

**An Organisational Approach to the Study of Chinese Foreign Policy in Kyrgyzstan and
Tajikistan 2006 to 2016**

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University.

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Declaration

Unless otherwise acknowledged in the text, this thesis represents the original research of the author.

The total word count for this thesis, excluding footnotes, bibliography and appendices is 74580 words.

A handwritten signature in black ink, consisting of a large loop followed by a series of connected strokes that end in a sharp upward flick.

Dirk van der Kley

27 June 2020

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This entire PhD experience was a struggle, but a joyful one. The opportunity to read widely combined with intrepid fieldwork has been one of the highlights of my professional life.

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Abstract

This thesis uses an organisational process model (OPM) under the framework of foreign policy analysis to examine China's foreign policy activities in Kyrgyzstan and Tajikistan between 2006 and 2016. It contends that People's Republic of China (PRC) companies, financiers and government bureaucracies all have their own standard operating procedures (SOPs) which govern their behaviour in Tajikistan and Kyrgyzstan.

This study presents a comprehensive overview of PRC foreign policy actors in Kyrgyzstan and Tajikistan. It breaks down PRC foreign policy into economic and security components. In the economic sphere, Chinese firms have the strong financial backing of the state to undertake activities overseas and they are expected to support - or at least not oppose - the PRC's national interest. But as almost any economic activity overseas can be considered to be in the PRC's national interest, economic actors have significant autonomy in the running of their business activities. In the security sphere, because there are only a few actors and security policy is more sensitive, activities are more tightly controlled by the PRC central leadership.

This work counters structural realist arguments which are dominant in the academic literature on China in Central Asia. The realist argument is that nations are the primary actors in international relations and they behave according to national interest. In Central Asia, realist authors argue that China is developing economic links to build political influence and promote its security interests. This author agrees that is the intent of the PRC central leadership, however contends that there is an implementation cost, as an array of economic actors filter vague directives from the centre through their own institutional lenses.

The realist argument assumes that the PRC's economic footprint in Kyrgyzstan and Tajikistan has continued to grow. But between 2006 and 2016 several metrics indicated that China's economic engagement with Kyrgyzstan and Tajikistan peaked and started dropping.

PRC loan disbursements to Tajikistan actually peaked back in 2008. In Kyrgyzstan, the last major loan announcement (as of July 2019) was in 2014, although disbursements continued after that. China-Kyrgyzstan and China-Tajikistan trade peaked in 2009 and 2014 respectively.

The gap between promise and delivery suggests constraints on PRC activities in the region. The implication is that a classic structural realist approach to China in Central Asia cannot explain everything.

Recipient states have agency too. Many of the projects funded by Chinese banks have long been proposed by recipient states. Concern over debt in Kyrgyzstan makes new loans politically very difficult. Both states have control over import tariff regimes, which in the period between 2006 and 2016 had significant impact on the flows of Chinese re-exports through Central Asia.

As such, this thesis focuses on the interactions between the PRC foreign policy actors and recipient state governments. It argues that many of the key economic decisions in Kyrgyzstan and Tajikistan are a function of the PRC actors' SOPs and reflect the interests of recipient states (and their officials). This is a recipe for corruption, opacity and poor investment decisions. PRC investment in both countries has been undertaken by a small number of PRC companies seeking to escape difficult conditions in China. Chinese companies can get discounted government financing to invest almost anywhere in the world. An incredibly small number of those chose Kyrgyzstan and Tajikistan because of lack of competition and recipient government sweeteners such as tax breaks in certain industries.

Empirically, this thesis draws on wide range of Chinese and Russian language material not previously used in major academic publications. This is in addition to extensive interviews and site visits conducted in both Kyrgyzstan and Tajikistan. The use of Russian

and Chinese language sources and in-country site visits is designed to give a comprehensive view from both sides of the foreign policy equation.

The study concludes that Chinese foreign policy-making in Central Asia is not as centralised as it would seem. While the thesis mainly utilises the OPM, it acknowledges that, at times, PRC foreign policy behaviour has been more centrally driven. It also contends that the economic sphere aligns more closely to the OPM due to the plethora of actors, while the security sphere is more tightly controlled by the central leadership.

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List of Abbreviations

List of Abbreviations	
ADB	Asian Development Bank
BCT	Border Control Troops
BRI	Belt and Road Initiative
CAIEC	China Association of International Engineering Consultants
CAIFC	China Association for International Friendly Contact
CAS	Chinese Academy of Science
CDB	China Development Bank
CIS	Commonwealth of Independent States
CMC	Central Military Commission
CNISCO	China National Institute for SCO International and Judicial Cooperation
CPC	Communist Party of China
CRBC	China Road and Bridge Corporation
CSTO	Commonwealth of Independent States
CU	Eurasian Customs Union
DFA	Department of Foreign Aid
EAEU	Eurasian Economic Union
EBRD	The European Bank for Reconstruction and Development
ECCO	Economic and Commercial Counsellor's Office
EEC	Eurasian Economic Community
ETIM	East Turkestan Islamic Movement
Eximbank	China Export-Import Bank
FDI	Foreign Direct Investment
FPA	Foreign Policy Analysis
FSB	Federal Security Service of the Russian Federation

GBAO	Gorno-Badakhshan Autonomous Region
GSD	General Staff Department of the PLA
KZT	Kyrgyzstan Railways
LIBOR	London Interbank Offered Rate
LRBC	Longhai Road and Bridge Corporation
LSG	Leading Small Group
MFA	Ministry of Foreign Affairs
MOF	Ministry of Finance
MOFCOM	Ministry of Commerce
MOFTEC	Ministry of Foreign Trade and Economic Cooperation
MOTC	Ministry of Transport and Communications (Kyrgyzstan)
MPS	Ministry of Public Security
MSS	Ministry of State Security
NBS	National Bureau of Statistics
NDRC	National Development and Reform Commission
NPL	Non-Performing Loans
NSC	National Security Commission
OBOR	One Belt One Road
OPM	Organisational Process Model
PAP	People's Armed Police
PBOC	People's Bank of China
PLA	People's Liberation Army
PLAAF	People's Liberation Army Air Force
PLAN	The People's Liberation Army Navy
RAM	Rational Actor Model
SCO	Shanghai Cooperation Organisation
SEZ	Special Economic Zone
SME	Small to Medium Enterprise
SREB	Silk Road Economic Belt

SOP	Standard Operating Procedure
TAR	Tibetan Autonomous Region
TBEA	TBEA Co. Ltd., formerly known as Tebian Electric
XJASS	Xinjiang Academy of Social Sciences
XPCC	Xinjiang Production and Construction Corporation
XUAR	Xinjiang Uyghur Autonomous Region
UN	United Nations
UNDP	United Nations Development Programme

Chapter 1 Introduction

1.1 Introduction

The inspiration for this thesis came from buses. I first visited Kyrgyzstan in 2011 as a Russian language student. One of the first sights I saw was a China-Kyrgyzstan Friendship bus plying the city streets. It was painted lime green and had a big China Aid sticker directly under the driver's window. They were ubiquitous; friendship buses passed my inner-city apartment often. Until then I had barely thought about Chinese aid in Central Asia. It sparked an interest which has perhaps developed into an obsession.

Upon my return to Bishkek to undertake doctoral fieldwork in late 2015, the friendship buses had disappeared. It took me quite a while to find them; they were located at a “bus graveyard” on the outskirts of Bishkek.¹ The buses looked forty years old.

Maintenance was a problem but so was the construction of the buses. Trolleybuses from the Soviet era continued to run on the streets of Bishkek. Residents and this researcher were left asking how this had happened.

According to one person at the bus depot, the Chinese company had provided new but shoddy vehicles that began falling apart almost immediately. These were funded from a grant from the PRC government. Perhaps the company had maximised its profit, or China Aid had minimised its expenditure, or a bit of both. One can never know for sure the aim of the grant, but one imagines that it was not so that new buses could rust in a yard only a few years after they went into service.

This simple and minor example was the catalyst for the author's inquiry into the organisational workings of the various companies, financiers, government agencies and the security agencies that execute PRC foreign policy in Kyrgyzstan and Tajikistan. This thesis

¹ “‘Cemetery’ Buses in Bishkek” [«Кладбище» автобусов в Бишкеке], *Radio Azattyk*, 27 June 2016, <https://rus.azattyq.org/a/kyrgyzstan-kladbische-avtobusov/27822232.html>.

adopts an organisational process model framework to examine how PRC foreign policy was prosecuted in Kyrgyzstan and Tajikistan between 2006 and 2016. This timeframe was chosen because it was the period when the PRC started lending large sums of money to Tajikistan (and to Kyrgyzstan, starting a few years later). 2006 was the year that China became a serious economic player in Central Asia. Fieldwork for the project was conducted in 2015 and 2016, so 2016 was a natural endpoint for this study.

Academic writing on China's foreign policy in Central Asia is voluminous. The dominant framework for understanding Chinese foreign policy in Central Asia is realist or hyper-realist.² In many ways that makes sense. China, particularly under Xi Jinping, has clearly articulated an assertive foreign policy whereby Beijing increases its military capacity and its overseas security activities, boosts its ability to "set the rules" both globally and regionally to reduce the role of the US in Asia as well as increasing economic connectivity between China and other states in its periphery.³ It is fair to say that on some of those scores, Beijing has achieved these goals.

But at the same time, representations of PRC policy as smooth, monolithic well-coordinated and always purposeful are not entirely accurate either. As is documented elsewhere in the world, PRC policy can be messy, ad hoc and inconsistent.⁴ China's foreign policy in the form of guidelines and long-term plans do not always reliably translate into successful policy action in other countries.

This thesis seeks to elucidate this complexity in the PRC's foreign policy by studying the decisions made by PRC foreign policy actors in Kyrgyzstan and Tajikistan. By looking at

² Stephen J. Blank, "Dragon Rising: Chinese Policy in Central Asia," *American Foreign Policy Interests*, 33, no. 6 (2011), 261-272.

³ Timothy Heath, "China's Evolving Approach to Economic Diplomacy," *Asia Policy*, no. 22 (July 2016), 157-192.

⁴ Denghua Zhang and Graeme Smith, "China's Foreign Aid System: Structure, Agencies, and Identities," *Third World Quarterly*, 38, no. 10 (2017), 2330-2346.

the set of choices facing these organisations and individuals, the thesis seeks to outline what influences their behaviour and when top-down policy truly matters.

Two other actors matter to this thesis – the governments of the recipient states, Kyrgyzstan and Tajikistan. As Alexander Cooley and others note, these states are adept at maximising their own benefit when faced with multiple external powers.⁵

1.2 Research Question

The key challenge for this thesis is to understand how foreign policy gets executed by PRC actors in Kyrgyzstan and Tajikistan. Hence the main research question is: who or what drives the practical implementation of China's foreign policy in Kyrgyzstan and Tajikistan? This thesis argues that companies and government-owned financiers have a lot of input at the implementation level. They have significant leeway to interpret vague policy guidance in a way that suits their own interests. Occasionally, they even undercut the centre's policy direction. This raises secondary questions: what is the extent of this leeway? Who are the implementers? How do they engage with the centre, each other and governments and interlocutors in Kyrgyzstan and Tajikistan? Which sectors of foreign policy are more centrally controlled, and which are not?

These questions immediately lead to the key points of thesis. Firstly, there are different levels of leeway in different sectors of foreign policy. Chapter 6 argues that security is much more closely tied to central directives. For example, the 2016 decision to deploy People's Armed Police to Tajikistan and Afghanistan's Wakhan Corridor would require approval from the Central Military Commission which Xi Jinping chairs. Security in Xinjiang is a high-order issue for Xi Jinping and the PRC compared with economic concerns in

⁵ Alexander Cooley, *Local Rules: The New Great Power Contest in Central Asia* (New York: Oxford University Press, 2012), 9-29.

Kyrgyzstan and Tajikistan. So, central attention is much more likely to be paid to security than to the implementation of economic projects. There are only four main security agencies, so it is easier to direct policy. To be sure, there are weapons manufacturers and private security companies too, but their role in Tajikistan and Kyrgyzstan between 2006 and 2016 was minimal.

Economic activity in Kyrgyzstan and Tajikistan is a lower order priority than security for the PRC. China's senior leadership does not have the bandwidth to focus on everything all the time, so instead vague policy guidance is the most common tool of communicating the centre's wishes on economic policy in the region.

There are also many actors in the economics sphere. Potentially thousands of PRC companies can invest in Central Asia. They all have ties back to their home province or locality. The sources of funding for investment range from stock floats, bond issues, money raised on international markets, Chinese provincial government support to loans from government policy banks. The policy banks are tasked with implementing Chinese economic policy. They differ from Chinese commercial banks which have a mandate to maximise profit. Chinese policy banks and all Chinese commercial banks have majority government shareholders. Thousands of businesses and individuals conduct cross border trade. So, turning economic directives into action tends to be more difficult.

The thesis divides PRC economic activities in Kyrgyzstan and Tajikistan into three categories: 1. Government-to-government loans (Chapter 3); 2. Trade (Chapter 4); 3. Investment (Chapter 5). But within those three sectors, traders (Chapter 4) are least subject to government control, simply because they rely on the Central Asian market, not PRC government financing, for their income. Investors (chapter 5) have the next highest amount of leeway because they can choose to invest anywhere. Many of the companies examined in this thesis chose Kyrgyzstan and Tajikistan because of limited competition and tax breaks from

the recipient state. There is certainly a lot of subsidised financing for PRC companies seeking to invest overseas. Most Chinese companies have their own Communist Party Committees to ensure they are acting in alignment with the Party's (and thus China's) interests. But investments anywhere can be labelled in the China's interest. An investment in Cambodia, Kenya or Kyrgyzstan can all equally be labelled as in the national interest and thus attract subsidised funding. Companies are rarely compelled to invest in Kyrgyzstan and Tajikistan by the central Chinese leadership. There is one clear exception, the gas pipeline Line D, the route of which seems to have been influenced by PRC government political concerns. There were more economically viable routes available. Finally, government-to-government loans are issued almost exclusively by China Export-Import Bank (Eximbank), thus, there is a higher level of government oversight. Loans tend to get approved around state visits. At the same time, the choice of projects is largely driven by recipient states and Chinese companies which win the contracts for these projects.

PRC foreign policy actors in Kyrgyzstan and Tajikistan face three broad situations. These are on a continuum and are not completely discrete. The first is that there is a clear government directive and a PRC foreign policy actor follows that directive explicitly, even if that action is not necessarily going to maximise the benefit for that particular actor. A good practical example of this is the China National Petroleum Corporation's (CNPC) construction of a gas pipeline, Line D, from Turkmenistan through Uzbekistan, Tajikistan and Kyrgyzstan to China. There is a pre-existing corridor where CNPC already constructed gas pipelines via Uzbekistan and Kazakhstan. The cheapest option would have been to build Line D along the pre-existing route. Instead, CNPC is building a pipeline through Kyrgyzstan and Tajikistan which are mountainous, and there is no pre-existing corridor, so it is more expensive. It also means negotiating with more governments. It seems as though this was a political decision

made after the Belt and Road Initiative (BRI) was announced to tighten connections between Kyrgyzstan, Tajikistan and China. This is covered in detail in Chapter 5.

The second situation is when there is vague policy guidance on a particular issue, for example policies such as BRI, China's "Going Out" policy and its "Develop the West" policy. Money is made available for firms to develop their businesses outside of China, but there is only vague guidance on what they should do with that money. In these cases, companies generally apply the label of the relevant policy to their project to garner political and financial support. However, this does not always lead to changes at a macro level. A good example is the BRI. The BRI has become so big and unwieldy that project implementers apply a BRI label to any project. One of the BRI focus areas is boosting infrastructure. If one looks at Tajikistan and Kyrgyzstan, there were a number of PRC loans provided to build infrastructure in Tajikistan and Kyrgyzstan in 2014, not long after the BRI was announced. But since then until submission of this thesis (June 2020), not a single major government loan agreement has been made between the PRC and Tajikistan or the PRC and Kyrgyzstan (see Chapter 3). In fact, PRC government lending to Tajikistan peaked in 2008, which suggests that the BRI had very little long-term impact on lending patterns to Tajikistan. PRC lending to Kyrgyzstan peaked in 2014. In the first three quarters of 2018, Kyrgyzstan paid more money back to the PRC than it borrowed (see Chapter 3). The BRI has led to a decline in infrastructure lending.

A third situation is where PRC actors actively undermine a goal of the PRC leadership. This is rare in Kyrgyzstan and Tajikistan because the PRC goals are to boost economic and security cooperation, so it is difficult to undercut these broad goals. And there is a financial and political price to pay for actors who subvert Beijing's aims. One example of subnational actors undermining a central leadership goal is Beijing's attempt to turn Xinjiang into a manufacturing hub to provide goods to Central Asia and beyond (discussed in Chapter

4). This has been stated policy since at least the mid-2000s. This paragraph from the 2009 White Paper on Xinjiang's Development explains this goal:⁶

The economic belt on the northern slope of the Tianshan Mountains will take the initiative in taking on the industries from China's eastern coast, so as to build a new industrial base. Urumqi-Changji integration will be accelerated, while construction of national export processing zones, development zones and industrial parks will be sped up, and a modern service sector will be further developed.

Chapter 4 shows that Xinjiang has not become a production hub for international trade. Traders do get significant subsidies for producing export goods in Xinjiang but available evidence demonstrates traders are merely transiting goods through Xinjiang and claiming the goods were produced in Xinjiang in order to attract subsidies.

1.3 The Organisational Process Model, FPA and Messy Implementation

As the name suggests, the Organisational Process Model (OPM) examines how organisations make decisions. The OPM contends that organisations have set decision-making processes that are hard to change. Standard Operating Procedures (SOPs) are rules that set out the conduct that an organisational unit should follow in the event of a given situation. They cover all aspects of policy action, ranging from drafting official speeches to terrorist attack responses.⁷

The OPM sits in a branch of international relations theory known as foreign policy analysis (FPA). FPA analyses actors within the foreign policy decision-making system to draw conclusions about the drivers of foreign policy decisions. It is usually opposed to classic

⁶ "White Paper on Development and Progress in Xinjiang," Information Office of the State Council of the People's Republic of China, 21 September 2009, http://www.chinadaily.com.cn/ethnic/2009-09/21/content_8717461_3.htm.

⁷ Iver Neumann, "A Speech That the Entire Ministry May Stand for, or Why Diplomats Never Produce Anything New," *International Political Sociology* 1, no. 2 (2007), 183–200; Ranan Kuperaman, "Rules of Military Retaliation and Their Practice by the State of Israel," *International Interactions* 27, no. 3 (2001), 297–326.

structural arguments which contend that the nation state is the key unit for the study of international relations and that the structure of the international system defines nation state behaviour. This is commonly referred to as a black-box or billiard-ball approach to international relations.

Kenneth Waltz's 1959 work *Man, the State and War* distinguishes three levels of analysis in international relations: the individual level (first image), the national level (second image) and the international system (third image).⁸ FPA relies more on the first and second image. Structural and realist arguments tend to rely on the third image.⁹

Graham Allison's ground-breaking work on the Cuban Missile Crisis outlined the three main FPA group-decision-making models as the Rational Actor Model (RAM), Bureaucratic Politics Model (BPM) and the OPM. Authors who use the BPM and OPM contend that organisational and bureaucratic factors are key variables to understanding decision-making. The OPM argues that organisational SOPs drive behaviour. Whereas the BPM:¹⁰

[c]onceptualizes the governmental apparatus as a decentralized and pluralist framework within which several "players" interact. The different players are not organized according to a clear and functional division of work. Instead, their policy domains partly overlap. As a result of these overlaps, players must defend their viewpoint and their own interests against other players. They must negotiate with each other to make sure that the government's actions reflect their vision and serve their own interests.

There are similarities between the BPM and OPM. Halperin's 1974 *Bureaucratic Politics and Foreign Policy* contended that organisations had an "essence" – the view held by the dominant group within the organisation of what should be its key missions and

⁸ Kenneth Waltz, *Man, the State and War* (New York: Columbia University Press, 1959).

⁹ Jean-Frédéric Morin and Jonathan Paquin, *Foreign Policy Analysis: A Toolbox* (Cham, Switzerland: Palgrave MacMillan, 2018), 8.

¹⁰ Jean-Frédéric Morin and Jonathan Paquin, *Foreign Policy Analysis: A Toolbox*, 114.

capabilities.¹¹ Halperin argued that this essence is hard to change and is built on long-term organisational missions. Halperin delivered this within a bureaucratic politics framework even though this “essence” has many hallmarks of the operational process model.

The BPM emphasises the friction between different groups in the policy making milieu, whereas the OPM emphasises the institutional procedures and drivers behind an organisation’s decision. These are not mutually exclusive. An organisation could act in accordance with its SOP and still experience bureaucratic contestation. FPA is designed to be multi-causal in its explanation of foreign policy decision-making.¹²

The thesis chooses the OPM over the BPM because empirical evidence collected showed that Chinese organisations acted according to their long-established SOPs in Kyrgyzstan and Tajikistan. And while there was sometimes friction between different actors, more often it was the SOP rather than bureaucratic competition driving behaviour. The author recognises that much of the thesis utilises an OPM with bureaucratic elements. The overlap between BPM and OPM is explored in detail in Chapter 2.

Moreover, this thesis blends OPM with elements of David Lampton’s influential edited volume on PRC bureaucratic politics: *Policy Implementation in Post Mao-China*. Various authors in that work, such as David Zweig, Tyrene White and Lester Ross, point out that PRC leaders can override bureaucratic and organisational hurdles when they maintain consistent elite attention on a specific issue.¹³ Lampton argues that “When problems arise in the implementation process, one can predict that leadership attention has been absent or that implementers have been receiving multiple signals from a divided elite.”¹⁴ In terms of this thesis, the PRC’s economic interests in Kyrgyzstan and Tajikistan are lower order issues, so

¹¹ Morton Halperin, *Bureaucratic Politics and Foreign Policy* (Washington DC, Brookings Institution Press, 1974).

¹² Jean-Frédéric Morin and Jonathan Paquin, *Foreign Policy Analysis: A Toolbox*, 8.

¹³ David M. Lampton, “The Implementation Problem in Post-Mao China,” in *Policy Implementation in Post-Mao China*, ed. David M. Lampton (Berkeley: University of California Press, 1992), 17.

¹⁴ Ibid.

with the exception of discrete occasions such as state visits, elite PRC attention is not focused on these two countries' economies. Thus, the various foreign policy actors act according to their SOPs. In short, the central government can step in and issue an explicit directive. But for much of the period 2006-2016, the economic actors were guided by a set of a vague policy guidelines that allowed for much leeway. The security agencies did not have the same leeway.

Since Allison's initial work, FPA scholars have used many other variables to explain foreign policy decision-making. One of FPA's weaknesses is that literally anything could be used as a variable to examine foreign policy behaviour. It is simply not possible to cover all of the potential variables in this body of work, but some of the most popular ones have been the role of senior decision-makers, culture, government type and social actors in shaping foreign policy decisions.

The thesis uses group decision-making as its model for two reasons. First, elements of some of the aforementioned variables are built into the SOPs of organisations. The culture and government type are already embedded in PRC bureaucracies. For example, Chinese policy banks and companies are far more opaque than their equivalents in Europe, Japan, Korea and North America. This is because the entire system of an authoritarian regime is more opaque.

Secondly, the variables are not explanatory in some cases. For example, China is not the first country to attempt boosting the security capacity of Tajikistan on the Afghanistan-Tajikistan border – Russia and the US have also attempted this for many years. China signed a deal to build watchtowers on the Tajikistan-Afghanistan border in 2016. The US also built watchtowers on the Afghanistan-Tajikistan border prior to its majority withdrawal from Afghanistan and it continued to do so, admittedly less frequently, after 2014. The US and China are different culturally, and have different systems of government. Yet they responded

in a similar manner to some problems. The full critique of major FPA variables is in Chapter 2, the literature review.

In short, the theoretical basis for this thesis has three components. First, it uses the OPM as its main framework but also recognises there are elements of bureaucratic politics in the implementation of China's foreign policy in Tajikistan and Kyrgyzstan. Second, the thesis provides cases of direct leadership intervention which override SOPs (and thus the OPM and bureaucratic politics). Finally, it assumes that recipient states have agency and often work together with foreign policy actors to further each other's interests.

The main criticisms of FPA group decision-making models are threefold. The first is that the models are not rigorous enough. Because so many potential causal variables can be used to explain decision-making, a narrative can be formed *a posteriori* for pretty much any situation.¹⁵ Other problems arise from the large number of potential variables. Scholars can get swamped in huge swathes of information as they search ever deeper into the bureaucracy for explanations of decision-making. The second criticism is that when a crisis arrives, a leader can impose their will on the bureaucracy and override organisations' SOPs. Thus, the OPM and BPM can only be used to describe routine foreign policy, not the most important decisions.¹⁶ The third criticism is that bureaucratic politics and organisational processes are simply a function of leaders' rational behaviour. Senior decision-makers in any country only have time and resources to focus on a certain number of issues so they delegate the rest to the bureaucracies and other actors.¹⁷ SOPs are organisational methods for dealing with routine issues. Delegation and process development are necessary for leaders of any country.

Moreover, leaders in most countries have significant power to choose the leaders of

¹⁵ Jean-Frédéric Morin and Jonathan Paquin, *Foreign Policy Analysis: A Toolbox*, 119.

¹⁶ Valerie M. Hudson, *Foreign Policy Analysis: Classic and Contemporary Theory* (Lanham, MD: Rowman & Littlefield, 2007), 69-75.

¹⁷ Stephen D. Krasner, "Are Bureaucracies Important? (Or Allison Wonderland)," *Foreign Policy*, 7 (1972), 167.

bureaucracies. This is not a case of bureaucracies, SOPs or other foreign policy actors overriding the decision-making system but simply a rational decision by leaders to delegate decision-making power for less important issues.

The thesis deals with these criticisms in the following ways. To avoid the huge number of potential variables in the BPM and OPM, the thesis identifies a small number of key actors in four sectors of foreign policy implementation in Kyrgyzstan and Tajikistan. The sectors are 1) Government lending, 2) Trade, 3) Investment and 4) Security. This compartmentalised approach limits the number of actors to three or four for each sector. Each of those actors has one or at most two clearly-stated institutional missions which inform their SOPs. This limits the number of potential variables and avoids sinking into an ever-deeper hole of information overload. It also directly links SOPs to actions on the ground.

The thesis agrees the OPM is best suited for studying non-crisis decision-making because leaders intervene in crises.¹⁸ There were no major crises between China-Kyrgyzstan and China-Tajikistan between 2006 and 2016. OPM is designed for non-crisis situations, so it is the perfect model to examine Chinese foreign policy in these two countries during that period. The thesis also agrees that China's central leadership does not have the capacity to intervene in every foreign policy situation – it only steps in when there are issues of importance to senior leaders. By incorporating Lampton's "elite attention" concept, the thesis is able to deal with the question of elite override.

1.4 The Actors

There are two sides to the actor equation. On the one side are the PRC foreign policy actors. On the other side are recipient governments and networks of patrimony in both Kyrgyzstan and Tajikistan. What is important is how they interact with each other. Senior

¹⁸ Valerie M. Hudson, *Foreign Policy Analysis*, 73.

leaders in Kyrgyzstan and Tajikistan spend more time with PRC company leaders than they do dealing directly with senior PRC political leaders. The governments of Kyrgyzstan and Tajikistan have their own agency in these interactions. For example, Kyrgyzstan and Tajikistan offer tax breaks to foreign investors in industries of national importance. As is shown in Chapter 5, this has an impact on PRC companies' investment decisions. Many of the projects funded by Chinese government loans were projects the recipient state had pushed for a long time. Moreover, Kyrgyzstan and Tajikistan set their own import tariffs. Kyrgyzstan's decision in 2004 to reduce its import tariffs was a key decision that made Kyrgyzstan the Central Asian hub for re-export of Chinese goods until the trade petered out in the early 2010s. In sections 1.4.1-1.4.4 below the thesis briefly introduces the PRC actors. This is followed by an in-depth examination of the actors in each of the substantive chapters (Chapters 3-6).

1.4.1 Government Loan Actors

The three major actors for government-to-government loans are Eximbank which finances the loans, the PRC companies which build the projects and the recipient governments which agree to take on the debt.

For Chinese companies, government loan projects are one of the easiest ways to make money because of the non-competitive tender system for each discrete project. So, the sole aim of companies is to have as many loans as possible, and that the loans are as large as possible. Their SOP is to lobby recipient states to produce projects that they feel will be more likely to receive funding. They also lobby Eximbank to approve projects.

For Eximbank, the calculation is more complicated. On the one hand, Eximbank is a policy bank and it is meant to support the national interest, including helping Chinese companies go abroad. But at the same time, evidence suggests Eximbank takes repayment

capacity into consideration. It sometimes suggests onerous repayment guarantees which recipient states do not accept. Eximbank has not been able to come to an agreement with Kyrgyzstan on repayments for the proposed China-Kyrgyzstan-Uzbekistan railway. The Chinese side sought mineral deposits as collateral for the loan, however Kyrgyzstan did not agree. This is not indicative of a bank that will lend under all circumstances but rather one that requires assurances it will be repaid. Eximbank also refused to issue a loan to the Tajikistan government for stage one of the Dushanbe-2 coal-fired power plant.

Critics of Chinese lending rightfully point out that in certain countries, the risk of debt distress is high due to Eximbank lending. This is true in Laos, Djibouti, Sri Lanka, the Maldives and several other countries.¹⁹ There are occasions where central leadership deems a project or an event of such importance that a loan simply must be issued regardless of the debt impacts. Examples of this include the Kunming-Singapore railway which has put Laos at risk of debt default. In Tajikistan, a good example of leadership override is Xi Jinping's 2014 visit to Dushanbe. Tajikistan had not signed a major loan agreement with China since 2009. Eximbank agreed to finance stage 2 of the Dushanbe-2 power plant during that visit, even though they had declined lending directly to the Tajikistan government for stage 1 of the project.²⁰ The illustrates how the leadership can override the SOPs of other actors when it deems necessary.

Recipient states also exercise their own agency in regard to PRC government loan projects. Both Tajikistan and Kyrgyzstan push their own projects for loans. Most Eximbank-funded projects are actually projects that have long been promoted by both governments in Kyrgyzstan and Tajikistan. Recipient states also have the capacity to reject loan conditions.

¹⁹ IMF Debt Sustainability Analyses for each of these countries states that borrower is at high risk of debt distress and that the country has borrowed heavily from the PRC.

²⁰ Dirk van der Kley, "The Full Story Behind China's Gold Mine-Power Plant Swap in Tajikistan," *The Diplomat*, 14 April 2018, <https://thediplomat.com/2018/04/the-full-story-behind-chinas-gold-mine-power-plant-swap-in-tajikistan/>.

As stated above, Kyrgyzstan has not agreed to a resource-for-railway loan. Leaders in Bishkek have made the judgement that it is not a good deal for Kyrgyzstan.

Corruption is an issue too. These projects provide opportunities for patronage networks to financially gain through both direct loans and through the winning of subcontracts and licences. The patronage networks are different in each country. In Kyrgyzstan power is more diffuse and it is possible for elites at the local level to hamstring a project, whereas in Tajikistan, power is more concentrated around President Rahmon and his inner circle.

In sum, companies try to navigate the government loan system to maximise the number and size of projects. Eximbank juggles between repayment concerns and wanting to promote as many projects as possible. The recipient states make decisions about the balance of debt versus development.

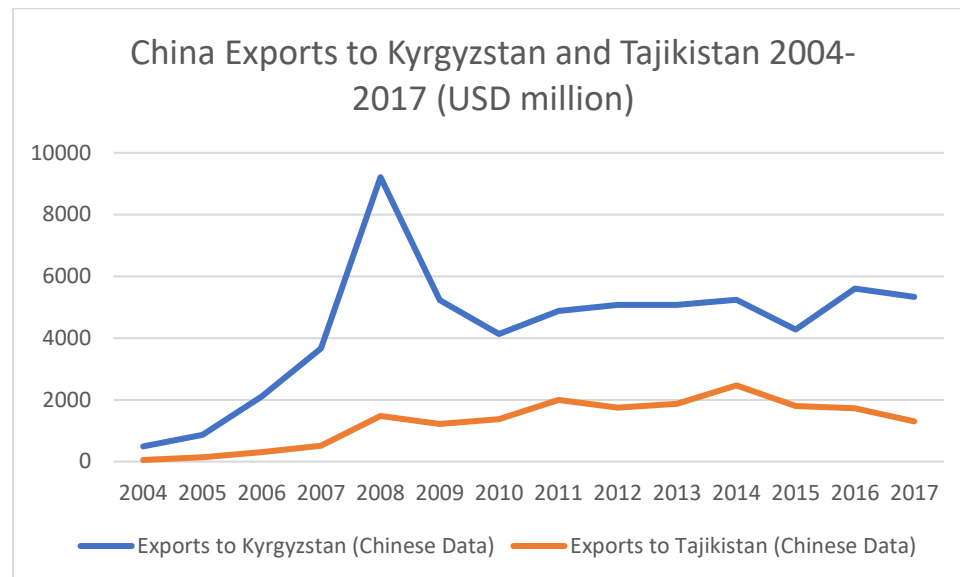
1.4.2 Trade Actors

The two key groups of actors for trade are recipient states that set tariffs on imports and the actual traders who move goods across borders.

Between 2006 and 2016, Tajikistan and Kyrgyzstan took two different approaches to their tariff regimes. In 2004 Kyrgyzstan designated a new class of imports called ‘bazaar goods’ which measured items by volume not monetary value. This reduced the tariffs on textiles and similar products to close to zero. Tajikistan did not do the same. This created a booming market for re-export of Chinese goods to Russia and other Central Asian markets via Kyrgyzstan. This did not occur on a large scale in Tajikistan. While there were other factors such as location and infrastructure, Figure 1.1 below shows the bifurcation in trade levels followed the introduction of Kyrgyzstan’s tariff regime. Figure 1.1 also shows when the re-export trade began to falter in 2009-10 due to first the global financial crisis which reduced demand. The establishment of the Eurasian Customs Union in 2010 which put a

trade barrier between Kyrgyzstan and Kazakhstan-Russia also led to a decline in the re-export business to Russia and Kazakhstan.

Figure 1.1 China Exports to Kyrgyzstan and Tajikistan 2004-2017 (USD million)



Source: UN Comtrade data supplied to the UN by China Customs Administration

The traders are from China and Central Asia. They played a key role in developing trade between China, Kyrgyzstan and Tajikistan. The reason goods from China were so popular in Kyrgyzstan and Tajikistan between 2006-2016 is because they were cheap. In Chapter 4, there are numerous quotes from traders saying that price is the determining factor in choosing Chinese imports over those from other countries. Because there are many traders – usually organised as small importing businesses or as sole traders – the PRC’s central government’s capacity to directly guide their trading behaviour is minimal. As China’s manufacturing has moved up the value chain, the growth of Chinese exports to Kyrgyzstan stagnated. Chinese exports to Tajikistan actually dropped 40 percent between 2014 and 2017.²¹

²¹ UN Comtrade data on PRC exports to Tajikistan. The same data is used in figure 1.1.

The Xinjiang government and the PRC's central government have worked hard to make Xinjiang a place of production for Central Asian exports. But traders simply use Xinjiang as a transfer point to attract subsidies rather than produce there. The economies of scale of eastern China make Xinjiang unsustainable as a place of production except for hydrocarbons and some agricultural products. Government policy has not been able to change that.

The traders' SOP is simply to maximise profit under any circumstance. As re-exports have become less profitable, numerous traders in Kyrgyzstan have moved up the value chain into manufacturing, taking PRC inputs and then value adding for export into further markets. Others have left the business. Some continue on as before but with much smaller margins because of a lack of alternative employment.

1.4.3 Investment Actors

In investment, there are three main actors: Chinese companies that invest in Tajikistan and Kyrgyzstan, PRC financiers that provide the money to invest abroad and recipient states that encourage investment in certain industries through tax breaks and subsidies.

Chinese companies invest in Kyrgyzstan and Tajikistan because these countries offer business opportunities outside of the difficult conditions in China. One could describe this as profit-maximising but perhaps a slightly more accurate term is difficulty-minimising. The vast majority of PRC investors in Kyrgyzstan and Tajikistan are in mining and agriculture, or in industries that face significant overcapacity, rising labour costs and environmental compliance challenges in China. So, they search abroad to find more favourable business conditions. Chapter 5 provides examples from documents and interviews where Chinese investors in both countries clearly state that they face very difficult conditions in China. Most are first-time international investors seeking countries with low levels of competition because the companies believe they cannot compete in more mature international markets. This leads

to inexperienced international investors operating in opaque and difficult business environments such as Tajikistan and Kyrgyzstan. Unsurprisingly, many of their investments struggle to turn a profit. However, little indication exists that these firms are forced to invest in Kyrgyzstan and Tajikistan instead of other countries. Generally speaking, there is abundant finance available for Chinese companies to invest abroad. Companies could find funding just as easily for investments in other parts of the world such as Africa or Southeast Asia. Relatively few Chinese companies choose Kyrgyzstan and Tajikistan because the market is small and the business environment opaque. In 2016, Chinese investment in Kyrgyzstan and Tajikistan represented approximately 0.04 percent (approximately 0.02% in each country) of China's global foreign direct investment.²² As outlined above, there is one case where the central leadership appears to have directed CNPC to fund and build a pipeline in Tajikistan and Kyrgyzstan. This is an example of central directives overriding standard SOPs.

Recipient states have some control over the direction of investment. They offer tax breaks in industries like mining and industrial processing. Several PRC firms have stated these were important factors in deciding to invest in Kyrgyzstan or Tajikistan instead of elsewhere in the world.

1.4.4 Security Actors

Organisational and bureaucratic blockages certainly exist in China's security services. But in Tajikistan and Kyrgyzstan, China's activities appear well coordinated and closely linked to central leadership commitments to step up security engagements with both countries. There has been a noticeable increase in China's security activities in Tajikistan

²² In 2016 China's global outward foreign direct investment was USD 183 billion, see "China Becomes World's Second-Largest Source of Outward FDI: Report," *Xinhua*, 8 June 2017, http://www.xinhuanet.com/english/2017-06/08/c_136350164.htm; PRC investment in Tajikistan was USD 321 million according to the National Bank of Tajikistan. PRC investment in Kyrgyzstan was USD 301 million according to Kyrgyzstan's Ministry of Finance.

since Xi Jinping came to power in 2013 which matches language he has used both bilaterally and at the Shanghai Cooperation Organisation (SCO). The thesis argues that security activities are closely determined by central government.

There are four main security agencies that handle security on the PRC's border or overseas. They are the People's Liberation Army (PLA), the Ministry of Public Security (MPS), People's Armed Police (PAP) and Ministry of State Security (MSS). There is also the Xinjiang Production and Construction Corporation (XPCC) which is a unique organisation set up in the 1950s to move demobilised soldiers to farms on Xinjiang's border region for the dual purpose of stabilising the region and food production. By the end of 2013, the XPCC had 176 regiments, 14 divisions, and an area of 70,600 square kilometres under its administration including on the border with Kyrgyzstan and Tajikistan, and a population of 2,701,400, accounting for 11.9 percent of Xinjiang's total population.²³ Its militia still plays a role in border defence.

The MSS is the PRC's civilian intelligence gathering agency. It conducts activities both inside and outside of China.²⁴ It operates clandestinely and there is little in the public domain to indicate the nature of its activities in Central Asia. As such, the thesis does not overly focus on its role, but acknowledges that the MSS is almost certainly active in the region.

China has three main security interests with regards to Kyrgyzstan and Tajikistan: 1) continued stability in Kyrgyzstan and Tajikistan, which includes social and political stability as well as both countries' continued control over violence. One of the key components is protection of the Tajikistan-Afghanistan border to prevent violent spillover from conflicts in

²³ The History and Development of the Xinjiang Production and Construction Corps (full text), The Information Office of the State Council, 5 October 2014, http://english.gov.cn/archive/white_paper/2014/10/05/content_281474992384669.htm.

²⁴ Peter Mattis, "The Analytic Challenge of Understanding Chinese Intelligence Services," *Studies in Intelligence* 56, No. 3 (September 2012), 47-57.

Afghanistan. Beijing's concern remains that Central Asia could be used as a base for violent activities in Xinjiang if parts of the region were to destabilise. 2) Protection of China's own border with Central Asia. 3) Protection of China's projects in both countries. The most important of these projects is Line D, currently under construction. Because of its proximity to Afghanistan, Chinese security services have engaged more closely with Tajikistan than Kyrgyzstan. The MPS, PLA and PAP play a mixture of roles with regard to each interest.

Beijing's number one security issue in Kyrgyzstan and Tajikistan is ensuring both countries maintain stability. Since Xi came to power, Beijing has implemented a three-part strategy to boost Tajikistan's stability maintenance capacity. First, it provided equipment, technology and facilities for forces in both countries. Beijing financed and built border post upgrades on the Afghanistan-Tajikistan border. It provided training on issues from cyber-security to how to use Beijing's more advanced surveillance technology in Tajikistan. Second, Beijing has stationed a small deployment of PAP troops in Tajikistan's remote Gorno-Badakhshan Autonomous Oblast (GBAO) since 2016. They patrol the GBAO and Afghanistan's Wakhan Corridor. The GBAO is a large area with a sparse Tajik security presence. One explanation for the PAP presence is that it is filling a gap that Tajikistan cannot. Third, Beijing is seeking to align Tajikistan's and Kyrgyzstan's security interests with those of China. It does this through economic incentives and diplomacy. For example, Line D will bring government revenue via transit fees to both Bishkek and Dushanbe while also being important for China's energy security.

On China's border control, the MPS, PLA, PAP and XPCC all patrol some part of the border. Before 2016, the MPS border control force which included PAP troops was charged with border control both at border crossings and at other sections of the border as well. In practice, the PLA and XPCC also conducted border patrols and sometimes they

worked together in border protection activities. A detailed analysis of their responsibilities is provided in Chapter 6.

During Xi Jinping's 2014 visit to Dushanbe for an SCO summit, he announced the Line D gas project and in the same speech called for closer cooperation to protect gas pipelines in the region. The MPS has taken the lead on this. It has established numerous multilateral forums to discuss project and personnel protection outside of China. Project protection has become more prominent in MPS bilateral discussions too.

To summarise, project protection is led by the MPS. Overseas counterterrorism deployments, even in a reconnaissance role, are led by the PAP which requires direct approval from China's Central Military Commission (CMC). Capacity building has occurred via both military and civilian organs. Border control involves MPS, PAP, PLA and XPCC and civilian intelligence collection is led by the MSS.

1.5 Foreign Policy Formulation, Implementation and Feedback

Another subset of the FPA is the policy implementation literature. There are various approaches, but in general it breaks the policy process down into discrete steps. This thesis uses Bo Kong's definition for policy which is defined as a set of decisions (or actions) following similar patterns that originate from a process in which various actors interact among each other in response to a perceived problem or matter of concern.²⁵ One of the classic approaches in the implementation literature is Jones' division of the policy process into six stages:²⁶

1. Framing
2. Agenda Setting

²⁵ Bo Kong, *China's International Petroleum Policy* (Santa Barbara, Calif.: Praeger Security International, 2010), 3-4.

²⁶ Charles Jones, *An Introduction to the Study of Public Policy* (Belmont: Wadsworth, 1984).

3. Options
4. Decisions
5. Implementation
6. Evaluation

Agenda setting requires individuals or organisations, often non-state actors, to get certain issues on the policy agenda. Sometimes this is a long-standing issue such as climate change. Other times a crisis or event forces a change of policy. Implementation is the stage where agencies, bureaucracies and sometimes other organisations such as State Owned Enterprises (SOEs) interpret decisions made by leaders and then deliver that within their own remit. Evaluation is the process which allows for adjustment if elements of the policy are not working as planned.

Lampton refined Jones' approach and applied it to the PRC policy making case.²⁷ He simplified it into three steps: 1) Formulation 2) Implementation and 3) Feedback. The formulation component combined stages 1-4 of Jones' approach. According to Lampton, the formulation component involves identifying problems that require government attention, deciding which of those deserve the most attention,²⁸ then setting objectives, identifying the cost and estimating the effect of solutions. It is also necessary to build support for a chosen policy course. Finally, feedback is direct or indirect evaluation by the implementers and/or others in the policy sphere on the success of policy implementation.

This thesis is focused on how policy translates to actions in other countries. As such the implementation stage is the focus. The thesis where necessary also looks at decisions that impact foreign policy formulation. While it is not the focus of thesis, the formulation and feedback stages are examined when pertinent to implementation.

²⁷ David M. Lampton, "The Implementation Problem in Post-Mao China," 4-5.

²⁸ David M. Lampton, "The Implementation Problem in Post-Mao China," 4-5.

The thesis does not examine the granular details of every piece of foreign policy that has impact on China's activities in Kyrgyzstan and Tajikistan. There are many elements of foreign policy such as the BRI, the "Going Out" policy and the "Develop the West" policy which are not specifically targeted at Kyrgyzstan and Tajikistan but do have significant implications for both countries. It is not feasible nor desirable for the thesis to perform an in depth examination of the formulation phase of each of those policies. Instead, the thesis notes when the policies were announced, their main stated goals and changes to goals or approach over time. This is compared to implementation on the ground.

1.6 PRC Goals, Plans and Interests in Kyrgyzstan and Tajikistan

Beijing's key interests in Kyrgyzstan and Tajikistan remained fairly constant throughout 2006 and 2016. The relative importance of these interests has changed, as has the approach.

The first interest is ensuring Kyrgyzstan and Tajikistan remain stable. This means politically stable – no unforeseen changes of government, socially stable – no consistent large-scale social unrest, and finally, that government has control over violence – no violent groups freely operating in Kyrgyzstan and Tajikistan, particularly those that might be sympathetic to the Uyghurs in Xinjiang. The goal is to ensure that these countries do not become a safe haven for Uyghur terrorists. This includes making it difficult for Uyghur civil society groups to be active in Central Asia.

A number of factors informed this view. One was political coups in 2005 and 2010 in Kyrgyzstan which could potentially have led to longer-term violence in the country. Another was violence in Xinjiang. Low-level violent unrest has been ongoing in Xinjiang for decades, but the period of 2009 to 2014 saw heightened levels of disturbance. In addition, the growing number of Uyghur fighters appearing in hotspots around the world, particularly in

Afghanistan and Pakistan, made Beijing wary of violent spillover from Afghanistan into Central Asia. This concern has only been heightened by the majority NATO withdrawal from Afghanistan in 2014.

The second interest is helping Xinjiang develop economically. Since the Mao era Chinese government leaders have adopted policies to develop the poorer western part of China.²⁹ From the 1990s onwards, one key component of that was building export routes to Central Asia and beyond. Kyrgyzstan and Tajikistan are not large destination markets, but Kyrgyzstan was a re-export hub for Chinese goods between 2004 and 2010. Since then it has developed as a value-adding textile production hub for Chinese exports. The efforts to develop Xinjiang's economy were seen as an important measure to reduce tensions in the Xinjiang Uyghur Autonomous Region (XUAR) up until 2016. That policy is still in place officially. However, the large-scale internment camps which from around 2017 locked up possibly millions of Uyghurs suggest economic development is no longer seen as a key solution to ethnic tensions.

The third interest is ensuring that Kyrgyzstan and Tajikistan are amenable to China's rise. This means they support, or at the least do not oppose, China on key decisions in international forums at the United Nations (UN) and that they are amenable to Chinese technology, standards and its broader international behaviour.

China is not only the player with regards to these interests. Stability depends mainly on domestic actors in Kyrgyzstan and Tajikistan. Other major powers have a role too. The US base in Kyrgyzstan and the war in Afghanistan had very little to do with China, even though some in Beijing initially saw this as an attempt to encircle China. Russia is also a major player in the region, regardless of Beijing.

²⁹ Donald H. McMillen, "Xinjiang and the Production and Construction Corps: A Han Organisation in a Non-Han Region," *The Australian Journal of Chinese Affairs*, No. 6 (July 1981), 65-96.

Beijing is well aware of the limits of its power. But in the period between 2006 and 2016, China enacted economic and security policies to try and secure its interests as best it could.

On the economic front, there were no publicly announced policies or plans specifically for Kyrgyzstan or Tajikistan. Instead, global or regional economic plans were localised in Kyrgyzstan and Tajikistan through bilateral meetings or through the SCO. The key policies that affected Central Asia were “Develop the West”, “Going Out” and the BRI. Each of these were vague in their directives. This was designed to give individual economic actors flexibility to implement these based on local conditions in each country.

If we take the example of the BRI, it focuses on “connectivity”. A 2015 publication from the PRC State Council Information Office (SCIO) specifies five types of “connectivity”: infrastructure, trade, financial integration, investment and people-to-people links. At a regional and global level, the BRI is designed to make countries more amenable to China’s rise while also providing opportunities for Chinese companies to boost international operations and trade.

But implementation on the ground has had mixed results with respect to the five types of connectivity in the SCIO document. The signing of new government-to-government loans for infrastructure basically stopped after 2014 in both Kyrgyzstan and Tajikistan. Loan disbursement for pre-existing agreements continued for a few years after, but by 2018 China was disbursing very little loan money to Tajikistan and Kyrgyzstan.³⁰ PRC trade with Tajikistan fell by over 40 percent between 2014 and 2017.³¹ PRC trade remained with

³⁰ “Ministry of Finance of the Republic of Tajikistan Report on the State of Public Debt for 2018” [Министерство финансов Республики Таджикистан отчет о состоянии государственного долга за 2018 год], Ministry of Finance (Tajikistan), 2018, 24–26; “The Structure of the National Debt of the Kyrgyz Republic as of 31 October 2018” [Структура госдолга Кыргызской Республики по состоянию на 31 октября 2018 года], Ministry of Finance (Kyrgyzstan), 7 December 2018, <http://www.minfin.gov.kg/ru/novosti/novosti/struktura-gosdolga-kyrgyzskoy-respubliki-po-sostoy5319>.

³¹ According to UN Comtrade data, in 2014 PRC exports to Tajikistan were worth USD 2.47 billion and in 2017 were worth USD 1.30 billion. See “UN Comtrade Database,” last accessed 1 August 2019, <https://comtrade.un.org/data/>.

Kyrgyzstan remained constant but well below the 2009 peak.³² While there has been no financial integration due to the closed nature of China's banking system, investment has increased in both countries since 2014. There is no good measure of people-to-people links. Certainly, Central Asian students continue to study in China and now thousands of locals work on Chinese projects in Kyrgyzstan and Tajikistan, however visas have become more difficult to obtain for Kyrgyz and Tajiks wanting to go to China.³³ Thus, the overall implementation of the BRI in these two countries against its stated objective of boosting connectivity could not be considered an overwhelming success.

On the security side, there is not a specifically named policy as such. Instead, the PRC released national defence white papers approximately every two years until 2015. For an unknown reason, there has been no new defence white paper since then. The white papers mentioned items that were relevant to Chinese interests in Tajikistan, such as counter-terrorism efforts abroad and in China, but did not specifically activities in Tajikistan. Over time, the mentions of terrorism in the documents actually decrease – in the 2008 document terrorism was mentioned 29 times, but in the 2015 document it was only mentioned eight times.³⁴ This is due to an increased focus on other areas such as maritime and missile capabilities. While the number of mentions in the white papers decreased, the 2013 Defence White Paper acknowledged, “overseas interests have become an integral component of China's national interests.”³⁵ China's counterterrorism activities both inside China and

³² According to UN Comtrade data, in 2008 PRC exports to Kyrgyzstan were worth USD 9.2 billion and in 2017 were worth USD 5.34 billion. See “UN Comtrade Database,” last accessed 1 August 2019, <https://comtrade.un.org/data/>.

³³ Informal conversations with 5 Kyrgyzstan nationals working in Shanghai, Lianyungang, Beijing and Urumqi. Conversations held in 2016.

³⁴ Information Office of the State Council of the People's Republic of China, “China's National Defence in 2008,” January 2009, <https://china.usc.edu/prc-state-council-chinas-national-defense-2008-january-20-2009>; Information Office of the State Council of the People's Republic of China, “China's Military Strategy In 2015,” May 2015, <https://china.usc.edu/prc-state-council-chinas-military-strategy-2015-may-26-2015>.

³⁵ Information Office of the State Council of the People's Republic of China, “Full Text: The Diversified Employment of China's Armed Forces,” *Xinhua*, 16 April 2013, <http://en.people.cn/90786/8209362.html>.

overseas clearly increased. Xi Jinping leads the National Security Commission(NSC), established in 2013. It includes counterterrorism as one its key functions. He oversaw the passage of the new counterterrorism law in 2015 which legalised overseas counterterrorism activities for the MPS, PAP and PLA. The PLA established a military base in Djibouti in 2015 with the capacity to undertake counterterrorism activities in Africa. The PAP made its first overseas deployment in 2016 to Tajikistan and Afghanistan. China's counterterrorism actions did not match authoritative documents such as the white papers. There was no clear single policy or policy document outlining China's overseas security activities in Central Asia before 2016 (the cut-off for the thesis data collection period), but it is possible to reverse engineer it from the actions and statements of officials. In Tajikistan, and to a lesser extent Kyrgyzstan, the PRC has been boosting capacity through training, provision of equipment and building facilities such as border posts. Beijing seeks to align security interests through diplomatic mechanisms and economic incentives and also through deploying the PAP to the GBAO to fill a gap that Tajikistan could not. A 2019 counterterrorism white paper states some of the key points in a policy document many years after these activities began:³⁶

Xinjiang is a key battlefield in the fight against terrorism in China. In recent years, under the care and support of the central government, Xinjiang has established cooperation mechanisms with neighbouring countries on fighting terrorism in border areas and between law-enforcement departments. Pragmatic exchanges and cooperation have been carried out in intelligence, joint border control, the investigation and capture of suspected terrorists, cutting off funds for terrorism, suppression of cyberspace terrorism and transnational crimes, judicial assistance, and cross-border oil and gas pipeline security. Drawing experience from global efforts, Xinjiang has contributed to the international fight on terrorism through effective counterterrorism and de-radicalization campaigns based on its regional realities.

Because the security sphere has fewer actors and because of its relative sensitivity, the central leadership does not provide public broad-based strategy documents for its overseas

³⁶ Information Office of the State Council of the People's Republic of China, "The Fight against Terrorism and Extremism and Human Rights Protection in Xinjiang," *Xinhua*, 18 March 2019, http://news.cn/english/2019-03/18/c_137904166.htm.

security activities in the same way it did for the BRI. Defence White Papers and Counterterrorism White Papers mention overseas activities, but they mostly focus on activities at China's border or on how the PLA would fight wars. They do not explain how counterterrorism activities would occur overseas, for example. There is a clear relationship between security activities in Tajikistan, Xi Jinping's rise to power and speech acts from Chinese officials, even if authoritative documents like the defence white papers do not go into details. The CMC or State Council need to approve overseas security activities. Approval is not needed at the same level for overseas economic activities.

1.7 Why Kyrgyzstan and Tajikistan?

Tajikistan and Kyrgyzstan are chosen as case studies for a number of reasons. Firstly, they do not have large hydrocarbon or mineral deposits. Large mining projects can distort investment figures because projects in that sector tend to be large and expensive. Hydrocarbons also tend to distort trade flows.

Secondly, there are many similarities between the countries. Their economic size and populations are similar. They both border China. When there are divergent trends between China's economic relationship with Kyrgyzstan and its economic relationship with Tajikistan, the number of potential explanations for the divergence is relatively few because of the similarities between both countries. Of course, there are some differences between the countries. Kyrgyzstan has been a democracy since 2010. Tajikistan has an authoritarian government. Tajikistan shares a border with Afghanistan.

1.8 Significance

This thesis makes two main contributions to the existing literature. First, it draws on new empirical information. The thesis utilises interviews with Chinese business owners and government officials in Kyrgyzstan and Tajikistan. It also draws on media interviews with Chinese businessmen operating in Central Asia. It utilises observations from site visits to eight Chinese-funded projects. More importantly, it draws on publicly-available documents such as Chinese language company reports, bond prospectuses, Chinese company loan agreements and shareholder meetings to inform its analyses of organisational behaviour. It also uses primary Russian language materials. Most of this material has not been published in major English language academic publications.

Second, it applies pre-existing theory to a new situation. FPA and the OPM are well established conceptual frameworks, and the academic literature on the organisation and bureaucracy of Chinese foreign policy is substantial at the level of general analysis of Chinese foreign policy. Classic works such as Lu Ning's *The Dynamics of Foreign-policy Decisionmaking in China* examine the role of different bureaucracies and organisations in China's foreign policy sphere.³⁷ Actor-level studies of China's involvement in regions have become common now too. Luke Patey and Deborah Brautigam among many others have produced multiple works examining the role of China's foreign policy actors in implementing policy in Africa.³⁸ Sector-specific studies of the China's foreign policy actors, by scholars such as Bo Kong and Erica Downs are now common too.³⁹ This is simply a function of the

³⁷ Lu Ning, *The Dynamics of Foreign-policy Decisionmaking in China* (Boulder Colorado: Westview Press, 1997); Also, see Lu, Ning. "Central Leadership, Supraministry Coordinating Bodies, State Council Ministries, and Party Departments" in *The Making of Chinese Foreign and Security Policy*, eds. David M. Lampton. (Stanford, California: Stanford University Press, 2001), 39-60.

³⁸ Luke Patey, *The New Kings of Crude: China, India, and the Global Struggle for Oil in Sudan and South Sudan* (London: Hurst, 2014); Deborah Brautigam, *The Dragon's Gift: The Real Story of China in Africa* (Oxford: Oxford University Press, 2009).

³⁹ Bo Kong, *China's International Petroleum Policy*, (Santa Barbara, Calif.: Praeger Security International, 2010); Erica Downs, "Inside China, Inc: China Development Bank's Cross-Border

explosion in the study of Chinese foreign policy and also a function of the rapid growth of the number of actors in Chinese foreign policy.

Actor-level analysis of China's foreign policy in Central Asia have been rare. But the number of actors both involved in the formulation and implementation of Chinese foreign policy since the early 1990s has dramatically increased, and there is significant evidence of SOPs and to a lesser extent bureaucratic politics in Kyrgyzstan and Tajikistan. This has not been represented in the China-Central Asia literature. This thesis addresses that analytical imbalance.

1.9 Thesis Organisation

The thesis is divided into seven chapters. The first is the introduction (this chapter). The second is the literature review which examines in detail the FPA literature and the organisational and bureaucratic literature on Chinese foreign policy decision-making. It positions that against the pre-existing area studies literature on China in Central Asia. Chapters 3-5 are the substantive economic chapters. Chapter 3 studies government-to-government loans. Chapter 4 analyses trade between China and Kyrgyzstan and China and Tajikistan. Chapter 5 investigates Chinese investment in Kyrgyzstan and Tajikistan. These three chapters provide detailed backgrounds on each of the actors, their SOPs and their actions. This is benchmarked against declared policy programs like the BRI. Chapter 6 focuses on security activities of the four main security organs. The thesis is rounded out with a brief conclusion.

Energy Deals Brookings,” March 2011, https://www.brookings.edu/wp-content/uploads/2016/06/0321_china_energy_downs.pdf.

Chapter 2 Critical Review of Foreign Policy Analysis as Applied to China

2.1 Introduction

As stated in Chapter 1, this thesis uses the organisational process model under the theoretical umbrella of foreign policy analysis (FPA) to investigate PRC foreign policy behaviour in Kyrgyzstan and Tajikistan. FPA examines factors beyond national interest that impact foreign policy decision-making. Some of the common variables explored in these works are culture, media, leaders' personal preferences and bureaucratic and organisational effects on foreign policy decisions. FPA tends to be the opposite of the classical billiard ball or black-box model where states are viewed as unitary actors maximising their benefit based solely on national interest.¹

The Organisation Process Model (OPM) belongs to one branch of FPA known as group decision-making. It argues that the individual actors (in this case companies, policy banks, the economic bureaucracies, the security organs and Ministry of Foreign Affairs) all have their own Standard Operating Procedures (SOPs) which dictate many of the decisions they make. Thus, PRC activities in Kyrgyzstan and Tajikistan are driven in part by SOPs rather than just the pure national foreign policy interest of a single actor.

The thesis is focused on decisions at the level of implementation – trying to understand why certain projects are chosen over others. It focuses on why companies, banks and government bureaucracies coordinated on certain projects, and how recipient states influenced that process. Where necessary this work refers back to political choices in Beijing

¹ The billiard ball concept and its criticism are not new. For an early criticism of the billiard ball approach see Arnold Wolfers, "The Actors in International Politics," ed. William T.R. Fox, in *Theoretical Aspects of International Relations* (Indiana: University of Notre Dame Press, 1959), pp. 83–106.

but the focus is on decision-making by the actors that actually prosecute PRC foreign policy in Kyrgyzstan and Tajikistan.

At the outset, the thesis recognises that human behaviour is never perfectly modelled by a political science theory. Firstly, there is an intersection between OPM (and other branches of FPA) and the billiard ball model. It does not have to always be one or the other. There are examples in the economic chapters (3, 4 and 5) of the central leadership stepping in and compelling actors to undertake actions they previously had not decided to take. But outside of these discrete incidents, they largely operate according to their SOPs. A country as large and complex as the PRC never completely follows one model all the time.

Moreover, PRC security policy in Kyrgyzstan and Tajikistan operates in a different dynamic. There are far fewer actors in the security space. Consequently, the capacity for centrally-controlled policy is greater. Chapter 6 in this thesis argues that the PRC's increasingly assertive security policy in Kyrgyzstan and particularly Tajikistan is closely linked to policies from Xi Jinping and the CMC. Different parts of the government operate differently. This thesis acknowledges that.

This chapter is divided into four sections. First, it explains FPA and OPM in more depth. Secondly, the chapter examines the FPA literature on Chinese foreign policy. Third, it reviews the literature on PRC foreign policy activities in Central Asia. This is followed by a brief conclusion.

2.2 Foreign Policy Analysis and the Organisational Process Model

FPA and thus the OPM examine subnational drivers of foreign policy decision-making. Rather than just focusing on states as unitary actors, FPA breaks them down into their constituent parts and asks how the processes of these actors affects decision-making on

foreign policy issues. The thinking behind this approach to decision-making in foreign policy rests on much more than just national interest, as described by Snyder and colleagues in one of the seminal works on FPA:²

We adhere to the nation-state as the fundamental level of analysis, yet we have discarded the state as a metaphysical abstraction. By emphasizing decision-making as a central focus we have provided a way of organizing the determinants of action around those officials who act for the political society.

This approach immediately presents scholars with a problem: there are endless decision-making factors at a subnational level which could impact foreign policy. In general, some of most commonly studied variables of FPA are the following:³

- 1) Leadership Preferences
- 2) Culture and National Identity
- 3) Domestic Politics
- 4) Group Decision-making Mechanics

This thesis focuses on group decision-making. There are formal models for group decision-making such as OPM and the BPM. These stem from Graham Allison's classic work on the subject. FPA variables do not have to be mutually exclusive. For example, culture and domestic politics can both simultaneously be factors in making a single decision. Some FPA scholars include other factors such as public opinion shapers and the media.⁴ In this author's opinion that should fall into the domestic politics branch. This thesis does not explicitly focus on variables outside group decision-making, such as culture. It is assumed

² Richard C. Snyder, Henry W. Bruck and Burton Sapin, *Foreign Policy Decision-Making: An Approach to the Study of International Politics* (Glencoe, IL: Free Press, 1962), 53.

³ There are other ways to compartmentalise the levels of analysis. This version is taken from Valerie M. Hudson, *Foreign Policy Analysis: Classic and Contemporary Theory* (Lanham, MD: Rowman & Littlefield, 2007), 37-182.

