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Economic Impact of "Silk Road Economic Belt" on Central Asian Countries

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Content

Abstract

“One Belt One Road” initiatives were brought up by People Republic of China recent years which includes two subsidiary concepts of “Silk Road Economic Belt” (SREB) which is the core of this dissertation and “21 century Maritime Silk Road”. During the cooperation among China and more than 60 covered countries under the initiative, the relationship between China and Central Asian countries are especially significant and remarkable. In order to better understand the role that the SREB plays during the cooperation, we introduce not only conception, but also analyze mainly economic impacts in terms of history and background, previous cooperation, purpose, comparison of advantages and disadvantages, facing challenges and possible solutions, future trends, etc. by listing specific examples and summarizing from data statistics.

Economic Impact of "Silk Road Economic Belt" on Central Asian Countries

1. Introduction

1.1 Conception of the Silk Road Economic Belt

The concept of "One Belt and One Road" initiatives was mentioned by China's President Xi Jinping on 2013 and consist of two subsidiary conceptions of "Silk Road Economic Belt" and "21 Century Maritime Silk Road". This initiative covers 64 countries around the world, more specifically, it covers five west-north and four west-south provinces of China, and countries in Asian-Pacific Economic Circle on east side, and some European countries on west side. The idea came up with several reasons, which will be short described below, but with more specific explanation on following chapters.

(1) The Silk Road exists since long time, Italian businessman Marco Polo used to south headed from Venice to Mediterranean, then crossed Black Sea entered nowadays Iraq, Bagdad, then along the Persian Gulf arrived Pamirs, after half a month, arrived north-west province Xinjiang of China (where is crucial position for connecting Europe-Asian), then continue heading east until arrived ancient capital of China (nowadays Inner Mongolia Autonomous Region). It was such a long journey in the history. By Marco Polo's description, China used to be seen as a mysterious existence for other countries. The Obstruction from Arabians on land silk road accelerate the development on maritime business. The main trading goods on the silk road from China used to be tea, silk and porcelain, and other groceries, totally incomparable with nowadays various tangible and intangible trading asset.

(2) From geographical point of view, Kazakhstan, Kirgizstan, Tajikistan, Uzbekistan and Turkmenistan these five countries are near or at the border with China. Geographical advantage did not only contribute to Central Asian countries economic development based on trading, but also raised high level of mutual dependence on importing and exporting goods among each other. It is common knowledge that short distance can reduce transportation expense, tariff, fixed cost, moreover, via long trading since ancient silk road, there is already other permeation in terms of culture, language, even lifestyle;

(3) From economic point of view, objectively, SREB can balance each countries' excess or lacking production capacity on exporting and importing goods. For example, China export resources which is over capacity for itself such as steel, concrete and photovoltaic to those countries who do not have capability to produce because of some reasons and import rare resources such as oil and minerals from these countries in return. The coverage area under the belt usually is full of natural resources but due to the fact that countries with different situation, such as poor environment, undeveloped transportation, too large gap in wealth, etc., these factors heavily effect the process of each countries' economic development;

(4) Another reasonable point could be that more and more shortage and undersupply of international public goods from supplier countries, especially from developed countries. China plays an important role on offering international public goods for other countries, this is also one of the reasons the policy was mentioned. However, during the process, China also face some challenges from different aspects and countries. Details about the international public goods including the theory will be discussed in chapter 6.

1.2 Background and history

The conception of the belt doesn't come up suddenly, it is based on a long and profound history. Ancient Silk Road starts from about 202 B.C and used to be main business routes where goods such as tea, silk, jade, fur can be traded from China with other countries. During the time, the ancient Silk Road were used not only trading standard of living goods, but also was the preferred approach for mutual permeating of culture. It was a route which starts from Xi'an (old capital of China) and cross Central Asian, west Asian and countries around Mediterranean. Because of too wide range, it was divided into south, middle and north, these three directions of routes. In 2006, China and these five Central Asian countries signed an agreement together to apply ancient Silk Road as world cultural heritage which is eventually achieved in 2014. The Silk Road was the first and largest example of globalization since Yuan dynasty around 1271. Compare with history, the new conception of "Silk Road Economic Belt" is the key point which connect the Asia-Pacific Economic Circle on east side and with Europe Economic Circle on west side. The new explanation of the belt is an innovation for economic cooperation mode in different region, especially for China-Central Asian, New Eurasian Land Bridge, China-Russia-Mongolia, etc., The establishment of these economic corridors is the first step of SREB strategy as a framework that goes beyond the economics both on overland and seascape. It is more flexible, suitable and has easy-to-operate character than traditional definition for the belt. Although the belt is derivate from ancient silk road, the difference is that nowadays purpose is not just trading goods but focus more on strategic cooperation, share interests and to achieve win-win purpose in a long run.

We can also see from the map below, Kazakhstan, Kirgizstan, Tajikistan are directly on the board with China and they are must-crossed points for China to enter European market overland. Especially Kazakhstan and Kirgizstan, the total length of borderline is 1533km and 858km respectfully and they are ranked as 4th and 5th position among all 14 countries who are at the board with China.

Fig. 1.2.1 Geographic position

Meanwhile, “21 Century Maritime Silk Road” is another trading approach over the sea which was mentioned in 2013 during President Xi visited Indonesia and planned next ten-year-plan through maritime Silk Road. The route starts from south seaside Fujian, Guangdong, Hainan, Guangxi provinces in China, and cross Vietnam, Malaysia, Indonesia, Sri Lanka, India, Kenya, Greece and finally arrive Venice in Italy eventually.

It was mentioned in order to better communicate with other countries and cooperate in energy, service, infrastructure fields over the sea. By taking well advantage of maritime trading and adjusting industry structure, countries can improve technical capacity of related industries, establish more stable international cooperation mechanism, and ensure the safety of trading goods over the sea.

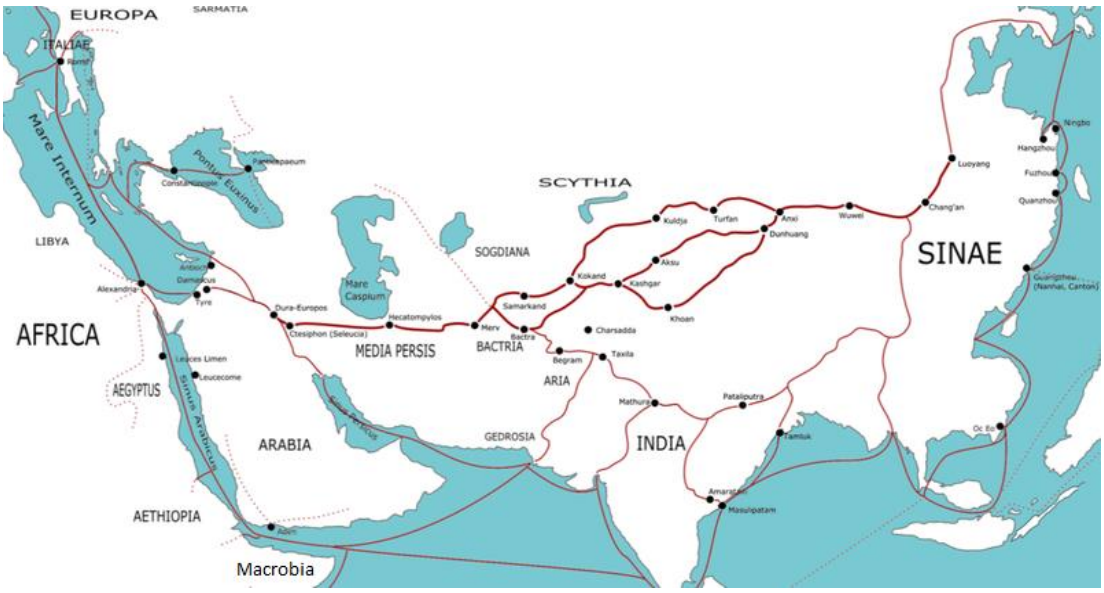

Fig 1.2.2 The One Belt and One Road map

However, it is also a fact that due to the maritime globalization, nowadays 90% goods are traded through the sea which leads to a poor development to Central Asian countries. There is a huge gap between landlocked with continent area. Thus, there is huge demand for implementing SREB in order to better accelerate inner land trading.

2. Specific cooperation projects and present relationship

There is a long root since history among China and Central Asian countries and they developed good relationship so far. Past cooperation has made china become the one of the largest business partners of Central Asian countries.

In this chapter we will introduce specific cooperation projects such as oil and gas pipelines, construction of railways and roads, the establishment of new ports which are based mainly on Chinese investment into Central Asian countries. According to cooperation projects among China and each Central Asian country recent years, we would like to know what kind of projects occupy large percentage by listing the changes before and after the permeation of SREB into Central Asian countries. We will analyze if there exist any common feature on these invested projects? What kind of purpose are these projects based on? Just lacking own resources or taking advantage of each other? Will mutual investment keep increasing in future? What change does SREB brought in to the economy? Which positive or negative effect did it cause? By accessing the actual data and statistics, we will estimate China's motivation behind the policy and forecast future trend of SREB? About these questions, we will find out answer through the following analysis.

2.1 China-Kazakhstan

The Republic of Kazakhstan is established in 1991 and has a population of 18 million people and covers around 2.7 million km^2 area, which is largest landlocked countries in Central Asian and the largest inner land country worldwide. The capital city is Astana and the largest trading city with China is Almaty where is very close to Ili Kazak Autonomous prefecture in Xinjiang province of China. Kazakhstan's main currency is "Tenge" which equals 0.0023 euro.

2017 was the 25^{th} anniversary for China and Kazakhstan for establish cooperation relationship since 1992. After conception of SREB was mentioned in 2013, there are more than 34 cooperation projects between China and Kazakhstan has been completed so far and Kazakhstan's GDP per capital increased 20 times from USD 700 to 14000 on average, occupy 70% of total amount of foreign investment of USD 200 billion.

Fig 2.1 Kazakhstan's geographical position

Following table lists some main projects between China and Kazakhstan recent years:

Time	Project Name	Volume
2014-2017	Aktogay Copper Mine project which is the largest copper mine of Kazakhstan (invested by China Nonferrous Metal Mining Co.)	Produce copper 25 million ton/year, export 0.425 million ton/year of them to China
Since 2008	Aktobe Oil Field project (invested by China Natural Petroleum Co.)	Produce oil 13818 ton/year
Since 2009	Sino-Kazakhstan Oil Pipeline (invested by China Natural Oil Development Co.)	Produce oil 20 million ton/year
2010-2014	Atyrau Oil Refinery Plant（invested by China Sinopec Engineering Co.）	Aromatic Hydrocarbon production system 0.5 million ton/year
2014-2017	Pavlodar Electrolytic Aluminum Plant	Produce electrolytic aluminum 0.25mln ton/year
2015	Pashaku Copper Mine Plant project	Produce copper and clay 30 million ton/year
2012	Moinak Hydro Power Plant project (invested by China Sino hydro Co.)	1.27 billion kilowatt-hours of electricity/year
2008	Kazakhstan West Europe-West China International Highway Construction project	Total length: 8445 km
2010-2015	**C**aspian Sea bitumen Plant (invested by CITIC Construction Co.)	Produce pitch 0.42 million ton/year
2017	BGRIMM Group invested in Kounrad Copper Hydrometallurgy project	

Tab.2.1.1-Portion of completed projects of China and Kazakhstan

There are still 43 projects in different fields are under processing, besides the industry which is mentioned above, there are also manufacturing (such as producing equipment for ZTE, Huawei, etc.); branches of Industrial and Commercial Bank of China (ICBC) and Bank Of China (BOC) in Kazakhstan; construction industry including retailing such as tempered glass plant in Almaty, spiral welded steel pipe project which requires 0.1 million ton volume, etc. Some planned integration projects which will be continuously cooperated in following years such as “Nurly Zhol” (which was a transportation related projects mentioned since 2015) shifted successfully from previous mode of exchanging raw material for investment to develop its poor transportation infrastructure. The projects will contribute at least USD 40 billion profit by 2020.

