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Key Developments in Global Affairs

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## CHAPTER 4

# On the Belt, on the Road: China's Pivot to Eurasia

*Benno Zogg*

Nowhere is China's Belt and Road Initiative (BRI) more evident than in Eurasia, which spans from Central Asia to Eastern Europe. China is transforming this space with physical infrastructure, but also through political and societal engagement. China's economic clout and the BRI's land-based component, the 'Belt', have already yielded considerable leverage and may allow Beijing significant leeway in shaping the region's future. But only an assessment of China's conduct on the ground will help reveal its true intentions and the effects of the transformation it has wrought.



A train waiting at a container yard at the Khorgos border crossing point in Kazakhstan, October 19, 2015. *Shamil Zhumatov / Reuters*



China's growing role as a global economic powerhouse and the magnitude of its Belt and Road Initiative (BRI) have invoked both grand hopes and grand fears. The BRI is framed as an attempt to foster connectivity, cooperation, and trade. Countless studies on the BRI start with the following staggering numbers: announced in Kazakhstan in 2013, it is supposed to cover more than 70 countries of the world, representing  $\frac{1}{3}$  of the global economy and  $\frac{2}{3}$  of the global population. Six economic corridors seek to traverse both land (the 'Belt') and sea (the 'Road') with the aim of connecting Asia, Europe, and Africa. Through various funds, China seeks to invest at least *1 trillion* USD towards building infrastructure in particular.

The BRI represents an unprecedented economic endeavor based on the logic of 'stability through development,' with potentially far-reaching geopolitical consequences. Having said that, the initiative is inherently vague: both its scope and goals are ill defined. As a state-driven initiative, it inevitably blurs economic and political logic. The BRI is a multi-level strategy that, while ostensibly an economic undertaking, also has political and societal dimensions pursued through multi-lateral formats and people-to-people contacts.

At the heart of China's economic and political outreach lies Eurasia, forming the core of the 'Belt'. 'Eurasia' entails the Central Asian states bordering China's west (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan); Russia, China's neighbor to the north and a hitherto dominating power in Eurasia; the South Caucasus (Armenia, Azerbaijan, and Georgia); and the EU's eastern neighbors (Belarus, Moldova, and Ukraine). It is a region rich in natural resources and a bridge between China and Europe.

The implications of China's influence and the BRI are manifest there. Consequently, Eurasia is an important site of inquiry into the motivations behind China's growing international involvement and the BRI, how states along the Belt have received and shaped the initiative, and what (geo)political consequences this has brought about. Analyzing China's conduct in Eurasia will further shed light on the interaction between politics and economics, between economics and security – and on China's transformative power and ability to exercise soft power overall.

While skepticism towards China is widespread, particularly among the target states' populations, the diverse successor states of the USSR are all



receptive to economic opportunities. Other powers like the US, the EU, and Japan have also invested billions in Eurasian projects with similar aims to the Belt: to promote connectivity, trade, and security. However, China appears to have a more comprehensive vision for Eurasia and dedicates unmatched financial and political capital towards it, promising a transformed, connected, and prosperous space. Consistent with the pattern in other target nations, Chinese investments in Eurasia surged as the hype around the BRI peaked in 2015, and then normalized. Touted as investments, most Chinese funds are actually loans, which states have to pay back. Additionally, there is still a significant discrepancy between the projects that were announced and those that have been implemented.

Though the BRI is only seven years old, a preliminary assessment of the Belt in Eurasia is still possible. China emerged as a major trading partner and investor in Eurasia. Its economic weight gives the nation considerable leverage that extends into the political and security realms. While increased leverage in Eurasia is a desired consequence of the BRI, it remains unclear – possibly even to the Chinese leadership – how, when, and to what ends such leverage may be used. Furthermore, the Belt has considerable geopolitical implications, not least of which

due to China's strategic partnership with Russia. Their opposition against the US-led international order unites the two powers.

This chapter describes China's motivations, the strategy, and the fundamental logic behind the Belt in Eurasia. It will then elaborate on how China's role in Eurasia and the significance of the Belt manifest in the economic, political, societal, and security dimensions. Furthermore, it will capture how Eurasian states themselves have adopted and adapted the Belt. To conclude, the chapter will draw lessons from China's approach in general and consider its implications both for Eurasia and for the geopolitical balance.

### **Economic Interests in Eurasia**

Despite a broad range of motivations for launching the BRI, it is undeniably and overwhelmingly an economic initiative at this stage. The official Chinese rhetoric vaguely frames the motivations for the BRI and its 'spirit' as promoting prosperity and cooperation among a "community of common destiny," and strengthening economic, political and societal interactions between participating states and China.<sup>1</sup> The BRI is a flagship of Chinese President Xi Jinping's foreign policy and, since 2017, even an explicit part of the Chinese constitution



as a means to achieve “shared growth.”<sup>2</sup> It is a truly massive endeavor, incorporating all foreign policy actors in China, including at the provincial level, as well as state-sponsored development funds, state-owned enterprises, and commercial actors. Several high-ranking committees oversee and coordinate various aspects of the BRI’s implementation.<sup>3</sup> This has naturally led Western observers to classify the initiative as a political tool as well as an economic one.

Chinese policymakers reject the notion that the BRI is geopolitical, ideological, or – as some have characterized it – the Chinese equivalent of the Marshall Plan. China does not publish maps clearly delineating the BRI, nor clear indicators for the success or failure of the initiative.<sup>4</sup> Consequently, BRI investment volumes are hard to quantify, and the initiative does not have clear parameters nor end goals. Under the guise of the BRI, projects initiated before the BRI’s announcement or not involving Chinese funding are included. The concept is purposefully vague, to encourage the participation of any actor. It is thus organic, flexible, and constantly evolving. Most scholars agree that one of the main motivations behind the Belt is helping sustain – or rather change the model of – China’s economic growth. It aims to do so in several ways.

