
China as an Emerging Donor in Tajikistan and Kyrgyzstan



Nargis Kassenova

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Summary

China has become an important provider of development assistance (through grants and soft loans) to Central Asian states. The focus of this study is the two states of the region most in need of aid: Tajikistan and Kyrgyzstan. The paper discusses the characteristics of Chinese assistance, comparing its activities and policies in Central Asia with those in Africa, and draws conclusions about the implications of such growing engagement. Given the European Union's declared interest in the region, notably through its Strategy for Central Asia adopted in 2007, the opportunity is taken to suggest ways in which China's growing development role should be understood in Brussels.

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Introduction

Three decades of economic reform have left China as one of the world's biggest economies. In 2007, it was ranked the fourth largest economy in the world in terms of GDP and the second largest at purchasing power parity rates. In a relatively short period, a poor, largely agrarian country turned into the “world's factory” and now holds the world's largest financial reserves.

One of the results of the transformation of China is its new and enthusiastically embraced role as a development assistance provider. While throughout 1980s and 1990s China was mostly on the receiving end of aid transfers, in the new millennium it has substantially increased its assistance abroad in the form of both soft loans and grants. This trend accompanied expanding trade relations and the intensification of China's global search for natural resources. Therefore, the main recipients of Chinese assistance have been Asian neighbors—including the Central Asian states—and resource-rich African countries.¹

Chinese development assistance proved highly competitive. This is due to a number of factors. Firstly, its lack of conditionality: a characteristic of Western donors, who demand reforms in return for aid.² Therefore, regimes of the recipient states feel more comfortable with the assistance. Secondly, China can deliver results quickly and effectively thanks to its cheap and efficient labor force.

Governments of recipient states are highly appreciative of Chinese development assistance. At the same time, at the level of political and economic elites and the public, concerns are expressed about the negative impact of this assistance and the general increase of China's presence that accompanies it. Local industries are endangered because they are unable to compete with their Chinese equivalents. Chinese companies bring labor with them, therefore few jobs are created and no technology transfers take place. In Central Asia, there are also fears of Chinese migration and the demographic and cultural challenge that it presents.

While Chinese development assistance to African countries has received considerable attention and has been the object of several studies,

¹ There are no official estimates of geographic distribution of China's development assistance. Approximately 40% goes to Asia, 25% to Africa, 13% to Latin and Central America and 10% to other countries. See G.T. Chin and B.M. Frolic, “Emerging Donors in International Development Assistance: The China Case,” Partnership and Business Development Division, IDRC CRDI, December 2007, p. 12.

² Chinese Ministry of Foreign Affairs website, “China's Independent Foreign Policy of Peace,” 18 August 2003, <www.fmprc.gov.cn/eng/wjdt/wjzc/t24881.htm>.

there is virtually no literature discussing China's aid to Central Asia.³ This study takes this void as its starting point, attempting to provide an attentive overview of China's ongoing activities as a development assistance provider in Central Asia—helping to explain Chinese policies in the region.

Although all five Central Asian states—Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan and Turkmenistan—benefit to different extents from Chinese development assistance, this study focuses on two of them, Tajikistan and Kyrgyzstan. The reasons behind this choice are the following:

- Tajikistan is the main beneficiary of Chinese development assistance (out of 900 million US dollars in loans offered by President Hu Jintao in 2004, it received 600 million US dollars);

- Kyrgyzstan's share is smaller but could increase once projects currently under negotiations (the construction of the China-Kyrgyzstan-Uzbekistan railway and participation of Chinese companies in the hydropower sector) begin. Furthermore, Kyrgyzstan's trade with China is much more extensive than Chinese-Tajik trade, and Kyrgyzstan is the destination of many Chinese traders and labor migrants;

- Tajikistan and Kyrgyzstan are the poorest countries in Central Asia and therefore most in need of foreign investment and assistance; that makes them more vulnerable to external pressures; the actors who gain more influence in these two states could ultimately influence the destiny of the region as a whole.

Having analyzed China's interests in Central Asia and the way they are pursued through development assistance, an attempt is made to draw some conclusions which may help the European Union (EU) in the elaboration of its Central Asian policy.

³ The only exception is S. Peyrouse, "Economic Aspects of the Chinese-Central Asian Rapprochement," *Silk Road Papers*, September 2007, <www.silkroadstudies.org/new/docs/Silkroadpapers/2007/0709China-Central_Asia.pdf>.

China's Approach to Development Assistance

Evolution and special features of China's development assistance

China started providing aid to other developing countries in the mid-1950s. Its goals were to assist post-colonial countries to modernize and become self-reliant ("poor helping the poor"); to advance Communist internationalism, and later to promote non-alignment in the Third World; and to mitigate the influence of Taiwan's government. Assistance was guided by the "Eight Principles for China's Aid to Third World Countries" put forward by Zhou Enlai in 1964: emphasis on equality and mutual benefit; respect for sovereignty and without conditions attached; provision of interest-free or low-interest loans; helping recipient countries develop independence and self-reliance; building projects that require little investment and can be accomplished quickly; providing quality equipment and material at market prices; effective technical assistance; and paying experts according to local standards.⁴

In the late 1970s China started reconsidering the guidelines for its development aid. The ideological aspect was put aside in favor of China's own development priorities. In 1983 the government outlined four principles: equality and mutual benefit; stress on practical results; diversity of forms; and pursuit of common progress. It favored projects that were economically beneficial for both China and the recipient country.

China's development aid has been consistent, but constrained by scarce resources nonetheless. In the 1980s and 1990s it was largely on the receiving end of development assistance. However, the dramatic growth of two decades of transition to the market system changed that. China has now become an important provider of development assistance.

There are a number of features that mark Chinese development assistance from that of traditional donors. Firstly, it lacks clarity and transparency. Unlike the OECD Development Assistance Committee (DAC) countries, the Chinese government does not have an official definition of

⁴ G.T. Chin and B.M. Frolic, *op. cit.* [1], p. 4.

what constitutes development aid.⁵ In fact, the terms “development aid” and “development assistance” are used when discussing Western donor activities. Chinese prefer the terms “South-South cooperation” and “strategic partnership” (featuring “political equality and mutual trust, economic win-win cooperation and cultural exchanges”).⁶

The Chinese government does not have a dedicated body in charge of development assistance and does not publish reports providing consolidated information on foreign aid. Experts dealing with the issue make their own calculations on the basis of publicly available information, mostly media reports. Chinese officials are generally unwilling to discuss both the geographic and sectoral distribution of disbursements.⁷

According to the study carried out by the Center for Chinese Studies of the University of Stellenbosch, the process of defining forms development assistance is currently underway.⁸ However, it is unlikely that it will give up the “solidarity of the South” rhetoric any time soon. As for the mechanisms of providing assistance and transparency, improvement can be expected, since China cares about its reputation as a responsible international stakeholder.

