

# THOUGHT LEADERSHIP BRIEF

## KEY POINTS

- ▶ Belt and Road projects in the Eurasian Heartland (Central Asia and the Caucasus, Russia, and Belarus) have predominately focused on the exploitation of the region's natural resources rather than on developing infrastructure, building industrial facilities, or partnering in innovations.
- ▶ However, there is a visible positive impact of the BRI on host countries in the Eurasian Heartland, as evidenced by rising investment, increasing trade, institutional improvements, and growing humanitarian connections and awareness.
- ▶ At the same time, there are also unintended consequences of Chinese BRI activity, including negative social, environmental, and economic impacts that could undermine the future development of the Initiative due to public opposition and politicization.

## Impacts of the Belt and Road in the Eurasian Heartland

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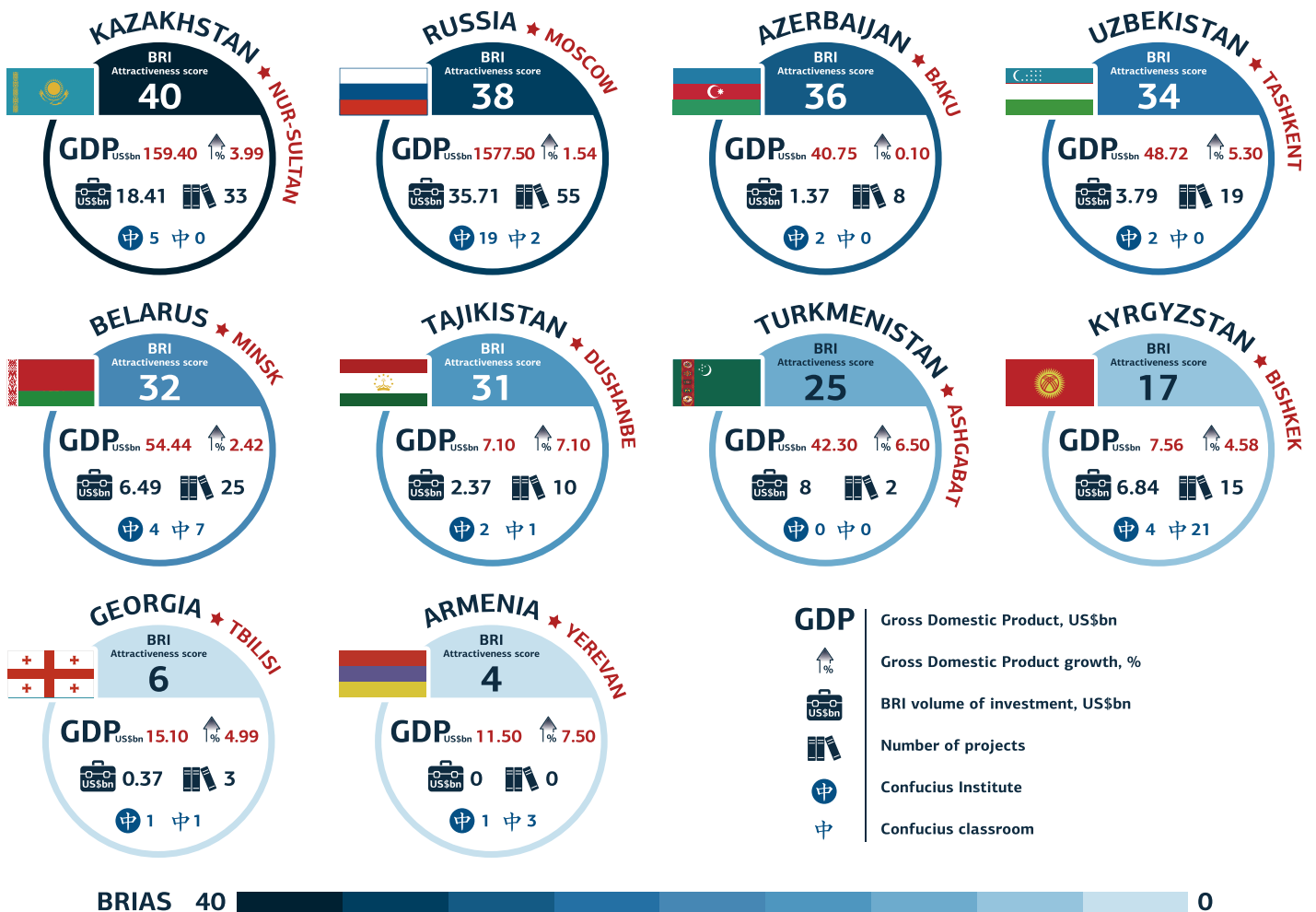
Bukhara, Uzbekistan. Photo by Darrell Chaddock on Unsplash

### Issue

At the Second Belt and Road Forum in Beijing held in April 2019, China announced that the Belt and Road Initiative (BRI) included 125 countries and involved over 1000 projects worth a total of US\$ 3-4 trillion, which is definitely the largest coordinated investment initiative in human history. This outward expansion is motivated by internal pressures that include growing internal disparity between the East and the West of the country; targeting annual growth above 6.5%, which cannot be achieved by the Chinese economy in isolation; a search for cheap resources to support the growing economy; and environmental concerns arising as a consequence of accelerated industrialization and urbanization.