⁴ Jean-Frédéric Morin and Jonathan Paquin, *Foreign Policy Analysis: A Toolbox* (Cham, Switzerland: Palgrave MacMillan, 2018), 167-200.

that these phenomena are built into group decision models. The author will now briefly explore leadership preferences, culture and national identity and domestic politics and explain in more detail why this thesis does not explicitly centre on them, even if they have some explanatory value.

Leadership – This level of analysis focuses on the personality traits of state leaders and how these affect foreign policy decision-making. One of the influential works in the field is De Rivera's (1968) *The Psychological Dimension of Foreign Policy* which is a survey and integration of early attempts to apply psychological and social theory to foreign policy cases.⁵ This, along with works by Johnston, Walker and others in the 1970s, tried to define an operational code based on, as Valerie Hudson describes, “the core political beliefs of the leader about the inevitability of conflict in the world, the leader's estimation of his or her own power to change events...as well as an exploration of the preferred means and style of pursuing goals.”⁶ Basically this is a framework to try and systematically predict or explain foreign policy decision based on leaders’ worldviews.

More recent works synthesise the realms of psychology, genetics and foreign policy. Hatemi and McDermott find that the brain functions of conservative politicians vary from other political decision-makers.⁷ Other works argue emotions can play a significant role in foreign policy decision-making.⁸ The implication of all this is that leaders’ personal convictions can matter as much as state interest in shaping foreign-policy decision-making.

⁵ Joseph De Rivera, *The Psychological Dimension of Foreign Policy* (Columbus, OH: C.E. Merrill, 1968).

⁶ Valerie M. Hudson, “Foreign Policy Analysis: Actor-Specific Theory and the Ground of International Relations,” *Foreign Policy Analysis* 1, no. 1 (2005), 1–30.

⁷ Peter K. Hatemi and Rose McDermott, “A Neurobiological Approach to Foreign Policy Analysis: Identifying Individual Differences in Political Violence,” *Foreign Policy Analysis* 8, no. 2 (2012), DOI: 10.1111/j.1743-8594.2011.00150.x.

⁸ Rose McDermott and Peter K. Hatemi, “The Relationship Between Physical Aggression, Foreign Policy and Moral Choices: Phenotypic and Genetic Findings,” *Aggressive Behaviour*, 43 (2017), DOI: 10.1093/acrefore/9780190228637.013.418.

The leadership approach also examines when leaders matter in foreign policy – when do political leaders directly make foreign policy decisions, and when do they delegate to others? Hudson postulates four variables: regime type (foreign policy less likely to be delegated in authoritarian regimes); a leader's interest in foreign affairs; the type of policy problem – a crisis more likely to elicit leadership attention than a routine matter; and personality characteristics.⁹

In the context of this thesis which studies PRC foreign policy, regime type is a pertinent question. Even in an authoritarian regime, the time and energy of leaders is limited and some matters get delegated by choice or by omission. Even if a leader is interested in foreign affairs, there are many things going on in the world and a leader must prioritise. In this case a series of leaders have not prioritised Kyrgyzstan and Tajikistan for the most part. It is true that leaders pay more attention in periods of crisis but because Kyrgyzstan and Tajikistan enjoyed stable relations with the PRC between 2006 and 2016, the cases of direct leadership intervention in crises are few.

Finally, even if the author wanted to examine the personality traits of PRC leaders, it is not possible for a contemporary study like this thesis. The Communist Party of China (CPC) guards the individual thoughts of prospective leaders closely so when they come to power, little is known about their personality traits. There was a glut of academic literature and punditry as Xi Jinping came to power in 2013 estimating him to be a constructive economic reformer who would focus on domestic issues.¹⁰ Nothing has been further from the

⁹ Valerie M. Hudson, *Foreign Policy Analysis*, 40-41.

¹⁰ Arthur Kroeber, "Xi Jinping's Ambitious Agenda Economic Reform," Brookings Institute, November 2013, <https://www.brookings.edu/opinions/xi-jinpings-ambitious-agenda-economic-reform/>; Linda Jakobson, "China's Foreign Policy Dilemma," 5 February 2013, Lowy Institute, <https://www.lowyinstitute.org/publications/chinas-foreign-policy-dilemma>.

truth. There have been studies afterwards which said this should have been obvious.¹¹ Some have tried the personality approach for the PRC however the possibility of getting the patterns right seems no better than random chance.

Culture and National Identity. This branch argues that culture and national identity strongly influence foreign policy decision-making. As Morin and Paquin put it, “FPA’s traditional epistemic position is to treat culture as an independent variable that can be linked to foreign policies via causal relationships.”¹² Some of the most common thinking is that culture is a way for decision-makers to organise meaning, culture decides value preferences, and culture is a template for human strategy. Many aspects of culture are included in the FPA literature in the study of culture such as norm creation and diffusion, national identities and their changes over time, views of oneself and the other, conception of national roles and many others. The number of areas of study highlights FPA’s capacity to get bogged down in examination of endless potential causational variables.

At a theoretical level, Holsti's elucidation of “national role conception” seeks to capture how a nation views itself and its role in the international arena. Holsti studies elite perceptions of national role, arguing that these perceptions are arguably more salient to foreign policy choice.¹³ Holsti developed 17 basic national role conceptions, and a number of other role conceptions that were unique for some states.¹⁴ Perception of national role is also influenced by societal character, a product of the nation's socialisation process. So, leaders perceive that their nation should play a certain national role based on culture.¹⁵ The criticisms

¹¹ Rush Doshi, “Hu’s to Blame for China’s Foreign Assertiveness?”, Brookings, 22 January 2019, <https://www.brookings.edu/articles/hu-to-blame-for-chinas-foreign-assertiveness/>.

¹² Jean-Frédéric Morin and Jonathan Paquin, *Foreign Policy Analysis: A Toolbox*, 255.

¹³ Ole Holsti, “Cognitive Dynamics and Images of the Enemy,” in *Image and Reality in World Politics* eds. J.C. Farrell and A.P. Smith (New York: Columbia University Press, 1967), 18.

¹⁴ Ole Holsti, “Cognitive Dynamics and Images of the Enemy,” 18.

¹⁵ Arvid Broderon, “National Character. An Old Problem Revisited,” in *International Politics and Foreign Policy* ed. James Rosenau (Glencoe: Free Press of Glencoe, 1962); Martha Cottam and Chih-

of Holsti's role theory are that it is not logically complete and that it cannot explain numerous situations. Chafetz, Abramson and Grillot argue that new situations after the Cold War were not covered under the original typology.¹⁶

Leading PRC scholars have argued that PRC foreign policy should draw on traditional Chinese concepts.¹⁷ But these scholars generally posit that a Chinese policy based more on Chinese culture is a future potential direction for PRC foreign policy. In other words, they are saying the PRC does not draw enough on Chinese culture when the country's leaders formulate policy. This could be conceived in terms of strategic culture which is another explanatory variable in the FPA culture toolkit.

As Morin and Paquin note, research on organisational culture revolves around three main topics: (1) conditions for change, (2) how different organisations interact and (3) the causal relationship between foreign policy behaviour and culture.¹⁸ This thesis takes the view that organisations, such as financiers and companies, do have their own organisational cultures. That may be in part driven by the national role conception or other cultural factors. But, more importantly, this is already inbuilt into the SOP of any individual organisation. So, the thesis focuses on how the pre-existing SOPs impact decisions, rather than the internal structures of a particular organisation and how culture impacts those structures. Given the number of actors studied in this thesis a study of actors' internal structures would also be highly impractical.

yu Shih, *Contending Dramas: A Cognitive Approach to International Dramas* (New York: Praeger, 1992).

¹⁶ Glenn Chafetz, Hillel Abramson, and Suzette Grillot, "Role Theory and Foreign Policy: Belarussian and Ukrainian Compliance with the Nuclear Proliferation Regime," *Political Psychology*, 17, no. 4 (1996), 727-757.

¹⁷ Qin Yaqing, "A Multiverse of Knowledge: Cultures and IR Theories," *The Chinese Journal of International Politics* 11, no. 4 (2018), 415-434.

¹⁸ Jean-Frédéric Morin and Jonathan Paquin, *Foreign Policy Analysis: A Toolbox*, 281.

Domestic Politics shapes foreign policy decision-making in all countries. Senior foreign policy officials and politicians in the US often talk about foreign policy decisions as apolitical and being purely “foreign”, but Halperin and Clapp systematically show that is not true.¹⁹ Nor could it be true when decisions are made by politicians who rely on domestic constituencies for re-election. Much of the work on this topic uses the United States for its case studies.²⁰

Strictly defining domestic and foreign policy has proven difficult for theorists. Many acknowledge there is no clean dividing line, particularly in a globalised world. Hill argued that domestic and international politics are “two ends of a continuum rather than being sharply demarcated.”²¹ Others such as Hardt and Negri contend “there is no more outside” and the two have now melded into one.²² Numerous models such as the ‘pendulum’, ‘nested’ and ‘dialectical’ approaches try to explain these dynamics.²³

To solve the domestic-foreign problem, Elisabetta Brighi proposes a “strategic-relational analysis” between domestic and foreign policy in her study of 100 years of Italian foreign policy. Brighi describes a boundary that is porous yet still existent.²⁴ The broader aim of Brighi’s study is to chart a path which combines both FPA and realism – a mixture of billiard ball and actor-level analysis. At a theoretical level, that is quite useful. But when one looks at project level, like this thesis, it is necessary to look at the drivers for the individual

¹⁹ Morton Halperin and Priscilla Clapp, *Bureaucratic Politics and Foreign Policy*, (Washington DC, Brookings Institution Press, 2007), 62-83.

²⁰ For example, see *The Domestic Sources of American Foreign Policy: Insights and Evidence*, eds. Eugene Wittkopf and James M. McCormick (Lanham, MD: Rowan and Littlefield Publishers, Inc, 2008).

²¹ Christopher Hill, *The Changing Politics of Foreign Policy* (Basingstoke: Palgrave Macmillan, 2003), 38.

²² Michael Hardt and Antonio Negri, *Empire* (Cambridge, MA: Harvard University Press, 2000), 186.

²³ Elisabetta Brighi, *Foreign Policy, Domestic Politics and International Relations: The case of Italy* (New York: Routledge, 2013), 8-14.

²⁴ Elisabetta Brighi, *Foreign Policy, Domestic Politics and International Relations*, 4-8.

actors. This thesis does recognise though that OPM does not explain everything, and it has elements built in depending on the situation (this is covered in group dynamics).

Similar boundary and semantic difficulties between domestic and international policy have been encountered by those studying the PRC. Of course, there are domestic considerations when Xi Jinping makes international decisions. Foreign policy after all is designed to serve a domestic constituency. For this thesis, it would be hugely burdensome and not particularly enlightening to delve into the foreign-domestic models – something theorists still struggle to adequately describe. The Brighi explanation of a porous yet existent boundary suffices. What is more important is the question of which PRC domestic constituency is being served within the confines of a particular foreign policy activity in Kyrgyzstan and Tajikistan. The use of the OPM explains the domestic component of the decision in the form of explaining why the implementer chose to make a certain choice. The organisation's domestic interests are embedded within the SOP. This thesis does not deny that domestic politics is absolutely vital but it is already built into the OPM.

Group Decision-making. The classic book in this field is Graham Allison's *Essence of Decision: Explaining the Cuban Missile Crisis*. As the name suggests, it attempts to explain group decision-making in the context of the Cuban crisis. Allison divides group decision-making into three categories.

1) The Rational Actor Model

This posits that governments search for the highest utility in an individual problem and decide accordingly. One implication of this model is that its eventual outcome has echoes of the realist billiard ball model. It essentially argues that governments' actions are based on their interests and that the government is more or less a unitary actor even if it has to go through iterations of decision-making before deciding. The difference with the billiard ball model is

that a government may have to consider more than the country's national interest in achieving "highest payoff" – there are domestic calculations as well.

Rational behaviour in FPA can be broken down into three distinct assumptions.²⁵ First, the actors are conscious of making choices. Unlike in the OPM, they are not bound to routine which could lead them to follow a given path blindly. Second, the actors systematically classify, by order of preference, the different possible actions, including the option of doing nothing. Third, actors act in accordance with the option that maximises utility, by considering the information available and the associated risks. They do not suppress their preferences simply to conform to moral values or tradition.

The thesis contends that the PRC senior leadership acts according to a rational actor model. When there are discrete moments of national importance (such as a state visit) or security issues, the central leadership steps in and overrides the SOPs of bureaucracies and the companies. But outside this, the leadership is not so heavily involved. This is a conscious decision based on systematically analysing the importance of a range of foreign policy options. When senior leadership is not heavily involved, then the SOPs of the various organisations are what drive PRC economic activities in Kyrgyzstan and Tajikistan. If we take the example of PRC investment in Kyrgyzstan, every major PRC investment in Kyrgyzstan has run into significant trouble (also the case in Tajikistan as well). Either they face protests from local populations or impediments from local authorities, or they have had problems with securing supply chains. The PRC government has been unwilling or unable to step in to help these firms.

²⁵ Jean-Frédéric Morin and Jonathan Paquin, *Foreign Policy Analysis: A Toolbox*, 39.

This has two impacts. First, this has made firms reticent to invest further in Kyrgyzstan. Larger PRC firms which invested in Kyrgyzstan have tended to pursue opportunities in countries other than Kyrgyzstan after their first investment. This is true in Tajikistan too. If the PRC plan is to use PRC investment to expand political influence in both countries, the inability of the PRC central leadership to protect its companies has been demotivating for the firms. Secondly, the behaviour of PRC firms, particularly in Kyrgyzstan characterised by corruption, opacity and poor treatment of workers – breeds a lot of anti-Chinese sentiment. That is because companies transpose their operating model – their SOP – to Central Asia. Senior PRC officials have said consistently that companies need be more accommodating of local needs all over the world.²⁶ The companies have found that difficult to do, at least initially. So, in short, the thesis recognises that at certain junctures PRC leadership does take a “highest payoff” view but outside of these, their position is not to directly intervene. That has generally left the companies, banks and bureaucracies to act according to their SOPs. Hence, the thesis uses the OPM as its main theoretical base while recognising that it does not apply to all actions.

2) The Bureaucratic Politics Model (sometimes also called Government Politics)²⁷

The Bureaucratic Politics Model argues that decision-making in government comes down to individuals, and the final decision is a result a process of wrangling between individuals of different levels of power and viewpoints within the government and implementing bodies.

²⁶ “China Wants More Countries to Join its Belt and Road Program,” *ABC News*, 28 April 2019, <https://www.abc.net.au/news/2019-04-28/china-wants-more-countries-to-join-its-belt-and-roads-program/11051956>; Zhang Wei: How do Chinese Companies “Going Uut” Fulfill Their Overseas Social Responsibilities?” [张蕙: “走出去” 的中国企业如何履行海外社会责任?], *Tengxun Finance*, 22 August 2016, <https://finance.qq.com/a/20160822/042687.htm>.

²⁷ Graham Allison, *Essence of Decision: Explaining the Cuban Missile Crisis*. (Boston: Little, Brown, 1971):164–81; Graham Allison and Morton Halperin, “Bureaucratic Politics: A Paradigm and Some Policy Implications,” *World Politics*, 24 (1972), 40–79.

Allison gave a very detailed set of assumptions for the BPM – around 20 in total. The most significant ones from this author's point of view are as follows:²⁸

- 1) Individuals in governmental positions make government decisions and actions.
- 2) An individual's policy preference can (mostly) be predicted from his or her governmental position. Thus, different individuals see different sides of the same policy issue, because they occupy different governmental positions.
- 3) An individual's policy goals and interests are influenced by national security, organisational, domestic, and personal concerns.
- 4) An individual's influence on particular policy issues is dictated by (a) bargaining advantages, (b) willingness to use such assets, (c) skill in using such advantages, and (d) other actors' perceptions of the second and third items.
- 5) Political bargaining produces outcomes that do not reflect what any one actor would have selected independently.

Allison originally applied this model to discrete foreign policy decisions (a.k.a. non-routine decisions) like the Cuban missile crisis. This author believes along with many others in the FPA academic community that the BPM applies best to non-routine decisions. This is because most of the bureaucratic wrangling occurs when there is non-routine issue. On more routine decisions, or at the level of implementation, the roles of actor organisations are more clearly defined, and thus, the operating procedures of the individual organisations become more important. Valerie Hudson came up with a useful chart to explain which FPA model suits which situation.

²⁸ The precis for this list was informed by Michael Clarke, "Foreign Policy Implementation: Problems and Approaches," *British Journal of International Studies* 5, no. 2 (1979), 112-114.

Figure 2.1 FPA Models for Different Foreign Policy Problems



Source: Valerie M. Hudson *Foreign Policy Analysis: Classic and Contemporary Theory*, (Lanham, MD: Rowman & Littlefield, 2007), 73.

Bureaucratic politics has probably been the most popular of the FPA branches. It produced a large literature on a range of foreign policy, from the US decision to conduct operations in Libya to the negotiations of Transatlantic Trade and Investment Partnership.²⁹

3) The Organisational Process Model

While government decisions are made by individuals – either through a process of rational decision-making or through bureaucratic politics – these decisions are almost always implemented by organisations. The OPM focuses on how these organisations operate and interact with each other. This is a natural fit for a thesis which examines how different PRC organisations (policy banks, companies, economic ministries, security organisations and the Ministry of Foreign Affairs) operate in Kyrgyzstan and Tajikistan.

²⁹ Mikael Blomdahl, “Bureaucratic Roles and Positions: Explaining the United States Libya Decision,” *Diplomacy & Statecraft* 27, no 1 (2016), 142-161; Vinod K. Aggarwal and Simon J. Evenett, “The Transatlantic Trade and Investment Partnership: Limits on Negotiating behind the Border Barriers,” *Business and Politics*, 4, no. 19 (2017), 549-572.

The OPM argues that each organisation has SOPs which defines many of the actions they take. These SOPs are formed over many years and they prove resilient and difficult to change quickly. Much of the foundational work on FPA and the OPM analysed the US and EU foreign-policy making system.³⁰ More recently there have been quite a few works on the PRC system. They are covered later on in this chapter.

Compared to the BPM, the OPM has not been as popular a model to explain foreign policy decision-making.³¹ One key reason for the lack of attention is the semi-melding of the OPM and bureaucratic process model that has occurred following the publication of Halperin's 1974 *Bureaucratic Politics and Foreign Policy* which contended that organisations had an "essence" – the view held by the dominant group within the organisation of what should be its key missions and capabilities.³² Halperin argues that this essence is hard to change. Essence combined with a number of other factors defined the decision-making behaviour of organisations which is essentially a SOP. Halperin delivered this within a bureaucratic politics framework even though it has many hallmarks of the operational process model. This can be seen through much of the work on bureaucratic politics – it points to competition between agencies because of different organisational 'essence'. Daniel Drezner argued that organisational culture sustained ideas that are critical to shaping final outcomes.³³ There are numerous other works that emphasise the role of organisational culture (which is hard to change) as an important factor in bureaucratic politics.³⁴ Adrian Hyde-Price argues in his work on EU foreign policy that the rational actor

³⁰ Jean-Frédéric Morin and Jonathan Paquin, *Foreign Policy Analysis: A Toolbox*, 344.

³¹ Jean-Frédéric Morin and Jonathan Paquin, *Foreign Policy Analysis: A Toolbox*, 114.

³² Morton Halperin, *Bureaucratic Politics and Foreign Policy*, (Washington DC, Brookings Institution Press, 1974), 27.

³³ Daniel W. Drezner, "Ideas, Bureaucratic Politics, and the Crafting of Foreign Policy," *American Journal of Political Science* 44, no. 4 (2000), 733-749.

³⁴ Jonathan Bendor, Serge Taylor and Roland van Gaalen, "Politicians, Bureaucrats and Asymmetric Information," *American Journal of Political Science* 31 (1987), 796-828; John Brehm and

model, organisational process and bureaucratic politics models “each have a certain explanatory power and need to be integrated rather than segregated.”³⁵ Many of the original hallmarks of OPM now feature in some form in the bureaucratic politics literature. This is not surprising. If one looks at the Valerie Hudson’s graph featured above, bureaucratic politics is suitable for “non-crisis” foreign policy decision-making while OPM is better suited to “routine” decision-making. Those are two sides of the same coin. Henceforth, this thesis uses an OPM framework of the original Allison version – standard operating procedures drive decision-making. But it recognises that much of the organisational decision-making work done since then has situated itself within the bureaucratic politics literature. This is particularly true of the bureaucratic politics work on the PRC (covered further on in this chapter). In sum, this thesis bases itself on the classic OPM formulation but it recognises that it builds upon a lot of works that could be described as about “organisationally-focused bureaucratic politics”. The author acknowledges the central leadership’s rational actions and delegations which leave most foreign policy activities to the policy banks and companies.

The reason this thesis chooses OPM over BPM or a unified FPA theory that combines all three is that the main driver for behaviour is the institutional interest of the companies and bureaucracies. Companies for example want to make money. When their institutional interest is in conflict with another organisation, bureaucratic politics will occur. So this thesis uses a framework that can be described as an OPM which integrates bureaucratic politics when necessary.

This thesis focuses mostly on the implementation of PRC policy in Kyrgyzstan and Tajikistan. Policy Implementation was not covered in any depth in the foundational works of

Scott Gates, *Working, Shirking, and Sabotage: Bureaucratic Response to a Democratic Public* (Ann Arbor, University of Michigan Press, 1997).

³⁵ Adrian Hyde-Price, “Interests, Institutions and Identities in the Study of European Foreign Policy,” in *Rethinking European Union Foreign Policy*, eds. Ben Tonra and Thomas Christiansen (New York: Palgrave, 2004), 105.

FPA, but over time there has been a recognition of the need to include implementation as part of the analysis.³⁶ For example in 1982, Lincoln Bloomfield wrote the following about the implementation of ideas:³⁷

For it is then that an idea, however morally powerful and however authentically grounded in the national political epistemology, encounters the instruments, the forces, and the fallible (or obstreperous) human beings who implement (or thwart)...foreign policy programs.

This brings us to an obvious related question: how do implementers decide how to interpret and implement government policy? A level of interpretation is required because government bureaucracies can be huge. Brighi and Hill concisely sum it up: “The implementation of policy making always involves some loss of momentum through transaction costs, political friction and disillusion.”³⁸ This especially applies to the PRC because central government decrees tend to be codified in vague CPC boilerplate.

One of the most common variables used to deal with question of implementation is the level of control the central government has over a certain entity. William Norris in his book on Chinese economic statecraft argued that the level of state control was one of five key variables determining the success of PRC economic statecraft.³⁹ Hood on the other hand argues that the stronger the government’s influence over the agents/implementers, then the weaker the agents’ influence is over the targets.⁴⁰ This may be a generalisation but it emphasises the point that a government is in a political relationship with both the agents and targets (recipient states) of a policy.

³⁶ Michael Clarke, “Foreign Policy Implementation: Problems and Approaches,” 111-115.

³⁷ Lincoln Bloomfield, “From Ideology to Program to Policy: Tracking the Carter Human Rights Policy,” *Journal of Policy Analysis and Management* 2 (1982), 2.

³⁸ Elisabetta Brighi and Christopher Hill, “Implementation and Behaviour,” in *Foreign Policy: Theories, Actors, Cases*, eds. Steve Smith, Timothy Dunne and Amelia Hadfield (Oxford: Oxford University Press, 2012), 166.

³⁹ William Norris, “Economic statecraft with Chinese characteristics: The Use of Commercial Actors in China's Grand Strategy,” (PhD diss., Massachusetts Institute of Technology, 2010), 57-63.

⁴⁰ C.C. Hood, *The Limits of Administration* (London: John Wiley & Sons, 1976), 123-127.

From this author's perspective, the ownership structure/level of control that the PRC government has over its agents is not the key variable with regards to PRC foreign policy implementation. In reality if Beijing decides it wants to coerce or induce an action from a PRC entity, the central government has the power to do that regardless. This thesis shows that investors such private companies, SOEs and those with a mixture of private and government funds behave in very similar ways – investing without understanding the local environment and losing a lot of money.

Instead, the level of attention paid by the central government is more important. Chapter 3 on concessional financing discusses the refusal by Eximbank to issue a loan to the Tajik government for phase one of a coal-fired power plant in 2012 – the company ended up borrowing the money from Eximbank instead. Then when Xi Jinping arrived on a state visit to Dushanbe in 2014, Eximbank suddenly decided to issue the loan. This is a change in behaviour based on the level of attention paid by the central government. Xi Jinping has not visited Tajikistan since then (up to June 2020) and Eximbank has not issued another major loan to Tajikistan since Xi's last visit in 2014. David Zweig found that constant leadership attention was important for successful implementation in PRC domestic reforms.⁴¹ The research conducted for this thesis revealed that elite attention was what caused implementing organisations to deviate from their SOPs.

The criticisms of FPA in general boil down to two. The first is that the level of decentralisation is actually a choice of the leadership to outsource the less important tasks to bureaucracy while keeping the important tasks inside the small leadership group. This is a

⁴¹ David Zweig, "Urbanizing Rural China: Bureaucratic Authority and Local Autonomy," in *Bureaucracy, Politics, and Decision Making in Post-Mao China (Studies on China)*, eds. Kenneth G. Lieberthal and David M. Lampton (Berkeley: University of California Press, 1992), 335-359.

rational choice of prioritisation by the leadership.⁴² Krasner argues that the President (from the US perspective) has significant institutional control because they choose the leaders of most of the bureaucracies⁴³ and the bureaucracies need the approval of the President to garner influence and resources. In Krasner's words, "The success a bureau enjoys in furthering its interests depends on maintaining the support and affection of the President. The implicit assumption of the bureaucratic politics approach that departmental and Presidential behaviour are independent and comparably important is false."⁴⁴

This is a fair criticism. When it comes to this thesis, the focus is on implementation. This sidesteps the intentional decentralisation problem. As pointed out above, rationality and OPM can co-exist. The thesis recognises that among the various foreign policy actors in the PRC system it is obvious that the senior leadership are the most powerful, but contends that they only have limited bandwidth and when they do not pay attention, the organisations act according to their SOPs. For small countries, SOPs can have significant impact. PRC policy banks and companies have larger budgets than the GDP of Kyrgyzstan or Tajikistan. So while decentralisation is a choice that the senior leadership has control over, it does not dilute the importance of studying what decentralisation does to decision-making at a country level.

The second criticism is that FPA (of all types) requires so much detailed information as to be a cognitive burden.⁴⁵ This is fair. This thesis overcomes that weakness by focusing on a discrete number of agencies (outlined in the introduction and again in each of the

⁴² Lawrence Freedman, "Logic, Politics and Foreign Policy Processes: A Critique of the Bureaucratic Politics Model," *International Affairs* 52, no. 3 (1976), 434-449; Stephen D. Krasner, "Are Bureaucracies Important? (Or Allison Wonderland)," *Foreign Policy*, 7 (1972), 167.

⁴³ Stephen D. Krasner, "Are Bureaucracies Important?" 167.

⁴⁴ Stephen D. Krasner, "Are Bureaucracies Important?", 167.

⁴⁵ Herbert McClosky, "Concerning Strategies for a Science of International Politics" in *Foreign Policy Decision Making*, eds. Richard C. Snyder, Harry W. Bruck and Burton Sapin, (Glencoe, IL: Free Press, 1962) 201.

economic and security chapters). It does not bother itself with intra-institution bureaucratic politics. That would create so much information as to be meaningless.

There are several criticisms of the rational actor model. Firstly, it does not consider the possibility that information could become distorted in a complex advisory system made up of many individuals, offices, and agencies.⁴⁶ Secondly, “neither does the RAM [rational actor model] take into account that identifying the national interest is not necessarily straightforward.”⁴⁷

For those arguing against the rational actor model, the increase in the number of actors involved in foreign policy in recent decades, both at a formulation and implementation level, further distorts information and perceptions of national interest. This is true in both Chinese foreign policy and elsewhere. For example, in 2006 Morton Halperin and Priscilla Clapp published an updated version of Halperin’s 1974 work *Bureaucratic Politics and Foreign Policy*. The original version and the update are both ripostes to the structural explanations. The authors write: “The number of additional significant actors in the foreign policy process, including essentially domestic agencies and departments that have developed international concerns, new agencies like Homeland Security, and new bureaus in the State Department and Defence Department and nongovernmental organizations.”⁴⁸ This applies to the PRC also. As stated above, the central leadership can still step when it needs to but the complexity and growth of actors means there are many cases where the central leadership has to delegate via choice or lack of capacity. The next section examines studies on PRC FPA and the ever-growing number of foreign policy actors.

⁴⁶ Marijke Breuning, *Foreign Policy Analysis: A Comparative Introduction* (Basingstoke: Palgrave Macmillan, 2007), 96.

⁴⁷ Marijke Breuning, *Foreign Policy Analysis: A Comparative Introduction*, 96.

⁴⁸ Morton Halperin and Priscilla Clapp, *Bureaucratic Politics and Foreign Policy* (2nd edition) (Washington DC, Brookings Institution Press, 2007), viii.

2.3 Foreign Policy Analysis and China

The debates around FPA for the study of Chinese foreign policy have in many ways mirrored classical works in the broader field of foreign policy analysis. As with the broader literature, it mixes SOPs of the OPM with bureaucratic politics – what has become known in the field as fragmented authoritarianism. In Kenneth Lieberthal's words,⁴⁹

The fragmented authoritarianism model echoes some of the literature on bureaucratic politics, such as Graham Allison's *Essence of Decision*. Allison argues that organisational processes (what he terms "standard operating procedures") and bureaucratically shaped politics influence decisions, and thus that rational-actor assumptions about decision making (in his case, regarding national security) do not fully capture the forces that shape policy-making and implementation. Similarly, the fragmented authoritarianism model regarding China under the reforms does not argue that rational problem solving at the top does not occur. It rather details other dimensions of the system that are not adequately captured in a straightforward application of a rationality model.

2.3.1 BPM and OPM Studies of Chinese Domestic Policy-Making

The field of Chinese bureaucratic politics began to emerge in the mid-1980s. The study of bureaucracy by its nature requires either access to archives or officials (or both) but this was simply not possible in Mao's China. Moreover, questions remained over the applicability of the bureaucratic politics model to China and authoritarian regimes in

⁴⁹ Kenneth G. Lieberthal, "Introduction: The 'Fragmented Authoritarianism' Model and Its Limitations," in *Bureaucracy, Politics, and Decision Making in Post-Mao China*, eds. Kenneth G. Lieberthal and David M. Lampton (Berkeley: University of California Press, 1992), 10.

general.⁵⁰ Externally Mao Zedong seemed an all-controlling strongman, the antithesis of the bureaucratic politics model.

Indeed, the first wave of post-1979 studies on Chinese policy making tended to focus on either elite power struggles or the rational based actor model.⁵¹ However, several academics began to study Chinese bureaucracy and decision-making role from the early 1980s. For our purposes, it is useful to divide the field into works that focused on domestic-policy making and those that focused on foreign policy making.

Most of the earlier political bureaucratic works (covered in the next few paragraphs) focused on domestic politics. Numerous domestic sectors had greater transparency than foreign affairs – more comprehensive reporting, better access to archives, and greater opportunities to speak to officials.⁵² Also, numerous domestic policy fields were undergoing significant reform at a greater rate than foreign policy changes. This section explores the domestic bureaucratic politics literature, while the foreign affairs component is explored in the following section. Two other aspects should be noted at this point. Scholars began to specialise on individual sectors from the late 1990s onwards. This is a natural result of the increasingly mature and voluminous China Studies field. Furthermore, both sets of literatures over time have incorporated the “intermestic” (international and domestic) nature of policy making in China in their analyses.⁵³

In 1980s numerous scholars focused on three areas: 1) The nature of implementation. 2) The delineation of bureaucracies – which groups of bureaucracies did what in the decision-

⁵⁰ Kenneth Lieberthal and Michel Oksenberg, *Policy Making in China: Leaders, Structure and Process* (Princeton, NJ: Princeton University Press, 1988), 3-4.

⁵¹ Kenneth Lieberthal and Michel Oksenberg, *Policy Making in China*, 3-4.

⁵² Zhou Qi, “Organisation, Structure and Image in the Making of Chinese Foreign Policy since the Early 1990s” (PhD diss., Johns Hopkins University, 2008), 14-18.

⁵³ Jörg Friedrichs, “Intermestic Security Challenges: Managing Transnational Bonds,” *European Journal of International Security* 3, no. 2 (2018), 162-186.

making process. This was at a time of immense institutional upheaval in the PRC. 3) The relationship between the central leadership and the implementing bureaucracies.

David Lampton in an edited volume titled *Policy Implementation in Post-Mao China* proposed a “cellular polity” which described independent fiefdoms that had complete control over their policy patch. When their projects involved other independent kingdoms, they could stymie each other’s interests, but could do very little to further their own projects without having to bargain with other bureaucracies. He separates the policy steps into “formulation”, “implementation” and “feedback.”⁵⁴ Lampton identified four trends in policy making and implementation post-Mao that largely strengthened the role of the bureaucrat/implementer (much of which applied through to the late Hu Jintao era ~2012):

- 1) **Consensus building.** New norms and rules were passed to limit the power of one individual over decision-making. A new model of consensus-building was ushered in under Deng Xiaoping. Increasingly bureaucracies were also included in the decision-making process.
- 2) **Rise of the authoritarian-technocrat.** The dissolution of powers to bureaucracies, local governments and newly formed companies with government control led to the rise of policy-focused technocrats who had areas of specialisation not found elsewhere in the Chinese system.
- 3) **Less direct central control over financial resources.** The private sector and provinces had increasingly large shares of the nation’s wealth.
- 4) **Market pressures** eroded controls over content, such as newspapers publishing risqué content for their own survival.

⁵⁴ David M. Lampton, “China’s Foreign and National Security Policy Making Process: Is it Changing and Does it Matter?” in *Policy Implementation in Post-Mao China*, ed. David M. Lampton (Berkeley: University of California Press, 1987), 18.

While there have been many changes to China's bureaucratic and economic system since Lampton's book, the independent kingdoms framework retained explanatory value up until 2016 (the final date of enquiry for this thesis). One example is attempts by the Central Government to cut industrial overcapacity. Xi Jinping, Li Keqiang and many senior economic and environmental bureaucrats promised efforts to shut down the multitude of unprofitable and environmentally toxic steel furnaces across regional China in 2013. The steel industry is often allowed to flout environmental rules and receives subsidies from local governments. Yet by 2015 China's steel production continued to soar even when prices dropped so low that steel coil was cheaper than cabbage per unit weight.⁵⁵ Despite announcements of production cuts, PRC steel output grew consistently between 2013 and 2019.⁵⁶

At the same time, many projects prior (and post) to 1987 had seen cross-unit and cross-jurisdiction cooperation – this was a key driver of PRC growth. This naturally raises the question of how the Party aligns the bureaucracies' interests so they will cooperate. Lampton and the other authors in the volume offer three methods by which the CPC exerts control over its bureaucracies and SOEs:⁵⁷

1) Party discipline, imbue leaders at all levels with an integrated ideology, and market forces. The CPC still appoints the leaders of SOEs and people at all levels of government and controls their political destiny throughout their career, so moving obviously too far from Party policy is a poor career move. Despite this, Lampton also notes that “central

⁵⁵ Peter Ker, “Chinese Steel is Now Cheaper than Cabbage,” *Sydney Morning Herald*, 8 July 2015, <https://www.smh.com.au/business/companies/chinese-steel-is-now-cheaper-than-cabbage-20150708-gi81ea.html>.

⁵⁶ “Chinese Steel Output Rises Relentlessly Despite Plant Closures,” *Hellenic Shipping News*, 14 May 2019, <https://www.hellenicshippingnews.com/chinese-steel-output-rises-relentlessly-despite-plant-closures/>.

⁵⁷ *Policy Implementation in Post-Mao China* ed. David M. Lampton (Berkeley: University of California Press, 1987), 12-18.

policies are always distorted in ways advantageous to local implementers.”⁵⁸ In other words creatively interpreting policy guidelines but not overstepping is the role of a skilled bureaucrat and politician.

2) Interagency forums – commissions, “technical committees” and “work meetings”

abound. These are designed to form consensus on issues that involve many different parts of the Chinese bureaucracy. Since Xi Jinping has come to power he has established and reorganised many Leading Small Groups in an attempt to improve coordination.

3) Elite Consistency and Attention. David Zweig argues that success is far more likely when the central leadership shows consistent attention to an issue.⁵⁹ He does this by correlating meetings, notices and other documentation with successful outcomes. This thesis takes David Zweig’s idea and applies it to implementers’ SOPs in Kyrgyzstan and Tajikistan, arguing that there are moments where central leadership overrides SOPs but beyond this, SOPs have significant explanatory value for implementers’ decision-making.

While China’s key policy challenges have changed drastically over the past 35 years, the basic tools available to senior Chinese leadership to coordinate its bureaucracies have barely budged. When Xi Jinping came to power in 2013, one of the challenges he faced was a plethora of new (and old) policy actors that the CPC could not bring to heel. In order to overcome this, he launched an anti-corruption campaign (that focused on party discipline) through the Party disciplinary organ. He has pushed Party ideology back into universities, the media and the Party in a way not seen for decades. A raft of new interagency Leading Small Groups (LSGs) were established to coordinate on cross-unit and cross-jurisdictional policy

⁵⁸ *Policy Implementation in Post-Mao China*, 18.

⁵⁹ David Zweig, “Content and Context in Policy Implementation: Household Contracts in China, 1977–1983” *Policy Implementation in Post-Mao China*, ed. David M. Lampton (Berkeley: University of California Press, 1987), 255–283.

areas. Finally, he and other members of the PSC took leading roles in these LSGs, to sustain elite consistency and attention.⁶⁰

Kenneth Lieberthal's and Michel Oksenberg's 1988 edited volume, *Policy Making in China: Leaders, Structure and Process* sought to deal with the challenge of simultaneous empirical evidence for centralised control and bureaucratic blockages.⁶¹ The volume contained many of the same authors from Lampton's 1987 book. They moved the bureaucratic politics debate even further towards the role of organisations and away from the factional elites model. As Zhou Qi notes in her assessment:⁶²

Their studies put more emphasis on formal government and party organisations and show that although power at the summit is dominated by individuals, formal decisions are made by and implemented through established bureaucratic institutions.

In 1992, Lampton and Lieberthal produced a further edited volume *Bureaucracy, Politics, and Decision Making in Post-Mao China*.⁶³ It introduced a new theoretical model “fragmented authoritarianism” which attempted to bring together the elite-oriented rational actor model and cellular model (which emphasised siloing and the ability to stymie others but not push forward one's own work). Lampton and Lieberthal separated China's policy-making system into two distinct elements: the elite politics that happened at the top and everything else below the elite which they described as “fragmented and disjointed”.⁶⁴

This distinction between the two levels provides the space for coordinated top down policy to co-exist with the cellular model. Lampton and Lieberthal contend that bureaucratic bargaining happens in six separate clusters in the Chinese policy-making system.⁶⁵

- Economic Bureaucracies

⁶⁰ For a full discussion of the recentralisation see Timothy Heath, *China's New Governing Party Paradigm: Political Renewal and the Pursuit of National Rejuvenation* (Farnham: Ashgate, 2014).

⁶¹ Kenneth Lieberthal and Michel Oksenberg, *Policy Making in China: Leaders, Structure and Process* (Princeton, NJ: Princeton University Press, 1988).

⁶² Zhou Qi, “Organisation, Structure and Image in the Making of Chinese Foreign Policy,” 16.

⁶³ Kenneth G. Lieberthal, “Introduction: The ‘Fragmented Authoritarianism’ Model,” 4-7.

⁶⁴ Kenneth G. Lieberthal, “Introduction: The ‘Fragmented Authoritarianism’ Model,” 8.

⁶⁵ Kenneth G. Lieberthal, “Introduction: The ‘Fragmented Authoritarianism’ Model,” 2-3.

- Propaganda and Education Bureaucracies
- Organisation and Personnel Bureaucracies
- Civilian Coercive Bureaucracies (essentially domestic security organs)
- Military System
- Communist Party Territorial Committees.

There is, in addition to the above, a core political function that is exercised on a territorial basis by Communist Party secretaries. Each of these individuals attempts to coordinate and prioritise activities within his or her geographical domain and to represent the interests of that domain in dealings with both higher and lower levels.

Criticism of fragmented authoritarianism and political bureaucratic approaches to the study of Chinese policy-making mirrors much of what Krasner wrote about Allison's work.⁶⁶ numerous scholars argue the decision to decentralise power was an intentional decision by a rational elite who realised the organisational benefits of decentralisation. Others such as Avery Goldstein argue the small elite at any time can override the organisational and bureaucratic blockages to its goals.⁶⁷ Sebastien Heilman argues there is an intentional "Embedded autonomy in the planning process" which is the opposite of bureaucratic politics. He puts this in the context of PRC five-year plans:⁶⁸

Development planning in contemporary China is driven by an unceasing process of information gathering, consultation, analysis, document drafting, implementation, experimentation, evaluation, and revision. This is better thought of as a recurrent cycle of cross-level, multi-year policy coordination rather than as an integrated, unitary planning system.

The counter to the criticism of the use of FPA as a framework to analyse Chinese foreign policy is steeped in unintended consequences, bureaucratic infighting leading to failure to implement numerous top-down driven policies and cases where certain

⁶⁶ Stephen D. Krasner, "Are Bureaucracies Important? (Or Allison Wonderland)," 161-165.

⁶⁷ Avery Goldstein, "Trends in the Study of Political Elites and Institutions in the PRC," *The China Quarterly*, 139 (1994), 724-725.

⁶⁸ Sebastien Heilman, *Red Swan: How Unorthodox Policy Making Facilitated China's Rise* (Hong Kong: Chinese University Press, 2018), 195.

organisations simply refuse to implement government policy. Barry Naughton's chapter in the fragmented authoritarianism volume focuses on decision-making on major investment projects. Naughton notes that Chinese leaders undertook investment policy reforms to reduce the amount of bargaining in the management of the economy. The idea was to cut red tape and reduce the role of the bureaucracies. Instead, the reforms increased the role of bargaining in this sector, and they changed the types of resources that the various parties brought into the bargaining arena.⁶⁹

There are numerous themes from the domestic bureaucratic literature that are important for this PhD thesis. Firstly, the growth of resources available in the economy post-Mao meant that direct oversight of resources had to be outsourced to implementing bureaucracies which lead to bureaucratic clusters. In the 1990s and 2000s many companies developed the capacity to undertake overseas investments. This is not to say that the central leadership did not issue directives to try and manage these investments but the reality remains that the rationale for most of the investments was set by the company. The tools that the Party had then (and now) to regain central control remain actually quite similar – discipline, coordination groups and consistent elite attention. As small countries like Tajikistan and Kyrgyzstan rarely command direct central leadership attention, the implementers were left to their SOPs.

From 1992, there was an explosion in the study of Chinese bureaucratic politics. It expanded to a variety of sectors, including foreign policy, individual bureaucracies, national oil companies, banks and provincial governments.⁷⁰ It is beyond the scope of this thesis to

⁶⁹ Barry Naughton, "Hierarchy and the Bargaining Economy: Government and Enterprise in the Reform Process," in *Bureaucracy, Politics, and Decision Making in Post-Mao China*, eds. Kenneth G. Lieberthal and David M. Lampton (Berkeley: University of California Press, 1992), 245-248.

⁷⁰ Jae Ho Chung, "The Politics of Policy Implementation in Post-Mao China: Central Control and Provincial Autonomy under Decentralization" (PhD diss., University of Michigan, 1993).

investigate each of these developments. Instead, the next section focuses on the development of the study of the bureaucratic politics of Chinese foreign policy.

2.3.2 The Bureaucratic Politics of Chinese Foreign Policy-Making

The development of this field has occurred in four main stages: 1) pre-1992, very limited literature; 2) 1992-2001, detailed studies of numerous foreign policy actors; 3) Post 2001, studies incorporated into many mainstream works; 4) Recent years, return to rational actor model and realism. Across all four periods, most works have observed three common trends since the beginning of reform and opening up:

- 1) Decision-making is more concentrated in foreign policy than in general domestic policy.
- 2) The number actors in foreign policy has grown dramatically. Some of these such as companies were previously domestic actors only.
- 3) The bureaucracies dealing with foreign policy have professionalised and technocratised at least until 2013. Specialisation has given them more bureaucratic clout.

The first major work was Barnett's 1985 book *The Making of Foreign Policy in China: Structure and Process*. This book took combined elements of both the elite faction model and bureaucratic politics. Barnett had already observed that although the ultimate decision-making power on foreign and domestic policies is highly concentrated among the political elite, "the basis for making major policy decisions had been considerably broadened."⁷¹

⁷¹ A. Doak Barnett, *The Making of Foreign Policy in China: Structure and Process* (Boulder, CO: Westview Press, 1985), 2-3.

Lu Ning's 1997 book *The Dynamics of Foreign-policy Decisionmaking in China* was one of the earliest examples of a volume dedicated to a single actor (referred to as "actor-centric literature" from here on). Lu was a former career Chinese foreign service officer and his work examined the role of the Ministry of Foreign Affairs (MFA) in foreign policy making. Lu's work encompasses forty years up until the mid-nineties. He examines the change in foreign policy decision-making after Deng Xiaoping came to power in 1978. Lu argues that decentralisation of power combined with the emergence of a more consensus-driven decision-making process lead to greater authority for the MFA vis-à-vis the central leadership.⁷² But at the same time other bureaucracies such as MOFCOM and had greater authority. Their power curtails that of the Ministry of Foreign Affairs. In short, the MFA remains constrained due to the growing role of other bureaucracies, not because of elite politics. Lu also noted that after 1978 the focus of foreign (and domestic) policy shifted towards economics and away from national security which strengthened the role of economic implementers.

What Lu Ning did for the MFA, Michael Swaine did for the PLA. His 1997 work *The Role of the Chinese Military in National Security Policymaking* noticed the increasing number of foreign policy actors. But he also argued that the Chinese military had not become an independent force in foreign policy decision-making, but instead remained firmly under the control of established guidelines formulated by the CPC leadership.⁷³ This is a key point for this thesis – the military remains firmly under control of the CPC leadership. As was noted at the start of this chapter, security affairs involve a comparatively smaller number of

⁷² Lu Ning, *The Dynamics of Foreign-policy Decisionmaking in China* (Boulder, Colorado: Westview Press, 1997).

⁷³ Michael D. Swaine, *The Role of the Chinese Military in National Security Policymaking*, (Santa Monica: National Defence Research Institute, Rand, 1996).

actors dealing with issues more central to the CPC's leadership legitimacy and the billiard-ball approach of classic realism applies more to security policy than foreign economic policy.

David Lampton published an FPA study of China's foreign policy in 2001 with another edited volume called *The Making of Chinese Foreign and Security Policy in the Era of Reform*. This work noted many of the trends from his works on domestic bureaucratic politics had also manifested themselves in foreign policy.⁷⁴ Lampton argued that significant decentralisation of power, professionalisation of the bureaucracies, pluralisation of actors and broader globalisation – every bureaucracy and apparatus now had some international component – had combined to weaken the role Party organs played in the foreign policy-making process.

Lampton wrote the book at the height of the CPC efforts to decentralise. From the early 2000s the Party made moves to slowly re-centralise economic and political activity. Efforts to re-centralise accelerated after 2013. The CPC used the usual tools of discipline, consistent elite attention and leading small groups. One statistic shows a microcosm of this. In 1978 government revenues represented about 35 percent of GNP which fell to 11 percent in 1995.⁷⁵ Lampton was writing in 2000. Since then, largely due to more effective taxation, government revenue as a percentage of GNI (see footnote for explanation of choice to use GNI) climbed back to 22 percent in 2016 which was mid-point between the 1990s and the 1970s.⁷⁶ So while there was a swing back of financial control to the central government, it never returned to the level of control in the 1970s.

⁷⁴ David M. Lampton, "China's Foreign and National Security Policy-Making Process: Is It Changing, and Does It Matter?" in *The Making of Chinese Foreign and Security Policy in the Era of Reform, 1978-2000*, ed. David Lampton (Stanford: Stanford University Press, 2001), 4-16.

⁷⁵ David M. Lampton, "China's Foreign and National Security Policy-Making Process," 4-16.

⁷⁶ Note GNI is used here instead of Lampton's GNP. This is simply because the Bureau of Statistics publishes historical GNI and government income stats in its annual reports, so it easier to compare over time. GNI and GNP are related statistics. When recalculated Lampton's 1999 figure of 14% for govt income as % of GNP is 12% for government income as % of GNI. The trend lines are the same

Lampton's points on globalisation, pluralisation and specialisation remain true. There are definitely more foreign policy actors now in the PRC than there were in the year 2000 and a lot of them require specialised technical knowledge to go about their business. Cheung and Tang argue that provincial Foreign Affairs Offices (FAO) have professionalised.⁷⁷ New recruits tend to be from foreign affairs universities or have training in languages and international studies or have trained in foreign universities.⁷⁸ Bates Gill argues that there is a bureaucratic "arms race" going on between the bureaucracies where each bureaucracy tries to out-specialise each other so that they can gain control. Gill points to the example of internal battles between the PLA which advocated for further nuclear warhead testing and the MFA which favoured entering into treaties and adhering to them. Both groups needed to hone their expertise to prosecute their respective views. The MFA won that battle.⁷⁹ The specialist arms race has also extended to international economic affairs. Ministry of Foreign Trade and Economic Co-operation (MOFTEC, now the Ministry of Commerce) and Ministry of Finance (MoF) both had General Agreement on Tariffs and Trade (GATT)/World Trade Organisation (WTO) divisions. MOFTEC was seen as "in the pocket" of GATT and it was one of the strongest proponents of adopting international trade norms within the bureaucracy.⁸⁰ This tied in nicely with Lu Ning's argument that Party organisations such as the Central Committee's International Liaison Department were becoming weaker compared to bureaucracies under the State Council.

for GNI and GNP and thus both can be used to make the point about government income versus total national income.

⁷⁷ Peter T.Y. Cheung and James T.H Tang, "The External Relations of China's Provinces," in *The Making of Chinese Foreign and Security Policy in the Era of Reform, 1978-2000* ed. David M. Lampton (Stanford: Stanford University Press, 2001).

⁷⁸ Peter T.Y. Cheung and James T.H Tang, "The External Relations of China's Provinces".

⁷⁹ Bates Gill, "Two Steps Forward, One Step Back: The Dynamics of Non-proliferation and Arms Control Policy Making in an Era of Reform" in *The Making of Chinese Foreign and Security Policy in the Era of Reform, 1978-2000* ed. David M. Lampton (Stanford: Stanford University Press, 2001).

⁸⁰ Margaret M. Pearson "The Case of China's Ascension to GATT/WTO," in *The Making of Chinese Foreign and Security Policy in the Era of Reform, 1978-2000* ed. David M. Lampton (Stanford: Stanford University Press, 2001).

Lampton and his co-authors' work spurred a lot of study into individual sectors, actors and projects. Chih-shian Liou, among numerous others, argued that National Oil Companies (NOCs) which were reformed in the late 1990s after the Asian Financial Crisis had dual profit-making and national welfare mandates such as stabilising the supply of petrochemical products. Key NOC assets were floated on local and international stock markets to promote profit. This gave managers a dual economic and political set of goals that were not always in alignment. In 2007, CNPC and Sinopec operations for refining imported crude oil in China operated at a loss when domestic government-controlled prices lagged behind global market prices. In the second half of 2007, as the global oil price continued to surge, CNPC and Sinopec reduced their product supply to domestic petrol stations and increased the exports of their oil products for better returns, leading to fuel rationing and private petrol stations shutting down in Guangdong Province, the centre of China's manufacturing industry.⁸¹

The above is a clear example of where the NOCs' chosen economic goals overrode national welfare goals. NOCs also drove much of the energy policy because they had both expertise and bureaucratic clout. NOCs lobbied the PRC government for overseas projects in the name of energy security even though, as of 2006, they sold two-thirds of their production on international markets.⁸² Moreover, the NOCs used cheap PRC government finance to do this. Furthermore, NOCs competed with each other. In Sudan (prior to the Sudan/South Sudan split) Sinopec and CNPC each had a minority stake in competing pipeline bids to export CNPC-produced oil from what is today South Sudan. Even after Sinopec won the bid, there was some reluctance from Eximbank to use oil futures (produced by CNPC) as

⁸¹ Chih-shian Liou "Bureaucratic Politics and Overseas Investment by Chinese State-Owned Oil Companies: Illusory Champions," *Asian Survey* 49, no. 4 (July/August 2009), 678.

⁸² Chen Shaofeng "Has China's Foreign Energy Quest Enhanced Its Energy Security?" *The China Quarterly* 207 (2011), 607.

repayment for the project. CNPC and the MFA supported the loans and ended up winning the battle.⁸³ NOCs are bureaucratically more powerful than the MFA and policy banks. A diplomat told Bo Kong in the late 2000s “Why do NOCs have to consult with us [MFA] before making their overseas investment? We do not have the money that can help them, nor do we have authority over the approvals they seek.”⁸⁴

To be sure, the central leadership had helped set the economic and welfare goals of the NOCs but the above examples show that SOPs and bureaucratic wrangling do have an impact on behaviour. Over time the entrenched vested interests of NOCs became recognised as a threat to leadership. Since Xi Jinping came to power, many of the senior leadership and bureaucrats connected to the NOCs in the Hu Jintao era have been removed in corruption purges. The author sees this as an example of central leadership power used to change the behaviour of actors. But for this thesis, road builders in Kyrgyzstan and Tajikistan do not attract the same sort of attention as NOCs in South Sudan.

The focus on FPA study of specialist areas of Chinese foreign policy extended to such topics as China’s maritime coast guard. In 2007 five Chinese authors published a Chinese language book on how to re-structure the Chinese coast guard because of bureaucratic infighting and organisational siloing.⁸⁵ Numerous derivative articles and books were published on the same topic. Foreign authors such as Lyle Goldstein eventually investigated these works and then published in English on the topic.⁸⁶

⁸³ International Crisis Group, “China’s New Courtship in South Sudan,” July 2012, <https://www.crisisgroup.org/africa/horn-africa/south-sudan/china-s-new-courtship-south-sudan>; Luke Patey, *The New Kings of Crude: China, India, and the Global Struggle for Oil in Sudan and South Sudan* (London: Hurst, 2014), 253.

⁸⁴ Bo Kong, *China’s International Petroleum Policy* (Santa Barbara, Calif.: Praeger Security International, 2010), 149.

⁸⁵ He Zhonglong, Ren Xingping, Feng Shuili, Luo Xianfen, and Liu Jinghong, *Research on the Building of the Chinese Coast Guard* [中国海岸警卫队组建 研究] (Beijing: Ocean Press, 2007).

⁸⁶ Lyle Goldstein, “Five Dragons Stirring Up the Sea Challenge and Opportunity in China’s Improving Maritime Enforcement Capabilities,” Naval War College China Maritime Studies Institute, April 2010, http://www.andrewerickson.com/wp-content/uploads/2010/05/China-Maritime-Study-5_China-Coast-Guard_Goldstein_2010-04_Color-Version.pdf

Xi Jinping and the central leadership identified bureaucratic competition as a problem in many areas related to foreign policy. Many senior PLA figures have been purged. Xi Jinping restructured the organisation of the PLA, paramilitary PAP, the maritime coast guard and Chinese aid. But most of these only came into effect towards the end or even after the cut-off date for this thesis. Sulmaan Waseef Khan notes that Xi Jinping has moved decision-making power back into Party organisations and away from the bureaucracies. This has made everyone less secure. Even senior ranks of the PLA are not safe: Xu Caihou, Gao Xiaoyan, Guo Zhenggang all fell to corruption purges.⁸⁷ Timothy Heath rightfully notes that the precursors for this strengthening actually occurred in the final years of the Hu Jintao era.⁸⁸ Elizabeth Economy sums the trend up succinctly:⁸⁹

China's economic and foreign policy triumphs notwithstanding, by the time of Xi's ascension to power, there was also a growing sense within the country that significant contradictions had emerged in the political and economic life of China. The Communist Party had lost its ideological rationale and, for many of its more than 80 million members, the party served as little more than a stepping-stone for personal political and economic advancement.

Arthur Kroeber, writing just before Xi Jinping came to power, describes the difficulty of pinpointing the balance between state-centric rational actor thinking and actor interests with regard to one of the key implementers of China's overseas foreign policy, State owned enterprises (SOEs). He writes:⁹⁰

Yet despite the density of ties binding together SOEs, the government and the Party, it is hard to show that SOEs simply follow orders from above. Like big firms in other countries, SOEs pursue their own commercial objectives, which may or may not be consistent with the state aims.

⁸⁷ Sulmaan Waseef Khan, *Haunted by Chaos: China's Grand Strategy from Mao Zedong to Xi Jinping* (Cambridge, Massachusetts: Harvard University Press, 2018), 209-214.

⁸⁸ Timothy Heath, *China's New Governing Party Paradigm*, 18-40.

⁸⁹ Elizabeth C. Economy, *The Third Revolution* (New York: Oxford University Press, 2018), 8.

⁹⁰ Arthur R. Kroeber, *China's Economy: What Everyone Needs to Know* (New York: Oxford University Press, 2016), location 1817.

Hongyi Lai and Su-Jeong Kang in 2016 focused on the battle for control between bureaucracies – MOFCOM and the MFA for control of economic policy – and between Party organs and bureaucracies, noting that even in 2016 the bureaucracies had significant power. Like Kroeber, they noticed elements of both coordination and friction.⁹¹

If we draw all that information into one paragraph, in the first few decades after Mao's death, decentralisation and huge transfers of wealth to the private sector created powerful vested interests that, although still loyal to the CPC, had economic goals that did not always match the CPC's. This was in addition to the pluralisation of foreign policy and globalisation, which created a lot of new foreign policy actors. In recent years, the CPC has tried to re-establish control using the same tactics that Lampton identified in 1987 – discipline (anti-corruption), Central Committee-led leading small groups and control of personnel organisation. The tools have barely changed. For this thesis, the argument is that the central leadership can re-establish control at any time but it has limited attention.

There are numerous critiques of FPA as a framework for the study of Chinese foreign policy. Offensive realism is one of the key competing theories. Chief among them is John Mearsheimer's 2014 updated version of *The Tragedy of Great Power Politics*. In this he uses offensive realism to describe the rise of the PRC. Offensive realism assumes that states are the main actors in international relations and that they seek to maximise their power. Mearsheimer argues that if the PRC continues to grow it will seek to dominate Asia in the way the US has dominated the western hemisphere and that subnational actors will not change this.⁹² In 2012, Hugh White argued that the US and PRC needed to come to a power

⁹¹ Hongyi Lai & Su-Jeong Kang Domestic Bureaucratic Politics and Chinese Foreign Policy, *Journal of Contemporary China* 86, no. 23 (2014), 294-313, DOI: 10.1080/10670564.2013.832531.

⁹² John J. Mearsheimer, *The Tragedy of Great Power Politics* Updated Edition (New York: Norton, 2001); Avery Goldstein, *Rising to the Challenge. China's Grand Strategy and International Security* (Stanford: Stanford University Press, 2005).

sharing arrangement, otherwise the countries could head to war.⁹³ He has since added in a 2017 article that the US will steadily cede relative power to China in Asia and countries like Australia need to plan for a future without US support.⁹⁴ All of these works make the nations the key players.

Inside China, the debate between FPA and realism is framed differently. Numerous leading Chinese foreign policy academics acknowledge the existence of bureaucratic fights and organisational silos in a country as large as China.⁹⁵ Zha Daojiong alongside Linda Jakobson has written on the role of how self-interest drove NOCs to internationalise.⁹⁶ While acknowledging bureaucratic constraints, these academics devote much of their time to studies at the national level – what China should do in response to the challenges it faces internationally. For example, Wang Jisi published “March to the West” in 2012 which suggest rebalancing some of the PRC’s attention to the Eurasian heartland. This has been seen as an intellectual driver of the BRI.⁹⁷ Wang Yizhou began developing his theory of “creative involvement” in a series of books first published in the early 2010s on how China can become involved in the politics of other countries to protect China’s interest without breaking its traditional policy of non-interference.⁹⁸ These ideas have been adopted in one form or another by Xi Jinping and the senior CPC leadership.

⁹³ Hugh White, “Power Shift: Australia's Future between Washington and Beijing,” *Quarterly Essay*, August 2010, <https://www.quarterlyessay.com.au/essay/2017/11/without-america>.

⁹⁴ Hugh White, “Without America: Australia in the New Asia.”

⁹⁵ For example, Xue Li and Xu Yanzhuo, “The problems with China’s Foreign Policy Bureaucracy,” *The Diplomat*, 17 April 2015, <https://thediplomat.com/2015/04/the-problems-with-chinas-foreign-policy-bureaucracy/>.

⁹⁶ Linda Jakobson and Zha Daojiong, “China and the Worldwide Search for Oil Security,” *Asia-Pacific Review* 13, no 2 (2006), 60-73.

⁹⁷ Wang Jisi, “March to the West’: The Rebalancing of China's Geostrategy”[西进:中国地缘战略的再平衡], *International and Strategic Report*, no 73 (2012): 8.

⁹⁸ Wang Yizhou, *Creative Involvement: The Evolution of China's Global Role* [创造性介入:中国之全球角色的生成] (Beijing: Peking University Press, 2013).

Avery Goldstein contends that actor-based analysis fails to consider the PRC political structure which he sees as the most important variable in understanding the PRC's foreign policy decisions.⁹⁹ He argues that each generation of scholars have needed new explanations to justify using the FPA as a model, something that Goldstein describes as reductionist.¹⁰⁰ He has a point. Others advocating similar views include Alistair Iain Johnston and Lowell Dittmer.¹⁰¹ Those who advocate for the bureaucratic politics/organisational process model also note its limits – Lampton recognises that the central bureaucracy was able to achieve many of its aims. But there is a middle path for this thesis, which contends that actions in Kyrgyzstan and Tajikistan fall below the level of great power competition. When the central leadership do pay attention to an issue, sub-national actors have significant levers of control at their disposal.

The theoretical works discussed above, both realist and FPA, have had a significant impact on the broader debate on Chinese foreign policy. Many works that do not seek to reinvent fundamental foreign policy theory, merely adopt one or the other. Or sometimes elements of both. For example, William Norris's work on economic statecraft based its theoretical assumptions on Avery Goldstein's realist assessment of PRC foreign policy planning, but he argued that during implementation the interests of individual organisations would disrupt those plans.¹⁰² Susan Shirk's 2008 book *China Fragile Superpower* is a good example of the mixed approach. It highlighted the goals and ambitions of the central

⁹⁹ Avery Goldstein, *Rising to the Challenge. China's Grand Strategy and International Security*, (Stanford, Stanford University Press, 2005); Avery Goldstein, *From Bandwagon to Balance-of-Power Politics: Structural Constraints and Politics in China, 1949-1978* (Stanford, Stanford University Press, 2005).

¹⁰⁰ Avery Goldstein, *Explaining Politics in the People's Republic of China: The Structural Alternative*, *Comparative Politics* 22, No. 3 (April 1990), 301.

¹⁰¹ Alastair Iain Johnston, *Cultural Realism Strategic Culture and Grand Strategy in Chinese History* (Princeton, Princeton University Press, 1995).

¹⁰² William Norris, "Economic statecraft with Chinese characteristics: The Use of Commercial Actors in China's Grand Strategy," (PhD diss., Massachusetts Institute of Technology, 2010).

leadership and their clear ability to impact change but at the same time Shirk argued the regime remained constrained by the interests of domestic groups, including fear of how they could cause regime insecurity.¹⁰³ David Shambaugh's 2013 book *China Goes Global: The Partial Power* is more at the realist end of the spectrum arguing that the central leadership is pushing for the country to be more powerful globally but there is a recognition of the limitation of China's power abroad and its capacity to completely to compel all domestic actors to behave as the Chinese government would like.¹⁰⁴ Since Xi Jinping came to power, an increasing number of academic works gravitate towards the realist end of the spectrum (either implicitly or explicitly), which reflects growing authoritarianism under Xi's leadership. Elizabeth Economy's 2018 book *The Third Revolution: Xi Jinping and the New Chinese State* argues "a more authoritarian system at home and a more ambitious foreign policy abroad."¹⁰⁵

The next section examines the China in Central Asia literature. Commentators have rarely considered SOPs of the implementers as an explanatory factor for PRC behaviour in Central Asia and in Kyrgyzstan/Tajikistan. This thesis seeks to tie into the aforementioned literature, particularly Lieberthal's fragmented authoritarianism concept, and use that as an explanatory model for PRC behaviour in Kyrgyzstan and Tajikistan.