The second important feature is lack of conditionality. Chinese politicians and experts emphasize that their country’s foreign policy is guided by the principles of noninterference in internal affairs and treatment of other countries as equals. Such a policy together with readiness to render development assistance help China position itself as a benevolent great power with a global reach, sensitive to local concerns and a source of wellbeing and order.

Large portions of China’s development assistance are channeled into apolitical infrastructure projects, while capacity building is much less emphasized than is in the case of Western donors. China offers its own example of development but does not impose blueprints and models to follow.

Thirdly, China’s development assistance policy is first and foremost guided by its own development needs. Chinese officials always stress that China remains a developing country and that it should therefore not be compared to traditional donor nations.⁹ This approach is reflected in the guiding principles of *lisuonengji* (to the best of one’s own abilities), *liangli erxing* (to act within one’s own abilities), and win-win cooperation.

Assistance is tightly linked with the promotion of Chinese business interests. The key condition of soft loan provision is the participation of

⁵ Official Development Assistance (ODA), as defined by the Development Assistance Committee of the OECD, comprises those flows to developing countries, territories and multilateral institutions provided by official national agencies mainly for the promotion of economic development and welfare. It includes technical cooperation assistance. ODA is concessional in nature with a grant element of 25% or more.

⁶ The Declaration of the Beijing Summit of the FOAC, 5 November 2006.

⁷ G.T. Chin and B.M. Frolic, *op. cit.* [1], p. 12.

⁸ M. Davies, *How China Delivers Assistance to Africa*, Center for Chinese Studies, University of Stellenbosch, February 2008, p. 1.

⁹ *Ibid.*, p. 4.

Chinese companies. The Chinese government uses the credits to support the regional and global expansion of national champions, such as state oil companies CNPC, Sinopec, CNOOC; construction companies, such as China Road and Bridge or China Railway company; mining companies, such as Zijin Mining; and so on. This is part of the “Go Out” China development strategy. It is worth noting that the Chinese government cares about the reputation of Chinese companies carrying out projects overseas. If a company is found lacking, it is stripped of its contract, repatriated, and faces having its domestic trading license revoked.¹⁰

Another objective is to gain access to the natural resources necessary to sustain China’s economic growth. China is a major net-importer of oil, and its energy needs are growing. To assure its energy security, the Chinese government takes great pains to advance relations with oil-rich states. The latter are often poor, underdeveloped, and authoritarian. Therefore, they gladly receive China’s “no strings attached” aid. In return for the benefits of good relations with Beijing, they give Chinese companies access to oil and gas fields. The same scheme can be used to gain access to various metals, also necessary for Chinese development. To secure Chinese investments, Beijing developed the resource-backed loans scheme. The recipient country provides its resources (for example, gold) as security for the loan (“Angolan model”). The Chinese government has been promoting similar “assets for resources” arrangements in Central Asia.

Fourthly, as indicated above, China has not joined the established donor community. It is an autonomous and often an alternative development assistance provider. However, it is gradually responding to the efforts of Western donors to engage it in dialogue and coordinate activities. In 2006 the Chinese government together with the UNDP, and with the support of other development organizations (the World Bank [WB], the Asian Development Bank [ADB], the British Department for International Development and the German GTZ), launched the International Poverty Reduction Center in China (IPRCC). The IPRCC focuses on research, expert exchange and training related to poverty reduction. In 2006, it also started another project together with the UNDP—the China-Africa Business Council (CABC), which is to coordinate feedback from African participants and input from the ADB and Chinese businesses and industry associations. In Central Asia, China is involved in the Central Asian Regional Economic Cooperation (CAREC) program, launched in 1997 by an alliance of multilateral agencies (the ADB, the European Bank for Reconstruction and Development, the International Monetary Fund, the Islamic Development Bank [IDB], the UNDP, and the WB).¹¹ China participates in the program as a donor and as a recipient.

China is cautious when it comes to multilateral cooperation arrangements with traditional donors. Rather than integrate the established development community completely, Beijing is experimenting with its own

¹⁰ *Ibid.*, p. 20.

¹¹ CAREC members are Afghanistan, Azerbaijan, China (focusing on Xinjiang Autonomous Region), Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan.

multilateral bodies. In 2000 it launched the Forum for China-Africa Cooperation (FOCAC). In Central Asia, China was instrumental in the creation of the Shanghai Cooperation Organization (SCO) in 2001. Since then, China has used it to promote economic cooperation with Central Asian states based on trade and development assistance.

Mechanisms for providing development assistance

While the definitions of development assistance are still under construction, the mechanisms for rendering it are already in place. China's development aid is delivered in three ways—grant aid, interest-free loans, and concessional loans. Grants tend to be disbursed in kind, through various projects, as requested by the recipient country, this helps to minimize corruption. Preferential or concessional loans are extended by the Government and provided by the China Export-Import Bank (Eximbank) and given an interest subsidy by the Ministry of Commerce (the ministry approves this process and the funds for the interest subsidy are taken from the budget allocated to foreign aid that sits with the Ministry of Finance).¹² These are medium to long-term loans with an emphasis on the profitability of projects.

As a rule, concessional loans are officially extended to the recipient country, although the recipient government may never actually receive the funding. It may be directly transferred to the approved implementing company as soon as they have won the tender, with the recipient country invoiced as the official payee of the loan. Thus, the money stays in the Chinese system. According to its regulations, concessional loans are used for procuring equipment, materials, technology and services, with no less than 50 percent of the contract's procurement coming from China. Eximbank is the sole administering body for concessional loan financing.¹³

Chinese development assistance projects are mostly of a turnkey nature. Chinese companies who win a tender bring their own specialists, labor and equipment. According to the study of the Center for Chinese Studies there is no automatic preference for Chinese labor, but given the lack of specialized skills in many recipient countries, the import of Chinese skilled labor is sometimes required.¹⁴ Besides, the use of reliable and cheap Chinese labor helps to ensure that project deadlines are met and that projects are delivered within budget.