Efforts along the Belt in Eurasia allow for a diversification of trade routes through overland transit. On their most likely route across Eurasia, goods cross only two customs borders: between China and Kazakhstan entering the Eurasian Economic Union (EAEU), and between Belarus and Poland entering the EU. The Belt thus connects the mature economic area of the EU with the world’s largest manufacturing economy, China, via countries that are heavily involved in exporting natural resources. This suggests complementarity. Through its investments, China is diversifying its energy sources, taking advantage of Central Asian and Russian natural resource deposits. An overland connection also helps to expand China’s supply of other commodities and helps decrease its reliance on coal.

Apart from connecting markets, the Belt also seeks to create new markets – for example in Central Asia, where intra-regional trade is low – and to incorporate them into Chinese-led value chains. Moreover, the Belt is an opportunity to reduce excess industrial capacity in China, which is a consequence of stimulus packages that boosted heavy industry and infrastructure construction in the wake of the 2008 financial crisis. Labor costs are increasing and China is running out of ways to use the output of



these factories productively for new domestic infrastructure. Consequently, the Chinese leadership encourages companies to use excess stocks of steel or cement to construct the Belt, as well as to export actual production facilities abroad.<sup>5</sup> As it reduces its reliance on heavy industry, China seeks to capture the higher end of the global value chain. Furthermore, through its important economic role in Eurasia, the use of the Chinese currency, the Renminbi, will increase.

Lastly, decades of Chinese export surpluses have led to an unprecedented accumulation of capital. Lending within China by companies, public entities, and households has soared – often unsustainably and through shadow banks.<sup>6</sup> The Belt may offer more profitable investment opportunities and a diversification of China's debts.

### **In Search of the Belt's Objectives**

These interests, while ostensibly economic, have a considerable political dimension. The logic of 'stability and security through development', which espouses the pacifying effect of economic development and job creation, underlies much of China's foreign initiatives. Based on China's own economic development over the past decades, the Chinese leadership deeply believes in this logic. China's underlying desire to foster stability, both

domestically and in its near abroad, cannot be overstated.

The Chinese leadership pursues stability through development both in China, where economic growth is a vital element of an implicit social contract with the population, and in its neighborhood. Domestically, the Chinese government seeks to reduce inequality between its provinces. Its 'Go West' strategy has prioritized investments in China's less developed western provinces, including its Xinjiang Uyghur Region, which borders on three Central Asian states. The Belt represents an extension of China's push to develop its west through new transport and trade outlets; the 'Go Further West', so to speak, after 'Go West'. For the Chinese leadership, the Belt also serves as an important complement to its oppressive approach in Xinjiang, where it heavily surveils, polices, and 're-educates' the local Muslim population in the name of quelling unrest and separatism.

Beyond the economic and domestic motivations, the Belt has important geopolitical ramifications. Denying its implications for the global order, President Xi said "the BRI does not repeat the old geopolitical competition game but open[s] [a] new approach for win-win cooperation."<sup>7</sup> However, a transformation of the geopolitical



landscape along the Belt is clearly part of China's underlying motivations. Overland trade routes decrease China's dependence on insecure maritime routes, which are largely controlled by the US and its allies or are bottlenecks like the Strait of Malacca. It also allows China to decrease its reliance on energy supplies from the unstable Middle East. As such, the Belt offers China a myriad of options in the face of a potentially escalating trade war.

The geopolitical benefits of the BRI also extend to norms and institutions. China co-founded several institutions, such as the multinational Asian Infrastructure Investment Bank (AIIB), that help execute and finance aspects of the BRI and may serve as an alternative or a complement to existing Bretton Woods institutions. Furthermore, the BRI's goal of trade facilitation necessitates not only physical infrastructure but regulation as well. As a consequence, China's influence on policymaking along the Belt will increase, as more trade and supply chains evolve around China. The BRI will also allow China to shape global standards, for example in high-speed rail or telecommunications.<sup>8</sup>

