

Foreign Economic Relations Between China and Countries of Central Asia: Trends and Development Prospects

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Abstract—China's economic presence in Central Asian countries is becoming more systematic and complex. The countries of Central Asia, which officially include such States as Kazakhstan, Uzbekistan, Tajikistan, Kyrgyzstan, and Turkmenistan, are the closest neighbors of the people's Republic of China. A special feature of economic interaction between Central Asian countries and China was the coordination of internal programs of economic development of these States with the interests and strategy of Beijing. The Central Asian countries have taken the initiative in signing relevant cooperation agreements, which contributes to the in-depth development of this cooperation in three main areas: trade, investment profitability, contract activities for projects and construction of parks. This article reveals the trends and prospects for the development of foreign economic relations between China and Central Asian countries. The main areas of cooperation between the countries are described. The role and position of each country in foreign economic cooperation are defined. The dynamics of the main indicators of China's foreign trade with Central Asian countries for 2013-2018 is analyzed. The shares of individual Central Asian countries in China's exports are highlighted, as well as the growth of China's share in the exports of Central Asian countries associated with a significant increase in raw material supplies. Factors and prospects of development of expansion of economic relations of the countries in the future are revealed. The study notes the transition of economic and trade cooperation from energy to multi-disciplinary, from raw materials to investment and production potential.

Keywords – foreign economic relations, foreign policy, foreign trade, foreign direct investment, contracts and foreign projects

I. INTRODUCTION

China's place in international relations is one of the most popular topics in international discourse. Over the past few years, China's role in global and regional politics has grown significantly.

One of the priority issues on the agenda in China is the development of western regions. Various political and geopolitical reasons contribute to this. The western regions of China are most closely connected with the Central Asian region.

The Central Asian direction of Chinese geopolitics has its own specific features. Central Asia was a region with which China was linked for quite a long time by numerous threads of both economic and military-political nature. China's economic participation in Central Asia becomes more systematic and complex every year. China's interests include security, politics, economic and cultural development, and more. It is obvious that Beijing is interested in creating mechanisms for constructive interaction with local states.

Over the past few years, China and the Central Asian countries have achieved fruitful cooperation. Judging by Chinese sources, the PRC's intentions to the region are as follows:

- fight against terrorism, separatism and extremism;
- ensuring security in border areas;
- maintaining stability in the entire region;
- assistance to regional economic development;
- prevention of monopoly control over the countries of Central Asia by states hostile to China, as well as formation of military alliances in the region with an anti-Chinese orientation;
- creating conditions for access to energy resources of the region.

It should be noted that cooperation between China and the Central Asian countries in the economic sphere is on the rise and is being built in the format of a strategic partnership. At the same time, the quality of cooperation between China and the countries of Central Asia is constantly being optimized.

II. RESULTS AND DISCUSSION

The Central Asian countries have taken the lead in signing the relevant cooperation agreements, which contributes to the deepening development of cooperation between China and the Central Asian countries. The achievements of capacity cooperation are mainly reflected in three aspects of trade and investment, project contracts and park construction.

Foreign trade is one of the central and most intensively developing areas of cooperation.

Due to differences in natural wealth and different stages of economic development, cooperation between China and Central Asian countries is mainly a kind of effort to seek additional development of natural resources and additional economic structures to overcome their respective disadvantages and constraints, resulting in mutual benefit.

Changes of the main indicators of China's foreign trade with five Central Asian countries in 2013-2018 is presented in Table 1.