2.4. China in Central Asia

The main works that explore the impact of PRC organisational and bureaucratic process in Central Asia are broader studies on Chinese foreign policy that devote sections to Central Asia. Zhou Qi's PhD dissertation on the bureaucratic politics of PRC foreign policy

¹⁰³ Susan L. Shirk, *China: Fragile Superpower: How China's Internal Politics Could Derail Its Peaceful Rise* (New York, Oxford University Press, 2008).

¹⁰⁴ David Shambaugh, *China Goes Global: The Partial Power*, (New York: Oxford University Press, 2012).

¹⁰⁵ Elizabeth C. Economy, *The Third Revolution*, 8.

has a section on the PRC's early loans to Central Asian states. Zhou, previously a long-serving MFA official, argued this was one of the cases where senior politicians stepped in to override normal bureaucratic process but they still faced some organisational difficulties.¹⁰⁶ Hu Jintao first announced that the PRC would offer USD 900 million in loans to SCO members in 2004. No recipient state took up the offer. Even with improved terms in 2005, the offer remained unclaimed. Tajikistan entered into loan deals in 2006 on different terms. Zhou notes that the Sinohydro Corporation was awarded a contract to build a large hydropower plant in Yavan on the Zerafshan River in the Panjakent district of northern Tajikistan. That project was never constructed nor funded. This in a nutshell shows how there are times when senior leadership steps in but there are many occasions where organisational procedures and recipient states' actions are the norm. This thesis demonstrates in the government loans chapter (Chapter 3) that after the initial 2006 burst of loan activity, PRC banks largely did not lend to Tajikistan and this seems to be a choice of the banks because of repayment concerns. In other words, they operated according to their SOPs.

Erica Downs' 2011 Brookings Institute analysis on China Inc. has a section dedicated to Turkmenistan and Central Asian oil and gas pipelines. She argues that projects needed to meet both national interest goals as well as profitability. In the case of Turkmenistan this was possible because global gas prices were at record highs for most of the period of 2006 to 2010 when CNPC constructed lines A and B of the Turkmenistan-PRC gas pipeline project.¹⁰⁷ Line C opened in 2014.

Sebastien Peyrouse's and Marlene Laruelle's 2012 book *The Chinese Question in Central Asia: Domestic Order, Social Change and the Chinese Factor* takes a two-pronged

¹⁰⁶ Zhou Qi, "Organisation, Structure and Image in the Making of Chinese Foreign Policy," 336-338.

¹⁰⁷ Erica Downs, "Inside China, Inc: China Development Bank's Cross-Border Energy Deals Brookings," March 2011, https://www.brookings.edu/wp-content/uploads/2016/06/0321_china_energy_downs.pdf.

approach to the PRC in Central Asia. The first is a study of PRC interests in the region. It does not contain an explicit theoretical approach but it mainly draws on a realist approach with the state as the key actor but references to the interests of sub-state actors. It works its way through the key interests – border demarcation, the pre-2012 Uyghur issue, access to hydrocarbons and trade among others.¹⁰⁸ The other approach is looking at the PRC from the view of Central Asia. The authors assign significant agency to recipient states. They argue that Central Asian states have a keen interest in a greater PRC role in the region to balance Russia and the US. Essentially, the more the merrier. This is called multi-vector diplomacy in some countries. Globally, many small to medium size countries practice this form of diplomacy. One key criticism of the book is that it did not draw on Chinese language resources. That is a common criticism of many monographs in this area until very recently.

There is a debate over the level of agency of recipient states. One group argues that Beijing practices a highly coercive form of offensive realism which diminishes Central Asian state agency. As Alexander Cooley notes, Stephen Blank, Fred Starr and Joseph Cheung all tend to argue along the David Lake hierarchies line that “in international relationships characterised by hierarchy or acute power symmetries, subordinate states typically cede some elements of their policymaking and sovereignty to a patron, while recognizing the stronger state’s authority”.¹⁰⁹ For example, Blank opines that China uses both a carrot and stick approach which focuses on “rising power, presence and influence”.¹¹⁰

¹⁰⁸ Marlène Laruelle and Sébastien Peyrouse, *The Chinese Question in Central Asia: Domestic Order, Social Change and the Chinese Factor* (London: Hurst & Company, 2012).

¹⁰⁹ This point is made by Alexander Cooley, see Alexander Cooley, *Local Rules: The New Great Power Contest in Central Asia*. (New York: Oxford University Press, 2012), 11.

¹¹⁰ Stephen J. Blank, “Dragon Rising: Chinese Policy in Central Asia,” *American Foreign Policy Interests* 33, no 6 (2011), 261-272.

The counter to this is Alexander Cooley's 2012 book *Great Games, Local Rules: The New Great Power Contest in Central Asia*.¹¹¹ He contends the major powers in Central Asia (PRC, Russia, USA) have been able to pursue their own interests with relatively minor friction and conflict. For example, US bases in Kyrgyzstan were a source of annoyance for Russia but it did not stop Russia pursuing its own interests.¹¹² Cooley makes the natural extension that these Central Asian states maximise their own benefit because of the multiple major powers in three ways:¹¹³

- Central Asian leaders played external powers off against each other to extract material benefit.
- Engagement by multiple patrons has allowed Central Asian governments to pare down or ignore external demands that they deem unpalatable.
- Central Asian states have used norms and justifications provided by foreign powers to guard and support their own political practices.

As was outlined in the introduction, this thesis argues that recipient states and actors in recipient states do have leverage. One example of many throughout this thesis is the performance of PRC investments in Kyrgyzstan. Every single major PRC investor in Kyrgyzstan has faced significant and frequent protests which caused the companies to change their behaviour in the form of hiring more locals. PRC officials were unable or unwilling to use their leverage to stop the protests.

This also highlights that many of the interactions between Kyrgyzstan/Tajikistan and the PRC actually happens between recipient state governments and implementers, such as

¹¹¹ Alexander Cooley, *Local Rules*, 9.

¹¹² Alexander Cooley, *Local Rules*, 9.

¹¹³ Alexander Cooley, *Local Rules*, 9.

companies. It is usually the company working together with recipient governments that end up devising projects. As was stated in the introduction, the Tajikistan and Kyrgyzstan governments gain much of their leverage from discussions with companies and banks that operate according to a set of SOPs.

Separate to the local agency debate is the literature on Eurasian Regionalism and Beijing's role in tying the region together and to Beijing. Those who argue Beijing is successfully pursuing a regionalist agenda point to pipelines, the SCO, multilateral military exercises and the like. It is often framed in a realist theoretical framework of vassalisation and geopolitics.¹¹⁴ Others, such as Laruelle and Peyrouse point out that almost all of Beijing's cooperation happens bilaterally.¹¹⁵ As to how this thesis relates to regionalism, it recognises Beijing promulgates a policy of connectivity in Central Asia. This was first under the banner of the "Developing the West" policy and then later the Belt and Road Initiative. The PRC has actively participated in other connectivity projects such as the Asia Development Bank's Central Asia Regional Economic Cooperation (CAREC) Program. Hard infrastructure and the economic weight of the PRC has re-centred the region economically towards the PRC. However, true regional connectivity between 2006 and 2016 was prevented by intra-Central Asian animosity. For example, as roads improved, transit times barely changed because of border bottlenecks and informal barriers.¹¹⁶ The PRC has been unable to overcome such barriers. Promulgating a policy and actually implementing a policy are two different things.

¹¹⁴ Michael Clarke, "China and the Shanghai Cooperation Organization: The Dynamics of 'New Regionalism', 'Vassalization', and Geopolitics in Central Asia in *The New Central Asia: The Regional Impact of International Actors*, ed. Emilian Kavalski (Sydney, Australia: World Scientific, 2010), 117–147.

¹¹⁵ Marlène Laruelle and Sébastien Peyrouse, *The Chinese Question in Central Asia*, 30-48.

¹¹⁶ Alexander Cooley, "The Emerging Political Economy of OBOR," Centre for Strategic and International Studies, October 2016, https://csis-prod.s3.amazonaws.com/s3fs-public/publication/161021_Cooley_OBOR_Web.pdf.

2.5 Conclusion

This thesis draws on a longstanding theoretical framework of organisational process which has been applied to PRC foreign policy generally but almost never to the PRC's interactions with Central Asia. The specific framework is based on Lieberthal's fragmented authoritarianism – a recognition that the central leadership has the power to step in and compel change but that when this does not happen, bureaucratic politics and organisation processes are key for foreign policy decision-making. This is even more so at the level of implementation. This framework is applied to “policy implementers” at the country level in Kyrgyzstan and Tajikistan, namely companies, banks, economic ministries and security agencies. As was noted in the introduction, security agencies operate with greater central leadership oversight and there are fewer security organisations, so the level of fragmentation is far lower. All this is complemented by significant agency exercised by the Tajikistan and Kyrgyzstan governments as well specific political actors in those systems.

At an empirical level, this thesis draws on vast quantities of Chinese language material that has not been used in extant foreign policy analysis of China's role in Central Asia. These sources are augmented with Russian language material and interviews with Chinese business people and local government officials in Central Asia.

Chapter 3 PRC Government Loans to Tajikistan and Kyrgyzstan

3.1 Overview

Chapters 3, 4 (trade) and 5 (investment) deal with the economic aspects of Chinese foreign policy. Undoubtedly the PRC's economic footprint in Central Asia grew dramatically between 2006 and 2016. The PRC became the largest trader, lending source and one of the largest investors in both Kyrgyzstan and Tajikistan during that period. The mainstream view of the PRC's economic growth and its strategic plan can be summed up by John Copper:¹

China's 'grand plan' [is] to link Central Asia to not only China's West and bring prosperity to both and thereby maintain stability there, but to connect Central Asia via roads, railroads, and pipelines to Northeast Asia, Southeast Asia, South Asia, the Middle East, and Europe and help realize China's global ambitions.

Trade and investment will be dealt with in subsequent chapters. For concessional loans, it is true that the PRC has a policy of trying to connect the region while also attempting to make countries such as Kyrgyzstan and Tajikistan more amenable to the PRC's rise by increasing their economic reliance on China. This is an intentional policy. In a 2009 speech, Hu called for updating guidance regarding the periphery to "construct geopolitical strategic dependence."²

But in reality, the amount of physical linkage between the PRC and Tajikistan or Kyrgyzstan is still pretty limited. So far, the PRC has only funded 46 km of rail in both countries. This track is not connected to the rest of Central Asia's rail network. In Tajikistan, all the major PRC-funded road projects either head away from or are parallel to the Chinese border. In Kyrgyzstan, PRC funds have improved roads to the PRC border. The most expensive project is the alternate road between Bishkek and Osh. This will not provide trade benefits to the PRC. Moreover, PRC lending to Tajikistan peaked in 2008 and has been

¹ John Copper, *China's Foreign Aid and Investment Diplomacy, Volume II: History and Practice in Asia 1950-Present* (Palgrave Macmillan US, 2016), 126.

² Cited in Timothy Heath, "What Does China Want? Discerning the PRC's National Strategy," *Asian Security* 8, no. 1 (2012), 60.

minimal since 2011³. On the other hand, major PRC lending to Kyrgyzstan did not start until 2010.⁴ This suggests factors other than national interest in the form of the grand plan mentioned by Copper and others are present. This thesis suggests that individual actors have their own interests.

All Chinese economic actors in Kyrgyzstan and Tajikistan rely on the CPC. This raises the question of the alignment between Chinese institutional interests and Chinese state interests. They are rarely in direct conflict. Eximbank would not intentionally finance a project which harms China's image such as a dam that exacerbates tensions between Central Asian states. But, at the same time, maximising China's strategic objectives is not the primary institutional goal. For example, Eximbank does not seem concerned with whether new roads in Central Asia will link to China. This allows the recipient government to have significant, if not decisive, influence on project selection and design. In short, for any project that is not directly in conflict with China's vaguely defined national interest (which is almost every conceivable project), institutional interests and the interests of the recipient state (not China's national interest) will be the key factor in determining the viability of the project.

As outlined in the introduction and the literature review, Chinese interests in Kyrgyzstan and Tajikistan between 2006 and 2016 were quite similar – China wanted a politically and socially stable, prosperous Kyrgyzstan and Tajikistan which was (is) fairly amenable to China's rise. Moreover, as previously outlined, the countries are at similar levels of development, have similar geographical size and populations, are geographically proximate and share a similar history.

³ “Ministry of Finance of the Republic of Tajikistan Report on the State of Public Debt for 2018” [Министерство финансов Республики Таджикистан отчет о состоянии государственного долга за 2018 год], Ministry of Finance (Tajikistan), 2018, 24–26

⁴ “The Structure of the National Debt of the Kyrgyz Republic as of 31 October 2018” [Структура госдолга Кыргызской Республики по состоянию на 31 октября 2018 года], Ministry of Finance (Kyrgyzstan), 7 December 2018, <http://www.minfin.gov.kg/ru/novosti/novosti/struktura-gosdolga-kyrgyzskoy-respubliki-po-sostoy5319>.

Concessional financing is one of the main tools China uses to achieve its goals overseas. The PRC government made declarations in 2004, 2005 and 2006 at the SCO that it was proposing to lend money to Central Asian states for infrastructure. Both Kyrgyzstan and Tajikistan needed the finance. Yet, data in this chapter shows that disbursement of Chinese concessional loans in Kyrgyzstan and Tajikistan have followed different trajectories. In Tajikistan loan disbursement began in 2006 and grew very quickly. Disbursements peaked in 2008 and have largely declined since. The pattern of disbursements is rather different in Kyrgyzstan. China's concessional loans to Kyrgyzstan began in the early 2000s but remained at very low levels until 2010 (when concessional loans to Tajikistan were beginning to decline).⁵ Between 2010 and 2014, Chinese concessional loan disbursements to Kyrgyzstan grew rapidly and have since levelled off.⁶

This chapter argues that the institutional interests of four key institutional actors play a significant role in determining the shape and size of China's concessional loans in Kyrgyzstan and Tajikistan. The four key actors are: the governments of the recipient states, the Chinese companies that implement the projects, Eximbank and the Ministry of Commerce (MOFCOM).

The Kyrgyz and Tajik governments actually have a significant say in which projects are financed by the Chinese side. Usually projects are proposed by Tajik or Kyrgyz government departments. Mostly, these were not new projects that the Chinese side had suggested themselves. Most of the projects (there are exceptions) which have been funded by Eximbank had been proposed for years before the PRC began lending to Kyrgyzstan and

⁵ "Ministry of Finance of the Republic of Tajikistan Report on the State of Public Debt for 2018" [Министерство финансов Республики Таджикистан отчет о состоянии государственного долга за 2018 год], Ministry of Finance (Tajikistan), 2018, 24–26.

⁶ "The Structure of the National Debt of the Kyrgyz Republic as of 31 October 2018" [Структура госдолга Кыргызской Республики по состоянию на 31 октября 2018 года], Ministry of Finance (Kyrgyzstan), 7 December 2018, <http://www.minfin.gov.kg/ru/novosti/novosti/struktura-gosdolga-kyrgyzskoy-respubliki-po-sostoy5319>.

Tajikistan. So, while China is not creating projects on its own, Eximbank chooses projects that suit its preferences from a group of potential projects pre-defined by recipient states. There are numerous factors in project choice. Repayment capacity is an issue for both sides. For example, the China-Kyrgyzstan-Uzbekistan railway has been discussed for over two decades. One of the major sticking points is how the loans for such an expensive project would be repaid.

Eximbank is the main financier for Chinese concessional loans in both countries. Eximbank, alongside China Development Bank (CDB) and the Agricultural Development Bank of China (ADBC) is one of three government policy banks. They were set up by the PRC State Council in 1994. Eximbank is “dedicated to supporting China’s foreign trade, investment and international economic cooperation.”⁷

Eximbank is not limited to concessional financing; its commercial lending operations are much bigger than its concessional lending operations. The bank has an awkward double mission. On the one hand, it helps China’s companies export or operate abroad. PRC contractors build all the projects it funds abroad, and the majority of project inputs also come from the PRC. At the same time Eximbank is expected to break even as a bank, so it cannot fund too many non-performing loans. There are no published guidelines for how it conducts debt sustainability assessments. Numerous countries throughout the world face debt pressure from Eximbank loans. But its operations in Kyrgyzstan and Tajikistan indicate that debt repayment is a concern that shapes behaviour in the bank. Evidence presented in this chapter suggests that Eximbank refused to lend money to Tajikistan’s government for stage one of the Dushanbe coal power plant. The Chinese side also sought repayment guarantees in the form of mineral deposits for the PRC-Kyrgyzstan-Uzbekistan railway, a term that Kyrgyzstan

⁷ “About the Bank,” China Eximbank, last accessed 11 June 2019, <http://english.eximbank.gov.cn/Profile/AboutTB/Introduction/>.

rejected. But when there is an important event such as the 2006, 2010 and 2014 SCO summits, or Xi Jinping's 2013 visit to Central Asia where he announced the Belt and Road Initiative (BRI) and the subsequent 2014 SCO summit, political goals outweigh individual actor interests. In fact, almost every single major loan to Kyrgyzstan and Tajikistan was announced during these events.

Chinese companies are primarily interested in getting projects to the construction phase. The two main Chinese contractors on Chinese-funded projects in both countries – China Road and Bridge Corporation (CRBC) and Tebian Electric Appliances (TBEA) – have worked very closely with recipient states' politicians and government departments to initiate and develop projects that stand a good chance of receiving financing. They have close links with senior leadership in both countries.

MOFCOM is charged with furthering the PRC's economic interests abroad. This includes warnings to companies about how to avoid pitfalls overseas. MOFCOM publishes many documents on due diligence, best practice, political risk and security of projects. One such document is the *Risk Warning and Information System for the Safety of China's Outbound Investment and Cooperation*.⁸ On the issue of concessional loan financing, MOFCOM departments finance the concessional part (the difference between Eximbank's cost of financing and concessional rate offered in the loan) of Eximbank loans. MOFCOM has a limited concessional loan budget that needs to be split between projects from around the world.

Returning to the literature discussed in the previous chapter, this is an organisational process model of decision-making. The various institutions make decisions using standard

⁸ Roman Tomasic and Ping Xiong, "Resource Security and Corporate Social Responsibility Norms in the Governance of Globally Active Chinese State Owned Enterprises," in *Resource Security and Governance*, eds. Xinting Jia and Roman Tomasic (Routledge, New York, 2017), accessed via SSRN, see https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3155020.

operating procedures (SOPs), such as Eximbank's standardised evaluation of projects which is outlined later in this chapter. The SOPs are based on the institutional missions such as boosting PRC companies overseas while also not taking on too much bad debt (Eximbank), maximising profit (Chinese companies) and financing the concessional part of as many Eximbank loans as possible (MOFCOM). In regard to the narrow topic of concessional loans, the broader interest manifests itself in spending the concessional loan budget on as many "well-designed projects" as possible.⁹ Institutional feasibility, not national interest, mostly determines whether these projects proceed to implementation.

Tyrene White argues in a domestic Chinese policy context, for the central government to successfully implement its agenda sustained elite attention is needed over an extended period of time.¹⁰ This chapter presents a similar argument. It contends that there are occasions where top-level leadership interests trump the key actors' institutional interests. But this is the exception rather than the rule, and it only tends to happen when there is sustained political attention from top-level Chinese leadership. For small countries like Kyrgyzstan and Tajikistan, these moments of intervention are few and far between. More specifically, political pressure from the Chinese central leadership has on two occasions only (2006 and 2014) altered the normal institutional decision-making process, particularly in Tajikistan.

This chapter is divided into four sections. The first section details the total value of Chinese concessional loans issued in Kyrgyzstan and Tajikistan and what projects have been financed by those loans. The second section introduces the role each actor plays in the

⁹ Interview with a researcher at the China Association of International Engineering Consultants which is a think-tank attached to MOFCOM in Beijing, June 2017.

¹⁰ Tyrene White, "Implementing the 'One-Child-Per-Couple' Population Program in Rural China: National Goals and Local Politics," in *Policy Implementation in Post-Mao China*, ed. David M Lampton (Berkeley: University of California Press, 1987).

Chinese concessional loan system. It also explains in detail the process of applying for a Chinese concessional loan. The third section examines the behaviour of those actors in Kyrgyzstan and Tajikistan. In the final section, the chapter explores two in-depth case studies – a combined heat and power plant in Tajikistan and a railway in Kyrgyzstan. These cases were chosen because they allow for an exploration of the role of each actor in those projects.

3.2 Chinese Concessional Loans to Kyrgyzstan and Tajikistan: How Much?

This section details how much China has loaned to the governments of Kyrgyzstan and Tajikistan. This chapter only focuses on intergovernmental lending. Loans to companies are included in the investment chapter (Chapter 5). This section first introduces the data sources used to measure Chinese lending. It then examines Chinese loans to Tajikistan and then Kyrgyzstan. Finally, it compares the differences between loans to Kyrgyzstan and Tajikistan.

3.2.1 Chinese Concessional Loan Data

China Eximbank provides the vast majority of Chinese concessional loans to the Tajik and Kyrgyz governments, so this chapter only considers loans from Eximbank. Eximbank does not yet provide country-by-country breakdowns of loans issued. The data sources used in this chapter are from the recipient governments. This data has not been collated previously in any major English language publication on China's involvement in Central Asia.

Data Sources for Tajikistan

For Tajikistan, data for this chapter is extracted from the annual *Foreign Aid Review* jointly published by the State Committee on Investments and State Property Management of the Republic of Tajikistan (SCISPM) and the United Nations Development Programme (UNDP). This report details the annual disbursements of major bilateral and multilateral aid donors in Tajikistan since 2001. The *Foreign Aid Review* gives its disbursement figures

purely in gross terms of payments from Chinese financiers to the Tajik government and does not consider repayments (e.g. disbursements minus repayments) in its figures. The Tajikistan Ministry of Finance also releases annual reports on Tajikistan's external public debt. This gives details on debt-to-GDP ratios and debt servicing among many other analytical tools. These are used later in the chapter.

Data Sources for Kyrgyzstan

In Kyrgyzstan, data is extracted from the Kyrgyzstan Ministry of Finance. The MoF releases quarterly reports on Kyrgyzstan's external public debt. The reports break down debt by source country or institution. The Kyrgyz MoF data shows annual net disbursements, subtracting annual debt repayments from annual disbursements.. As with the Tajik MoF reports, the Kyrgyz reports provide a suite of indicators on Kyrgyzstan's debt repayment capacity. These are also used later in the chapter.

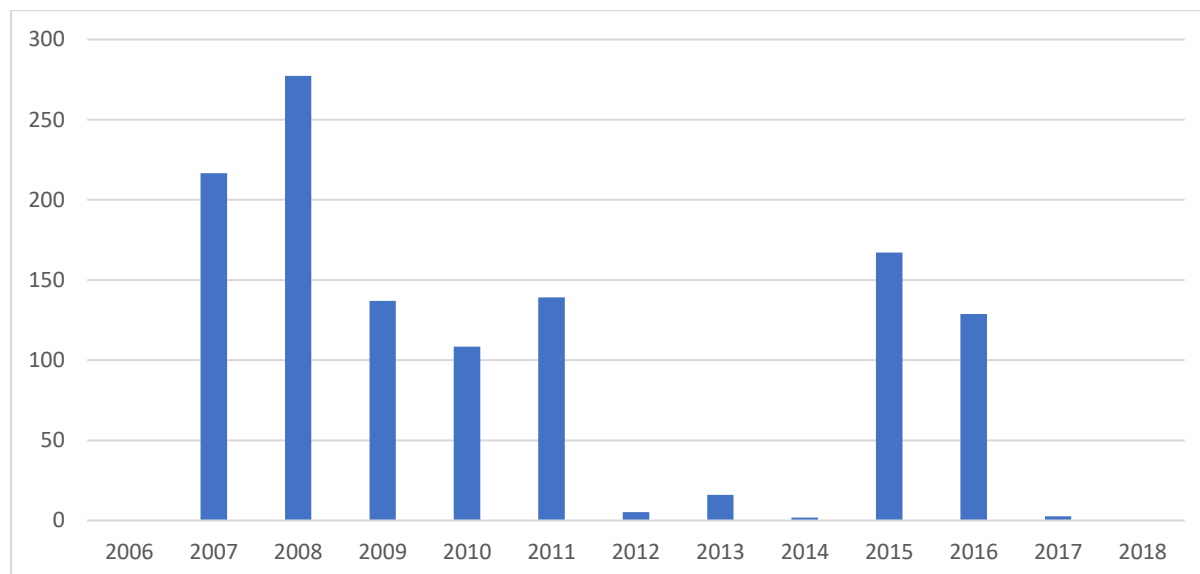
3.2.2 Disbursement of Chinese Concessional Loans to Tajikistan

Prior to 2007 Eximbank did not lend money to Tajikistan. From 2007 Eximbank provided concessional loan disbursements to Tajikistan and these grew very quickly. Eximbank loans to Tajikistan were over USD 200 million in 2007 and then peaked at USD 277 million in 2008.¹¹ After 2008, disbursements tapered off significantly. There was a rebound in 2015 but this was primarily because of a single project – the second stage of a combined electricity and thermal heating plant which is one of the case studies of this chapter. The declining disbursements disprove a popular narrative that Chinese loans, or

¹¹ “Ministry of Finance of the Republic of Tajikistan Report on the State of Public Debt for 2018” [Министерство финансов Республики Таджикистан отчет о состоянии государственного долга за 2018 год], Ministry of Finance (Tajikistan), 2018, 24–26.

indeed economic involvement, in Tajikistan, Kyrgyzstan and Central Asia is continuously growing.¹²

Figure 3.1 Annual Net Eximbank Disbursements to Tajikistan (USD Million)



Source: “Ministry of Finance of the Republic of Tajikistan Report on the State of Public Debt for 2018” [Министерство финансов Республики Таджикистан отчет о состоянии государственного долга за 2018 год], Ministry of Finance (Tajikistan), 2018, 24–26.

The loans have mainly been used to construct roads and power infrastructure. As spending has declined since 2011, Eximbank funding for transportation in Tajikistan has almost completely stopped. In 2015 (the last year with major disbursements), USD 146 million of the USD 148 million was provided to the power sector.¹³ Table 3.1 below outlines the major projects funded Eximbank in Tajikistan. As the table shows, there has been no financing of major roads since 2013. The single railway built in that period, the Vakhdat-Yovon railway, is only 46 km long and not a particularly costly project. Information for the

¹² In academic literature see Stephen J. Blank, “Dragon Rising: Chinese Policy in Central Asia,” *American Foreign Policy Interests* 33, no. 6 (2011), 261–272, <http://dx.doi.org/10.1080/10803920.2011.632302>; In popular media, for example see Jack Farchy, “China’s Great Game: In Russia’s backyard,” *The Financial Times*, 15 October 2015, <https://www.ft.com/content/d35d34ca-6e70-11e5-aca9-d87542bf8673>.

¹³ State Committee on Investments and State Property Management of the Republic of Tajikistan, *2015 Foreign Aid Report*, December 2016, 70.

table below was drawn from the Eximbank website, Tajik government websites, company websites and media reports.

Table 3.1 Major Eximbank Financed Projects in Tajikistan

Project	Construction Dates	Main Contractor	Financing notes
Tajikistan 220kV & 500kV Power Transmission and Transformation	2006-2009	TBEA	USD 340 million contract for TBEA. Eximbank Preferential Buyers Credits of USD 323 million (Two tranches of 270 and 53). Tajik government USD 17 million. Contract signed 2006.
Rehabilitation of Dushanbe–Chanak Road	2007-2012	CRBC	Eximbank Preferential Buyers Credits of USD 281 million + USD 14 million from Tajik government. Contract signed 2006.
Rehabilitation of the Dushanbe-Dangara section of the Dushanbe–Kulma Road	2009-2013	CRBC	Eximbank Preferential Buyers Credits of USD 151 million. Contract signed 2009.
Khujand-Ayni power grid	2010-2011	TBEA	Eximbank Preferential Buyers Credits of USD 36.9 million. Contract signed 2010.
46.3-kilometre Vakhdat-Yovon Railway (connecting Dushanbe, Vakhdat, Yovon and Qurgonteppa)	2014-2016	China Railway Construction Corporation 19th Division	Eximbank Preferential Buyers Credits of USD 68 million. Contract signed in 2014.
Dushanbe Thermal Heating Plant Phase 2	2014-2016	TBEA	Eximbank Preferential Buyers Credit of USD 331 million for phase 2. Phase 1 was funded by an Eximbank loan issued directly to TBEA. Contract signed 2014.
Talco Aluminium Plant upgrades	2015-2017	China National Heavy Machinery Corporation	Total Project value USD 126 million. Eximbank Preferential Buyers Credit of USD 88.5 million. Remainder from Talco. Contract signed 2014.

Table 3.1 demonstrates the majority of the large contracts were signed in 2006 and 2014. These coincide with two major pushes by PRC leaders to promote loans to SCO

countries. Prior to 2006, Hu Jintao had been trying for a couple of years to get SCO states to take loans from Eximbank. 2014 was the year after BRI was announced and in that year Dushanbe hosted the SCO Leadership Summit.

The gas pipeline, Line D, which was announced in 2013 is not included here because it is not funded, as far as the author can tell, by intergovernmental loans.¹⁴ There is conflicting data about the financing of this project. It is a joint venture between Tajiktransgaz and a subsidiary of CNPC. The joint venture was registered in Hong Kong in 2014 for the building of the project.¹⁵ In 2014 the Tajikistan government had taken out a USD 300 million dollar loan at 2.7 percent interest from CNPC Finance (a subsidiary of CNPC) in Hong Kong to be paid back over 26 years with the rest to be funded by CNPC, according to the President of Tajiktransgaz, Saidakhmad Shamsiddinzoda.¹⁶ He also said that the total cost of the project is USD 3.2 billion for the approximately 400 kilometre-long Tajik section (thus costing USD 8 million per kilometre). According to that price structure, CNPC is directly financing USD 2.9 billion (over 90 percent) of the project through investment and the remainder indirectly through a USD 300 million concessional loan. However, this loan has not appeared in Tajikistan Ministry of Finance records.¹⁷ It may not yet have been disbursed because construction has been delayed, the financing arrangement may have changed, or it was

¹⁴ Since 2016, Tajikistan's Ministry of Finance has not recorded new major loan disbursements from China to Tajikistan. One would expect to see new disbursements if it was funded by debt. Media reports say construction is being undertaken by a Chinese-Tajik joint venture with financing provided by the Chinese partner CNPC.

¹⁵ "List of Newly Incorporated / Registered Companies and Companies in Hong Kong 2014," Hong Kong Company Registry, last accessed 13 July 2019, https://www.cr.gov.hk/docs/wrpt/RNC063_2014.03.17-2014.03.23.pdf.

¹⁶ Economist Intelligence Unit, "Financial plans for Central Asia-China Pipeline Approved," 18 December 2014, <http://country.eiu.com/article.aspx?articleid=1402600924&Country=Tajikistan&topic=Economy&subtopic=Forecast&subsubtopic=Policy+trends>.

¹⁷ Zarina Ergasheva, "Sharofiddinov: Tajikistan will not Receive Gas through the 'Central Asia-China' Pipeline" [Шарофиддинов: Таджикистан не будет получать газ по ветке газопровода «Центральная Азия-Китай»], *Asia Plus*, 11 March 2014, <https://news.tj/ru/news/sharofiddinov-tadzhikistan-ne-budet-poluchat-gaz-po-vetke-gazoprovoda-tsentralnaya-aziya-kitai>.

disbursed directly to Tajiktransgaz. According to Shamsiddinzoda, Tajikistan's government will receive USD 1.2 billion in transit fees from the pipeline over its first 32 years of operation (approximately USD 33 million per year). This would cover loan repayments, and Tajiktransgaz will receive approximately USD 2.5 billion in the same period (USD 78 million per year).¹⁸ The Kyrgyzstan section is 215 km long and will cost USD 1.2 billion (USD 5.5 million per kilometre) according to Chairman of the State Committee for Industry, Energy and Subsoil Use of the Kyrgyz Republic, Ulanbek Ryskulov. He stated that Kyrgyzstan will receive USD 75 million per year in transit fees.¹⁹ Some have debated whether the 75 million dollar figure is correct, but it is clear the project is funded mainly by investment from CNPC.²⁰ As such, the gas pipeline does not fall into the category of government-to-government loans and is covered in the investment chapter.

3.2.3 Disbursement of Chinese Concessional Loans to Kyrgyzstan

Prior to 2009, Eximbank only issued very small loans to Kyrgyzstan. In late 2008 and 2009, the first major loan agreements were signed between the two countries. From 2010 onwards disbursements grew quickly. The period between 2012-2014 was the high point for disbursements, peaking at USD 357 million in 2014. They have since declined to around USD 180 million in 2015 and 2016.²¹ Detailed data is shown in Figure 3.2 below (as

¹⁸ "Tajikistan Starts Laying the Tajik Part of the Turkmenistan-China Gas Pipeline", *Avesta*, 31 January 2018, <http://avesta.tj/2018/01/31/v-tadzhikistane-nachalas-prokladka-tadzhikskoj-chasti-gazoprovoda-turkmenistan-kitaj/>.

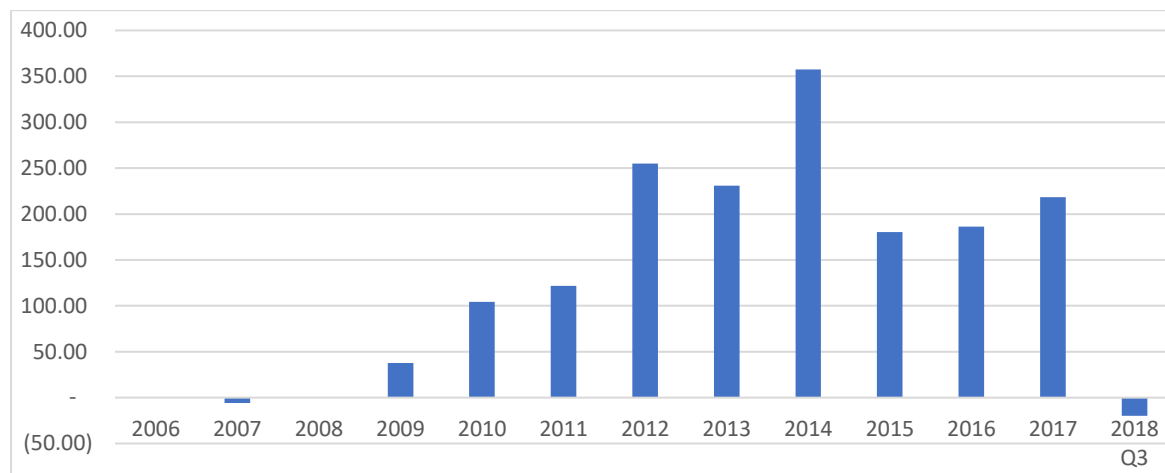
¹⁹ Guliza Chudubayeva, "The Kyrgyzstan-China Gas Pipeline Project will bring about \$75 Million a Year to the Kyrgyz Republic" [Проект газопровода Кыргызстан-Китай принесет КР около \$75 млн в год], *KNews*, 5 July 2017, <https://knews.kg/2018/05/07/proekt-gazoprovoda-kyrgyzstan-kitaj-prineset-kr-okolo-75-mln-v-god/>.

²⁰ Kubanychbek Zholdoshev, "Gas pipeline from Turkmenistan to China: Will Kyrgyzstan Lose Out?" [Газопровод из Туркменистана в Китай: Кыргызстан в проигрыше?], *Radio Azattyk*, 31 May 2018, https://rus.azattyk.org/a/kyrgyzstan_politics-gas/29261891.html.

²¹ "The Structure of the National Debt of the Kyrgyz Republic as of 31 October 2018" [Структура госдолга Кыргызской Республики по состоянию на 31 октября 2018 года], Ministry of Finance (Kyrgyzstan), 7 December 2018, <http://www.minfin.gov.kg/ru/novosti/novosti/struktura-gosdolga-kyrgyzskoy-respubliki-po-sostoy5319>.

mentioned in the data section, Kyrgyz MoF data includes repayments and debt forgiveness, hence the negative value in 2007).

Figure 3.2 Eximbank Annual Net Disbursements to Kyrgyzstan (USD million)



Source: “The Structure of the National Debt of the Kyrgyz Republic as of 31 October 2018” [Структура госдолга Кыргызской Республики по состоянию на 31 октября 2018 года], Ministry of Finance (Kyrgyzstan), 7 December 2018, <http://www.minfin.gov.kg/ru/novosti/novosti/struktura-gosdolga-kyrgyzskoy-respubliki-po-sostoy5319>.

Unlike Tajikistan, Eximbank was still financing road projects in Kyrgyzstan in 2016. The three phases of the North-South Alternative Road are slated to cost nearly USD 850 million alone.²² That project began in 2014 and disbursement continues as of 2019. No major new loan-funded projects have been announced since 2014. Kyrgyzstan paid more money back than it borrowed to the PRC in the first three quarters of 2018. Interviews with government officials indicated the appetite to take on more Eximbank loans in Kyrgyzstan is now quite limited.

²² “Plan to make the Alternative Road North-South Tolled” [Альтернативную дорогу Север — Юг планируют сделать платной], *Sputnik*, 18 June 2017, <https://ru.sputnik.kg/society/20170618/1033891471/dorogu-planiruyut-sdelat-platnoj.html>.

Table 3.2 Major Eximbank Financed Projects in Kyrgyzstan

Project	Construction Dates	Main Contractor	Financing notes
Rehabilitation of Osh–Irkeshtam Road Project (I) 2004–2005	2004-2005	CRBC	CDB provided financing of USD 7.2 million. Terms of financing unknown.
Osh-Sary Tash-Irkeshtam 123-190 km (67km) 190-240 km (50 km) 240-258 km (18 km)	2008-2011	CRBC	USD 109 million project. Eximbank Preferential Buyers Credit (USD 75 million) Government Concessional Loan (USD 25.3 million) and MOFCOM grant (US\$9 million). Contract signed 2008.
Osh-Batken-Isfana Road: 220-232 km (12 km) 271-360 km (89 km) 248-271 km (23 km)	2010-2011	CRBC	Eximbank issued a Preferential Buyers Credit of USD 91.4 million. Contract signed 2009.
Modernisation of Transmission Lines in Southern Kyrgyzstan	2011-2013	TBEA	Eximbank issued a Preferential Buyers Credit of USD 208 million. Contract signed October 2009.
Bishkek-Naryn-Torugart Road 9-272 km (263 km)	2010-2014	CRBC	Eximbank issued a Preferential Buyers Credit of USD 200 million. Contract signed in October 2009.
Construction of 500 kV Datkah-Kemin transmission line and 500 kV Kemin transforming substation	2012-2015	TBEA	Eximbank issued a Preferential Buyers Credit of USD 389 million. Project announced in October 2009. ²³ Contract signed in 2012.
Bishkek-Balykchi Road 147-172 km (15 km)	2013-2015	CRBC	Eximbank issued a Preferential Buyers Credit (2%, 9 years grace, 20 year repayment period) for USD 129 million (USD 38 million for this project, remaining USD 91 million was for Osh-Batken-Isfana Road). Contract signed 2013.
Bishkek thermal plants refurbishment	2014-2017	TBEA	Eximbank issued a Preferential Buyers Credit of USD 386 million. Contract signed 2014.

²³ Yevgeny Denisenko, “Energizer” [энерджайзер], *Vechernii Bishkek*, 15 March 2010, http://vecherka.kg/2010/03/15/ekonom/2_print.html.

Project	Construction Dates	Main Contractor	Financing notes
Phase 1 North-South Alternative Road Kyzyl-Jyldyz to Aral 183-195 km (13 km) Kara Alma-Jalalabad 291-433 km (143 km)	2014-	CRBC	Eximbank issued a Preferential Buyers Credit of USD 400 million. Contract signed 2014.
Phase 2 North-South Alternative road Aral and Kazarman 195-291 km (97 km)	2015-	CRBC	Project USD 288 million. Eximbank issued a Preferential Buyers Credit of USD 185 million (total cost of project 284 million) and Concessional Government Loan of USD 113 million. Contract signed June 2015 but announced at 2014 SCO Leadership Summit.

There are key differences in the disbursements to Kyrgyzstan and Tajikistan.

Disbursement began later in Kyrgyzstan than Tajikistan. All the major projects in Kyrgyzstan have come from two sets of meetings. The first was at a Heads of Government Summit in Beijing in October 2009 when a raft of contracts were either signed or announced, and then a second round of projects were announced at the SCO Leaders Summit in 2014 in the year following the announcement of Xi Jinping's BRI. It is really important to note that there have not been any major new loan agreements since 2014, despite all the public effort and promotion that has gone into the BRI. This is an evidentiary point that suggests there are factors other than Xi Jinping's personal preferences at play. The key points of difference of Eximbank lending to each country are outlined in the table below:

Table 3.3 Differences between Chinese concessional loans in Kyrgyzstan and Tajikistan

Detail	Kyrgyzstan	Tajikistan
Major Disbursements begin	2010	2007
Disbursement peak	2014	2008
Post-2013 (BRI start year) major focus	Roads	Energy

Detail	Kyrgyzstan	Tajikistan
Loan	Loans agreements stem from two meetings in 2009 and 2014. No major loans announced since 2014	Most big loans signed in 2006 and 2014. No major loans announced since 2014.

Of course, there are similarities too. The projects in both countries have focused only on energy and transport, even though there is a divergence of focus in both countries. Also, despite differences in grace periods, the terms of the loans in both countries are very similar.

3.3 The Key Actors in Chinese Concessional Financing

Before we evaluate the trends in Chinese concessional finance in Tajikistan and Kyrgyzstan, the key actors in Chinese concessional finance and the project approvals process will be outlined. This section focuses on bilateral lending. There is a different process for multilateral aid which is not covered in this thesis because the vast majority of lending is bilateral.²⁴

The Ministry of Commerce (MOFCOM) is at the centre of the concessional financing process. It issues grants and zero-interest loans, as well as coordinating with Eximbank on the provision of concessional loans. There are two departments within MOFCOM that handle different elements of concessional loans. MOFCOM's Department of Foreign Aid coordinates with Eximbank on Concessional Foreign Aid Loans (these are different to Preferential Export Buyer's Credits, even though they are both concessional – this difference is outlined in the section on Eximbank). The Department of International Economic Cooperation coordinates with Eximbank on Preferential Export Buyer's Credits (the other type of concessional loan). There is a concessional fund for each of the Preferential

²⁴ Hou Xiong, "China's Foreign Aid and Multilateral Development Organizations," in *China's Foreign Aid 60 Years in Retrospect*, eds. Zhou Hong and Hou Xiong (Singapore: Springer, 2017): 82.

Export Buyer's Credits and Concessional Foreign Aid Loans. These funds are designed to subsidise the gap between Eximbank's concessional loan rate and commercial interest rates. This is managed by the various departments of MOFCOM in coordination with Eximbank, but the actual budget for the concessional funds is set by the Ministry of Finance.²⁵

The Ministry of Foreign Affairs is on the front line advising the government on the level of aid for a particular country, even though MOFCOM actually runs individual projects in-country. This leads to competition between MOFCOM and the MFA. One UN official in 2008 described the struggle for the control of aid "as a war between MOFCOM and the Ministry of Foreign Affairs".²⁶

The Ministry of Finance is responsible for multilateral aid, including China's contributions to UN agencies, regional development banks, and its own debt relief program.²⁷ The Ministry sets the budget for the concessional loan funds, even though the decisions on the issuance of loans are made by departments in MOFCOM.²⁸

Other individual ministries run their own programs: scholarships through the Ministry of Education, medical assistance through the Ministry of Health, and so on. Even some provincial governments have their own aid programs.²⁹

National Development and Reform Commission (NDRC) does not have a direct role in decisions on concessional loan projects but it sets the general direction for China's

²⁵ Deborah Brautigam, *The Dragon's Gift: The Real Story of China in Africa* (Oxford: Oxford University Press, 2009), 90-96; Interview with a researcher at the China Association of International Engineering Consultants which is a think-tank attached to MOFCOM in Beijing, June 2017.

²⁶ Deborah Brautigam, *The Dragon's Gift*, 111-112.

²⁷ Philippa Brant, "Charity Begins at Home," *Foreign Affairs*, 13 October 2013, <https://www.foreignaffairs.com/articles/china/2013-10-13/charity-begins-home>.

²⁸ Deborah Brautigam, *The Dragon's Gift*, 92-93.

²⁹ Deborah Brautigam, *The Dragon's Gift*, 90.

overseas economic policy. The NDRC is the lead implementer of BRI (with the MFA and MOFCOM as coordinating agencies).

Chinese companies play a significant role in initiating, formulating and implementing projects in consultation with recipient governments.³⁰ The role varies project to project, but in certain cases the companies have proposed projects. CRBC even submitted a nationwide road development plan to Kyrgyzstan's President's Office and Ministry of Transport. In almost all cases in Kyrgyzstan and Tajikistan the companies are in the room during discussions about the project. This is a key reason why two companies, CRBC and TBEA, have won the main contracts for the majority of Chinese concessionally financed projects in Kyrgyzstan and Tajikistan.

Li Ruogu, the former Chairman and President of Eximbank between 2005 and 2015, and who is credited with turning the bank into a major international lender, was very clear on the role Chinese companies needed to play in the BRI. He wrote in a journal article that Chinese companies are “the implementers at the pointy end of the broad policy direction. ‘BRI’ is completely reliant on the positive participation of [Chinese] companies.”³¹

Graeme Smith and Denghua Zhang (a former MOFCOM employee) argue that PRC companies lobby Chinese ministries, Eximbank and the recipient countries for new projects because once both countries agree on a project, the company which initiated it will typically win the contract. They write: “In some circumstances, Chinese firms and host governments enter into an informal alliance,” adding that “China’s companies persuade host governments

³⁰ Matthew Dornan and Philippa Brant found this in the Pacific Islands. See Matthew Dornan and Philippa Brant, “Negotiating Chinese Development Assistance: The Role of Pacific Island Governments and Chinese Contractors,” Devpolicy Blog, <http://devpolicy.org/negotiating-chinese-development-assistance-the-role-of-pacific-island-governments-and-chinese-contractors-20140808/>.

³¹ Li Ruogu, “Understanding ‘One Belt One Road’ and the ‘Going Out’ of China’s Companies” [“一带一路” 战略认识与 中国企业 “走出去”], *Tsinghua Financial Review*, no. 6 (2011), 30.

to raise new aid projects with China while the contractors promise to help behind the scenes to secure financing.”³² One Papua New Guinea government official interviewed by Zhang Denghua said:³³

All of these projects look like well-thought-out technical solutions, but each of them arises from contractors knocking on politicians’ doors, giving them bright ideas, and then they become the owners of those ideas. ICT [information and communication technology] in our country is all over the place as a result of the proliferation of these ‘bright ideas’.

CRBC and TBEA have certainly developed very close links with leaders in both Kyrgyzstan and Tajikistan. The conditions exist for them to coordinate with recipient states to attract funding.

Eximbank is one of three policy banks along with China Development Bank (CDB) and the Agricultural Development Bank of China. Chinese policy banks were established in 1994 to take over the government-directed spending functions of the four biggest state-owned commercial banks. These banks are responsible for financing economic and trade development and state-invested projects. Eximbank is the main Chinese financier of intergovernmental concessional loan finance. Eximbank provides two types of credit for concessional intergovernmental lending (Eximbank also has numerous other loan types that are either for Chinese companies or not concessional and thus not relevant to this chapter).³⁴

a) Preferential Export Buyer’s Credits (sometimes also called Concessional Export Buyer’s Credits) are government-to-government loans and allow Eximbank to finance projects undertaken by Chinese companies for foreign governments. As the name suggests

³² Denghua Zhang and Graeme Smith, “China’s Foreign Aid System: Structure, Agencies, and Identities,” *Third World Quarterly* 38, no. 10 (2017), 2340.

³³ Denghua Zhang and Graeme Smith, “China’s Foreign Aid System,” 2340.

³⁴ The explanation of concessional loan types draws heavily from Deborah Brautigam and Jyhjong Hwang, “Eastern Promises: New Data on Chinese Loans in Africa, 2000-2014,” Working Paper, China-Africa Research Initiative, School of Advanced International Studies, Johns Hopkins University, Washington, DC, No. 4 (2016), 23-25, <https://static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/58ac91ede6f2e1f64a20d11a/1487704559189/eastern+promises+v4.pdf>.

these are “soft loans” at a preferential rate. They require a sovereign guarantee (usually from the borrower’s Ministry of Finance), and have fixed interest rates of 2 to 3 percent, with maturity over 15 to 20 years, including 2 to 11 years of grace period. China’s Ministry of Finance subsidises the difference between Eximbank’s cost of funds and the fixed interest rate. According to the Finance Ministry, policy banks provide financing based on a break-even rate.³⁵ The Finance Ministry supports these banks by subsidising interest rate spreads and offering fiscal discounts. The vast majority of China Eximbank concessional loans to Kyrgyzstan and Tajikistan are Preferential Export Buyer’s Credits.

b) Concessional Foreign Aid Loans (sometimes also called Government Concessional Loans). China Eximbank also manages China’s concessional foreign aid loans. These loans operate as government-to-government official development assistance and are provided for projects that generate economic or social benefits, such as infrastructure projects, industrial production projects, and imports of essential equipment and machinery, including airport scanners and telecoms equipment. Concessional loans require an inter-governmental Framework Agreement (which sets the interest rate, grace period, and maturity), followed by a loan agreement signed by the borrower and China Eximbank. In general, the interest rate on concessional foreign aid loans is between 2 and 3 percent, with a grace period of 5 to 7 years and a 15- to 20-year term. Eximbank has issued very few concessional foreign aid loans in Kyrgyzstan or Tajikistan.

When Eximbank issues a loan, the recipient country pays back the principal and the concessional interest rate. The difference between the concessional rate and Eximbank’s cost of lending is subsidised by two concessional loan funds (administered by MOFCOM but set

³⁵ “Eastern Promises: New Data on Chinese Loans in Africa, 2000-2014,” 24.

by MoF). Eximbank funds the loans through the issuance of bonds which are purchased by state-owned banks in China.

Eximbank's approval of Preferential Export Buyer's Credits and Concessional Foreign Aid Loans (which are referred to broadly as "concessional loans" from here on) appears to be based on two factors: debt repayment capacity and its mission to further China's policy objectives. These two elements are not always in alignment.

Firstly, let us explore debt repayment capacity. Eximbank needs to ensure that it does not fund too many risky loans. The bank is expected to break even, according to an Eximbank official interviewed by Deborah Brautigam.³⁶ Former Eximbank President Li Ruogu confirms this, "Eximbank operates based on the principle of near-zero-profit or breakeven investments. Commercial banks usually have at least 0.5% higher spreads than Eximbank."³⁷

Any attempt to run break-even is based upon the bank's risk appraisal of individual projects – after all to avoid losses, loans need to be repaid. Eximbank's interpretation of what constitutes a project that will break even is not static. The Financial Times quoted one Chinese policy bank official (the article did not indicate which policy bank): "We assess risk differently than western agencies because we look at the potential for development of a country."³⁸ In a 2010 interview Eximbank President Li Ruogu expressed a similar line of thinking, arguing that the most decisive factor in preventing default is funding projects that provide economic development:³⁹

³⁶ Deborah Brautigam, *The Dragon's Gift*, 111.

³⁷ Deborah Brautigam and Jyhjong Hwang, "Eastern Promises," 23-25.

³⁸ FT Reporters, "China Rethinks Developing World Largesse as Deals Sour," *Financial Times*, 13 October 2016, <https://www.ft.com/content/5bf4d6d8-9073-11e6-a72e-b428cb934b78>.

³⁹ Guo Yanxing, "Financial Innovation must be Practical - An Interview with China Export Import Bank Chairman and President, Li Ruogu" [金融创新要“唯实”——访中国进出口银行董事长、行长李若谷], *China Financialyst*, no. 6 (2010), 32.

We can't just simply, passively assess risk independently of other factors, we have to abide by the principal that 'give a man a fish and you feed him for a day; teach a man to fish and you feed him for a lifetime.' This is something we should strictly require both in project selection and loan management, to allow the project to produce its anticipated results. This will increase the recipient state's development momentum. This is the only way for recipient states to achieve sustainable development of its economy and debt.

But the appetite for risk has diminished somewhat after loans in numerous countries plunged the recipient states into debt (e.g. Venezuela, Ecuador, Angola and Sri Lanka). This is particularly true for loans to resource-rich countries where resources were used as collateral for loans – resource price drops placed enormous pressure on the budgets of recipient states. One NDRC official describes the change of thinking as such: "China had no choice but to lend a lot to risky countries because they had the commodities we needed and because the western multilateral organisations already dominated the rest of the world," the official says. "These days we need viable projects and a good return. We don't want to back losers."⁴⁰

These loans are certainly expected to be paid back. Both sides understand this. As a Chinese official with experience in both Eximbank and CDB said in an interview, "Cancellation is not possible, even for concessional loans."⁴¹ Similarly, two Tajik government officials and a Kyrgyz government official told this author in three separate interviews that Kyrgyzstan's and Tajikistan's concessional loans must be repaid.⁴²

Secondly, as a centrally-controlled policy bank, Eximbank is also expected to support China's policy objectives overseas, even if those policy objectives are sometimes vaguely defined. Eximbank seems inclined to lend as much as it possibly can. One official says, "As long as there is enough in the concessional loan fund and the projects are well-designed, we

⁴⁰ FT Reporters, "China Rethinks Developing World Largesse as Deals Sour,"

⁴¹ Deborah Brautigam and Jyhjong Hwang, "Eastern Promises," 21.

⁴² Interviews with senior Tajik economic officials in Dushanbe, January 2016.

will fund as many as we can.”⁴³ There is an obvious tension between funding as many projects as possible and insisting that loans be repaid.

3.4 The Approval Process for Eximbank Concessional Loans

Now that we understand the main actors in the concessional finance process, this section discusses the actual process for getting a loan approved. The challenge here is that the process remains opaque. What follows is a conglomeration of information obtained from direct interviews with officials by the author, previous scholarly work by Deborah Brautigam and her team at John Hopkins University, other scholarly work published by academics in this area (such as Graeme Smith and Denghua Zhang), Chinese language documents published by MOFCOM and its subordinate think tank China Association of International Engineering Consultants (CAIEC, 中国国际工程咨询协会) as well as a print out of a Powerpoint presentation delivered by members of the Eximbank Concessional Loans Department to Chinese companies in 2013.⁴⁴ The author recognises this is imperfect but it is the best available information.

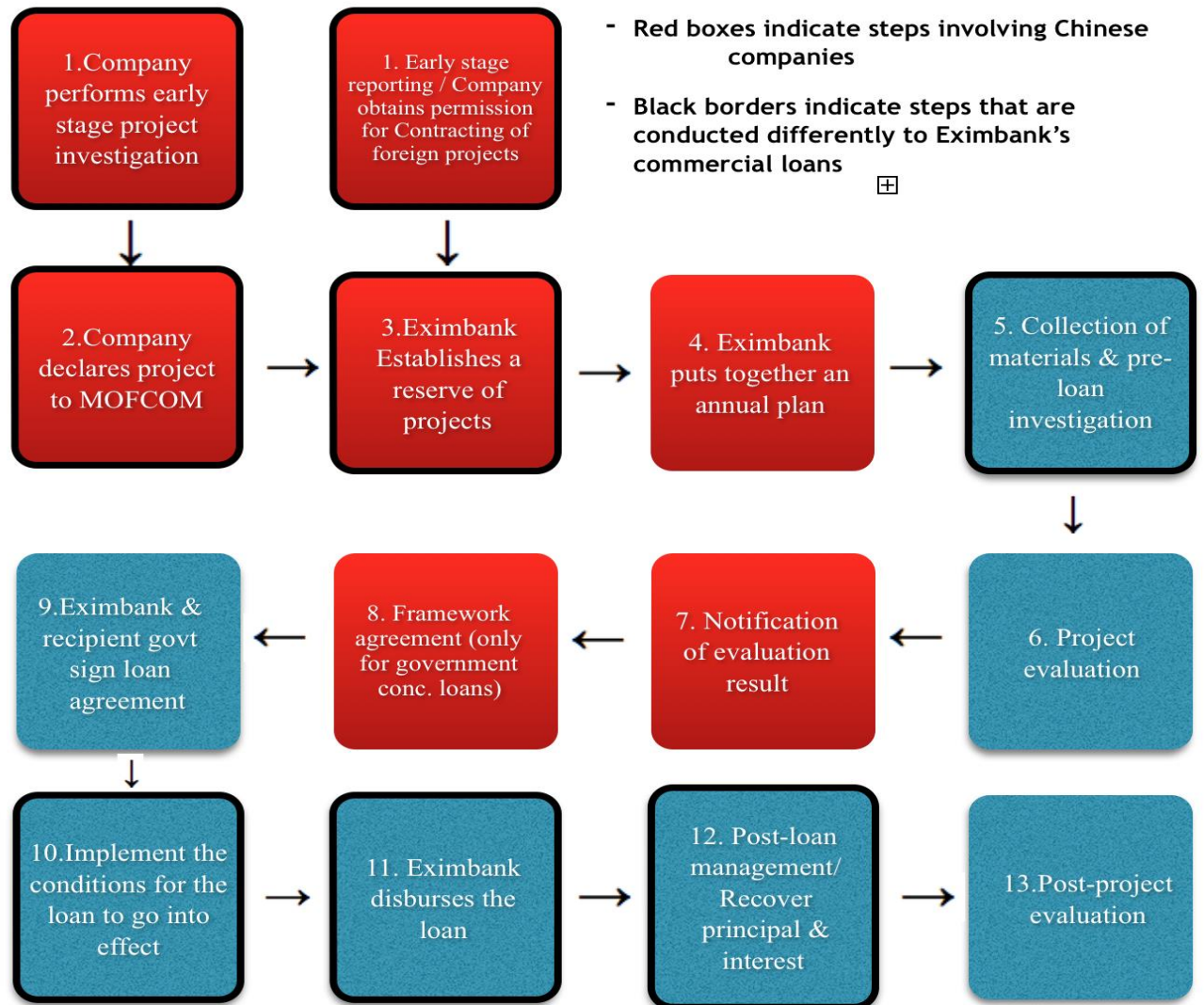
On the next page is a translated flowchart of the process from the MOFCOM website.⁴⁵

⁴³ Deborah Brautigam, *The Dragon's Gift*, 139.

⁴⁴ The presentation was given on 11 December 2013. The PPT was made available on a popular Chinese document sharing site, see “China Export Import Bank: Introduction to the ‘Two Concessional’ Loans” [中国出口银行“两优”贷款业务介绍], 11 December 2013, <http://www.chinca.org/cms/html/files/2013-12/16/20131216102948872930302.pdf>.

⁴⁵ How to get an Eximbank Concessional Loan? [如何拿到口行的两优贷款?], Chinese Ministry of Commerce, last modified 11 October 2016, <http://caiec.mofcom.gov.cn/article/g/201610/20161001406979.shtml>.

Figure 3.3 Flowchart of Eximbank Loan Approval Process



This flow chart which features widely in Eximbank material on its concessional loans has some shortcomings. While it is instructive in giving a general idea of the flow of the process, it does not specifically identify the responsibility of each stakeholder at every step of the process. There is also the issue that CPC central leadership can override this process at any given moment if they so desire.⁴⁶ Other issues are corruption and behind the scenes

⁴⁶ Denghua Zhang and Graeme Smith, "China's Foreign Aid System," 2330-2332.

lobbying that companies undertake to get both the recipient state and key approvals agencies on board. The next few pages attempt to rectify these failings.

Initial phase (Early stage investigation; Early stage reporting / Company obtains permission for contracting of foreign projects; Project declaration). These are the investigative steps undertaken by the company (not Eximbank or MOFCOM) to identify projects that could potentially be suitable for concessional finance. Not all three of these steps need to be completed; it depends on the type of project. There is overlap between the different steps.

Early stage reporting / Company obtains permission for contracting of foreign projects. In this phase, the company discusses potential projects directly with the relevant members of the recipient state's government before Eximbank or MOFCOM is notified. The exact counterparts for the company will depend on the importance of the project and institutional setup of the recipient government.

In this phase, the company should notify the Economic and Commercial Counsellor's Office (ECCO) at the Chinese Embassy in the relevant country when it believes there is a possibility that the project may be suitable for a concessional loan. The ECCO is under control of MOFCOM, not the Ministry of Foreign Affairs. The company needs to report the following information to the ECCO "The background and importance of the project, the intention of the project, the qualifications of the firm and its experience in executing similar projects, total investment estimate and a work program and plan."⁴⁷ This dovetails nicely with Smith's and Zhang's characterisation that companies and recipient states work together to come up with projects to get funding.⁴⁸

⁴⁷ "China Export Import Bank: Introduction to the 'Two Concessional' Loans," 31-32.

⁴⁸ Denghua Zhang and Graeme Smith, "China's Foreign Aid System," 2340.

At this stage, the Chinese companies must apply for an approval certificate to undertake a bid on tenders (or negotiated bidding) in foreign countries from MOFCOM. This needs to be done for each project. MOFCOM processes the application within three days. The approval certificate (sometimes called licence) is needed during the evaluation phase for project approval. This stage is opaque and one imagines it would be a key point for intra-government corruption.

The Eximbank advice for companies in the early stage investigation phase of their projects is pretty similar to the early stage reporting advice. There are, however, a couple of additional items for consideration.

Eximbank advises companies that they should complete all preparatory work which includes “geological surveys, project design and other factors such as labour access.”⁴⁹ Eximbank also stresses that companies need to consider the capacity of recipient states to give financial guarantees and repay the debt.⁵⁰

Once the companies have informed Eximbank and MOFCOM, these two organisations undertake an initial evaluation. A more thorough assessment comes later. The initial evaluation proceeds as follows.

As stated above, the company declares the project to the ECC in the Embassy. Then ECC confirms the recipient state’s interest in the project. After this, the ECC invites opinions from the Concessional Loan Department in Eximbank. Eximbank undertakes a preliminary review and provides its advice to the ECC. This advice is then passed on to the relevant department in MOFCOM. If MOFCOM does not object, then Eximbank advises the ECCO that the project is approved. Finally, the ECCO produces a letter of support for the project.

⁴⁹ “China Export Import Bank: Introduction to the ‘Two Concessional’ Loans,” 33.

⁵⁰ “China Export Import Bank: Introduction to the ‘Two Concessional’ Loans,” 33.

The letter of support is a required document for the full project evaluation stage which follows the initial review.

One of the main purposes of these initial steps is to prevent companies which “have not received government permission” from “taking it upon themselves to promise concessional loans overseas, or to induce foreign governments to put pressure on our government to get conditional loan support.”⁵¹ The fact that this system has come into place suggests that previously companies were engaging in this type of behaviour.

Eximbank prioritises projects (Eximbank establishes a reserve of projects, Eximbank puts together an annual plan). These are among the most opaque steps in the system. At this point Eximbank establishes a bank of projects that are ready to be investigated and then fashions that into an annual plan stating which projects will be assessed and in what order. It is not clear how projects are prioritised in this system. The Eximbank gatekeepers have power over projects worth billions of dollars to individual companies. In an opaque system, that puts them in a position to potentially seek bribes.

