkiyak-Kumkol pipeline China<sup>37</sup>.

## **1.8. China and Central Asia Republics Trade Relationships**

Central Asia is considered integral to the stability and development of China's western region as a result of its geographic proximity. In accordance with official statistics, China is one of the most important trading partners of Central Asian countries. According to the latest statistics, China is the largest trading partner of Uzbekistan, Kyrgyzstan, and Turkmenistan in terms of

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<sup>35</sup>*Downloads / Energy economics / Home*. (n.d.). Bp Global. Retrieved January 5, 2022, from <https://www.bp.com/en/global/corporate/energy-economics/statistical-review-of-world-energy/downloads.html>

<sup>36</sup>*Kazakhstan-China Crude Oil Pipeline—Hydrocarbons Technology*. (n.d.). Retrieved January 5, 2022, from <https://www.hydrocarbons-technology.com/projects/kazakhstan-china-crude-oil-pipeline/>

<sup>37</sup>*Kazakhstan-China Pipeline – About*. (n.d.). Retrieved January 5, 2022, from <https://www.kcp.kz/company/about?language=en>

imports in 2019. As for exports, China is one of the most important trading partners of Kazakhstan, Turkmenistan, and Uzbekistan. Between 2015 and 2019, Central Asian exports to China increased by 35 percent to 20,276 million US dollars from 15,054 million US dollars. A growth of over 50 percent was recorded in the export of goods from Tajikistan, Kazakhstan, and Uzbekistan. The number of goods exported from China to Central Asian Republics has increased by 49 percent between 2015 and 2019. As per the UN Comtrade Database, the growth increased from 17,563 million US dollars in 2015 to 26,207 million US dollars in 2019.

### **China and Central Asia Mutual Trade of the year 2019**

<b>Central Asia Countries</b>	<b>Importing from China</b>			<b>Exporting to China</b>		
	China's ranking as a trading partner	Trade volume (US\$ million)	Share in the country's total imports	China's ranking as a trading partner	Trade volume (US\$ million)	Share in the country's total exports
<b>Kazakhstan</b>	2	6,537	17%	2	7,823	14%
<b>Kyrgyzstan</b>	1	1,733	35%	6	81	4%
<b>Tajikistan</b>	3	605	18%	5	55.4	5%
<b>Turkmenistan</b>	3	431	14%	1	8,686	80%
<b>Uzbekistan</b>	1	5,052	23%	3	1,768	12%

### **Export from Central Asia to China (million US dollars)**

	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>Kazakhstan</b>	5849	4805	6379	8530	9259
<b>Kyrgyzstan</b>	59	71	87	54	66
<b>Tajikistan</b>	52	31	47	77	84
<b>Turkmenistan</b>	7828	5563	6575	8119	8686

<b>Uzbekistan</b>	1267	1607	1471	2324	2181
<b>Total</b>	15054	12078	14559	19104	20276

## 1.9. China's Investment in Central Asia

Through its investment policy in Central Asia, Beijing is pursuing its geo-economic objectives. It is a highly systematic, long-term, and large-scale policy. The vast majority of China's investments are loans, with specific terms and conditions. In recent years, China has continued to expand its direct investments in Central Asian states. According to the China Statistical Yearbook 2019, China's foreign direct investment in the Central Asian States increased to US\$ 14.233 billion in 2019 from US\$ 4.033 billion in 2011<sup>38</sup>. The majority of Chinese investments are made in the energy sector, followed by the transportation and chemical industries.

### China's investment in Central Asian states (million US dollars)

	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>Total</b>
<b>Kazakhstan</b>	3220	2490	520	3810	1900	34130
<b>Kyrgyzstan</b>	3790	550				4730
<b>Tajikistan</b>						
<b>Turkmenistan</b>	600					600
<b>Uzbekistan</b>	620		150	460	200	5440
<b>Total</b>	8230	3040	670	4270	600	16,810

<sup>38</sup>China Statistical Yearbook 2019. (n.d.-a). Retrieved December 15, 2021, from <http://www.stats.gov.cn/tjsj/ndsj/2019/indexeh.htm>