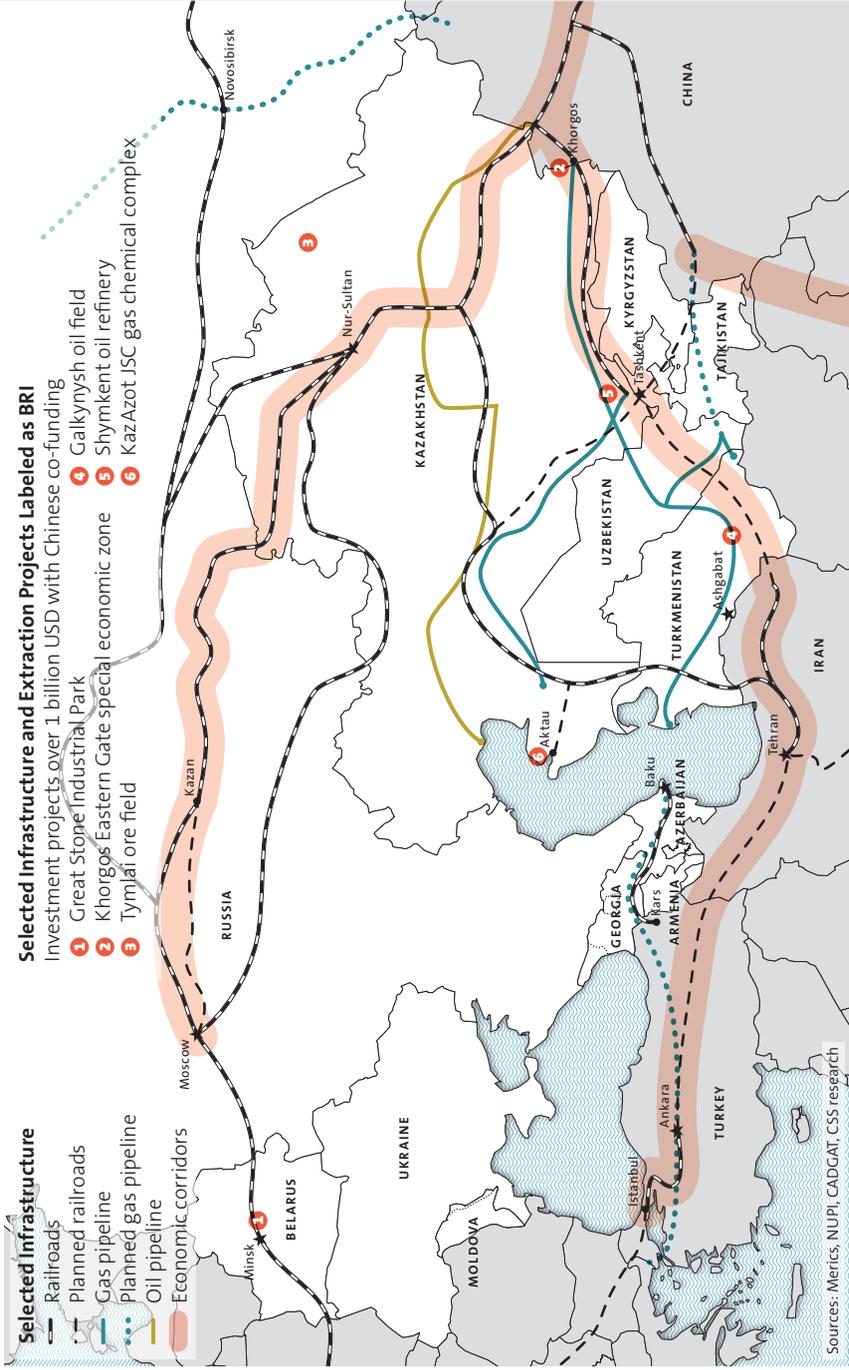
By increasing both China's stakes and its influence level in Eurasian states, other means of interaction become increasingly viable. Through deepened

relationships, China can push more strongly for greater security cooperation and the establishment of more "people-to-people contacts", like student exchanges, which informally target society at large. Yet analysts disagree over whether China wants to establish dominance over its partners. Some observers have labelled China's strategy "debt trap diplomacy"<sup>9</sup>: a plan to create excessive and unsustainable dependence on Chinese loans, which may be repaid through political concessions or relinquishing key assets.

In light of the Belt's enormous transformative potential and China's own state- and investment-driven model for economic development, there is talk of a new international order driven by China. A necessary element of both the so-called 'Beijing Consensus' and of the Belt is developing China's partnership with Russia. Russia's geopolitical clout makes it distinct among all other Eurasian states. An amicable arrangement with Russia secures China's northern border, which is a prerequisite for China's focus on the Pacific and the US. The strategic Russian-Chinese partnership also represents powerful opposition to the US-led liberal order. China's conduct in Eurasia and its willingness to accommodate some of Russia's concerns is an indicator of the significance of this partnership.



## The Belt and Road Initiative in Eurasia



### Selected Infrastructure

- Railroads
- - - Planned railroads
- Gas pipeline
- Oil pipeline
- Economic corridors

### Selected Infrastructure and Extraction Projects Labeled as BRI

Investment projects over 1 billion USD with Chinese co-funding

- 1 Great Stone Industrial Park
- 2 Khorgos Eastern Gate special economic zone
- 3 Tymjat ore field
- 4 Galkynysh oil field
- 5 Shymkent oil refinery
- 6 KazAzot JSC gas chemical complex

Sources: Merics, NUPI, CADGAT, CSS research



## The Belt on the Ground

Both Chinese rhetoric, such as President Xi first announcing the BRI in Kazakhstan, and the volume of investments on the ground prove that Eurasia is destined to take a central role in the Belt. To be sure, the Belt are actually 'Belts'. Of the six BRI corridors, three pass through Eurasia: the China-Mongolia-Russia Corridor, the New Eurasia Land Bridge, and the China-Central Asia-West Asia Corridor. In addition, a sea lane – the Arctic Northeast Passage north of Siberia – and the 'Digital Silk Road' also form part of this Eurasian network.

States in Eurasia share a common history, including Soviet and Russian domination, as well as a long-standing lack of economic opportunity. At the same time, they vary considerably; Russia is almost 600 times larger than Armenia and has an income level 13 times that of Tajikistan.<sup>10</sup> Fairly free political systems in Armenia and Georgia are juxtaposed with totalitarian regimes in Turkmenistan. Furthermore, the states' foreign policy orientations also differ. Some Eurasian states seek to join NATO (Georgia, Ukraine), some seek to remain neutral (Moldova, Turkmenistan), and some are part of a Russian-led military alliance, the Collective Security Treaty Organization (CSTO; Armenia, Belarus, Kazakhstan, Kyrgyzstan).

Accordingly, China's approaches to and interests in these states are diverse and selective. By tailoring its support to address individual states' needs, China has become an important trading partner for all countries in Eurasia (see graphic on page 90). Even though the EU, the US and Japan have also invested billions in infrastructure and trade promotion in recent decades, no single actor can match the funds or commitment China has dedicated to Eurasia. While China's important economic role in the region is undisputed, some caveats apply. Chinese investments reached a peak in 2015 and, after the initial hype around BRI died down, have since stabilized at lower levels. Seven years into the BRI, there remains a large gap between announced projects and actual spending. Furthermore, Chinese funding mostly takes the shape of concessional loans at low interest rates, which states will have to pay back.