Investigation and evaluation steps (Collection of materials and pre-loan investigation; Project assessment and evaluation; Notification of project evaluation result). This stage involves collecting and evaluating the appropriate materials from the company and recipient state. The materials collected can be divided in three groups. The first is the application letter from the recipient government. The second are the technical details on the project: A commercial contract for the project as well as a feasibility research report (proposal) and an environmental report. The third is the documents pre-approved by Chinese government departments: The letter of support from the ECCO (which is produced after Eximbank’s and MOFCOM’s initial assessment in stage 1); and the contractor’s licence to

⁵¹ “China Export Import Bank: Introduction to the ‘Two Concessional’ Loans,” 33.

undertake overseas contract work (bid negotiation) [招投标许可]. This was received in the initial step of the process (this is only necessary for Preferential Export Buyer's Credits, not Government Concessional Loans); materials on the implementing Chinese company and main subcontractors and suppliers.

The second step is to evaluate those materials. The first set of evaluation criteria is the suitability of the recipient country itself. The recipient state must have “good diplomatic relations with China.” And “the economic and political situation in the recipient state is relatively stable.” In addition, “the recipient state should have a good credit reputation and the capacity to repay the interest and the principal.” The project must also meet certain criteria. It must be important to both sides or as Eximbank writes, “The recipient state must attach great importance to the project, and it should also be recognised by the Chinese Government.” The project should also “suit the recipient state's economic and social development needs.” In addition, the project should be “technically feasible and not produce serious environmental impacts.” There is also an evaluation on the benefits to PRC companies. The general contractor or exporter should be “Chinese, and equipment, technology, materials and services are preferentially procured from China.” Finally, some projects have a local financing component and this must be paid by the local financier before Eximbank's financing can be released.

The weighting applied to these evaluation criteria is not entirely clear, but in the Eximbank presentation the dot point for repayment capacity was underlined and the other points were not. In the case of Tajikistan and Kyrgyzstan the requirement for good government relations with China is always met, so the focus naturally falls on the other evaluation criteria.

The signing of the agreement. After the results of the Eximbank evaluation are made public, the recipient state's views are sought once more. For a Preferential Export Buyer's Agreement, the department in charge for the recipient state (usually MoF) must state that it has no objections to the project. Then the project proceeds to the signing phase. For a Government Concessional Loan, the next step is an inter-governmental framework agreement which requires an extra step of negotiation.

The actual signing can happen in person, via post or through a witness. In Central Asia, the preference has been to sign in person because it provides both sides' politicians with a convenient photo opportunity. The timing of the agreement signing is sometimes adjusted to fit large diplomatic meetings. The Eximbank presentation states this explicitly.⁵² The Kyrgyz and Tajik interviewees also concurred.⁵³

The disbursement of concessional loans. MOFCOM and Eximbank are cognisant of the potential for corruption to arise in the building of large-scale infrastructure in developing countries. Contracts worth hundreds of millions of dollars (sometimes more) provide rich pickings for local patronage networks. Over time Eximbank has developed a number of safeguards to try and limit corruption on its projects.

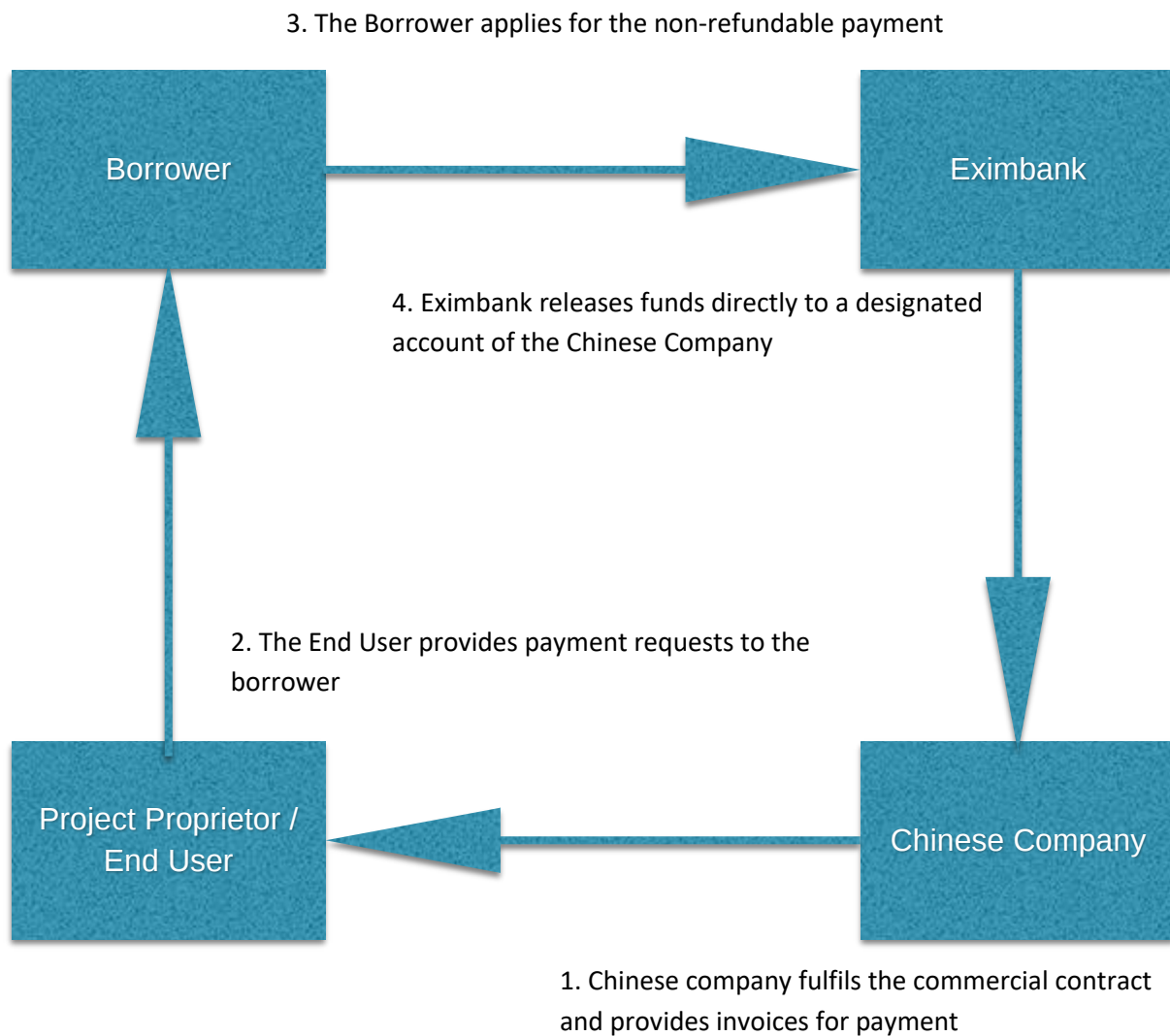
Firstly, the loan is disbursed incrementally as expense receipts are accrued by the Chinese contractor. These expenses need to be approved by the borrower (usually the recipient state's Ministry of Finance) and end user (usually a Kyrgyz/Tajik company or government department) and then the borrower uses these receipts to apply directly to Eximbank to release funds equivalent to the receipts. In other words, the money needs to be spent on the project by the Chinese company before Eximbank releases funds. Secondly, the

⁵² "China Export Import Bank: Introduction to the 'Two Concessional' Loans."

⁵³ Interviews in Dushanbe and Bishkek between November 2015-March 2015.

funds are directly deposited into a bank account designated by the Chinese company. The purpose of this is to prevent local governments getting access to the funds. Below is a diagram showing this process:

Figure 3.4 Process of Disbursing Funds on Projects Financed by Eximbank



Eximbank money goes directly to PRC firms but this does not stop corruption. Fake or over-inflated receipts are a serious problem. In Sri Lanka and Malaysia, fake receipts were used to funnel money to preferred political candidates.⁵⁴ In Kyrgyzstan, over-inflated receipts

⁵⁴Maria Abi-Habib, "How China Got Sri Lanka to Cough Up a Port," *New York Times*, 25 June 2018, <https://www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html>; Tom Wright and Bradley

in Bishkek's thermal power plant project were used to siphon money to the company and local politicians' pockets instead of the project.⁵⁵ The main problem is opacity of the lending system. The checks and balances can be overcome by money or political power. Companies benefit when projects go ahead. When these companies lobby Kyrgyz and Tajik politicians, they offer kickbacks. The blowback from corruption scandals has not helped Beijing achieve its political goals in these countries.

3.5 The PRC Concessional Loan Financing System in Tajikistan and Kyrgyzstan

There are four main factors in deciding whether a project progresses in Kyrgyzstan and Tajikistan. Firstly, and most importantly, the domestic political situation in recipient countries is key in deciding whether the government accepts a Chinese concessional loan for a project in their country. Secondly, the repayment capacity and political stability of the recipient state is considered by Chinese financiers. Thirdly, political pressure from China's central leadership to increase concessional loans has an impact. There are periods where there is pressure from the Chinese central leadership – often around leadership visits and policy announcements – on Eximbank and MOFCOM to fund more projects. There are however limits to political pressure. Finally, companies play a significant role in identifying and advocating for particular projects and companies likely bribe officials in recipient states to obtain their approval. This section explores each of those factors one by one.

3.5.1 The Domestic Political Situation

The domestic political situation in recipient states plays a significant role in deciding the types of projects that go ahead.

Hope, *Billion Dollar Whale: The Man who Fooled Wall Street, Hollywood, and the World* (New York, NY: Hachette Books, 2018).

⁵⁵ Nurjamal Djanibekova, "Kyrgyzstan: Power Plant Blame Game Threatens Political Showdown," *Eurasianet*, 18 May 2018, <https://eurasianet.org/kyrgyzstan-power-plant-blame-game-threatens-political-showdown>.

Firstly, political stability matters. The Chinese government began promoting concessional loans to SCO states in 2004. After a few false starts, Tajikistan signed its first loan agreement in 2006 and Eximbank started disbursing loans in 2007. Kyrgyzstan began borrowing from China much later.

Edil Baisalov, who was a senior figure in the Rosa Otunbayaeva administration (2010-2011) and previously Deputy Minister of Social Development in Kyrgyzstan. He was also a prominent critic of the Bakiev regime (2005-2010). He blamed Kyrgyz political instability for the delay in borrowing. He said in a research interview, “There is no reason [beyond instability] that we shouldn’t have accessed that money [at the same time as Tajikistan].” He added “In 2005 we had a coup [where Bakiev rose to power] and then it was uncertain if the Bakiev regime would last.” Because Baisalov was outside of Bakiev’s regime he was not able to give a definitive answer as to whether it was the Chinese unwillingness or Kyrgyzstan’s own political navel-gazing that held up the projects.⁵⁶

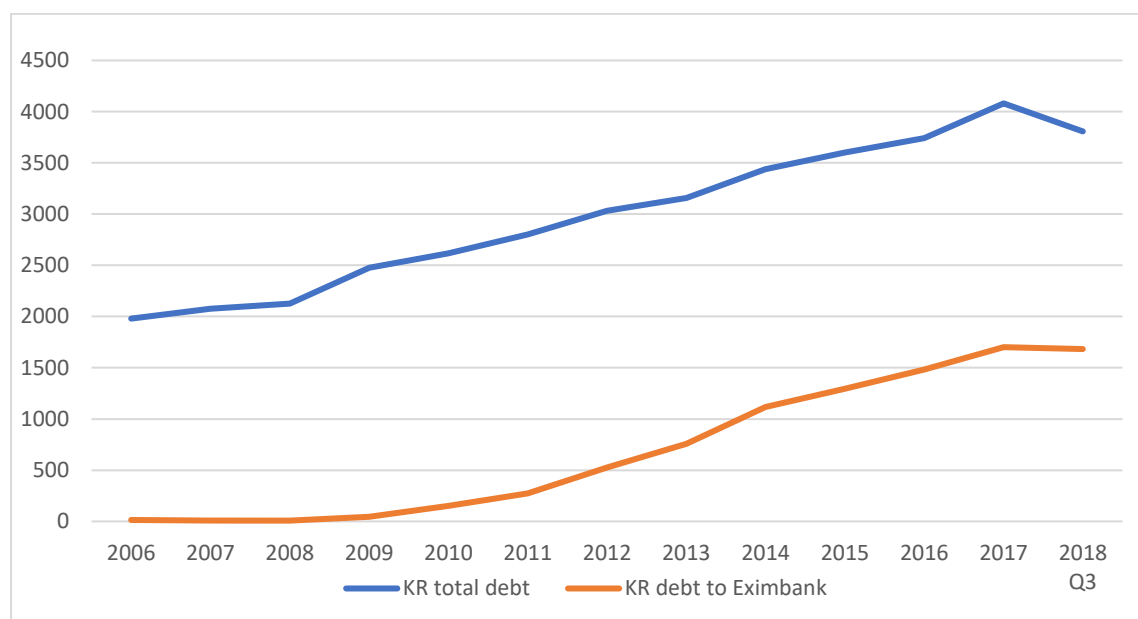
Second, both Tajikistan and Kyrgyzstan needed to manage their debt portfolios. In interviews, Kyrgyz and Tajik bureaucrats indicated debt was an important consideration in project approvals.⁵⁷ Despite the fact that both countries have numerous economic frailties, both Kyrgyzstan and Tajikistan have managed to keep their debt burden relatively stable. This has been achieved through debt forgiveness from Russia as well as strong GDP and government revenue growth. Between 2006 and 2016 GDP-to-debt ratios in Kyrgyzstan and Tajikistan have been stable. Likewise, debt repayments as a percentage of government revenues have decreased since 2006. In short, both countries’ debt burdens are the same or slightly lighter than before China started lending large sums to both countries. The Figures

⁵⁶ Interview with Edil Baisalov in Bishkek, September 2017.

⁵⁷ Interviews with two senior Tajik economic officials in Dushanbe as well as interviews with an economic official and Ministry of Transport and Roads official in Bishkek between November 2015 and March 2016.

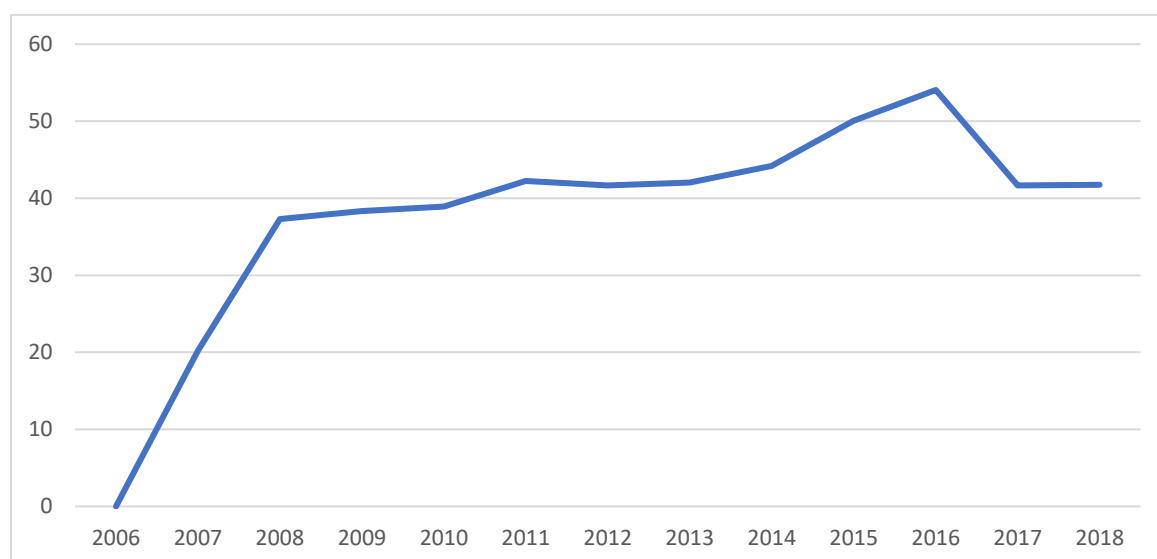
below illustrate the stable nature of Kyrgyzstan's and Tajikistan's debt burden. Certainly, China's share of the national debts of Kyrgyzstan and Tajikistan debt has increased markedly. That is very clear but the overall fundamentals of Kyrgyzstan's and Tajikistan's debt profile remain the same – it is just that the main creditor has changed.

Figure 3.5 Kyrgyzstan Total External Public Debt and Debt Owed to Eximbank 2006-2018 Q3 (USD Millions)



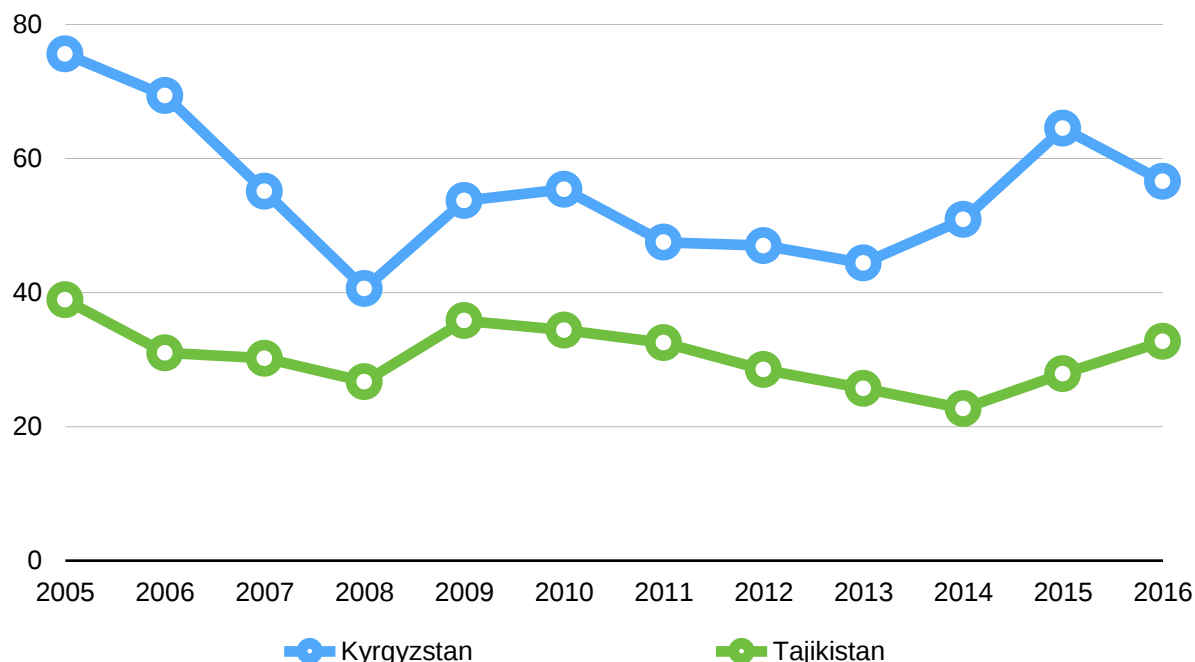
Source: “The Structure of the National Debt of the Kyrgyz Republic as of 31 October 2018” [Структура госдолга Кыргызской Республики по состоянию на 31 октября 2018 года], Ministry of Finance (Kyrgyzstan), 7 December 2018, <http://www.minfin.gov.kg/ru/novosti/novosti/struktura-gosdolga-kyrgyzskoy-respubliki-po-sostoy5319>.

Figure 3.6 PRC Percentage of Tajikistan External Public Debt 2006-2018



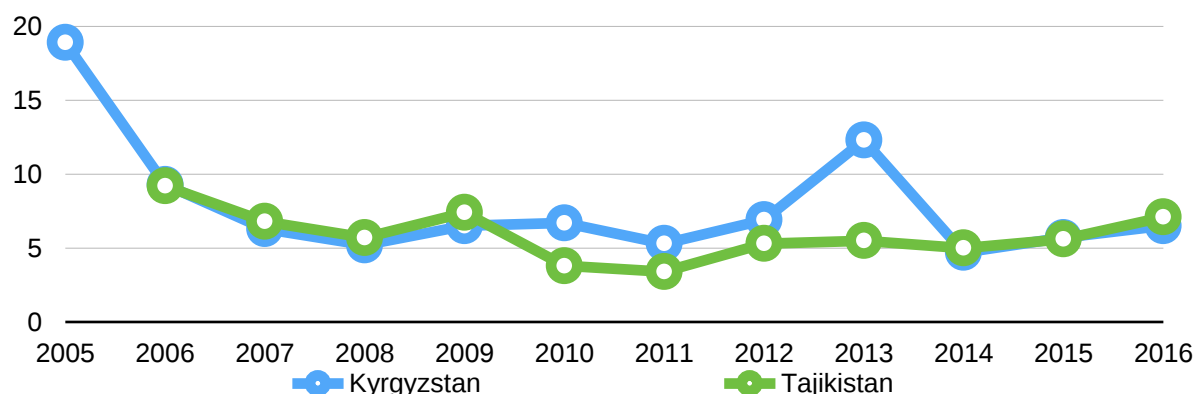
Source: “Ministry of Finance of the Republic of Tajikistan Report on the State of Public Debt for 2018” [Министерство финансов Республики Таджикистан отчет о состоянии государственного долга за 2018 год], Ministry of Finance (Tajikistan), 2018, 24–26.

Figure 3.7 Kyrgyzstan and Tajikistan Public External Debt (% of GDP)



Source: “External Sector,” National Bank of Kyrgyzstan, last accessed August 3 2019, <https://www.nbkr.kg/index1.jsp?item=128&lang=ENG>; “Report on the State of Public Debt in 2016” [состоянии государственного долга на 2016 год], Tajikistan Ministry of Finance, 2016, http://minfin.tj/downloads/otchet_2016.pdf.

Figure 3.8 Public External Debt Servicing in Kyrgyzstan and Tajikistan (% state revenues)



Source: “External Sector,” National Bank of Kyrgyzstan, last accessed August 3 2019, <https://www.nbkr.kg/index1.jsp?item=128&lang=ENG>; “Report on National Debt 2016” [состоянии государственного долга на 2016 год], Tajikistan Ministry of Finance, 2016, http://minfin.tj/downloads/otchet_2016.pdf.

Both countries maintain an external public debt ceiling (40 percent of GDP for Tajikistan and 60 percent of GDP for Kyrgyzstan). In practice, this has been enforced as much by a reluctance of lenders as it has been by the recipient states themselves. As Kyrgyzstan's debt has grown, the willingness to take on new loans has diminished.

There is a caveat to this assessment on both governments' restraint – new debt acquisition has assumed strong economic growth which was achieved for most of the 2006-2016 period. If either country entered an extended period of economic stagnation, those ratios will be much harder to maintain. The Kyrgyz and Tajik governments are very aware of this situation.⁵⁸ Kyrgyz Minister of Finance Adylbek Kasymaliev in December 2016 said:⁵⁹

The peak of repayments will not be for 2018, but for the period 2024-2031. Then each year loan servicing will go from 250 million to over 300 million dollars. But I would like to quote other figures. In 2010, budget revenues amounted to 49 billion Soms, and in the current year [2016] already amount to 124 billion Soms. That is, for six years, revenue has grown threefold. Accordingly, by 2024, GDP and revenues will also increase. I think by then the income will allow for paying out loans.

Another important consideration for both governments is the diversity of their debt portfolio. It is economically sensible and politically expedient to not have all of a country's debt owed to a single foreign lender. Both countries have been very active in trying to maintain diversity in their debt portfolio. As Edil Baisalov (the Otunbayeva administration figure) said to the author, "We need to avoid only reorienting towards China."⁶⁰ The former Kyrgyzstan Finance Minister Kasymaliev added the following:⁶¹

Yes, now more than 30 percent of loans are issued by the China Export-Import Bank. But we adopted the Strategy for Public Debt Management, which provides that no more than half of the loans are from one borrower. Now I do

⁵⁸ This point was made to me numerous times by senior economic officials in Kyrgyzstan and Tajikistan in research interviews conducted between November 2015 and March 2016.

⁵⁹ Bakyt Tolkanov, "There is No Fear of China's loans – The Finance Minister Speaks Frankly about State Debt [Нет страха перед кредитами Китая — министр финансов откровенно о госдолге]," *Sputnik*, 21 December 2016, <https://ru.sputnik.kg/economy/20161221/1030903550/o-pike-vyplat-po-gosdolgu-i-poty Janet-li-ih-kyrgyzstan.html>.

⁶⁰ Interview with Edil Baisalov in Bishkek, September 2017.

⁶¹ Interview with Edil Baisalov in Bishkek, September 2017.

not see anything terrible in this. We have and will have the capacity to repay and service the loans. We do this without delay. Creditors give preferential long-term loans, which go to road construction and energy.

When a Kyrgyzstan or Tajikistan Ministry seeks funding for a project it usually canvasses multiple donors.⁶² A senior Tajikistan official said in research interview, “We seek sources of funding from everywhere, including the Asian Development Bank (ADB), World Bank, Iran and China too.”⁶³

The problem is, of course, that Eximbank has generally been willing to lend more than other lenders. A senior Tajikistan official noted that Eximbank was the most reliable lender because it followed through once the contract was signed. Other interlocutors in both Kyrgyzstan and Tajikistan had said that Russia often promised money but rarely delivered. Eximbank has further advantages over other lenders, it is faster in approving projects and can often lend more money in one tranche than other lenders.⁶⁴ The downsides of this approach are also evident – opacity, corruption and overpriced contracts due to lack of competition.

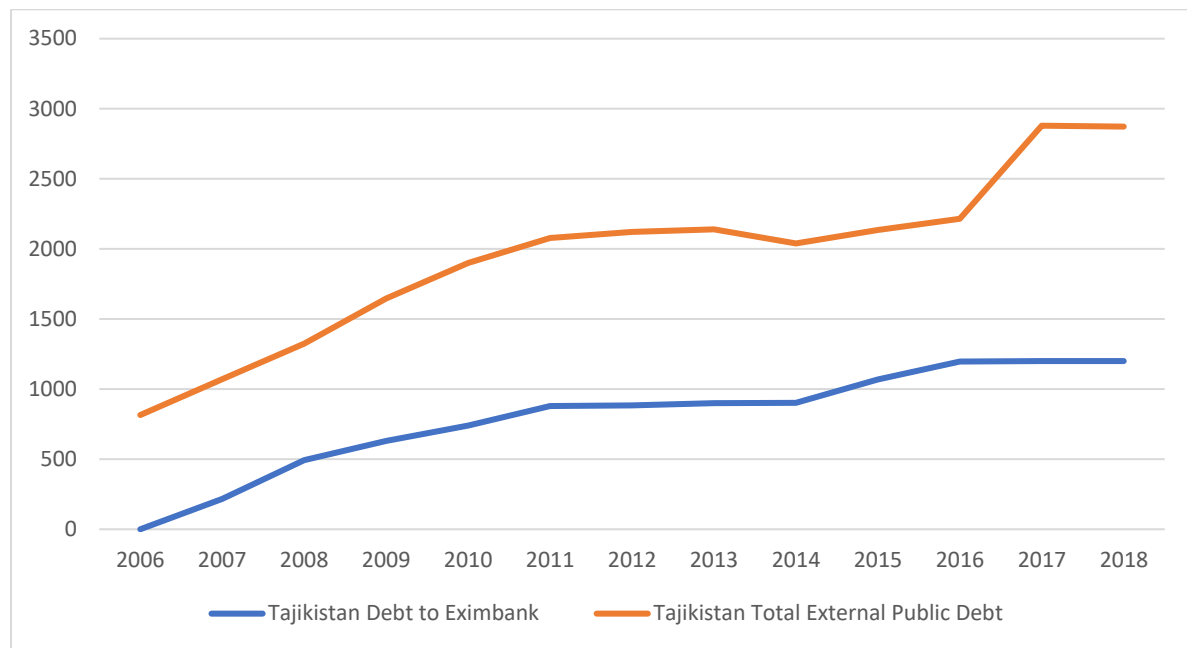
This raises the question of how to diversify. Neither country has found a perfect answer. Kyrgyzstan has simply slowed its borrowing from all sources (see Figure 3.5 earlier in this chapter). This will create challenges when Kyrgyzstan again decides to build infrastructure. Tajikistan issued bonds on European markets worth USD 500 million for the Rogun Dam – a project the PRC has so far refused to fund. This has diversified Tajikistan’s external public debt portfolio. But the Eurobonds have a short repayment 10-year repayment period and an interest rate of 7.25 percent which is eye-wateringly high compared to Eximbank loans (typically 2 percent).

⁶² Brief discussion between author and Ministry of Transport and Roads official in November 2015; Interview with Arslanbek Omurzakov, Deputy Director of the National Institute for Strategic Studies of the Kyrgyz Republic in Bishkek, December 2015.

⁶³ Interview with senior Tajik economic official in Dushanbe, January 2015.

⁶⁴ This was a recurring comment from interlocutors across politics, government, business and academia. Interviews conducted November 2015 to March 2016 in Kyrgyzstan and Tajikistan.

Figure 3.9 Tajikistan Total External Public Debt and Debt Owed to Eximbank 2006-2018 Q3 (USD Millions)



Source: Tajikistan Ministry of Finance

There is a contradiction between Tajikistan and Kyrgyzstan government departments going directly to Eximbank (and other lenders) with their own projects and Eximbank's stated policy of letting companies approach the relevant government ministry. When I presented this view to government officials in Tajikistan and Kyrgyzstan, they said that the companies (essentially TBEA and CRBC) were well connected to the ministries and the political class, and they would find out very quickly if there was a new project being proposed.⁶⁵ So while the ministries may make approaches directly to Eximbank, CRBC and TBEA would position themselves to help facilitate communication between the ministry(ies) and Eximbank or MOFCOM. They also used this process to position themselves as the contractor of choice, should a new project be proposed within the Tajikistan or Kyrgyzstan governments.

⁶⁵ Interviews with officials the Ministry of Transport in Kyrgyzstan, the State Committee on Investments and State Property Management of the Republic of Tajikistan, the Ministry of Economic Development and Trade in Tajikistan and the National Bank of Tajikistan. Interviews conducted between November 2015 and March 2016.

Third, the Tajik and Kyrgyz governments have input at the project selection phase which often includes finalising many of the details of the project. Government departments in both Tajikistan and Kyrgyzstan have priority projects which they seek to finance. Many of the Chinese-financed projects were originally suggested by government departments or by political parties in Kyrgyzstan .

In Kyrgyzstan, a good example of the Kyrgyz government putting forward a project for funding is the Bishkek-Naryn-Torugart Road. In 2007, a party platform document for the Ak Jol Party stated that a number of roads, including the Bishkek-Naryn-Torugart road should be improved and upgraded.⁶⁶ After Ak Jol won a majority of seats in the 2007 parliamentary elections, the project became a priority. In 2008, a concept document on the formation of a common transport space in the Eurasian Economic Community (EEC), which later became the Eurasian Customs Union, albeit with a smaller membership) listed the rehabilitation of the Bishkek-Naryn-Torugart road as a priority project.⁶⁷ The EEC never funded any of the projects on the list. Then in 2009, Eximbank and the Kyrgyz Government signed a deal to fund the road section from kilometre number 9 to kilometre number 272. The Kyrgyz Government also signed deals at around the same time with the ADB to fund rehabilitation of road section for kilometres 365 to 470 (delivered in three tranches) and the section for kilometres 479 to 539. The Kyrgyz Government also signed an agreement with the Arab Coordination Group to partially fund works on road section 272 to 365 kilometres. The mix of funding sources demonstrates that the Kyrgyz government was determined to find diverse funding sources for the Bishkek-Naryn-Torugart road. The elected parliamentary

⁶⁶ “Political Party Program for the ‘People’s Party’ Ak Zhol [Программа политической партии «Народная партия «Ак Жол»],” *Akipress*, accessed 15 September 2017, http://akipress.org/_htm/prog_akjol.htm.

⁶⁷ “The Concept of Forming the Common Transport Space of the Eurasian Economic Community [Концепция формирования Единого транспортного пространства Евразийского экономического сообщества],” The Eurasian Economic Community, last modified 25 January 2008, <http://www.evrazes.com/docs/view/68>.

majority had a very clear idea of what project it wanted and then set about seeking funding for it.

One potential counterargument is that the Chinese only fund projects which are beneficial to trade with China. The Bishkek-Naryn-Torugart road connects Kyrgyzstan's largest city with the Chinese border. But the Chinese have not just funded roads to the Chinese border. The majority of large Eximbank-financed road projects in Kyrgyzstan and Tajikistan do not link to China's border.

In Tajikistan, the two most expensive Eximbank-financed road projects are the Dushanbe-Chanak road and the Dushanbe-Dangara road (see Table 3.1 earlier in this chapter). Both of these radiate away from Dushanbe in a direction parallel to (not towards) the Chinese border. The only road connection between China and Tajikistan at the Qolma (sometime transliterated as Kulma) Pass is still largely dirt on the Tajik side. The other potential China-Dushanbe transit route via Southern Kyrgyzstan and Northern Tajikistan to Dushanbe has not seen significant Eximbank funding inside Tajikistan.

In Kyrgyzstan, the most expensive Eximbank-financed road project is the Bishkek-Osh alternate road which joins the two largest population centres. This too runs parallel to the Chinese border and does not function to connect China with major Central Asian population centres. In 2011 President Almazbek Atambayev said: "It is necessary to build another motorway connecting the south and north of the country. It is impossible that the Bishkek-Osh road was the only highway connecting the south and north, this is a question of the security of our state."⁶⁸ The road was a political priority of the Kyrgyz President, not a

⁶⁸ Dastan Umotegin, "Kyrgyzstan Restores Restriction on Total Vehicle Weights" [Кыргызстан возвращает лимит на общий вес автотранспорта], *Kloop*, 28 December 2011, <https://kloop.kg/blog/2011/12/28/s-1-yanvary-a-vlasti-postavyat-ogranicheniya-na-obshhij-ves-avtotransporta/>.

Chinese strategic need, well before the project commenced in 2014. The North-South road and rail projects are explored as part of a combined case study at the end of this chapter.

Finally, recipient states have some say over financing terms. Obviously, donors set the broad terms for lending money. In the case of Eximbank's concessional loans, the interest rate is two percent with a repayment period of around 20 years and usually include a grace period before repayments are required. In recent years as Kyrgyzstan has taken on larger loans (USD 386 million for the CHP and USD 400 million for the North-South Road), it has negotiated longer grace periods of 11 years, so Kyrgyzstan does not need to start repaying the big loans until 2024.⁶⁹ The early loans mainly had grace periods of five years.⁷⁰

3.5.2 Eximbank and MOFCOM Project Evaluations

As outlined in earlier sections, Eximbank and MOFCOM are focused on repayment capacity, political risks and the development potential of individual projects as well as China's national interest.

MOFCOM and Eximbank do not publish direct assessments of country risk. However, there are two Chinese government-affiliated organisations which do publish country risk evaluations: Sinosure and the International World and Economy Program at the Chinese Academy of Social Sciences.

Sinosure is a centrally controlled state-owned insurer provider. It was formed in 2001 by merging the export credit insurance section of the China Eximbank and the Export Credit Insurance Department of the People's Insurance Company of China. This was done as part of China's accession to the WTO. Sinosure is the insurer of choice for overseas projects funded

⁶⁹ Dirk van der Kley, "Can Central Asia's Poorest States Pay Back Their Debts to China?" *The Diplomat*, 1 Decemebrr 2017, <https://thediplomat.com/2017/12/can-central-asias-poorest-states-pay-back-their-debts-to-china/>.

⁷⁰ Dirk van der Kley, "Can Central Asia's Poorest States Pay Back Their Debts to China?"

by Eximbank. It insures most (maybe all) Eximbank-funded projects in Kyrgyzstan and Tajikistan. Sinasure's risk assessment is probably the best publicly-available equivalent of Eximbank's and MOFCOM's evaluation of risk in both countries.

In the mid-2000s, as Chinese companies went abroad in ever greater numbers, numerous companies found themselves caught off guard by political changes. Beyond the obvious losses to companies (often underwritten by state-owned banks), there was also the security aspect with the PLA being called upon to evacuate tens of thousands of Chinese employees from dangerous environs. Eximbank too has suffered from government defaults (or significant renegotiation of terms) in countries that suffered political and economic shocks.

Sinasure began publishing its *Country Risk Assessment* annually from 2005.⁷¹ It provides an overall risk rating from one to nine (nine being the riskiest). In 2014, Sinasure rated Tajikistan a seven and Kyrgyzstan an eight.⁷² Sinasure has lost significant money on projects elsewhere in the world. The Addis Ababa-Djibouti railway cost Sinasure nearly USD 1 billion and in 2019 Sinasure's Chief Economist said the planning behind many overseas projects was "severely lacking".⁷³ Witold Wilinski and Xiaoxin Li documented cases of Sinasure paying out companies for costs incurred due to political turmoil in Africa in 2011.⁷⁴

Eximbank and the recipient states are sometimes unable to agree on terms for individual projects. Most concerns centre on repayment methods and repayment capacity.

⁷¹ "Country Risk Assessment" [国家风险分析报告], China Export and Credit Insurance Corporation, accessed 13 June 2019, <http://www.sinasure.com.cn/ywjs/gdyw/gjfxfbg/index.shtml>.

⁷² Cited in Mao Di and Song Yinqiu, "The Evaluation of Investment Environment in Banking among the Five Central Asian Countries" [中亚五国银行业投资环境评价], *Science and Technology Development* 6, no. 11 (2015), 712.

⁷³ Eric Ng, "Botched Chinese Railway Project in Africa is a Warning to Belt and Road Investors," *South China Morning Post*, 29 October 2018, <https://www.scmp.com/business/banking-finance/article/2170549/botched-chinese-railway-project-africa-warning-belt-and>.

⁷⁴ Witold Wilinski and Xiaoxin Li, "Effects of Government Economic Policy on Outward FDI," in *Institutional Impacts on Firm Internationalization*, ed. Svetla Marinova (London: Palgrave Macmillan, 2015), 77-79.

This indicates that Eximbank does not fund every single project. Nor do recipient states always accept the terms of the agreement.

The Tajikistan Ministry of Minister of Energy and Water Resource was seeking funding for an upgrade on a CHP in Dushanbe from 2009 onwards. All financiers including Eximbank refused to finance the project (shown in detail in the case study on next page). The Minister of Energy and Water Resources Usmonali Usmonov said that “It has practically been impossible to attract funds from international financial institutions for construction of the Dushanbe-2 CHP plant.”⁷⁵

3.5.3 The Role of Companies

China’s companies play a very significant role in getting concessional loans issued in Kyrgyzstan and Tajikistan. As was outlined in the section on the Eximbank loan approval process, companies are supposed to work with recipient governments during the initial stages of a concessional financing application. The two most successful Chinese companies in Tajikistan and Kyrgyzstan, TBEA and CRBC, cultivate very close links with government and on many occasions proactively guide the recipient governments to projects that have a strong chance of receiving Eximbank funding.

The case of Longhai Road and Bridge Corporation is good example of a company trying to guide a recipient government towards their services. In 2015, Kyrgyzstan’s Ministry of Transport put a tender out for the Balykchi-Korumdu section of road, near Issyk-Kyl. This project was to be funded by the Kyrgyzstan government – an example of infrastructure building that would not require foreign funding. Four companies bid for the project – one Turkish, two Kyrgyz and one Chinese company, Longhai Road and Bridge Corporation. The PRC company was awarded the contract in 2015 despite reportedly not having a permit to

⁷⁵ Payrav Chorshanbiyev, “Tajikistan Expected to Give One of Deposits in Ayni District to China for Dushanbe-2 CHP Plant,” *Asia Plus*, 31 January 2014, <http://news.tj/en/news/tajikistan-expected-give-one-deposits-ayni-district-china-dushanbe-2-chp-plant>.

operate in Kyrgyzstan. Other foreign companies were excluded from bidding for the project for that reason.⁷⁶

The scandal deepened when accusations surfaced that funding had not been secured for the project (and thus LRBC's contract).⁷⁷ The former Deputy Minister of Transport and Communications Ulan Uezbaev, Prime Minister Temir Sariev and the Transport Minister Zamirbek Aidarov all lost their jobs due to the scandal.⁷⁸ Uezbaev told journalists in 2016 "Exim Bank of China was ready to finance not only Balykchi-Korumdu road, but the whole Issyk-Kul ring."⁷⁹ There were no public records of this and so Uezbaev added the qualifying comment that "other companies which were ready to agree with certain financial institutions came to my office, and they, in their turn, could attract governments of their countries to allocate preferential financing for this project."⁸⁰ To the external observer, this looks like Longhai going into Uezbaev's office and offering to get Eximbank to fund the project.

It is impossible to know if Uezbaev is telling the truth. But if his story is true, a Chinese company going to his office and offering to help secure funding from Eximbank fits the modus operandi of companies promising Eximbank funding for certain projects. This is not the method of any of the other major donors (World Bank and ADB) in Kyrgyzstan. They employ a tender system after the loan is finalised. If Uezbaev's story is not true, strange and unexplained relations between LRBC and the Ministry of Transport and Roads brought down a prime minister and numerous senior officials. Either way, the influence of LRBC on the

⁷⁶ Nurjamal Djanibekova, "Kyrgyzstan: Showcase Highway Project Stuck in Funding Jam," *Eurasianet*, 18 January 2018, <https://eurasianet.org/kyrgyzstan-showcase-highway-project-stuck-in-funding-jam>.

⁷⁷ Nargisa Osmonova, "Ulan Uezbaev: Exim Bank of China Was Ready to Finance Not Only Balykchi-Korumdu Road but Issyk-Kul Ring," *24.kg*, accessed 13 May 2016, <https://24.kg/archive/en/community/180407-news24.html/>.

⁷⁸ "Balykchi-Korumdu Road. Accounts of Longhai Company Blocked," *24.kg*, 15 December 2018, https://24.kg/english/104024_Balykchi_Korumdu_road_Accounts_of_Long_Hai_company_blocked_.

⁷⁹ "Exim Bank of China was Ready to Finance not only Balykchi-Korumdu Road, but the Whole Issyk-Kul Ring," *24.kg*, 13 May 2016, <https://24.kg/archive/en/community/180407-news24.html/>

⁸⁰ "Exim Bank of China was Ready to Finance."

political system is clear. The Ministry of Transport and Roads has since found part of the funding for the Balykchi-Korumdu road.⁸¹ LRBC is still the main contractor for the project.

In its own documents, Eximbank specifically warns companies against working with recipient governments to pressure Eximbank to lend money when the company has not yet been approved by MOFCOM for overseas bidding.⁸² Eximbank calls this activity “Daobi” (which literally means to change things from the bottom up).⁸³ The bank has tried to implement tighter rules on Chinese companies before the application, forcing the companies to apply for a licence to be able to negotiate or tender for overseas contracting projects (which Eximbank can fund) and also working with the companies to improve their oversight at implementation.

This also highlights that companies do not always exactly act in China’s national interest. Many arms of the Chinese government have warned Chinese companies to improve the way they manage risk and not to behave ways that harm China’s reputation. Hu Xiaolian, President and CEO of China Eximbank, published this comment on the Eximbank website in 2017: “Chinese companies, especially local and private companies, have a strong desire to invest and operate [overseas], but usually these companies are not familiar with the host country’s policies and legal environment. Their capacity and experience to run overseas project is insufficient, and they lack internationalised staff.”⁸⁴ LRBC is both a private and local company, hailing from Qingdao.

⁸¹ “PM Jeenbekov: Balykchi-Korumdu Road Reconstruction Was 'Challenging', Government Had to Use Means Intended for Some Schools,” *Akipress*, 21 September 2016, <http://akipress.com/news:582644>.

⁸² “China Export Import Bank: Introduction to the ‘Two Concessional’ Loans.”

⁸³ “China Export Import Bank: Introduction to the ‘Two Concessional’ Loans.”

⁸⁴ “‘Study and Research’ Hu Xiaolian: Providing Strong Financial Support for ‘OBOR’” [《学习与研究》胡晓炼：为“一带一路”建设提供有力金融支持], Eximbank, last updated 15 September 2017, http://www.eximbank.gov.cn/tm/medialist/index_26_30297.html.

3.6 Case Studies

3.6.1 Case Study 1: TBEA's Dushanbe 2 Combined Heat and Power Plant (CHP)

This case study was chosen for several reasons. Firstly, TBEA is a publicly-listed company so there are shareholder reports which give a good indication of company activities. Secondly, the project is one of the most expensive financed by Chinese concessional loans in Tajikistan, so it is a project where Eximbank has a significant amount of interest. Thirdly, the project evolved significantly from the initial MoU to final implementation – this offers lot of data points for study.

The Dushanbe-2 CHP provides thermal heating and electricity for Dushanbe and its surrounds by burning coal. The steam passes through a turbine which also generates electricity and then the steam is piped directly in Dushanbe houses using the pre-existing Soviet thermal heating network. The project in its final form (the various proposals are discussed in detail below) consisted of two phases of construction. Phase 1 (2012-2014) installed a single line with capacity of 100 MW (two 50 MW generators) and phase 2 (2014-2016) installed a second line with capacity of 300 (two 150 MW generators).⁸⁵

While the Dushanbe-2 project has now been labelled a BRI project, it actually began well before Xi Jinping came to power.⁸⁶ The project was reported in the media in early 2009 as a Memorandum of Understanding between the Ministry of Energy and Industries (it later changed its name to the Minister of Energy and Water Resources) and TBEA.⁸⁷ The memorandum listed three specific projects:

⁸⁵ "Second Line of Dushanbe-2 CHP Plant Expected to be Introduced into Operation Next Year," *Asia Plus*, 4 August 2015, <http://www.asiaplus.tj/en/news/tajikistan/economic/20150804/second-line-dushanbe-2-chp-plant-expected-be-introduced-operation-next-year>.

⁸⁶ "Interview: Belt and Road Initiative Bolster China-Tajikistan Ties, Says Ambassador," *Xinhua*, 10 October 2018, http://www.xinhuanet.com/english/2018-10/10/c_137521680.htm.

⁸⁷ Payrav Chorshanbiyev, "China's Company to Build Small Power Plant and Rehabilitate Transformer Plant in Tajikistan," *Asia Plus*, 21 February 2009, <http://www.news.tj/en/news/china-s-company-build-small-power-plant-and-rehabilitate-transformer-plant-tajikistan>.

- Construction of a 200MW coal power station in Dushanbe
- Construction of a 200MW hydropower plant Nourobod-1 on the Khingob River
- The rehabilitation of a transformer-producing plant in Qurghonteppa.

The second and third projects appear to have never eventuated. According to local residents, as of June 2015 work had not commenced on the hydropower plant.⁸⁸ There have also been suspiciously few updates on the transformer plant in Qurghonteppa.⁸⁹

Construction of the CHP did not start for three years due to negotiations over funding. In 2011 TBEA Chairman Zhang Xin posted a response on the TBEA website to an investor's question. He wrote:⁹⁰

Regarding your question about the initial contract for the 270MW [200MW in original MoU] thermal power station in Dushanbe signed between Tajikistan and our company, the financing and construction method for this project are currently being actively discussed with Tajikistan's Energy Ministry [Ministry of Energy and Water]. The company will make an announcement at an appropriate time in strict accordance with the requirements of the stock exchange.

Finally, in September 2012 TBEA announced that it would build a 100MW (comprised of two 50MW generators - smaller than originally planned) coal-powered CHP at a cost of US\$178m in Dushanbe. This would later be called phase 1.

The funding arrangement for phase 1 was rather unique (phase 2 is discussed further on). According to a company note, TBEA would cover the costs of building phase 1 of the CHP in return for the rights to explore and develop three gold deposits in Ayni district of

⁸⁸ Correspondence with a local resident indicated that as of June 2015 no work had been undertaken.

⁸⁹ A 2014 message on President Emomali Rahmon's website stated that the "President thanks TBEA Chairman for the company's help on transmission line projects and its thermal power plant projects." But there was no mention of the hydropower or transformer plant. See also President Rahmon's website, "Meeting with President of TBEA Company Zhang Xin," President of Republic of Tajikistan, last modified 19 May 2014, <http://www.president.tj/en/node/6729>.

⁹⁰ "Investor Q&A [投资者问答]," Tebian Electric Apparatus, last modified 15 February 2011, <http://www.tbea.com.cn/Modules/Investment/Interlocution/Default.aspx?SortID=0&page=4>.

Sughd province.⁹¹ The note does not indicate how TBEA proposed to finance the construction of the plant before the income from the gold deposits began to flow. A publicly listed company like TBEA has many ways to raise capital but evidence suggests that they borrowed from Eximbank. The Tajik Minister of Energy and Water Resources Usmonali Usmonov said at a news conference that “China’s Xinjiang Tebian Electric Apparatus Stock Co. Ltd (TBEA) has agreed to construct the plant at these terms... TBEA has taken a 179 million USD loan from the Export-Import Bank of China (China Eximbank) at its own risk for construction of the plant.”⁹² TBEA has a history of receiving financing from Chinese policy banks. CDB issued a USD 10 billion credit facility in late 2010 “to support TBEA’s internationalisation strategy and expand its overseas business.”⁹³

This indicates that Eximbank was not willing to lend money directly to the Tajik Government for this project. Instead the bank lent the money to TBEA which then shouldered the risk of developing gold fields in order to repay the loan. TBEA as a large multibillion-dollar company will be able to repay Eximbank even if the gold deposits fail to recoup the full USD 179 million. Tajik Minister of Energy and Water Resources Usmonov laid bare the unwillingness of Eximbank (and other international lenders) to lend money to the Tajik Government for this project: “It has practically been impossible to attract funds from international financial institutions for construction of the Dushanbe-2 CHP plant, which will operate only during winter period.” Usmonov added, “When the project is not designed for

⁹¹ Zarina Ergasheva, “TBEA Dushangbie Mining Co Ltd Carries Out Exploration Operations at Two Gold Deposits in Tajikistan,” *Asia Plus*, 4 September 2014, <http://news.tj/en/news/tbea-dushangbie-mining-co-ltd-carries-out-exploration-operations-two-gold-deposits-tajikistan>.

⁹² Payrav Chorshanbiyev, “Tajikistan Expected to Give One of Deposits.”

⁹³ “CDB Supports the Growth and Strengthening of Xinjiang’s Leading Companies – USD 100 Million in Financing to Help TBEA ‘Go Out’ [国开行支持新疆优势企业做大做强——融资 100 亿美元助力特变电工 “走出去],” China Development Bank, last modified 10 November 2010, <http://www.cdb.com.cn/web/NewsInfo.asp?NewsId=3427>.

the year-round operation, it cannot be efficient, and therefore, nobody wants to finance such projects.”⁹⁴

In an interview TBEA Chairman Zhang Xin said that TBEA’s preliminary analysis indicates that it stood to make a sizeable income from the gold deposits.⁹⁵ But according to Zhang, the Tajik government also agreed to give TBEA the rights to further mining deposits (location not identified) if the profit made from the gold deposits did not cover the cost of building the power plants.⁹⁶ In 2013, the Tajikistan government passed a resolution allowing two specific sites (East Duoba and Kumarga) to be handed over to TBEA in 2013.⁹⁷

As part of the agreement with Ministry of Energy and Water Resources, TBEA is exempted from paying customs duties and value added tax (VAT) on imported equipment necessary for exploration and development of the deposits.⁹⁸ The tax benefits will cease once TBEA recoups its initial costs but it can continue to mine the deposits for profit.⁹⁹ Dushanbe-2’s first phase was completed in 2014.

Phase 1 demonstrates the willingness of companies such TBEA to develop creative funding arrangements to get projects approved. It also shows how companies drive forward Chinese-financed projects overseas.

Phase 2 was funded under a completely different arrangement. Eximbank moved past its concerns about lending directly to the Tajik Government for this project. Phase 2 involved

⁹⁴ Payrav Chorshanbiyev, “Tajikistan Expected to Give One of Deposits.”

⁹⁵ “TBEA to Build Thermal Power Stations in Tajikistan in Exchange for Gold Mine” [特变电工塔吉克斯坦建火电站换金矿], china.com.cn, 28 September 2012, <http://finance.china.com.cn/stock/ssgs/20120928/1048068.shtml>.

⁹⁶ “TBEA (600089) [特变电工(600089)],” China Association for Public Companies, 12 November 2011, <http://www.capco.org.cn/user/info/600089/006.shtml>.

⁹⁷ Resolution Of The Government Of The Republic Of Tajikistan [Постановление Правительства Республики Таджикистан], Zakonodatel'stvo Stran SNG, 13 March 2013 (no. 118), http://base.spinform.ru/show_doc.fwx?rgn=72777.

⁹⁸ Zarina Ergasheva, “TBEA Dushangbie Mining Co Ltd Carries Out Exploration Operations at Two Gold Deposits in Tajikistan,” *Asia Plus*, 4 September 2014, <http://news.tj/en/news/tbea-dushangbie-mining-co-ltd-carries-out-exploration-operations-two-gold-deposits-tajikistan>.

⁹⁹ “TBEA (600089).”

installation of 300 MW of generation capacity and as such it was significantly more expensive than phase 1. The total cost of the project was USD 349 million. Eximbank funded USD 331 million while Open Stock Holding Company Barqi Tojik contributed the remaining USD 18 million.¹⁰⁰

Neither Eximbank nor the Tajik government has publicly explained why they agreed to lend directly to the Tajik government for the second phase of the project but not the first. One very plausible explanation is that political pressure was applied before Xi Jinping's visit to Tajikistan for the SCO Leader's summit in September 2014. The contract for phase two was signed at the summit. It was ratified by the Lower House of Tajikistan's Parliament in January 2015.¹⁰¹

The first and most obvious piece of evidence for the political pressure argument is the timing. The project which Eximbank declined to fund in 2012 when no Chinese leader was visiting the country all of a sudden became appealing to the bank when Xi Jinping was about to visit the country, not long after he had announced the BRI.

There is a second piece of evidence to support the argument for political pressure. When the Tajik Parliament ratified Eximbank's USD 331 million loan in early 2015, it also ratified an Eximbank loan of USD 88.5 million (part of a USD 125 million project jointly financed by Talco) to the Tajik government to build plants that produce cryolite, aluminium fluoride, and sulphuric acid for Talco. Talco is Tajikistan's largest aluminium plant which is state-owned and is generally believed to be controlled by President Rahmon and members of his family.¹⁰²

¹⁰⁰ "Construction of the Second Stage of the Dushanbe-2 CHP has Begun [Строительство второй очереди ТЭЦ "Душанбе-2" началось]," *Sputnik*, 14 May 2015, <http://ru.sputnik-tj.com/energetics/20150514/1015447327.html>.

¹⁰¹ "China Allocates more than USD 500 Million for Projects in Tajikistan [Китай выделяет более \$500 млн на проекты в Таджикистане]," *Sputnik*, 14 January 2015, <http://ru.sputnik-tj.com/economy/20150114/1013930117.html>.

¹⁰² "Tajikistan: TALCO Loses 600 Workers," 21 April 2016, *Eurasianet*, <https://eurasianet.org/tajikistan-talco-loses-600-workers>.

The Talco project too had been on the drawing board for many years. Talco and China National Heavy Machinery Corporation (CNHMC) originally signed an MoU in 2008 to build these plants. But for six years both sides were unable to agree on financing. Then in 2014, in the lead-up to Xi Jinping's visit to Dushanbe, CNHMC and Talco used the politically opportune moment to secure an Eximbank concessional loan.¹⁰³ CNHMC openly acknowledge that they took advantage of the timing of the visit to push their project through the Eximbank approvals process. On their website, they write:¹⁰⁴

The Chinese government put forward the strategic concept of building the Silk Road Economic Belt which created an opportunity to fund the project. On 24 July 2014, our company and Talco re-signed a contract for a package of deals including the design, equipment provision, installation and EPC for 12000 tonne cryolite, 18000 tonne aluminium fluoride facilities and an annual production increase of 10000 tonnes of sulphuric acid. This September [2014] around the SCO Leader's Summit, our company in cooperation with MOFCOM and the owners of Talco seized this opportunity to promptly apply for a loan from the [Chinese] government. Following this, after much detailed and difficult work, the project passed the strict and professional on-site inspection, data review and project feasibility assessment of China Eximbank, and was finally approved.

CNHMC realised the importance of timing. The company openly states they took advantage of a politically opportune moment to apply for funding. They could of course apply for funding at any time but in the five years leading up to this summit new Eximbank loans to the Tajik government were minuscule, so this suggests that Xi Jinping's visit had a big impact on Eximbank's decision-making.

If we circle back to the USD 331 million Eximbank loan for Dushanbe-2 CHP, it is possible that a similar set of events could have occurred for TBEA on the Dushanbe project. Like the Talco project, the upgrading of Dushanbe-2 was first proposed many years before it was financed and Eximbank was not willing to loan money to the Tajik government for the

¹⁰³ Martha Brill Olcott, *Tajikistan's Difficult Development Path* (Washington, D.C.: Carnegie Endowment for International Peace, 2012), 210.

¹⁰⁴ "Tajikistan Aluminium Project Loan Agreement Officially Signed [塔铝项目贷款协议正式签订]," China National Heavy Machinery company website, last updated 18 November 2014, <http://www.chmc.cc/contents/103/21582.html>.

project. Finally, in 2014 when Xi Jinping was on his first state visit to Tajikistan following the announcement of One Belt One Road (OBOR), Eximbank funded the project.

Phase 2 of the Dushanbe CHP was completed in late 2016 and has greatly improved the city's heating. This project demonstrates four things:

- The important role that Chinese companies play in obtaining concessional financing for the projects.
- Recipient states have a substantial say in the types of projects that get financed (this was a project put out to tender by the Ministry of Energy and Communication).
- Eximbank's reluctance to finance projects it deemed to be of questionable developmental value (phase 1).
- The role Chinese political pressure can (sometimes) play in changing Eximbank's evaluation of a project.

3.6.2 Case Study 2: The Kyrgyz Section of the China-Kyrgyzstan-Uzbekistan railway

The project, as the name suggests, is a proposed train line running from Kashgar in China to Andijan in Uzbekistan via Kyrgyzstan. The railway was first suggested by Tashkent in 1996, and while there have been periods of strong support from all three governments, it failed to get off the drawing board. This section focuses on the Kyrgyzstan leg of the railway.

Many hurdles have prevented the building of this project. These include different railway gauges in China and the former Soviet Union, security concerns, disagreements over routes, bad relations between Kyrgyzstan and Uzbekistan, and uncertain economic benefits. Beyond all these problems, the question of financing remains the biggest hurdle. Railways are expensive and no one has yet worked out a financing arrangement suitable to both Kyrgyzstan and China.

Various routes have been suggested for this project and at time of writing no route has been finalised. The preferred routes of the three governments have varied over time but generally Uzbekistan has preferred the shortest route across southern Kyrgyzstan through the Ferghana Valley to the Irkeshtam border post on the China-Kyrgyzstan border. Kyrgyzstan has advocated for a longer route that connects north and south Kyrgyzstan.¹⁰⁵ This is because the north and south of Kyrgyzstan are divided by a mountain range and the only land transportation between the two is a single road which can sometimes get cut off in winter. There is also a political advantage in a northern route for northern Kyrgyz politicians, as they do not want southern politicians to have sole access to what would be a potentially lucrative asset.¹⁰⁶

The cost estimate varies depending on who you speak to and when you speak to them. Some of the earlier estimates were as low as USD 1 billion. That is laughably low. More reasonable estimates are in the USD 4-6 billion range for the shorter route (and more for the longer route).¹⁰⁷ For comparison, a 123-km train line in Uzbekistan that was built in less mountainous terrain cost USD 1.9 billion. Thus, one would expect even the shortest version of this line (250-300 kms) to cost in excess of USD 4 billion. This project alone would cost more than all the other concessional loan projects to Kyrgyzstan combined. Kyrgyz public debt owed to China was USD 1.48 billion at the end of 2016.¹⁰⁸ If Eximbank lent USD 4

¹⁰⁵ Sebastien Peyrouse, "The Growing Trade Stakes of the Chinese-Kyrgyz-Uzbek Railway Project," *CACI Analyst*, 3 November 2009, <https://www.cacianalyst.org/publications/analytical-articles/item/11797-analytical-articles-caci-analyst-2009-3-11-art-11797.html?tmpl=component&print=1>.

¹⁰⁶ Sebastien Peyrouse, "The Growing Trade Stakes of the Chinese-Kyrgyz-Uzbek Railway Project."

¹⁰⁷ Kyrgyz Minister of Transport and Communications Kalykbek Sultanov said in 2015 that a 2012 feasibility study had priced the railway at USD 6-6.5 billion. He adds that since then some price savings have been found through route changes. See Nazgul Begalieva, "Russian Gauge Chosen for the China-Kyrgyzstan Railway" [Для железной дороги Китай - Кыргызстан выбрали российскую ширину колеи], *Vecherni Bishkek*, 25 February 2015, http://www.vb.kg/doc/304479_dlia_jeleznoy_dorogi_kitay_kyrgyzstan_vybrali_rossiyskyu_shiriny_kolei.html.

¹⁰⁸ "Structure of the External Public Debt of the Kyrgyz Republic as of 31 July 2017" [Структура государственного внешнего долга КР по состоянию на 31.07.2017 года], Kyrgyzstan Ministry of

billion to Kyrgyzstan in a short timeframe, it would undoubtedly blow out Kyrgyzstan's debt beyond its legislated ceiling of a 60 percent debt-to-GDP ratio.

This has led to the proposition of Kyrgyzstan giving China access to natural resources as collateral for Chinese financing. Already in 2005, a resource-for-railway swap was being proposed.¹⁰⁹ Any chance of this was scuppered by a violent political coup in Kyrgyzstan in 2005. In 2009, it was reported that Hu Jintao and Kyrgyz Prime Minister Igor Chudinov had agreed to give the Chinese control of a lucrative coal mine in return for construction of the Kyrgyz section of the railroad.¹¹⁰ It is unclear how accurate those reports were, but either way another coup in 2010 put an end to those plans as both Prime Minister Chudinov and President Bakiev were no longer in power.

In January 2011, the project slowly returned to the agenda. Kyrgyzstan's Minister of Transport and Roads Erkin Isakov told a meeting of his parliamentary faction Ata Meken that the government was considering bartering "resources in exchange for investment."¹¹¹

In April 2012, Kyrgyz Prime Minister Omurbek Babanov (a 2017 Presidential candidate) told CRBC in a meeting that "the construction of the railway is important for our country." CRBC agreed to undertake a feasibility study of the route.¹¹²

Finance, last updated 6 September 2017, <http://www.minfin.kg/ru/novosti/mamlekettik-karyz/tyshky-karyz/struktura-gosudarstvennogo-vneshnego-dolga-kr-po-s4245.html>.

¹⁰⁹ "China is Ready to Invest USD 900 Million in Kyrgyzstan in Exchange for Resources and the Construction of a Railway [Китай готов инвестировать \$900 млн. в Кыргызстан в обмен на "ресурсы и строительство ж.д.]," *CentrAsia*, 29 January 2005, <http://www.centrasia.ru/newsA.php?st=1106979480>.

¹¹⁰ US-China Economic and Security Review Commission, *2009 Report to Congress of the US-China Economic and Security Review Commission*, November 2009, 227.

¹¹¹ John C. K. Daly, "China and Kyrgyzstan Discuss Rail Projects," *Eurasia Daily Monitor*, 13 February 2014, <https://jamestown.org/program/china-and-kyrgyzstan-discuss-rail-projects/>.

¹¹² "Construction of the China-Kyrgyzstan-Uzbekistan Railway Discussed in Bishkek," *Kabar*, 17 April 2012, <http://old.kabar.kg/eng/economics/full/3968>.