¹² For example, if a concessional loan was given with a 3% interest rate, and the commercial interest rate is 8%, the remaining 5% is paid out of the pot of funds designated as "foreign aid" by the Ministry of Finance.

¹³ See: <<http://english.eximbank.gov.cn>>.

¹⁴ M. Davies, *op. cit.* [8], p. 17.

China's Development Assistance to Tajikistan and Kyrgyzstan

China's interests and policies in Central Asia

Before the break-up of the USSR, contacts between China and Central Asian republics were minimal. Once the Central Asian states became independent, Beijing started actively building bilateral relations. Its general policy toward the region has been developed in the framework of “good neighborliness” formulated as the wish to “maintain friendly relations with neighbors, to make them feel secure and help them get rich” (*mulin, ailin, fulin*).

The initial priority of this policy was settlement of border disputes between China and three Central Asian states—Kazakhstan, Kyrgyzstan and Tajikistan.¹⁵ In April 1996 China, Russia, Kazakhstan, Kyrgyzstan, and Tajikistan signed the “Treaty on Deepening Military Trust in Border Regions.” The parties reduced troops in the border areas and introduced other confidence building measures. China settled territorial disputes with Kazakhstan in 1998, with Kyrgyzstan in 1999, and with Tajikistan in 2002.

Officially, the agreements were lauded as big diplomatic successes for Kazakhstan, Kyrgyzstan and Tajikistan. However, their populations generally viewed them negatively. The discontent with the “transfer of Kyrgyz land” by corrupt politicians became one of the main drivers of rallies, demonstrations and hunger strikes in Kyrgyzstan during spring 2002, culminating in violence in Aksy district. In Tajikistan, the Pamir branch of the Social-Democratic party wanted to hold a demonstration in response to the delimitation agreement, which in their opinion damaged the interests of the local population, but they were prevented from doing so. Newspapers that raised the issue were closed down.

Once the border delimitation and security problem was solved, Beijing could focus on another security issue—separatist movements in Xinjiang autonomous region. From the very beginning, Central Asian governments showed readiness to cooperate with China on this. In 1998, China, Russia, Kazakhstan, Kyrgyzstan and Tajikistan, members of the

¹⁵ China's border with Kazakhstan is about 1,700 km, with Kyrgyzstan—1,000 km, and with Tajikistan—450 km.

“Shanghai Five” forum created in 1996 to deal with border security, signed a statement proclaiming that they would unite to combat terrorism and that none would allow its territory to be used for activities that harm the sovereignty, security, and social order of another member state. In June 2001, the “Shanghai five” was joined by Uzbekistan and they formed the Shanghai Cooperation Organization (SCO) with the goal of combating terrorism, separatism and extremism.¹⁶

Towards the end of the 1990s, Chinese interests started shifting from military-political security to energy and commercial issues. Since 2001, harsher competition for energy reserves globally made energy the central focus of Beijing’s strategy and diplomacy in Central Asia.¹⁷ China has made investments in the energy sectors of Kazakhstan, Uzbekistan and Turkmenistan. It built the Atasu-Alashankou pipeline connecting oil fields in central Kazakhstan with refineries in Xinjiang. It also started implementing ambitious plans to bring Turkmen and Uzbek gas to the Chinese market in order to help diversify China’s energy supplies.¹⁸

Apart from oil and gas, Central Asian states provide China with ferrous, non-ferrous and rare metals. The participation of Chinese companies in the mining sectors in Central Asia has also increased. In return Central Asian states import Chinese manufactured goods. The volume of trade has skyrocketed. In 1992 trade between China and Central Asian states (excluding Turkmenistan) was around 500 million US dollars in 1992, in 2005 it reached 8.7 billion US dollars.

The opening of new routes between China and Central Asia facilitated trade. There are now five road and railway routes linking China and Central Asia. In addition, China has opened more than fifty international truck transport lines to Central Asia.

China has made considerable investments in the construction of transport infrastructure connecting China with Central Asia and modernization of roads inside the region. These investments advance two goals. Firstly, they provide Chinese businesses, especially those of the Xinjiang region, with nearby markets and create opportunities for bringing Chinese goods to other markets via Central Asia. In the words of one Kazakhstani sinologist: “It is hard to overestimate the ‘contribution’ of Central Asia in the development of Xinjiang.”¹⁹ Since the 1990s, more than 80 percent of Xinjiang’s foreign trade has been with Central Asian states.

Secondly, in the view of Chinese experts, economic cooperation is mutually beneficial for it creates opportunities for the development of this landlocked region, thus promoting overall security. China wants to create a

¹⁶ S. Aris, “Russian-Chinese Relations through the Lens of the SCO,” *Russie.Nei.Visions*, No. 34, September 2008, <www.ifri.org/files/Russie/Ifri_RNV_Aris_SCO_Eng.pdf>.

¹⁷ H. Zhao, “Central Asia in China’s Diplomacy” in E. Rumer, D. Trenin, and H. Zhao (eds), *Central Asia. Views from Washington, Moscow and Beijing*, Armonk & London, M.E. Sharpe, 2007, p. 144.

¹⁸ *Ibid*, p. 146.

¹⁹ K. Syroezhkin, “Kazakhstansko-kitayskoe torgovo-ekonomicheskoe sotrudnichestvo: sostoyanie i problemy” [Trade and Economic Cooperation between Kazakhstan and China: Current State and Problems], *Kazakhstan v globalnykh problemakh* [Kazakhstan in Global Problems], No. 1, 2006, p. 48.

belt of stable and friendly states around its borders. Since 2000 Beijing has been increasingly generous with development assistance. At the Tashkent SCO Summit in 2004, in order to promote economic and social development of SCO member countries, Chinese President, Hu Jintao, made the commitment to provide 900 million US dollars of preferential export buyer's credit to SCO member countries.²⁰

The economic cooperation "modus operandi" in Central Asia is similar to that in Africa. China promotes trade by providing credits to its companies and helping to establish free economic zones (FEZs). The pioneers in this regard were Kazakhstan and Kyrgyzstan, establishing FEZs in the early 1990s. Tajikistan set up two FEZs in October 2008. In September 2003, China's Premier Wen Zhibao proposed the creation of an FEZ in the framework of the SCO. The idea was received with caution by less economically vibrant SCO members (Russia and Central Asian states).