Lianyungang port in Jiangsu province is most important marine outfall between China and Kazakhstan which created more convenience on transportation. Another crucial port is “Korghas port” which is in the new established “Korghas” city in Xinjiang province of China on the board with Kazakhstan.

The total number of China-EU line trains which cross Kazakhstan reached more than 2700 last year. There are some new projects are under construction such as “China-Russia” crude oil pipeline starts operating with 30 million ton-year capacity; “China-Central Asian” natural gas pipeline D-line has been re-operated in Tajikistan; China-Russia natural gas pipeline crossing boarder project has been completed.

China keep being Kazakhstan’s largest loan source country. Only in last year, China Transportation Bank released a new loaning policy with Kazakhstan for Kalaganda-Baerhashi road reconstruction project; Silk Road Funds fully acquisitioned Astana International exchange shares; China Commercial Bank fully acquisitioned Aerjin Bank shares.

Following figure shows percentage of China's investment on different fields in Kazakhstan, by analyzing it we may have a clear view of the industry distribution.

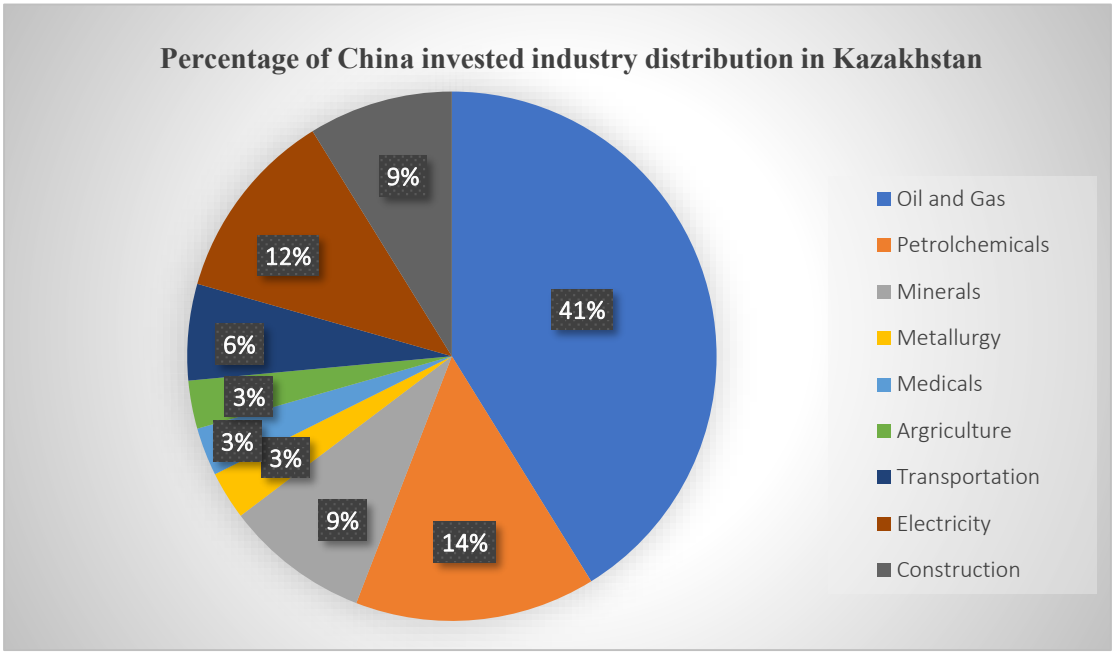

Fig 2.1.1 Percentage of China invested industry distribution in Kazakhstan

As we can see from the figure, almost 50% China's investment flow in oil and gas industry, petrochemicals and mineral investment are right after. Kazakhstan has abundant natural resources and its oil storage is at 7th position worldwide. Annual oil and gas production volume reaches 4 billion ton and 3000 trillion m^3 respectively. Kazakhstan has the largest mineral resources as well, such as tungsten (1th worldwide), uranium (2nd worldwide), etc.

Investment on electricity, constructions, transportation, medical devices, agriculture and metals occupy less portion by ranking.

Most projects are undertaken based on the fact that Kazakhstan is lack of electrolytic aluminum, copper and special cement which leads to the poor result economic profit which needs external investment to balance the gap.

Following graph shows total amount of Kazakhstan's exporting and importing goods with China recent ten years:

Fig 2.1.2 Kazakhstan's direction of trade (million USD)

As we can see from the graph, until 2012, both importing and exporting volume is on an increasing trend and the gap between them is enlarging while the recent years both of them are on a decreasing trend and the gap of volume doesn't differ too much. According to the data from Asian Development Bank, China is the second largest exporting country for Kazakhstan right after Italy and second largest importing country right after Russia.

Most of Kazakhstan's investment (mainly includes leather, agriculture, construction materials, automobile maintenance, etc.) were traded in Xinjiang province, but distribution of China's investment in Kazakhstan (includes petroleum, electricity, nonferrous metal, telecommunication, etc.) is geographically wider. Most industries related to natural resources are distributed in different provinces, most light industries especially with food and agriculture which allow Kazakhstan to successfully export to China' food market are centralized in Astana and Almaty.

The attractiveness for China to invest in Kazakhstan mainly are:

(1) From geographic point of view, Kazakhstan has largest territory among these central Asian countries and relates to Ili, Bole, Tacheng, Aletai (these are cities located in Xinjiang province of China). On the south side connected with Turkmenistan, Uzbekistan and Tajikistan, on the north side connected with Russia. Kazakhstan is on the board and is the first must-cross-point among all central Asian countries. At the same time, China has become the largest manufacturing country around the world while Kazakhstan is still on the initial step of industrialization and has large needs especially on steel which suits overcapacity production situation of China. China buy raw material from Kazakhstan to produce these industrial products such as steels which Kazakhstan lacks. Some construction groups in China would like to offer their business, including railway construction, transportation construction and other public infrastructure services. Meanwhile, Kazakhstan also has large needs on infrastructure construction, thus can offer more investment opportunities. Their cooperation will balance the lacking and excess situation.

(2) Kazakhstan is an international country with open attitude, strong law protection, well investment environment, political support and high level of trading transparency, these factors appealed many countries to invest into, of course China included. Different countries are in the different stage of developing process, if we consider well investment environment Kazakhstan offered, it will offer suitable investment environment for China according to its' current situation. If we only export high-end industry or service industry which is not demanded in Kazakhstan, it will cause negative affect and obstruct local development.

(3) Kazakhstan is one of the most important members in EAEU, short for the Eurasian Economic Union, which has the right of making decision in terms of tariff, energy, finance and related policies. Other members in the union are central Asian countries and northern Eurasia. Kazakhstan

became its' member in 2015. China can enter into EAEU market by making long and stable cooperation with Kazakhstan and gather further possible cooperation opportunity with other member countries in EAEU.

On the other hand, the implementation of the SREB also cause some risks and problems. Recently, the late delivery of goods at Korghas port became a serious argument. Kazakhstan states that the shipping cost is too expensive, and goods are stored at port for too long time. According to data, average time for Kazakhstan's good arrive China over 12 hours. There is debate about who should take responsibility.

Another argument is that according to the official statements by Kazakh authorities, SREB projects aim to create new jobs which are an appealing argument for a region with a surplus of labor. However, due to the preferential loans provided by China through state banks, the associated projects are carried out by Chinese companies and Chinese labor. For example, Chinese train manufacturers are expecting the highest returns, which means the usage of Chinese materials, management, and labor. Kazakhstani manufacturers will have to make sure with the remaining contracting business. This and other examples explain not only Chinese interests but also the reluctance of Kazakhstan and Central Asian countries to support the SREB's implementation in terms of personnel and technological needs.

Although there exist some arguments, China and Kazakhstan have been continuously signing cooperation projects which worth USD 27.6 billion last year, and some projects such as Korghas International Cooperation Center, East Gate Special Economic Zone, Railway Port are under construction.

2.2 China-Kirgizstan

Kirgizstan Republic is one of the Commonwealth of Independent States country (CIS) which was established in 1924 and capital city is Bishkek. It is on the board with Kazakhstan on the north side, with China on east side, with Tajikistan on south side. It covers 199951 km^2 territory area where most area are mountainous and divided into 7 provinces and has a population of 5.7 million people. After being independent from the Soviet Union, Kirgizstan became the first national state who own the nominative sovereignty. It is member of the Commonwealth of the Independent States now. Its main currency is “KGS” which equals 0.013 euro on average.

China and Kirgizstan have been starting their cooperation relationship since 1992. The Turugart port is the first port to import and export China and Kirgizstan’s goods where is located in Kizilsu Kyrgyz Autonomous Prefecture in Xinjiang province of China since 1950s. With the improvement of China's opening-up attitude for foreign countries and the development of Sino-Kyrgyz trading, the Irkeshtan port was second largest port which was established in 2002.

Fig 2.2 Kirgizstan’s geographical position

Following graph show us some main projects between China and Kirgizstan recent years in different fields:

Field	Specific Project
16 projects on electricity	Cooperate with China on transform power transmission network in south region of Kirgizstan, includes “Datka-Keming” 500kV transmission project.
16 projects on natural resources	Kumtor gold mine, Taldybulak gold and copper mine, Kara-Keche coal mine, Jerui gold mine, etc.,
4 projects on production and logistics	Develop production-marketing combined system in Karasu and Dordoy, and export more agricultural to China, expend passenger transportation and shipping capacity in Manas international airport, create spinning technology park.
16 projects on transportation	China-Kirgizstan-Uzbekstan Railway project, Beshkek-Naryn-Turkow highway repair, also includes optical fibers laying, purchasing construction machines, etc.
24 projects on agriculture	Increase foundation for agriculture investment, improve soil, build water canal, create chemical plant and laboratory for observing and growing crops.

Tab. 2.2.1 Specific cooperated projects in Kyrgyzstan

China and Kirgizstan have been cooperation more than 20 years and after the SREB was mentioned, they signed their largest cooperation project on energy field “Bishkek Power Plant”, which is invested by China Tebian Electric Apparatus (TBEA) in 2013. Kirgizstan used to face very intense electric supply situation, after four years, the project is finished and went into operation, the electric capacity almost doubled 7 times from 262 million kw.h/year to 1740 million kw.h/year.

On natural resource field, they signed the contract in 2013 and decided to cooperate on natural gas pipeline project, estimated finish date and capacity reaches 33 billion/m^3 within two years, expected economic profit over $75 million/year. Since 2013, 16 electrical projects, 16 mineral resources projects have been signed.

One of the most remarkable projects is China-Kirgizstan-Uzbekistan Railway which starts from Kashgar city of Xinjiang province, cross south city Osh of Kirgizstan and arrive Uzbekistan capital city Tashkent. Total length is 950km. In the past, there were three approaches for China to shipping goods through train or truck to western countries: through Korghas port keep heading west; through Inner Mongolia province of China to Mongolia, then arrive Russia; through Siberian railway to Europe. The achievement of new railway creates the second multilateral international approach especially for Xinjiang province.