The two key sectors for China's economic activities in Eurasia are transportation and energy, which are the target of around 70% of BRI investments overall.<sup>11</sup> Eurasia's infrastructure gap in these areas is widely acknowledged. Currently, the majority of China's imports from Russia and Kazakhstan do not pass overland, but through the ports of St. Petersburg and Vladivostok.<sup>12</sup> Landlocked



Central Asia is estimated to gain up to 7% in foreign direct investment flows and 2% in exports through the Belt's infrastructure alone.<sup>13</sup> Investments thus aim at boosting transportation within countries and regions.

For transit between China and Europe, railway links are paramount. Albeit at least three times more expensive than shipping, overland rail transport can cut transportation times in half to around two weeks.<sup>14</sup> The most established routes are the Trans-Siberian Railway through Russia and a route entering Kazakhstan at Khorgos, a joint Chinese-Kazakhstani free trade zone, dry port, and flagship project of the Belt. At Khorgos, containers are reloaded onto trains using the gauge of the post-Soviet space for their onward journey through Russia and Belarus. Commercial actors established this railway link between the Chinese city of Chongqing and Duisburg in Germany in 2011, prior to the announcement of the Belt.

Other routes of lesser significance at this stage include a railway corridor through Kyrgyzstan, Uzbekistan, Turkmenistan, and Iran to Turkey. In 2016, Chinese companies completed a section in Uzbekistan, including Central Asia's longest railway tunnel. Its final costs, roughly 455 million USD, were mostly financed through Chinese

loans.<sup>15</sup> The corridor currently lacks its Kyrgyz section, as Kyrgyzstan insists on a route that better connects the country internally. The corridor with the highest transportation costs connects the Kazakhstani port of Aktau with the Azerbaijani port of Baku at the Caspian Sea, to continue overland through Georgia to the Black Sea. Even Ukraine stands to benefit from Chinese investments. Despite the fact that many plans were put on hold after the outbreak of the Ukraine conflict in 2014, China is still targeting the Black Sea ports of Mariupol and Yuzhny for further investment.<sup>16</sup>

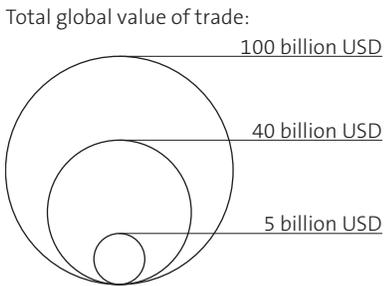
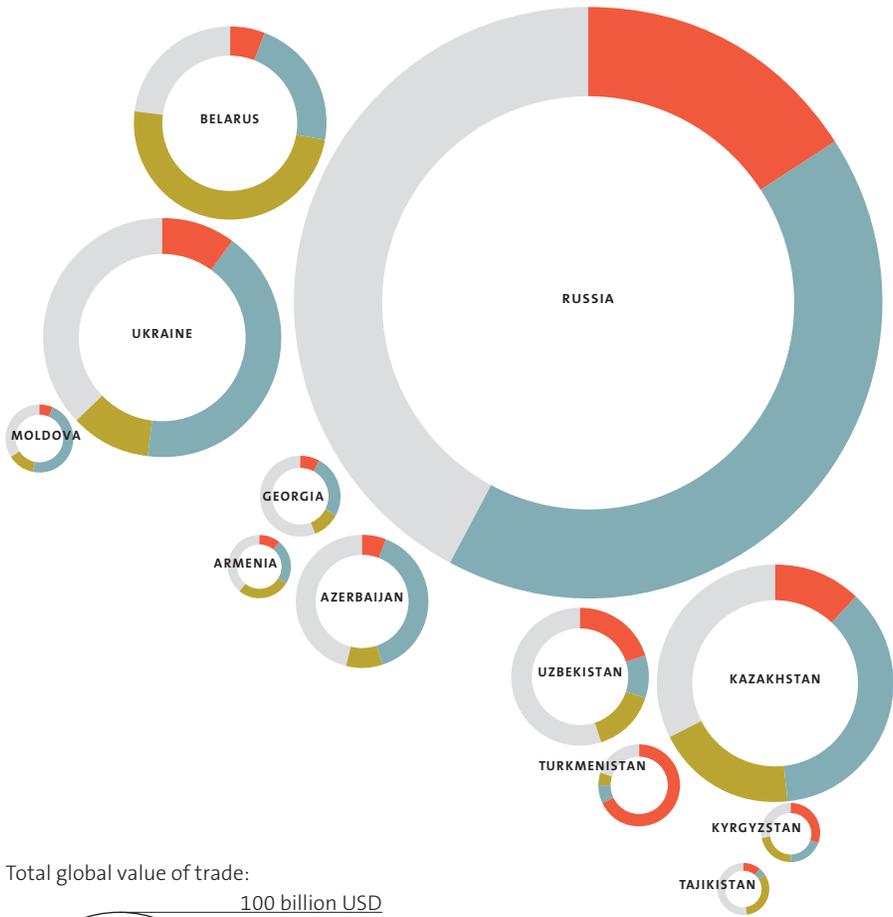
Currently, despite China's emphasis on overland corridors, only between 1–2% of China's exports to Europe pass through Eurasia. China prioritizes shorter transportation times when shipping high-end goods. Accordingly, the Chinese central and provincial governments heavily subsidize rail freight. Furthermore, the transportation of goods is currently mostly unidirectional. Trains returning from Europe run largely empty, as too few exports are deemed financially viable to merit the expensive journey to China.