Trade between China on the one hand and Kyrgyzstan and Tajikistan on the other hand has expanded significantly since the Central Asian states gained independence. At present, China is Tajikistan's fourth biggest trading partner after Russia, Turkey and Kazakhstan.²¹ Trade turnover has been rising dramatically: in 1992 it was 2.75 million US dollars, in 2004 it reached 68.93 million US dollars, in 2006 it amounted to 234.81 million US dollars; between 1996 and 2006, China's exports to Tajikistan grew by almost 3000 percent (from 7.64 million US dollars to 218.43 million US dollars).²² China is planning to set up a FEZ in Karasu near the checkpoint on the border between PRC and Tajikistan similar to that of Dostyk and Khorgos in Kazakhstan.²³

In 1992 the volume of Chinese-Kyrgyzstan bilateral trade stood at 35.84 million US dollars, in 2004—602 million US dollars, and in 2006 reached 1.644 billion US dollars (out of which 1.549 billion US dollars was the share of Chinese exports). The effect on the Kyrgyz economy of this massive trade is both positive and negative. It creates jobs and people have access to cheap, good quality products. However, the local production finds itself unable to compete.

China's development assistance to Tajikistan

Tajikistan is the main recipient of China's development assistance. Out of 900 million US dollars in preferential credits offered by Beijing to SCO states, it borrowed 600 million US dollars. In addition, it received 30 million US dollars in grants (as of January 2007). The PRC rendered assistance in

²⁰ *People's Daily Online*, 18 June 2004,

http://english.people.com.cn/200406/18/eng20040618_146720.html.

²¹ According to the State Statistics Committee, the top four trading partners of Tajikistan in 2006 were Russia (37%), Turkey (32.5%), Kazakhstan (13%), and China (11.5%).

²² H. Zhao, *op. cit.* [17], p. 177.

²³ The Karasu-Kulma checkpoint on the Tajik-Chinese border was opened in May 2004. Before there was no direct communication between these two countries.

the training of personnel for different sectors of the economy, culture, education, military, border guard and national guard.

The biggest Chinese-financed projects so far are the reconstruction of the Dushanbe-Chanak highway, including the construction of the Shahrstan and Shar-Shar tunnels, and installation of high-voltage power transmission lines North-South and Lolazor-Khatlon.

In 2004 President Hu announced the readiness of PRC to provide preferential buyers credits. The Tajik government prepared 53 project proposals for 1 billion US dollars. In March 2006, the Tajik government and Eximbank, the sole manager of concessional loans, signed a memorandum of mutual understanding. The Chinese approved three big projects (the construction of the Lolazor-Khatlon and North-South power transmission lines and the reconstruction of the Dushanbe-Chanak-Khujand highway) and conducted tenders among Chinese companies.

The Lolazor-Khatlon project was launched in May 2006 and completed in June 2008. The Chinese Tebian Electric Apparatus Stock Company (TBEA) built a 90-km long 220-kV power line between Dangara and Kulab. The total cost was around 58 million US dollars, of which 55.1 million US dollars were covered by the Chinese loan and 2.9 million US dollars were contributed by the Tajik government. It provides the Khatlon region with electricity produced by Sangtuda 1 and 2 Hydropower Plants (HPPs). In the future it can be used to export electricity to Afghanistan.²⁴

The same company, TBEA, is in charge of the construction of the 350-km long North-South power line. It also began in May 2006 thanks to an Eximbank loan of 267 million US dollars. It is expected the project will be completed by spring 2010.

The Dushanbe-Khujand-Chanak highway project started in July 2006. According to the agreement, the China Road and Bridge company was to reconstruct the 354km highway connecting Dushanbe, the capital of Tajikistan, with Khujand, the center of the northern province, and the town of Chanak on the border with Uzbekistan. A series of galleries and tunnels will make it possible to use the road during heavy snows. Previously, in winter the north and south of the country could be disconnected for weeks and months. It is expected that the works will be finished by August 2010. Eximbank provided a loan of 281 million US dollars, while the total cost stood at 295.9 million US dollars.

Among the project proposals submitted by the Tajik government was the construction of the Shar-Shar tunnel on the Dushanbe-Kulab road. Agreement was reached in July 2005, and in June 2006 the Tendering Board of Foreign Assistance Projects of the Chinese Ministry of Commerce approved the bid of the Chinese Railway Company. Construction was underway by October. The 2.23km tunnel that is being built under the Shar-Shar pass, 80 km southeast of Dushanbe, will link the capital with the country's east. The estimated budget for the project is 38 million

²⁴ Asia-Plus News, 25 June 2008, <www.asiaplus.tj/news/16/33613.html>.

US dollars. China is investing some 30 million US dollars in the construction, which is scheduled to be finished in August 2009.

The tunnel will decrease the time from Dushanbe to Dangara, President Rakhmon's hometown, by 40 minutes. Interestingly, unlike other grants, this grant was not listed in the 2006 foreign aid reports of the State Committee on Investments and State Property Management of the Tajikistan. However, it is mentioned as gratuitous aid of the Government of China in the more recent Development Partner Profiles 2008-9 also published by the Committee.²⁵ The agreement on technical-economic cooperation (a grant for the construction of the Shar-Shar tunnel) was signed during the visit of President Hu to Tajikistan in August 2008. Several respondents perceived it as a present to President Rakhmon.

The total amount of Eximbank loans is 603.55 million US dollars, which amounts to more 43 percent of all foreign credit investments making it Tajikistan's biggest creditor. The Asian Bank of Development (ABD) is in the second place with 201.95 million US dollars (14.53 percent) and the WB in the third with 118.1 million US dollars (8.5 percent). The loans are for about 20 years, with repayments starting in 2011.²⁶

As a result, China has become the biggest investor in Tajikistan (just ahead of Russia) and the biggest debt holder.²⁷ Considering that during President Hu's visit to Dushanbe in August 2008, it was announced that Eximbank is going to provide another 400 million US dollars in soft credits for various Tajik projects, this debt is going to increase.²⁸

One of the surprising findings of the field research was that while political experts confidently listed the loans provided in the SCO framework, officials directly responsible for monitoring these loans were not sure which were SCO loans. They monitored them as normal bilateral credits. Another finding was that Chinese projects have minimal or no technical assistance part. Companies bring their own specialists and workers.