Following graph shows Kirgizstan's exporting and importing goods from China during recent years:

Fig. 2.2.1 Kirgizstan's direction of trade (million USD)

As we can see, Kirgizstan's investment on importing goods are much more than exporting goods, around 20 times on average and the trading gap is continuously increasing especially recent years. According to the data from Kirgizstan National Statistical Commission, Kirgizstan GDP in 2017 reached USD 7.16 billion and main trading goods are based on industrial, agricultural and constructional field. During last year, Kirgizstan's GDP reached USD 6.79 billion, decreased 3.1% than 2017. Main natural resources are gold, antimony and hydropower resources (3rd position among CIS countries), tin and HG (2nd among CIS countries). It mainly exports to central Asian countries. China is at 7th place on the list of exporting countries but is 2nd largest importing country for Kirgizstan right after Russia. In 2017, Kirgizstan's total exporting and importing amount reached USD 1.79 billion and 4.48 billion respectfully.

2.3 China-Uzbekistan

Uzbekistan has a very special geographical character which is not next to sea nor its' neighbor countries. It is located in the core of central Asia where east-north side is on the bard with Kazakhstan, east-south side connected with Kirgizstan and Tajikistan, west side connected with Turkmenistan. It was being independent country since 1991 and use main currency of "UZS" which equals 0.00011 euro on average. It covers 447400 km^2 area with a population of 32.36 million people, and capital city is Toshkent.

China and Uzbekistan have been cooperating since 1992 and being official strategical partners in 2012. Despite the historical corporation between China and Uzbekistan, since the idea of "One Belt and One Road" policy mentioned, China and Uzbekistan have been corporate on more projects in different fields, including energy, transportation, chemistry, etc., such as China-Central Asian Natural Gas Pipeline, China Industrial Park, and other specific projects.

Fig 2.3 Uzbekistan's geographical position

Following table shows some main projects between China and Uzbekistan in different fields recent years:

Field	Specific Project	Capacity
Energy	Joint Venture solar power station located in Samarkand, invested by Zhuhai Singyes Green Technology Co, constructed by Uzbekistan	100MW
Mine	Uzbekistan Angren Coal Reconstruction project: Located in Angren (industrial park), where has the largest coal production volume in Central Asian, and invested by China Coal Technology Engineering Group	350000-ton coal
Electricity	New Angren epower station, invested by Harbin Electric International Co, constructed in Angren (industrial park)	2100MW
Rubber	Uzbekistan Angren Tire Factory, Invested by China Poly Group and "ChemChina"	3 million semi-steel radial tire
Transportation	Angren-Pap railway line is the largest project that China invested in Uzbekistan. The process of design, purchasing and construction are charged by China Railway Tunnel Group	19.2 km

Tab. 2.3.1 Specific cooperated projects in Uzbekistan

According to the graph above, we can tell that, geographically, most of China's investment projects are located in Tashkent where not only is the capital of Uzbekistan but also has convenient transportation and logistics, specialized at manufacturing and chemistry. The only one industrial special zone where is located in the east side of Tashkent – Angren, covers more than 20 projects fields. All China's invested engineering procurement construction projects is located there.

Besides these several examples listed in above graphs (with less projects constructed recent years compared to Kazakhstan and Kyrgyzstan), China is more attracted by Uzbekistan's huge potentials on developing specially on wind energy and solar energy, and projects related to electric filed are based on Uzbekistan's advantaged thermoelectricity, renewable energy and hydro reserves.

Following graph show us Uzbekistan's exporting and importing goods from China in recent years:

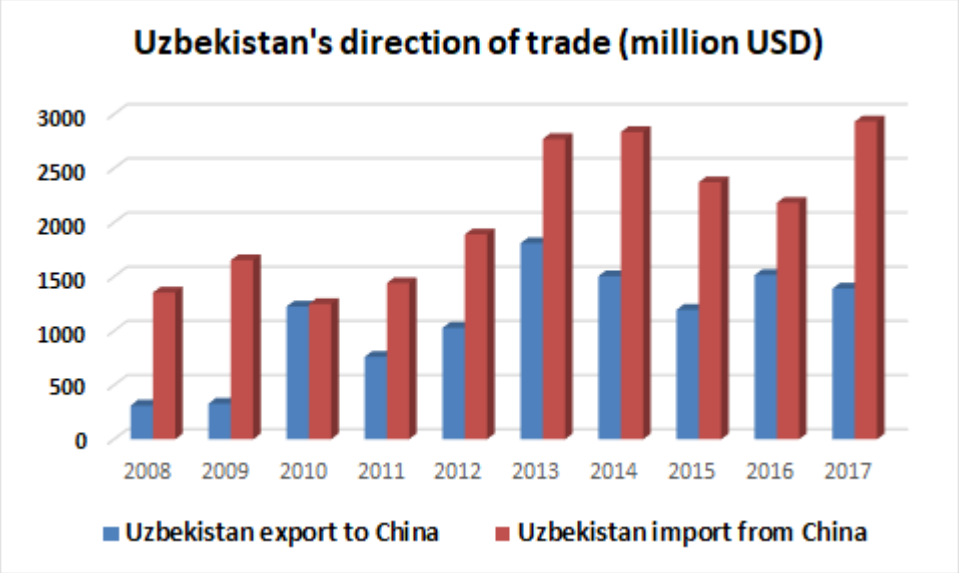

Fig. 2.3.1 Uzbekistan's direction of trade (million USD)

Generally speaking, the growth both on exporting goods and importing goods are stable and keep growth since 2008, which made China became 2nd largest exporting and importing country for Uzbekistan right after Switzerland and Russia.

Few months ago, Uzbekistan signed a series of new contracts with France which claims that from 2018 to 2021, France will invest 5 billion euro in Uzbekistan in the fields of energy (representative contracted enterprise: Total Group), construction (representative contracted enterprise: Vinci Group), service, environment (representative contracted enterprise: Suez Group), aerospace (representative contracted enterprise: Thales), finance and other industries. While one of the construction projects between Uzbekistan and China on a 100 MW solar power plant which was signed in 2016 has been suspended recently. This official behavior of Uzbekistan leads to a doubt that could this be count as alternative plan of SREB for Uzbekistan? Why Uzbekistan would rather sign such a large amount contracts with France instead of China? One of the reasons is due to the

Uzbekistan has difficulty on paying back the amount loaned mainly from Asian Development Bank. The total budget for the project worth USD 275 million and the individual constructor from China was responsible for project's design, construction and operation. However, by Uzbekistan governmental announcement, it was saying due to the specification and complexity of the project, the contract needs to be revised.

In the past, shipping approach between China and Uzbekistan is through train or truck and need to cross Kirgizstan. On average, shipping time last 9 days with expensive logistics cost and complex procedures. The contribution of the railway saves around USD 2.5 million transportation expense each year and can offer more than 1 million job positions.

2.4 China-Tajikistan

The Republic of Tajikistan is a transitional country with population of 9.1 million in central Asian. It covers 140000 km^2 territory where 90% of it are mountainous area and is the smallest country in central Asian and poorest country among all CIS countries. Current president is Emomali Rahmon. Currency is "Samani" which equals 0.094 euro. It is in the east-south side of central Asian, on the board with Uzbekistan in west side, with Kirgizstan in north side, and with Xinjiang province of China in east side.

The year of 2017 is the 25th anniversary also for China and Tajikistan's diplomatic relationship. From the ancient Silk Road, China and Tajikistan have been cooperating since Han dynasty. After Tajikistan being independent country, China was the 3rd country who establish cooperation relationship with it. During the decades, they signed many contracts, such as joint declaration about officially establish strategic partnership in 2013; the positive attitude from President Rahmon who claimed in 2014 that Tajikistan will be actively be involved in the process of SREB in order to accelerate its domestic development on electricity, mining, transportation and infrastructure fields, etc.

Fig 2.4 Tajikistan's geographical position

Tajikistan's FDI since mainly comes from Russia (occupy around 31%), China (28%) and Kazakhstan (10%). Tajikistan has poor transportation situation due to its conditioned economy which leads most investment from China to transportation infrastructure construction.

Time	Investor	Project Name	Fields
24/08/2016	China Railway Construction Corporation	"Vakhdat-Yovon" railway	Railway Transportation
14/01/2014		"Vose-Khovaling" highway (VK87)	Highway Transportation
2018-to now		"Karasu-Kulma" port reconstruction	Engineering construction
2018-to now		500kilovolt south-north power transmission in Tajikistan	Electricity
2018-to now		"Urumqi-Dushanbe" airline	Airline Transportation
2018-to now		"Urumqi-Dushanbe" international rail freight train	Railway transportation
13/09/2014		400km "China-Central Asian natural gas pipeline" D-line in Tajikistan	Natural Resources

More specifically, “Vakhdat-Yovon” railway project is the first Chinese invested transportation project in Tajikistan which solved the problem of rail carrying capacity in Tajikistan’s middle, south and east area and became the crucial point for China to export and import goods continuously towards east. Xinjiang province of China occupy 70% of trading volume between China and Tajikistan, and the cooperation between them keep increasing. Thus, in order to better accelerate further mutual cooperation, a special cooperation mechanism was established between Tajikistan and Xinjiang province which leads to many projects such as “Urumqi-Dushanbe” airline and train construction.

Following graph show us Tajikistan’s exporting and importing goods from China in recent ten years:

Fig 2.4.1 Tajikistan’s direction of trade (million USD)

Tajikistan's three main trading partners are Russia, Kazakhstan, China and China is the 3rd largest exporting country for Tajikistan right after Turkey and Russian. There is an irregular trading flow during Tajikistan and China's cooperation where until 2012, both exporting and importing volume has an increasing trend while decreasing trend since then.

It is the 2nd largest importing country right after Russia and Kazakhstan, they are still Tajikistan's main trading partners.

Tajikistan mainly exports aluminum, agricultural goods, and light industry, imports high volume of energy resources and manufacturing goods from China. However, there is a quite unstable gap between Tajikistan's exporting and importing goods with China, while the volume of exporting goods increased around 40%, the market demand for importing goods and trade turnover from China is continuously decreasing recent years.

The implementation of SREB contribute to Tajikistan's economic development. Specifically, in 2017, Tajikistan's GDP reached around USD 7 billion, GDP per capital was around USD 780, foreign trade volume was USD 4 billion and annual trading volume reached USD 1.37 billion including USD 1.32 billion of exporting goods from China to Tajikistan and USD 46.7 millions of importing goods. In 2018, Tajikistan's GDP reached USD 7.3 billion, GDP per capital was USD 800, increased 7.3% than last year. Bilateral trading volume reach USD 0.92 billion, but the total amount of foods importing decreased while importing goods (especially metal, stone, cement, ext.) increased at USD 1 billion.

Mining, infrastructure, transportation are most wanted fields that Tajikistan would like to develop.

However, there are some risks for China to direct invest in Tajikistan: In terms of legal system, both China and Tajikistan lack of completeness. In order to attract more investment from China, Tajikistan contributed lot of efforts such as providing more discount on tax and other special discount

policies in Tajikistan' free economic zone. Although they signed many cooperation contracts, but the contents need to be more specific and attractive. For example, by offering better incentive system, reducing some constraints or regulations on specific movements, Tajikistan may attract more investment from China. On the other hand, there is high percentage of poor population, the gap between wealth and poor still is enlarging, lacking infrastructure, inconvenient transportation, uncertainty in currency and tax, etc., these factors may limit China's direct investment in Tajikistan. In order to avoid these environmental risks, China could take full advantage of its' branches in Tajikistan, to gather more data in terms of these factors and create a database to help Chinese investors make decision. More transparent information flow can strength Tajikistan's reliability.

In Tajikistan, China Commercial Bank with Tajikistan Saving Bank signed new contract about introducing Chinese currency RMB as one of the main monetary method, China is responsible for offering technical equipment and other supports.