The Eurasian Heartland, which includes ten countries – eight in Central Asia and the Caucasus plus Russia and Belarus – is one of the essential transit routes for China, as well as a source of natural resources. The region is highly diverse politically, economically, socially, and geographically, which complicates implementation of the BRI in the region as it requires both an individual approach to every country and taking the regional context into account. Not surprisingly, the impact of the BRI on host countries in the region also varies significantly.

Figure 1: The BRI footprint in the Eurasian heartland



Source: SKOLKOVO IEMS

## Assessment

There is a clear economic rationale behind China's targeting of specific countries for its BRI activities. To better understand these motives, we calculate a BRI Attractiveness Score for each country in the region based on a set of specific criteria.

The first criterion is transit potential. A country should be well connected to either other well-connected countries or directly with target markets or resource bases, whether by land or by sea. It depends mainly on geography rather than existing infrastructure since China is willing to invest in new infrastructure as necessary. The second criterion is the country's natural resource base. This includes not only commodities such as oil, gas, metals, phosphates, timber, etc. but also arable land and agricultural potential, including livestock, dairy, and non-wood forest products. The third factor is the country's overall economic potential, in particular its manufacturing capability and market potential, which is a function of the population and the size of the economy. The final criterion is governance. China prefers to work with governments that are willing to engage positively with the Initiative and adjust

institutions and policies as necessary to support BRI projects. Agreeing upon large-scale, long-term projects requires both sides to bear significant risk, so cordial international relations and high-level government commitments on both sides play a key role in enabling such projects to move forward.

An analysis of data on Chinese investment projects in the region reveals that US\$ 80 billion was invested by China in over 160 projects in the Eurasian Heartland from 2011-2017. Most of the investments are in natural resources, with over half (54%) of total investment value in the energy sector. Other sectors include agriculture (10%), metals (9%), and chemicals (5%). Infrastructure accounts for only 5% of all investments. The Heartland's trade with China has been growing at double-digit rates over a number of years and reached a record US\$ 140 billion in 2018.

BRI investments in the Eurasian Heartland are distributed quite unevenly, with the lion's share of investments thus far going to Kazakhstan and Russia, which have the highest BRI Attractiveness Scores (40 and 38). Over the seven-year period 2011-2017, the two

countries received 65% of all Chinese investment in the region. Leaders of both countries have established close cooperative relationships with Chinese leaders, and pursued large projects that bring strategic benefits to both sides. Azerbaijan, Uzbekistan and Belarus are promising BRI destinations as they have high BRI Attractiveness Scores (36, 34, and 32). However, none of these countries have large inflows of Chinese investment thus far. Together, the three countries received only US\$ 11.5 billion, or 15% of total investment during 2011-2017. We expect more BRI projects to be undertaken in these countries in the coming years.

Kyrgyzstan, Tajikistan, and Turkmenistan have moderate BRI Attractiveness Scores and received US\$ 17 bn, or 20% of total Chinese investment, but may have borrowed more from China than they can comfortably repay given their fragile financial systems. They may feel it is difficult to pass up the generous financing terms offered by the Chinese. Turkmenistan, although a difficult partner, is valuable to China as a source of natural gas. Finally, Armenia and Georgia have the lowest BRI Attractiveness Scores and the least involvement in the BRI, having received just US\$ 0.37 bn or 0.5% of total Chinese investment in the region. There is no reason to expect that this will change significantly in the near future.

The positive impact of the BRI in countries receiving investments is visible and versatile. First of all, it has increased trade and investment. In addition to the US\$ 80 billion directly spent by China in the region, the BRI seems to have triggered foreign investment from third parties, including the Islamic world, Asia, and Europe, amounting to about US\$ 130 billion to date. For Russia, the BRI has contributed to making the Northern Sea Route a commercially promising undertaking. Chinese involvement in liquid natural gas projects in the Russian North has made it a potentially viable transport artery.