On 4 May 2012, the expert finance working group for the railway met in Beijing. The meeting was attended by representatives from MOFCOM, Eximbank, CDB, the Kyrgyz Ministry of Transport and Communications, the Kyrgyz Ministry of Finance and the ADB.¹¹³

No agreement was reached at the meeting and afterwards there were differing version of the latest state of the project. On May 23, 2012, President Almazbek Atambaev who had been a big supporter of the project said, “[The project] will give a great push for the Kyrgyz economy. On the other hand, we are demanding that this railroad should connect all railroads in Kyrgyzstan; it's our condition.” He added that “The railroad will go through the Naryn and Osh regions, and that's how the northern Naryn region will be connected to the main railroad. North and south will be connected through this railroad. The whole of Kyrgyzstan will be connected.”¹¹⁴

In the same week, then Chinese Ambassador, Wang Kaiwen (王开文) said this:¹¹⁵

Now there are two unanswered questions: the gauge of the track and the form of investment. The first is a technical issue, it can be solved. As for the second, there were many options, one of them is the use of Chinese preferential loans. Our government is ready to allocate them. But we must receive a guarantee. This is the people's money, so it cannot be allocated just like that. Kyrgyzstan does not have the quota to receive loans under its national guarantee. Also, the issue of investments in exchange for resources was discussed previously. Now the Kyrgyz government has clearly stated that this option is not suitable.

The message was clear from the Chinese side: we will happily provide financing for this project, even at concessional rates, but in the end, you need to pay us back. Wang's use of the term quota is a little vague. He appears to be talking about the Kyrgyz Government's

¹¹³ Liao Chengmei and Wang Cailu, “An Analysis of the Reasons for the Restrictions on the China-Tajikistan-Uzbekistan Railway” [廖成梅、王彩霞：制约中吉乌铁路修建的原因探析], *International Research Reference*, no. 5 (2016), 9.

¹¹⁴ “Kyrgyz President Wants China-Kyrgyzstan-Uzbekistan Railway,” *Radio Free Europe*, 23 May 2012, <https://www.rferl.org/a/kyrgyz-president-pushes-china-uzbek-rail-link/24590625.html>.

¹¹⁵ “China Does Not Insist on Construction of the China-Kyrgyzstan-Uzbekistan Railway [Китай не настаивает на строительстве железной дороги Китай-Кыргызстан-Узбекистан],” *Radio Azattyk*, 29 May 2012, https://rus.azattyk.org/a/tajikistan_train_way/24596210.html.

60 percent debt-to-GDP ceiling. Above that ceiling, the Kyrgyz Ministry of Finance cannot offer a sovereign guarantee, but a sovereign guarantee is a requirement for Eximbank to issue the loan. Either way, the message was simple, ‘we need to be sure of getting our money back’.

In the months and years after this Atambayev steadily became more opposed to the project, and he began to blame neighbouring countries, remarking the railway was of “little use for Kyrgyzstan itself and [would solely benefit] neighbouring countries”¹¹⁶ He also continued to argue for the north-south route of the railway. He said the following in a December 2013 press conference:¹¹⁷

We offer a different railway connecting the north and south of the country. First and foremost, we want a railway linking the north and south. First of all, we will make decisions based on Kyrgyzstan’s national interests. Because, if we construct this proposed railway, the second rail line linking the north and south of the country will never be built. I do not want to take on this responsibility.

Some observers contend that this was a negotiating position.¹¹⁸ Perhaps that is true. Or maybe Atambayev was just frustrated that China would not pay for the Kyrgyz leg of the project.

Another touted option was for CRBC and Kyrgyzstan Railways (KZT) to run the project as joint venture, but the companies could never come to an agreement. So, gridlock formed around the idea.¹¹⁹

The project was put on the back burner by the Atambayev administration in 2013. Around this time, the administration began advocating for the North-South Alternative Road.

¹¹⁶ Fozil Mashrab, “Bishkek Puts Brakes on China–Kyrgyzstan–Uzbekistan Railway,” *Eurasia Daily Monitor*, November 2015, <https://jamestown.org/program/bishkek-puts-brakes-on-china-kyrgyzstan-uzbekistan-railway/>.

¹¹⁷ John C. K. Daly, “China and Kyrgyzstan Discuss Rail Projects.”

¹¹⁸ Interview with Edil Baisalov in Bishkek, September 2017.

¹¹⁹ In 2017, CRBC and KZT finally formed a joint venture but that timing is beyond the scope of this thesis.

As the name suggests it is a road connecting the capital and largest city, Bishkek, in the north with the second largest city, Osh, in the south. At the moment, there is only one road linking these two cities. This extra nexus would provide the north-south connectivity Atambayev had advocated for on the railway.

This new project had never been discussed seriously as a priority before Atambayev came to power, so it raised a few eyebrows among policy makers and commentators in Kyrgyzstan. Edil Baisalov said the project was controlled totally by Atambayev and the Ministry of Transportation and Roads and had been decided without proper parliamentary debate.¹²⁰ He added that he felt the project was a complete waste of money, noting the project ran mainly through remote parts of the country and would cost “[a] billion dollars to replicate a road we already have.”¹²¹ Baisalov, who is a vocal opponent of Atambayev, probably overstated the project’s opacity – the Eximbank loans for the project were approved by parliament – but he was right that the period from proposal to construction was very short. There were also other critics. MP Bakhadyr Suleymanov more recently said, “Every kilometre of this road costs us \$2.5 million,” He added, “I am sure that the amount will grow further, as we will have to consider other expenses, including interest, under which we borrow loans from the Bank of China [Eximbank].” Finally, Suleymanov raised questions about the business case for the road, “Certainly, you can build roads, but how will we continue to service them? Especially since, in the opinion of businessmen, it is completely unprofitable to build anything along the road, because there will not be a lot of congestion on the highway.”¹²²

¹²⁰ Interview with Edil Baisalov in Bishkek, September 2017.

¹²¹ Interview with Edil Baisalov in Bishkek, September 2017.

¹²² “Long Tunnel: Work on Laying an Alternative North-South Route Continues But with Disrupted Plans [Длинный тоннель Работы по прокладке альтернативной трассы Север - Юг продолжаются с нарушением графика],” *Rossiskaya Gazeta*, 11 January 2017, <https://rg.ru/2017/01/11/alternativnaia-trassa-sever-iug-prokladyvaetsia-s-narusheniiami-grafika.html>.

There is evidence that CRBC lobbied the Kyrgyz government for this project to be an alternative to the railway. In a May 2015 in a newspaper interview head of operations for CRBC Kyrgyzstan Zhang Junwu said the company had designed two nationwide transportation plans (one for road and rail) that it gave to the Ministry of Transport and to the President's Office (Roza Otunbayeva was then interim President and Atambayev served as Prime Minister). Zhang said the following:¹²³

The two plans our company did for the Kyrgyz were a road plan and railway plan. The road plan was completed in 2010 and the rail plan in 2011. During the former Soviet Union, Kyrgyzstan was a border country, so all the roads radiated out from Moscow to the border, and these roads themselves were not interlinked. So, over all these years a national road network has not formed. In the twenty to thirty years since just before the collapse of the Soviet Union until now, the road network has not been renovated. The original roads turned to dirt. We've been working on a large number of projects and now wonder, when can the annual rolling restoration of tens of kilometres or new builds actually form a road network? So, we suggested to the government that it should formulate a nationwide road development plan. Because Kyrgyzstan has no railway [not strictly true], it can only rely on air and road transportation, and road transportation is particularly important. We proactively did this plan for the government.

Zhang also added that the plan had led to new road projects being developed in Kyrgyzstan (CRBC is of course the main contractor):¹²⁴

The new North-South road in our plan has already begun construction. Originally, from north to south (Bishkek-Osh) there was only one road. If there was an avalanche, landslide or mudslide, then the road would be blocked. Because the country has no railways, after the highway gets cut off, it is only possible to take the plane. If the airport gets shutdown then the entire country's transportation is paralysed. So, they [the government] are determined to open a second north-south corridor, also called the "North-South New Route" or the "New Bishkek-Osh Route". The project is split into three phases, total investment will be over USD 1 billion. We have already completed phase 1. When we began construction, the President and Transport Minister both attended and placed great emphasis on the project. This year we begin phase 2, the total contract [for phase 1 and 2 combined] is USD 700 million, we plan to take five years to complete the entire route.

¹²³ Zhao Yining, "CRBC: Taking Responsibility for Two Major Transport Development Plans [中国路桥: 承担吉尔吉斯两大交通发展规划]," *21st Century Economic Report* [21 世纪经济报道], 12 May 2015, <http://m.21jingji.com/article/20150512/d6d5120f9142155d67f2078929246036.html>.

¹²⁴ Zhao Yining, "CRBC: Taking Responsibility for Two Major Transport Development Plans."

It is telling that the two actors to whom CRBC sent the road plan (the President and Minister of Transport) became the two biggest advocates of the project. Otunbayeva was President when the road plan was sent, and Atambayev was serving as Prime Minister and was an ally of Otunbayeva at that time. This gives support to Baisalov's view that project was a closed shop between Atambayev, the Minister of Transport and CRBC. The arrangement for the phase 2 loan is a USD 185 Eximbank loan plus a USD 112 million "Chinese government preferential loan."¹²⁵ Chinese government preferential loans are usually shorthand for Eximbank concessional loans and are administered through Eximbank as well, despite the name.¹²⁶ Both loans are administered by Eximbank (just with different names).¹²⁷

An alternative north-south road route had rarely been discussed before CRBC submitted their road transportation plan. According to Zhang, the plan was submitted in 2010. On 28 December 2011, Almazbek Atambayev advocated in Kyrgyz Parliament for building a new north-south road. The Transport Minister also mentioned a new north-south road in January 2012.¹²⁸ The project picked up steam after the railway hit financing roadblocks. In early 2013, the Kyrgyz Ministry of Transport and Roads contracted Kyrgyzdortransproekt, a design institute that was originally attached to the Ministry of Transport and Communications (MOTC), to undertake a feasibility study for the north-south

¹²⁵ "Kyrgyzstan Parliamentary Transport Commission Passes Eximbank Loan Draft Agreement on 'North-South' Road Phase 2" [吉议会交通委员会审议通过“北-南”公路二期口行贷款协议草案], MOFCOM, 5 May 2015, <http://kg.mofcom.gov.cn/article/zxhz/201505/20150500979348.shtml>.

¹²⁶ Junda Jin, Xinyue Ma, Kevin P. Gallagher, *China's Global Development Finance: A Guidance Note for Global Development Policy Center Databases*, Boston University Global Development Policy Center, July 2018, <https://www.bu.edu/gdp/files/2018/08/Coding-Manual-.pdf>.

¹²⁷ "The Structure of External Public Debt for the Republic of Kyrgyzstan as of 31.10.2018" [Структура государственного внешнего долга КР по состоянию на 31.10.2018 года], Kyrgyzstan Ministry of Finance, 7 December 2018, <http://www.minfin.gov.kg/ru/novosti/mamlekettik-karyz/tyshky-karyz/struktura-gosudarstvennogo-vneshnego-dolga-kr-po-s5320>.

¹²⁸ "Speech by the President of the Kyrgyz Republic Almazbek Atambayev at the Session of the Zhogorku Kenesh" [Выступление Президента Кыргызской Республики Алмазбека Атамбаева на заседании Жогорку Кенеша], The President of Kyrgyzstan website, last modified 28 December 2011, http://www.president.kg/ru/news/vystupleniya_obrascheniya/225_vyistuplenie_prezidenta_kyrgyzskoy_respubliki_almazbeka_atambaeva_na_zasedanii_jogorku_kenesha/.

road.¹²⁹ In October 2013, speaking at the opening ceremony of a bridge that would later form part of the new road, Alzambek Atambayev said “This bridge will connect not only the two banks of the river, but also the northern and southern regions of the country, because it will pass a new alternative road north-south, and we will start building it in the near future.”¹³⁰ Then in November 2013, the Zhogorku Kenesh (the Kyrgyz Parliament) approved a draft agreement for a loan on the first phase of construction.¹³¹ Finally, in 2014 construction on phase 1 of the new road began.

While China Road and Bridge Corporation continues to build the Alternative North-South Road, discussions on the railway have again resurfaced. CRBC and Kyrgyzstan Railways finally formed a joint venture. Uzbek-Kyrgyz relations have improved markedly and trilateral workgroups have resumed. Edil Baisalov (the senior figure in the Otunbayeva administration) in an interview just before the 2017 presidential election said that “The China-Kyrgyzstan-Uzbekistan Railway will be priority number one for the new President.”¹³² But financing remains a thorny issue.

So, 21 years after the railway was first proposed, the project remains in the “promising” phase. This case study supports the main argument of the thesis in the following ways:

¹²⁹ “FDI Kyrgyzdorttransproekt” [ПИИ Кыргыздортранспроект], Kyrgyz Ministry of Transport and Roads, last updated 25 November 2016, <http://mtd.gov.kg/pii-kyrgyzdorttransproekt/>.

¹³⁰ “President Almazbek Atambayev Took Part in the Opening Ceremonies of a Bridge over the Kokomeren River and the Launch of an Asphalt Plant in the Naryn Region” [Президент Алмазбек Атамбаев принял участие в церемониях открытия моста через реку Кокмерен и запуска асфальтобетонного завода в Нарынской области], The President of Kyrgyzstan website, last accessed 18 September 2017, http://www.president.kg/ru/news/2946_prezident_almazbek_atambaev_prinyal_uchastie_v_tseremoniyah_otkryitiya_mosta_cherez_reku_kokomeren_i_zapuska_asfaltobetonnoy_zavoda_v_narynskoy_oblasti_/.

¹³¹ “Alternative Road Cuts Distance” [Альтернативная дорога сократит расстояния], *Radio Azattyk*, 29 November 2013, https://rus.azattyk.org/a/kyrgyzstan_new_road_china/25184299.html.

¹³² Research interview with Edil Baisalov October 2016 in Bishkek.

- That Chinese companies such as CRBC actively lobby the President and ministries to get projects approved. When the railway hit roadblocks, they had already submitted detailed proposals for other projects.
- Eximbank and MOFCOM do take repayment seriously. They do not fund projects without a sovereign guarantee or collateral such as resources.

Kyrgyzstan's domestic preferences have a significant impact on the project. China was willing to acquiesce to Kyrgyzstan's preferred route in return for resources. The Kyrgyz side refused this option. Eximbank was also willing to fund the North-South Alternative Road instead of the railway without requiring access to resources because of the lower cost. Kyrgyzstan took this option up.

3.7 Conclusion

This chapter shows the confluence of factors that go into getting a Chinese concessional project approved in Kyrgyzstan and Tajikistan. Chinese political pressure plays a role and, to be sure, Chinese institutions are set up with Chinese national interests in mind. But beyond this, institutions such as Eximbank and MOFCOM must consider other issues such as debt repayment capacity and the development potential of the project. Phase 1 of the Dushanbe-2 CHP demonstrates Eximbank's occasional capacity to shift risk to the company by loaning directly to the firm, essentially bypassing the recipient state. The railway, on the other hand, shows clearly that the Chinese side needs guarantees that loans will be repaid or they will not fund the project.

The agency of local governments and actors overlays Chinese institutional interests. At every step in the process the recipient government has a say – from project selection and details to financing arrangements. Bishkek has in recent years preferred road projects, while Dushanbe has opted for energy projects. These governments are, to the best of their ability,

diversifying their debt sources. The Bishkek-Naryn-Torugart road is clear example of this. The road is funded by Eximbank, ADB, and the Arab Coordination Group. While Eximbank is the most reliable and largest source of funds for Kyrgyzstan and Tajikistan, it is not the only source.

Relations between the two main Chinese concessional loan contractors, TBEA and CRBC, and the recipient governments are also an important factor. In many ways, the companies act as a go-between for both sides. And their interest is simple – getting the tender for as many projects as possible. The plans that CRBC sent to the president's office represent an overt manner of putting new projects on the table.

All this taken together adds a level of nuance to some of the common narratives about China in Central Asia. Here, the author will revisit a couple points from the literature review but apply them only to concessional loans. The dominant realist narrative, put forward for example by Thomas Edgar and Stephen Blank, cannot explain decreasing aid disbursements while also arguing China is seeking to use concessional loans to increase its influence.¹³³ A lot of the earlier realist work on post-Soviet Central Asia viewed China-Russia through a competitive lens, which may or may not be true. But when it comes to issuing Chinese concessional loans in Kyrgyzstan and Tajikistan, competing (or cooperating for that matter) with Russia is pretty low on the agenda. There are clearly other local and institutional factors at play.

¹³³ Stephen J. Blank, "Dragon Rising: Chinese Policy in Central Asia," *American Foreign Policy Interests* 33, no. 6 (2011): 261-272; Thomas Stephan Eder, *China-Russia Relations in Central Asia: Energy Policy, Beijing's New Assertiveness and 21st Century Geopolitics* (Wiesbaden: Springer VS, 2014).

Chapter 4 Plying Trade: Shoes, Glues and Tariff Dues

I worked for ten years at Dordoi. Trade has deteriorated compared to previous years. Since joining the Customs Union [in 2015], Uzbek clients have ceased coming to us. Because it is now unprofitable for them to buy goods from us. They used to buy from us because we were cheaper. I get my goods from China. I used to get them from Urumqi, now I get them from Guangzhou. It has become harder since the government has set the customs duties too high. Because the expenses have grown, I add a maximum of 20 percent to the cost price. This does not even allow me to recoup the costs of transportation from China.

Eliza Moldaliyeva, seller of Chinese goods at Dordoi Market.¹

This chapter, like the entire thesis, uses an organisational model framework which operates under the foreign policy analysis banner. For this chapter, the argument is the main actors – the recipient states and the traders - have their own standard operating procedures (SOPs) that govern their behaviour. For them, China's national interest does not figure prominently.

Between 2006 and 2016, China was the largest trading partner for both Kyrgyzstan and Tajikistan. This was overwhelmingly due to Chinese exports to both countries. Kyrgyzstan and Tajikistan exported relatively small volumes to China in that period. Chinese trade dominance in both countries was built on the back of China's cheap manufacturing which dominated global manufacturing exports worldwide. As Chinese manufacturers move up the value chain, this dominance has slowly begun to recede.

Recipient states' trade regimes also play a role. Since the early 2000s, Kyrgyzstan ran a more open tariff regime than Tajikistan. This made Kyrgyzstan the Central Asian entry point of choice for textile goods which then could be exported to Russia and the rest of Central Asia. But, as the quote at the start of this chapter indicates, this open tariff regime has

¹ Cited in Adilet Temirlanov "Will the Dordoi Market Close?" [Рынок "Дордой" будет закрыт?], *Gezitter*, 15 January 2016, http://www.gezitter.org/society/46845_ryinok_dordoy_budet_zakryit/.

vanished with Kyrgyzstan's ascension to the Eurasian Economic Union (EAEU) in 2015, at least for countries outside the EAEU. This chapter shows that small-scale re-export businesses are being steadily replaced by mid-size clothing manufacturers that source many of their inputs from China.

The precursor to Chinese export dominance globally (and thus in Kyrgyzstan and Tajikistan) began with the death of Chairman Mao in 1976. China under Mao was actually highly industrialised but inefficient. Efficiency was increased by slowly loosening price and market controls across an increasing number of industries from the late 1970s. At the same time China opened special economic zones (SEZs) to attract foreign investment as part of plan to develop China's export base.² These SEZs, all initially located on China's eastern coast, later turned into the manufacturing hubs that would make China the world's factory. Chinese export growth to Kyrgyzstan and Tajikistan derives from a central government policy to drive development in China. That, in some sense, is a classic example of a centrally-driven rational actor approach to domestic economic development which in turn has significant implications for foreign trade and foreign policy.

Chinese exports to Kyrgyzstan, Tajikistan (and Central Asia more broadly) only became possible after the collapse of the USSR. Certainly, in Beijing some attention was paid to this issue from the 1990s onwards. But for China, then as now, exports to Central Asia only make up a tiny portion of China's total exports – less than 0.01 percent.³ But from mid-1990s onwards there was a clear strategy to open up linkages and encourage trade between China and the Central Asian states. The goal was twofold. Firstly, the Chinese state was trying to provide economic opportunities for Xinjiang as a way to stabilise the XUAR. It was

² Barry Naughton, *The Chinese Economy: Transitions and Growth*. (Cambridge, Mass: MIT Press, 2007), 220-221.

³ UN Comtrade data, last accessed 29 May 2018. For example, in 2016 China's total exports were worth USD 2.1 trillion. The sum of China's exports to the five Central Asian states was USD 17.9 billion.

envisioned in several development plans that Xinjiang would become a manufacturing and agricultural hub for Central Asia. Secondly, linkages with Central Asia would allow China to promote its interests in Central Asia which at that point primarily involved cooperating on security issues (mainly the monitoring and extradition of Uyghurs to China) and securing Central Asian hydrocarbons.

Certainly, in the intervening years, China has achieved some of these goals. It has successfully built pipelines to transport Central Asian hydrocarbons to China. Chinese firms have significantly invested in the hydrocarbons sector in Kazakhstan, Uzbekistan and Turkmenistan (Kyrgyzstan and Tajikistan do not have sizeable hydrocarbon reserves). Central Asian states, including Kyrgyzstan and Tajikistan, from the early 1990s until publication of this thesis (2019) have extradited Chinese citizens to China.⁴ This was prevalent in Kyrgyzstan than Tajikistan because of the larger Uyghur population in Kyrgyzstan.

However the plan of using exports to Central Asia as way to develop Xinjiang's manufacturing sector has been unsuccessful, and this is where the central-focused rational actor thesis falls down. To be sure, Xinjiang has recorded significant export growth to Kyrgyzstan and Tajikistan since 2001. But as two authors from Xinjiang Normal University's Institute of Economics write, "Most of the goods sold [overseas] were purchased from the interior [eastern China], and Xinjiang is merely a transfer station."⁵ Evidence presented in this chapter supports the conclusions of those two Xinjiang scholars. The lack of economic benefits for Xinjiang from its trade with Central Asia are, at least in part, due to the actions of

⁴ Amnesty International, "People's Republic of China: Uighurs Fleeing Persecution as China Wages its 'War on Terror'," 6 July 2004, <https://www.amnesty.org/en/documents/ASA17/021/2004/en/>.

⁵ Huang Yichao and He Xiangyu, "Analysis of the Current Situation and Limiting Factors of Economic Cooperation between China's Xinjiang and the Five Countries of Central Asia" [中国新疆与中亚五国经济合作现状与制约因素分析], *Xinjiang Finance*, no. 7 (2007), 28.

actors other than the central Chinese government. This chapter focuses on two sets of actors: the recipient states and the traders.

The main aim of recipient governments Kyrgyzstan and Tajikistan is to economically develop the country. People within these governments often seek to enrich themselves. This operates differently in each country. Kyrgyzstan has a more diffuse system of elites which spreads wealth more widely. Generally, Kyrgyzstan advocates a more open trading system (2015 ascension to the EAEU is perhaps an exception depending on one's judgement of that decision). The situation is different in Tajikistan. Elites tend to be made up of a rotating cast of President Rahmon's family and friends. As a former US Ambassador to Tajikistan concluded, "it is more important to be close to President Rahmon and his family members than to run a successful business."⁶ This tends to favour a more controlled policy environment where resources and power are concentrated in the hands of a few. Under these circumstances, broadly opening up the economy is opposed because it means losing control over key assets and industries for Rahmon and his allies.

The difference in these two systems is demonstrated in the relative openness of their trade regimes. In 1998, following ascension to the WTO, Kyrgyzstan decided to run a lower tariff regime than Tajikistan and Kazakhstan (the other Central Asian states that border China) which made it much more attractive for Chinese exports. Kyrgyzstan and Tajikistan have similar populations and economic size, yet Kyrgyzstan in any given year imports between three to five times the value of Chinese goods compared to Tajikistan (detailed in the data section of this chapter). This set up Kyrgyzstan to become of hub for re-export of Chinese good throughout Central Asia and Russia.

⁶ Cited in Alexander Cooley and John Heathershaw, *Dictators Without Borders: Power and Money in Central Asia* (New Haven, Connecticut: Yale University Press, 2017), 60.

This relative openness remained in place until 2015 when Kyrgyzstan joined the Eurasian Economic Union (EAEU) which also includes Armenia, Belarus, Kazakhstan and Russia. Kyrgyzstan's ascension raised tariffs for all imports from outside the EAEU. The tariff increases vary by industry, but Kyrgyzstan agreed to cease its lower tariff for bazaar goods which was the policy driver for re-exports.⁷ This too though was a decision based on spreading the wealth. Russia offered lower barriers for Kyrgyz migrant workers in Russia which would give jobs to more Kyrgyz people. The opposite decision has so far been made in Tajikistan. Available evidence, presented in this chapter, suggests Tajik elites are concerned about losing their control over economic resources in a joint union. So, they have not joined the EAEU even though Tajik workers would welcome better work rights in Russia.

The traders' SOP is to maximise profit which includes navigating and sometimes gaming the Byzantine Chinese subsidy system. Further on this chapter demonstrates that Xinjiang official statistics claim the bulk of Chinese exports to Kyrgyzstan and Tajikistan are produced in Xinjiang Uyghur Autonomous Region (XUAR) or in the Xinjiang Production and Construction Corps (XPCC – note XPCC and XUAR run completely separate administrations and statistics). The statistics misrepresent the situation. The vast majority of Chinese exports to Kyrgyzstan and Tajikistan are produced in the eastern provinces despite billions of dollars in subsidies and infrastructure to develop Xinjiang as an industrial base. The inflated statistics are, in part, because goods need to transit through Xinjiang to reach Kyrgyzstan and Tajikistan, but also in part because cross border traders and logistics companies are fraudulently recording goods as 'made in Xinjiang' when they are not.

⁷ Damir Esenaliev and Gulzhan Asylbek Kyzy, "Eurasian Economic Union Policies and Practice in Kyrgyzstan," Stockholm International Peace Research Institute, 16 June 2017, <https://www.sipri.org/commentary/topical-background/2017/eurasian-economic-union-policies-and-practice-kyrgyzstan>.

This chapter is divided into four main sections. Firstly, it provides a brief history of China-Central Asia trade before 2006. Then, it analyses the trade data between China and Kyrgyzstan/Tajikistan between 2006 and 2016. Next, it examines the role of recipient states in shaping the trade relationship. Finally, it looks at how traders operate including arguing that Xinjiang has mainly failed to develop itself into a manufacturing exporter.

4.1 A Brief History of China-Central Asia Trade (as seen from China) before 2006

When China made the decision in the early 1980s to develop special economic zones which would later turn into the country's east coast manufacturing hubs, Kyrgyzstan and Tajikistan (and Central Asia more broadly) did not figure in the decision. They were still part of the Soviet Union and there were no border crossings between Xinjiang and the USSR. The Chinese leadership intentionally targeted the development of the east coast first because the majority of the Chinese population lived in eastern China and because the coastline gave access to global markets by sea.

With the collapse of the Soviet Union, Xinjiang authorities began lobbying for greater integration with Central Asia. In the words of the veteran CPC leader in Xinjiang, Wang Enmao:⁸

A 'Eurasian Continental Bridge' connecting the region's [Xinjiang Uyghur Autonomous Region] economy with that of Central Asia through the development of direct trade relations with neighbouring Central Asian states, increasing state investment in infrastructure projects, and fully developing and exploiting Xinjiang's oil and gas resources.

In the early 90s Xinjiang was not particularly well integrated with the rest of China nor Central Asia, so the strategy in the 1990s was cast as a "double opening", an attempt to

⁸ "Wang Enmao Addresses 16th Xinjiang Party Session", *Urumqi Xinjiang Daily* in FBIS-CHI-91-050, 14 March 1991: 55-63; Wang Enmao had been the top party and military leader in Xinjiang between 1949 and 1969. Cited in Michael Clarke, "China's Integration of Xinjiang with Central Asia: Securing a 'Silk Road' to Great Power Status?" *China and Eurasia Forum Quarterly* 6, No. 2 (2008), 96.

link Xinjiang to Central Asia and China. The basic plan was to build to infrastructure – road, rail and air connections – as well as to open border crossings.

At this point (and up until thesis publication) security and stability was the key objective for the Chinese state in Xinjiang.⁹ The collapse of the Soviet Union had heightened concerns in Beijing about the stability of the periphery, and there had been ongoing unrest in Xinjiang since the establishment of the PRC in 1949.¹⁰ Economic development was (and is) seen as the key plank of securing and stabilising Xinjiang and other peripheral areas. As Michael Clarke writes:¹¹

Beijing is currently pursuing vast, state-led economic development programs along China's frontiers – particularly in Xinjiang and Tibet – designed not only to consolidate and solidify the centre's hold but to also remake these regions into conduits of Chinese power and influence abroad.

Despite some efforts in the 1990s to develop Xinjiang, the region's economic growth lagged behind the eastern provinces. Unequal east-west development and lobbying by the western provinces led Jiang Zemin to announce the “Develop the West” policy in 1999. It came into official force in 2000.¹² “Develop the West” envisaged developing Xinjiang as an industrial and agricultural base and a trade and energy corridor for the national economy.¹³ The use of the term “Develop the West” began to fall out of favour after 2004 but the fundamentals of the policy – to turn Xinjiang into an industrial hub for exports to Central Asia and hydrocarbons – remained the same.

⁹ Nicolas Becquelin, “Xinjiang in the Nineties”, 71-74; Amnesty International, “People's Republic of China Gross Violations of Human Rights in the Xinjiang Uighur Autonomous Region,” April 1999, <https://www.amnesty.org/download/Documents/144000/asa170181999en.pdf>.

¹⁰ Donald H. McMillen, *Chinese Communist Power and Policy in Xinjiang, 1949-1977*, (Boulder: Westview Press, 1979).

¹¹ Michael Clarke, “Beijing's March West: Opportunities and Challenges for China's Eurasian Pivot,” *Orbis* 60, no. 2 (2016), 297.

¹² Amy H. Liu and Kevin Peters, “The Hanification of Xinjiang, China: The Economic Effects of the Great Leap West,” *Studies in Ethnicity and Nationalism* 17, no. 2 (2017), 265-266.

¹³ Doris Ma and Tim Summers, “Is China's Growth Moving Inland? A Decade of ‘Develop the West’,” Chatham House, October 2009, https://www.chathamhouse.org/sites/files/chathamhouse/public/Research/Asia/1009pp_chinasgrowth.pdf.

Certainly, recorded exports from Xinjiang to Kyrgyzstan and Tajikistan grew rapidly from the late 1990s onward. But this chapter shows these statistics were largely a mirage. While some manufacturing growth did occur in Xinjiang, many of the recorded exports from Xinjiang came from mere trading houses pretending to be manufacturers, taking subsidies designed for manufactures operating in Xinjiang. As will be shown in the next section, China's ascension to the WTO and policy decisions by the Kyrgyz and Tajik governments had a bigger impact on Chinese exports to Kyrgyzstan and Tajikistan than any specific program to develop Xinjiang.

Efforts to turn Xinjiang into a manufacturing hub as a way to achieve social stability continue to this day. There is a plan to create one million textile jobs by 2023.¹⁴ A 2014 official document outlining a massive expansion of Xinjiang's textile industry stated: "We must promote employment as a permanent cure to maintain social stability and achieve long-lasting peace, and particularly solve the unemployment problem for peoples in southern Xinjiang."¹⁵

4.2 Kyrgyzstan and Tajikistan Trade Data

Exports from Kyrgyzstan and Tajikistan between 2006 and 2016 are minor compared to imports from the PRC, so this thesis focuses on Tajik and Kyrgyz imports of Chinese goods. Service trade with Kyrgyzstan and Tajikistan is minimal. Hence, this chapter focuses on export of goods (not services) from China to Kyrgyzstan and Tajikistan.

The data used for national level trade between China and Kyrgyzstan/Tajikistan is drawn from the Chinese-reported statistics on the UN Comtrade website. Exports at the national level in China are recorded and reported by the General Administration of Customs

¹⁴ "Xinjiang Cotton at Crossroads of New Silk Road," Ministry of Agricultural and Rural Affairs of the PRC, 16 February 2016, http://english.agri.gov.cn/news/dqnf/201602/t20160216_166203.htm.

¹⁵ Dominique Patton, "Xinjiang Cotton at Crossroads of China's new Silk Road," *Reuters*, 12 January 2016, <https://www.reuters.com/article/us-china-xinjiang-cotton-insight/xinjiang-cotton-at-crossroads-of-chinas-new-silk-road-idUSKCN0UQ00320160112>.

of the PRC. The Customs Administration reports its statistics to the UN and these are the Chinese-reported statistics available on the UN Comtrade website.¹⁶ These statistics are generally regarded as fairly reliable, certainly much more so than Kyrgyzstan's and Tajikistan trade statistics and statistics provided by local governments in China.¹⁷

This chapter also discusses the exports of Chinese provincial-level governments to Kyrgyzstan and Tajikistan, namely the XUAR and the XPCC. For these statistics, the chapter uses the data compiled by local governments which are published in annual yearbooks. This data is not nearly as reliable, but it is important to engage with this data because some of the academic literature (using the local government data) argues that the XPCC is a major player in Chinese trade with Central Asia.¹⁸ This chapter shows that while the XUAR and the XPCC record high levels of exports to Central Asia, many of the goods 'exported' are most likely just being transited from the eastern manufacturing hubs.

4.2.1 Chinese Exports to Kyrgyzstan

Official Kyrgyz data vastly underreports Chinese exports to Kyrgyzstan. Customs guards on the Kyrgyz side report different figures to their Chinese counterparts. This is partially due to corruption – tariffs can be avoided with the right monetary incentive – but also due to a law introduced in 2004 that allows goods destined for Kyrgyz bazaars to be measured by weight not value, so customs officials do not necessarily record the value of the

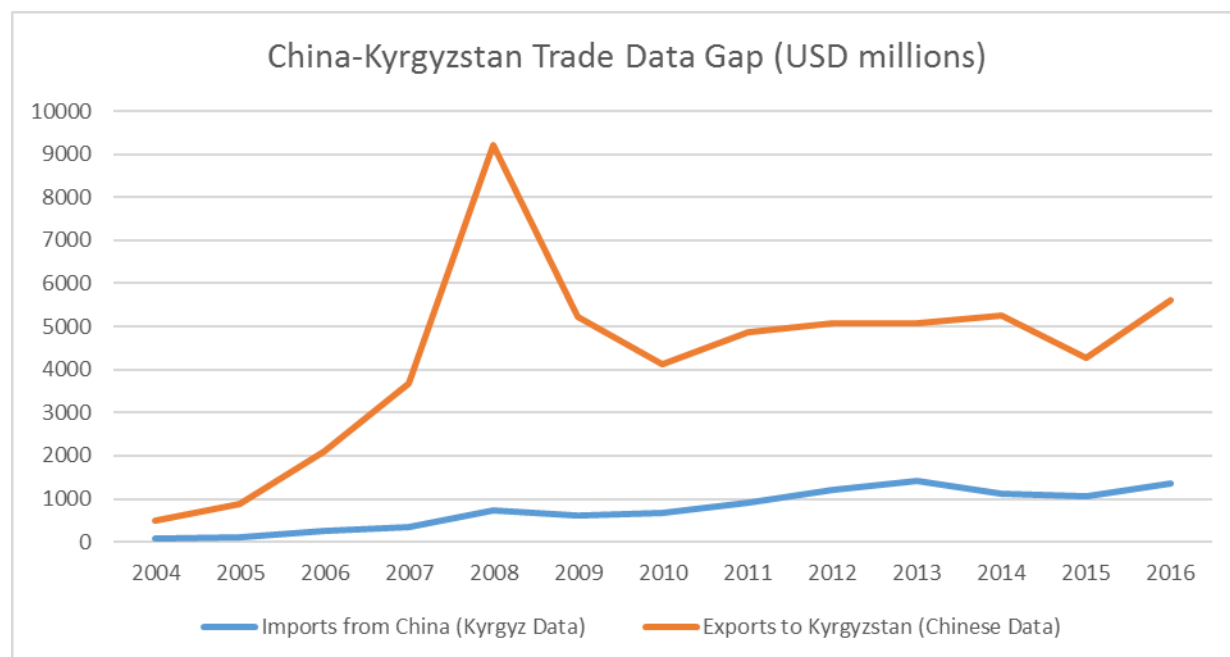
¹⁶ This information is available on the UN Comtrade website. See <https://comtrade.un.org/db/mr/dapubNoteDetail.aspx?r=156>.

¹⁷ Local governments in China are notorious for inflating GDP figures and a range of many other statistics. There is no reason to think that exports would be any different. Chinese National Customs data is reasonably reliable.

¹⁸ Gaël Raballand and Agnès Andréys, "Why Should Trade between Central Asia and China Continue to Expand?" *Asia Europe Journal*, 5, No. 2 (June 2007), 244; Marlène Laruelle and Sébastien Peyrouse, *The Chinese Question in Central Asia: Domestic Order, Social Change and the Chinese Factor* (London: Hurst & Company, 2012): 47-48.

goods in this case.¹⁹ The difference between Kyrgyz and Chinese data is stark. In 2008, for example, China customs reported exporting approximately USD 9 billion worth of goods to Kyrgyzstan. The Kyrgyz side reported importing USD 700 million. This is shown visually on the following graph (Figure 4.1). The Chinese data is referred to for the rest of this chapter as it is deemed to be of higher quality.

Figure 4.1 China-Kyrgyzstan Trade Reporting Gap



Source: UN Comtrade

The graph shows the large scale of Chinese imports. The Kyrgyz economy in 2017 was about USD 7 billion. Imports from China peaked at USD 9 billion in 2008 and have settled at around USD 5 billion. This is too many goods for Kyrgyzstan to consume by itself. Many of the imported Chinese goods are re-exported (sometimes with value add) to other parts of Central Asia and Russia.²⁰ The majority of these exports are textiles and other clothing components. In 2016, for example, 81 percent of Chinese exports to Kyrgyzstan were either textiles (64 percent) or headwear and footwear (17 percent).²¹

¹⁹ Roman Mogilevskii, “Re-export Activities in Kyrgyzstan: Issues and Prospects,” University of Central Asia, 2012, 7.

²⁰ Roman Mogilevskii, “Re-export Activities in Kyrgyzstan,” 7.

²¹ UN Comtrade data, last accessed 29 May 2018.

Given that Chinese imports (via Chinese data) are close to the entire size of Kyrgyzstan's GDP in any given year, it follows that China should logically be by far the largest source of goods to the country. Russian mirror data shows that Russia's exports to Kyrgyzstan oscillated between USD 500 million and USD 2 billion during 2006-2016. This is well below China's level of exports to Kyrgyzstan (shown above in Figure 4.1). Kazakhstan's mirror data showed an even lower level of exports than Russia to Kyrgyzstan. So, China is by far the largest source of foreign goods for Kyrgyzstan. Other studies have shown similar results. A 2014 report funded by USAID and UNDP shows PRC exported five times more than Russia to Kyrgyzstan between 2008 and 2012.²²

Chinese re-exports have played a significant part in the Kyrgyz economy. It is difficult to measure exactly how much re-exports contribute to the economy because much of the trade goes unreported. But one calculation by Roman Mogilevskii estimated that re-exports contributed 10 percent of GDP in 2006 and 13 percent of Bishkek's population was employed at Dordoi Bazaar.²³

China's imports from Kyrgyzstan were small between 2006 and 2016. Chinese data showed imports from Kyrgyzstan in the tens of millions for most years between 2006 and 2016.²⁴

4.2.2 Chinese Exports to Tajikistan

There is also a mirror gap between Chinese export statistics to Tajikistan and official Tajik import data. The gap is not as big as for Kyrgyz-China statistics, but it is still

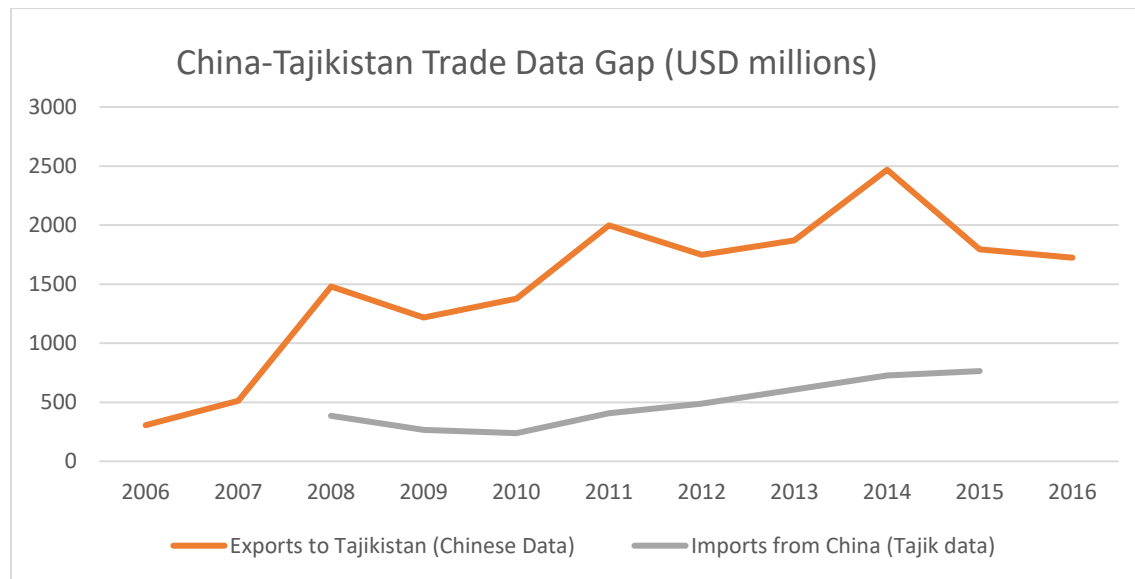
²² Mirror Customs Statistics of the Kyrgyzstan Republic [Зеркальная Таможенная Статистика Кыргызской республики], USAID, Precedent Partner Group and UNDP, 2014, http://precedent.kg/wp-content/uploads/2017/08/Mirror_customs_statistics_2014_Final_20.pdf.

²³ Roman Mogilevskii, "Re-export Activities in Kyrgyzstan," 7.

²⁴ Alexander Shabalin, "How Kyrgyz Customs Underestimates Trade with China. Shocking Numbers," [Как Кыргызская Таможня Занижает Товарооборот с Китаем. Шокирующие Цифры], Kaktakto, 6 July 2017, <https://kaktakto.com/analitika/kak-kyrgyzskaya-tamozhnya-zanizhaet-tovarooborot-s-kitaem-shokiruyushhie-cifry/>.

pronounced – Chinese export statistics hover around three to four times that of Tajik import data. Unlike in Kyrgyzstan there is no law for measuring bazaar goods by weight instead of cost. It is quite likely the data gap is due to corruption. As such this section uses Chinese export data.

Figure 4.2 China-Tajikistan Trade Data Gap (USD millions)



Source: UN Comtrade and State Statistical Committee of the Republic of Tajikistan

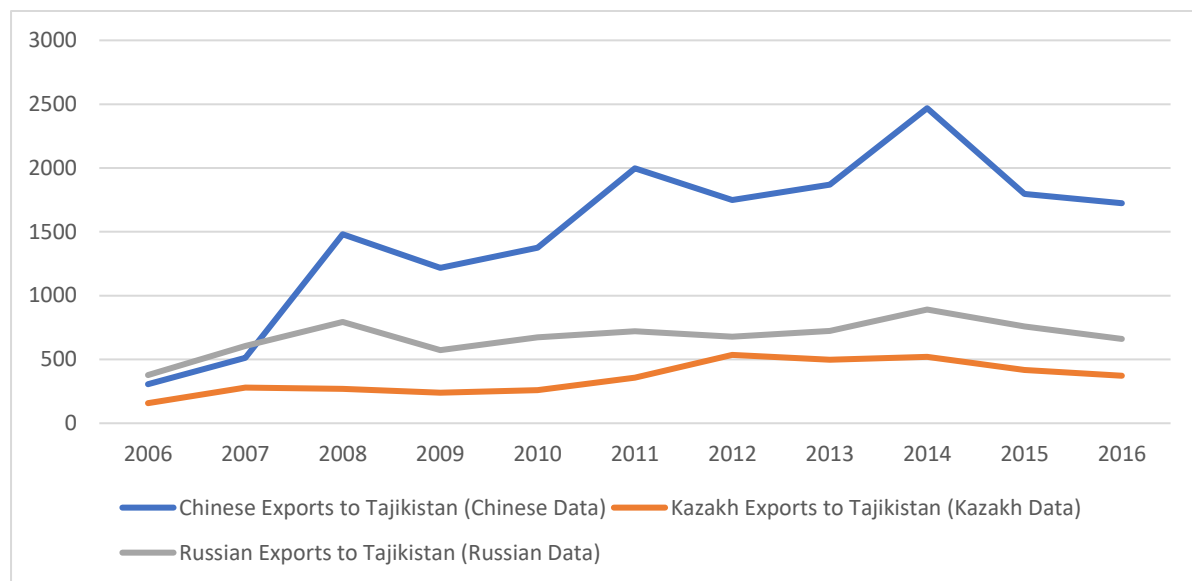
The data shows that Chinese exports to Tajikistan steadily grew up until about 2014 when Chinese imports hit about USD 2.5 billion. Since then PRC exports to Tajikistan have steadily declined.²⁵ This is a significant level of imports for a country with a GDP of only USD 7 billion. There is some re-exporting of goods to Afghanistan and Uzbekistan, but it is a much smaller trade than in Kyrgyzstan.²⁶

²⁵ UN Comtrade data accessed 14 June 2019.

²⁶ Khodjamakhmad Umarov “Trade and Economic Relations between the Republic of Tajikistan and the Islamic Republic of Afghanistan,” University of Central Asia, 2013, <http://www.ucentralasia.org/Content/Downloads/UCA-IPPA-WP13-TajikAfghanTrade-Eng.pdf>; Bartlomiej Kaminski and Saumya Mitra, “Borderless Bazaars and Regional Integration in Central Asia: Emerging Patterns of Trade and Cross-Border Cooperation,” World Bank Group, 2012, 41-46.

China is likely the largest exporter of goods to Tajikistan, even though official Tajik statistics state that Russia is the largest trading partner of Tajikistan.²⁷ Official Tajik trade statistics are highly suspect. The graph below shows export data reported by Tajikistan's major import source countries. It clearly indicates China is indeed the leading source of imports for Tajikistan.

Figure 4.3 Mirror Trade Data for Major Import Partners of Tajikistan 2006-2016 (USD millions)



Source: UN Comtrade

Chinese exports to Tajikistan catered more towards meeting domestic demand in Tajikistan for cheap goods rather than for re-export. In 2008, a World Bank team completed surveys at the major bazaars in Central Asia. It showed that only four percent of goods sold in principal Tajik bazaars were sold for exports, whereas 75 percent of goods in sold in major Kyrgyz bazaars were destined for export.²⁸

²⁷ "Tajikistan in Figures" [Таджикистан в цифрах], Statistical Agency under the President of the Republic of Tajikistan, 2015, http://istmat.info/files/uploads/53198/tadzhikistan_v_cifrah_2015.pdf.

²⁸ Bartłomiej Kaminski and Saumya Mitra, "Borderless Bazaars and Regional Integration in Central Asia: Emerging Patterns of Trade and Cross-Border Cooperation," World Bank Group, 2012, 87.

Table 4.1 Annual Sales and Share of Imports and Foreign Sales in Surveyed Bazaars

<i>Bazaar classification</i>	<i>Annual sales (\$ millions)</i>	<i>Share of imports (%)</i>	<i>Share of foreign sales (%)</i>	<i>Foreign sales (\$ millions)</i>
International				
Barakholka (Almaty, KAZ)	1,742	80	4	70
Dordoi (Bishkek, KGZ)	2,842	85	75	2,131
Karasu (Osh, KGZ)	684	90	85	581
Korvon (Dushanbe, TJK)	106	93	2	2
National/regional				
Altyn Orda (Almaty, KAZ)	99	80	0	0
Istravshan (Uratube, TJK)	61	90	0	0
Madina (Bishkek, KGZ)	122	90	10	12
Shanghai (Astana, KAZ)	146	80	3	4
Sultoni-Kabir (Dushanbe, TJK)	71	90	0	0
City/local				
Artem (Astana, KAZ)	123	95	6	7
Karkara (Almaty, KAZ)	34	100	0	0
Panjshanbe ^a (Khujand, TJK)	13	25	25	3
Sahovat ^a (Dushanbe, TJK)	6	25	0	0
Sary-Arka ^a (Almaty, KAZ)	10	80	0	0
Grand total	6,058		47	2,818
Kazakhstan	2,154	n.a.	4	81
Kyrgyz Republic	3,647	n.a.	75	2,725
Tajikistan	256	n.a.	4	10

Source: Authors, based on 2008 surveys.

Note: KAZ = Kazakhstan, KGZ = the Kyrgyz Republic, TJK = Tajikistan; n.a. = not applicable.
a. denotes agricultural bazaar.

Source: Bartlomiej Kaminski and Saumya Mitra, "Borderless Bazaars and Regional Integration in Central Asia: Emerging Patterns of Trade and Cross-Border Cooperation," World Bank Group, 2012.

Finally, Tajikistan (like Kyrgyzstan) does not export a great deal, including to China. China's total imports from Tajikistan tend to be in the order of USD tens of millions in any given year. The only exception has been in the years around the global financial crisis where China imported raw aluminium and various metal ores at higher than usual levels, but total imports peaked at USD 185 million in 2009 which is still much smaller than imports from the PRC.²⁹

²⁹ UN Comtrade data, last accessed 29 May 2018.

4.3 Recipient States and Trader Behaviour

4.3.1 Recipient States

One of the biggest factors affecting Chinese exports to Kyrgyzstan and Tajikistan were recipient states' own legislative environments. Kyrgyzstan consistently imported double or triple the amount Tajikistan did, despite similar populations and economic size.

Kazakhstan typically imported between USD 8 billion and USD 12 billion from China in any given year (somewhere between parity and double Kyrgyz imports) but Kazakhstan's economy is about 20 times the size of Kyrgyzstan and textiles make up a much smaller percentage of Kazakhstan's imports from China.³⁰

Certainly, Kyrgyzstan has a more advantageous geographical location than Tajikistan. It borders all Central Asian states except Turkmenistan, and its main cities and bazaars are closer to the Chinese border than for Tajikistan. But geography is not everything. Kazakhstan also has a very good geographical position for the re-export of Chinese textiles, but it never really established itself in the same way. Thus, the tariff regime of recipient states has had a significant impact over the amount of imports.

There are three components to the tariff regime. First, Kyrgyzstan joined the WTO in 1998, so when China joined in 2001 the countries shared 'most-favoured nation' status which lowered tariffs between the two countries. Tajikistan and Kazakhstan did not join until 2013 and 2015 respectively. Russia did not join the WTO until 2012 (just before Tajikistan and Kazakhstan).

Kyrgyzstan had lower weighted tariffs for most of the 2004-2016 period. Corruption at the border means enforcement of tariffs are an issue too. But to take World Bank statistics

³⁰ UN Comtrade data, last accessed 29 May 2018.

for 2006, Kyrgyzstan had average weighted tariffs of 1.18% compared to Tajikistan (3.97%), Kazakhstan (1.91% in 2004, not reported in 2006) and Uzbekistan (7.54%).³¹

Secondly, and most importantly, Kyrgyzstan's decision to pass a special resolution for 'bazaar goods' in 2004 which made imported textiles virtually duty-free was a clear turning point for Chinese exports to Kyrgyzstan. Roman Mogilevskii, a Bishkek-based economist, described the rules as follows:³²

Special simplified government regulation of imports and sale of 'bazaar goods,' giv[e] individuals the opportunity to benefit from imports customs clearance and tax payments based on the weight of goods, not their customs value. For goods imported by individuals on a commercial scale, this opportunity was introduced by Resolution of Government of the Kyrgyz Republic #976 dated 31 December 2004.

This gave traders virtually duty-free textile imports, the majority of which were from China. Following the implementation of this rule, Chinese exports to Kyrgyzstan increased very rapidly up until 2008 (over a 1000 percent increase between 2004 and 2008. See Figure 4.1). Mogilevskii believed this decision was the leading reason for the growth of Chinese imports into Kyrgyzstan:³³

The growth of re-exports results from a dedicated public policy that the author believes is successful. However, the practice makes official imports statistics unreliable [due to a lack of recording at the border], but the author states that this is a small price to pay for the significant benefits that Kyrgyzstan gains from re-exports.

The lack of recording at the border would have impacted records for weighted tariffs because Kyrgyzstan did not know the volume or value of 'bazaar goods.' The impact of this would not have been clearly shown in World Bank data for weighted tariffs.

The decision to implement this type of regime was unilateral. Kyrgyzstan was the only country in the region to have executed this tariff policy. It became the hub for re-

³¹ World Bank, data Tariff rate, applied, weighted mean, all products (%), last accessed 13 June 2019, <https://data.worldbank.org/indicator/tm.tax.mrch.wm.ar.zs>.

³² Roman Mogilevskii, "Re-export Activities in Kyrgyzstan," 5.

³³ Roman Mogilevskii, "Re-export Activities in Kyrgyzstan," 7.

exportation in the region. Kazakhstan and Tajikistan could have enacted similar open policies but chose not to. This indicates that each state has its own set of preferences and its own agency to take different actions when faced with a similar set of circumstances – in this case a flood of cheap imports from China.

Third, decisions by other countries in the region impacted Kyrgyzstan's trade patterns. The first was the establishment of the Eurasian Customs Union (CU) which was later renamed the Eurasian Economic Union (EAEU). The initial Eurasian Customs Union was established in 2010 with Kazakhstan, Belarus and Russia as original members. The CU raised tariffs on imports from countries outside the CU, which included both China and Kyrgyzstan. This was to stem the growth in Kyrgyzstan's re-export business. As Mogilevskii wrote in 2012:³⁴

The implementation of provisions of the Customs Union (CU) of Belarus, Kazakhstan and Russia resulted in hindered access of goods from Kyrgyzstan to markets of CU member states. The medium- and long-term trends in regional development proved unfavourable for the continuation of re-exports activities at the scale at which they were operating.

The tariff regime and its enforcement were piecemeal in the early years of the CU but by 2014, re-export businesses were affected as the newly-named EAEU began to exercise stricter border control on goods imported from external countries such as Kyrgyzstan.³⁵ The impact these controls on Kyrgyz exports to Kazakhstan had on Chinese exports to Kyrgyzstan was subtle. Chinese exports to Kyrgyzstan plateaued from 2010 onwards (as shown in Chart 4.1 earlier in this chapter) but the economies of Central Asia were growing strongly until 2014, so PRC imports as share of GDP decreased during this period. But the trade did not completely collapse. A shift from reexport to the manufacturing garments using

³⁴ Roman Mogilevskii, "Re-export Activities in Kyrgyzstan: Issues and Prospects," 5.

³⁵ World Bank Group, "Kyrgyz Republic: Adjusting to a Challenging Regional Economic Environment," 2015, <http://www.worldbank.org/content/dam/Worldbank/Publications/ECA/centralasia/Kyrgyz-Republic-Economic-Update-Spring-2015-en.pdf>.

PRC textile inputs also become apparent after 2010, both anecdotally and in studies (this is covered in the section on individual traders a few pages further on).

In 2015, Kyrgyzstan joined the EAEU which in theory put a trade barrier between China and Kyrgyzstan while simultaneously lowering trade barriers between Kazakhstan/Russia and Kyrgyzstan. It is too early to tell if this will have a significant long-term impact. In a 2017 interview with the author, Mogilevskii noted that it seems border tariffs on the China-Kyrgyzstan border have not always been enforced. He added that this might be with the tacit acquiescence of Russian and Kazakh authorities.³⁶ Once again there was no immediate drop-off or gain in Chinese exports to Kyrgyzstan straight after the country's ascension to the EAEU (See Figure 4.1 in data section). But Kyrgyz ascension is relatively new.

Kyrgyzstan's choice to join the EAEU shows the strict limits of Chinese trade influence and also the agency of recipient states. Kyrgyzstan and Tajikistan have diverged on whether to join to the EAEU, even though there are similarities in the situation they face. This was not a decision that hinged on trade variables alone. Russia pushed hard for both countries to join. Moscow made it clear that EAEU membership would lower barriers for workers from member countries to work in Russia. This is important in countries such as Kyrgyzstan and Tajikistan where many working age adults are employed in Russia. Moscow offered other sweeteners too, such as the USD 1 billion Russian-Kyrgyz Development Fund for Small to Medium Enterprises (SMEs). These advantages were weighed up against the negatives such as increased tariffs on imports which could potentially raise the cost of goods for citizens.

The Kyrgyz leadership decided that lower barriers for Kyrgyz workers in the EAEU were more important than the potential cost to the re-export industry. President Atambayev

³⁶ Interview with Roman Mogilevskii in Bishkek, October 2017.

recognised the trade-off, saying just before Kyrgyzstan joined the EAEU in May 2015, “[i]t will be much easier and simpler for our citizens, migrant workers in Russia and Kazakhstan, to live and work there. There are parents and children of these 600,000 people.” He added: “This way, we will immediately solve the problems of nearly 3 million Kyrgyz citizens, or half of the country's population [by including the families of those employed in Russia Atambayev was taking artistic licence].”³⁷ In October 2014, before Kyrgyzstan would eventually join the EAEU, President Atambayev already explicitly outlined the trade-off: “We are choosing the lesser of two evils. We have no other option.”³⁸ The flow of Chinese re-exports and other Chinese economic boons came second to ensuring work rights for Kyrgyz citizens in Russia.

In Tajikistan a different set of choices were made on its tariff regime. The country belatedly joined the WTO in 2015, pretty much straight after Russia. There were other factors preventing Tajikistan joining the WTO – the Tajik civil war until 1997 meant that the country was in no position to join as early as Kyrgyzstan. However, the two-decade delay in joining was not a function of the war alone – it was a conscious policy decision (to not prioritise WTO membership).

Tajikistan also never offered any special stipulations for ‘bazaar goods’. The country is in a less advantageous geographical position for re-exports than Kyrgyzstan because it is further from the two largest nearby economies (excluding China) Kazakhstan and Russia. But it was still a choice.

Finally, the Tajik government have so far chosen not to join the EAEU. This is the most instructive of the three choices. They faced (and continue to face) a very similar set of

³⁷ “Kyrgyzstan Joins Eurasian Economic Union Accession,” *Radio Free Europe*, 21 May 2015, <https://www.rferl.org/a/kyrgyzstan-joins-eeu-russia/27028862.html>.

³⁸ Catherine Putz, “Tajikistan: The Eurasian Economic Union’s Next Member?” *The Diplomat*, 19 July 2016, <https://thediplomat.com/2016/07/tajikistan-the-eurasian-economic-unions-next-member/>.

circumstances as Kyrgyzstan did when it joined. Tajikistan has been locked in a seemingly never-ending period of study about entry. In 2014, President Rahmon proposed an in-depth feasibility study.³⁹ Several government departments have undertaken their own internal studies.⁴⁰ Most recently, in 2017, the Customs Service of Tajikistan submitted a report to the government, although it was never made public.⁴¹ The European Bank for Reconstruction and Development (EBRD) published a report in early 2018 arguing that Tajikistan was “intensifying studies about ascension.”⁴²

None of these reports gives an insight into what President Rahmon and his inner circle actually think about the EAEU. From a whole of country perspective, the arguments for joining are relatively similar to those of Kyrgyzstan. However, the circle of crony capitalists that stand to benefit in Tajikistan are much smaller (basically Rahmon’s family) so enriching the elite is less strongly linked to growing the whole country’s economy like in Kyrgyzstan. Similarly, the capacity of unemployed locals to destabilise the state is less than in Kyrgyzstan. So, when weighing up the pros and cons of ascension, employment in Russia does not seem to figure as highly for Tajikistan.

Saodat Olimova, a Tajik social scientist, outlines what one assumes are the major debates being had in elite circles in Tajikistan. She argues there are three issues to consider.

Firstly, Tajikistan’s only external rail route runs through Uzbekistan. Many of the goods that go between Russia, Kazakhstan and Tajikistan take this route. But Uzbekistan is not an EAEU member and Tajikistan’s ascension would increase already high levies on the

³⁹ Oleg Salimov “Tajikistan Paves the Way to Eurasian Union” *CACI Analyst*, 7 January 2015, <https://www.cacianalyst.org/publications/field-reports/item/13113-tajikistan-paves-the-way-to-eurasian-union.html>.

⁴⁰ Interviews with senior economic officials in Dushanbe, January 2015.

⁴¹ “Tajikistan Intensifies Study on Eurasian Economic Union (EEU) Membership, says EBRD report,” *Asia Plus*, 27 November 2017, <https://www.asiaplus.tj/en/news/tajikistan/economic/20171127/tajikistan-intensifies-study-on-eurasian-economic-union-eeu-membership-says-ebrd-report>.

⁴² “Tajikistan Intensifies Study on Eurasian Economic Union.”

border. This is not a problem Kyrgyzstan had to consider upon ascension – it has better transport linkages to Kazakhstan and thus Russia.⁴³

Secondly, as with Kyrgyzstan, imports would become more expensive from non-European Economic Union member countries, primarily China, Iran, and Turkey. This would harm Tajikistan's already poor consumers. Tajikistan would also lose some customs duties under the EAEU, which would lead to a smaller state budget. Olimova posits this would create even bigger issues in meeting the state's social obligations.⁴⁴ A more cynical view would be that it might reduce opportunities for officials to enrich themselves from the state budget.

Thirdly, as with Kyrgyzstan, ascension to the EAEU would remove all the legal barriers for Tajiks to work in Russia and Kazakhstan. In 2015, after Kyrgyzstan joined the EAEU, the number of Kyrgyz workers going to Russia increased while the number from non-members Tajikistan and Uzbekistan decreased.⁴⁵

Olimova argues there is strong support from the average Tajik for joining the Union because working in Russia is their best opportunity for a job. However, there is opposition from elites who are concerned about their wealth and power. In 2014 and in January-February of 2015, Olimova's institute conducted an opinion poll among the Tajik population regarding EAEU membership. In 2014, 82.4 percent approved of joining the Customs Union, 12 percent were undecided, and only 4.8 percent stood opposed. In February 2015, after the events in Ukraine, they conducted a survey among young people aged between 14 to 29

⁴³ Saodat Olimova, "Tajikistan's Prospects of Joining the Eurasian Economic Union," *Russian Analytical Digest* 17, No. 165 (March 2015), 13.

⁴⁴ Saodat Olimova, "Tajikistan's Prospects of Joining the Eurasian Economic Union," 13.

⁴⁵ Catherine Putz, "Tajikistan: The Eurasian Economic Union's Next Member?" *The Diplomat*, 19 July 2016, <https://thediplomat.com/2016/07/tajikistan-the-eurasian-economic-unions-next-member/>.

years. 72 percent of respondents were in favour of joining the EAEU, 11 percent were opposed, and 17 percent were undecided.⁴⁶

Focus interviews conducted by Olimova with government officials, businessmen, academics, and migrants showed that the most consistent advocates for EAEU integration are migrants, as well as businessmen, especially manufacturers and farmers. Those who are against include representatives of the ruling elite, afraid of the possibility of having to give up some of their power to multinational bodies and the big businesses of EEU countries. Moreover, bankers and nationalist intellectuals also have a negative attitude towards EEU integration.⁴⁷

In summary, the reasons for different decisions made by Kyrgyzstan and Tajikistan stem from a different elite structure as well as Kyrgyzstan's closer geographical proximity to the EAEU countries. This highlights that different recipient states make their policy choices based on their own situation rather than because of Chinese pressure. In fact, Chinese preferences were not a factor in making these decisions.

4.3.2 Individual Traders and Trading Companies

The trade between China and both countries, at least until very recently, has been dominated by small private traders.⁴⁸ It takes a different shape in Kyrgyzstan and Tajikistan. In Kyrgyzstan, most of the imports find their way to the large international bazaars and their surrounding workshops and factories as part of an increasingly professionalised re-export trade. This re-export has become more of a manufacturing hub using imported textiles for

⁴⁶ Saodat Olimova, "Tajikistan's Prospects of Joining the Eurasian Economic Union," 13.