In the energy sector, some Eurasian states rank among the world's largest producers of hydrocarbons and minerals. Accordingly, China invested vast



### Eurasia's Trade Partners

Trade values from October 2018 to September 2019



Share of total value of trade with

- China
- EU(28)
- Russia
- Rest of the world

Note: Total value of trade calculated from imports (cost, insurance and freight) and exports (free on board).

Source: IMF DOTS



sums in their extractive sectors, much of which predates the BRI. Kazakhstan is China's biggest uranium supplier and delivers oil through a 2,800 km pipeline co-financed by Kazakhstani and Chinese state-owned enterprises. Chinese companies control around 40% of Kazakhstan's oil production.<sup>17</sup> Turkmenistan exports 80% of its natural gas production, its major source of income, to China. Ironically, Turkmenistan uses a substantial part of its revenues to pay back Chinese loans that financed the gas pipeline to China in the first place.

As China's biggest oil supplier, Russia is an increasingly important energy source for China. Perhaps predictably, weeks after Russia's invasion of Crimea, China and Russia announced an historic deal for gas deliveries worth 400 billion USD over 30 years through new 'Power of Siberia' pipelines.<sup>18</sup> Furthermore, China's Silk Road Fund secured a 10% stake in a major Russian project processing liquefied natural gas on the Arctic Yamal peninsula. That project relies substantially on Chinese drilling technology, substituting for Western technology used prior to the sanctions regime.

Apart from transport and energy, Eurasia is also home to other areas of Chinese economic activity. There is evidence of China shifting production

capacity to Eurasia. One of the Belt's most ambitious projects, the joint Belarusian-Chinese Great Stone Industrial Park, is a mix of a free trade zone, industrial area, and financial and logistics hub near the capital Minsk. It is intended to be the site of high-tech industries and is expected to benefit from low labor costs, a skilled population, EAEU access, and proximity to the EU. With the number of companies taking advantage of the Park only slowly increasing, the concept has yet to prove itself. Kazakhstan, meanwhile, concluded agreements with China on 55 projects in industries such as metallurgy, engineering, and chemicals, worth 28 billion USD in total. To date, 15 have been completed.<sup>19</sup> There is skepticism, among Western as well as Eurasian observers, whether such facilities will fully meet market requirements or whether China is outsourcing polluting, outdated facilities to essentially create a new 'Rust Belt'.

### **The Belt as a Political Tool**

Observers and Eurasian states often neglect to consider the political component of trade and economic cooperation. Eurasia has long suffered from not only a lack of infrastructure, but a will to cooperate or to harmonize trade regimes. This is the result of underdeveloped bilateral relations, competition over primacy in



the region – for example between Kazakhstan and Uzbekistan – or outright conflict. For instance, Ukraine is a major grain and corn exporter to China, but Russia and Ukraine installed mutual sanctions on trade and transit of food and agricultural produce in recent years.

The Belt cannot succeed without pursuing an openly political agenda in addressing these issues. A World Bank study concluded that Eurasia stands to gain more in trade volume and GDP through policy reforms as opposed to infrastructure investments.<sup>20</sup> China has not been shy about encouraging such reforms and has taken some direct steps to ease trade in the region, for example by joining the TIR (International Road Transports) convention.<sup>21</sup> At the same time, China's average tariffs of 9.5% are still higher than in developed economies.<sup>22</sup>

China has signed various political agreements with countries along the Belt. China has a pattern of capitalizing on these agreements by evoking the language of 'friendships' and 'comprehensive strategic partnerships'. They are natural rallying points that China can use to bolster its reputation and the BRI around the world. Beyond the favorable optics, China's strategic partnerships can also have important global implications. While Russia is an

equal beneficiary of the BRI to other Eurasian states, it is a political juggernaut as a nuclear power, permanent UN Security Council member, and a nation unrivaled in both size and natural resource deposits. It exerts considerable influence in Eurasia through the wide use of Russian language and media. Millions of Central Asian migrant workers make a living in Russia and the Russian military has a sizeable presence in Armenia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, and – through its occupation of territories – Georgia and Ukraine.

In 2015, China and Russia agreed to harmonize Russia's Eurasian integration project, which entails the EAEU in particular, with the Belt. After hesitating previously, Russia also started providing China with some of its most modern arms and military technology. In turn, Russia increasingly relies on Chinese technology, including in defense, to circumvent Western sanctions. The two countries are growing physically closer too, beyond the brotherly handshakes between Xi Jinping and Vladimir Putin. Projects like a 350 million USD bridge across the Amur River and the draft plans for an estimated 240 billion USD (!) high-speed rail connection between Beijing and Moscow would physically link Russia and China as never before.



In its approach to the other former Soviet states in Eurasia, China can benefit from Russia's influence and role as a security actor. Accordingly, China appears willing to take Russian sensitivities into account.<sup>23</sup> Russia, meanwhile, is determined to maintain its influential position in the former Soviet Union. Russia has increased the number of summits with political leaders and encouraged companies to invest in Eurasia. For example, to lure Kyrgyzstan into joining the EAEU, Russia set up a 1 billion USD investment fund.

As opposed to investments from the West or Russia, recipient states often view cooperation with and loans from China as favorable since they do not come with strings attached. China does not insist on transparency, democratic standards, or economic liberalization as the West does, nor does it call for immediate political concessions as Russia does. However, China does implicitly expect some political support. It insists on the 'One-China policy' and refuses to allow criticism of its repressive policies and human rights abuses in Xinjiang or Tibet.

Despite improvement in recent years, skepticism and outright Sinophobia persist throughout Central Asian and Russian societies. In an effort to improve its image in Eurasia, China aims to foster deeper societal and cultural

ties with Eurasian states and boost its soft power. It grants scholarships to study the Chinese language or enroll in Chinese educational institutions; 30,000 Central Asians alone are studying in China. It also runs approximately 40 Confucius Institutes – educational centers aimed at promoting Chinese language and culture – in Eurasia.