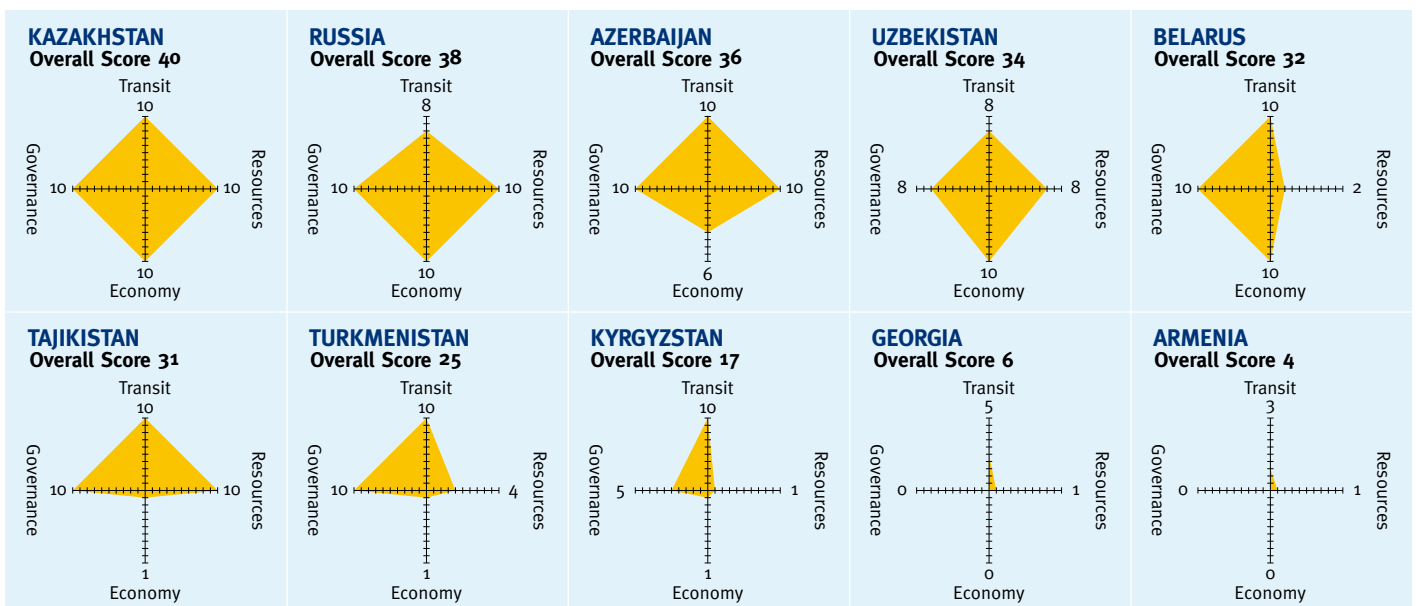
Secondly, it has led to institutional development in the region. The desire to attract Chinese investments has stimulated economic reforms which could improve the commercial environment in host countries. Institutional transformations also have occurred at the supranational level, including the Caspian Constitution (signed in 2018) and the Agreement on Trade and Economic Cooperation between China and the Eurasian Economic Union (signed in 2018).

Finally, there is a humanitarian dimension of the BRI as well, a byproduct of China's efforts to improve its image in the region. Three indicators of China's success in this regard are increased general public interest in Chinese culture, increased tourism to China, and attractiveness of China as a destination for study abroad.

At the same time, China's limited lack of local knowledge and experience conducting business in the region have led to a number of unintended negative consequences. First of all, despite China's success in deploying soft power in the region, the issue of Chinese labor migration – both legal and illegal – is a very sensitive one in many countries in the region. In addition, given that the majority of the population of Central Asia is both Turkic and Islamic, China's suppression of ethnic minorities in Xinjiang Uyghur Autonomous Region (XUAR) creates significant distrust among citizens in Eurasian nations, especially in Kazakhstan and Kyrgyzstan. Overall, the Muslim population has a strong and growing influence in the Eurasian Heartland, so this factor should not be underestimated by China. In Russia alone, there are over 25 million Muslims, which comprise 17% of the population. In less than 25 years, this share will reach 25%.

Concerns also have been raised about the environmental harms associated with Chinese projects. Local citizens complain that China is relocating polluting industrial facilities to the

Figure 2: BRI Attractiveness Scores breakdown



Source: SKOLKOVO IEMS

**Reference**

*Chinese Grand Strategy in the Eurasian Heartland. Belt and Road Initiative in Russia, Belarus, Central Asia and the Caucasus*, published jointly by SKOLOVO Institute for Emerging Market Studies and HKUST Institute for Emerging Market Studies, 2019. Available at <http://iems.ust.hk/eurasian>

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Eurasian Heartland. In addition unsustainable practices in the use of water, land, and forest resources have sparked both public and official responses. For example, after a series of protests by local citizens, the Russian federal authorities closed a Chinese industrial firm that was not only illegally built but also was polluting Baikal Lake, and initiated a criminal investigation against the owners and the management, sending a strong signal that these kind of practices would not be tolerated.

Finally, as alluded to earlier, there are criticisms about the economic sustainability of host countries' accepting large Chinese projects due to debt burden risks, especially for vulnerable countries such as Kyrgyzstan and Tajikistan.

**Recommendations**

As those living the Eurasian Heartland do not see themselves as just 'people in between' China and Europe, they protect their own culture, faith, economic interests, and special attachment to their land, China will be held accountable not only for intended

positive outcomes of their activities in the region but also for the total BRI footprint in all its complexity.

China can benefit from upgrading its BRI strategy in the region to become more inclusive for local populations and businesses. This means putting higher priority on creating jobs for locals rather than bringing in Chinese workers as well as creating more partnerships with local supply-chains. More environmentally responsible business practices can help avoid creating local resentment towards China's engagement in the region. Special attention should be paid to building bridges with Turkic and Muslim populations, given the significant challenges posed by popular attitudes towards the situation in Xinjiang. Finally, China's investment toolkit should be broadened to avoid debt traps for host countries, which in the long run undermine China's reputation as a development partner. Failing to address these issues in the next stage of the BRI may threaten the Initiative's success in the region.



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