In a nutshell, due to complicated self-conditioned factors, Tajikistan has very slow economic development. China should be more cautious for its investment to Tajikistan in future.

Most argued historical conflict between China and Tajikistan is about board-line which is eventually cleared out in 2010 by signing boundary settlement protocol.

What attractiveness for China to invest in Tajikistan is that compared with other Central Asian countries, Tajikistan has a more positive attitude and active reaction on SREB.

The implementation of SREB will offer more facilities for their mutual cooperation.

2.5 China-Turkmenistan

Turkmenistan is the second largest Central Asian country right after Kazakhstan with around 0.49 million km2 territory. It is connected with north of Iran, east-south of Afghanistan, and its east-north side is on the board with Uzbekistan, west-north side is on the board with Kazakhstan. It is established in 1924 and became independent country since 1991. Capital city is Ashgabat with total population of 5.62 million people. Current president is Gurbanguly and main currency is called “Manat” which equals 0.52 euro.

China is the largest exporting country of Turkmenistan and they have been cooperating since last 90’s. Turkmenistan has enormous natural resources especially natural gas which is at 4th position worldwide. About economic development, Turkmenistan has higher GDP per capital than other Central Asian countries which is around USD 4500 on average while it has low level of opening to the outside world. During the decades, the trend of exporting and importing goods is quite flat but it keeps increasing after 2006, there are cooperation in more and more expanded fields.

Fig 2.5 Turkmenistan’s geographical position

Following graph show us Turkmenistan's exporting and importing goods from China in recent ten years:

Fig 2.5.1 Turkmenistan's direction of trade (million trade)

The peak point of China's importing gods from Turkmenistan reached USD 1.7 billion while Turkmenistan's exporting goods to China reached peak of USD 9.52 billion as we can see in the graph.

The reason for this unstable trading is due to China' joining in WTO which leads to an increase for China's exporting volume to Turkmenistan. Besides, Turkmenistan's importing goods exceeds exporting goods after 2010 which reached USD 1.04 billion. Thus, we can see that Turkmenistan has higher dependence on China 'exporting goods, but both of them have similar trading trends.

During the time of global financial crisis, Turkmenistan's demand on importing goods are more, after recovering financial situation, they export more and more goods until now, and becoming China's important importing partner especially on agriculture goods. Turkmenistan has been taking full advantage of its' advanced breeding, planting and gene technology to ensure high quality of agriculture goods and market needs. At the same time, China as "world manufacturing factory" keep offering

Turkmenistan equipment to produce agricultural goods.

China's investment to Turkmenistan is quite unbalanced compared with other countries which occupy only around 5% of China's total FDI in Central Asian area. Main distribution is on oil and gas exploiting, mining, engineering construction, manufacturing. The investment in other fields are very limited. Also, the transportation fields, after Turkmenistan being independent, it keeps investing on domestic transportation infrastructure which creates nowadays convenient and low-cost trading approaches.

Most China's exporting goods to Turkmenistan is household appliances and daily consummation while 90% of China's importing goods from Turkmenistan is oil and natural gas. One of the most valuable projects is the "China - Central Asian natural gas pipeline" project which produce 40 billion m^3 natural gas per year. The contribution of the pipeline reduced much transportation expense compared than other countries for Turkmenistan to export natural gas to China, also avoid China's over-dependence on natural gas from Russia. The construction of 3rd and 4th gas pipeline is under construction which will produce 100 billion m^3 natural gas within following 10 years.

The trade complementarity between China and Turkmenistan will keep increasing in future due to the fact of Turkmenistan's enormous natural resources which will be long-term needed by China, at the same time, China's over-capacity light industry, daily consummation, equipment and financial support will be strongly need by Turkmenistan vice versa.

2.6 Summary of attractiveness for China to invest

There is many summarized attractiveness for China to invest in these five central Asian countries such as positive and open attitude with foreign investment, increased mutual dependence on complementary goods or resources, implemented investment policy, more stable political environment, more cultural communication and permeation, continuous and stable growth of GDP, etc.

The reason why China continuously emphasize the importance of developing the policy especially in these five countries, on the one hand could be considered in terms of less transportation fee, tariff, and the high mutual dependence on different needed goods among China and each of them. On the other hand, it may avoid the risk of obstacles that US may set for China's maritime shipping. Thus, development of transportation infrastructure can reduce this possibility as a "back-up plan". However, this is and estimated standpoint which needs more evidence to be verified. On the other hand, the involvement of these countries in the process of SREB may cause some potential negative effects which need to be eliminated in order to ensure further cooperations. Another reason for Central Asian's low bargaining power is since none of these countries has Anti-dumping duty protection like United States or Europe, which claims that domestic government imposes tariff on foreign importing countries that it believes are priced lower than fair market value. It is a process of companies' exporting products to other countries with lower price compared when they are traded in domestic markets. In order to protect and balance domestic market, many countries decide to add tough duties on products they believe are being dumped in domestic market.

3. Data Analysis

In order to better know the result, we decide to analyze and compare data in terms of FDI, GDP, GDP per capital and their potential impact on the landscape of central Asian countries. Meanwhile, we may consider whether China's investment especially on infrastructure cause positive impact in terms of politics, economy and society to central Asian countries? If so, we will find out the attractiveness of each country for China to invest and list cooperated projects among them.

3.1 Foreign Direct Investment

3.1.1 Relationship between Global FDI and China FDI

Foreign Direct Investment is one of the main formats of international capitalization, investors of one country (who owns operational control rights) can invest their capital into other countries to manufacture and create profitability. After the establishment of "Shanghai Cooperation Organization" (SCO), the economic development among China and these Central Asian countries has significant growth. From USD 1.5 billion from 2001 to USD 45 billion in 2014. Especially those exporting goods from Xinjiang province of China to central Asian, occupy 8% of total GDP which takes huge portion compared with other provinces.

As we can see from the graph, until 2016, China's outward FDI reached $0.21 trillion, increased 24% than last year. At present, China has been the second largest FDI outward country after United States.

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
world outward	1.398	2.155	3.196	2.593	1.282	1.75	2.131	1.764	1.931	1.647	1.982	1.979
world inward	1.543	2.147	3.099	2.451	1.365	1.86	2.283	2.115	2.129	1.792	2.363	2.398
China outward	0.01373	0.023932	0.017155	0.056742	0.04389	0.057954	0.048421	0.064963	0.072971	0.12313	0.174391	0.217203
China inward	0.104109	0.124082	0.156249	0.171535	0.131057	0.243703	0.280072	0.241214	0.290928	0.268097	0.242489	0.170557

Tab 3.1.1 Word and China's outward and inward investment

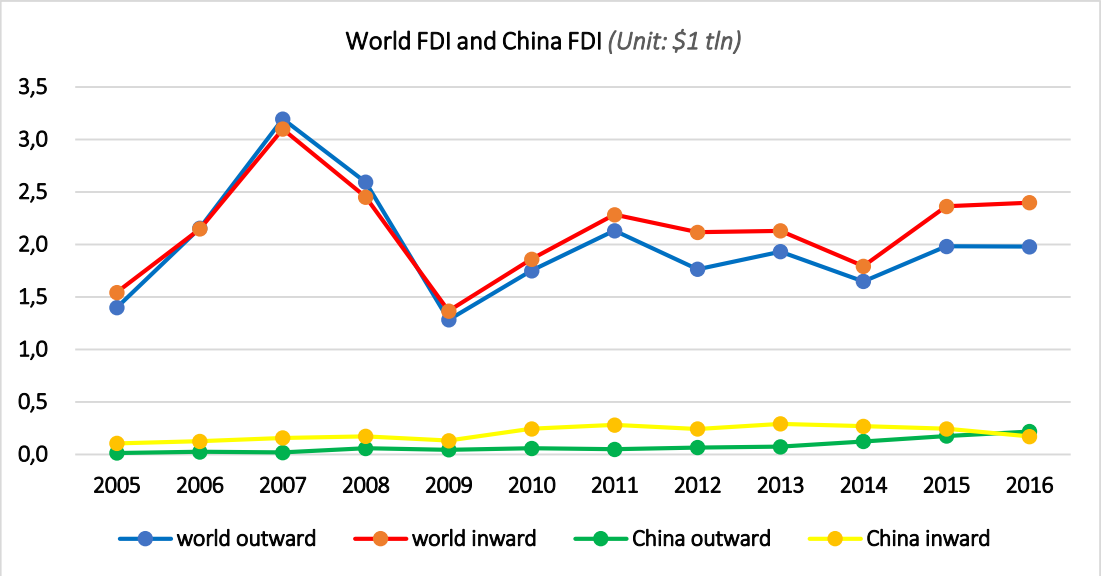

Fig. 3.1.1-World FDI and China FDI

After the world financial crisis, most world outward and inward investment dramatically fall and not yet recovered to the peak point in 2007 while China's FDI always keeps flat and stable trend.

According to the recent 10-year data of global FDI, we can see: The highest global FDI occurred in 2007, but after 2008 world financial crisis, it dramatically fell and have not been recovered yet until now. During the period from 2010 to 2016, main China's investment worldwide is in fields of energy, agriculture, technology, equipments and devices, real estate, automation, etc. The reason why after 2008 world financial crisis, global FDI fell while China's FDI almost remain flat (and this trend went on) could be: (1) Generally, the whole world's development (related to all aspects, especially in economy) is developing rapidly, vise verse, the shortage for overusing natural resources needs to be filled by securing them, thus, most countries decreased export volume of their natural resources, while China at that time, was the third largest country with natural resources under Russian and America;

(2) Domestic firms around the world needs shipping with insurance to support them to export their goods, but when transportation fee went up, they were not able to afford;

(3) Main Enterprises in China keep acquisition global brands which leads some enterprises lose their monopoly position, in order to expand markets, share and enlarge global trade. [1]

There is another question that we may rethink which China the largest developing countries is worldwide with fast growing speed especially in terms of economy if we compared it with other developing countries at least in recent half a century. How much effort does SREB contributes? One of the reasonable explanations could be the initial basic aim of SREB for delivering people with standard of living, reducing wealth-poor gap and establishing regional sustainability rather than targeting too large aims.

[1] Sources: The World Bank: https://data.worldbank.org/indicator;
Ministry of Commerce of China: www.fdi.gov.cn;
OECD: https://data.oecd.org/fdi/fdi-flows.htm

3.1.2 China's FDI to Central Asian countries

Following graph shows us China's outflow FDI to five Central Asian countries within recent 10 years. China's FDI towards the world is divided into many directions. For example, until 2016, countries which belongs to "developing economy" occupied 84.2% of China's investment, Central Asian countries belongs to "transitional economy" which occupied 1.7% ($23.4 billion). More specifically, China FDI in central Asian area most go to Kazakhstan which occupied 23.2% ($5.43 billion); Kirgizstan 5.3% ($1.23 billion); Tajikistan 5% ($1.16 billion); Turkmenistan 1.1% ($0.25 billion) are right after.