TABLE I. CHANGES OF THE VOLUME OF TRADE BETWEEN CHINA AND FIVE CENTRAL ASIAN COUNTRIES IN 2013-2018, MLN USD

Country	2013	2014	2015	2016	2017	2018	Total
Kazakhstan	285.9 6	224.5 2	142.9 1	130.3 7	180.0 1	198.5 6	1162.3 3
<i>in % of the previous year</i>	-	78.5	63.7	91.2	138.1	110.3	585.4
Uzbekistan	45.52	42.76	34.96	36.4	42.24	62.01	264.55
<i>in % of the previous year</i>	-	93.9	81.8	104.1	116.0	146.8	426.6
Kyrgyzstan	51.38	52.98	43.41	57.11	54.48	56.01	315.37
<i>in % of the previous year</i>	-	103.1	81.9	131.6	95.4	102.8	563.1
Tajikistan	19.58	25.16	18.47	17.41	13.71	15.03	109.36
<i>in % of the previous year</i>	-	128.5	73.4	94.3	78.7	109.6	727.6
Turkmenistan	100.3 1	104.7	86.43	59.02	69.43	84.36	504.25
<i>in % of the previous year</i>	-	104.4	82.6	68.3	117.6	121.5	597.7

Calculated based on the materials: [9]

The volume of trade between China and Kazakhstan in 2018 amounted to \$19.856 billion, an increase of 10.4%.

In 2018, bilateral trade between China and Kyrgyzstan amounted to \$5.601 billion, an increase of 2.8% over the same period last year. The main goods that China exports to Kyrgyzstan are footwear, clothing, chemical fiber, food, etc. The main goods that China imports from Kyrgyzstan are ores, concentrates, precious metals, honey and fruits.

In 2018, bilateral trade between China and Tajikistan amounted to \$1.503 billion, an increase of 9.63% over the same period last year. China's main exports to Tajikistan are machinery and equipment, textiles, electrical machinery, construction materials, footwear, vehicles and parts. The main commodities China imports from the tower are mineral products, cotton, raw leather and leather.

In many respects, Central Asian economies retain their raw material character. At the same time, the changes of prices for the main export goods of the Central Asian states - oil, gas and metals - remain unstable. Against the backdrop of an unfavorable external environment, governments face difficulties in budget execution, and sensitive devaluations of national currencies have been carried out.

The share of Central Asian countries in total exports of China in 2013-2018 decreased and is less than 0.5% (Table 2).

TABLE II. SHARES OF INDIVIDUAL CENTRAL ASIAN COUNTRIES IN CHINA'S EXPORTS, IN %

	2013	2014	2015	2016	2017	2018
Kazakhstan	0.41	0.37	0.26	0.24	0.27	0.25
Kyrgyzstan	0.06	0.05	0.04	0.06	0.06	0.06
Tajikistan	0.04	0.05	0.04	0.04	0.02	0.02

Turkmenistan	0.06	0.05	0.04	0.02	0.02	0.01
Uzbekistan	0.1	0.1	0.09	0.1	0.1	0.12
Central Asian region	0.67	0.61	0.47	0.45	0.48	0.47

Calculated based on the materials: [9]

The results of the analysis do not allow us to assert that China in its foreign trade strategy attaches disproportionate importance to the Central Asian countries [7]. Apparently, the growth of Chinese exports to these countries is a consequence of the overall growth of Chinese exports, as well as partly a consequence of the PRC's financial assistance to the Central Asian countries, intended for the development of transport and pipeline infrastructure between them and China.

The structure of each country's imports from China is less diverse than in the case of imports from Russia. The share of manufactured goods in imports is overwhelming - 90% and more, while the share of primary goods is small.

The structure of imports of industrial goods themselves is also different. For example, in Kazakhstan and Turkmenistan, the share of machinery and equipment (including vehicles) has significantly increased in recent years, reaching 30.9% and 49.4%, respectively, while the other three countries had this indicator in 2018 significantly lower - 16.8% in Kyrgyzstan, 17.8% in Tajikistan and 27.7% in Uzbekistan. At the same time, the share of machinery and equipment in imports from China for Kyrgyzstan and Uzbekistan, on the contrary, decreased.