## 1.10. BRI in Central Asia:

The Chinese world order dating back over a thousand years was a hierarchical order and the Chinese government held itself to be the sovereign head of “All under Heaven”<sup>39</sup>. China was dramatically transformed by Deng Xiaoping in the past, in 1981, through his non-ideological foreign policy and economic and structural reforms. These policies, in turn, were followed by his successors, which changed the course of China. China has more recently made contributions toward regional integration by putting forth a clearly defined model of economic and political integration. The Chinese have reestablished the historical image of the Silk Road by connecting the different regions of Asia and Europe. In many ways, the BRI is the geo-economic and geo-political backdrop to the regional integration process<sup>40</sup>. President Xi of China initiated BRI in 2013 as a method of integration of region through the construction of highways, high speed rails, pipelines, ports, and optical fibers<sup>41</sup>.

As a result of several significant geo-economic factors, China's BRI has a strong focus on Central Asia. One of the key factors is the shift in production costs within China. As a result of economic growth in the coastal regions, manufacturing activities have moved inland and toward the western provinces that border Central Asia<sup>42</sup>.

As the world's largest consumer of natural resources, China is highly interested in central Asian countries due to their abundance of natural resources, especially gas and oil<sup>43</sup>. Through the BRI,

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<sup>39</sup>Kissinger, H. (2015). *World Order*. London: Penguin Books.p213

<sup>40</sup>Thornton, S. A. (2020). China in Central Asia: Is China Winning?. *The Brookings Institution*. <https://www.brookings.edu/research/china-in-central-asia-is-china-winning-the-new-great-game/>

<sup>41</sup>Mardell, J. (2022, Sep 28). *China's footprint in Central Asia*. Retrieved from Bertelsmann Stiftung: <https://www.bertelsmann-stiftung.de/en/our-projects/germany-and-asia/news/asia-policy-brief-chinas-footprint-in-central-asia>

<sup>42</sup>Fengler, and Kaestner (2016, September 23). How the middle of nowhere could become a major trade corridor. *Brookings*. <https://www.brookings.edu/blog/future-development/2016/09/23/how-the-middle-of-nowhere-could-become-a-major-trade-corridor/>

<sup>43</sup>Taliga, H. (2021). *Belt and Road Initiative in Central Asia*. Retrieved from Friedrich Ebert Stiftung: [https://www.ituc-csi.org/IMG/pdf/belt\\_and\\_road\\_initiative\\_in\\_central\\_asia.pdf](https://www.ituc-csi.org/IMG/pdf/belt_and_road_initiative_in_central_asia.pdf)



China intends to strengthen its ties with Central Asia due to this factor. The impact of technological change is also crucial. In spite of the limitations associated with the speed of sea transport and the cost of air travel, rail and road transportation still offer substantial potential, especially in light of the emergence of modern technologies<sup>44</sup>. In this regard, the BRI facilitates land transportation, which makes it a more viable option for China. Another objective of the Chinese government is to expand its market beyond its borders. In order to tap into new markets, China intends to transfer its overcapacity of low-value-added, labor-intensive, and polluting manufacturing technologies and facilities to foreign countries, particularly those in Central Asia<sup>45</sup>.

China's interest in Central Asia is also driven by the opportunity costs associated with delays in production. Due to China's increased emphasis on the production of high-value products, delays have become more costly. Compared to shipping by sea, land transportation is a more efficient and cost-effective method of transport<sup>46</sup>. Furthermore, Central Asia offers a favorable investment environment. There is a low level of competition in the region, low wages, government tax breaks, as well as subsidies offered to foreign investors in strategic industries<sup>47</sup>. Chinese investment through the BRI is attracted to Central Asia as a result of these factors.