The policy of importing labor leads to an apparent paradox. While Tajik workers migrate to Russia and Kazakhstan in great numbers and on a regular basis, jobs on construction projects in Tajikistan are filled with Chinese workers. Tajiks engaged in the projects are few and they are mostly drivers or occasional manual labor workers. The agreement stipulates that Tajik workers should make up at least 30 percent of the labor force, but all respondents agreed that it is not the case.²⁹

The following explanations of this situation can be put forward. Chinese companies prefer to use Chinese labor because the latter are

²⁵ State Committee on Investments and State Property Management of the Republic of Tajikistan in cooperation with the UNDP in Tajikistan, "Development Partner Profiles 2008-2009", Dushanbe 2008, p. 69.

²⁶ <TopTJ.com>, 14 August 2008, <www.toptj.com/ShowNews.aspx?news_id=0259E607-4515-4704-8806-75AFC2C3CEE5>.

²⁷ "Tajikistan: An Economic Perspective," Issue 6 (59), 4 July 2008, <www.asiaplus.tj/en/articles/179/2327.html>.

²⁸ Web-site of the President of the Republic of Tajikistan, <www.president.tj/rus/novostee_270808b.html#>.

²⁹ Interview with deputy director of a leading research center, Almaty, June 2008.

disciplined, hardworking and cheap. An average salary of engineers is about 3000 yuan (around 340 US dollars), and workers can receive 100 US dollars.³⁰ A freelance journalist David Trilling on the basis of his interviews with Chinese workers gives the figure of 10 US dollars a day.³¹ Tajik labor cannot compete with Chinese workers.

The quality of labor and support of the state makes Chinese companies highly competitive. Apart from Chinese financed projects, they also win tenders in projects funded by multilateral donors, such as the WB and ADB. The China Road and Bridge company won the tender to build part of the Dushanbe-Osh road financed by the ADB.

While in Kazakhstan and Kyrgyzstan the issue of Chinese labor occasionally becomes politicized (triggered by fears of Chinese “infiltration”), in Tajikistan it is seen fairly neutrally. It is not raised in local media. One report by the Asia-Plus news agency focused on Chinese labor in Tajikistan. One was about the extinction of rare fauna (snakes and turtles) along Chinese construction sites due to the gastronomic preferences of guest workers. Another one by Avesta dealt with clashes between Chinese workers and locals in Kulab. According to the head of Asia-Plus, Tajik-language newspapers ran a few articles about the danger of Chinese migration.³²

There are no official estimates for the number of migrant laborers. According to an interview at the Center for Strategic Studies, in 2007/8 4,000 visas were issued to Chinese workers.³³ Respondents gave numbers ranging between 7,000 and 10,000. Reportedly, there are about 30,000 Chinese nationals working on various infrastructure projects in Tajikistan.³⁴ Some respondents expressed concern about the growing numbers of Chinese in the country.

Some respondents expressed their concern about the overall impact that economic cooperation and increase in bilateral trade would have on the economy of Tajikistan. Cheap products from China are threatening local production. The more roads there will be with China, the more incentives will appear for locals to switch from agriculture or manufacturing to trade.

China, due to its soft credits, is the biggest investor in Tajikistan, just ahead of Russia. However, its foreign direct investments (FDI) volume has been relatively small. According to the State Agency for Foreign Investments of the RT, as of 1 April 2008, China had invested 50.14 million US dollars. The investments were mostly made in two sectors: mining and communications. In 2007 a Chinese company bought 75 percent plus one share in a gold-mining Joint Venture Zarafshan for 4.15 million US dollars,

³⁰ Personal correspondence with deputy director of a leading research center, November 2008.

³¹ D. Trilling, “Tajikistan: A Chinese Road to the Future?” *Eurasia Insight*, 8 January 2007, <www.eurasianet.org/departments/insight/articles/eav080107a.shtml>.

³² Interview with a Tajik journalist, Dushanbe, June 2008.

³³ Interview with an Tajik analyst, Dushanbe, June 2008.

³⁴ D. Trilling, *op. cit.* [31].

and in 2008, a Chinese telephone company bought a Tajik mobile phone operator TK Mobile for 26.66 million US dollars.³⁵

During his first official visit to Tajikistan in August 2008, Hu Jintao indicated several areas for deeper cooperation: telecommunications; manufacturing; food processing; mining of coal, uranium and other minerals; and the building of power stations. During that visit Zijin Mining, China's top listed gold producer, signed a memorandum of understanding with the Government of Tajikistan. Zijin plans to invest 146 million US dollars in a gold mining project in Tajikistan and is considering mining silver and zinc.³⁶

Hydropower production is another sector China is ready to invest in; it needs electricity for the development of its Western regions. In 2006 one of the biggest Chinese companies specializing in the construction of dikes, dams and hydro-power stations, Sinohydro, announced its plans for a number of projects on the Zarafshan and Surhob rivers. In January 2007, Sinohydro signed an agreement with Barqi Tojik (Tajik Electricity) on the construction of an HPP on the Zarafshan river. Under the agreement China Eximbank was to provide a preferential loan of 200 million US dollars for implementing this project. The plant was to help reduce the dependence of Tajikistan (especially the Penjikent district) on electricity imported from Uzbekistan and Kyrgyzstan. However, in July 2007 Sinohydro suddenly withdrew from the project. The general understanding is that it had to do so under pressure from Uzbekistan where China has important energy projects; Tashkent is worried that the building of HPPs in Tajikistan will reduce water available downstream in Uzbekistan.

It is worth noting that while the elite in Kazakhstan and Kyrgyzstan fear the increased economic role of China will eventually translate into political influence, Tajik respondents did not express such concerns. It can be speculated that with the increase in the engagement of China in Tajikistan, the Tajik government's responsiveness to Chinese interests and concerns will increase too. One example of such sensitivity was the official denunciation of this year's riots in Tibet made by the Tajik Ministry of Foreign Affairs.

China's development assistance to Kyrgyzstan

Kyrgyzstan is another major recipient of development assistance in Central Asia. China's share in it has been small so far, however, it can be expected to grow in the near future.