The Chinese economy was developing rapidly in the past few years, the consumption of all types of raw materials and goods in the country increased, and as a result, China's share in exports of many Central Asian countries also grew up. The increase in China's share in Central Asian exports should be primarily associated with a significant increase in the supply of raw materials from these countries to the PRC, and primarily from Turkmenistan. So, in 2009-2010 China's share in this country's exports increased from 1.0% to 36.3%, and then gradually increased, having reached 70.7% in 2017 (Table 3).

TABLE III. SHARE OF THE PRC IN THE EXPORT OF CERTAIN CENTRAL ASIAN COUNTRIES, IN %

	2013	2014	2015	2016	2017	2018
Kazakhstan	17.0	12.3	11.9	11.5	12	10.3
Kyrgyzstan	3.2	2.7	3.8	6.8	5.8	6.2
Tajikistan	19.2	11.9	11.6	9.6	10.3	11.2
Turkmenistan	60.8	62.8	62.6	59.6	70.7	65.3
Uzbekistan	24.0	24.7	19.6	20.1	16.5	14.5
Central Asian region	23.8	21.4	20.3	18.8	18.8	17.3

Calculated based on the materials: [9]

It should be noted that raw materials dominate in the structure of exports of Central Asian countries to China - over 3/4 of total exports. In trade with China, Central Asia almost completely acts as a supplier of raw materials. However, for the countries of the region, the benefit of relations with China also lies in the fact that the latter opened Xinjiang Province quite a long time ago for the transit of goods of these states in the direction of Pakistan's Gwadar port [1]. This allowed them to diversify their export destinations through the countries of South Asia and the Persian Gulf.

For its part, by providing financial support for the construction of transport and pipeline infrastructure in Central Asian countries, China thereby facilitated the development of mutual trade and expanded opportunities for these countries to diversify their exports.

Nevertheless, in the exports of specific Central Asian countries, the shares of individual commodity groups differ significantly. Thus, in recent years, over 80% of export goods in Turkmenistan have been from the fuel and energy complex (mainly gas), while in Kyrgyzstan and Tajikistan, ores of various metals dominate - 49.5 and 60.5%, respectively.

However, such a high degree of dependence of Central Asian economies on commodity exports carries significant risks and problems associated with the volatility of world commodity prices. Their reduction can have a very negative impact on the economy of exporting countries, which makes it highly dependent on external factors.

As a possibility of influencing the economic policy of the Central Asian countries, it is worth mentioning the second direction, namely, investment activity.

China's direct investment in the Central Asian economy is significant. It should be noted that China is rapidly increasing its investment presence in Central Asia. This primarily concerns the oil and gas and mining industries. Along with its interest in energy, China also pays attention to areas such as telecommunications and transport infrastructure. Beijing uses a wide range of instruments, channels and financing schemes to implement its regional projects [8].

It should be noted that an increase in the inflow of foreign direct investment significantly expands possibilities of national economies in increasing their competitiveness. The value of foreign investors is not so much in attracting foreign currency, but in the fact that they bring along with financial resources new technologies and experience in organizing production and business. Most of funds are allocated on a bilateral basis (direct investments, loans, soft loans, grants), while other financial resources are allocated through international financial institutions and organizations (ADB, SCO, AIIB).

All Central Asian countries compete with each other for investors who are attracted primarily by a good business climate and the size of the market for the sale of manufactured products. Thus, the Central Asian countries have recently pursued more open market policies, which have further improved the investment and operating environment of China-funded enterprises. For example, Kazakhstan and Uzbekistan have more favorable tax policies for foreign investment in non-resource areas such as agriculture and textiles.

China's capacity building cooperation in Central Asia was initially focused on state-owned enterprises, and now private enterprises are also relatively active. In 2018, Chinese businesses invested \$15.64 billion in direct non-financial investments in 56 countries along the Belt and Road, up 8.9% year-on-year, having reached 13% of the total amount over the same period. They mainly invested in the countries of Central Asia, ASEAN, Africa and other regions.