Chinese investments and contracts in Kazakhstan, according to the China Global Investment Tracker, totaled US\$ 18.69 billion within the framework of the BRI<sup>48</sup>. China has 400 companies operating in Kyrgyzstan in 2019 and since 2013, Chinese investments have reached US\$ 4.34

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<sup>44</sup>Fengler, and Kaestner (2016, September 23). How the middle of nowhere could become a major trade corridor. *Brookings*. <https://www.brookings.edu/blog/future-development/2016/09/23/how-the-middle-of-nowhere-could-become-a-major-trade-corridor/>

<sup>45</sup>Taliga, H. (2021). *Belt and Road Initiative in Central Asia*. Retrieved from Friedrich Ebert Stiftung: [https://www.ituc-csi.org/IMG/pdf/belt\\_and\\_road\\_initiative\\_in\\_central\\_asia.pdf](https://www.ituc-csi.org/IMG/pdf/belt_and_road_initiative_in_central_asia.pdf)

<sup>46</sup>Fengler, and Kaestner (2016, September 23). How the middle of nowhere could become a major trade corridor. *Brookings*. <https://www.brookings.edu/blog/future-development/2016/09/23/how-the-middle-of-nowhere-could-become-a-major-trade-corridor/>

<sup>47</sup>Taliga, H. (2021). *Belt and Road Initiative in Central Asia*. Retrieved from Friedrich Ebert Stiftung: [https://www.ituc-csi.org/IMG/pdf/belt\\_and\\_road\\_initiative\\_in\\_central\\_asia.pdf](https://www.ituc-csi.org/IMG/pdf/belt_and_road_initiative_in_central_asia.pdf)

<sup>48</sup>Taliga, H. (2021). *Belt and Road Initiative in Central Asia*. Retrieved from Friedrich Ebert Stiftung: [https://www.ituc-csi.org/IMG/pdf/belt\\_and\\_road\\_initiative\\_in\\_central\\_asia.pdf](https://www.ituc-csi.org/IMG/pdf/belt_and_road_initiative_in_central_asia.pdf)

billion. Chinese companies have invested US\$ 2.03 billion in Tajikistan since 2013. The total investment of China in Uzbekistan is 2.24 billion US dollars<sup>49</sup>. Turkmenistan has received investments in the amount of US\$ 24,842.5 million from China<sup>50</sup>.

In the BRI, Central Asia plays a crucial role, in connecting China with the West. The "China-Central Asia-West Asia Economic Corridor" acts as a connecting route, starting from Urumqi in China and passing through Almaty, Bishkek, and reaching Tashkent<sup>51</sup>. From Tashkent, it branches into two directions: a southern route through Ankara and Bandar Abbas, and a northern route through Aktau on the Caspian Sea. The South Caucasus region, particularly Georgia, is also significant due to its location on the Black Sea coast, acting as a link between Europe and Asia. Through this economic corridor, the goal is to facilitate collaboration in areas such as policy coordination, facility connectivity, trade, financial integration, and cultural exchange<sup>52</sup>.

Central Asian states will benefit from the development of a transit route, as it will provide them with a link between the East and the West in terms of logistics. For Chinese companies seeking to distribute their products in Central Asian and European markets, the railway network is likely to prove more advantageous than maritime routes. China can bypass Russian territory by using rail networks. From Chongqing to Western Europe, Chinese goods are transported in 16 days as opposed to five weeks by sea. As part of the "Iron Silk Road," China is developing a globalized project that is expected to revolutionize the global communication industry.

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<sup>49</sup>Taliga, H. (2021). *Belt and Road Initiative in Central Asia*. Retrieved from Friedrich Ebert Stiftung: [https://www.ituc-csi.org/IMG/pdf/belt\\_and\\_road\\_initiative\\_in\\_central\\_asia.pdf](https://www.ituc-csi.org/IMG/pdf/belt_and_road_initiative_in_central_asia.pdf)

<sup>50</sup>Aminjonov, F., Abylkasymova, A., Aimée, A., Eshchanov, B., Moldokanov, D., Overland, I., & Vakulchuk, R. (2019). *BRI in Central Asia: Overview of Chinese Projects* (SSRN Scholarly Paper ID 3505264). Social Science Research Network. <https://papers.ssrn.com/abstract=3505264>

<sup>51</sup>Seth, S. (n.d.). *Understanding One Belt One Road (OBOR)*. Investopedia. Retrieved January 9, 2022, from <https://www.investopedia.com/terms/o/one-belt-one-road-obor.asp>

<sup>52</sup>*Initiative offers road map for peace, prosperity*. (n.d.). Retrieved January 9, 2022, from [https://english.www.gov.cn/archive/publications/2015/03/30/content\\_281475080249035.htm](https://english.www.gov.cn/archive/publications/2015/03/30/content_281475080249035.htm)