As part of its good-neighbor policy, China has been providing grants to the government of Kyrgyzstan. It is hard to assess the total volume, but

³⁵ Interview at the State Agency for Foreign Investments of the RT, June 2008.

³⁶ *China Daily*, 31 July 2008, <www.chinadaily.com.cn/bizchina/2008-07/31/content_6893900.htm>.

the Ministry of Economic Development and Trade of KR gives the following figures for China's technical assistance: 1.82 million US dollars in 2000-2001, and 7.248 million US dollars in 2002-2004.³⁷ The Chinese government gave grants for the construction of the National Hospital and a number of schools, agricultural development, and other projects. It also provided more than 50 million yuan (equivalent of 7.4 million US dollars) to support the holding of the SCO's Bishkek summit in August 2007.

The first experience of Chinese soft loans was not a success story. In April 1994 Chinese and Kyrgyz governments signed an agreement on the construction of a Kyrgyz-Chinese paper factory in the town on Tokmok. It specified that China was to give a 50-million yuan (about 7.4 million US dollars) state credit over 10 years with a 4 percent interest rate. The condition was the procurement of Chinese machinery, equipment and spare parts necessary for the construction of the factory. In April 1998 Eximbank signed a new agreement for preferential credit for 100,000 yuan (about 14.7 million US dollars) for 15 years with a 3 percent interest rate. Production was launched with great pomp in 2002. However, within three years the factory went bankrupt. The state audit found major financial wrongdoings and violations of the migration regime by Chinese employees.³⁸

The second major project was negotiated in the framework of China's preferential loans to SCO countries. It was agreed that Eximbank would provide 70 million US dollars for the construction of a cement plant in Kyzyl-Kiya (Batken region). It is interesting that the credit is guaranteed by the Kazakh Turan-Alem Bank, thus making the cooperation trilateral. The plant is to be built by the Chinese CAMC Engineering with production planned to start in March 2009. Once it is in business and reaches full capacity of 2,500 tons a day, it will satisfy the need of the south of the country in cement and can export to the rest of Central Asia.³⁹

As in Tajikistan, China is showing interest in the development of Kyrgyzstan's transport infrastructure. Previously, it invested 7.5 million US dollars in the construction of the China-Kyrgyzstan highway connecting Kashgar in Xinjiang Autonomous Region with the Kyrgyz Irkeshtam and Osh (the project was funded by the IDB).⁴⁰ It is planned to finish the rehabilitation works on the Kyrgyz part of the highway by the end of 2010.

At present, the Kyrgyz and Chinese governments are negotiating the construction of the China-Kyrgyzstan-Uzbekistan railway.⁴¹ The Chinese side already decided on the construction of the Kashgar-Torugart railway and included the project in its 2006-2010 5-year development plan. The realization of the Kyrgyz part (Torugart-Uzgen-Kara-Suu, 268km) is more problematic. Although the government of Kyrgyzstan is very much

³⁷ Website of the Ministry of Economic Development and Trade of the Kyrgyz Republic, <www.mert.kg/investments/assistance_strategy/technical_assistance>.

³⁸ Kyrgyzstan Development Gateway, 9 January 2006, <<http://rus.gateway.kg/news/kyrgyzstan/economics/1162>>.

³⁹ *Russian Business*, 27 August 2007, <www.rb.ru/news/business/2007/08/27/113633.html>.

⁴⁰ *People Daily*, 2 September 2006, <http://english.peopledaily.com.cn/200609/02/eng20060902_298887.html>.

⁴¹ In perspective, it can become part of the Beijing-Paris transport corridor.

interested in the construction, it has no money budgeted to finance it. According to the preliminary assessment made in 2006 (financed with a 2.12 million US dollar grant from the PRC), the project would cost 1.3 billion US dollars—about 2 billion US dollars taking inflation into account. The high price tag is due to the difficult mountainous terrain, the highest point being at 3,600 meters above sea level.

The Kyrgyz government is intent on building a coalition of investors. However, investors are hesitant for they doubt the profitability of the project. In 2006, the Chinese put forward a proposal to provide 1.2 billion US dollars in preferential credits for the railway construction in return for access to mineral resources. They were especially interested in gold, which once mined would be deposited in the Development Bank of China (DBC), to be returned to Kyrgyzstan once the railway investment starts producing returns.⁴² The proposal caused a lot of controversy in Kyrgyzstan, with some experts arguing that it is not the most prudent way to use national resources.⁴³

China's FDI in Kyrgyzstan have been relatively small. According to respondents at the Ministry of Economic Development and Trade of the KR, since 1999 they amounted to about 60 million US dollars (lagging behind the investments of Russia or Kazakhstan). They went mainly into the construction of small plants and mining. Among the largest projects were the acquisition by China's Shen Zhou Mining of a gold and copper mine in the west of Kyrgyzstan for 10 million US dollars in December 2007 and the 25.3 million US dollar deal in February 2008 by Lingbao Gold to develop the Istanbul gold mine.⁴⁴

China is interested in importing Kyrgyz electricity, and the Kyrgyz government has consistently invited Chinese investments into its hydropower sector. In 2004 China and Kyrgyzstan formed a partnership for the construction of two HPPs on the Naryn river, but the deals were scrapped because of the "Tulip Revolution" in 2005. Considering that the interest is mutual, new deals between Kyrgyz and Chinese energy companies can be expected.

Attitudes to China are mixed among the political elite and scholarly community. As already mentioned, the border delimitation deal signed by Askar Akayev's government was harshly criticized by many opposition members with the discontent leading to the bloody Aksy events. After the "Tulip Revolution," Beijing was worried about the fact that some politicians with anti-Chinese sentiments came to power. However, after the new president Kurmanbek Bakiyev made a visit to Beijing in June 2006, they felt reassured.

The major concern is the migration of Chinese traders and workers to Kyrgyzstan. It was conditioned by convenient communication routes and

⁴² <24.kg>, 15 August 2006, <<http://24.kg/economics/2006/08/15/5770.html>>; <NBCentral Asia>, 13 November 2006, <www.iwpr.net/?p=bkg&s=b&o=325357&apc_state=henbbkgdate2006>.

⁴³ <NBCentral Asia>, *op. cit.* [42].