⁴⁷ Saodat Olimova, "Tajikistan's Prospects of Joining the Eurasian Economic Union," 13.

⁴⁸ Alexandros Peterson, "How Chinese Merchants Are Transforming Central Asia," *The Atlantic*, 2 December 2013, <https://www.theatlantic.com/china/archive/2013/12/how-chinese-merchants-are-transforming-central-asia/281957/>.

inputs, rather than just straight re-exports, whereas in Tajikistan imported goods are for domestic consumption inside the country.

Traders are a mix of Kyrgyz, Tajik and Chinese nationals plus a very small number of people from other countries (like Kazakhstan and Pakistan). There are not many longitudinal studies of the percentage of Chinese traders at the major bazaars in Kyrgyzstan, so it is difficult to know how many Chinese traders operate out of these bazaars. A 2008 survey by the World Bank found that of the warehouses in Karasu (the largest bazaar in southern Kyrgyzstan), about 70 percent were leased to Chinese nationals and 15 percent to Uzbek nationals. The remaining warehouses were run by Kyrgyz citizens (15 percent).⁴⁹ That is only one bazaar and the percentages have probably fluctuated significantly since then. Mogilevskii said in an interview that he feels the trade is being increasingly run by Kyrgyz citizens in Kyrgyzstan because they now need to deal with a more rigid tariff regime and legislative environment. The author's own anecdotal studies at bazaars in Kyrgyzstan in early 2016 suggest less than half of the traders are PRC citizens. But none of these methods are comprehensive or foolproof.

In Kyrgyzstan, there has been a perception among local traders and some parts of the general public that Chinese traders are negatively affecting local traders, or even dominating some parts of the trading business.⁵⁰ There have been violent incidents over the years targeting Chinese traders.⁵¹

⁴⁹ Bartłomiej Kaminski and Saumya Mitra, "Borderless Bazaars and Regional Integration," 64.

⁵⁰ Sébastien Peyrouse, "Discussing China: Sinophilia and Sinophobia in Central Asia," *Journal of Eurasian Studies*, no. 7 (2016), 22; Gabriele Battaglia "Hopes and fears on people's Silk Road in Kyrgyzstan" *Asia Times*, 17 January 2017, <http://www.atimes.com/article/hopes-fears-peoples-silk-road-kyrgyzstan/>; Alexandros Peterson, "How Chinese Merchants Are Transforming Central Asia."

⁵¹ Sébastien Peyrouse, "Discussing China: Sinophilia and Sinophobia in Central Asia," 22

The author's interviews with Chinese traders (held between 2015 and 2018) indicated they felt they were being treated unfairly by local businesses and officials.⁵² Emil Nasritdinov, a professor of anthropology at the American University of Central Asia in Bishkek, says that Chinese traders feel pressure from both ends. They are still expected to pay bribes to local officials but also suffer from the impression that Beijing's protectionism is helping their businesses.⁵³ It is probably a case that both sides always feel the other is doing better.

Chinese traders are unlikely to receive guidance from the Chinese state, although there are incentives for them to purchase from Xinjiang and many Chinese manufacturers receive state subsidies. Traders can be good at navigating the subsidy system. But, the reality remains that Chinese traders often leave the PRC looking for greener pastures. China has become incredibly competitive in the last twenty years. Some parts of Central Asia have less competition, lower living costs than China and lower regulatory setup costs than China.

A trader from the manufacturing city of Yiwu who works at the Dordoi Bazaar said the following in an interview with *Asia Times*: "I don't really like it here," adding resignedly "but starting a business in Kyrgyzstan is cheaper than doing it back home."⁵⁴ This matches the interviews the author undertook with Chinese traders. A couple from Fujian working at Dordoi in 2014 told me that they it was too competitive to make profit in a small trading business in China, so they had decided to find somewhere with less competition. Another ethnically Han trader who grew up in Xinjiang and then Guangzhou said he took over his parents' business in Bishkek and that it was still easier to make a living through trading there than back in China due to lower levels of competition. But he had relocated the business from

⁵² Interviews in 2015-16 with five separate Chinese traders at Dordoi, Kara-Su, the Green Bazaar in Dushanbe and with one Chinese trader in Kazakhstan who had operated in Kyrgyzstan but left because he felt the gap for making money was shrinking.

⁵³ Gabriele Battaglia "Hopes and fears on people's Silk Road in Kyrgyzstan" *Asia Times*, 17 January 2017, <http://www.atimes.com/article/hopes-fears-peoples-silk-road-krygyzstan/>.

⁵⁴ Gabriele Battaglia "Hopes and fears on people's Silk Road in Kyrgyzstan."

Bishkek to Almaty because he found profit margins lower at Dordoi. This trader did not enjoy living in Central Asia due to perceived discrimination and corruption. He felt he could not trust local businessmen or police. Numerous other academic works show the desire to leave China to find a less competitive location is by no means unique to Kyrgyzstan and Tajikistan.⁵⁵

There are other reasons young Chinese go abroad. Two other Chinese traders that I met in Osh in Southern Kyrgyzstan worked part time in a Chinese restaurant and did shuttle trading on the side. They said they had come to Kyrgyzstan for adventure. They found life in China too competitive and unfulfilling. The combined pay of their kitchen job and trading income was lower than what they could earn in their hometown in southern China. But money was not their goal. They are part of a new generation of young Chinese who can choose many places to live and these two wanted somewhere off the beaten track.

The tariff regime for both exports and imports in Kyrgyzstan has undergone significant change since 2010. Firstly, Kazakhstan's and Russia's joining of the CU meant that Kyrgyz re-exports to those countries faced new tariffs (although enforcement was patchy early on). Secondly, when Kyrgyzstan joined the EAEU, it had to remove its virtually tariff-free regime for 'bazaar goods'. This has made it much more difficult to realise profit on traditional re-exports with no value add. There are numerous examples (outlined in the next few pages) of re-exporters growing their business and successfully moving up the value chain while those that do not are hurt economically.

Substantial statistical and anecdotal evidence exists of Kyrgyz traders, particularly at Dordoi, moving up the value chain to become larger and more efficient in their value-add

⁵⁵ Graeme Smith, "Fuqing Dreaming: 'New' Chinese Communities in Papua New Guinea" in *Pacific-Asia Partnerships in Resource Development*, ed. Paul Darcy, Linda Crowl, Patrick Matbob (Madang, Papua New Guinea: DWU Press, 2014), 131-137; Howard French, *China's Second Continent: How a Million Migrants Are Building a New Empire in Africa* (New York: Vintage Books, 2015), 132.

factories around the bazaar. One Eurasian Development Bank paper showed that Kyrgyzstan garment exports to Russia increased 11.3-fold from 2015 to 2016.⁵⁶

It seems that simple re-export of Chinese goods is not enough anymore. Cheap Chinese goods can enter Kazakhstan or Russia with a similar tariff as Kyrgyzstan thanks to the EAEU.⁵⁷ Henryk Alf discovered during ethnographic fieldwork at the Dordoi Bazaar that:⁵⁸

The re-export of ready-made Chinese fashion has been represented as becoming more and more outdated, whereas garment wholesalers and businesses producing and selling Kyrgyz-made brand fashion on a larger scale are generally regarded as more promising and progressive.

Another ethnographic study by Philipp Schröder and Elina Schröder argues that since Kazakhstan and then Kyrgyzstan joined the EAEU, local traders have been moving up to more profitable positions in the value chain:⁵⁹

Local entrepreneurs have adjusted to the fact that the previous re-export scheme of channelling China-made goods via Kyrgyzstani bazaars to larger regional markets has been fading out. Yet regardless whether their activities have remained localised and small-scale or their operations are international and based on larger investments, most entrepreneurs captured in this study shared the rationale to move up into more profitable positions along their respective value chains by investing in manufacturing equipment.

While sewing production has moved to Kyrgyzstan, many of the raw inputs still come from China. As local producer Nurgul says: “We cannot say that the products we produce are 100 percent Kyrgyz, because raw materials are imported from China, and we only sew it – it’s 50 percent of the case.”⁶⁰ The need to add extra value to Chinese textiles has, in the past few

⁵⁶ Eurasian Development Bank, “Integrated Growth Impacts” [Интеграционные Импульсы Роста], October 2016, <https://eabr.org/upload/iblock/747/INTEGRATIONNYE-IMPULSY-ROSTA.pdf>.

⁵⁷ “Giant market “Dordoi”: A Time of Opportunity and Change” [Гигантский Рынок «Дордой»: Время Возможностей И Перемен], *Kloop*, 3 November 2015, <https://kloop.kg/blog/2015/11/03/gigantskij-rynok-dordoj-vremya-vozmozhnostej-i-izmenenij-foto/>.

⁵⁸ Henryk Alf, “Flowing Goods, Hardening Borders? China’s Commercial Expansion into Kyrgyzstan Re-Examined,” 448.

⁵⁹ Philipp Schröder and Elina Schröder, “Entrepreneurship in Kyrgyzstan,” 2-3.

⁶⁰ Anna Lelik, “Will Dordoi Become a ‘Cemetery of Containers’ after Kyrgyzstan Joins the CU?” [Станет ли «Дордой» «кладбищем контейнеров» после вступления Кыргызстана в ТС?], *Kloop*,

years, meant the demand for qualified labour in the sewing sector has outstripped availability. The salaries of textile workers, based on piece-work, in many cases have superseded the average income in Kyrgyzstan, set at USD 490 per month in November 2013.⁶¹ Empirical studies also show a shortage of textile workers in the peak summer season.⁶²

It is also possible to find many examples of traders being hurt by the new EAEU tariff regime as well as increasing costs in China and a less favourable exchange rate. A 2018 article in *Fergana News* showcases numerous traders who are struggling because of these issues. One of the people interviewed, Ella, says that tariff costs have doubled from USD 120 to USD 240 per cubic metre of space. Ella adds that domestic production costs – the cost of a pair of shoes in China has increased from KGS 2500 to KGS 3500 – and the exchange rate has also been detrimental to her business.⁶³

Another consideration has arisen for cross-border traders besides the establishment of EAEU. In April 2012, Kazakhstan and China established the Khorgos free trade zone (FTZ) on the Kazakhstan-China border. This FTZ allows goods to be traded freely across the China-Kazakhstan border. Theoretically this reduced the advantage of Kyrgyzstan's virtual duty-free regime (before Kyrgyzstan's ascension to the EAEU). However, because Kazakhstan is a member of the EAEU – a customs union – it is meant to impose tariffs on imports from external countries like China. So, it limits the amount of undeclared goods from China that are exempt from tariffs to just 50kg or € 1500 per month.⁶⁴ The limits on cross-border trade

17 November 2011, <https://kloop.kg/blog/2011/11/17/dordoj-mozhet-stat-kladbishhem-kontejnerov-posle-vstupleniya-ky-rgy-zstana-v-ts/>

⁶¹ Henryk Alff, "Flowing Goods, Hardening Borders? China's Commercial Expansion into Kyrgyzstan Re-Examined," 445.

⁶² Philipp Schröder and Elina Schröder, "Entrepreneurship in Kyrgyzstan," 21.

⁶³ Ekaterina Ivashenko, "Kyrgyzstan: Bazaar Economy in a Stupor, or What Happened to Dordoi" [Кыргызстан: Рыночная экономика в ступоре, или Что случилось с «Дордоем»], *Fergana News*, 4 June 2018, <http://www.fergananews.com/articles/8786>.

⁶⁴ Emily Feng and Henry Foy "China-Kazakhstan Border Woes Dent Silk Road Ambitions," *Financial Times*, 21 December 2017, <https://www.ft.com/content/1606d70a-9c31-11e7-8cd4-932067fbf946>.

mean only the smallest operators can take advantage of Khorgos. As textile trader Xiang Wu says about Khorgos, “no matter how hard you work, there is a glass ceiling on how much money you can make here.”⁶⁵

After Kyrgyzstan’s ascension to the EAEU in 2015, it raised tariffs on imports from China. More broadly, Kyrgyzstan’s weighted tariffs increased from 2.4 percent in 2014 to 3.2 percent in 2015.⁶⁶ Some smaller traders did turn to Khorgos. The traders that use Khorgos deal in small enough volumes that a mixture of bribes, porters and concealment of goods can be used to circumvent the restrictions. A journalist from *Radio Azattyk* interviewed two such traders. The traders said the following about their choice to use Khorgos:⁶⁷

It became difficult to get a visa for China. Previously, we took a visa for one person and went. And now they only give visas for groups of more than ten people. Where to find so many people? Secondly, customs duties on goods from China have increased several times. It is necessary to raise retail prices, at which point buyers do not take the goods. All Kazakhstanis, who bought goods from us, began to travel to "Khorgos". Now we started to go there ourselves. We are used to buying and selling goods in bulk and therefore it is difficult for us to get used to the fact that there are not allowed to buy more than two goods that are similar. If the weight of the goods exceeds the authorised weight, Kazakhstani customs officers ask for 5-10 thousand Tenge. We are forced to pay them.

Another person who used to buy from Dordoi to sell in Issyk-Kul now prefers Khorgos.⁶⁸

Previously, I bought goods in Bishkek and distributed them in the village...But as the bus from Bishkek started to go to Khorgos, I began to go there. ‘Dordoi’ no longer has the same prices, everything has become more expensive. And at ‘Khorgos’ the prices are much lower. Sometimes, angered by the tricks of the Kazakh customs officers, you promise that you will not go there again. But then you go again because there is no other way out.

⁶⁵ Emily Feng and Henry Foy “China-Kazakhstan Border Woes Dent Silk Road Ambitions.”

⁶⁶ Data from World Bank: Tariff rate, applied, weighted mean, all products (%), last accessed 15 June 2019, <https://data.worldbank.org/indicator/tm.tax.mrch.wm.ar.zs>.

⁶⁷ Zamira Kozhobaeva “Will ‘Khorgos’ Bury ‘Dordoi’?” [«Хоргос» похоронит «Дордой»?], *Radio Azattyk*, 12 April 2016, <https://rus.azattyk.org/a/27669287.html>.

⁶⁸ Zamira Kozhobaeva “Will ‘Khorgos’ Bury ‘Dordoi’?”

Chinese export data shows that Chinese exports to Kyrgyzstan in 2016 were still 77 percent of Kyrgyz GDP. The empirical evidence presented in the previous pages suggests that PRC imports now feed value add manufacturing rather than simple re-exports.

In Tajikistan, there is little evidence of a similar transition up the value chain, at least until the end of 2016. There are few ethnographic studies which indicate such a transition. The small number of Tajik and Chinese traders the author met in the country were focused on selling in Tajikistan (not re-exporting to other countries) in a much wider range of industries beyond textiles – mobile phones, construction machinery and electronics.⁶⁹ One of Tajikistan's biggest trade hurdles during the 2006 and 2016 period was the enmity between Uzbekistan and Tajikistan. It made trade between the two countries difficult. It also made exports transiting through Uzbekistan difficult – Uzbekistan remains Tajikistan's only external rail link. This tension lifted somewhat after the death of long-time Uzbek ruler Islam Karimov in September 2016, so in the future it may be possible for Tajikistan to run a more open trade regime. In 2017 alone, Tajikistan-Uzbekistan trade grew by 20 percent.⁷⁰

4.4 Failed Attempts to Develop Xinjiang into a Centre of Production for Central Asia

A World Bank team found in 2008 that different bazaars across Kyrgyzstan and Tajikistan received Chinese goods of significantly different quality and received those goods from different sources. Through surveys they discovered that Chinese imports into Karasu in southern Kyrgyzstan originate mainly in Kashgar and enter the country through the Irkeshtam Pass on China's border. They are then delivered to storage facilities in or near Karasu. Second, imports intermediated through Dordoi “come from southern China (Guangzhou, Shenzhen), Beijing, and Urumqi through the Torugart BCP [Border Crossing Point].”

⁶⁹ Interviews with Tajik traders in Dushanbe and Nurek, January 2015.

⁷⁰ Kamila Aliyeva, “Uzbekistan, Tajikistan Set to Increase Trade Turnover,” *Azernews*, 14 June 2019, <https://www.azernews.az/region/128505.html>.

Imported products into Dordoi (in northern Kyrgyzstan) are, according to the study, more expensive and of higher quality than those going through Karasu.⁷¹ This makes sense given that wages in the north of the country and nearby Kazakhstan are higher than in southern Kyrgyzstan.

One reading of this information would be that by 2008, Xinjiang had become a successful place of production. It is backed up by Xinjiang's own export statistics which indicate a very large percentage of total Chinese exports to Kyrgyzstan and Tajikistan originate in Xinjiang.⁷² But this is an illusion. The majority of recorded exports from Xinjiang to Kyrgyzstan and Tajikistan are just goods being recorded as exported from Xinjiang. This is likely a function of both the recording methodology and intentional actions by traders to receive subsidies.

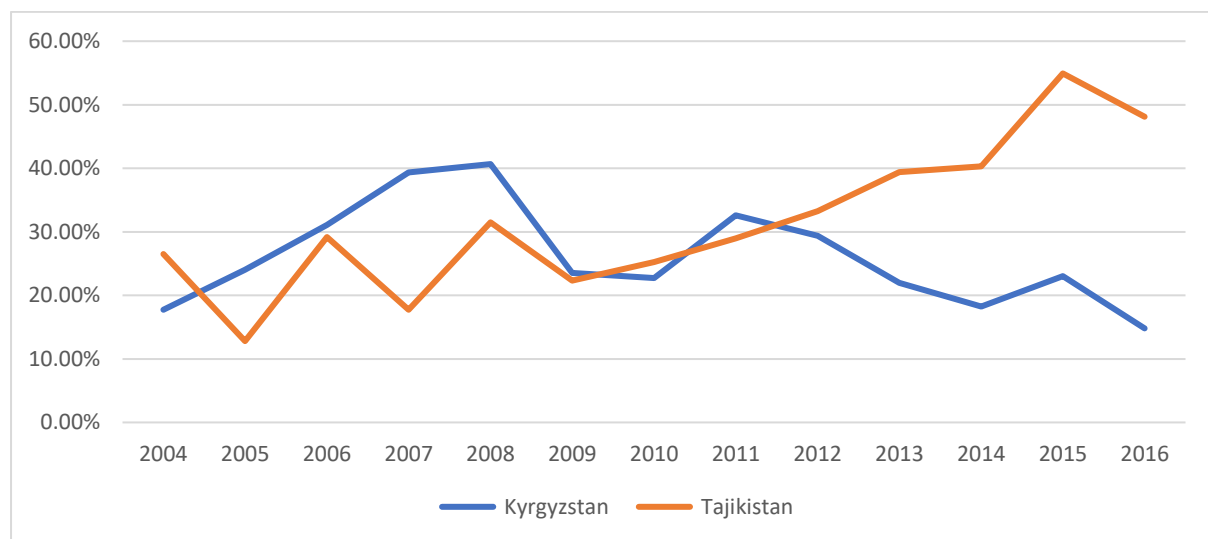
At this point it is important to note that Xinjiang has a different administrative setup to other provincial authorities in China. Within Xinjiang's borders, there is another administrative body, the XPCC (also known as the Bingtuan) which operates completely separately to the XUAR. It has its own land, schools, tax collection, companies, government departments, police etc. over which it exercises administrative control. The XPCC was established in the 1950s to relocate demobilised soldiers to cultivate the land in China's western regions to help stabilise the restive region and also to provide economic development through increased agricultural production. That policy continues to this day. The XPCC, like all administrative regions, also collects its own statistics for, among other things, exports. This is completely separate to the Xinjiang regional government statistics.

⁷¹ Bartłomiej Kaminski and Saumya Mitra, "Borderless Bazaars and Regional Integration," 81.

⁷² This data is drawn from the *Xinjiang Uyghur Autonomous Regional Statistical Yearbook* and *Xinjiang Production and Construction Corps Statistical Yearbook* editions released between 2004 and 2016. Each edition has a table on foreign trade. There are graphs on the next couple of pages giving detailed information on recorded exports from the XUAR and XPCC to Kyrgyzstan and Tajikistan.

Several academic studies on China's trade relations with Central Asia have drawn on these statistics to highlight the strong role of the XPCC in Central Asia. Gaël Raballand and Agnès Andrésey found that XPCC's trade in 2004 accounted for 38 percent of total Sino-Central Asian trade, largely drawing on data from the XPCC statistical yearbooks.⁷³ Sebastien Peyrouse and Marlene Laruelle argue in their 2012 book that the XPCC is one of the main components of cross-border trade.⁷⁴ One could reasonably expect that the XPCC and XUAR would occupy a relatively large share of China's total exports to neighbouring Kyrgyzstan and Tajikistan given their locations. But the combined value of XUAR's and XPCC's exports to Tajikistan and Kyrgyzstan exceed the total value of Chinese exports to Kyrgyzstan or Tajikistan in many years between 2004 and 2015. This suggests that the XUAR's or the XPCC's statistics are overstated.

Figure 4.4 XPCC Share of Total China Exports to Kyrgyzstan and Tajikistan 2004-2016 (%)



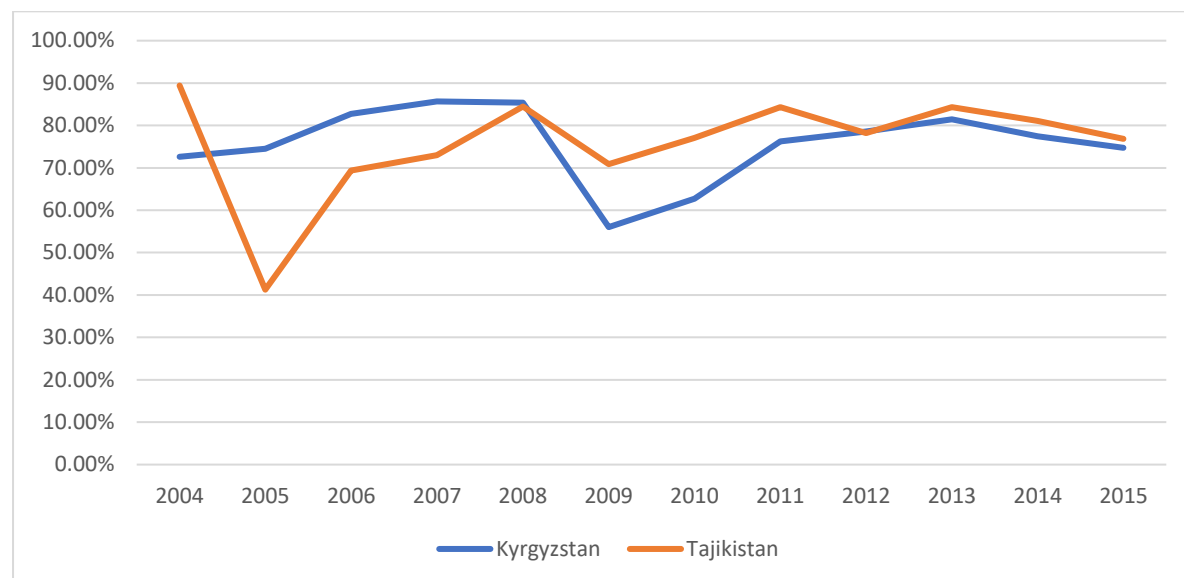
Source: XPCC Statistical Yearbook

⁷³ Gaël Raballand and Agnès Andrésey, "Why Should Trade between Central Asia and China Continue to Expand?" *Asia Europe Journal* 5, No. 2 (June 2007), 244.

⁷⁴ Marlène Laruelle and Sébastien Peyrouse, *The Chinese Question in Central Asia*: 47-48.

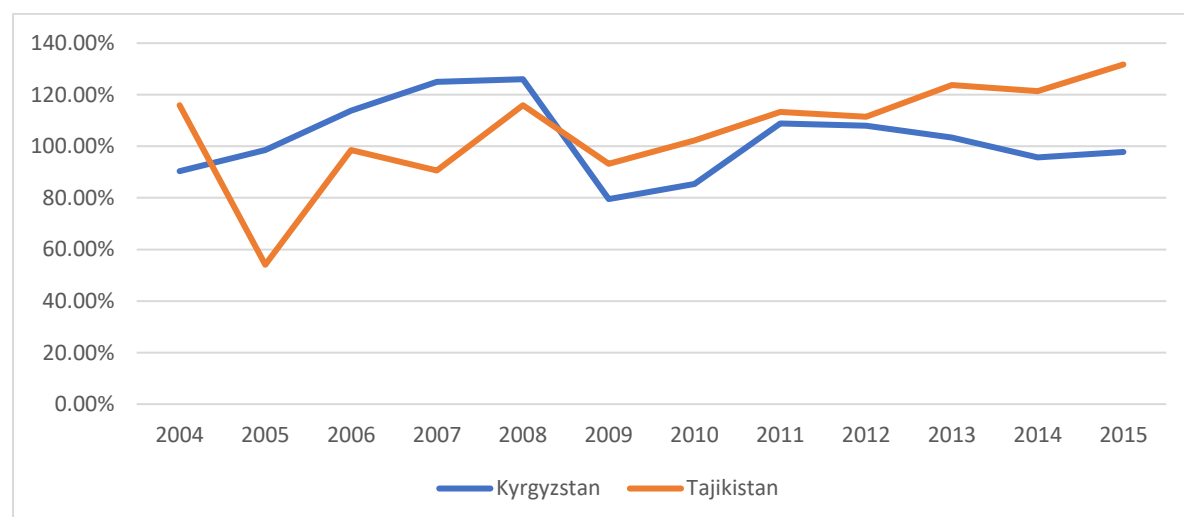
Chapter 4 Plying Trade: Shoes, Glues and Tariff Dues

Figure 4.5 XUAR Share of Total China Exports to Kyrgyzstan and Tajikistan 2004-2015 (%)



Source: Xinjiang Uyghur Autonomous Region Statistical Yearbook

Figure 4.6 XUAR + XPCC Share of Total China Exports to Kyrgyzstan and Tajikistan 2004-2015 (%)



Source: XUAR Statistical Yearbook and XPCC Statistical Yearbook

Xinjiang leaders could intentionally be overstating exports statistics for their own career gains. Firms operating out of Xinjiang also get subsidies for exporting from Xinjiang and so could be intentionally dressing their products up as from Xinjiang. Or it could just be general sloppiness. None of these reasons are mutually exclusive. In the next few pages, this thesis shows that many well-placed observers and practitioners in Xinjiang believe that the

vast majority of exports from the XPCC and the XUAR to Kyrgyzstan and Tajikistan come from eastern China.

4.4.1 Xinjiang Production and Construction Corps

The XPCC controls a geographical area twice the size of Taiwan, broken into numerous parts scattered around Xinjiang. There are several cities administered by the XPCC but most of the territory is made up of agricultural land and towns or villages. XPCC's total population is more than 2.6 million people, of which 86 percent are ethnically Han Chinese.⁷⁵

According to Harvard's Atlas of Economic Complexity which is derived from UN Comtrade stats, most of what China exports to Kyrgyzstan (81% textiles in 2016), and to a lesser extent Tajikistan (42% textiles and 18% machinery in 2016), comprises textiles and machinery. As shown on previous pages (Figures 4.5 – 4.7), XPCC's own statistics claim that the organisation's exports accounted for between 25 and 50 percent of total Chinese exports to these countries.

But, XPCC's economy is highly reliant on agriculture. The organisation produces nearly one-sixth of Xinjiang's GDP, including 40 percent of its cotton (one of the region's main cash crops).⁷⁶ Yajun Bao who spent a year seconded to the XPCC in 2008 when he worked for the Central Organisation Department of the Chinese Communist Party wrote the following about the XPCC economy:⁷⁷

XPCC's economy was (and is) largely based on agriculture. It reclaimed farmland in remote barren lands and established regimental agricultural and stock raising farms. Cotton, wheat, tomato, red dates, grapes etc. were planted on a large scale. Based mainly on the agricultural production, XPCC also established a multi-sector industrial system including food processing, light

⁷⁵ "Settlers in Xinjiang: Circling the Wagons," *The Economist*, 25 May 2013, <https://www.economist.com/china/2013/05/25/circling-the-wagons>.

⁷⁶ "Settlers in Xinjiang: Circling the Wagons."

⁷⁷ Yajun Bao, "The Xinjiang Production and Construction Corps an Insider's Perspective," Blavatnik School of Government Working Paper Series, January 2018, <https://www.bsg.ox.ac.uk/sites/www.bsg.ox.ac.uk/files/documents/BSG-WP-2018-023.pdf>.

industry, textiles, iron and steel processing, coal mining, building materials, chemicals, and machinery.

The contemporary XPCC struggles to adapt to the competitive economy of modern China. It is poorly located with marginal agricultural land and struggles to attract talent from other parts of the country. The XPCC and its companies are highly dependent on central government for financial and political support.⁷⁸ Yajun Bao wrote in 2018 about XPCC's reliance on subsidies.⁷⁹

So far, the countries adjacent to Xinjiang remain undeveloped, and Xinjiang has not been fully integrated with the market of the rest of China. As a result, the state must purchase massive amounts of agricultural products to support the XPCC. With regard to these factors, the centre does not have high hopes for the future profitability of XPCC. It nevertheless continues to support XPCC with these enormous subsidies, demonstrating the centre's view of the continuing strategic importance of XPCC.

Subsidies are also important for many companies registered in the XPCC that engage in foreign trade. In 2005, MOFCOM's XPCC Bureau wrote in a statement that "Foreign trade export firms, particularly firms involved in border trade and tourism, rely heavily on policy support."⁸⁰ XPCC companies compete with each other for subsidies. In 2011, the same organisation opined:⁸¹

Vicious competition between enterprises has intensified, and it has become increasingly difficult for exports to continue to grow. Domestic goods have generally risen in price this year because of inflation, and export costs have increased. Coupled with the impact of subsidy policies, enterprises have used all sorts of resources to steal business and compete for subsidies. This has severely disrupted order in the export market.

⁷⁸ Yajun Bao, "The Xinjiang Production and Construction Corps."; Liu Yong, "An Economic Band-aid: Beijing's New Approach to Xinjiang," *China Security* 6, No. 2 (2010), 41–54.

⁷⁹ Yajun Bao, "The Xinjiang Production and Construction Corps."

⁸⁰ "XPCC H1 Analysis of Commercial Work" [新疆兵团上半年商务工作分析], Ministry of Commerce XPCC website, 10 August 2005, <http://bingtuan.mofcom.gov.cn/article/sjgongzuody/200508/20050800250815.shtml>.

⁸¹ "2011 H1 Summary of the Operating Situation of the XPCC's Foreign Trade" [2011 年上半年兵团外贸运行情况综述], Ministry of Commerce XPCC website, 7 July 2011, <http://bingtuan.mofcom.gov.cn/article/sjgongzuody/201107/20110707658250.shtml>.

Sometimes in the academic literature, the XPCC is portrayed as a single entity.⁸² But the XPCC is made up of firms of all sizes that compete with each other for business and subsidies. Over time, the mix of XPCC firms trading with Central Asia (and presumably with Kyrgyzstan and Tajikistan too) has tended towards private firms. Researchers from the XPCC's economic research institute compiled data that showed that the number of XPCC firms involved in foreign trade grew from 690 in 2006 to 1558 in 2011.⁸³ The proportion of SOEs in XPCC dropped from around 50 percent in 2006 to 26 percent in 2011.⁸⁴ The gap was filled by private enterprise. These private enterprises also hunt for subsidies and still rely heavily on state support.

One other element that is not generally covered in the English-language academic literature is that most of XPCC's companies do not produce large volumes of their own goods. According to the same researchers from the economic institute, traders recorded products as manufactured in Xinjiang when they were made eastern parts of China. They write:⁸⁵

Foreign trade companies in the Bingtuan mainly play the role of a trade channel. Imported raw materials are shipped to the interior [Eastern China], exports originally come from provinces in the interior [Eastern China]. The contribution to the economic development of the Bingtuan in terms of employment and tax revenue is pretty small. Finally, the unique nature of the Bingtuan system means there is no industry, commerce or tax collection authority. This means the Bingtuan can only receive relatively small import and export tax rebates while it develops foreign trade. The Bingtuan's own funds to support the development of foreign trade are weak, and foreign trade profits are even less.

⁸² Gaël Raballand and Agnès Andréys, "Why Should Trade between Central Asia and China Continue to Expand?" 244; Marlène Laruelle and Sébastien Peyrouse, *The Chinese Question in Central Asia*: 47-48.

⁸³ Ye Mei, Wang Xiuqiang and Song Xiaoling, "The Current Focus of the XPCC's Foreign Trade Development" [当前兵团外贸发展重点], *Farm Economic Management*, no. 11 (2014), 38.

⁸⁴ Ye Mei, Wang Xiuqiang and Song Xiaoling, "The Current Focus of the XPCC's Foreign Trade Development," 39-39.

⁸⁵ Ye Mei, Wang Xiuqiang and Song Xiaoling, "The Current Focus of the XPCC's Foreign Trade Development," 39.

This is a significantly different picture than the one offered by Peyrouse and Laruelle as well as Raballand and Andrésy who treat XPCC as a single bloc. XPCC trade with Kyrgyzstan and Tajikistan is undertaken by relatively small, mainly private, firms in deep competition with each other for both market share and subsidies. They purchase and sell the same goods produced in eastern China as non-XPCC traders.

The centre continues to subsidise the XPCC for security reasons. Efforts to turn the XPCC into a manufacturing hub have not really eventuated. A similar story has unfolded more broadly in Xinjiang. This is explored below.

4.4.2 Xinjiang Uyghur Autonomous Region (XUAR)

As was noted earlier in the chapter, the Xinjiang regional government, with central government support, has tried to develop itself in a light-industry manufacturing hub. Certainly, there is some industry in Xinjiang and some of that industry exports to Central Asia.⁸⁶ China's state-owned media happily point to the XUAR's export statistics as evidence of Xinjiang's successful manufacturing sector.⁸⁷ But an analyst who works at the Xinjiang Communications Construction Management Bureau wrote in 2010 the following about the realities of Xinjiang's export 'boom':⁸⁸

Xinjiang itself cannot provide the necessary products for these [Central Asian] countries. The products can only be purchased from other provinces in China, such that Xinjiang's foreign trade is a channel for products from elsewhere in China to flow abroad. Products purchased from other provinces can only bring marginal intermediary benefits for Xinjiang. The majority of added value belongs to the producers of the goods. Although the value of Xinjiang's foreign exports has increased greatly in recent years, it has not in any clear way driven Xinjiang's economy.

⁸⁶ An interview with Yajun Bao in May 2018.

⁸⁷ "Xinjiang: Foreign Trade Grows over 40 Percent for Region in First Half of the Year" [新疆:上半年全区外贸增长逾四成], 3 August 2017, *Xinjiang Daily*, http://www.gov.cn/xinwen/2017-08/03/content_5215664.htm.

⁸⁸ Shi Xinmin, "Measures and Policies for the Transformation of Xinjiang's 'Corridor Type' Foreign Trade" [新疆“走廊型”外贸转型的措施与对策], *Seek Truth From Facts*, no.6 (2010), 39.

The same author goes into significant detail about the various abuses in the subsidies system. These subsidies are offered all levels of government, so traders might take advantage of multiple subsidies with one product. His analysis is that there a great level of support for foreign trading companies but oversight is sorely lacking, or as he put it, “Because the government ‘emphasises subsidies which do not have oversight’, the subsidies have actually caused company reliance on state support. Companies even use improper means to fraudulently obtain subsidies.”⁸⁹

More recently in 2017, the Urumqi Customs Bureau published a document that said, “Xinjiang has only become a transit base for commodities and logistics between Central Asia and the interior [eastern China]...Despite the support of the country’s various border trade policies, the structure [of exports] based mainly on a ‘corridor economy’ has not fundamentally changed.”⁹⁰

Two academics from Xinjiang Normal University Institute of Economics made a similar argument back in 2007. They contended Xinjiang trade was being “hollowed out” and that the region was simply a “point of transit”. They argued that Central Asian businesses would go directly to producers in eastern China if this continued.⁹¹ Direct dealings between Central Asian traders and the manufacturer are now commonplace, due to the maturation of the market and a new generation of Chinese-speaking Central Asians. I spoke to several Central Asian purchasers working full time in China for Central Asian companies. They said they almost exclusively buy from the large manufacturing regions in eastern China. They all said they were competing with other Central Asian or Russian purchasers who they would

⁸⁹ Shi Xinmin, “Measures and Policies for the Transformation of Xinjiang’s ‘Corridor Type’,” 40.

⁹⁰ “An Analysis of Xinjiang’s Imports and Exports in the First Quarter of 2017” [2017 年一季度新疆外贸进出口情况分析], Urumqi Customs District of the People’s Republic of China, 27 April 2017, <http://urumqi.customs.gov.cn/publish/portal166/tab61932/info847463.htm>.

⁹¹ Huang Yichao and He Xiangyu, “Analysis of the Current Situation and Limiting Factors of Economic Cooperation between China’s Xinjiang and the Five Countries of Central Asia” [中国新疆与中亚五国经济合作现状与制约因素分析], *Xinjiang Finance*, no. 7 (2007), 28.

run into at factories from time to time. I asked a Kyrgyz purchaser based in Shanghai whether she purchases from Xinjiang. Her company did not because they were looking at mid-range electronics, but she added that cheaper, low quality stuff such as textiles could potentially be purchased in Xinjiang, but added “Xinjiang doesn’t produce as many products.”⁹²

One other recent factor that needs to be considered is the security crackdown which began in 2014 and escalated in 2016. It has involved large scale extra-judicial imprisonment of working age men and women, severe restrictions on movement, slower and more controlled internet and constant intrusive transport checkpoints. This cannot be good for business. Adrian Zenz, an expert on Chinese security at European School of Culture and Theology said in 2018 that “Regular businesses and manufacturing there are no longer competitive [in Xinjiang] due to the added expenses caused by security measures”.⁹³

Despite XUAR and XPCC statistics indicating that most Chinese exports to Kyrgyzstan and Tajikistan originate in Xinjiang, the reality is that most Chinese goods in both countries actually originate in eastern China. The fact that the sum of exports from XUAR and XPCC account for over 100 percent of total Chinese exports to both countries in numerous years demonstrate the statistics’ unreliability. First-hand accounts presented in this section from traders and expert analysts from within Xinjiang and the XPCC also support this view.

Thus, despite continued and sustained efforts by various levels of government, the XUAR and XPCC have not significantly morphed into a production hub for Central Asia, at least not in the way intended by government policy. The reason in one sense is simple – traders can make more money by purchasing goods from eastern China which are more

⁹² Electronic correspondence with Kyrgyz purchaser based in Shanghai, conducted between January 2018 and June 2018.

⁹³ “Ghost Cities Haunt Stability Dream in China’s Far West,” *South China Morning Post*, 4 September 2014, <http://www.scmp.com/news/china/economy/article/2109555/ghost-cities-haunt-stability-dream-chinas-far-west>.

varied and cheaper. Traders are following their standard operating procedure which is to maximise profit. In another sense it is more complicated – the Chinese government has spent an extraordinary amount of money to make Xinjiang manufacturing cheaper, but it spent an ever-greater amount of money making eastern China a successful manufacturing hub. That success, combined with geographical and scale advantages of eastern Chinese exporters, has cruelled manufacturing in Xinjiang until this point.

The larger picture is that China's policy to use economic development to make Xinjiang stable has also failed. Violence in the region was significantly worse between 2009 and 2014 than at almost any point since 1949. Since 2014, Chinese leadership has chosen to turn the region into a security state with diminishing personal freedoms which include the use of internment camps that house potentially hundreds of thousands of Xinjiang's ethnic minorities as of the middle of 2018. The reasons behind the failure are more complicated than just exports to Kyrgyzstan and Tajikistan (and beyond the scope of this thesis). But the bottom line is that the central government has struggled at times to realise both its economic and security vision in the region.

4.5 Conclusion

This chapter argues that China's export dominance in both Kyrgyzstan and Tajikistan is mostly a factor of its export dominance globally. China has intentionally turned itself into the global centre for manufacturing, particularly at the lower price end (at least until very recently). So, it is not surprising that it too dominates exports to the relatively poor countries of Kyrgyzstan and Tajikistan.

But because of Kyrgyzstan's and Tajikistan's geographical position, two other factors warrant consideration. The first is recipient states' tariff regimes. Kyrgyzstan and Tajikistan are landlocked countries mainly surrounded by other landlocked countries. All manufactured goods must travel overland from global manufacturing hubs – in this case China. Kyrgyzstan

positioned itself as a regional entry point of choice for textiles by offering a vastly lower tariff regime for ‘bazaar goods’ than Tajikistan and Kazakhstan – the other Central Asian countries that border China. Despite their similar economic size, Kyrgyzstan imports significantly more goods than Tajikistan from China.

The other factor to consider is China’s central leadership’s efforts in the development of Xinjiang. Typically exports to Central Asia would not matter for China – they make up less than 0.1 percent of China’s total exports. But for decades, China has tried to economically develop Xinjiang and turn it into a manufacturing hub for Central Asia. But China’s export dominance in Kyrgyzstan and Tajikistan (and the rest of Central Asia) owes relatively little to this. Better transport links with eastern China have helped exports. But as this chapter has shown, most Chinese exports entering Central Asia most likely come from eastern China, not Xinjiang. This is unsurprising. Everywhere on earth struggles to compete with eastern China’s manufacturing behemoth (at least until recently). Why would remote Xinjiang, with almost no supply chains, be any different?

This chapter demonstrates that recipient states and the traders act according to their own interests. They are not simply actors used to develop Xinjiang. Nor is the XPCC the unified trading bloc that it has been portrayed in some parts of the academic literature. The traders, both inside the XPCC and outside it, have leveraged Xinjiang’s export subsidies, sometimes fraudulently, to line their own pockets. But their main source of profit comes from cheap manufacturing in eastern China. Recipient states also make decisions based on what suits their interests – in terms of their nation’s development and the enrichment of their elite. On the issue of tariff regimes, Kyrgyzstan and Tajikistan have often chosen different paths.

Chapter 5 Local Thugs and Foreign Mugs: Chinese Investment in Kyrgyzstan and Tajikistan

You know how Tajik shoot pigeons?” he asked. “They scatter some food on the ground and then wait around the corner with a shotgun. When pigeons come, they just blast away from a short distance. That’s the dire situation facing Chinese businessmen here.

The head of the Federation of Overseas Chinese in Tajikistan, Hu Feng.¹

5.1 Introduction

One common argument in the literature on China-Central Asia is that China as a major investor in Tajikistan and Kyrgyzstan (as well a major trading partner and concessional loan provider) uses its economic strength to exact significant leverage over both states.² Certainly, Beijing has economic leverage over Tajikistan and Kyrgyzstan. Bishkek and Dushanbe have not publicly criticised detainment of ethnically Kyrgyz people in internment camps in Xinjiang. PRC security personnel are operating in Tajikistan. And the circumstances within which Beijing and Dushanbe agreed to settle their land dispute remain completely opaque. There are many other items instances outlined in the introduction of this thesis of where Beijing gets its way in the region.

But as Hu Feng’s comment above demonstrates, the Chinese state has not been able or willing to protect many of its investments in both countries. In Kyrgyzstan, almost every major Chinese investment is either delayed, stopped indefinitely or unprofitable – or a combination of all three. Protesting by disgruntled locals, politicking and poor infrastructure

¹ Cited in Kristin Huang, “Why Chinese investors are struggling to gain a foothold in Tajikistan,” *South China Morning Post*, 7 October 2017, <http://www.scmp.com/news/china/diplomacy-defence/article/2113810/why-chinese-investors-are-struggling-gain-foothold>

² For example, see Jeffrey Reeves, “Economic Statecraft, Structural Power, and Structural Violence in Sino-Kyrgyz Relations,” *Asian Security* 11, no. 2 (2015), 116-135; Irna Hofman, “Politics or Profits along the ‘Silk Road’: What Drives Chinese Farms in Tajikistan and Helps them Thrive?” *Eurasian Geography and Economics* 57, no 3 (2016), 468-470; Martha Brill Ollcott “China’s Unmatched Influence in Central Asia,” Carnegie Endowment, 18 September 2013, <http://carnegieendowment.org/2013/09/18/china-s-unmatched-influence-in-central-asia-pub-53035>.

have been the major causes of these issues. In Tajikistan, major projects have fared better but many projects have suffered at the hands of local cronies and from corruption. When we dig down to the project level, we see companies that are desperate to leave the PRC because of an ultra-competitive and difficult environment in many industries. This does not contradict Beijing's use of economic statecraft to achieve its goals, it simply points out that the economies of Kyrgyzstan and Tajikistan are so small that a few desperate companies and declining loans from Eximbank (as shown in Chapter 3) are enough to hold sway over Tajikistan and Kyrgyzstan. It should also be pointed out that the PRC has rarely asked Bishkek or Dushanbe to choose between major powers. The PRC's security presence in Tajikistan has actually led to more largesse from Moscow (covered in Chapter 6). Moreover, if we are to believe that the Chinese government wields political influence through investments, then it is important to ask why the Chinese state does not have the influence or will to protect the investments that are meant to give it power.

This chapter, as well as the thesis as a whole, approaches this issue through the lens of foreign policy analysis, with a particular emphasis on the organisational model. This chapter argues that China does seek to achieve its foreign policy goals in Kyrgyzstan and Tajikistan through economic incentives. There is a system of financing in place to help firms go overseas as well, and many of the PRC firms which invest in Tajikistan and Kyrgyzstan get subsidies from the government to invest abroad. This is an intentional policy by the Central Leadership to help PRC companies internationalise and also to develop economic reliance on the PRC in its periphery.

At the project level, PRC companies themselves are looking for any opportunity to escape difficult conditions in the PRC. Most of the PRC companies invested in Tajikistan and Kyrgyzstan are first-time overseas investors with a strong history of subsidisation in China. They work in industries that have become much more competitive and difficult to turn a

profit in the PRC, so they go overseas to improve their chances. A small number of those companies choose Kyrgyzstan and Tajikistan because there is very little competition in most industrial and mining sectors in those countries. This leads to a situation where inexperienced international investors go to these countries with difficult investment environments. They find those environments difficult to navigate and many of them end up as the pigeons described by Hu in the introduction to this chapter.

Between 2006 and 2016 Chinese companies invested comparatively substantial amounts in Tajikistan and Kyrgyzstan, given that both countries are not attractive investment destinations for foreign investors. Kyrgyzstan and Tajikistan offer foreign companies incentives to invest in their preferred industries. PRC companies end up getting subsidies from both governments. Some of these investments are in industries such as mining and industrial production (cement, oil refining) which either boost Kyrgyzstan's and Tajikistan's exports or assist the recipient state reduce its import reliance. Both countries and most emerging economies are constantly looking for ways to develop exports, so this is very attractive and could be used for leverage by the PRC government.

But, as of 2016, no PRC investor was dominant in the most important export industries of either country. Gold is Kyrgyzstan's lead export (~40% of exports in 2018) and the Canadian-owned Kumtor Mine is easily the largest gold producer in the country, and accounted for 8.5 percent of GDP in 2018.³ No PRC investment in Kyrgyzstan is anywhere near that size. Similarly, in Tajikistan, aluminium has been the major export. The main producer, the Tajikistan Aluminium Company (Talco), is controlled by President Rahmon's family. Over the years, PRC firms have promised to partner or invest in Talco but as at the end of 2016, this had not eventuated. In 2018 and 2019 again PRC firms made promises of

³ Chris Rickleton, "Kyrgyzstan: Filling the Kumtor Hole," *Eurasianet*, 27 March 2019, <https://eurasianet.org/kyrgyzstan-filling-the-kumtor-hole>.

big upgrades to Talco via investment.⁴ But at time of writing, this had not developed into anything firmer than an announcement. The potential political leverage of PRC investment comes from promised future investment, not from current control over key industries.

PRC firms largely make decisions based on where they can find cheapest financing and the lowest levels of competition to boost their profits. As has been noted in previous chapters, if the central leadership in Beijing pays sustained attention to a particular project or issue, it does have the capacity to override the SOPs of Chinese actors operating in other countries. But because of Kyrgyzstan's and Tajikistan's relative lack of size, there was only one major Chinese investment in Kyrgyzstan or Tajikistan between 2006 and 2016 – the Line D gas pipelines traversing both countries – where it looks probable that company and financier SOPs were specifically overridden by strategic interest. The investor, CNPC, chose a route that was not the cheapest.⁵

The Chinese state has encouraged companies to invest all over the world through policy and stimulatory mechanisms. These included, the “Going Out” policy, the “Develop the West” policy, the RMB 4 trillion stimulus package in 2009 designed to combat the effects of the global financial crisis, and more recently the Belt and Road Initiative (BRI). At a broad level, these policies were designed to help Chinese companies compete overseas, make countries more welcoming of China and also handle any local-level interests that China might have with a particular recipient state.

While such policies facilitate cheap finance, they do not force companies to choose Kyrgyzstan or Tajikistan over other markets with better outlooks. In general, most PRC firms have avoided Tajikistan and Kyrgyzstan. In 2016, PRC global investment was USD 170

⁴ “A Chinese Company to Allocate USD 545 Million for the Modernization of Talco” [Китайская Компания Выделит \$545 Млн. на Модернизацию ТАЛКО], 21 April 2019, *Radio Ozodi*, <https://rus.ozodi.org/a/29894185.html>.

⁵ “Tajikistan Resumes Building Turkmenistan-China Pipeline,” *Eurasianet*, 31 January 2018, <https://eurasianet.org/s/tajikistan-resumes-building-turkmenistan-china-pipeline>.

billion. 2016 investment in Kyrgyzstan was USD 300 million (0.002 % of global PRC Foreign Direct Investment) and USD 321 million in Tajikistan (also 0.002% of global PRC investment). The point is that China has encouraged firms to invest all over the world and very few choose Kyrgyzstan and Tajikistan. Because of the PRC's size, even the most miniscule investments give Beijing potential leverage.

The main driver of Chinese investment in Kyrgyzstan and Tajikistan between 2006 and 2016 is not China's geopolitical strategy but rather a small group of Chinese investors who have been attracted by the relative lack of competition in the Kyrgyz and Tajik markets. In addition, there are several commodities that have higher price points than in China (for example, cement, glass and some agricultural products).

The one exception to this analysis is CNPC's investment in a gas pipeline, known as Line D, which if completed would go from Turkmenistan through Uzbekistan, Kyrgyzstan and Tajikistan to China. This would be the fourth gas pipeline between Turkmenistan and China. The previous three all go via Uzbekistan and Kazakhstan. The cheapest option for this pipeline would have been to build Line D beside the existing three pipelines. Instead CNPC has chosen to build through the difficult terrain of Kyrgyzstan and Tajikistan which suggests a strategic motive. Construction on the pipeline began in 2014 but it was postponed in 2016. It reportedly restarted again in 2018.

The recipient states and individual actors in recipient states also have agency to shape investment choices.⁶ The Kyrgyz and Tajik governments offer incentives for certain types of investment which PRC firms have noted make the investments more attractive.

To explore these ideas further, this chapter is divided in three sections. First, it analyses the amount of Chinese investment in both countries. Second, the chapter outlines the

⁶ This point has made by scholars of Central Asia and also scholars focused on China. For example, Alexander Cooley, *Great Games, Local Rules* (Oxford: Oxford University Press, 2012), 21-29; Evelyn Goh, *Rising China's Influence in Developing Asia* (Oxford: Oxford University Press, 2016).

main actors and their SOPs with regards to investments in Kyrgyzstan and Tajikistan. Finally, it examines the implementation PRC investment projects in both Central Asian states.

5.2 The data

This chapter deals with Chinese non-financial direct investment (FDI) flows into Kyrgyzstan and Tajikistan between 2006 and 2016. This only includes direct equity investments over 10 percent into a company, greenfield and brownfield projects as well as mergers and acquisitions. It does not include portfolio investments in financial products such as derivatives, swaps and options that do not give direct ownership of a company. Because Kyrgyzstan's and Tajikistan's financial systems are underdeveloped, financial portfolio investments are uncommon anyway.

The data for this chapter is drawn primarily from recipient state agencies. In Kyrgyzstan, the National Bank of Kyrgyzstan (NBK) publishes data on inward FDI through its balance of payment statistics. These are separated by source country. In Tajikistan, the Ministry of Finance publishes annual data on direct investment by country. Some of the reports from before 2008 only give partial by-country statistics but at that point Russia was so dominant that even the second and third investor countries only accounted for a couple of percent of total inward FDI into Tajikistan.

5.2.1 Chinese Investment in Kyrgyzstan

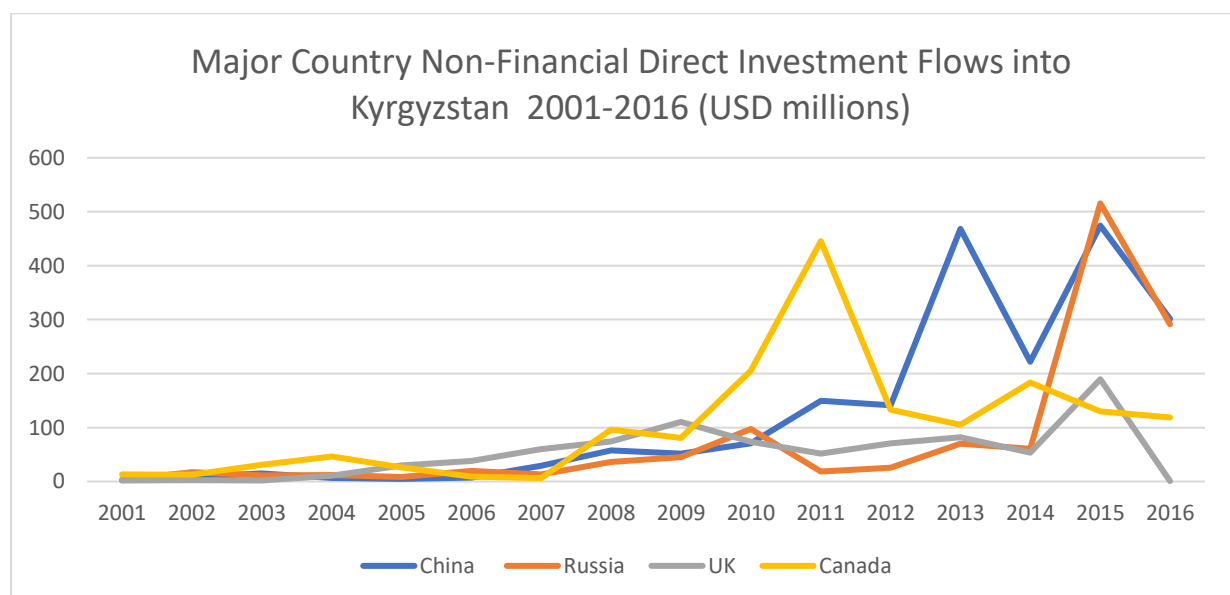
Non-Financial FDI flows into Kyrgyzstan have grown strongly since the early 2000s when no single country invested more than USD 50 million in a given year. Since 2006, three countries have consistently led Kyrgyzstan's Foreign Direct Investment (FDI) inflows: Canada, China and Russia.

The Canadian-owned Kumtor mine is the largest investment project in the country. Ongoing investments in the mine ensure that Canadian investment flows are always near the

top. Russia also has one recent major investment – in 2014 Gazprom purchased the Kyrgyz gas network for one dollar but it has since invested hundreds of millions of dollars in upgrading the network and paying off the Kyrgyz gas network’s pre-existing debts.⁷ Unlike Canadian investments, there are a number of other small Russian projects in the country. Figure 5.1 on the next page shows that prior to the Gazprom takeover, Russia did have some level of investment flows into Kyrgyzstan.

Finally, China has a broader base of investments than both Russia or Canada but no single investment is as big as Kumtor or Gazprom. There are two mid-size projects: a gold mine majority-owned by Zijin Mining and an oil refinery in Kara Balta owned by a subsidiary of Shaanxi Coal and Chemical Industry. There are also numerous smaller projects focused in the industries of mining, industrial processing and agriculture. Sizeable Chinese investment is relatively new in the country. It began to increase in 2009. China has been a leading investor since then.

Figure 5.1 Major Country Non-Financial Direct Investment Flows into Kyrgyzstan 2001-2016 (USD millions)



Source: National Statistics Committee of the Kyrgyz Republic, “Foreign Investment in 2018” [Иностранные инвестиции в 2018г], <http://stat.kg/ru/statistics/investicii/>.

⁷ “Kyrgyzstan: Gazprom Warns It Could Cut Gas Supply,” *Eurasianet*, 18 February 2016, <https://eurasianet.org/kyrgyzstan-gazprom-warns-it-could-cut-gas-supply>.

It is not surprising that China is a leading investor. After all, China's economy is 11 times the size of Russia's (market exchange rates, at year end 2016) and nine times the size of Canada's.⁸ And the most attractive areas for foreign direct investment in Kyrgyzstan – mineral mining, industrial processing and agriculture – are some of China's strongest areas. Moreover, China's global OFDI in 2016 was USD 217 billion (International Monetary Fund statistics – the 170 billion figure quoted earlier in this chapter used MOFCOM data), almost 10 times Russia's (USD 23 billion) and four times Canada's (USD 64 billion).⁹ All this suggests that China is actually punching below its investment weight in Kyrgyzstan given China's size and proximity to Kyrgyzstan. If Kyrgyzstan was considered geopolitically important and China was pushing investments in Kyrgyzstan over less geopolitically important areas, one would expect it to easily have more investment in the country than Russia or Canada. PRC investment is a result of broader policies to promote overseas investment everywhere. A tiny percentage of those have ended up in Kyrgyzstan.

5.2.2 Chinese Investment in Tajikistan

China has for the last few years been the only foreign investor of note in Tajikistan, accounting for 74 percent of inward investment flows in 2016. In the 2000s, Russia was the leading investor. In 2009, Russian investment flows dropped precipitously and have not returned to anything near their previous levels.

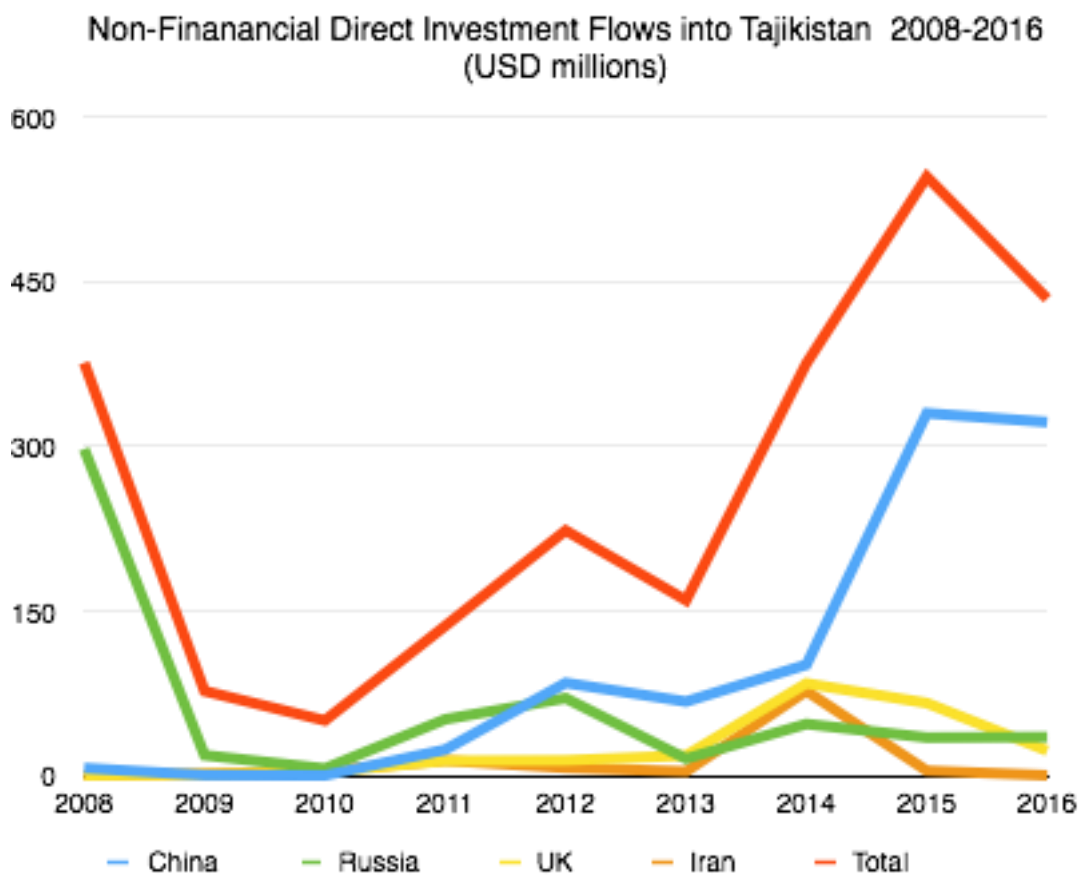
Tajikistan attracts less Chinese investment than Kyrgyzstan, despite having a larger economy. The cumulative flow of Chinese investment into Tajikistan between 2008 and 2016 was USD 934 million. Kyrgyzstan attracted USD 1.936 billion worth of Chinese capital

⁸ According to World Bank data, at the end of 2016 China's GDP was USD 11.12 trillion, Canada's was 1.53 trillion and Russia's was 1.28 trillion, accessed through World Bank Data website, at <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD>.

⁹ Data taken from international monetary fund balance of payment statistics, at <http://www.imf.org/external/datamapper/datasets/BOP>.

during the same period.¹⁰ This indicates that Tajikistan is a less desirable investment destination for all foreign investors (Chinese or otherwise) than Kyrgyzstan. It also demonstrates that the attractiveness of the destination mattered for Chinese investors between 2006 and 2016. Chinese firms chose overseas projects they thought would generate a profit. Very few of those were in Tajikistan.

Figure 5.2 Foreign Direct Investment Flows into Tajikistan 2008-2016 (USD Millions)



Source: National Bank of Tajikistan, “Balance of Payment and External Debt of the Republic of Tajikistan for 2016,” https://nbt.tj/upload/iblock/c1e/Plat_Balance_2016.pdf.

¹⁰ This figure calculated by summing the annual flows between 2008 and 2016 for the respective countries. Investment flow data was sourced from the National Bank of Kyrgyzstan and the Tajik Ministry of Finance.

Chinese investments began to increase in 2010 on the back of a few projects – mid-size mineral mines and cement plans – that were proposed or started in the 2000s. These early projects are the largest and most successful Chinese investments in Tajikistan.

The three largest investors account for the lion's share of Chinese investment in Tajikistan. Zijin Mining had invested over USD 400 million as of September 2016 according to senior employee Chen Jinghe.¹¹ Haicheng had cumulative investments of USD 118 million by 2014 and planned to invest USD 500 million through to 2018.¹² It is unclear how much of the planned money has been invested in practice. Finally, Huaxin has so far invested around USD 300 million in its two largest plants in Sughd and Yovon (USD 150 for each plant, some of the investment would have happened in 2017).¹³ Even though the statistics are not perfect, a quick calculation (USD 400 million + 118 million + 300 million = USD 818 million) shows that the majority of the registered Chinese investment of USD 934 million likely comes from the three largest investors.

5.3 Chinese Investment Projects

5.3.1 Chinese Companies' Backgrounds

Chinese investors in large projects in Tajikistan and Kyrgyzstan share similar traits. They are generally 1) provincial firms, 2) at least partially privatised, 3) suffering from difficult business conditions in China and 4) inexperienced investors outside of China. As

¹¹ "Chen Jinghe Holds Talks with Prime Minister Kokhir Rasulzoda of Tajikistan," Zijin Mining website, last modified 26 September 2016, <http://www.zijinmining.com/investors/117507.htm>

¹² "Solving Employment Problems, Increasing Incomes, Tajik-Chinese Mining Company Benefiting Communities" [解决就业增加收入 塔中矿业造福境外投资地], *People's Daily*, 30 September 2014, <http://finance.people.com.cn/n/2014/0930/c387604-25765585.html>.