In 2018, China's direct investment flows to Kazakhstan, Uzbekistan and Kyrgyzstan totaled \$1.489 billion, \$71.76 million and \$330,000.

In recent years, 55 large projects have been included in the list of cooperation between China and Kazakhstan, totaling more than \$27.4 billion. As of 2018, China has invested over \$43 million in Kazakhstan, and Kazakhstan has become the largest Chinese investment destination along the Belt and Road. Chinese investments in Kazakhstan mainly include oil and gas exploration, production, transportation and

warehousing, industry, construction materials, agricultural processing and other industries. The main products that China exports to Kazakhstan are mechanical and electrical products, metals and their products, and chemical products. The main goods imported by China from Kazakhstan are metals and their products, mineral products, chemical products, flour, vegetable oil, meat and honey.

According to the agreement, China is ready to invest in the development of the agrochemical cluster of Kazakhstan and a number of projects in the free economic zone of the Atyrau region. In addition, the Chinese Hydrochina Corporation and the Samruk-Energo Holding signed a memorandum on the construction of a small hydroelectric power plant and a project for the construction of a wind power plant in the Almaty region.

The accumulated investments of China in Uzbekistan exceed \$8 billion.

Chinese investments in Kyrgyzstan mainly include energy, rubber and plastic products, mining of non-metallic minerals, geological exploration and mining.

Chinese investments in Tajikistan are mainly concentrated in processing of metals, non-ferrous metals and building materials.

Concluding contracts with foreign projects to facilitate connectivity in Central Asian countries is the third area of cooperation between these countries.

The scope of project contracts includes both traditional industrial and civil engineering projects as well as large-scale interconnected infrastructure projects and large livelihood projects such as energy, water conservation and wastewater treatment.

The construction of overseas cooperation zones for the development of industrialization and international cooperation in the field of production facilities in Central Asia is mainly carried out in the form of infrastructure construction, trade investment and industrial cooperation, including industrial cooperation is mainly based on the creation of various foreign economic and trade cooperation parks.

Since 2013, many key projects for interconnected infrastructure have been implemented in Central Asia. Several overseas cooperation zones and industrial parks have become an important platform for Chinese enterprises to "enter" Central Asia (Table 4).

TABLE IV. CHANGES OF CHINA'S CONTRACT PROJECTS WITH FIVE CENTRAL ASIAN COUNTRIES, 2013-2017, USD MILLION

Country	2013	2014	2015	2016	2017	Total
Kazakhstan	29.17	23.58	23.47	27.58	22.38	126.18
Uzbekistan	7.06	4.98	6.12	4.91	5.03	28.1
Kyrgyzstan	7.12	5.87	5.49	5.57	4.79	28.48
Tajikistan	4.45	4.09	6.44	7.08	1.9	23.96
Turkmenistan	20.98	12.4	6.89	3.19	2.53	45.99

Calculated based on the materials: [9]

In 2018, Chinese enterprises signed 7,721 contracts with foreign contractors in countries along the Belt and Road for a contract value of \$125.78 billion, accounting for 52% of the newly signed contract value for projects with foreign contracts in China over the same period, down 12.8% over the same period last year. The total in 2017 was \$89.33 billion, accounting for 52.8% of the total for the same period, an increase of 4.4% year-on-year. Among them, in 2017, the

volume of China's engineering contracts in Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan and Turkmenistan amounted to \$2.238 billion, \$503 million, \$479 million, \$190 million and \$253 million, respectively.

As of the end of September 2018, China had 113 Overseas Cooperation Zones under construction and initial scale in 46 countries along the route, with a total investment of \$36.63 billion, 4,663 settled businesses and \$3.08 billion in the host country's taxes. Among them, \$20.13 billion were invested in 20 accredited foreign cooperation zones, placed in 873 enterprises and taxes and fees were paid in the amount of \$2.12 billion in the host country. As of the end of 2018, China has invested a total of \$36.48 billion in 82 overseas economic and trade cooperation zones that are being built in 24 countries along the Belt and Road, with more than 4,000 factories headquartered in the country, and paying \$2.4 billion in taxes and fees from the host country.