⁴⁴ SBM, 29 July 2008, <www.crusher-china.com/News-Info/07/29/2008/Gold-Lingbao/Gold-Lingbao.html>.

openness of the Kyrgyz economy. Estimates of the number of Chinese migrants range between 20,000 and 100,000. Because not all of them moved to Kyrgyzstan legally, it is difficult to provide accurate figures. It is reported that some overstay their visas, some move in through other countries and obtain documents on the black market or through marrying Kyrgyz women.

Chinese migrants are seen as competitors: hardworking, entrepreneurial and able to live and work in poor conditions. There are fears that they could take up a share of the already scarce labor market and even gain control over some sectors of the national economy. Much like in Tajikistan, Chinese traders and workers are moving to Kyrgyzstan, while Kyrgyz ones are leaving and going to Russia and Kazakhstan. According to one respondent, it is possible that in the future Chinese migrants and their descendents will form a significant minority able to exert political influence within the country.

Chinese migrants facilitate the rapidly growing trade between China and Kyrgyzstan. One respondent pointed out the link between Chinese trade and local politicians who directly or indirectly control and benefit from it. The owner of the Dordoi market in Bishkek, one of the biggest centers for Chinese trade, is a politician. President Bakiyev's brother works at the Kyrgyz embassy in Beijing. Another respondent remarked that government officials like going to China because it solves their problems, providing grants and loans. Thus, China starts playing the role of a patron for Kyrgyz politicians, and trade with China—one of the sources of their wealth.

Growing Chinese Influence in Central Asia

Chinese influence in Central Asia and comparison with Africa

Since the late 1990s, China has increased its presence in Africa and Central Asia. Trade between Africa and China accelerated considerably: between 2001 and 2006 Africa's exports to China grew at an annual rate of 40 percent (from 4.8 billion US dollars to 28.8 billion US dollars), while Africa's imports from China quadrupled to 26.7 billion US dollars. The growth in China's trade with Central Asian states has been equally dramatic.⁴⁵ Between 2000 and 2003 trade turnover increased threefold (from 1 billion US dollars to 3.3 billion US dollars), and between 2004 and 2006—2.5 times (from 4.3 billion US dollars to 10.8 US dollars billion).⁴⁶ In both cases, it is expected that the trend will continue.

China's development assistance in the form of preferential loans has grown coincidentally. By the end of 2005, China Eximbank had approved more than 6.5 billion US dollars for projects in Africa. Estimates by the WB are even higher—according to the accumulated data from public sources, loans to Sub-Saharan Africa for infrastructure alone amounted to 12.5 billion US dollars by mid-2006.

China has become an important trade partner and creditor for African and Central Asian countries. This increasing economic role has been translating into greater political influence. One important indicator is the choice these countries make with regard to the recognition of Taiwan. While in the 1960s Taiwan (Republic of China) was recognized by sixteen African countries, nowadays their number is down to eight. Beijing and Taipei have been trying to outplay each other in Africa and Central America with the help of development aid, but Beijing is gaining ground. China

⁴⁵ J.-Y. Wang, *What Drives China's Growing Role in Africa?*, IMF Working Paper, October 2007, p. 5.

⁴⁶ L. Muzaparova, "Introduction" in L. Muzaparova (ed.) *Kitaj i strany Central'noj Assii v sovremennyh geopolitičeskikh realiâh* [China and Central Asian States in Modern Geopolitical Conditions], Center for Chinese Studies under the Institute of World Economy and Politics, Almaty, 2008, p. 7.

invited all eight countries to participate in the FOCAC, two of them did so.⁴⁷ As for Central Asian states, they adopted the “one-China” position from their independence.

Another international issue of major importance for China is UN reform and Japan’s bid for a permanent seat at the UN Security Council (UNSC). Beijing has been opposing this bid. Japan has been one of the major providers of development assistance to African countries and in 2008 pledged to double its Official Development Assistance to Africa in the next five years (bringing annual aid from the current 900 million US dollars to 1.8 billion US dollars by 2012). However, so far Tokyo has been disappointed by the lukewarm political support of African countries.⁴⁸

In Central Asia, where Japan has also been a major development aid provider (2.5 billion US dollars as of 2006), it received more straightforward support for its bid for the permanent seat. In June 2006 Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan signed the “Central Asia plus Japan” Dialogue Action Plan, in which they emphasized the urgent need for the reform of the United Nations, especially of the UNSC, and “expressed their expectation that Japan would play a more political role in the international community and confirmed that they would unanimously support Japan’s becoming a permanent member.”⁴⁹ Half a year later, in December 2006, Kazakhstan’s President Nursultan Nazarbayev during his visit to China signed another document—“The Cooperation Strategy between the People’s Republic of China and the Republic of Kazakhstan for the 21st Century,” in which both sides agreed that it is necessary to reform the UN, but opposed “doing it with haste.”⁵⁰ It is hard to say how long this political balancing act (“multi-vector diplomacy”) that all Central Asian states are engaged in, can be sustainable.

Overall, Beijing is listened to and respected, and its initiatives receive support in Africa and Central Asia. The multilateral forums—the FOCAC and SCO—can be considered successful projects with long-term prospects. They are components of the bigger plan. China’s initiatives in Africa and Central Asia (and also in Southeast Asia, Latin America and the Middle East) are integral to Beijing’s effort to ensure China’s peaceful rise as a global power and strengthen relations with key neighbors and regions.⁵¹

⁴⁷ P. Liu, “Cross-Strait Scramble for Africa: A Hidden Agenda in China-Africa Cooperation Forum,” *Harvard Asia Quarterly*, Vol. 5, No. 2, Spring 2001.

⁴⁸ R. Jaura, “United Nations: Africa Keeps Japan Guessing on Security Council Seat”, IPS News, 4 June 2008, <<http://ipsnews.net/news.asp?idnews=42654>>.

⁴⁹ Website of the Ministry of Foreign Affairs of Japan, <www.mofa.go.jp/region/europe/dialogue/action0606.html>.

⁵⁰ Website of the Commissioner's Office of China's Foreign Ministry in the Hong Kong SAR, 21 December 2006, <www.fmcoprc.gov.hk/eng/zgwjsw/t285011.htm>.

⁵¹ B. Gill, C-H. Huang and J.S. Morrison, “Assessing China’s Growing Influence in Africa,” *China Security*, Vol. 3, No. 3, Summer 2007, p. 8.