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Kazakhstan	279.92	496.43	66.81	36.06	581.6	2995.99	811.49	-40.07	-2510.27	487.7
Kirgizstan	14.99	7.06	136.91	82.47	145.07	161.4	203.39	107.83	151.55	158.74
Tajikstan	67.93	26.58	16.67	15.42	22.1	234.11	72.33	107.2	219.31	272.41
Turkmenstan	1.26	86.71	119.68	450.51	-383.04	12.34	-32.43	195.15	-314.57	-23.76
Uzbekstan	13.15	39.37	4.93	-4.63	88.25	-26.79	44.17	180.59	127.89	178.87

Tab. 3.1.2-China's FDI to Central Asian countries

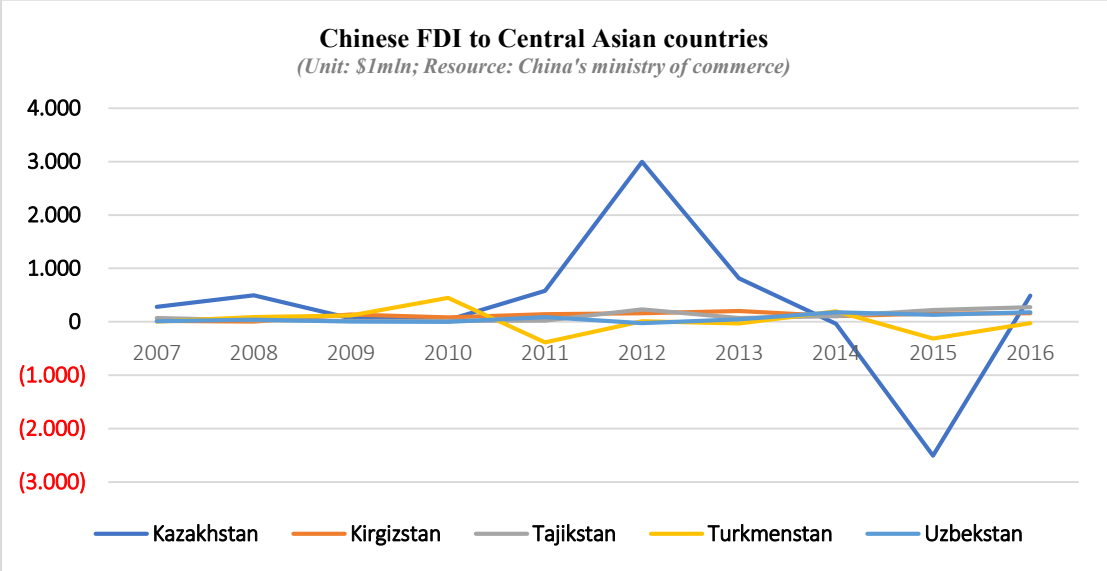

Fig. 3.1.2 - Chinese FDI to Central Asian countries

As we can see from graph, highest point occurred in 2012 when China's FDI to Kazakhstan over USD 2.9 billion. However, one of the huge up-and-down occurred during 2014 and 2015 in Kazakhstan while other countries' inward FDI moves lightly. According to statistics from Drehen in 2017, only Turkmenistan and Kazakhstan are on the list of top ten recipients of Chinese other official flows with total number of USD 10 billion and USD 6.7 billion respectively.

3.2 Comparison based on GDP and annual growth rate

3.2.1 China annual GDP in recent years

GDP is another indicator to measure one country's economic situation. Following graph is the China annual GDP and percentage of comparison than previous year from 2008 to 2017:

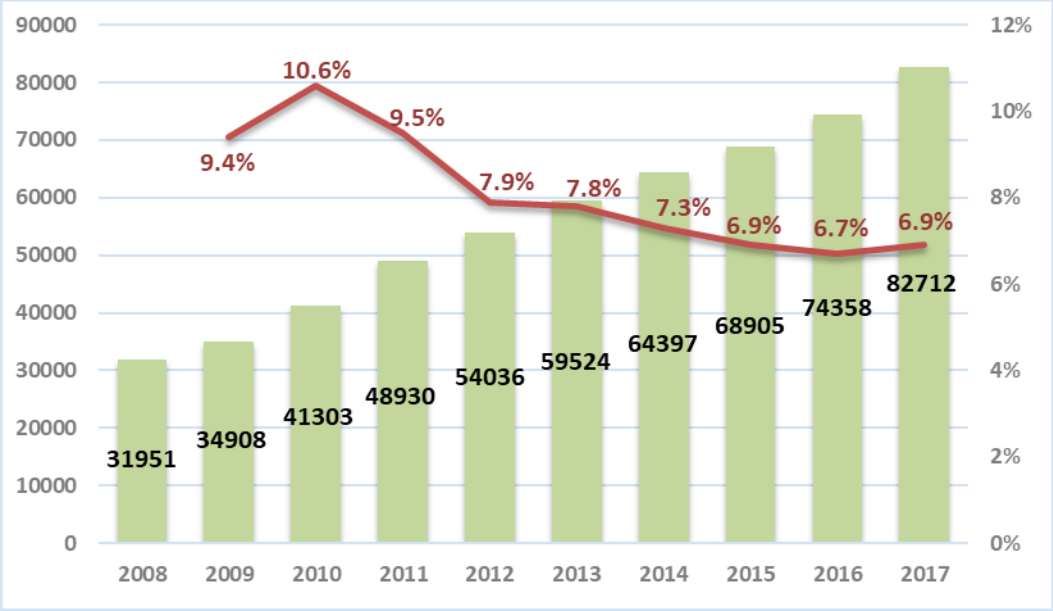

Fig. 3.2.1 - China annual GDP in recent ten years

As we can see from the graph, there is a flat increasing of China annual GDP while the percentage of increasing gap compared to previous year has been reducing, which means the whole financial situation for China is more stable and flexible to face possible global financial crisis.

China has become the second largest GDP country right after US since 2010 and invest resources in various area in terms of economy, science, education and other international affairs so far. Besides, most of these investments is achieved pretty successful.

3.2.2 Central Asian countries' GDP recent years

From following table, we can see five Central Asian countries' GDP movements and trends within recent 10 years:

GDP (Unit: $1bln)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Kazakhstan	81.00	104.85	133.44	115.31	148.05	192.63	208.00	236.63	221.42	184.39	135.01
Kyrgyzstan	2.83	3.80	5.14	4.69	4.79	6.20	6.61	7.34	7.47	6.68	6.55
Tajikistan	2.83	3.72	5.16	4.98	5.64	6.52	7.63	8.51	9.24	7.86	6.95
Turkmenistan	16.22	18.49	21.63	20.21	22.58	29.23	35.16	39.20	43.52	36.05	36.18
Uzbekistan	17.38	22.36	29.65	33.85	39.53	46.15	52.13	58.06	63.46	67.41	67.78

Tab. 3.2.2-Central Asian countries' GDP

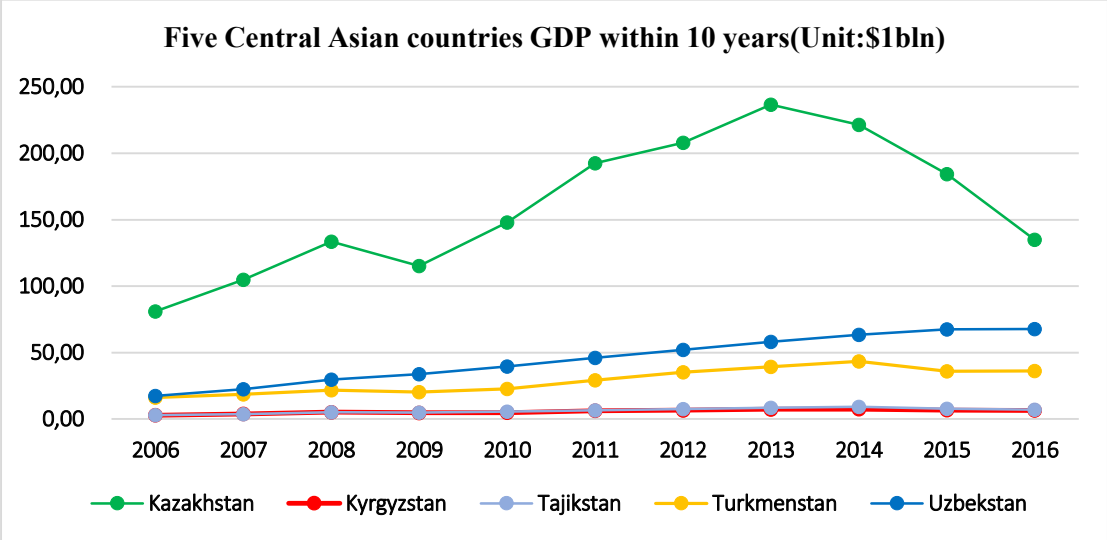

Fig. 3.2.2-Central Asian countries GDP within 10 years

Beside the fact that Kazakhstan is the largest FDI receiving country in central Asian, other countries GDP do not have too much gap, and keeps increasing and stable economic growth which became one of the attractiveness for China to invest in Central Asian. There are downtrends during some period, but the gap is not so obvious generally.

4. Cooperation mode and implement approaches

The cooperation mode between China and Central Asian countries can be analyzed from three perspectives: government and policy, economic environment and cultural communication.

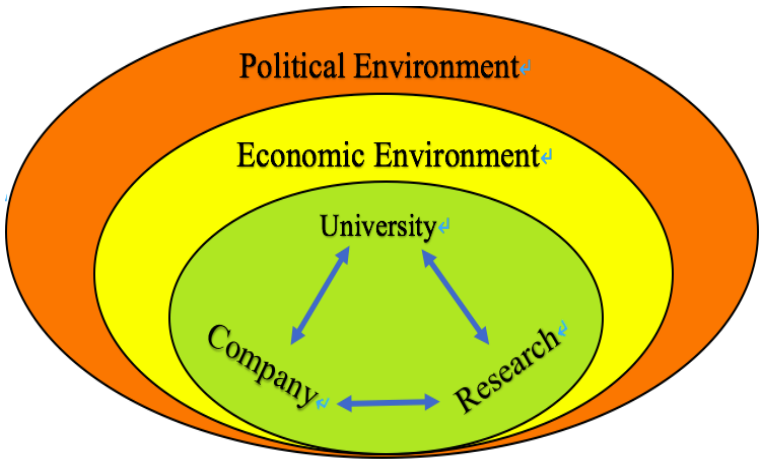

Fig.4.1 Cooperation Mode

(1) Government have stronger power than individuals, so when they are cooperating, government need to continuously adjust the policies and strategies, make sure the cooperation project is processable and search other possibility for further cooperation.

(2) Although the cooperation is going well so far, but there are more space and possibility because these must-pass-by countries on silk road mostly are developing countries, so from economic point of view, financial cooperation are not saturation(enough), as we can see from the data above, main cooperation are still Trade Financing (TF) and currency exchange, and they are not such large amount. Problem is that cooperation so far is still based on the most basic level; scale and TF are limited; there exist uncertainty in credit system, monetary and financial system. So, if government can sharp restrictions on cooperation at deeper level, it would be easier to accelerate trade and investment facilitation process. Another

approach is that government should persuade more financial enterprises to cooperate with Central Asian countries (but also reinforce the supervision), offer them with Silk Road Foundation, syndicated loan (which is a loan that companies can continuously apply from international commercial banks or investment banks based on the same qualification, same agreement, and decide repayment time), let them trade resource with market, so that they can share profit and risk, also avoid intensive competition from internal market.

(3) Cultural communication also plays very important role. Human resources are crucial inputs during cooperation. But due to the fact that China and these countries' financial professionals are less even though China has great amount of population. So, communications may be inefficient. To solve this problem, human resources market in China should stimulate competition to find higher qualified people; or, Chinese company should learn the experience of how developed countries train their employees for dealing international cooperation. Especially in Xinjiang, minorities occupy around 60%, for them, professional training could be more difficult because of different languages, different culture and poor education system. So, both society and government should enhance the training effort there. The reason why I highlight the relationship among company, university and research institution is that since technology such as software and hardware are poor developed in Central Asian countries (for example, compared to Silicon Valley), there are no attractiveness for high-educated people or tech-enthusiasts. To solve this problem, each party in the circuit should accelerate the process of innovation, use technology to innovate resource, create new technical product, enhance technical environment, etc.