As another stated political goal of the Belt, China encourages cooperation among Eurasian states. High-level summits and nascent multilateral institutions serve that purpose, namely the Quadrilateral Cooperation and Coordination Mechanism with Afghanistan, Tajikistan, and Pakistan, or the Shanghai Cooperation Organization (SCO). The SCO serves as a platform on regional security in Eurasia and organizes regular exercises of security forces to counter what China deems the "three evils": terrorism, separatism, and extremism. In particular, jihadist radicalization, militant incursions, and trafficking from Afghanistan have been common concerns addressed at the forum. The SCO also seeks to shape norms and concepts on a larger scale. Its mostly authoritarian member states share an overly broad definition of terrorism, for example, which may capture a range of acts including political opposition or separatism.<sup>24</sup>



As a result of its growing engagement with Eurasia, China is increasingly active in the security sphere as well. The impetus to secure its investments and its immediate neighborhood through more than boosting trade or relying on Russia was inevitable. China strengthens ties with security forces across Eurasia through joint training, military exercises, and donating or selling military equipment. With Russia's closest ally in Europe, Belarus, China took it one step further. After Russia declined to deliver the latest multiple launch rocket system to the Belarusian armed forces, a Belarusian-Chinese joint venture developed its own, the *Polonez*.<sup>25</sup> Furthermore, Chinese private security companies are an increasingly common part of engagement abroad, and China unofficially even runs a small permanent military base near the border in Tajikistan.

### Reception in Eurasia

The level of Chinese engagement has invoked great expectations across Eurasia. States were eager to subscribe to the Belt and access seemingly unconditional Chinese funds, hoping to become a keystone of the initiative and trigger economic development. In their responses to the Belt, however, states have proven to be more than mere recipients of aid. Always balancing between major powers and situated at geopolitical fault lines, Eurasian

states have long been skilled at capitalizing on the activities of outside powers. As such, participating states also shape the implementation of the Belt in Eurasia.

Many benefits of the Belt in Eurasia are inarguable, such as improvements in road and rail infrastructure.<sup>26</sup> Data analyses assume that Chinese-led infrastructure investments lead to substantial gains, particularly in urban centers, and even reduce inequalities between regions.<sup>27</sup> A number of Eurasian states regard strengthening ties with China as a way to diversify their foreign policy relations, and particularly to decrease dependence on Russia. Belarus, amidst bilateral disputes with Russia, happily accepted a large loan from China in 2019, to the tune of 500 million USD.<sup>28</sup> Similarly, Armenia seeks closer ties with China in terms of trade and security cooperation.<sup>29</sup>

For some Eurasian states, the Belt has proved a significant opportunity to advance their interests. Kazakhstan stands out in particular for its role in shaping the Belt. It enjoys a strong position from which to negotiate, thanks to its hydrocarbon revenues. While it has attracted sizeable Chinese investments in a range of sectors, Kazakhstan funds many BRI projects itself, such as the Khorgos dry port. Kazakhstan



even officially declared its desire to harmonize its national development strategy, aimed at diversifying its economy, with the Belt. Through that decision, it assumed a certain degree of ownership over the Belt in its territory. However, there is a danger that the authoritarian Kazakhstani government may waste funds on ‘white elephants’. Much of Kazakhstan’s growth potential lies in agriculture, for example, which requires complex interventions including storage facilities, supply chains, a revised land code, and a banking sector providing small loans.<sup>30</sup>

As a contrasting example, Tajikistan largely lacks both funds and alternate investors. Its authoritarian political elite eagerly accepts any Chinese assistance to strengthen the regime’s stability and security forces. There appear to be no reservations about the fact that China is donating the construction of a vast government complex in the capital, worth 350 million USD, without indicating what it expects in return. Tajikistan is further accepting 545 million USD from China to upgrade its largest aluminum processing plant, which accounts for a major portion of its exports. Incidentally, the plant is controlled by the Tajik president’s brother-in-law.<sup>31</sup>

These examples underscore that structural issues like a weak rule of law, a

lack of institutional capacity, and rampant nepotism have impaired growth and modernization in Eurasia. In Central Asia, Chinese officials allegedly expect to lose around 30% of their investments due to corruption.<sup>32</sup> In one recent example, the Chinese Bank of International Development stopped funding the construction of the Light Railway in the Kazakhstani capital Nur-sultan after funds started disappearing. As corruption is also widespread in China’s public and private sectors, though, it may be naturally assumed that megaprojects will involve side payments or overcharging by either side.

Particularly in Central Asia, the least interconnected region in Eurasia, regional harmonization and cooperation would substantially boost benefits from investments. States have undertaken some joint efforts at facilitating customs clearance and border crossings. However, distrust between leaders and between ethnic groups, combined with a lack of regional fora, have inhibited such endeavors to date. Despite the Belt, disputes at borders in Central Asia and trade wars with Russia continue to flare up occasionally. This is exacerbated by the fact that increased connectivity in turn creates more competition, namely from Chinese manufacturers. If Eurasian states cannot cooperate to



utilize their competitive advantages, they may cement their role as merely a transit space or resource supplier.

Eurasian states' structural political shortcomings, dependence on Chinese or Russian funds, and lack of coordination constrain their bargaining position. China may plan and finance BRI projects unilaterally, and smaller states may feel powerless to renegotiate or resist explicit Chinese directives.<sup>33</sup> The seemingly easy availability of Chinese funds, particularly during the early years of the BRI, has led to a large accumulation of debt and a number of projects where profitability is questionable. Kyrgyzstan and Tajikistan, for example, already owe more than half of their external debt to China, and face a high risk of debt distress.<sup>34</sup> Tajikistan ceded 1% of its land to China to settle a border dispute and to cover a debt in 2011, and granted gold mining rights to pay off another Chinese loan.

