

FOREIGN INVESTMENTS IN CENTRAL ASIAN COUNTRIES AND CHINA'S ROLE

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There have been significant developments in the economic infrastructure of the Central Asian countries since the 2000s and foreign investments have contributed considerably to the development of the region's economy. After the collapse of the Soviet Union, China, which focused on developing its infrastructure connections and economic and commercial relations with Central Asian countries, has become an important actor in foreign investments in the region. The energy and mineral resources of the region and the new markets in Central Asia have been in the focus of China's attention.

China's investments in Central Asia are made as part of the Belt and Road Initiative or within the framework of bilateral projects between China and Central Asian countries. Trade promotion and industrial development investments come first among the investments within the framework of the Belt and Road Initiative and in bilateral projects. Sub-sectors of the projects within this scope are as follows: mineral and petroleum exploration, extraction and processing projects; industry; agriculture and food; and finance and information technology.[1] We discussed China's influence in Central Asia's trade in our previous article.[2] It is seen that investments originating from China contribute to this dominant role of China in this sector in Central Asian trade. As a result of the Chinas investments in the mining sector, China's influence has increased in the foreign trade of Central Asia. Railway and road connection projects come second in the investments while energy connectivity is another important sector. China's investments in rail and road projects in Central Asia has reduced logistics costs, has expanded trade between China and Central Asia, and has provided more foreign investments.

Among the Central Asian countries, Kazakhstan is the country that attracts the most Foreign Direct Investment (FDI). Natural resource extraction accounts for more than 70% of Kazakhstan's total FDI stock.[3] According to the World Investment Report 2020 of the United Nations Conference on Trade and Development (UNCTAD), FDI inflows to Kazakhstan in 2019 has declined by 17% compared to the previous year and amounted to

3.1 billion dollars. Its total FDI stock is calculated as approximately 150 billion dollars in 2019.[4] The largest project initiated in Kazakhstan in 2019 was a carbide plant of a China-based company engaged in the production and sale of petrochemical products and chemical fertilizers.[5] Approximately half of China's investments in Kazakhstan is in oil and gas projects, while the rest are in mining and ore processing, machine manufacturing, energy, and food production.[6]

Due to the economic reforms implemented in Uzbekistan, FDI inflows in 2019 more than tripled and reached 2.3 billion dollars,[7] while the total FDI stock was 9.5 billion dollars.[8] At the same time, part of the foreign investment inflows related to large projects in oil and gas has been by Russia. Also, in 2019, companies from China, Russia, Singapore, the UK, and the US started a series of projects in chemical production in Uzbekistan. Orano Mining (France) has also invested large amounts in uranium exploration and development. In the textiles and apparel industry, projects have been initiated by Chinese, German, Indian, Korean, Thai, and Turkish companies.[9] The largest new project announced in 2019 in Uzbekistan was an electricity project by a Turkish company.[10]

FDI inflows to Turkmenistan increased by 9% to 2.2 billion dollars in 2019, meaning the total FDI stock in the country reached 38 billion dollars.[11] Turkmenistan is not included in the World Bank Doing Business survey due to a lack of data, however according to an OECD report, China is estimated to be the country's largest foreign investor.[12] Almost half of the foreign investments (between 2003 and 2017) have been in oil and natural gas, followed by transportation (24%) and metals (10%).[13] In 2019, the construction sector was also a rising investment field in Turkmenistan.[14]

In 2019, FDI inflow to Tajikistan decreased in comparison to the previous year (from 360 million to 213 million dollars), and the FDI stocks totaled 3 billion dollars.[15] In 2019, Chinese foreign investments accounted for almost 76& of FDI, followed by Russia, the UK, and Turkey.[16] The most of the Chinese investments have been in the mining sector.[17] According to US Department of State, Chinese investments account for more than three-quarters of the Tajikistans total FDI, with the loans connected to the Belt and Road Initiative.[18] Chinese firms investing in Tajikistan in 2019 continued to benefit from tax exemptions.[19]

In 2019, FDI flows to Kyrgyzstan increased compared to the previous year, reaching 209 million up from 139 million dollars, while the total FDI stock was 5.6 billion dollars.[20] Most of the foreign investments have been mining-related. The main investors in Kyrgyzstan are Canada, China, the UK, Russia, and Kazakhstan.[21] Kyrgyzstan directs loans from the Eximbank of China towards infrastructure projects, and these loans have improved market access for Chinese companies.[22]

Loans from China accounted for 45.3% of Kyrgyzstans external debt (May 2019).[23] While China is creating infrastructure projects within the framework of the Belt and Road and opening new markets, China's credit loans have raised concerns about a debt trap diplomacy and have caused protests in Central Asian countries. During Xi Jinping's 2019 visit to Kyrgyzstan, a 280-million-dollar project by a Chinese company to build a logistics center in Kyrgyzstan was agreed upon; however, the project was canceled as the public

saw the project as a land grab and protests escalated.[24]

In addition to the reactions of the Central Asian countries hosting the projects financed by China (because of the growing concerns regarding to the debt to China), the Belt and Road Initiative faces several other challenges in Central Asia. As a result of loans being provided to Central Asian countries on the condition that Chinese technology is used Chinese workers are hired, employment problems in Central Asian countries remain unsolved, which lead to disputes regarding economic needs.[25]

In August 2019, locals in Kyrgyzstan clashed with the Chinese workers at a gold mine in Naryn. The Kyrgyz people blamed the Chinese company for the high death rate of their livestock, saying the mining firm had contaminated the environment. Following the clashes, the Chinese company suspended its activities in the Kyrgyz gold mine.[26]

In 2019, there were also protests against Chinese investments in Kazakhstan. In September 2019, during the large-scale protests in Kazakhstan, the public urged the Kazakh government to stop borrowing from China and demanded the government to stop the Chinese investment projects that would have numbered 55 with the implementation planned projects. Going back further, in 2016, protests had broken out in Kazakhstan against a draft law on the lease of agricultural land by foreigners and the bill was thus shelved.

These examples and other similar reactions in Central Asian countries reflect public concerns about national sovereignty. Besides the employment problem mentioned above, the lack of transparency and the potential for corruption in these countries raise concerns about trust in governments and cause China to be seen as a threat to national sovereignty. In addition, Chinese pressure on Uyghur Turks in the Xinjiang Uyghur Autonomous Region which also includes Kazakh and Kyrgyz ethnic populations has contributed to the increase of anti-Chinese sensitivity in Central Asian countries.

Central Asia continues to be an important market for China and constitutes an alternative to the sea route for the country. Also, the presence of energy and mineral reserves in the region is another reason for its importance to China. In this respect, China has started to concentrate more on taking part in multilateral projects in the region in the face of anti-Chinese reactions and related risks that could endanger investments.[27] In addition, China is turning towards industrial capacity building projects rather than large infrastructure projects.[28] European Union countries also show interest in investments in Central Asia and investments from the EU constitute 40 percent of the region's total foreign direct investment.[29] Therefore, it is expected that China will be more involved in joint projects with EU countries in the region and diversify its investments in the coming years.

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