The BRI has been actively pursued by China in Central Asia since its announcement in 2013. It is necessary for a project in Central Asian states to meet specific criteria before being considered part of the BRI: it must be publicly reported as a BRI project, launched after the announcement of the BRI in 2013, and financed by BRI financial institutions, such as the China Development Bank (CDB), the Asian Infrastructure Investment Bank (AIIB), or the New Silk Road Fund. Furthermore, the project can be implemented either bilaterally or multilaterally. Currently, there are 261 Chinese projects in Central Asia meeting all of these criteria<sup>53</sup>.

A number of these projects can be categorized into four main categories: road and rail connectivity, energy connectivity, industrial development and trade promotion, and people-to-people projects. There are a number of subcategories within the category of industrial development and trade promotion, such as exploration for minerals and petroleum, development and processing, industry, finance and information technology, and agriculture and food. As a part of the BRI in Central Asia, these projects demonstrate a wide range of initiatives and investments.

#### **Map of the China-Central Asia-West Asia Economic Corridor**



<sup>53</sup> CADGAT Database. OSCE Academy in Bishkek. (n.d.). Retrieved January 6, 2022, from <https://osce-academy.net/en/research/cadgat/>

Source: <https://www.oboreurope.com/en/beltandroad/one-belt/>

## **1.11. Conclusion**

During the Cold War, geopolitical research focused primarily on matters of national security and military strategy. There has, however, been a shift in the post-Cold War era toward understanding governments' geo-political use of economic power. In the twenty-first century, economic methods are expected to play a crucial role in shaping geopolitical decisions. As an expression of the growing importance of economic power in international politics, geo-economic competition can be viewed as 'war by another means'.

It is becoming increasingly common for states around the world to exercise power through economic means. It has become more popular to use economic sanctions as a means of addressing issues such as the Iranian nuclear program or the annexation of Crimea by Russia. The United States national security strategy, released in 2017, emphasizes the crucial relationship between economic security and national security.

A number of countries have leveraged their economic power to strengthen alliances and expand their influence across a wide range of regions, including China and Russia. Using its financial leverage, China is forging closer diplomatic ties with nations around the world through initiatives such as the AIIB and the NDB. While Russia, on the other hand, uses its energy resources for the purpose of strengthening political alliances and dividing its adversaries.

Despite the growing importance of economic power in achieving geostrategic objectives, it remains understudied in contemporary international affairs. By leveraging the interconnected economies' asymmetric vulnerabilities, geo-economics offers states a new avenue through which they can exercise power rather than relying solely on territorial geopolitics.

Energy security, regional stability, and geo-economic concerns have driven China's engagement with the Central Asian Republics over the past decade. In recent years, China has become a major power in Central Asia as a result of its growing influence and growing interest in the

region. The increasing engagement has also led to confrontations with other world powers, resulting in a new version of the "Great Game". China's economic expansion and trade in Central Asia, however, can have mutually beneficial effects on both China and the Central Asian states, providing a catalyst for economic growth for both.

In China's geo-economic policy towards Central Asia, the BRI plays a significant role. Central Asian states face trade restrictions as they have limited access to major maritime shipping routes. As part of the BRI, railroads and roads will be constructed in the region in order to improve connectivity. As a result of this infrastructure development, people and goods will be able to move more freely, the burden on local governments will be reduced, and new jobs and tax revenues will be generated.

As a result of the BRI, the Central Asian Republics will also have the opportunity to increase their cooperation and reduce tensions in the region. Through common initiatives, it is possible to achieve regional integration and closer ties, which will provide additional opportunities for collaboration. Through the BRI projects, a number of transportation infrastructure improvements can be made, connectivity can be enhanced, and regional trade can be boosted, contributing to the economic growth of Central Asian states and their integration into the global economy.

The role of economic power and geo-economic considerations in shaping international relations has become increasingly important in recent years. Major powers have focused on economic engagement and influence as a result of changing geopolitical dynamics and the pursuit of geostrategic interests. In light of the changing dynamics of international affairs, it is vital to understand and analyze the interaction between economic power and geopolitical strategies as the global landscape continues to evolve.