Such instances feed into the narrative of debt trap diplomacy and the already widespread skepticism about China. Popular and expert concerns revolve around three primary issues. Firstly, reliance on China is seen both as inviting risk and the exacerbation of existing inequalities. Secondly, collaborating with corrupt local elites has undermined the reputation of Chinese

investors and frustrated observers. Finally, much of the commentary reveals a fundamental skepticism about China and the Chinese. While on a person-to-person basis Chinese are visible in Eurasia, on the broader level there is often little knowledge about the strategy behind China's engagement.<sup>35</sup> Few China experts exist in Eurasia who could bridge cultural gaps.

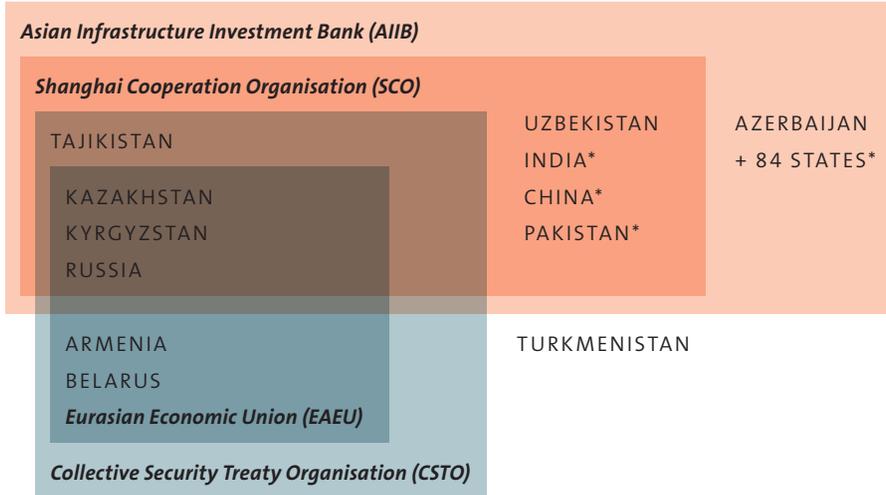
China's repressive measures against Muslims in Xinjiang is a particular source of discontent in the Muslim states of Central Asia, as some Uyghurs flee to Kazakhstan and Kyrgyzstan. Around one million ethnic Kazakhs and 200,000 Kyrgyz live in Xinjiang, many of whom the Chinese government forced into so-called 're-education camps'. Political elites in Central Asia avoid the topic or declare it internal Chinese affairs.<sup>36</sup>

A further source of grievance across Eurasia has been the fact that BRI projects often employ Chinese companies and workers. Additional concerns revolve around the environmental damage caused by many of these initiatives. This includes both mining projects and concerns over Chinese claims to water and land, as exemplified by protests over a land reform in Kazakhstan in 2016. Moreover, there are long-standing fears of an influx of



## International Organizations in Eurasia

As of March 2020



\* Non-Eurasian states

Sources: AIIB, CSTO, Eurasian Economic Commission, SCO

Chinese migrants to its more sparsely populated Eurasian neighbors. A fundamental lack of trust in their political elites cause many Eurasian populations to suspect that they may serve Chinese money more than national interests.

China has made a concerted effort to respond to the BRI's reception and to the countries' particular political economies in this critical corridor. China had to pull out of some projects after they were beset by fraud, and consequently worked to strengthen risk assessment and mitigation. Ultimately, China struggles no differently than

other actors who have engaged and, more often than not, become frustrated by working in Eurasia. That being said, China must also contend with particular challenges as it still lacks in-depth expertise and a heavy footprint in the region.<sup>37</sup>

China's soft power efforts, such as increasing people-to-people interactions, aim at improving its image in Eurasia. Unfortunately for China, some may have backfired and actually contributed to suspicion. There are allegations that Chinese actors have tried to influence public opinion through intelligence gathering,



buying decision-makers, supporting media, or sponsoring academics in exchange for favorable research.<sup>38</sup> While tens of thousands of students from across Eurasia study in China or learn Chinese, many may do so expecting to gain immediate material benefits. It remains to be seen whether they are also prompted by a cultural affinity for China. However, over the course of a generation or two, perceptions may shift and China may become an important reference point among Eurasian states and societies beyond economy and trade.

### **Learning from the Belt in Eurasia**

Eurasia has been an early focus of China's outreach – its 'Pivot to Eurasia'. It serves as a laboratory for China's new, more outward-looking foreign policy in general and the BRI specifically. In that regard, Europe should watch China's conduct in Eurasia closely. China will not copy and paste policies, but its experience in Eurasia will undoubtedly inform China's approach to other regions of the world, including Europe.

Unlike most other actors, China has put forward an overarching vision for Eurasia: to transform it into a connected space, build new markets, and foster stability. To that end, the Belt combines elements like infrastructure construction, trade promotion,

people-to-people exchanges as well as political and security cooperation, both bilaterally and multilaterally. By watching how the Belt plays out in Eurasia, the unknown parameters of the Belt increasingly reveal themselves. The Belt includes projects predating its announcement, such as the China-Germany railway connection, and projects without Chinese funding, like a number of projects funded by national governments or multilateral development banks. However, the air of uncertainty surrounding the BRI was by design. It reflects China's pragmatic stance and allowed states to project a wide range of hopes and intentions onto the Belt. Kazakhstan, for example, presented its national development strategy and Russia framed its Eurasian integration project as harmonizing with the Belt.