¹³ This information was found on Huaxin's website under the header "Subsidiaries" [分子公司] where there are multiple links to project information about Huaxin's overseas projects, see <http://www.huaxincem.com/index/show/tid/12/syb/6.html>, last accessed 28 February 2018.

previously discussed CNPC's Line D gas pipeline investment does not fit this profile but almost all other major investors align with this profile.

Most major investors in Tajikistan and Kyrgyzstan are provincial companies. Both in China and when overseas, these firms receive significant support from their provincial governments. Dinny McMahon shows that local governments have piled up huge amounts of debt trying to develop their own local champions. Most local governments offer cash subsidies, free or cheap land, and discounted utilities among a whole raft of other benefits. It is a race to the bottom. The central government has tried to quell this approach for many years to almost no avail.¹⁴ When provincial companies invest overseas, a similar pattern of subsidies and support from the provincial government emerges.

The majority of Chinese firms in Tajikistan and Kyrgyzstan are publicly listed on the Shanghai, Shenzhen or Hong Kong stock exchanges. Ownership of these companies depends on the company. Some are fully owned by non-government investors. Others are majority owned by non-government investors but with a minority state-owned component such as a state-owned fund or bank owning a relatively small share of the business. Others are SOEs that have listed some of their assets on one of the stock exchanges but the majority share remains in the hands of a local government in China. Ownership can sometimes remain obscured through layers of subsidiaries and shell companies. Listing on the stock exchange provides greater funding options, such as raising money on international markets, to some of these companies. The behaviour of state-owned and private firms does not vary greatly. Larger firms, regardless of ownership structure, will have ties to the provincial or local government in China, otherwise they would not be able to survive.

¹⁴ Dinny McMahon, *China's Great Wall of Debt: Shadow Banks, Ghost Cities, Massive Loans, and the End of the Chinese Miracle* (London: Little, Brown, 2018).

Almost all the large companies that have invested in Kyrgyzstan and Tajikistan were inexperienced international investors. For many of them, it was one of their first overseas investments. The companies readily admitted that competition was lower than in more mature markets where they could not compete.¹⁵

Investor inexperience, a highly unpredictable investment environment in both countries as well as distorted financing from Chinese money markets means many of the projects have run into trouble. Liu Chuanwu, a former Chinese diplomat who used to be in charge of economic matters in Central Asia before he founded the Xinjiang-based business risk consultancy Huahe International, observed that most Chinese investments in Central Asia failed, especially those involving joint ventures.¹⁶ “Many of them [Chinese companies] invested in Central Asia before clearly knowing the market risks and its unique environment,” Liu said. “They hoped to solve economic and legal problems by building up a good relationship with local or national officials. But when true problems come, governmental officials cannot help them, and instead, prey upon them.”¹⁷

Numerous Chinese investors have also publicly acknowledged their inexperience led to investment mistakes. For example, Yang Zhaoqian, General Manager of Central Asia Energy Co. Ltd (a subsidiary of Shaanxi Coal and Chemical Industry) which invested in a Kara Balta oil refinery also recognised the problems:¹⁸

When we entered the market, Kyrgyzstan’s investment environment did not meet our expectations. The construction machinery was outdated, the production materials required for an oil refinery were basically non-existent. In addition, the Chinese workers were complete newcomers, their understanding of things like language, laws and local customers were insufficient.

¹⁵ Interviews held with numerous Chinese investors in Kyrgyzstan and Tajikistan November to March 2017.

¹⁶ Cited in Kristin Huang, “Why Chinese investors are struggling to gain a foothold in Tajikistan.”

¹⁷ Kristin Huang, “Why Chinese investors are struggling to gain a foothold in Tajikistan.”

¹⁸ “Zhongda Oil, A Pearl on the ‘One Belt One Road’” [中大石油 “一带一路” 上的一颗明珠], Central Asia Energy Company website, last modified 15 September 2017, <http://www.chinacaec.cn/news/?type=detail&id=1365>.

Table 5.1 Major Chinese Investors in Kyrgyzstan and Tajikistan

Investor (Location of HQ)	Project(s)	First overseas investment?	Ownership structure HKSX = Hong Kong Stock Exchange SZSX = Shenzhen Stock Exchange SHSX = Shanghai Stock Exchange
Lingbao Gold Mining Company (Lingbao, Henan) ¹⁹	Ishtamberdy Deposit (China Full Mining) (Kyr)	Yes ²⁰	Listed on HKSX in 2006 ²¹ Three major shareholders: - private Chinese venture capital fund (24%) - asset management fund owned by the city of Lingbao (10%) - Shanghai-based asset management company (7%) ²²
Zijin Mining (Xiamen, Fujian)	Taldy Bulak Gold Mine (Kyr)	No	Majority private owned. Publicly listed on HKSX and SHSX.
Zijin Mining (Xiamen, Fujian)	Zeravshan Gold Mine (Taj)	No	Majority private owned. Publicly listed on HKSX and SHSX.
Shaanxi Coal and Chemical Industry Group (Xian, Shaanxi)	Kara-Balta Oil Refinery (Kyr)	Yes	SOE but it has large subsidiary listed on SHSX.
Xinjiang International Industry (Urumqi, Xinjiang)	Tokmok Oil Refinery (Kyr)	Possibly – could not find evidence of earlier overseas investments	Listed in 2000 on SZSX. The largest shareholder (29 percent) is Qiantai Zhongsheng Equity Investment Co., Ltd. which is a private investment fund based in Urumqi.
Tibet Summit (Lhasa, Tibet)	Zarnisor (Taj)	Yes	Listed on SHSX. Major shareholder is Haicheng Corporation – a large private company based in Shanghai. Before 2013, Zarnisor was owned by another Haicheng subsidiary, Xinjiang Tacheng (based in Tacheng, Xinjiang).
Huaxin Cement (Huangshi, Hubei)	Various cement plants in Tajikistan	Yes	Private company, listed on HKSX. Largest shareholder (40%) is global construction company LafargeHolcim.
Xinjiang Zhongtai	Dangara Textile Complex (Taj)	Yes	Private company, listed on SHSX and has subsidiaries listed on HKSX.

¹⁹ Chen Shanshan, “Lingbao Gold Gets Approval to Dig for Gold in Tajikistan” [灵宝黄金获批掘金吉尔吉斯斯坦], *Hexun*, 30 July 2008, <http://gold.hexun.com/2008-07-30/107780502.html>.

²⁰ “Lingbao Gold Mining Company Introduction” [灵宝黄金公司介绍], Lingbao Gold Company website, last accessed 28 February 2018, <http://www.lbgold.com/aboutus/introduction.php>.

²¹ “Lingbao Gold Mining Company Introduction”.

²² Figures extracted from publicly available Hong Kong stock data, see <http://hkdata.stock.hexun.com/company/gsgd/03330.shtml>

(Urumqi, Xinjiang)			
Huang Fan (Zhoukou City, Henan)	Agricultural projects in southern Tajikistan	Yes – started investing Ukraine at same time	State-owned farming enterprise.
TBEA LLC (Changji, Xinjiang)	Dushanbe-2 Combined Heat and Power Plant (Phase 1)	No. Already many global investments	Listed on SHSX. Ownership is unclear. In the company reports, the largest owner is listed as TBEA Group (12%) which is a parent group. The exact mechanics of the parent-subsidiary relationship are very opaque. The second (6.8%) and third (3.6%) largest investors are publicly listed investment firms with close links to Huijin. The fourth largest shareholder is Huijin (1.9%) which is an investment company owned by China's sovereign wealth fund. The fifth to tenth largest shareholders are all various funds owned by either Bank of China or the Agricultural Bank of China. ²³
CNPC (Beijing)	Line D gas pipeline in Kyrgyzstan and Tajikistan	No. Already many global investments	CNPC is a centrally administered SOE with numerous subsidiaries listed on the HKEX, including China Petroleum. CNPC is one of the largest oil companies in the world.

Source: Company reports, bond prospectuses, shareholder Q&As, company websites, media interviews with staff and author's own interviews.

5.3.2 Reasons for Investing

There are four main reasons (not mutually exclusive) that Chinese companies chose to invest in Kyrgyzstan and Tajikistan:

1. Difficult business conditions in China
2. Low competition in Kyrgyzstan and Tajikistan
3. High prices for certain goods
4. Tax breaks and other subsidies in Kyrgyzstan and Tajikistan.

In individual cases, there are additional reasons such as the quality of agricultural land. The major point here is that Chinese companies are choosing to invest overseas based

²³ "TBEA Limited 600089 2016 Annual Report" [特变电工股份有限公司 600089 2016 年年度报告], TBEA, 15 March 2017, 63.

on the project economics. While it is the case that they receive funding subsidies from arms of the Chinese government, they would likely receive these subsidies if they invested elsewhere.²⁴ To the author's knowledge, there is no specific PRC government subsidy for investing in Kyrgyzstan and Tajikistan.

Table 5.2 Chinese Companies' Reasons for Investing in Overseas Project (as given by the company)

Chinese Companies' Reasons for Investing in Overseas Project (as given by the company)		
Company	Project	Reasons for project
Zijin Mining ²⁵	Taldy Bulak Gold Mine (Kyr)	• Rising costs in China • Lack of good gold reserves in China
Zijin Mining	Zeravshan Gold Mine (Taj)	• Rising costs in China • Lack of good gold reserves in China
Lingbao Gold Mining Company ²⁶	Ishtamberdy Deposit (China Full Mining)	• Increase gold reserves and resources • Reduce refining costs in China (due to extra raw material)
Shaanxi Coal and Chemical Industry ²⁷	Kara-Balta Oil Refinery (Kyr)	• Excess capacity in China led to falling profits
Xinjiang International Industry	Tokmok oil refinery (Kyr)	• Difficult to access upstream oil in China (due to domination by monopolies), so need to move refining business out of China • Support from Kyrgyz government for refining projects
Tibet Summit ²⁸	Zarnisor (Taj)	• Rising costs in China • Low Tajik labour costs • Low license costs • Multiple minerals in one deposit • Fairly large deposit
Huaxin Cement	Various cement plants in Tajikistan	• Low cement prices in China • Severe overcapacity in China • Rising costs in China

²⁴ Interviews with Chinese investors in Kyrgyzstan and Tajikistan between November 2015 and March 2016.

²⁵ Zhang Jie, "Going Out", Zijin Writes Its Own Overseas Legend" ["走出去", 紫金书写海外传奇], *Fujian Daily*, August 20 2015), http://www.chinadaily.com.cn/micro-reading/interface_yidian/2015-08-20/14122932.html.

²⁶ Chen Shanshan, "Lingbao Gold Gets Approval to Dig for Gold in Tajikistan" [灵宝黄金获批掘金吉尔吉斯斯坦], *Hexun*, 30 July 2008, <http://gold.hexun.com/2008-07-30/107780502.html>.

²⁷ Zhang Jing, "Li Yangdong: Expanding Central Asian Investment to Make Use of Zhongda Oil's Advantages" [李仰东: 发挥中大石油平台优势 扩大中亚地区投资], *Monthly Economic News*, 22 September 2017, <http://finance.jrj.com.cn/2017/09/22011323152202.shtml>.

²⁸ Sun Liang, Yang Chengxiao, Tian Yuan and Wang Xiaopeng, "Tibet Summit: The Attractive Lead and Zinc Mining Giant Which Has Low Cost Growth and Low Valuation Growth" [西藏珠峰:低成本低估值成长性良好的铅锌巨头], *Sina Finance*, 7 February 2018, http://vip.stock.finance.sina.com.cn/q/go.php/vReport_Show/kind/company/rptid/4090666/index.phtml.

		• High cement prices in Tajikistan • Tax concessions in Tajikistan • No competition
Xinjiang Zhongtai	Dangara Textile Complex (Taj)	• Difficult domestic conditions • Free land, cheap water & electricity • Low labour costs • Tax breaks • High quality of local cotton • Easy export to rest of CA
Huang Fan	Agricultural projects in southern Tajikistan	• Falling profits in China • Large amounts of available land and water • Cheap labour • Cheap rents • Cheap fertiliser and fuel • Long hours of sunlight
TBEA	Dushanbe-2	• The amount of gold promised by Tajik authorities would comfortably cover cost of investment (see Chapter 3)
CNPC (Beijing)	Line D gas pipeline in Kyrgyzstan and Tajikistan	• The reason for choosing this particular route for the pipeline has not, to the author's knowledge, been publicly explained by CNPC • It is likely national interest rather than economic interest as the driver for this project. • This project was halted shortly after beginning in 2014. It reportedly restarted in February 2018.

The above table illustrates the mix of cost advantages in Kyrgyzstan and Tajikistan, combined with difficult business conditions in China, which has attracted a relatively small number of Chinese investors.

These advantages are particularly obvious in the mining sector. Dwindling reserves and increasing costs in China such as rising labour costs and increased environmental protections have made mining less attractive in China. Conversely mining in Kyrgyzstan and Tajikistan, at least on paper, is relatively cheap. A note by a Chinese securities company said production expenses for Tibet Summit (the main investor in Sino-Tajik Mining Company project) are much lower in Tajikistan than China:²⁹

²⁹ Sun Liang, Yang Chengxiao, Tian Yuan and Wang Xiaopeng, "Tibet Summit: The Attractive Lead and Zinc Mining Giant Which Has Low Cost Growth and Low Valuation Growth"

Tajik labour costs are much lower than in China. In 2016 the cost for processing a tonne of ore (containing both lead and zinc) is RMB 173 (~USD 26 at 1 June 2016). The weighted average cost for producing a tonne of lead-zinc concentrate is only RMB 2798.61 (~USD 420 1 July 2016). This is lower than the production costs of the majority domestic [Chinese] producers.

In answering one shareholder question about the profitability of its Tajik operation, the company said it was trying to reduce overall labour costs by decreasing the number of Chinese workers on its Tajik mine:³⁰

One of Sino-Tajik Mining Company's core competitive advantages is the cost of its labour. Sino-Tajik Mining has consistently kept the ratio of Chinese to Tajik workers at 3 (Chinese):7 (Tajik) which is required by the Tajik Government. However, since 2016, Tajik-Sino Mining is incrementally limiting the number of Chinese employees. The company hopes that through 3-5 years of hard work, the ratio of Chinese workers to Tajiks will be limited to 1:9. Right now, the monthly salary of Tajik workers employed by Sino-Tajik Mining Company is USD 300. The company hopes to control expenditures at a stable level through adjustment of the ratios of Chinese to Tajik workers as well as controlling the total number of employees which will increase labour productivity.

The CEO of Tibet Summit, Huang Jianrong, said the following while answering shareholder questions about the profitability of the company's Tajik mine:³¹

I think the main reasons Tajik-Sino Mining's profit levels are higher than domestic projects [in China] are: 1) The size of the mine is comparatively big 2) In the one mine there are deposits of numerous valuable metals such as lead, zinc, copper and silver. 3) The mine investment and license costs were relatively low and the depreciation and amortization are small. 4) The labour costs for Tajik workers and the tax burden are both low.

Another major Chinese investor, Zijin Mining, which has mines in both Kyrgyzstan and Tajikistan, also sees cost benefits of projects outside China. Speaking in 2015 about his company's overseas projects, Zijin Mining CEO Chen Jinghe highlighted costs in China as a driver of moving business overseas:³²

Along with rising labour costs domestically [in China] and the shortage of resources, the cost of mining development has been on the rise. In order to

³⁰ "Tibet Summit 600338" [西藏珠峰 600338], Shanghai Stock Exchange Roadshow, last accessed 23 January 2018,

http://roadshow.sseinfo.com/region_home_companies.do?cid=13679&stockCode=600338.

³¹ "Tibet Summit 600338" [西藏珠峰 600338]."

³² Zhang Jie, "'Going Out', Zijin Writes Its Own Overseas Legend."

maintain the core competitiveness of Zijin and to build a globally leading mining enterprise, we simply have to choose to ‘go out’.

Job advertisements for Chinese workers gives a ballpark figure for wages for Chinese workers both countries. There are two important caveats. There is large variation by job type and industry, and most of the advertised jobs in 2018/19 (when this section was written) are for managerial or engineering positions, not low skilled workers. One 2019 advertisement for a construction worker in Tajikistan for a sub-contractor which does a lot of work with Tibet Summit (the main investor in Sino-Tajik Mining company) offered a monthly salary of between USD 1200 and 1930 (RMB 8300-13,300) per month.³³ On July 6, 2019 the Liepin job website returned 39 job advertisements for roles in Tajikistan. The lowest paying job was USD 725 to 846 per month (RMB 60000-70000 per year) for a cashier role.³⁴ 28 of 39 jobs had minimum payments of over USD 1200 per month.³⁵ A sprinkling of managerial roles were above USD 5000 per month. All of this is much higher than the USD 200-300 quoted for Tajik workers on the previous page.

Employing foreign workers comes with other costs too. Many roles for Chinese nationals receive food and accommodation in addition to their salary. Sinosure also notes that the Tajik government “[i]mplements a double restriction on visas and work permits. The cost for both is high and rising, and now about USD 1300 per year.”³⁶ Some companies may try to

³³ “Construction Worker” [施工员], Liepin job website, role advertised on 1 July 2019, [https://www.liepin.com/job/1915545077.shtml?imscid=R000000075&ckid=b826b9b1c9da6905&headckid=null&pageNo=0&pageIdx11&totalIdx=11&sup=1&siTag=1B2M2Y8AsgTpgAmY7PhCfg~t2ol2tGZ1Tol_ZGM-](https://www.liepin.com/job/1915545077.shtml?imscid=R000000075&ckid=b826b9b1c9da6905&headckid=null&pageNo=0&pageIdx11&totalIdx=11&sup=1&siTag=1B2M2Y8AsgTpgAmY7PhCfg~t2ol2tGZ1Tol_ZGM-Yts5Q&d_sfrom=search_title&d_ckId=9730686c47cdcae47c1bb6433df7f7b7&d_curPage=0&d_pageSize=40&d_headId=9730686c47cdcae47c1bb6433df7f7b7&d_posi=11)

[Yts5Q&d_sfrom=search_title&d_ckId=9730686c47cdcae47c1bb6433df7f7b7&d_curPage=0&d_pageSize=40&d_headId=9730686c47cdcae47c1bb6433df7f7b7&d_posi=11](https://www.liepin.com/job/1915545077.shtml?imscid=R000000075&ckid=b826b9b1c9da6905&headckid=null&pageNo=0&pageIdx11&totalIdx=11&sup=1&siTag=1B2M2Y8AsgTpgAmY7PhCfg~t2ol2tGZ1Tol_ZGM-Yts5Q&d_sfrom=search_title&d_ckId=9730686c47cdcae47c1bb6433df7f7b7&d_curPage=0&d_pageSize=40&d_headId=9730686c47cdcae47c1bb6433df7f7b7&d_posi=11)

³⁴ “Cashier” [出纳], Liepin job website, role advertised on 2 July 2019, [https://www.liepin.com/job/1920664699.shtml?imscid=R000000075&ckid=9d9f6e66f3dc2ca2&headckid=b5976008e5a784a7&pageNo=0&pageIdx3&totalIdx=3&sup=1&siTag=1B2M2Y8AsgTpgAmY7PhCfg~t2ol2tGZ1Tol_ZGM-](https://www.liepin.com/job/1920664699.shtml?imscid=R000000075&ckid=9d9f6e66f3dc2ca2&headckid=b5976008e5a784a7&pageNo=0&pageIdx3&totalIdx=3&sup=1&siTag=1B2M2Y8AsgTpgAmY7PhCfg~t2ol2tGZ1Tol_ZGM-Yts5Q&d_sfrom=search_prime&d_ckId=896dbbf52a276290fe8eb892f93bced3&d_curPage=0&d_pageSize=40&d_headId=896dbbf52a276290fe8eb892f93bced3&d_posi=3)

[Yts5Q&d_sfrom=search_prime&d_ckId=896dbbf52a276290fe8eb892f93bced3&d_curPage=0&d_pageSize=40&d_headId=896dbbf52a276290fe8eb892f93bced3&d_posi=3](https://www.liepin.com/job/1920664699.shtml?imscid=R000000075&ckid=9d9f6e66f3dc2ca2&headckid=b5976008e5a784a7&pageNo=0&pageIdx3&totalIdx=3&sup=1&siTag=1B2M2Y8AsgTpgAmY7PhCfg~t2ol2tGZ1Tol_ZGM-Yts5Q&d_sfrom=search_prime&d_ckId=896dbbf52a276290fe8eb892f93bced3&d_curPage=0&d_pageSize=40&d_headId=896dbbf52a276290fe8eb892f93bced3&d_posi=3)

³⁵ The author has a screenshot of the search results and is willing to share it.

³⁶ (“Guobie” 2015, 126).

circumvent these costs, but that would come with a separate cost of bribing authorities. It is pretty clear from this and statements by Chinese companies that Chinese employees are more expensive than locals.

China National Gold Group also recognises the cost savings of local hires. The company purchased Kyrgyzstan's Kuru-Tegerek gold and copper deposit in 2012. On a Chinese gold industry website (which is managed by China National Gold Group), an article published about the Group's overseas projects writes "The cost of local labour is relatively cheaper than Chinese labour, so the company can preferentially employ locals."³⁷

In a 2018 interview with the author, an employee from China National Gold Group's mine in Kyrgyzstan said there is a significant wage discrepancy.³⁸ In 2011, more than 1500 employees at Zeravshan mine in Tajikistan protested that their wages were too low and that Chinese employees were receiving 15 to 20 times more than locals.³⁹ Wage gaps unsurprisingly cause tension. However, local wages at the company are still often higher than would be available in other jobs in Kyrgyzstan and Tajikistan.

Cement producers and oil refiners also face difficult business conditions in China. Overcapacity and rising costs have slashed profit margins. For example, Shaanxi Coal and Chemical Industry (abbreviated to Shaanmei – mei means coal in Chinese) is the major investor in Kara Balta Oil Refinery in Kyrgyzstan.⁴⁰ This was Shaanmei's first overseas investment. It was driven to internationalise by tough domestic conditions in China. Li Yangdong who heads Shaanmei's Kyrgyz operations said the following in an interview on

³⁷ "Human Resource Management is the Core of Management" [人力资源是管理的核心], Gold.org.cn, 20 November 2017, http://www.gold.org.cn/hjky/guanli/201711/t20171120_153472_wap.html, accessed January 30, 2018.

³⁸ Electronic correspondence in June 2018 with a Kyrgyz employee of China National Gold Group.

³⁹ Nargis Hamrabaeva, "Workers Protest at JV Zeravshon" [Рабочие СП «Зарафшон» протестуют], *Asia Plus*, December 9 2011, <https://news.tj/ru/news/tajikistan/economic/20110912/rabochie-sp-zarafshon-protestuyut>.

⁴⁰ Zhang Jing, "Li Yangdong: Expanding Central Asian Investment to Make Use of Zhongda Oil's Advantages."

Shaanmei's internationalisation, "Shaanxi Coal Group is mainly engaged in coal, the coal chemical industry, coal-powered electricity and steel. These industries all currently have surplus (capacity) and so the domestic space for development is limited."⁴¹

Huaxin cement is another company that has suffered due to domestic overconsumption. Huaxin is a mid-size Chinese cement producer headquartered in Hubei Province. It was originally a private company set up in 1907. It was nationalised during the Mao era and then re-privatised in 1994 with a listing on the Shanghai stock exchange. Its largest shareholder (about 40 percent) is a global construction materials company called LafargeHolcim.⁴²

From the late 2000s Huaxin began exploring overseas opportunities because of severe overcapacity and low prices in China. Huaxin's vice president and deputy general manager Wang Ximing said the company chose Tajikistan and Cambodia as their first overseas investments because prices were higher in Tajikistan and Southeast Asia than China. Wang said that strong demand growth in Tajikistan was a factor.⁴³ Another consideration for Huaxin was that its major shareholder is already a market leader in North America, Europe and parts of Africa.⁴⁴ Tax concessions offered by the Tajik government for cement investors in Tajikistan also played a part in the decision to invest.⁴⁵

⁴¹ Zhang Jing, "Li Yangdong: Expanding Central Asian Investment to Make Use of Zhongda Oil's Advantages."

⁴² LafargeHolcim Streamlines Operations in China, LafargeHolcim website, last updated 3 August 2016, <http://www.lafargeholcim.com/lafargeholcim-streamlines-operations-china>.

⁴³ Chen Hongxia and Lu Shibo, "Industrial Overcapacity 'Forces' Huaxin Cement to Accelerate Overseas Efforts" [产能过剩 "倒逼" 华新水泥加速海外布局], *21st Century Economic Report*, 9 December 2015, http://epaper.21jingji.com/html/2015-12/09/content_27406.htm.

⁴⁴ Chen Hongxia and Lu Shibo, "Industrial Overcapacity 'Forces' Huaxin Cement to Accelerate Overseas Efforts."

⁴⁵ Chen Hongxia and Lu Shibo, "Industrial Overcapacity 'Forces' Huaxin Cement to Accelerate Overseas Efforts."; Avaz Yuldoshev, "Tajik-Chinese JV Building Cement Plant in Vahdat Exempted from Paying VAT and Customs Duties," *Asia Plus*, November 20, 2013, <http://news.tj/en/news/tajik-chinese-jv-building-cement-plant-vahdat-exempted-paying-vat-and-customs-duties>.

Once the decision to invest overseas is made, these companies generally search globally for opportunities.⁴⁶ Huang Fan started as a Henan state-owned collective farm established in 1951. As a result of increasing production costs and land rental prices in China, the company's profit margins decreased. The company looked for opportunities in Europe and Africa.⁴⁷ In the end, it decided to invest in Tajikistan and Ukraine, where the company judged it would find good production conditions and policy benefits from host nations.⁴⁸

In Tajikistan, Huang Fan set up a joint venture, called Jing Yin Yin Hai, with another company from Henan. This was seen as an entry point to Central Asia. Irna Hofman interviewed Chinese managers working at the joint venture. They said that they had also considered Kyrgyzstan and Kazakhstan. The general cost structures were the same but access to land was much more difficult in Kazakhstan and Kyrgyzstan. So, they chose Tajikistan as their initial entry point.⁴⁹ General Manager of Huang Fan's Tajikistan projects, Zhong Wensheng said in an interview with Xinhua:⁵⁰

Firstly, this country [Tajikistan] has large amounts of land that it is willing to lease. The rent is incredibly cheap, the cost of rent including tax and water fees is only a bit over RMB 200 (USD 30) per year per hectare. Also, costs for fuel and fertilizer are far cheaper than in China. Secondly, there are abundant local water resources and long hours of sunlight. Just like Xinjiang, Tajikistan is suitable for planting cotton and corn.

The one exception to the argument that these projects are mainly economic in nature and driven by the wish to escape difficult conditions in China is Line D, which is a proposed gas pipeline running from Turkmenistan through Uzbekistan, Kyrgyzstan and Tajikistan to

⁴⁶ For example, Huaxin and Zijin now have projects in many countries. Huangfan invested in the Ukraine as well as Tajikistan. Shaanxi Coal and Chemical Industry Group later invested in Australia.

⁴⁷ Irna Hofman, "Politics or Profits along the 'Silk Road': What Drives Chinese Farms in Tajikistan and Helps them Thrive?" *Eurasian Geography and Economics* 57, no 3 (2016), 468-470.

⁴⁸ Irna Hofman, "Politics or Profits along the 'Silk Road'," 468-470

⁴⁹ Irna Hofman, "Politics or Profits along the 'Silk Road'," 471.

⁵⁰ Liu Jinhui, "Chinese Agricultural Firms Accelerate Their Pace of 'Going Out'" [中国农业企业加快 "走出去" 步伐], *Xinhua*, 20 August 2014, <http://finance.china.com.cn/news/gnjj/20140820/2624593.shtml>.

China. This would be the fourth gas pipeline operating between Turkmenistan and China.

Lines A, B and C all travel via Uzbekistan and Kazakhstan.

The choice of route through Kyrgyzstan and Tajikistan suggests other considerations are at work besides profit. It is a much shorter route through Kyrgyzstan and Tajikistan but it is also more expensive because both countries are more mountainous. Lines A, B and C reportedly cost USD 7.3 billion dollars together with cumulative capacity of 55 billion cubic metres per year.⁵¹ Line D with its smaller capacity and single line will cost somewhere around USD 6.7 billion, making it more expensive per unit of gas.⁵² It is also politically more difficult because it crosses one more country than Lines A,B and C.

Plus, a new route requires more preparatory work than simply building alongside pre-existing pipelines. CNPC's choice of route has never been officially explained. The author sees two sensible explanations. Firstly, the route reduces political and security risks for both CNPC and China. If Lines A, B and C are shut off for political or security reasons then Line D could still operate without interruption. Spreading risk could conceivably be of interest for both the Chinese state (for energy security reasons) and CNPC (for risk minimisation reasons). Secondly, transit fees would provide revenues for the governments of Kyrgyzstan and Tajikistan. From Beijing's perspective, this would help the Kyrgyz and Tajik governments develop their country economically – and thus become more stable. The transit fees would also provide Beijing with some control over Tajik and Kyrgyz government revenues.

Tajikistan would reportedly receive 1.2 billion in taxes and 2.5 billion in dividends (as a shareholder in the pipeline) over 32 years (exact amounts depend on gas prices and

⁵¹ Jack Farchy and James Kynge, "Map: Connecting central Asia," *Financial Times*, 10 May 2016, <https://www.ft.com/content/ee5cf40a-15e5-11e6-9d98-00386a18e39d>.

⁵² "China Pipelines Sold Far Below Cost," *Radio Free Asia*, 28 December 2015, https://www.rfa.org/english/commentaries/energy_watch/pipelines-12282015104204.html.

volumes) which is USD 115 million per year.⁵³ Tajik budgetary revenues for 2017 were expected to be USD 1.7 billion.⁵⁴ This equates to about 7 percent of budgetary revenues. Kyrgyzstan did not form a joint venture, instead it will rent out the land and not own the pipeline – this reduces risk but also potential profit.

The project has undergone a stop-start development. It was first announced in 2013 during Xi Jinping's visit to the region (the same visit where the Silk Road Economic Belt was announced), although CNPC said its planning for the route began as early as 2011.⁵⁵ Construction began in Tajikistan in 2014. It was originally scheduled to be completed in 2016. Construction was much slower than scheduled and then postponed in 2016.⁵⁶ In 2018 construction in Tajikistan restarted with it expected to start in Kyrgyzstan in 2019.⁵⁷

The postponement indicates factors beyond Chinese national interest at play here. If the sole objective of the pipeline was to solve the Chinese gas security issues and bring Tajikistan and Kyrgyzstan further into Beijing's orbit, then the work would have continued regardless. Instead work was slow and postponed for over two years. This does not mean that there is no strategic intent but rather that there are several factors at play.

The exact reasons for the delay have never been explicitly stated by CNPC. But governments in Uzbekistan, Tajikistan and Kyrgyzstan all suggested that the sluggish price of

⁵³ "Construction of Tajik Section of Turkmenistan-China Gas Pipeline Starts, says Tajik Official," *Asia Plus*, 31 January 2018, <https://news.tj/en/news/tajikistan/economic/20180131/construction-of-tajik-section-of-turkmenistan-china-gas-pipeline-starts-says-tajik-official>.

⁵⁴ "Tajik Parliament Passes Budget for 2017," *Asia Plus*, 16 November 2016, <https://news.tj/en/news/tajikistan/power/20161116/233268>.

⁵⁵ Michael Lelyveld, "China Runs Risk with New Gas Route Through Central Asia," *Radio Free Asia*, 24 March 2014, https://www.rfa.org/english/commentaries/energy_watch/energy-03242014125135.html.

⁵⁶ "Tajikistan will not Receive Gas from the Transit Gas Pipeline Turkmenistan-China" [Таджикистан не будет получать газ из транзитного газопровода Туркменистан-Китай], *Avesta*, 8 September 2014, <http://avesta.tj/2014/09/08/tadzhikistan-ne-budet-poluchat-gaz-iz-tranzitnogo-gazoprovoda-turkmenistan-kitaj/>.

⁵⁷ "Construction of Transit Gas Pipeline from Turkmenistan to China will be started in Kyrgyzstan in late 2019," *Kabar*, 18 December 2017, <http://kabar.kg/eng/news/construction-of-transit-gas-pipeline-from-turkmenistan-to-china-will-be-started-in-kyrgyzstan-in-2018/>.

gas made the Chinese side less interested in the project.⁵⁸ Negotiations with local companies and governments were also a factor. The project is made up of three joint ventures between CNPC and a local gas company in each of Uzbekistan, Tajikistan and Kyrgyzstan. There were rumours of difficulty in those negotiations before the postponement.⁵⁹ These difficulties were probably compounded by the fall in the gas price. When it was announced that the project would be restarted, difficult negotiations between recipient states and CNPC resumed. Locals told Eurasianet journalists that resumption had been delayed by the Tajik side's insistence on a more technically onerous (and thus expensive) route.⁶⁰

So, in sum, there appears to be factors beyond simple economics for Line D. The strategic and political interests of the Chinese government play a role, particularly PRC energy security. The Kyrgyz and Tajik governments also had some agency in route negotiations and project details.

5.3.3 Recipient State Guidance

The governments of Kyrgyzstan and Tajikistan have some influence over Chinese company investment choices. They offer benefits for investors in industries that they see as strategically important. This can be a deciding factor for an investor scoping out several markets at once (such as Huang Fan and Huaxin described in the previous section). The countries also advertise individual projects for investment. Some of those have been undertaken by Chinese companies.

⁵⁸ Casey Michael, "Line D of the Central Asia-China Gas Pipeline Delayed," *The Diplomat*, 31 May 2016, <https://thediplomat.com/2016/05/line-d-of-the-central-asia-china-gas-pipeline-delayed/>.

⁵⁹ Bruce Pannier, "The End of the (Gas Pipe-) Line for Turkmenistan," *Radio Free Europe*, 6 March 2017, <https://www.rferl.org/a/turkmenistan-gas-pipeline-china-berdymukhammedov-iran-russia/28353522.html>.

⁶⁰ "Tajikistan Resumes Building Turkmenistan-China Pipeline," *Eurasianet*, 31 January 2018, <https://eurasianet.org/s/tajikistan-resumes-building-turkmenistan-china-pipeline>.

As stated earlier, Chinese companies have invested in two oil refineries in Kyrgyzstan. Currently Russian imports dominate the refined oil products market in that republic. Bishkek for many years has actively sought to reduce its reliance on oil and oil products from Russia. In recent years, Kyrgyzstan has imported more refined petroleum products from Kazakhstan. During both the Bakiyev and Atambayev presidencies, the Kyrgyz government encouraged investments in oil refineries and oil extraction.⁶¹ They offered tax breaks and other incentives for new oil refineries. Two Chinese companies took up the offer. Both companies stated in company documents that support from the Kyrgyz government was a factor in their decision to invest in the country.⁶²

Inna Hofman's fieldwork on Chinese agricultural projects in southern Tajikistan reveals another form of government influence on Chinese projects. The local government asks the company to cultivate a certain percentage of each type of crop on the land each year. For example, Huang Fan was asked to cultivate cotton on (at least) 60 percent of their fields (interview in 2015). According to Hofman, "This percentage is comparable to what is still often enforced upon Tajik farmers, which is to cultivate 50-70% of their fields with cotton."⁶³

The final decision about the project lies with the company. But these examples show that Kyrgyz and Tajik governments can shape the decisions of companies by providing incentives in certain industries and also promoting individual projects.

⁶¹ "Program for the Development of Export and Improvement of the Kyrgyz Republic for 2007-2010" [Программа Развития Экспорта И Импортзамещения Кыргызской Республики На 2007-2010 Годы], Kyrgyz Ministry of Justice, 9 February 2007, <http://cbd.minjust.gov.kg/act/view/ru-ru/58155>. "Despite Having Oil Reserves in the Millions, Kyrgyzstan Depends on Imports of Fuel and Lubricants" [Владея миллионными запасами нефти, Кыргызстан зависит от импорта ГСМ], [rus.kg](http://rus.kg/news_rus/economy_rus/4537-vladeya-millionnymi-zapasami-nefti-kyrgyzstan-zavisit-ot-importa-gsm.html), 19 May 2012, http://rus.kg/news_rus/economy_rus/4537-vladeya-millionnymi-zapasami-nefti-kyrgyzstan-zavisit-ot-importa-gsm.html.

⁶² "Report from Xinjiang International Industry Pty Ltd on the MoU for Investment Cooperation" [新疆国际实业股份有限公司关于签署投资合作备忘录的公告], Xinjiang Investment International website, 11 October 2011, <http://www.xjgjsy.com/uploadfile/201111/20111104103004974.pdf>; "A Flare Stack which is Kyrgyzstan's Tallest Industrial Building Successfully Installed" [吉尔吉斯斯坦最高工业建筑物火炬塔安装成功], *Sohu News*, 2 May 2013, <http://news.sohu.com/20130502/n374613821.shtml>.

⁶³ Inna Hofman, "Politics or Profits along the 'Silk Road'," 469.

5.3.4 Financing of Chinese Investments in Kyrgyzstan and Tajikistan

There are numerous ways in which Chinese projects can get funded overseas. These are not mutually exclusive; companies will mix and match their funding sources on any given project.

Chinese Policy Banks. China Development Bank, Eximbank and the Agricultural Development Bank are the three Chinese policy banks. China Development Bank is the policy bank most involved in Chinese investment projects in Kyrgyzstan and Tajikistan.

Similar to our exploration of Eximbank in Chapter 3, Henryk Sanderson and Michael Forsythe write that CDB has a dual mission of promoting Chinese national interest but also not requiring too many subsidies from the central government.⁶⁴ CDB funds its loans through bond sales to Chinese commercial banks which use their customers' deposits to purchase the bonds. Up until about 2015, the interest rate paid to commercial bank depositors was completely set by the central government and was lower than interest offered on the CDB bonds, so commercial banks made a profit on their CDB bond investments (since 2015, there has been some interest rate liberalisation but it does not matter for the dates of this thesis⁶⁵).⁶⁶

The way to measure whether CDB is hitting its target with regard to not requiring subsidies would be to evaluate its Return on Assets and Non-performing loan (NPL) statistics. These would indicate if CDB is undertaking the necessary due diligence to avoid requiring government handouts. Unfortunately, these statistics across the whole banking sector in China are fairly unreliable. Also, most of CDBs loan business is in China and there is no breakdown for overseas loans.

⁶⁴ Henry Sanderson and Michael Forsythe, *China's Superbank: Debt, Oil and Influence - How China Development Bank is Rewriting the Rules of Finance* (Oxford: Bloomberg Press, 2013), 54-59.

⁶⁵ Houze Song, "The State of China's Deposit Rate Liberalization," MacroPolo, 26 June 2017, <https://macropolo.org/analysis/state-chinas-deposit-rate-liberalization/>.

⁶⁶ Henry Sanderson and Michael Forsythe, *China's Superbank*, 55.

But these statistics can give us some meaning. CDB boasted of an NPL ratio of less than one percent which is impossibly low.⁶⁷ It also lower than Chinese commercial banks' ratios between 2006 and 2016.⁶⁸ Senior figures in CDB have made it a clear goal to publish low NPL ratios, even if the figure is not accurate.⁶⁹ These indicates that CDB does feel the pressure to be seen to not have too many risky loans.

There is an obvious tension between its NPL ratio goals and pressure from local and central governments in China to lend to companies to maintain local growth. CDB is also sometimes called upon to help in strategic projects such as the China-Pakistan Economic Corridor or the Hambantota Port in Sri Lanka. CDB plans to lend Chinese firms in Pakistan tens of billions of dollars. In Kyrgyzstan and Tajikistan, CDB's largest individual loan is for the oil refinery project at Kara Balta near Bishkek. According to bank figures, CDB provided USD 300 million in the form of loans out of the total investment of USD 431 million by the end of 2015.⁷⁰ This project has not been profitable. CDB is supporting regional companies "going out", which is its SOP. It probably records the oil refinery loan as a normally performing loan. At the same time CDB has not provided many direct project loans to companies in Kyrgyzstan and Tajikistan which is an indication that it is not searching for too many NPLs.

CDB also provided loans of USD 100 million and USD 78 million respectively for two of Huaxin's cement plants in Tajikistan. As far back as 2006, CDB gave a USD 70.6

⁶⁷ Ryan Rutkowski, "China's Not So Super Development Bank," Peterson Institute for International Development, 24 April 2013, <https://piie.com/blogs/china-economic-watch/chinas-not-so-super-development-bank>; "China Policy Bank Sees Drop in Bad Loans," *China Daily*, 30 January 2018, <http://www.chinadaily.com.cn/a/201801/30/WS5a700929a3106e7dcc1379a7.html>.

⁶⁸ Ryan Rutkowski, "China's Not So Super Development Bank."

⁶⁹ Ryan Rutkowski, "China's Not So Super Development Bank."

⁷⁰ "Central Asia Energy Co.'s Oil Refinery Project in Kyrgyzstan with Annual Production of 800,000 tonnes" [中亚能源有限责任公司吉尔吉斯斯坦年产 80 万吨炼油厂项目], China Development Bank website, last updated 1 December 2016, http://www.cdb.com.cn/xmtp/201612/t20161201_3851.html?imgNum=2.

million loan to the Tajik-Chinese mobile operator TK-mobile for new equipment purchased from ZTE Corporation.⁷¹

The second form is a line of credit which is not directed at a single project but rather is used to assist a company expand overseas. Huawei, ZTE Corporation, TBEA and CRBC have all been beneficiaries of this kind of assistance. For example, CDB issued a USD 10 billion line of credit to TBEA to “go out” and it is likely that a small portion of that money has been directed towards its Tajikistan projects.⁷²

Company fundraising either through bonds or stock issues. Almost all the major companies investing in Kyrgyzstan and Tajikistan are listed on the Shanghai, Shenzhen and/or Hong Kong stock exchanges. This provides the possibility for raising funds through equity purchases in the company, bond issues or project shares. Company fundraising, along with CDB finance, are the most common ways for larger Chinese investors to finance their projects in Kyrgyzstan and Tajikistan. For smaller investors, using personal savings is a common way of paying for investments.⁷³

The largest Chinese mining investments in Kyrgyzstan and Tajikistan are funded by company share issues. Tibet Summit (a subsidiary of Haicheng) purchased Sino-Tajik Mining Company, which operates lead and zinc mines in Zarnisor, from Tacheng International (another Chinese company and also a subsidiary of Haicheng) in 2013. Tibet Summit is listed on the Shanghai Stock Exchange. To fund this acquisition, it issued new

⁷¹ Deirdre Tynan, “Central Asia: Are Chinese Telecoms Acting as the Ears for Central Asian Authoritarians?” *Eurasianet*, 15 February 2012, <http://www.eurasianet.org/node/65008>.

⁷² CDB Provides USD 10 Billion to Support TBEA “Go Out” [国开行融资 100 亿美元助力特变电工 “走出去”], *People’s Daily*, 10 November 2010, <http://finance.people.com.cn/bank/GB/13181334.html>.

⁷³ Interviews with small business owners in Kyrgyzstan and Tajikistan between November 2015 and March 2016.

shares and transferred them Tacheng.⁷⁴ At the time, the shares were valued at RMB 3.15 billion (approximately USD 500 million). Zijin Mining too funded its initial mine purchases in Tajikistan and Kyrgyzstan through share issues on the Shanghai and Shenzhen stock exchanges. The new shares bundled numerous projects together which included Zijin Mining's Tajik and Kyrgyz acquisitions.⁷⁵ This highlights that many companies have the capacity to raise funds for projects as they see fit and are not reliant on Chinese government financing. Of course, when Chinese government financing is available and suits their investment, they will take the money.

Commercial Chinese Banks and Commercial Chinese Funds were not a major source of financing for Chinese projects in Kyrgyzstan and Tajikistan between 2006 and 2016. Several of the smaller investors that the author spoke to said they had received loans from banks in China.⁷⁶ These banks and funds are also state-owned but they vary from the policy banks in that they are expected to turn a profit (rather than break-even). They do not have an explicit mission to support Chinese policy making however in practice they do occasionally need to commit to projects for other than commercial reasons. For example, there are reports that banks now have quotas for funding projects on China's BRI.⁷⁷ In these cases, the commercial organisation invests the minimum about possible. A chief investment officer from one of China's largest state-owned financial institutions admitted: "I prefer to invest in places like Canada and Australia, where I can get safe and decent returns. However,

⁷⁴ News that Xi Jinping's Visit Tajikistan - Four to Stocks to Follow [消息称习近平将出访塔吉克斯坦关注 4 只个股], *Chinanet Finance*, 5 September 2014

<http://finance.china.com/fin/ssgs/201409/05/161133170.html>.

⁷⁵ Zhu Zhongwei, "Expert: Zijin Mining Issuance of 'A Stocks' with Face Value of 0.01 RMB is Legal [专家: 紫金矿业每股面值 0.1 元发行 A 股合法], *Securities Times*, 7 April 2008, <http://stock.hexun.com/2008-04-07/105027752.html>

⁷⁶ Interviews with Chinese company owners in Bishkek and Dushanbe between November 2015 and March 2016.

⁷⁷ Cited in Peter Cai, "Understanding China's Belt and Road Initiative," Lowy Institute, August 2017, <https://www.lowyinstitute.org/publications/understanding-belt-and-road-initiative>.

where I have been ordered to invest in BRI countries, I will only allocate the minimum amount.”⁷⁸

This quote indicates that the SOP for financial institutions is to invest their money in projects that provide reasonable returns. The statistics back up the comments of the investment officer – the vast majority of Chinese investments between 2006 and 2016 went to North America, Europe and Australia.⁷⁹ Quotas for BRI investments may increase in the future. In 2017, the NDRC (the overseeing agency for BRI and outward investments) announced new oversight measures on outward investment. Expedited approval for projects in BRI countries were included in the measures.

Provincial governments provide direct financing to both private and public companies for international expansion. This financing trail is more opaque than other sources of funding. Provincial governments can either directly fund a project or they can provide a suite of subsidies and tax breaks which function as a form of financing. These can be applied directly to an individual project or more generally to an entire company to help it succeed abroad.

Xinjiang Zhongtai which invested in a textile processing complex in southern Tajikistan is a company that receives such benefits from both the Xinjiang regional government and the Urumqi city government. Its finances are opaque but it is clear that it relies on both these sources to maintain profit. A prospectus for issuance of mid-term notes (these operate similarly to a bond: fixed interest rate, three-year maturation) to raise capital for the company (for the entire company, not just the Tajik project) says:⁸⁰

⁷⁸ Peter Cai, “Understanding China’s Belt and Road Initiative.”

⁷⁹ “Demystifying Chinese Investment in Australia: May 2017,” KPMG, May 2017, <https://assets.kpmg.com/content/dam/kpmg/au/pdf/2017/demystifying-chinese-investment-in-australia-may-2017.pdf>.

⁸⁰ Xinjiang Zhongtai (Group) Pty Ltd., “Prospectus for the 2017 Second Round Medium-Term Notes” [新疆中泰（集团）有限责任公司 2017 年度第二期中期票据募集说明书], Shenwan Hongyuan Securities, 1 June 2017,

The issuer [Xinjiang Zhongtai] every year receives a certain amount of government subsidies. This forms a favourable addition to the company's profits. From 2014 to the end of March 2017, the issuer's income from items excluding operations was RMB 59 million, RMB 316 million, RMB 419 million and RMB 88 million (for Q1 2017). Government subsidies account for a fairly large proportion of net profit, and have a significant impact on the company's operating results. The company is reliant on tax benefits and government subsidies. If there was to be a significant change to the issuer's government subsidies or tax policies in the future, then it would produce a significant effect on the operating results of the issuer.

The prospectus strongly hints that the company is being propped up by local governments. The company also received direct government subsidies and interest rate concessions from local governments on the loans it received for the project in Tajikistan.⁸¹

Shaanxi Coal and Chemical Industry Group is an example of a mixed funding model that includes provincial government support. As outlined above, its Kara Balta refinery has received USD 300 million in financing from CDB, but the company also receives significant support from the Shaanxi Provincial Government. As of July 2016, the company's project in Kyrgyzstan was the largest overseas investment by any company from Shaanxi Province.⁸² The province is using the project as its masthead for its "Overseas Shaanxi" policy which, as the name suggests, supports Shaanxi companies to invest internationally.⁸³ Various levels of government in Shaanxi directly provide loans and funds for companies' overseas investments.⁸⁴ Zhao Futang who is the Chief Accounting Officer for Shaanxi Coal and Chemical Industry Group was paraphrased by *Xinhua*, saying that the financing costs are

<http://www.hysec.com/hyzq/public/Infodetail.jsp?menu=4&classid=0003001200130006&firClassid=000300120013&twoClassid=0003001200130006&infoId=12114934>.

⁸¹ Zhao Haipeng, "Going to Central Asia to Invest in Cotton" [走，到中亚投资种棉花], *Yicai*, 4 June 2017, <http://www.yicai.com/news/5295088.html>.

⁸² "Deputy Provincial Governor Wang Lixia Inspects Shaanxi Coal and Chemical Group's Zhongda Petroleum Project" [副省长王莉霞视察陕煤化集团吉尔吉斯中大石油项目], *Silk Road New Observer*, 22 July 2016, <http://www.shccig.com/newshow.php?id=133758>.

⁸³ "Deputy Provincial Governor Wang Lixia Inspects Shaanxi Coal and Chemical Group's Zhongda Petroleum Project."

⁸⁴ Xian, Shaanxi to Provide Financing Support to Companies "Going Out" [陕西西安将为“走出去”企业提供金融支持], *Shaanxi Daily*, 19 December 2016, http://www.gov.cn/xinwen/2016-12/19/content_5149968.htm.

“great” for overseas projects now. And that “The implementation of special construction funds [at various levels of government] has been spot on, along with the large sums of medium to long term capital provided by the policy banks. These have supported Shaanxi’s [overseas] development.”⁸⁵

For the Shaanxi Provincial Government, the plan for supporting the oil refinery was to encourage other Shaanxi companies in related industries to follow Shaanxi Coal and Chemical Industry Group to Kyrgyzstan to develop alongside the oil refinery project.⁸⁶ This has not happened as much in reality because of the difficulties in implementing the project (more detail is provided in the project implementation section below).

The information in this section indicates that financiers operate according to their own missions and SOPs. CDB is in that awkward position of needing to keep NPL rates down but at the same time needing to encourage as many BRI projects as possible overseas. In Kyrgyzstan and Tajikistan, CDB has shown restraint – its largest loan in either country is only USD 300 million. Provinces are looking for ways to help their local companies escape adverse business conditions at home. Certainly, Shaanxi and Henan Provinces’ efforts seem to be more about extending the life of their main State-owned companies rather than making Kyrgyzstan and Tajikistan amenable to China’s rise. Private banks have mainly steered clear of Kyrgyzstan and Tajikistan. They are not burdened with the same policy mission as CDB and so have not needed to risk their money in these countries. Finally, the larger Chinese companies can raise capital on equity markets and so they do not need to rely on money from

⁸⁵ “A ‘New Starting Point’ for Silk Road Construction: A New Type of Interaction for Shaanxi Banks and Firms” [丝路建设“新起点”：陕西银企互动新样本], *People’s Daily*, 2 December 2015, <http://money.people.com.cn/n/2015/1202/c42877-27879995.html>.

⁸⁶ “A ‘New Starting Point’ for Silk Road Construction: A New Type of Interaction for Shaanxi Banks and Firms” [丝路建设“新起点”：陕西银企互动新样本], *People’s Daily*, 2 December 2015, <http://money.people.com.cn/n/2015/1202/c42877-27879995.html>.

provinces (although they sometimes accept that too). Of course, they can choose to mix or match funding sources if necessary.

Because of the availability of a wider range of financing vehicles for investments than government-to-government concessional loans, finances are less of a bottleneck for investments. However, for companies that do not enjoy the support of local governments or CDB, financing can still be an issue.⁸⁷

5.4 Implementation of Chinese Investment Projects

While the Chinese investors have entered the Tajik and Kyrgyz markets for economic reasons, many of the projects have run into problems. This has primarily been due to the combination of two factors: poor business decisions and local politics and corruption.

The local political dynamics operate a little differently in either country. Kyrgyzstan's governance is far less centralised and local protests have caused significant problems for Chinese projects. Tajikistan, on the other hand sees fewer protests, but companies have had problems with local cronies preying on Chinese investors.

Kyrgyzstan

Every single major Chinese investment project in Kyrgyzstan has been subject to delay due to protests and blockades. Even though most of the major projects were initiated between 2009 and 2011, many are still not at full production. The mining sector has been the hardest hit.

One of many examples is Zijin Mining's Taldy-Bulak mine, east of Bishkek. It is the largest Chinese-invested mine in Kyrgyzstan (and is the third largest gold mine in Kyrgyzstan after Kumtor and Mamkal). Taldy-Bulak is run by Altynken, a joint venture established in

⁸⁷ Numerous smaller Chinese investors in Tajikistan indicated to me that their financing costs remained much higher than large Chinese companies. Interviews conducted in Tajikistan January 2016.

2006 between Kyrgyz state gold company Kyrgyzaltyn (40 percent) and a Kazakh company (60 percent). In 2011, Zijin Mining purchased the Kazakh part of the company which mines the Taldy-Bulak deposit west of Bishkek.⁸⁸ Altynken holds a 19-year licence and by 2015 Zijin Mining had invested USD 246 million.⁸⁹ The initial planned production date was 2013. Neither the production schedule nor production targets have been met. In October 2012, there was a fight between locals and Chinese workers resulting in numerous hospitalisations. In 2013, the new production start date became June 2014 for unspecified reasons.⁹⁰ The production date was then moved back to 2015 with a goal of one tonne of production for that year, but an industrial dispute between the company and employees delayed the start of production until mid-2016.⁹¹

Finally, production began in mid-2016. The company exported the first batch of gold concentrate to Henan Province via train.⁹² The company is legally required to process the concentrate in Kyrgyzstan but this has proved impossible because the deposit has an ore that is copper rich with relatively dispersed gold. Kyrgyzstan has no cost-effective and environmentally-friendly technology for the processing of copper-gold concentrate, according to Chairman of the Board of Kyrgyzaltyn JSC (the Kyrgyz partner in the joint venture) Almaz Alimbekov.⁹³

⁸⁸ “Altynken” [АЛТЫНКЕН], Altynken website, last accessed 1 August 2019, <http://www.altynken.kg/about/company-altynken>.

⁸⁹ Olga Dzyubenko, “Kyrgyzstan Launches Taldy-Bulak Gold Venture with China,” *Reuters*, 29 July 2015, <https://www.reuters.com/article/kyrgyzstan-gold-taldybulak/kyrgyzstan-launches-taldy-bulak-gold-venture-with-china-idUSL5N10922520150729>.

⁹⁰ “Production of First Gold at Taldybulak Levoberezhnyi Mine Expected in June 2014,” *Akipress*, 15 August 2013, <http://akipress.com/en/news:526833>.

⁹¹ “Production Stops at Gold Mines Developed by Altynken, Vertex Gold – Tax Service,” *Akipress*, 8 February 2016, <http://akipress.com/news:572408>; Sanzhar Eraliev, “‘Altynken’. The Confrontation Continues” [“АЛТЫНКЕН”. Противостояние продолжается], *Radio Azattyk*, 12 January 2016, <https://rus.azattyk.org/a/27482691.html>.

⁹² “Altynken LLC Exported its First Batch of Gold Concentrate,” Zijin Mining website, last modified 3 August 2016, <http://www.zijinmining.com/investors/117392.htm>.

⁹³ Tatyana Kudryavtseva, “Altynken Sells Copper-Gold Concentrate from Taldy-Bulak Levoberezhnyi for \$ 3 million,” *24.kg*, 27 September 2016, <https://24.kg/archive/en/economics/182133-news24.html/>.

Because of constant delays and the loss of revenue from selling less pure copper-gold concentrate, the company was not turning a profit by late 2016.⁹⁴ In 2015, Almaz Alimbekov told reporters that Taldy-Bulak would be profitable as long as the gold price stays above \$1,080 per ounce. Gold has stayed above that price but the profit prediction proved unattainable.⁹⁵

This story has repeated multiple times with Chinese-owned mines throughout Kyrgyzstan.⁹⁶ Most of the mines have continued to operate or push towards beginning production despite these challenges. One exception is China Full Mining. In early 2018, the company laid off or reduced the hours of the majority of staff as the project ran into serious financial trouble.⁹⁷ Chinese media reported the project was close to bankruptcy.⁹⁸ Apart from facing constant protests, China Full Gold Mining had problems with the ore concentrator – it was only concentrating to about 50 percent, well below the 85 percent expectation.⁹⁹ Although the company spent two years upgrading the concentrator (2014-2016), production costs remained high, due in part to poor transportation infrastructure.¹⁰⁰

The other major Chinese investments in Kyrgyzstan are two oil refineries in Kara Balta and Tokmok. Both projects were initiated in the late 2000s but, similar to the mining investments, they ran into political and technical trouble.

⁹⁴ Tatyana Kudryavtseva, “Altynken Sells Copper-Gold Concentrate.”

⁹⁵ “Kyrgyzstan Launches Taldy-Bulak Gold Venture with China.”

⁹⁶ Chinese company Kaidi has owned and run the Kara-Kazyk mine since the late 2000s. It has experienced violent protests on multiple occasions. For example, see “Kyrgyz Villagers End Protest against Chinese Gold Mining,” *Radio Free Europe/Radio Liberty*, 16 August 2011, https://www.rferl.org/a/kyrgyz_villagers_end_gold_mining_protest/24298292.html.

⁹⁷ “Bishkek Questions Chinese Firm's Decision to Fire Hundreds of Miners,” *Radio Free Europe/Radio Liberty*, 8 January 2018, <https://www.rferl.org/a/kyrgyzstan-questiosn-chinese-gold-miner-decision-firedi-shtamberdi/28962970.html>.

⁹⁸ “It is Not Easy to Pan for Gold on One Belt One Road? Chinese Company Faces Bankruptcy in Kyrgyzstan” [一带一路上淘金不易? 中企在吉尔吉斯斯坦面临破产], *Phoenix*, 9 January 2018, http://finance.ifeng.com/a/20180109/15916181_0.shtml.

⁹⁹ “The First Dore Alloy Received at the Ishtamberdy Gold Deposit,” [На месторождении золота Иштамберды впервые получен сплав Доре], *Knews*, 26 December 2016, <http://knews.kg/2016/12/na-mestorozhdenii-zolota-ishtamberdy-vpervye-poluchen-splav-dore/>.

¹⁰⁰ “The First Dore Alloy Received at the Ishtamberdy Gold Deposit.”

The Kara Balta refinery (the larger of the two, main investor Shaanxi Coal and Chemical Industry Group) was originally meant to begin full production in 2012.¹⁰¹ According to the company, the first trial production run began in January 2014 and then for the next two years there were progressive “upgrades and reinforcement” of the plant so it was only operating test production runs. During this period the Kyrgyz government also temporarily stopped production at the facility.¹⁰² The project began full production in January 2017 according to the company. But this is still a mirage. The refinery as of 2017 did not have enough crude oil supply to run at full capacity.¹⁰³

Construction on the other refinery in Tokmok, owned by Xinjiang International Industry, began in 2012 with plans to begin operations by the end of 2013. This was pushed back to late 2015 when test runs began.¹⁰⁴ Test runs were stopped in February 2016 for remedial works. As of Q3 2016, it seemed as though the plant had not resumed operations.¹⁰⁵ For a project that was proposed in 2009 and meant to be operation by 2013, intermittent testing up until the end of 2016 is not an ideal outcome.

Both companies faced very similar reasons for the delays. Complaints and protests over environmental impacts and lack of local hires caused disruption. Supply of crude oil was also a problem. Both companies had underestimated how difficult it was to get Kazakh producers to ship raw material to Kyrgyzstan.¹⁰⁶ Kazakh oil companies wanted to get the

¹⁰¹ “Chinese Investors to Start Oil Refining in Kara-Balta, Kyrgyzstan in Autumn of 2012,” *Times of Central Asia*, 7 August 2012, <https://www.timesca.com/index.php/news/7595-chinese-investors-to-start-oil-refining-in-kara-balta-kyrgyzstan-in-autumn-of-2012>.

¹⁰² David Trilling, “Kyrgyzstan Suspends Work at New Chinese Refinery,” *Eurasianet*, 19 February 2014, <https://eurasianet.org/kyrgyzstan-suspends-work-at-new-chinese-refinery>.

¹⁰³ “Oil Refineries in Kyrgyzstan Lack Raw Materials,” *24.kg*, 9 February 2017, https://24.kg/english/44723_Oil_refineries_inKyrgyzstan_lack_raw_materials/.

¹⁰⁴ Suyunbek Shamshiev, “Tokmok Oil Refinery Plant Starts Operating in Test Mode,” *Kg.24*, 28 November 2015, <https://24.kg/archive/en/economics/178234-news24.html/>.

¹⁰⁵ “Xinjiang International Industry Limited Liability Company 2016 3rd Quarter Report” [新疆国际实业股份有限公司 2016 第三季度报告], 18 April 2017, <http://finance.sina.com.cn/stock/t/2016-10-28/doc-ifxxfuff6998620.shtml>.

¹⁰⁶ Chris Rickleton, “Kyrgyzstan: Chinese Investor Struggling without Russian Help,” *Eurasianet*, 27 January 2015, <https://eurasianet.org/s/kyrgyzstan-chinese-investor-struggling-without-russian-help>.

extra added value on the oil by refining it in Kazakhstan. Finally, both companies recognised they had misread the complexity of operating in Kyrgyzstan. In its 2016 annual report, Xinjiang International Industry writes:¹⁰⁷

The company underestimated the difficulties in implementing the construction of a project overseas, especially in a Central Asian country like Kyrgyzstan. The entire industrial system is not ideal, all the materials for the project [construction] had to be imported from China or Russia which increased the cost of materials and also delayed the project timeline.

Tajikistan

In Tajikistan, large Chinese firms have fared better. The main difference is the web of patronage. The largest projects have been able to navigate Tajik politics by cultivating close relationship with President Emomali Rahmon and his family. Smaller investors have frequently run into trouble.

Tibet Summit invested in the Zarnisor Lead and Zinc mine in Tajikistan. The mine operated during the Soviet period but sat idle from the early 1990s until 2006 when a subsidiary of Haicheng purchased the mine. In the initial years, as with many areas in Tajikistan, the major difficulties were water and electricity shortages as well as poor transportation infrastructure around the mine site.¹⁰⁸ The company has overcome these challenges. It has been relatively successful in growing its production and profits. In 2010 the mine produced 6.8 thousand tons of lead and zinc concentrates.¹⁰⁹ By 2014 the volume of

¹⁰⁷ “Xinjiang International Industry Limited Liability Company 2016 Annual Report” [新疆国际实业股份有限公司 2016 年年度报告], 36, available at

<http://www.xjgjsy.com/uploadfile/201707/20170705173354317.pdf>

¹⁰⁸ “Solving Employment Problems, Increasing Incomes, Tajik-Chinese Mining Company Benefiting Communities” [解决就业增加收入 塔中矿业造福境外投资地], *People's Daily*, <http://finance.people.com.cn/n/2014/0930/c387604-25765585.html>.