Implications of growing Chinese influence in Central Asia

China's continuing penetration of Central Asia is comprehensive and rapid. Trade and aid have been growing dramatically. China has successfully engaged Central Asian states in the regional cooperation scheme—the SCO. High-level political dialogue is regular and fruitful. China is increasingly seen as a source of moral and financial support by Central Asian governments (to some extent, pushing aside their traditional patron, Russia). It is worth noting that Beijing was the destination of Uzbek president Islam Karimov's first visit abroad after the Andijan events of 2005.

A comprehensive study is needed to assess the implications of this growing Chinese influence in Central Asia. However, on the basis of the above analysis, we can draw some preliminary conclusions. There are two interrelated sets—implications for the economic development and implications for the political development of Central Asian states.

The biggest chunk of Chinese development assistance is allocated to infrastructure projects. The benefits of good roads, power lines and hydropower plants are incontestable. The construction of transport infrastructure helps Central Asian states break from the isolation resulting from their landlocked geographic situation, and therefore increases their potential for development. China plays a key role in this respect: it has the finances, experienced companies, cheap and disciplined labor force, and a streamlined and effective process of negotiating and delivering projects.

China builds roads connecting China to Central Asia, but also ones that interconnect Central Asian states, thus contributing to regional integration. However, China, similar to Russia in this way, is interested in the promotion of regional integration with China's active participation.

The new transport infrastructure will increase trade between China and Central Asian states. On the one hand, cheap Chinese products help the impoverished people of Central Asia to maintain a certain standard of living. On the other hand, it creates very tough competition for local industries.

The benefit of the construction of hydropower plants and power transmission lines is more straightforward. Electricity production is a promising industry for Tajikistan and Kyrgyzstan, both being poor states. The projects are complicated by the unresolved nature of water-energy issues in Central Asia. China could possibly contribute to finding a satisfactory arrangement for all sides. That would mean that it is becoming an arbiter and mediator in Central Asia, which brings us to the second set of implications: political ones.

Growing Chinese engagement and economic clout are likely to translate into more political influence and affect both the foreign and domestic politics of Central Asian states. The more interests and assets (energy deposits, pipelines, mines, factories) China has in Central Asia, the

more responsibility it would want to assume with regard to regional security. China's interests would be perceived as legitimate in this case. China's bigger role will be reinforced by the economic and financial dependence of Central Asian states on China. Central Asian governments would have the incentive to align their policies and positions with those of China.

Such developments would lead to a geopolitical shift in the region. It would be more difficult for Central Asian states to balance the interests of external powers. While Russian positions in the region are strong enough to withstand the pressure, the EU, the US and Japan might find their influence diminished. This is not in the interest of Central Asian countries for they will be detached from sources of political modernization.

Recommendations for the EU

Bearing in mind these considerations, the EU should take heed of the following:

1. The EU should be aware of the growing influence of China in the region of Central Asia and its implications. Central Asian states are approaching a crossroads where they may have to choose the direction of their future development. An assertive Russia and mighty China are tightening their embrace of the region. That decreases their room for maneuver, but also stimulates the desire of Central Asian governments (especially Kazakhstan) to establish stronger ties with the West. The EU can use this opportunity.

2. It will be very difficult for the EU to be an effective agent in Central Asia if it acts on its own. It can consider partnerships with other actors. The obvious partner is Japan, with whom the EU shares important values and preferences for softer (more cooperative) approaches. Both the EU and Japan are major donors in Central Asia, both are interested in better relations with Russia and China, and both try to assume responsibility for the security of Eurasia.

3. It is important to consider Russia's role in Central Asia. If China's role in the region increases at the expense of Russia, Moscow will not welcome the change and might revise its policies in the region in favor of partnership with Europe. Russia and the EU have a great potential for cooperation and strategic partnership (including in Central Asia), which at the moment is unexploited.

4. Certain lessons can be drawn from analysis of China's development assistance provision. The EU does not have the same advantages China does, but it can review its development assistance and make it less wasteful and more effective, making the best of allocated resources. The new EU Strategy for Central Asia adopted in 2007 is a step in this direction.

5. China is interested in security and good governance in the region (stressing the rule of law, rather than democratization), the latter being necessary to improve regional security and the business environment for Chinese companies. Needless to say, European and Chinese approaches to security and governance differ substantially. However, there is some common ground to build EU-China cooperation in Central Asia. For example, cooperation is possible and advisable in the areas of non-conventional security challenges, such as prevention of drug trafficking, water management, or environmental protection, that are impossible to resolve without the improvement of governance in the region.

Annex 1. Chinese Infrastructure Projects in Tajikistan

Project	Time period	Company	Loan
Reconstruction of the Dushanbe-Khujand-Chanak highway (the construction of the Shahrstan tunnel, the Maikhura tunnel, 39 big and small bridges, 6 km of avalanche defenses)	July 2006 – to be completed in August 2010	China Road and Bridge Company	Eximbank loan 282 million US dollars
Construction of the Shar-Shar tunnel	October 2006—to be completed in August 2009	Chinese Railway Company	Chinese grant 30 million US dollars
High-voltage power transmission line North-South (LEP-500)	May 2006—to be completed in spring 2010	Tebian Electric Apparatus Stock Company (TBEA)	Eximbank loan 267 million US dollars
High-voltage power transmission line Lolazor-Khatlon (LEP-500)	May 2006—June 2008	Tebian Electric Apparatus Stock Company (TBEA)	Eximbank loan 55 million US dollars

Annex 2. Chinese Infrastructure Projects in Kyrgyzstan

Project	Time period	Company	Loan
Tokmok paper factory	August 2000- July 2002	Complant company	Government loan: 7.4 million US dollars; Eximbank loan 14.7 million US dollars
Kyzyl-Kiya cement plant	September 2007-to be completed by March 2009	CAMC Engineering	Eximbank loan 70 million US dollars (guaranteed by Turan-Alem Bank, Kazakhstan)
Construction of the China-Kyrgyzstan-Uzbekistan railway (the Kyrgyz part: Torugart-Uzgen-Karasuu, 268 km)			Preliminary assessment— grant of the PRC 2.12 million US dollars; China proposed 1.2 billion US dollars in preferential credits in return for access to mineral resources (2006)