5. Main purpose, opportunity and advantages

We listed several points about the possible reasons of the coming up idea of the belt in the first chapter, in this chapter, we will analyze mainly four reasons in terms of excess production capacity of China, payment ability of central Asian countries, occupying international infrastructure market, and implement of China's monetary policy "RMB" to deeply discover the motivation of SREB behind the data.

5.1 Excess production capacity

China' overcapacity of production is not a brand-new issue but exists since around 2009 after the global financial crisis. According to the statistics from World Steel Association, the annual production capacity of China reached around 1.1 billion-ton at the end of 2016. The overcapacity of production is increasing at the average speed of 0.3-billion-ton per year. Following graph is the steel production in China from 2008 to 2017:

	China steel production (million-ton)	**China export of steel (million-ton)**
2008	500,5	56,3
2009	567,8	24
2010	683,9	39
2011	702	47,9
2012	731	54,8
2013	822	61,5
2014	822,8	92,9
2015	803,8	111,6
2016	808,4	108,1
2017	831,7	74,8

Tab 5.1.1 China steel production and exporting steel

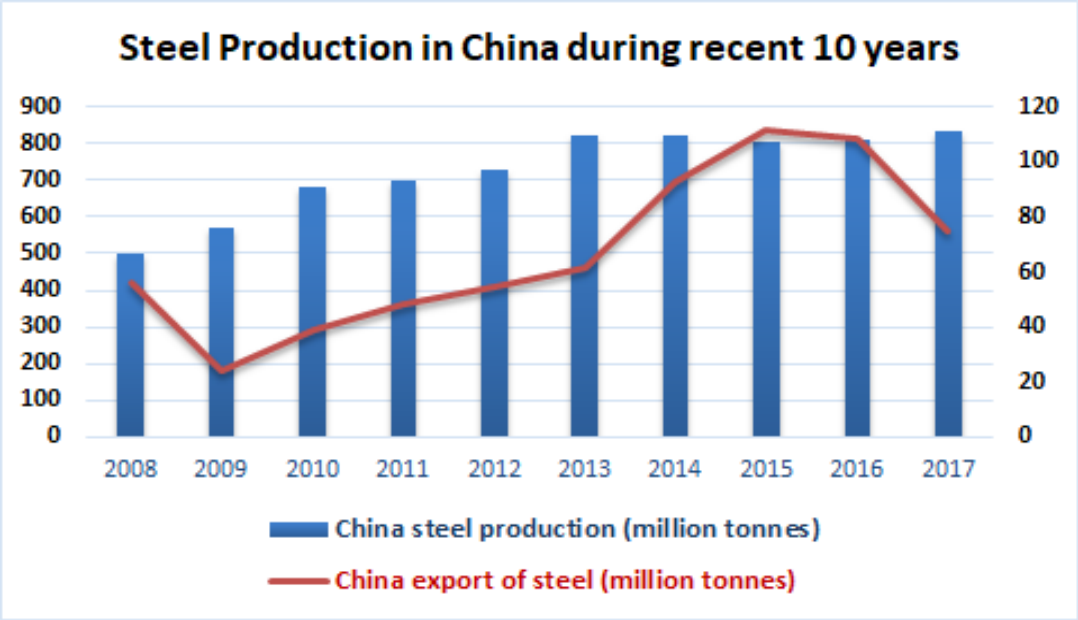

Fig 5.1.1 Steel production in China during recent ten years

As we can see from the graph, the domestic steel production of China generally and steadily increased these years, and always is on the first position among all countries, while none of these five central Asian countries' steel production is even in the list of top 50 countries. Thus, these five central Asia countries become the perfect object for China to export redundant steel and the SREB will help China to solve this problem in a long run.

However, the China's exporting steel production is unstable and utilization rate of steel is continuously decreasing. Especially during global financial crisis in 2008, it reasonably fell while in recent two years this fell is due to the strengthen environmental protection measures from Chinese government to knock out some low-cost and low-quality steel plant. Behind the data, the reason why China continuously have the issue of overcapacity of production could be analyzed from historical aspect, governmental policy for enterprises to invest, easy currency liquidity, industry localization, low availability of technology, etc.

From the governmental policy point of view, after the global financial crisis in 2008, there was an economic downturn and very low demand from market, the GDP growth rate felled into 6.1% in 2009, had become the lowest growth rate for China since 1998. However, Chinese investment on steel, metal and chemical industries kept growth. One of the reasons could be due to the incentive policy which was released by Chinese government in 2009. During that time, Chinese government made capital injunction around USD 625 billion to help enterprises apply for a dept to recover their financial situation in order to overcome the global financial crisis, especially on transportation and electricity. This leads to a quick increase in steel, metal and other industries. This approach appealed many enterprises but also finally leads to the result of over investment and overcapacity of production. Thus, the SREB policy become one of the approaches not only for China to solve this problem by exporting the redundant products to slow development countries, but also for at least these five central Asian countries to replenish the fact that lacking production capacity. This could be count as one of the advantages of this policy.

Although China is the largest manufacturing country, especially on these overcapacity industries, the overcapacity will not only affect the international export and import but also cause trading conflicts. This part will be explained in chapter 6.

5.2 Occupy the infrastructure market

Well-developed infrastructure is a country's most basic and important index. Based on China Reform and Opening Policy around 30 years ago, China started to invest on domestic infrastructure projects to satisfy the public needs. China has been heavily investing in infrastructure since 1990s. Obviously, the speed of developing infrastructure projects of China nowadays is too fast to be caught up by other countries. One of the purposes for China to released SREB policy is to occupy as much as infrastructure market globally.

Public & Private Infrastructure Investment (% of GDP,2010-2014)		
	Private	Public
Central Asia	0.3	2.6
PRC	0	6.3

Average Infrastructure Investment Rate (% of GDP)			
	Investment	Private	Public
PRC	6.8	0.04	6.76

Infrastructure Investment Needs (2016-2030) ($ billion, 2015)			
	Investment Needs	Annual Average	Share of Total
Power	11689	779	51.8
Transport	7796	520	34.6
Telecommunication	2279	152	10.1
Water& Sanitation	787	52	3.5
Total	22551	1503	100

Infrastructure Investments and Gaps (2016-2030) ($ billion, 2015)				
	Estimated Investment (2015)	Annual Needs	Gap	% of Gap
Central Asia	6	11	5	2. 3
PRC	686	753	68	0. 5
Total (without PRC)	195	457	262	4. 3
Total	881	1211	330	1. 7

Tab. 5.2.1 categorized statistics of infrastructure

Above graphs (including public and private infrastructure investment, average infrastructure investment rate, future estimation for infrastructure investment needs and gaps) from Asian Development Bank show the whole framework of global infrastructure and made some estimation for future infrastructure.

According to the graphs we can see that, China's investment on infrastructure still is an upward trend. Besides, the statistics of "Infrastructure Mobilization in 2017" sector mentioned during Global Infrastructure Forum which was held 2018 in Bali stated that private financing is crucial point to meet the developing countries' infrastructure need, the total capital estimation for long-term co-financing global infrastructure was $73.3 billion, occupy 45% of total private co-financing funds.

Behind the data, the reason why China invest a lot on central Asian countries' transportation infrastructure such as roads and high-speed railway could be hypothesized that by loaning large amount money to these countries from Asian Development Bank or China State-Owned investors without considering their ability of payment, an equal approach to pay back for these central Asian countries is to reduce the tax for China when the goods are imported and exported through the area. Of course, this point needs to support by more actual statistics of data.

Without the transportation infrastructure, central Asian countries' enormous open spaces would be a barrier. On the other side, the economic development that created by SREB's investment on infrastructure are perceived mainly by US as China's attempt at cultural and economic hegemony. It claims that China is too focus on infrastructure development and won't hire local workers or won't create mutual benefits with central Asian countries which is not true.

5.3 Implementing of RMB's monetary policy

Since the number of cross-border business is stable increasing, implement of RMB's monetary policy is non-negligible. One of the most memorable moment in China's monetary process is when RMB had been freely usable currency and officially incorporated into SDR Basket of currencies by International Monetary Fund in 2006. According to the data released by SWIFT, RMB is positioned in fifth place right after USD, Euro, Pound and Japanese Yen in 2018. Also, until this year, there are around 0.35 million companies and 400 banks from all countries registered and developed their business in China. RMB has been adopted as one of main monetary approach in Southeast Asia.

Thus, what is the future trend of RMB currency? Could RMB be potential options for currency settlement in future? We can consider following possible reasons:

(1) Regardless with GDP, FDI, currency reserves or other trading index, all indicate that China has become the current largest country for trading goods, so it has the qualification for being frequent use by countries covered by SREB and for being option for cross-border currency settlement. Accommodation of funds can strength RMB's payment and settlement functions，make the world monetary system more stable and reliable, accelerate the SREB process and enlarge the scale of monetary exchange between trading countries, especially between China and Central Asian countries. Moreover, RMB may fix the problem of lacking liquidity of international reserve currency in long-term. Since RMB has influence at some level in Central Asian due to the past trading, for Kazakhstan, KZT is directly exchanged with USD and the fluctuation between these two curries is quite uncertain recent years while RMB for KZT is more stable. As we mentioned in chapter 3, Kazakhstan's main exporting countries use euro, then China (RMB) and Russia (RUB) while its' main importing countries use RUB, RMB and USD. During 2018 International Monetary

Forum, an idea of the most suitable monetary cooperation mode between China and Central Asia countries which called “2+X” was mentioned. “2” means select one country’s currency as “mother currency” to exchange with RMB, and apply this mode in other countries, which is “2+X”. When the country cannot afford paying with USD, instead it can use “mother currency” to solve the problem. For example, Tajikistan had dept of USD215 million from some international financial banks in 2017, which is preferably used in investing energy, transportation, agriculture, education, etc., but in fact it can only afford repaying USD212 million. According to External Debts Management Strategies, a country’s external dept should below than 40% of annual GDP, which means Tajikistan is on the “border” but under control for now. Under such situation, usage of RMB may help to solve the problem of lacing international reserve currency liquidity. If we only consider the economic gap or similarity on open-up trading with foreign countries, indeed, there are complementation, but there is no monetary integration.

(2) Using RMB can reduce currency risk, since almost all countries covered by SREB first use USD for currency settlement, especially these five central Asian countries with low development level, they are far away qualified from using their own currency. Besides, these countries are geographically neighbor with China, there are more and more demands of using RMB for currency settlement. Thus, the problem resulting from using third currency would be during the time of exporting country receive their payment and importing country receive trading goods, both of them will face the currency risk. Thus, if RMB become the next currency for settlement, it will reduce potential currency risk during the trading.

5.4 Natural resources and marketing

Central Asian countries play important role as the main infrastructural and connectivity-developing regions since historical global trading in SREB initiatives. As we all know, China don't export any natural gas and it is the largest crude oil importing country. In terms of energy resource, its lacking oil at least 60% and even more on gas. What China isn't lacking is the quantity of iron ore, but with lower quality. At the same time, the public's needs of trading partner countries are different. Thus, it imports lot iron ore with higher quality.

There are varies natural resources in Central Asian and Kazakhstan is positioned at the 7th place among them on the list of copper exporting countries, correspondingly, China became the largest copper importing country.