In general, the construction of various types of industrial parks and agricultural parks and other cooperation zones abroad has been steadily progressing, making the construction of the park clear advantages of industry aggregation and relatively concentrated preferential policies that promote economies of scale, effectively reduce corporate costs and improve overall. The international competitiveness of Chinese companies and the ability to resist foreign operations were also enhanced, as well as the development of industrialization in Central Asian countries.

As part of the Belt and Road cooperation, China and Central Asian countries have completed a number of important transport infrastructure projects, and to promote energy trade between Central Asia and China, China has built a relatively complete network of energy pipelines in Central Asia, including natural gas pipelines and oil pipelines. The main gas pipeline, including Turkmenistan and Uzbekistan, borders through Uzbekistan and Kazakhstan with Alashankou in Xinjiang, to China, from China - gas pipelines A, B, Central Asia, two lines, with their total length of about 1 million kilometers, annual gas throughput of about 300,100 million cubic meters of natural gas mainly comes from Turkmenistan, and line C, which also runs from the border between Turkmenistan and Uzbekistan, but enters China from the port of Khorgos in Xinjiang, has a design annual gas throughput of 25 billion cubic meters, and mainly transfers natural gas from Uzbekistan. These three pipelines have started normal gas transportation.

Another priority area of cooperation for China is energy security. China invests heavily in the energy sector, which includes minerals, oil, gas, oil exploration and prospecting, pipelines, roads, routes, etc. In the context of accelerated economic development, the PRC had to deal with energy security issues, so Central Asia turned out to be a promising route for diversifying fuel imports. China's economic interests in Central Asia were not limited to energy: it was necessary to develop the western regions, primarily Xinjiang, which borders the states of the region. For Beijing, seeking to diversify its sources of resources, the importance of Central Asia as a resource reserve is growing.

Within the framework of the international cooperation "Belt and Road", the importance of the countries of Central Asia for China is mainly reflected in the export of energy. Currently, China imports about 60% of China's natural gas imports from Central Asia each year, and China's imports

from Kazakhstan have reached a total of about 100 million tons. Turkmenistan and Uzbekistan are also the largest export markets.

III. CONCLUSIONS

Trade and economic relations between China and the five Central Asian countries are expected to grow in the future for the following reasons:

Firstly, Kazakhstan will continue to maintain friendly relations with the West, China and Russia and avoid overdependence on a particular country or bloc by diversifying trade and investment. Kazakhstan will continue to actively participate in China's Belt and Road Initiative to promote regional connectivity and infrastructure, although China's growing economic presence continues to face public discourse. It is predicted that in 2020, against the background of a weakening of the global kinetic dynamics of growth and a slight decline in oil prices, GDP growth in Kazakhstan will slow down to 3.4%.

Secondly, official Turkmenistan has always adhered to a policy of neutrality, and at present, the land is largely dependent on China, which is the only consumer of gas, therefore, diversification of gas export markets in the future will be an important goal of the economy and foreign policy of the government.

Thirdly, Uzbekistan is expected to pursue a more balanced and active foreign policy in the future to avoid overdependence on the country and at the same time improve relations with neighboring countries.

Fourthly, Tajikistan's external dependence on China is gradually growing due to government borrowing and investment in infrastructure, while Chinese banks take up a significant portion of Tajikistan's sovereign debt. China's private sector investment in Tajikistan's metalworking, aluminum and cement plants will also play an important role in the country's economy.

Fifthly, Sino-Kyrgyz relations have improved significantly in recent years, and China is expected to continue to expand its economic presence in Kyrgyzstan in the future and become a major source of infrastructure investment and concessional lending.

Thus, economic and trade cooperation has expanded from energy to diversified, from raw materials to investment and production potential. Finance, information, technology and other areas of cooperation has become a new bright spot.

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