In Eurasia, China has decisively demonstrated how economic power translates into leverage and influence. At the same time, Eurasia also proved the primacy of national politics. In 2019 alone, tensions at the border between Kazakhstan and Kyrgyzstan, and between Belarus and Russia over energy subsidies, appeared to trump pure pro-growth logics. States often compete for key roles in the Belt and pursue their national interests, as opposed to strengthening intra-regional cooperation.



Though it presents the Belt as a win-win situation, China – no different from most other powers in other regions of the world – is motivated by its national interests. It seeks resources, stability, and favorable political ties with its neighbors. In addition, China seeks to create and pursue investment opportunities to foster its own economic growth. China sends loans and investments, not development aid. To date, the states of Eurasia have been willing to pay the immediate political price necessary to join the Belt, such as endorsing the ‘One-China policy’ or remaining silent about Xinjiang or Tibet. Unlike other economic opportunities presented to Eurasia, China has been willing to interact with any state irrespective of political system. Thus far, it has not shown signs of attempting to export the authoritarian Chinese political system.

The concern surrounding ‘debt trap diplomacy’ cannot be disregarded, as a number of countries owe substantial shares of debts to China. However, China has thus far approached the debt issue on a case-by-case basis, and has no interest in appearing colonialist and triggering popular backlash. In fact, some states have come to expect debt relief in exchange for political favors in the first place – poorer countries of the former Soviet Union have long played this game with their

previous sponsor, Russia. This fact also emphasizes that debts are a two-way street, as local leaders willfully accept the loans China offers.

Overall, while the endeavor is still ongoing and no clear criteria for success exist, China appears to have reached a number of goals in Eurasia. Stability is largely maintained, states have overwhelmingly endorsed the Belt, Chinese transport and energy routes were diversified, and China’s influence in the region has grown. That being said, assessing the Belt’s long-term success will take decades. 2020 should prove a telling year for the future direction of the BRI. Subsidies for railway cargo to Europe, for example, are due to be halved from the current 10 billion USD. Overall, the economic slowdown due to the effects of the global coronavirus crisis will force China and Eurasian states to prioritize in how they spend their funds.

Getting involved in the Belt also entails considerable risk for Eurasian states. A persistent challenge is the opaqueness of Chinese investments. Without the ability to properly assess their economic viability and sustainability, recipient countries may be disadvantaged by the partnership and the lack of clarity can foster suspicion. Risks also concern China itself. As China already faces domestic debt



problems, there will be severe repercussions if outward investments fail to produce revenue and if China proves to have overstretched its resources by pouring hundreds of billions into the Belt.

The political risks associated with the BRI also cannot be ignored. While its goal to foster stability sounds positive, China and its state-centric approach strengthens incumbent regimes. Yet many regimes across Eurasia have proven to be inefficient and corrupt, thus planting the seeds for future instability. Furthermore, China is often unwilling to acknowledge that sustainability and long-term growth in Eurasia require institutional reforms.

Through the establishment of the Belt and China's economic weight, the geopolitical landscape in Eurasia is tilting towards China. The Belt has been geopolitical all along and provides China with options should a confrontation with the US ever occur. With increased investments over land and additional sea lanes opening, China's influence even reaches the Arctic. The EU, the US, and Japan are likely to retain their limited collective influence in Central Asia, as well as their considerable influence in Eastern Europe and the South Caucasus. To date, China has not threatened the existing pecking order or multilateral institutions,

but the AIIB, the SCO, and future formats may increasingly do so.

Geopolitically, Russia stands to lose the most from China's rise, particularly in its Central Asian backyard. However, Russia's persistent cultural ties to Eurasia and the Chinese-Russian partnership alleviate this concern. The latter is likely to remain stable in the medium term, as the two lack allies and jointly oppose the US-led liberal international order. China appears willing to take into account Russian sensitivities and its self-perception as a great power. As such, no 'New Great Game' is occurring in Eurasia. In the long run, however, as China becomes even more powerful and capable, the asymmetry of their partnership and cultural differences will exacerbate tensions.

With greater leverage comes greater responsibility. While China has established the basis for a more active role in Eurasia, it is still hesitant to be too heavy-handed at exerting 'influence with Chinese characteristics.' However, with domestic calls to be more assertive and the necessary leverage to do so, China will be increasingly likely to exploit its position to create a favorable political environment and to secure its investments. In the future, China may try to ensure the deportation of Uyghurs or alleged terrorists to



China. Based on the foundation laid now, China's competitive advantage may be further cemented, and its political lobbying could lead to an increasing number of tenders for Chinese companies. Through platforms like the SCO and additional support at the UN through BRI states' votes, China will increasingly try to shape norms and concepts on the global level. Moreover, the use of its currency and technology, including for surveillance, are expected to increase around the world.

China's security presence in Eurasia is also likely to rise, particularly so if threats to stability and security mount. Many Asian states in Eurasia may increasingly look to Beijing to mediate or exert pressure in cases of tension over trade, borders or water. In the event where China's immediate neighborhood becomes unstable and the borders porous, China will be increasingly likely to act. Though Chinese military measures would likely be in consultation with Russia, the opening of the first *official* permanent military base in Eurasia will both be evidence of China's increased assertiveness and a serious test for Chinese-Russian relations.

China's engagement has one final geopolitical consequence. The Belt forces other actors to think more comprehensively about that space. Prompted by the BRI, outside actors like the EU,

US and Japan have increased their visits and investments despite historically prioritizing only energy and security in the region. Moreover, albeit lacking a vision and brand as catchy as the Belt, it pushes these actors to make their efforts more visible and to emphasize the advantages of their approaches; namely, sustainability, quality of infrastructure, and transparency. As such, the Belt has helped put Eurasia on the map as more than an 'in between'.

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