As we mentioned in chapter 5.1, due to China's excess production capacity situation, the volume of steel production (including imported iron ore) will be reduced in following years, but to meet the basic marketing needs, China still needs to produce at least 5 billion-ton steels and import 8 billion-ton iron ore. More specifically, Kazakhstan has the largest volume and variety of natural resources among all central Asian countries, with more than 90 types of natural resources, has huge potential exploiting value compared to others. On the contrary, Kirgizstan only have limited variety of mineral resources, main non-ferrous metals are gold, antimony, hydrargyrum, tin, etc.; Tajikistan's main resources are antimony, coal, oil, gas, gold mine, dolomite, strontium, pottery clay and lime, etc.; Uzbekistan has abundant natural gas, oil, coal and non-ferrous metals, etc.; About Turkmenistan, 80% of its land is stored with many important natural resources especially with its oil and gas, there are potassium and rock salt, Ferrous and non-ferrous metals, sulfur, celestite and bentonite, etc., right after.

6. Challenges, problems and solutions

During the implementation of SREB, there must be many challenges that both China and covered countries, especially Central Asian countries have to face. We generated main points from natural resource crisis, threats from rivals, ability of payment and international arguments or doubts about the SREB these aspects to analyze the reason and recommend possible solutions for them.

6.1 Global Energy Reform and European Energy Crisis

During the "2018 International Forum on Energy Transitions" in Suzhou, China, statistics stated that the cooperation between China and Central Asian countries in terms of oil and gas is facing many potential risks such as domestic political uncertainty, macroscopic struggle，specifications of international energy cooperation policies and their incompleteness. There are some solutions which may be helpful to solve the problems:

(1) complete the multilateral cooperation mechanism as much as possible. Indeed, it can provide protection for energy supplying countries, but most central Asian's energy cooperation is based on principle, lacking practical cooperation;

(2) Most cooperated energy projects are invested by State-owned enterprise from China which has complex internal organizations, long and cautious decision-making process, limited flexibility. What these enterprises perform is always been countries' strategy. Based on this fact, China should encourage firms with small and middle size to invest energy cooperation projects in central Asian;

(3) Central Asian became the crucial factor for global energy policy by its enormous oil and gas resources.

Energy resources nowadays are not only used on simple importing and exporting of oil or gas, but also been developed to many derivatives which bring long-term value. However, one of the common problems in central

Asian is low utilization of energy resources, thus there is high dependence on importing high-quality oil products. For example, Kazakhstan is good at developing oil, but with very low utilization rate compared than other countries and it doesn't have capability to exploit high-quality oil products especially for airplane. Complementarily, China has developed many professional equipment which can produce not only high-quality oil products, but also derivatives such as chlor-alkali, chemical fertilizer, tire and synthetic material. This is one of the reasons that cause excess production capacity problem of China. Thus, more cooperation between China and central Asian countries suits China's strategy in terms of energy cooperation, on the other hand, it satisfies central Asian countries developing purpose;

(4) Following table is legal documents which is signed by China and central Asian countries for decades, called "Bilateral Investment Treaties" (BITs).

Short title	Type of agreement	Status	Date of signature	Date of entry into force	Date of termination	Type of termination
China-Kazakhstan BIT (1992)	Bilateral Investment Treaties	In force	10/08/1992	13/08/1994		
China-Kyrgyzstan BIT (1992)	Bilateral Investment Treaties	In force	14/05/1992	08/09/1995		
China - Tajikistan BIT (1993)	Bilateral Investment Treaties	In force	09/03/1993	20/01/1994		
China-Turkmenistan BIT (1992)	Bilateral Investment Treaties	In force	21/11/1992	04/06/1994		
China-Uzbekistan BIT (1992)	Bilateral Investment Treaties	Terminated	13/03/1992	12/04/1994	01/09/2011	Replaced
China-Uzbekistan BIT (2011)	Bilateral Investment Treaties	In force	19/04/2011	01/09/2011		

Tab 6.1.1 Bilateral Investment Treaties

Decades have passed, and BITs is not so sufficient and suitable for nowadays situation, it needs to be implemented in following terms:

(1) Clarify and specify the range of investment amount and offer more preferential terms to attract investors;

(2) When conflict occurs, the solution must follow legal procedures and arbitration principle which should be more transparent to public and reliable. In case of hard-solvable conflicts, the compensation should be

claimed specifically. Talking about the European Energy Crisis, as we all know that there are three alternatives for Europe to import natural gas: Russia, United States and China. United States and Russia are largest natural gas exporting countries in the world. Due to historical relationship, Russia has taken more strong position in Europe rather than America. However, United States tried to make sanctions against Russia on its "Nord Stream 2" project which is constructed since 2015 after "Nord Stream 1" to export natural gas to Europe to stop its construction process. Once the project is completed, gas volume exported to Germany will reach 110bln m^3 annually. The tactic may cause negative effect which accelerate the project's process and could be a threat to European energy market. The gas competition between United States and Russia may be an alternative for Europe to consider China market. China has large demand of gas consummation just like Europe and used to import gas from Russia at expensive price.

Currently, Russia is facing obstacles in European market, this will turn Russia around to discover new cooperation opportunity in China. Meanwhile, United Stated offer even lower gas price to attract China attention. Thus, SBER can be seen as one of the approaches that China take advantage of Russia and United States' "awkward" position in order to control as much as energy infrastructures. China should consider both Russia and United States' profit on exporting energy in central Asian and based on that to make different strategy for its' energy multilateral countries, especially with central Asian.

6.2 Ability of payment and power of public consumption

There are arguments about the investment from China as a treat to the security of Central Asian countries. Do these central Asia countries actually have the ability to pay the dept borrowed from China?

By compare the ability of each Central Asian country, we will forecast if they actually have the potential ability for repaying the loans. In recent 10 years, Kazakhstan's foreign liability increased to USD 74.6 billion. Until the end of 2017, its' total foreign liability reached USD 168.7 billion. Most liability is from natural gas and oil projects. Until 2018, Kirgizstan's total foreign liability reached USD 4.08 billion which occupy 90% of its total liability. Tajikistan has total foreign liability of USD 2.8 billion which mainly borrowed from International Monetary Fund and China. Due to the reason that Uzbekistan do not release liability situation to public, governmental statement claims that Uzbekistan's foreign liability only occupy 16% of total liability. Turkmenistan's foreign liability occupy around 24.3% but the percentage is increasing year by year from USD 9 billion to 11.2 billion. Meanwhile, Turkmenistan's economy is adapting to complex external environment, industrial development approaches and increased scale of exporting natural gas contributes to Turkmenistan's internal stability.

There are some further questions that we would like to know from following analysis: Is there any possibility also for central Asian countries that they are not able to repay back the investment to China? What can they learn from the failed examples and what should they active in advance in order to avoid similar consequence happen?

Following graph shows some failed examples that China invested in Africa mainly due to their poor ability of payment. For decades, China has been developed a long corporation relationship with Africa which has always been the most remarkable are that SREB targets. SREB indeed helped to develop railways, roads, airline in some African countries who were not be able to recover the investment. Due to Libya civil war occurred in 2011 makes Africa don't have ability to repay back to China and this leads to a negative profit around USD 20 billion for China on its investment, and some projects had to be stopped in middle.

Investor	Scale	Amount	Type
China Railway Construction	3 railway projects	USD 4 billion investment on construction projects which only occupy USD 0.6 billion are processing, cause USD 3.4 billion loss.	Transportation infrastructure
China State Construction Engineering Corporation	40 months construction duration since 2007	Around USD 2.3 billion in total	Engineering Construction
China Gezhouba Group	7300 apartments in Lybia	China invested around USD 0.7 billion in total and constructed projects only occupy 17%	accommodation
China Communication Construction Company	5000 apartments in Lybia	USD 4.8 billion	accommodation

Tab 6.2.1 Some failed examples of China invested projects in Africa

The similarity of China's investment in Africa and Central Asian is that poor payment ability mainly due to unstable political environment and economic profit from cooperated projects cannot be generated in short-term. The speed of paying liability cannot catch up with the speed of generating economic profit.

The trend of China's releasing loans to Kazakhstan keeps decreasing. From USD 13.25 billion loans in 2015 to USD 12.05 billion last year. Kazakhstan mainly borrowed loans from Netherlands, United States and China is at 3th position. Consumer ability of Kazakhstan has been consciously decreased 2.7% in 2016 and 2% in 2017. Part of the reason could be the saturation of labor market and the increasing of unemployment rate. During the period, the price of basic consumer goods had been increased by 7.8%. However, Kazakhstan government claims that the unemployment rate won't exceed 4.8% by 2021.

The China state-owned companies and Asian Development Bank usually lend a large amount of loans to Central Asian countries without or less considering its future ability of payment, since the payment at the end can be replaced by other tangible or intangible value-equal assets, including territories or long-term business contract or agreement on reducing tariff, etc. For example, China offer Tajikistan a loan of USD 1.2 billion which is almost 20% of Tajikistan annual GDP and it is seems that Tajikistan doesn't have ability to pay back for now. Thus, the alternative solution for Tajikistan would be handing-off partial territory for establish military base or economic special zone. The acquisition or long-term rent of land by Chinese companies leads a problem of population resentment. A similar situation also happened on Kirgizstan. In order to avoid the same situation, a moratorium of improvement of law has been introduced in by Kazakhstan.

6.3 Comparison between the SBER and the Marshall Plan

There are some arguments about the similarity between SBER initiatives and Marshall plans. In this chapter, we are going to compare them based on background, purpose, content, consequence and to see if there is any similarity or difference.

About boosting exports and exporting currency we have already analyzed in last chapters, fostering strategic divisions, and siphoning away diplomatic support.

About background and purpose, Marshall Plan was a periodical tactic which was mentioned by United States during last century after the II World War in order to recover Europe's financial states by offering goods supply, financial and political support, against communist countries and generates financial resources for the establishment of North Atlantic Treaty Organization (NATO) covered countries benefit from the tactic. On the contrary, the SREB is a continuation based on ancient silk road, it is a continuously improved strategy which suits dynamic environment for decades. Especially when China stated policy of reform and opening-up 40 years ago, the speed of international cooperation become extremely fast. All covered countries are allowed to benefit from the belt.

About the member countries, Marshall Plan was brought up by Unites States and include some European capitalist countries while other communist countries and third world countries are excluded from benefiting from its policy. On the contrary, SREB covers most of developing countries and also some developed countries, the aim was to reduce the development gap by international cooperation and mutual referencing. About specific items:

(1) Marshall Plan claimed that the recipient countries (who received especially financial support) must use the capital on consuming American goods only and this process must be monitored by United States government; on the contrary, there are many public organizations such as

the Silk Road Found or Asian Infrastructure Investment Bank which can offer financial support to applicant state;

(2) the recipient countries must relax their restriction on foreign currency which leads to a consequence of large exporting volume from United States to Europe and USD became the main monetary settlement in Europe. On the contrary, the SBER is China and covered countries share production capacity to satisfy different infrastructure or trading needs, co-invest on projects with commonality or complementarity, etc.

So, the conclusion is that they have similarities indeed on the aim of occupying as large as infrastructure market, guaranteeing strong demand supply if we start from financial and political point of view, and China can enlarge its influence in the region acting as countering behavior to the rivals while the process of economic structure's shifting is different.

6.4 Regional International Public Goods Theory

The SREB itself was seen as “public goods” which China offers to the world to improve international cooperation. Public goods that China offer are “the OBOR” initiative, Asian Infrastructure Investment Bank, etc., while the western countries offer WTO, the World Bank, NATO etc.

A new form of globalization is needed with a high demand which China aims to participate and contribute to the process. One of the reasons that China implement the policy is due to the reason of lacking international public goods. The nature of the theory is that it should be the state who first lead to invest and offer job opportunities for public, also public goods should be invested and constructed by the state.

Although economic globalization causes many positive effects to many countries, it also creates a gap between investment contributed into and profit taken from the international public goods, and the gap is enlarging nowadays. One of the reasons could be the unbalanced development of different countries, during the cooperation, some countries may benefit, the others may not, depend on the business strategy and the changing of state power. Thus, the international public goods are needed in order to recover some economic loss. Countries would like to benefit from consuming public goods, however on the other hand, they are not willing to take risk of paying too much cost on it. Thus, it is hard to balance or control the behavior of taking advantage from each other. This common situation leads to lack of international public goods. At the same time, China can be count as the country who depends on international public goods most. Since after Chinese economic reform around 40 years ago, china has been actively participating various of global activities, such as G20, and signed China-ASEAN, China-South Korea, China-Australia, China-Georgia Free Trade Agreement, etc., but with the shortage of risk control, environmental degradation, etc., it has a high dependence on international public goods theory.

6.5 Alternative program and reaction from rivals

The covered area under the belt has always been a source of strategic competition among China and its competitors, especially US and Russia. During the international competition, there are many alternatives program is released in order to set obstacles for the SREB.

For example, the trade war between China and America starts from 2018, where the US government release a new policy which decide to increase the tariff of exporting goods from China to America; US took geo-economic TPP measure (Trans-Pacific Partnership) to against China and excluded it as negotiating party; The United States-Mexico-Canada Agreement (USMCA) claims that member countries can quit the agreement after 6 months and establish bilateral cooperation if another member country who sign free trade agreement with any non-market economy country. This behavior at least limits the cooperation among China with these two countries; Uzbekistan signed series of contract with France rather than choosing cooperation opportunities on SREB mainly due to the fact that Uzbekistan already have large liability on China and cannot afford borrowing more loans with poor payment ability in a short-term.

Facing these threats mainly from US, first, China should head towards “Westward” rather than “Southward” which exactly means develop a better relationship and improve its security environment in central Asian area which may cause unsatisfying for these countries. This is also one of the reasons about renaissance of land Silk Road from after the flourish development of airtime Silk Road. Central Asia is the first stop on SREB for heading westward to Europe. One Chinese state-owned company signed a 40-year lease to manage Gwadar Port in Pakistan which gives China access to the Gulf States and transport oil by pipelines cross Central Asian territories from Middle East. So, the possibility that US set

too expensive tariff or stop the transportation in future at Malacca Strait where 60% of China's importing oil is transformed there will be reduced.

China should develop better relationship with international monetary institutions such as Asian Development Bank which is not preferred especially by US.

In order to sustain the belt's priority, we should also consider each central Asian countries' contribution on their regional stability. People at the leadership level of each central Asian country are not ready to decide among the different priorities in terms of economic coherency and political independence in their area. Meanwhile China with SBER should respect and understand their position in political independence and expectation for economic development. On the other hand, SREB initiative itself has an unignorably fact of complexity at some level. In flowing years, central Asian's poor infrastructure situation will be continuously improved by cooperation with China, however, infrastructure belong to strategic asset, SREB should not only focus on process of the construction, but also emphasize and remind the initial and common aim of shaping prosperity with central Asian countries.

7. Cooperation between China and Italy on the belt

China has been cooperated with Italy since Han dynasty on ancient silk road which starts from Chang'An (old capital city of China) and destination of Rome, where is the crucial point to connect Asian and Europe land. In the past, most cooperation between China and Italy are based on trading goods, booming of tourism, production, industrial investment, etc. while recent years it expands more into telecommunication, technology and innovation fields. China and Italy established official cooperation relationship since 1964. In 2004, China and Italy established the comprehensive strategic partnership and a three-year-plan was executed in 2014 which mentioned a new bilateral cooperation in the field of aerospace, energy conservation, food safety, agriculture, etc. In 2016, Italy became one of the three largest Chinese investment receiving country together with England and German.

Following graphs show us Italy's importing and exporting situation with China since 2014:

	Categorized goods which Italy mainly import from China recent years (USD 1 million)					
	2014	2015	2016	2017	2018	Position
textile and raw material	6032	5329	3887	3971	4116	1
leather products	1334	1221	844	905	877	1
other miscellaneous	2168	2117	1577	1700	1733	1
light industry	1414	1332	1042	987	1018	1
mechanical and electrical	11672	10893	8198	8928	10205	2
optical and medical equipment	1450	1463	1137	1178	1238	2 or 3
base metal	3230	3359	2356	2342	2734	2 or 3
plastic and rubber	1417	1294	1030	1155	1284	5

Tab 7.1 Italy's Importing goods from China

	Total import& export trade amount (USD 1 billion)	Incresing percentage	Export to China	Incresing percentage	Import from China	Incresing percentage
2018	783.63	11.6	11.54	4.9	27.43	11.2
2017	700.16	8	11.01	25.5	24.71	5.4
2016	645.65	-0.9	8.79	3.9	23.4	-2.6
2015	868.09	-13.6	11.52	-17.1	31.26	-6
2014	1000.61	0.3	13.89	6.7	33.22	8.5

Tab 7.3 Italy Import & Export trading amount with China

As we can see from the graph, Italy's main importing goods are mechanical and electrical equipment, textile, base metal, etc. while total number of trading amount is firstly keep decreasing until 2016 and then started recovering until now. In these fields, China is one of the top five partners with Italy. According to the data from Eurostat, China is Italy's 3rd and 8th importing and exporting partner respectfully. As the destination country and cross point on the SREB, Italy plays active and important role. It is obvious that cheap price of production, offshoring, assembling, manufacturing, etc. from China are more attractive for Italian investors while Chinese investors are more attracted by Italian fashion, automotive, luxury, furniture, food and wine industry, advanced technology, etc. which bring benefit differentiation rather than cost efficiency to customers. By taking well advantage of SREB, it is good for both Italy and China to avoid the risk and possible conflict which may occur during bilateral investment and create more cooperation opportunity.

Following graph show us number of China and Italy's joint venture since last two years compared with other European countries:

	New invested companies in China in 2017		Actual Investment in China (USD 1 billion)	
	Number of companies	Increasing Percentage	Amount (USD 1 billion)	Increasing Percentage
England	393	13.90%	1	-25.90%
German	387	-1.30%	1.54	-43.10%
France	209	4.50%	0.79	-9.20%
Italy	*201*	*8.70%*	*0.2*	*-12.70%*
Netherland	122	10.90%	2.17	291.10%
Spain	100	12.40%	0.14	-28.10%
Denmark	57	54.10%	0.82	403.30%

Tab 7.2 Total number of new invested joint ventures in China

As we can see from the graph, Italy is at middle position among other European countries which the total number of new China-Italy joint venture is increasing while the actual amount of investment is at the second-to-last position compared with Spain and decreased 12.7% than previous year.

After the financial crisis, the world economic situation has been floundering. China and Italy have been achieving many process cooperation projects in most fields. Through the belt, infrastructure investment accelerated the Italy's economic situation. Many Chinese public and private investors such as State Grid Corporation and heavy industry companies have already been involved in many cooperated projects. What worth mentioning is that the first cooperated project in infrastructure field was signed by China Communications Construction Company and joint venture 4C3 which was about Venice ports construction. The cooperation on Italy's port reconstruction can reapply maritime transportation resources and improve the integral development in this economic zone. Cooperation on this field can reduce the time and journey for trading goods.

The cooperation in telecommunications industry between China and Italy recent years has gain another extraordinary process. ZTE was established cooperation on 5G with Wind Tre, Open Fiber, and recently made the first video call by using 5G phone. Also, the first 5G R&D center was established and next three-year-plan of testing has been confirmed. It is a common trend that the appearance of 5G technology will not only play faster role on daily phone communication, it is more a revolution on solid state disk and other devices. Italy as the first representative supports to speed up spread of 5G in European territory.

The cooperation on European-Asian transportation is also very significant. Until 2018, there have been 4000 "China Railway Express" trains between China and Italy. The increasing number of trains and routes offer more convenience for the trading goods and there is easier way to communicate on different fields.

One latest information is about Italy become the first G7 country who officially join in China's OBOR initiatives which makes the US being unsupportive and official suggests Italy avoid China's Belt and Road plan. Since this March, there will be 50 cooperated projects under processing. The contents of the cooperation claims that by fully taking advantage of Italy's preferred geographical position to improve transportation efficiency and expand exporting goods on fields of agriculture, pharmacies and seize the tourism opportunity well. The cooperation on design, feasibility research, engineering, mechanics, port construction, IT, insurance fields are also encouraged. More specifically, Enel with China Electricity Grid will cooperate on energy field to construct a 27000 km gas pipeline for transporting natural gas; on finance, Bank of Unicredit and Intesa Sanpaolo will sign new financial cooperation agreements with China Bank; about transportation, a 5-billion-euro project of port is under discussion, which will offer more than 400000 job positions and may turns Palermo to become the largest shipping center of Europe instead of Rotterdam, meanwhile, another new port project will be constructed with Italy's largest cruise group Fincantieri in Genova for expanding more tourism from China..

The 2nd "Belt and Road Forum for International Cooperation" will be held soon in April in Beijing. It has been 15 years for China and Italy's strategic partnership and next year will be their 50th anniversary for cooperation. Besides the past, the future cooperation between China and Italy under the SREB must hit new sparks and will have more frequent cooperation and sustain intimate relationship.

8. Future Trend

So far, SREB has been developed well with involved countries. But in the future, not only China, but also central Asian countries should think that how to exploit the belt in a more efficient way? How to reapply valuable resources?

In the future, China's inland and seaside area will gain a well-balanced development or at least the gap will be reduced step by step. More Chinese joint venture will be located and operated in central Asian which will increase their technical and intellectual growth. Scope of SREB will become more inclusive and the realization aim of SREB initiative can be achieved which Central Asian's regional and international structure will be involved in the process. There are three dimensions that can change international system structure in future which includes distribution of capacity, institution's arrangement, and ideational dimension.

In order to better implement the belt, both China and Central Asian countries need to contribute continuously. For China, it should implement the SREB initiatives and offer multidimensional approaches in terms of finance, politics, culture to face possible treats mentioned above. Second, the transparency, objectives, standards of SREB needs to be adjusted at local, national and transnational levels. The Chinese investors should communicate better with Central Asian countries' government to get more governmental and related industries' support to affect the infrastructure developments. Third, China should take more active strategy to reduce environment pollution in order to avoid the involvement of Central Asian countries. They also need to search and develop green energy and cooperation more in this section. For Central Asian countries, soft power especially education is crucial point for implement the belt in future. Compared with previous or current limited cultural interactions, there will be more formation of cultural basins and

networks be created and strengthened. They should reduce inimical sentiment and enlarge cultural-humanitarian cooperation with China. Domestic investment on education and innovation should be increased to raise more technical experts who can work for specific cooperated projects.

9. Conclusion

From the ancient Silk Road, to the flourish development of maritime Silk Road which leads to the recession of land Silk Road at the same time, then the renaissance of new Silk Road, these whole process lasts 2000 years during the time river, faced many difficulties and obstacles, but never lost its direction. Nowadays SREB is causing various effects in terms of politics, economy, culture, civilization, etc. worldwide especially in central Asian. Some effects brought to these countries indeed are positive and the SREB helped to accelerate their diversification's on economy and sustainable development in the way they prefer. SREB is also the result of international system transformation based on shifting of current system which can improve the international structure. The world needs more mutual connection to reduce the gap between wealth and poor which SREB can contribute to accelerate the process at some level.

Each knife has two sides, the same for the SREB. Indeed, SREB brought many opportunities to central Asian countries in most fields, meanwhile, there will be more challenges and difficulties in future for SREB to face. Central Asian countries should focus more in a long run rather than pursuing short-term profit.

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