¹⁰⁹ “In Tajikistan, the Production of Lead, Zinc and Copper Increased 20-fold,” [В Таджикистане в 20 раз увеличилось производство свинца, цинка и меди], *Asia Plus*, 3 March 2015, <https://news.tj/ru/news/v-tadzhikistane-v-20-raz-uvelichilos-proizvodstvo-svintsa-tsinka-i-medi>.

production of lead and zinc concentrates reached 138,400 tonnes – a 20-fold growth in production.¹¹⁰

The company is profitable. Tajik-Sino Mining is the top income-tax paying company in the extractive sector in Tajikistan (Zijin Mining and Huaxin Cement are number two and three).¹¹¹ The company reported that it would return a profit of USD 218 million to shareholders in 2016.¹¹² One factor was that lead and zinc spot prices were well above long-run averages between 2010 and 2016. Haicheng's leaders and the leaders of some of its subsidiaries have had regular audiences with the President.¹¹³

The second largest Chinese investment in Tajikistan is Zijin Mining's 75 percent stake in the Zeravshan Gold Company which has licences for several deposits in Northern Tajikistan. Zijin Mining purchased its share of the mine in 2007. The fortunes of this project have been vastly different from Zijin Mining's Taldy-Bulak mine in Kyrgyzstan (which has faced constant delays). In 2014, the company declared a profit of TJS 223 million (USD 43 million).¹¹⁴ Profits are likely to have increased further up until 2016 as gold prices remained high and production at Zeravshan increased.¹¹⁵ This correlates with what has been reported about the company's overseas operations. In 2017 Zijin Mining chairman Chen Jinghe said in a statement:¹¹⁶

¹¹⁰ "In Tajikistan, the Production of Lead, Zinc and Copper Increased 20-fold."

¹¹¹ "Reconciled Revenues by Top 5 Companies," Extractive Industries Transparency Initiative, last accessed 19 March 2018, <https://eiti.org/tajikistan#reconciled-revenues-by-top-5-companies>.

¹¹² Tibet Summit Resources LLC Announcement on Cash Dividends for Its Wholly Owned Subsidiary" [西藏珠峰资源股份有限公司 关于全资子公司进行现金分红的公告], Tibet Summit, 5 August 2017, <http://data.eastmoney.com/notices/detail/600338/AN201805111141859377,JUU4JUE1JUJGJU4JT k3JThGJU3JThGJUEwJU1JUIzJUIw.html>.

¹¹³ Gao Yi, "Tajikistan President Rahmon Meets Tibet Summit CEO Huang Jianrong" [塔吉克斯坦总统拉赫蒙会见西藏珠峰董事长黄建荣], *China Stock*, 6 September 2015, http://ggjd.cnstock.com/company/scp_ggjd/tjd_bbdj/201509/3553915.htm.

¹¹⁴ "In Tajikistan, the Production of Lead, Zinc and Copper Increased 20-fold."

¹¹⁵ "Zijin Mining 2015 H1 Results Briefing," Zijin Mining, August 2015, 15,

<http://www.zijinmining.com/Portals/1/Zijin%20Mining%202015%20H1%20Results.pdf>.

¹¹⁶ "All that Glitters is Profit in China's Gold Mines as Demand for Safe Haven Boost Precious Metal Sales," *South China Morning Post*, 20 August 2017,

During the reporting period, the company's overseas projects maintained a good trend of development. The outputs of the Porgera gold mine in Papua New Guinea, the Jilau/Taror gold mine in Tajikistan, and the zinc and polymetallic mine in Tuva, Russia increased.

Zijin Mining's project in Kyrgyzstan is notably absent from the above quote. The largest Chinese-invested industrial processing projects in Tajikistan are the Huaxin Cement plants. They fared much better than the oil refineries in Kyrgyzstan. Huaxin Cement signed an agreement to build a 1.2 million tonne per annum cement plant near the capital Dushanbe in 2011. This was Huaxin Cement's first overseas project. At the time Tajikistan's cement industry was close to non-existent. Huaxin Cement subsequently signed deals for cement plants in the south and north of Tajikistan. These plants have been constructed on time. Huaxin Cement executives have had regular meetings with President Rahmon.

Huaxin Cement vice president and deputy general manager Wang Ximing said in an interview that its initial project was profitable within its first year.¹¹⁷ He added that prices are much higher in Tajikistan than in China or even Southeast Asia.¹¹⁸ Major Chinese cement investors also receive tax concessions in Tajikistan.¹¹⁹ On the back of Huaxin Cement's new capacity, Tajikistan went from almost 100 percent reliance on cement imports to become a net cement exporter.¹²⁰ This has had implications for Huaxin Cement, as cement prices have dropped due to oversupply. Other Chinese cement producers have entered the market in Tajikistan and in the rest of Central Asia.

<http://www.scmp.com/business/companies/article/2107559/all-glitters-profit-chinas-gold-mines-demand-safe-haven-boost>.

¹¹⁷Chen Hongxia and Lu Shibo, "Industrial Overcapacity 'Forces' Huaxin Cement to Accelerate Overseas Efforts" [产能过剩“倒逼” 华新水泥加速海外布局], *21st Century Economic Report*, 9 December 2015, http://epaper.21jingji.com/html/2015-12/09/content_27406.htm.

¹¹⁸Chen Hongxia and Lu Shibo, "Industrial Overcapacity 'Forces' Huaxin Cement."

¹¹⁹Avaz Yuldoshev, "Tajik-Chinese JV Building Cement Plant in Vahdat Exempted from Paying VAT and Customs Duties," *Asia Plus*, November 20, 2013, <http://news.tj/en/news/tajik-chinese-jv-building-cement-plant-vahdat-exempted-paying-vat-and-customs-duties>.

¹²⁰"Tajikistan reportedly increases cement production to 2 million tons," *Asia Plus*, 25 January 2017, <https://news.tj/en/news/tajikistan/economic/20170125/235935>.

Not all Chinese companies have had it so easy in Tajikistan. Smaller companies and those not connected to the President have often struggled. A Chinese competitor of Huaxin Cement, Gansu Shangfeng Cement Co. Ltd, planned to invest in a small cement plant in Tajikistan. According to company reports, Gansu Shangfeng Cement would handle the capital and the technical expertise while its local partner would handle approvals and government relations. It was forced to cancel the project after the local partner failed to receive the correct documentation from the Tajik government.¹²¹ There was a perception among Chinese businessmen in Dushanbe that the company had chosen the wrong patron.¹²²

The *South China Morning Post* also found numerous cases of Chinese business people suffering at the hands of Tajik officials. According to Zhejiang businessman Zhu Bailin, Zhejiang Congcai Heavy Machinery Manufacture invested US\$25 million in a 60 percent stake in the Taj-China 2013 cement factory in Vahdat, a city 10 kilometres east of Dushanbe, with the other 40 percent owned by Tajik partner Abduhalim Kodirov.¹²³ Zhu said the factory began production in 2015, but Kodirov later sought total control over it. In September 2016, Tajikistan's State Committee for National Security (GKNB) asked representatives of the Chinese shareholders to attend a meeting at its headquarters, Zhu said, adding that they were threatened with the use of force if they did not comply.¹²⁴ He said he had since reached a compromise with Kodirov, who had agreed to lease the factory for USD 454,000 a month. However, he was only receiving about a third of that amount.

"I am seriously wondering whether legal means can solve my problem or not, since he still continued to send me around one million yuan a month," Zhu said. "He might stop

¹²¹ "Announcement from Gansu Shangfeng Cement Co. Ltd about the Termination of the Company's Non-Public Issuance of Shares" [甘肃上峰水泥股份有限公司关于终止公司非公开发行股票事项的公告], *China Securities Daily*, 5 May 2016, <http://finance.sina.com.cn/roll/2016-05-05/doc-ifyxyahs0069845.shtml>

¹²² Interview with Chinese businessmen in Tajikistan in January 2016.

¹²³ Kristin Huang, "Why Chinese investors are struggling to gain a foothold in Tajikistan."

¹²⁴ Kristin Huang, "Why Chinese investors are struggling to gain a foothold in Tajikistan."

giving me money forever if I sue him.” Zhu, who has since returned to Zhejiang, said: “If I could go back in time, I would definitely not choose to invest in Tajikistan.”¹²⁵

In the mining sector, Kelimu Abudureyimu, a businessman from Xinjiang, and four Chinese partners, bought a fluorite and tungsten mine 40km north of Dushanbe from a Russian businessman, securing total control in 2012, but a Tajik court ordered its confiscation by the government in late 2014, saying the 2005 auction that led to its acquisition by the Russian had not followed proper procedures.¹²⁶ By that stage, the Chinese partners were about to begin production. They had built an 18 kilometre road to the mine, dug a tunnel extending more than one kilometre and set up a processing plant.

Abudureyimu said he felt he had been fooled by the Tajiks and the Russian, and asked for help from the Chinese embassy in Tajikistan and China’s State Council. But in July 2015, a Presidential Decree from Tajik President Emomali Rahmon endorsed the court ruling and ordered that management rights be transferred to Talco.¹²⁷

The above examples give the impression of local cronies treating smaller Chinese investors as cash dispensers. That matches with what a number of Chinese businesspeople said to the author in interviews.¹²⁸ Such behaviour demonstrates an expectation that Chinese money will continue to flow into the region. Certainly, several of the Tajik government officials told me they were optimistic about future Chinese investment in Tajikistan.¹²⁹ On a larger scale, Zijin Mining has noted this too. The company has been looking to expand its operations in Tajikistan. But it has been selective. General Manager, Zhang Shunjin, said JV Zeravshan decided to decline the purchase of another gold mine in Tajikistan in 2016 because it valued the mine at RMB 300 million to 400 million (approximately USD 43 million to

¹²⁵ Kristin Huang, “Why Chinese investors are struggling to gain a foothold in Tajikistan.”

¹²⁶ Kristin Huang, “Why Chinese investors are struggling to gain a foothold in Tajikistan.”

¹²⁷ Kristin Huang, “Why Chinese investors are struggling to gain a foothold in Tajikistan.”

¹²⁸ Interviews with Chinese business owners in Dushanbe, January 2016. One said to the author that “the police are worse than the criminals”

¹²⁹ Interviews with senior economic officials in Dushanbe, January 2016.

USD 57 million) but the Tajik government asked for USD 500 million. “That’s because Tajikistan has an illusion of floods of Chinese investors prompted by the Belt and Road Initiative and thinks highly of itself,” Zhang said.¹³⁰

This section shows the agency of local actors. In Kyrgyzstan, most of the major investors have failed to turn a profit, at least in part due to political actions by local protesters. The opposite is true in Tajikistan. The large companies linked to the Rahmon family have fared reasonably well, but many others have suffered in Tajikistan’s corrupt business environment.

None of this is to say that Beijing gains no leverage from these investments and its economic activities more broadly. But, in Kyrgyzstan, the largest investment is a Canadian firm, and a Russian firm controls gas supply. These are both far more important to the economic wellbeing of Kyrgyzstan than any of the PRC companies’ investments. In Tajikistan, PRC firms have been more successful. The PRC’s main interests in Kyrgyzstan and Tajikistan are security-related. Beijing wants both countries to be stable, as prosperous as possible, to not oppose Beijing’s positions in international forums and for the governments of both Tajikistan and Kyrgyzstan to actively support Beijing’s security interests. That is the focus of the next chapter.

¹³⁰ Kristin Huang, “Why Chinese investors are struggling to gain a foothold in Tajikistan.”

Chapter 6 China's Changing Approach to Security in Kyrgyzstan and Tajikistan

6.1 Introduction

We had a fun adventure hanging with Afghan commanders, Chinese military and Tajik soldiers talking through all this s**t at the military checkpoint in the Little Pamir as we didn't have the permit because of...ex Taliban commander keeping it. We managed a way around it though! All part of the fun.

Jonny, English backpacker hiking through the Afghan Little Pamirs in 2016.¹

China's security engagement with Kyrgyzstan and Tajikistan grew steadily from a non-existent base in the late 1990s until around 2013. In the late 1990s, both countries were already extraditing Chinese citizens (and occasionally non-Chinese citizens of Uyghur heritage) back to the PRC. China began providing small amounts of security aid in the 90s too – jeeps, uniforms, basic computers and other non-lethal provisions. Bilateral exercises began in the 2000s, but remained very limited in scope. Multilateral exercises began in the 2000s too, but Kyrgyzstan's and Tajikistan's contribution remained small.

There was a small step change in 2010 – multilateral exercises were formalised to be held every two years, and then a very large step-change occurred in the latter part of 2013. After 2013, the frequency of exercises increased and broadened in scope. The PLA started joint border patrols in 2013 with Kyrgyzstan and later with Tajikistan. The MPS also started joint border patrols with Kyrgyzstan. The PRC funded and built border posts on the Tajik-Afghan border, established the new Afghanistan-China-Pakistan-Tajikistan military dialogue, and built a base for Tajikistan in 2016. PAP personnel are permanently stationed at the base and they undertake joint trilateral operations with Afghanistan in Tajikistan and in Afghanistan's Wakhan Corridor. This is in addition to provision of smart city surveillance

¹ "The Ultimate Adventure Guide to The Afghanistan Wakhan Corridor," Backpacking Man, 2016 (updated in December 2018), <http://backpackingman.com/afghanistan-wakhan-hiking-little-pamir/>.

systems in both Bishkek and Dushanbe. All of this broke new ground in China's security relationship with both countries. This was directly related to a new centrally-driven focus on overseas security assertiveness.

This chapter uses a different theoretical framing to the other chapters in this thesis. The rest of this thesis uses an organisational process model under the foreign policy analysis theoretical umbrella. In the security field, the central leadership has played a more controlling role in boosting China's security engagement with Kyrgyzstan and Tajikistan than in the economic sphere. This is closer to the billiard ball model of international relations – that the internal dynamics of a state are relatively unimportant to its foreign policy (a full theoretical framework is laid out in Chapter 2). In practice this is never absolutely true – the world is too complex for internal dynamics to not matter. But on the spectrum between FPA and the billiard ball model, this chapter tends more towards the latter.

In practice this means most of the big jumps in Chinese overseas military engagement in Kyrgyzstan and Tajikistan (and elsewhere) have had direct oversight from the central leadership. This includes China's first overseas joint military exercise which occurred in Kyrgyzstan in 2002 and the first multilateral military SCO exercise in 2003, as well as the 2010 and 2013 increases in engagement.

Two factors have led to greater PRC security activity in Tajikistan and Kyrgyzstan. First, the PRC has become more active in overseas security activities everywhere. Central Asia is no exception. This is underpinned by a more assertive security posture as well as increased PRC security capacity since 2006. Second, the PRC government has changed its threat perception in Central Asia. The majority withdrawal of NATO troops from Afghanistan in 2014, the internationalisation of the Uyghur terrorists and the Uyghur issue more broadly, as well as a spate of violence between 2009 and 2014 has made security in Xinjiang and neighbouring states, particularly in Tajikistan, a more pressing issue.

Beijing is undertaking three broad sets of activities to protect its security interests in Kyrgyzstan and Tajikistan:

- **Capacity building** to help Tajikistan maintain stability on its own.
- **Joint operations** to fill gaps that Tajikistan and Afghanistan cannot. This does not apply to Kyrgyzstan.
- **Aligning Tajikistan's, Kyrgyzstan's and China's security interests.** Beijing is working to focus on protection of Chinese projects and, with Tajikistan, security at the Afghanistan-Tajikistan border.

In something as big and complex as the PRC security apparatus, institutional and bureaucratic political factors always play a role – real life rarely perfectly matches political science theory. Examples of the complexity of the PRC's security apparatus are easy to find. China's border control on its western periphery is managed by four, sometimes competing, organisations – the People's Liberation Army (PLA), the Ministry of Public Security (MPS), the People's Armed Police (PAP) and the Xinjiang Production and Construction Corporation (XPCC).

In addition, local politicians have used the MPS and PAP to undertake operations in pursuit of political goals which can detract from their actual goal of protecting the border. This chapter demonstrates clear examples of bureaucratic competition between the various agencies. It also demonstrates border control unit resources being siphoned off for other uses by local actors in Xinjiang.

There are also cases where local border units have developed relationships with their counterparts in Kazakhstan, Kyrgyzstan and Tajikistan. This has led to ad hoc arrangements for joint border patrols and cross-border exercises which were based on relationships between units rather than any centrally-hatched plan, but these remain relatively small in scale and focus.

So, in sum, top-down leadership has been the main factor in shaping China's security engagement with Tajikistan and Kyrgyzstan, even though there are institutional and bureaucratic factors that shape these interactions too. The capacity and interests of recipient states are also a factor.

The chapter is divided into five sections. The first section outlines China's assessment of security risk in Tajikistan and Kyrgyzstan. The second section details the division of responsibility among China's security organisations in Xinjiang and Central Asia. The remaining three sections examine PRC security activities in Kyrgyzstan and Tajikistan grouped into: 1) Deployment and Joint Operations, 2) Capacity Boosting and 3) Alignment of Security Interests.

6.2 The Chinese Security Bureaucracy

There are numerous organisations responsible in one way or another for ensuring China's security. On the military side, there is the People's Liberation Army (PLA). On the civilian side, the main security actors are the Ministry of Public Security (MPS), the Ministry of State Security (MSS) and the Xinjiang Production and Construction Corps (XPCC) which runs a militia and border protection program in Xinjiang. There is also the People's Armed Police (PAP) which is a paramilitary organisation. It was under dual-control of the Central Military Commission (CMC) and State Council between 2006-2016.

Traditionally the PLA has been in charge of protecting China's overseas security interests. Certainly, the PLA became increasingly active overseas between 2006 and 2016 and beyond. But as the line between domestic and international security issues has blurred, the MPS as well other civilian agencies are undertaking more activities overseas in areas such as border defence cooperation, counternarcotics, transnational crime, intelligence sharing and counterterrorism. At the same time the PLA plays a role domestically in counterterrorism and

border defence too.² There is sometimes an awkward and unclear division of labour between the PLA, MPS, PAP and XPCC.

Moreover, some organisations such as the MPS Border Defence units and PAP are under dual administrative arrangements which complicate their missions. For the purposes of this chapter, this thesis only focuses on the division of labour for two specific tasks: border protection and counter terrorism.

Border Protection

Border protection between 2006 and 2016 was officially divided between the border force units in the MPS, the PAP, the PLA and the XPCC.

The Ministry of Public Security Border Control Troops (BCT) is the organisation charged with leading border control. It is responsible for managing all inspection stations at ports of entry as well as main roads leading to border areas in addition to being the first line of border defence (in case of attack or invasion). There are two sections on the Chinese land border with a different division of responsibilities – PLA border control units are the lead units on Chinese-North Korean border, and the Yunnan portion of the Chinese-Burmese border. The BCT play an auxiliary role in these areas.³

There was a restructure of the PAP in 2017 that changed some of these arrangements, but for 2006-2016, the BCT was made up of the paramilitary People's Armed Police (PAP) and members of the MPS.⁴ The BCT was under a dual command structure, managed by both MPS in Beijing and the local level governments in Xinjiang – usually the towns or counties

² Dennis Blasko, *The Chinese Army Today: Tradition and Transformation for the 21st Century* (London: Routledge, 2012), 190-192.

³ Liang Xiaoqing, "The Border Police's Implementation of the Border-management Authority" [对公安边防部队行使边境管理权的思考], *Journal of the People's Armed Police Academy* 3, no. 31 (2015), 14; Zi Yang, "China's Counter-Terrorism Vanguard: Public Security Border Control Troops' Organisation, Strategy, Training and Intelligence Capability," *China Brief*, 2 July 2015, <https://jamestown.org/program/chinas-counter-terrorism-vanguard-public-security-border-control-troops-organization-strategy-training-and-intelligence-capability/>.

⁴ Taylor Fravel, "China's Doctrine and Force Structure for Frontier Defence," *Journal of Strategic Studies* 30, no. 4-5, 30 (2007), 727.

where the border control troops were located. The dual-hatted management system was problematic. Firstly, there was the issue of funding. Money was theoretically allocated both from the central MPS and local governments but in practice local governments often provided the bulk of the funding. This leaves the BCT beholden the whims of local cadres who may have different priorities to the central agency. One problem is that local cadres encourage the BCT to undertake activities which are not related to border defence (or even police work).

The PAP (which provides some of the BCT personnel) was itself under dual-hatted administration between 2006 and 2016. It was under both the administrative authority of the CMC and MPS (this changed in 2017 but it is beyond the scope of this thesis). So, when undertaking border control responsibilities between 2006 and 2016, PAP troops were under MPS command and when undertaking other responsibilities they were under CMC command. Moreover, all the troops working for the BCT (both MPS and PAP) are under the dual administrative control of local governments and MPS. This is as confusing as it sounds. Thus, there has been operational overlap and contestation between agencies on border control responsibilities.

The PLA also plays a supporting role to the MPS on border security. According to Defence White Papers, military forces are largely tasked with “safeguarding the border...to guard against stop and subdue foreign intrusions, encroachments and cross-border sabotage.”⁵ International agreements between China and its neighbours limit the number and type of troops China can station near its border.⁶ So large stationing of PLA troops is not legally possible, nor is it desirable given the PLA's transition to a smaller force with a greater

⁵ Dennis Blasko, *The Chinese Army Today*, 86-87.

⁶ Dennis Blasko, *The Chinese Army Today*, 86-87.

focus on maritime and air capabilities. Most of the PLA border troops are lightly armed and serve as a first warning system.⁷

But, in certain cases, the PLA appears to play more than a support role. There are two command structures for PLA border troops in Xinjiang. Border defence units fall under the command of the Xinjiang Military District. In particular, troops are organised into border defence regiments (边防团) in each Military Subdistrict (军分区) that borders a neighbouring country.⁸ Additionally several independent border defence battalions (边防独立营) are located in military subdistricts in Xinjiang (and Tibet) to bolster the security of certain sections of China's western border.⁹ These units sometimes organise border patrols with their military counterparts in Kyrgyzstan and Tajikistan which leaves the impression that they play more than a supporting role.

One other organisation plays a role in border defence. The XPCC was established in 1954 as a set of farms spread throughout Xinjiang to allow demobilised PLA troops to cultivate the land. This provided a ready-made militia force that could be called upon to help secure Xinjiang if necessary. Over the years the size of the Bingtuan has expanded dramatically. It is now a vast economic empire that operates its own schools, hospitals and newspapers. It has its own courts, police and prisons as well as a 120,000-strong militia force made up of farmers.¹⁰

⁷ Dennis Blasko, *The Chinese Army Today*, 86-87.

⁸ Taylor Fravel, "China's Doctrine and Force Structure for Frontier Defence," 722-723.

⁹ Taylor Fravel, "China's Doctrine and Force Structure for Frontier Defence," 722-723.

¹⁰ "Circling the Wagons," *The Economist*, May 25, 2013, <http://www.economist.com/news/china/21578433-region-plagued-ethnic-strife-growth-immigrant-dominated-settlements-adding>.

The XPCC shares 1448 kilometres of border with Kazakhstan and Kyrgyzstan.¹¹ The XPCC still actively patrols its border regions and continues to promote its role as a contributor to Xinjiang's security.¹²

So, in sum, there are four security actors involved in patrolling China's border. Most of these were operating under a dual administrative system that blurs the lines of control. It makes it difficult to work out who is actually in control at any given moment, even though it should be the MPS in most circumstances.

Counter Terrorism

At a coordination level, counterterrorism efforts in China are overseen by two bodies. The first is the National Security Commission (NSC). This was established in 2013 to oversee all of the Communist Party's security work. A MFA spokesman highlighted the counterterrorism work of the NSC, "Doubtless, with China's establishment of the state [National] security committee, terrorists will be nervous, separatists will be nervous, religious extremists will be nervous."¹³ Xi Jinping has headed the NSC since its establishment. The second is a Counterterrorism Leading Small Group (LSG) which was established in late 2013. It has been headed by the Minister for Public Security since then. The original grouping included the MSS, MPS, PLA, PAP and MFA as permanent members.¹⁴ A range of other civilian bureaucracies such as transport and sanitation were non-permanent members of the LSG.¹⁵

¹¹ *Xinjiang Production & Construction Corps Statistical Yearbook 2013* (Beijing: China Statistics Press, 2013), 81.

¹² There are many references to the Bingtuan's security role on their official website, see <http://www.xjbt.gov.cn/>.

¹³ "China Hints at Domestic Role for National Security Committee," *Voice of America*, 13 November 2013, <https://www.voanews.com/east-asia/china-hints-domestic-role-national-security-committee>.

¹⁴ "Demystifying the Counter-Terrorism Leading Small Group: Functions Cover Early Warning to Propaganda" [揭秘反恐怖工作领导小组：职能涵盖预警到宣教], *Sohu*, 26 May 2014, <http://news.sohu.com/20140526/n400018150.shtml>.

¹⁵ "Demystifying the Counter-Terrorism Leading Small Group."

However, the role of each actor was not static in the PRC's overseas counterterrorism efforts between 2006 and 2016. Bureaucratic competition sometimes occurred between the various agencies. When it comes to actually doing something as simple as convening a meeting with Central Asian security agencies, the vagueness of Chinese policy guidance becomes problematic. It was relayed to the author by a researcher at a government-affiliated think tank that in organising meetings of this nature, there is often wrangling over which organisation is in charge. Typically, the MPS argues that it should lead the meeting because it is in charge of counterterrorism, the MFA contends that it should be in charge because it handles country-specific policy, the PLA asserts it should be in charge because it handles security overseas and the PLA also does not like to listen to "its little brother", the MPS.¹⁶ The PAP begun to push for a larger role in China's overseas counterterrorism efforts from around 2014.

In 2015, the PRC passed a counterterrorism law that allowed for overseas counterterrorism activities via two channels. It allowed the PLA and PAP to undertake "counterterrorism missions" with the approval of the CMC. The law also allows the MPS and MSS to undertake "counterterrorism missions" with the approval of the State Council.¹⁷ Thus it is not just the PLA that can undertake operations abroad.

So, there was complexity to Beijing's delineation of control of key tasks for the PRC's security actors between 2006 and 2016. The PRC leadership noted this and has worked to simplify it. This does lead to some bureaucratic politics between the actors. But, as was stated at the start of this chapter, there has been a clear jump in security activities with

¹⁶ Interview with a researcher at government affiliated think tank in Beijing, September 2016.

¹⁷ "Authorized Release: Counterterrorism Law of the People's Republic of China" [授权发布: 中华人民共和国反恐怖主义法], *Xinhua*, 27 December 2015, http://news.xinhuanet.com/politics/2015-12/27/c_128571798.htm.

the arrival of Xi Jinping which suggests that central drivers outweigh institutional effects in China's security policy in Kyrgyzstan and Tajikistan.

6.3 China's Threat Assessment in Tajikistan and Kyrgyzstan

China's main security interests in Kyrgyzstan and Tajikistan are threefold. Firstly, to ensure that Tajikistan and Kyrgyzstan remain domestically stable to prevent Kyrgyzstan and Tajikistan becoming safe havens for terrorist organisations that target the PRC. From around 2016 onwards, there has been a greater focus on protection of PRC projects in both countries. This is related to stability. Secondly, Beijing wants to ensure that violence in Afghanistan does not spread into Tajikistan or more broadly into Central Asia. Thus, for Beijing, Tajikistan's shared border with Afghanistan make the buffer issue more important in Tajikistan than Kyrgyzstan. Finally, Beijing seeks to ensure that both countries continue to close down space for Uyghur civil society to operate. This includes extradition of PRC citizens (mainly Uyghurs) back to the PRC. There is a much larger Uyghur population in Kyrgyzstan, so the second goal is more pertinent in that country. These goals are not new. But the approach has changed.

Prior to 2013, China's security involvement in Kyrgyzstan, Tajikistan (and the Afghan Wakhan Corridor) grew steadily from a very low base. China provided minute amounts of security aid, much of it non-lethal, from the late 1990s. The PLA's first overseas exercise occurred with Kyrgyzstan in 2002. All three countries participated in the first multilateral SCO military exercise in 2003. The frequency of the multilateral military exercises grew steadily and they were formalised to occur biannually from 2010. Kyrgyzstan's and Tajikistan's contribution to these exercises has remained modest. Bilaterally, security exercises remained very limited. There is only one publicly recorded bilateral China-Tajikistan security exercise (2006) and only one publicly recorded bilateral

China-Kyrgyzstan security exercise (2002) before 2013. There was only one trilateral civilian security exercise between the three countries.

The rhetoric changed immediately following Xi Jinping's ascension to the leadership. At the SCO leaders' summit in 2014, Xi Jinping said the SCO should "comprehensively upgrade each country's law enforcement agencies' capacity to maintain stability and control the situation."¹⁸ This was the first time that a Chinese leader at an SCO Leaders' Summit called for building stability maintenance capacity (维稳能力建设) for SCO countries.¹⁹ Within a few years, China-Tajikistan and China-Kyrgyzstan bilateral statements also stated the need to "strengthen cooperation on capacity building for law enforcement and security departments."²⁰

The cadence and depth of security engagement noticeably began to change in 2013. Exercises increased in intensity and frequency. The exercises extended to non-traditional areas such as cybersecurity. The PRC funded and built watchtowers on the Tajik side of the Afghan border. A new quadrilateral security dialogue was started between Afghanistan,

¹⁸ "Speech by Xi Jinping at the Fourteenth Meeting of the Council of Heads of State of the Shanghai Cooperation Organization (Full Text)" [习近平在上海合作组织成员国元首理事会第十四次会议上的讲话 (全文)], *Xinhua*, 12 September 2014, http://www.xinhuanet.com/world/2014-09/12/c_1112464703.htm; Note that the English language version of the speech (released by the MFA) omitted the capacity building language, see "Xi Jinping Attends SCO Summit in Dushanbe and Delivers Important Speech Stressing Gathering People's Will and Power and Coordinating Sincerely to Push SCO to a New Level," PRC Ministry of Foreign Affairs, 12 September 2014, https://www.fmprc.gov.cn/mfa_eng/topics_665678/zjpcxshzzcygyslshdsschybdtkstmedfsllykdyxgsw/t1191482.shtml.

¹⁹ A more common formulation was "Protecting security and stability in Central Asia and each member country [of the SCO] is of the utmost importance" (维护中亚和各成员国的稳定和安全具有优先意义) and that SCO "leaders support the efforts of Central Asian countries to maintain peace, security and stability in their own countries and regionally (元首们支持中亚国家为维护本国和整个地区和平、安全、稳定所作的努力), see "Hu Jintao Attends the Shanghai Cooperation Organization Summit and Delivers an Important Speech" [胡锦涛出席上海合作组织峰会并发表重要讲话], PRC Ministry of Foreign Affairs, 5 July 2005, <http://www.fmoprc.gov.mo/chn/szyw/t202412.htm>.

²⁰ "Joint Statement of the People's Republic of China and the Republic of Tajikistan on Establishing a Comprehensive Strategic Partnership (Full Text)" [中华人民共和国和塔吉克斯坦共和国关于建立全面战略伙伴关系的联合声明 (全文)], China's Ministry of Foreign Affairs, September 1 2017, http://www.fmprc.gov.cn/web/ziliao_674904/1179_674909/t1488975.shtml.

Pakistan, the PRC and Tajikistan. Most notably, PLA security forces began patrolling in Tajikistan and the Wakhan Corridor in Afghanistan from 2015-2016. At least some of these forces were based at a permanent outpost established around 2015 near the confluence of the Afghanistan-China-Tajikistan border.

Two factors have driven this change. Firstly, China's security apparatus has become more assertive in protecting China's interests globally and this has transposed itself onto Central Asia. Secondly, a change in threat perception conditioned by three issues: 1) the majority withdrawal of US troops from Afghanistan in 2014; 2) the internationalisation of the Uyghur issue; 3) worsening security in Xinjiang.

As for the first driver, China's overseas security engagement has become more assertive everywhere – Kyrgyzstan and Tajikistan are no exceptions. In the pre-Xi Jinping era, this was fairly organic. As new security challenges arose, China pushed new boundaries in its overseas role. China's military capabilities improved just as China's interests become increasingly intertwined with local affairs in many parts of the globe. The PLA Navy rescued large numbers of PRC nationals in countries such as Libya and Yemen in times of crises. This had not been common practice previously because there had been relatively few PRC nationals in crisis zones. The PLA also increasingly contributed to multilateral efforts such as anti-piracy operations in the Gulf of Aden and UN Peacekeeping Operations. China has long contributed to UN peacekeeping operations since the 1990s, steadily increasing the number of personnel it sends to UN operations over the years. Beijing has also increasingly contributed personnel for combat roles (instead of medics and engineers).

There were some modest changes in security rhetoric in the last three to four years of Hu Jintao's rule which finished in late 2012. The broad guiding rhetoric for PRC foreign policy since Deng Xiaoping was based on an eight-character phrase broken down into two dialectical parts. The first, *taoguang yanghui* (韬光养晦) means "keeping a low profile".

The second, *yousuo zuowei* (有所作为) means to “get some things done”. In practice from the mid-1990s, the first of those two parts was usually emphasised.²¹ In a 2009 speech, then President Hu Jintao modified the eight character phrase by stressing that China needed to “Actively Get Something Done” in the second part [积极有所作为]. As Rush Doshi of Brookings notes:²²

This may seem a trivial semantic point, but Tao Guang Yang Hui and Accomplish Something were placed in a “dialectical relationship” in key Party texts. In laymen’s terms, that meant they were basically opposite concepts. When Hu stressed one part of the dialectic, he was effectively departing from the other, thereby substantially revising Chinese strategy.

After the speech, there appears to have appeared a period of intra-party debate. Hu’s new formulation did not routinely feature in print until around 2012 (just before Xi Jinping came to power).²³ But the groundwork had been laid for a more forthright foreign policy setting.²⁴

Under Xi Jinping a newer more assertive foreign policy has been clear. Xi has almost never mentioned Tao Guang Yang Hui during his tenure and that one of his few references actually called for China to “step out from Tao Guang Yang Hui.”²⁵ One of Xi’s preferred formulations is *fenfayouwei* (奋发有为) which can be translated as “striving for achievement”. So, in sum, while Hu changed the emphasis within a long-standing PRC foreign policy norm, Xi Jinping completely rewrote the rules. This has led to more assertiveness in Chinese security policy everywhere since Xi came to power. Examples are that:

²¹ Dingding Chen and Jianwei Wang, “Lying Low No More? China’s New Thinking on the Tao Guang Yang Hui Strategy,” *China: An International Journal* 9, no. 2 (2011), 196-198.

²² Rush Doshi, “Hu’s to blame for China’s Foreign Assertiveness?” Brookings, 22 January 2019, <https://www.brookings.edu/articles/hu-to-blame-for-chinas-foreign-assertiveness/>.

²³ M. Taylor Fravel, “Revising Deng’s Foreign Policy,” *The Diplomat*, 17 January 2012, <https://thediplomat.com/2012/01/revising-dengs-foreign-policy-2/>.

²⁴ Yan Xuetong, “From Keeping a Low Profile to Striving for Achievement,” *The Chinese Journal of International Politics* 2, no. 7 (2014), 160.

²⁵ Rush Doshi, “Hu’s to blame for China’s foreign assertiveness?”

- China began constructing a military base in Djibouti in 2015 (it opened in 2017).
- Beijing passed a law to permit the PLA, PAP and MPS to conduct counterterrorism operations overseas in 2015.²⁶
- The PLA participated in an increasing number of joint exercises in a growing number of locales around the world.²⁷
- Beijing conducted land reclamation to form islands and militarised those islands (over which sovereignty is contested) in the Spratly Islands of the South China Sea after 2015. Beijing had steadily upgraded the facilities since the 1980s but this was a step-change.
- The PRC declared an Air Defence Identification Zone in the East China Sea in 2013.
- The PAP started conducting reconnaissance patrols in Afghanistan Wakhan Corridor and Tajikistan's Gorno-Badakhshan Autonomous Region (GBAO) with security services from Tajikistan and Afghanistan. A small permanent PAP presence was established in the GBAO at the same time.

The PRC leadership judged that external risks had increased globally and Beijing's security policy needed to be more assertive and coordinated to protect its interests. Xi Jinping said in 2013:²⁸

[China] faces the dual pressure of safeguarding national sovereignty, security, and development interests externally and safeguarding political security and social stability internally; all kinds of predictable and unpredictable risk factors have significantly increased.

There has been an ongoing low-level violent insurgency in Xinjiang for decades. But from 2009 to 2014, there was a significant increase in violence. In 2009, protests after the death of two Uyghur workers in Guangdong turned violent which led to inter-ethnic battles

²⁶ "Authorized Release: Counterterrorism Law of the People's Republic of China."

²⁷ United States Department of Defence, "Annual Report to Congress: Military and Security Developments Involving the People's Republic of China 2018," 16 May 2018, <https://media.defense.gov/2018/Aug/16/2001955282/-1/-1/1/2018-CHINA-MILITARY-POWER-REPORT.PDF>.

²⁸ Joel Wuthnow, "Decoding China's New 'National Security Commission'," Centre for Naval Analysis, November 2013, https://www.cna.org/CNA_files/PDF/PPP-2013-U-006465-Final.pdf.

between Han and Uyghurs. PRC officials said that a total of 197 people died with 1,721 others injured during the violence.²⁹ Tension grew over the next few years with incidents involving dozens of deaths occurring frequently. Some of these were clearly terrorist attacks. A series of car bombs and coordinated stabbings in July 2011 in Kashgar killed 23 people. An attack on a police station with Molotov cocktails and knives in Hotan left 18 dead (four security personnel and 14 attackers) in the same month.³⁰ East Turkestan Islamic Movement (ETIM) claimed responsibility for both attacks albeit with little actual evidence.³¹ There were numerous other incidents with multiple deaths that Chinese media claimed were terrorist attacks while civil society groups claimed policemen often gunned down unarmed protesters in their dozens.³² There was a further increase in violence in 2013. A number of large terrorist attacks occurred inside Xinjiang, and for the first time Uyghur terrorism moved to other provinces in China. Table 6.1 provides selected violent incidents in 2013 and 2014.

Table 6.1 Selected violent incidents linked to Uyghurs 2013-2014

Date / Location	Deaths	Injured	Details
October 2013 Tiananmen Square	5	38	Five people died and 38 were injured in a suicide car attack at Tiananmen Square in October 2013.
March 2014 Kunming Train Station	31	141	A mass knife attack at Kunming Station in March 2014 led to 31 dead and 141 people injured. ³³
30 April 2014 Urumqi Train Station	3	79	Two attackers stabbed people before detonating their suicide vests at an Urumqi train station. Three people, including the two attackers, died. ³⁴

²⁹ Gillian Wong "China to Issue Arrest Warrants for Xinjiang Riots," *Associated Press*, 17 July 2009, http://www.nbcnews.com/id/31939304/ns/world_news-asia_pacific/t/china-issue-arrest-warrants-xinjiang-riots/#.XHdb5BMzZAY.

³⁰ "Islamic Militant Group 'behind Xinjiang Attacks'," *BBC News*, 8 October 2011, <https://www.bbc.com/news/world-asia-pacific-14834042>; Jacob Zenn, "Catch-22 of Xinjiang as a Gateway," *Asia Times*, <https://uyghuramerican.org/article/catch-22-xinjiang-gateway.html>.

³¹ "Islamic Militant Group 'behind Xinjiang Attacks'". *BBC News*, 8 October 2011, <https://www.bbc.com/news/world-asia-pacific-14834042>.

³² Callum MacLeod, "China Says Police Kill 8 'Terrorists' in Xinjiang," *USA Today*, 30 December 2013, <https://www.usatoday.com/story/news/world/2013/12/30/china-terrorists-xinjiang/4246903/>.

³³ "Four sentenced in China over Kunming station attack," *BBC News*, 12 September 2014, <https://www.bbc.com/news/world-asia-china-29170238>.

³⁴ "Deadly China blast at Xinjiang Railway Station," *BBC News*, 30 April 2014, <https://www.bbc.com/news/world-asia-china-27225308>.

22 May 2014 Urumqi	43	90+	Two suicide car bombings occurred after the occupants threw explosives from their vehicles at an Urumqi street market. The following week 55 people were convicted of terrorism in front of a stadium of 7000 people. ³⁵
28 July 2014 Shache County, Xinjiang	96	Hundreds + 215 arrested	There are two competing accounts. According to state media, local knife-wielding mobs went on a rampage after police found a cache of explosives, killing civilians and torching several vehicles. 37 civilians and 59 people identified as terrorists were killed in the violence. 215 people were arrested after the violence. ³⁶ Radio Free Asia journalists contend the initial violence was linked to restrictions during the Muslim holy month of Ramadan and the alleged extrajudicial killing of a Uyghur family. Knife- and axe-wielding Uyghurs went on a rampage and were subsequently gunned down by Chinese police. ³⁷
12 October 2014 Kashgar, Xinjiang	At least 22	Dozens	Four Uyghurs armed with knives and explosives attacked a farmers' market in Xinjiang. ³⁸
29 November 2014 Shache County, Xinjiang	15	14	According to state media, 15 militants attacked a food street with guns and explosives. 11 of those killed were Uyghur militants. ³⁹

These events led to a much tougher security stance towards Uyghurs in Xinjiang.

During the Second Work Forum on Xinjiang in 2014, Chinese President Xi Jinping called for “nets spread from the earth to the sky” to defend against terrorist acts in Xinjiang, stressing long-term stability as the main goal for the region.⁴⁰ Since then, freedom of movement,

³⁵ Clifford Coonan, “China Carries Out Mass Sentencing in Sport Stadium,” *Irish Times*, 30 May 2014, <https://www.irishtimes.com/news/world/asia-pacific/china-carries-out-mass-sentencing-in-sport-stadium-1.1814114>.

³⁶ Emily Rauhala, “China Now Says Almost 100 Were Killed in Xinjiang Violence,” *Time Magazine*, 4 August 2014, <http://time.com/3078381/china-xinjiang-violence-shache-yarkand/>.

³⁷ Shohret Hoshur, Eset Sulaiman and Yang Fan, “Dozens of Uyghurs Shot Dead in Riots in Xinjiang’s Yarkand County,” *Radio Free Asia*, 29 July 2014, <https://www.rfa.org/english/news/uyghur/reports-07292014102851.html>.

³⁸ Andrew Jacobs, “At Least 22 People Are Reported Killed in Attack at a Market in Western China,” *New York Times*, 20 October 2014, <https://www.nytimes.com/2014/10/20/world/asia/at-least-22-reportedly-killed-in-attack-in-western-china.html>.

³⁹ “Xinjiang Attack Leaves at Least 15 Dead,” *Associated Press*, 30 November 2014, <https://www.theguardian.com/world/2014/nov/29/xinjiang-attack-15-dead>.

⁴⁰ Stefanie Kam Li Yee, “Uyghur Cross-Border Movement into South East Asia Between Resistance and Survival,” in *Terrorism and Counterterrorism in China*, ed. Michael Clarke (London: Hurst&Company, 2018), 176.

expression and religious practice has been further restricted. In 2016, there were the first signs of the establishment of concentration camps to hold Uyghurs and other Turkic ethnic groups without trial.

At the same time, the Uyghur issue became increasingly internationalised. The linkages of Uyghurs to international terrorist organisation have become more prominent. The main Uyghur terrorist bloc operating outside of China is the Turkestan Islamic Party (TIP) (known as ETIM prior to 2005). It began life in the 1990s as a very small group of people operating in remote Pakistan and Afghanistan – so few that sometimes it was hard to know whether the TIP existed at all. Information on the early years is scarce but Sean Roberts interviewed several Uyghurs who were imprisoned in Guantanamo after being caught in Pakistan and Afghanistan. They described a single rundown training base with very few weapons in Afghanistan.⁴¹ Most of their time there was spent repairing the facility. The self-proclaimed deputy chairman of the organisation, Abudula Kariaji, claimed in a brief 2004 Wall Street Journal interview that the organisation had three training camps in Afghanistan prior to 2001, which allegedly prepared several hundred Uyghurs to carry out militant acts within China.⁴² However, in the same interview Kariaji noted that none of those who were trained in these camps and had returned to China had carried out actual terrorist attacks.⁴³ Whichever version of events one believes, the ETIM in Afghanistan was a relatively modest organisation prior to 2005.

From 2005, the ETIM (now known as the TIP) began to market itself online much more heavily. It published significant numbers of videos with more professional production values. Most notably, TIP issued a video on the internet in the run-up to the 2008 Beijing

⁴¹ Sean Roberts, "The Narrative of Fighting Uyghur Terrorism", in *Terrorism and Counterterrorism in China*, ed. Michael Clarke (London: Hurst & Company, 2018), 111.

⁴² David S. Cloud and Ian Johnson, "In Post-9/11 World, Chinese Dissidents Pose U.S. Dilemma," *Wall Street Journal*, 3 August 2004, <https://www.wsj.com/articles/SB109149176842581209>.

⁴³ David S. Cloud and Ian Johnson, "In Post-9/11 World, Chinese Dissidents Pose U.S. Dilemma."

Olympics, boasting that the organisation was poised to disrupt the international event through violent acts of terrorism.⁴⁴ While the organisation praised and claimed credit for attacks within China, they were not able to provide evidence of their involvement in those attacks. Moreover, there was little evidence that Uyghurs were actually joining the TIP in large numbers prior to 2010. The videos published by the TIP used mainly stock footage when showing training. US officials in Pakistan told Sean Roberts in interviews that there was no obvious influx of Uyghurs into Waziristan, Pakistan where the organisation was believed to be based.⁴⁵

After 2010-2011, the TIP in Afghanistan and Pakistan did seem to gain new Uyghur recruits. This is evident in a video posted by TIP in 2014 that features Uyghurs who had joined TIP in Afghanistan after leaving the XUAR in 2010 or 2011.⁴⁶ This corresponded to a new exodus of Uyghurs from the XUAR that began in the aftermath of the July 2009 ethnic riots in Urumqi, which is discussed further below.⁴⁷ The modern TIP's biggest recruitment success has been in Syria – Sean Roberts summarised the development of the Syrian branch as follows:⁴⁸

[The TIP] began publishing articles in its magazines and producing videos for the internet about Syria in late 2012 and early 2013. By June 2013, it reportedly had also distributed a video of Uyghur fighters in Syria, but it only featured one Arabic speaker and a group of masked militants, who were allegedly Uyghurs. However, by 2015, TIP was posting videos of Uyghurs engaged in combat in northern Syria, particularly in the areas around Idlib, Jisr al-Shughur and the Al-Ghab plain. Thus, it appears that TIP had transformed over the course of four years from what was likely a shell organization in Afghanistan with few Uyghurs to a significant fighting force in Syria.

There are also hundreds if not thousands of Uyghurs – probably not aligned with the

⁴⁴ Sean Roberts "The Narrative of Fighting Uyghur Terrorism" 113-117

⁴⁵ Sean Roberts "The Narrative of Fighting Uyghur Terrorism" 116-117

⁴⁶ Sean Roberts "The Narrative of Fighting Uyghur Terrorism" 118

⁴⁷ Sean Roberts "The Narrative of Fighting Uyghur Terrorism" 118

⁴⁸ Sean Roberts "The Narrative of Fighting Uyghur Terrorism" 119

TIP – who have settled in Syria.⁴⁹ In Afghanistan, the TIP and the Afghan Taliban have undertaken joint operations together in Badakhshan province.⁵⁰

Beyond China, Afghanistan, Pakistan and Syria, Uyghurs have increasingly been involved in attacks or arrested for involvement in the planning of attacks. A table of selected events between 2010 and 2016 is presented below.⁵¹

Table 6.2 Select list of violent incidents and arrests of Uyghurs outside of China (excluding Syria, Afghanistan and Pakistan) between 2010 and 2016

Date	Place	Incident
June 2010	Dubai	On 29 June 2010, a court in Dubai found two ethnic Uyghurs guilty of plotting to attack a shopping mall called the Dragon Mart, which consisted of 400 shops selling Chinese-made goods. The pair's culpability was questionable to the point where the judge imposed a lesser sentence because the plotting was still in its 'preliminary stages'. ⁵²
July 2010	Oslo	Police in Oslo disrupted a cell that was part of a broader network of terrorist plots directed by al-Qaeda targeting the north of England and New York. The actual aim and scale of the plot were unclear. Three men were arrested: Mikael Davud, a 39-year-old ethnic Uyghur with Norwegian citizenship; David Jakobsen, a 31-year-old Uzbek with legal residency in Norway; then German police arrested a third man, Shawan Sadek Saeed Bujak, a 37-year-old Iraqi-Kurd who was on holiday in Duisburg, Germany.
18 April 2014	Vietnam	16 Uyghurs were detained by Vietnamese border guards when they were trying to enter Vietnam illegally. They seized the guards' guns and attacked them with knives. Five Uyghurs and two guards were killed.
September 2014	Poso, Central Sulawesi, Indonesia	Police detained four Uyghurs for attempting to meet Santoso (A Jihadist; the leader of the Mujahideen of Eastern Indonesia).
17 August 2015	Bangkok, Thailand	A bombing took place close to the Erawan Shrine, killing 20 people (10 Thai, seven Chinese, two Malaysian, one Filipino) and injuring 125 people. Of 17 total suspects, two Uyghur suspects were arrested.

⁴⁹ Sean Roberts "The Narrative of Fighting Uyghur Terrorism" 123

⁵⁰ Bill Roggio and Caleb Weiss, "Turkistan Islamic Party Highlights Joint Raids with the Afghan Taliban," *Long War Journal*, 12 March 2018, <https://www.longwarjournal.org/archives/2018/03/turkistan-islamic-party-highlights-joint-raids-with-the-afghan-taliban.php>.

⁵¹ This is adapted from a table in Stefanie Kam Li Yee, "Uyghur Cross-Border Movement into South East Asia Between Resistance and Survival," in *Terrorism and Counterterrorism in China*, ed. Michael Clarke (London: Hurst & Company, 2018) 180-182.

⁵² Raffaello Pantucci, "Uyghur Terrorism in a Fractured Middle East," in *Terrorism and Counterterrorism in China*, ed. Michael Clarke (London: Hurst & Company, 2018), 160-161.

November 2015	Central Sulawesi, Indonesia	Indonesia security forces shot dead a Uyghur called Farouk (aka Magalasi) when they attacked Santoso's militant group.
December 2015	Bekasi, Indonesia	During a raid, Indonesian police found bombing materials, an explosive device and a model of a government building. Ali, the suspect, was a suicide bomber under training. He entered Indonesia via Batam, a small island off Singapore with two other Uyghurs. Ali was also suspected of involvement in the Bangkok attack.
24 April 2016	Poso, Central Sulawesi, Indonesia	Police shot and killed a Uyghur who was a member of the East Indonesia Mujahidin (MIT) during crossfire.
18 May 2016	Indonesia	Police arrested a Chinese Uyghur when he tried to enter Indonesia arrested via Batam. He was deported to China on 18 May 2016.
30 August 2016	Bishkek, Kyrgyzstan	A suicide bomb attack on the Chinese embassy in the Kyrgyz capital was ordered by Uyghur militants active in Syria and carried out by a member of the East Turkestan Islamic Movement. ⁵³

One other aspect of the internationalisation of the Uyghur issue has been the growth in people smuggling networks in Southeast Asia to move Uyghurs to third countries, particularly Turkey. The networks became more prominent as more Uyghurs sought to flee Xinjiang following 2009. China also tightened border controls with Central Asian states making Southeast Asia the easiest route out of China for Uyghurs. This has created diplomatic headaches for ASEAN countries that detain undocumented Uyghurs in their territory. China wants them extradited to the PRC where they would face almost certain persecution while the Uyghurs want to travel on to Turkey. In January 2015, Chinese police in Shanghai arrested a group of 10 Turkish nationals and 11 Chinese citizens for supplying fake Turkish passports to nine Uyghurs.⁵⁴

⁵³Olga Dzyubenko, "Kyrgyzstan Says Uighur Militant Groups behind Attack on China's Embassy," *Reuters*, 6 September 2016, <https://www.reuters.com/article/us-kyrgyzstan-blast-china-idUSKCN11C1DK>

⁵⁴Jonathan Kaiman, "China Arrests 10 Turkish Nationals on Suspicion of Aiding Terror Suspects," *The Guardian*, 14 January 2015, <https://www.theguardian.com/world/2015/jan/14/china-arrests-10-turkish-nationals-on-suspicion-of-aiding-terror-suspects>.

Finally, and probably most consequentially for China's security posture in Kyrgyzstan and Tajikistan, the majority NATO withdrawal from Afghanistan has led the central Chinese leadership to conclude that China needs to take a more active role in protecting its security interests in Afghanistan and neighbouring countries. These interests are to ensure the security and stability of Xinjiang.

On the issue of spillover violence from Afghanistan, Tajikistan as a direct neighbour of Afghanistan occupies a unique location that makes it more important than Kyrgyzstan. Chinese Ambassador to Tajikistan, Yao Bin, said in 2018 that Tajikistan "is an important barrier to withstand the spillover effects of the situation in Afghanistan and to prevent terrorist and extremist forces heading north into Central Asia."⁵⁵ Deng Hao, Secretary General of the China Centre for Shanghai Cooperation Organisation (SCO) Studies stated in October 2018 that "Tajikistan is located in an important part of Central Asia, and it is an important security barrier for every country in Central Asia and the SCO."⁵⁶ Xi Jinping in 2015 argued that the SCO needs to "Strengthen joint operational capacity to firmly build a regional security barrier."⁵⁷ Xi did not mention Afghanistan directly but this can be seen as one of the first signs that joint operations would form a part of China's strategy for protecting the region from Afghan spillover.

⁵⁵ "Chinese Ambassador to Tajikistan: China and Tajikistan Jointly Promote the New Development of the SCO" [中国驻塔吉克斯坦大使：中塔共同推动上合组织取得新发展], *China News*, 7 June 2018, <http://www.chinanews.com/gn/2018/06-07/8532527.shtml>.

⁵⁶ "Outlook for Li Keqiang's Trip to Tajikistan: Deepening Cooperation between China and Tajikistan to Create 'New Growth Points' for Cooperation" [前瞻李克强塔吉克斯坦之行：深挖中塔合作 打造上合合作“新增长点”], *China News*, 8 October 2018, <http://www.chinanews.com/gn/2018/10-08/8644613.shtml>.

⁵⁷ "Unity and Mutual Assistance, Welcoming Challenges, and Promoting the Shanghai Cooperation Organization to Achieve New Steps - Speech at the 15th meeting of the Council of Heads of State of the Shanghai Cooperation Organization" [团结互助 共迎挑战 推动上海合作组织实现新跨越——在上海合作组织成员国元首理事会第十五次会议上的讲话], *PLA Daily*, 7 July 2015, http://www.81.cn/jfjbmap/content/2015-07/11/content_116809.htm.

Undergirding China's new security proactivity is vastly improved security capabilities. The PLA is now comfortably the second-best funded military in the world. Civilian spending on public security too has skyrocketed in recent years. Xinjiang's public security budget alone increased 356 percent since 2009 and 2015.⁵⁸

So, to sum up, there are two main drivers of PRC security assertiveness in Tajikistan and Kyrgyzstan since 2013. 1) New assertiveness everywhere – Xi Jinping has rewritten the guidance for PRC security services everywhere after the initial groundwork was laid in the Hu Jintao era. 2) New security assessments of the situation in Xinjiang and Afghanistan-Pakistan-Central Asia have led to a PRC view that Beijing must be more active on security in the region. All of this is underpinned by greater PRC security capacity.

6.4 China's Security Activities in Kyrgyzstan, Tajikistan and the Afghan Wakhan Corridor

The general thinking was that taking a cautious approach would no longer be enough to protect China's interests. The gap between international and domestic security has shrunk so much that passiveness would only invite more problems. In 2014, Liu Yuejin who was then an academic at the University of International Relations (which has been linked to the Ministry of State Security⁵⁹) argued that the distinctions between external and internal and traditional and non-traditional security are almost non-existent.⁶⁰ Liu was appointed the MPS Counterterrorism Commissioner (vice-ministerial level) in 2015. Former PAP Deputy

⁵⁸ James Leibold and Adrian Zenz, "Beijing's Eyes and Ears Grow Sharper in Xinjiang," *Foreign Policy*, 23 December 2016, <https://www.foreignaffairs.com/articles/china/2016-12-23/beijings-eyes-and-ears-grow-sharper-xinjiang>.

⁵⁹ Peter Mattis, "Assessing the Foreign Policy Influence of the Ministry of State Security," *China Brief*, 14 January 2011, <https://jamestown.org/program/assessing-the-foreign-policy-influence-of-the-ministry-of-state-security/>.

⁶⁰ Andrea Ghiselli, "Diplomatic Opportunities and Rising Threats: The Expanding Role of Non-Traditional Security in Chinese Foreign and Security Policy," *Journal of Contemporary China* 27, no. 112 (2018), 613.

Commander Wang Yongsheng said in March 2015 that terror networks are simultaneously globalising and localising. Attacks are becoming more and more sophisticated, while at the same time there are growing numbers of 'lone wolves' that seek to commit atrocities.⁶¹

The combination of new threat assessments in Tajikistan and new security assertiveness has manifested itself as a three-pronged post-2013 approach to helping Tajikistan and Kyrgyzstan maintain stability:

- 1) building capacity so that Tajikistan and Kyrgyzstan are more capable of maintaining their own stability;
- 2) encouraging Tajik and Kyrgyz security forces to act on issues of importance to China;
- 3) creating an environment where Chinese security services can operate with local forces if necessary.

The remainder of this chapter examines each of these three areas in depth. It also addresses the specific actions the PRC has undertaken to pursue this strategy. These are outlined in the table below. As the table demonstrates, some of these specific actions are designed to deliver multiple strategic outcomes (for example security aid can both boost capacity and align security interests). In the interests of brevity, the details of specific actions are only explained in the most relevant section.

Table 6.3 Components of PRC Security Strategy in Kyrgyzstan and Tajikistan

Strategy Component	Specific Actions
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⁶¹ Julia Famularo, "‘Fighting the Enemy with Fists and Daggers’: The Chinese Communist Party’s Counter-Terrorism Policy in the Xinjiang Uyghur Autonomous Region (XUAR)," in *Terrorism and Counterterrorism in China*, ed. Michael Clarke (London: Hurst & Company, 2018), 56; Luo Jing and Jiang Huaqing, "Wang Yongsheng: The People’s Armed Police has Become the Core Force of National Counterterrorism" [王永生：武警部队已经成为国家反恐核心力量], *PLA Daily*, 7 March 2015, http://www.81.cn/jwgz/2015-03/07/content_6384705.htm.

Capacity building	• New security equipment and infrastructure • Training • Joint exercises
Aligning security interests	• PRC Investment in large projects that provide revenue to the state (gas pipeline Line D, Talco upgrades and gold mines) • Funding security capacity in areas of interest to the PRC (namely the Afghan border) • More intensive security diplomacy at bilateral and multilateral levels
Conducting joint operations with local security forces	• Building a small base on Tajikistan's territory • Joint Afghanistan-PRC-Tajikistan reconnaissance missions • Joint border patrols on the PRC-Tajikistan border

The following sections also demonstrate two other important points. Firstly, much of what Beijing is doing has been attempted by the US and Russia in the relatively recent past. Washington and Moscow tried capacity building. They both trained more Tajik and Kyrgyz soldiers than China between 2006 and 2016. Russia already has much bigger bases in Tajikistan and Kyrgyzstan, and the US had a military installation in Kyrgyzstan between 2001 and 2014.

Despite this, two elements of Beijing's strategy do genuinely vary from US and Russian efforts. Neither Washington nor Moscow has undertaken trilateral operations with both Afghanistan and Tajikistan. This allows PRC personnel to conduct surveillance on both sides of the Afghanistan-Tajikistan border. These operations are focused on the Wakhan Corridor and the GBAO in Tajikistan, which the US and Russia have largely ignored. The variance here is due to the PRC border with both GBAO and the Wakhan Corridor. The second element is project protection. Tajik security personnel protected PRC engineers working on the new watchtowers on the Afghanistan-Tajikistan border. That has not happened with workers from the US or Russia. The PRC is building a pipeline through Tajikistan and Kyrgyzstan. Protection of the pipeline has become a key area of concern.

There are pipelines from the Soviet Union era which are oriented in Russia's direction but these were built decades ago before Tajikistan or Kyrgyzstan were independent countries.

The other point worth noting is that institutional weakness and corruption in Tajikistan's and Kyrgyzstan's security agencies remains a serious problem. Capacity building has limits. For example, Beijing is pursuing counternarcotics cooperation with Tajikistan. Yet, with pay so low in Tajikistan's border service and counternarcotics agency, corruption thwarts efforts to stop drug flows. Russia, the US and China have tried to stop this with little clear success.⁶²

6.4.1 Joint Operations

PRC Security Operations in Tajikistan

The most significant PRC security development in Central Asia between 2006 and 2016 was that the PRC began undertaking small trilateral operations with Tajikistan and Afghanistan in the GBAO and Wakhan Corridor in late 2015-early 2016. Available evidence suggests that PAP personnel were deployed for these activities. The PAP personnel were based at a small base near the GBAO town of Shaymak which is located close to the confluence of the Afghanistan-China-Tajikistan borders. None of the governments involved have openly admitted to the base's existence, but hikers, the International Crisis Group, the *Washington Post* and locals in both Afghanistan and Tajikistan have all confirmed the presence of PRC personnel in the region.⁶³

⁶² "Opiate Flows Through Northern Afghanistan and Central Asia," UNODC, May 2012, https://www.unodc.org/documents/data-and-analysis/Studies/Afghanistan_northern_route_2012_web.pdf; Roger N McDermott, "Tajikistan Hurries to Strengthen Border Protections," Eurasianet, 7 October 2002, <https://eurasianet.org/tajikistan-hurries-to-strengthen-border-protections>; Johan Engvall, "The State under Siege: The Drug Trade and Organised Crime in Tajikistan," *Europe-Asia Studies*, 58, No. 6 (2006), 846-848.

⁶³ "Rivals for Authority in Tajikistan's Gorno-Badakhshan," International Crisis Group, 14 March 2018, <https://www.crisisgroup.org/europe-central-asia/central-asia/tajikistan/b87-rivals-authority->

Small teams of Chinese security forces have conducted on-the-ground joint operations with Tajikistan and Afghanistan in the Wakhan Corridor and in Tajikistan in areas near the base. These seem to have involved small PAP reconnaissance units. Reports from hikers suggest that PAP units have been inspecting and interrogating individuals in Afghanistan, and that they have sometimes set up checkpoints near Baza'I Gonbad in the Wakhan Corridor.

The operational and command details of the base remain unclear. *Asia Plus* quoted an anonymous source from Tajikistan's military who said the facility is a Chinese-financed border post under Tajikistani command but housing Chinese personnel.⁶⁴ This is difficult to verify. The *Washington Post* quoted a local shopkeeper who speculated there could be scores or perhaps hundreds of PAP personnel on the base.⁶⁵

The region makes up 45 percent of Tajikistan's territory but only about 3 percent of its population. Much of it is over 3000 metres above sea level. Tajik security forces are spread pretty thin there. There is longstanding discontent in the GBAO towards the Tajikistan government. There have been sporadic instances of conflict. In 2012 open fighting between the Special Forces of the Tajik army and local militias in Khorog (the capital of GBAO – Shaymak is located at the other end of GBAO more than 10 hours' drive away) led to the deaths of dozens on both sides.⁶⁶ In the end the special forces had to back down.⁶⁷ In 2014,

tajikistans-gorno-badakhshan; Gerry Shih, "In Central Asia's Forbidding Highlands, a Quiet Newcomer: Chinese Troops," *Washington Post*, 18 February 2019, https://www.washingtonpost.com/amhtml/world/asia_pacific/in-central-asias-forbidding-highlands-a-quiet-newcomer-chinese-troops/2019/02/18/78d4a8d0-1e62-11e9-a759-2b8541bbbe20_story.html.

⁶⁴ "The Washington Post Assumed the Tajik Frontier Post in Murgab was a China's Military Site – Source" [The Washington Post приняла таджикскую погранзаставу в Мургабе за военный объект Китая, - источник], *Asia Plus*, 21 February 2019, <https://news.tj/ru/news/tajikistan/security/20190221/the-washington-post-prinyala-tadzhikskuyu-pogranzastavu-v-murgabe-za-voennii-obekt-kitaya-istochnik>.

⁶⁵ Gerry Shih, "In Central Asia's Forbidding Highlands, a Quiet Newcomer: Chinese Troops," *Washington Post*,

⁶⁶ "Rivals for Authority in Tajikistan's Gorno-Badakhshan."

⁶⁷ Joshua Kucera, "The Tajiks Who Fight Their Own Government," *The Atlantic*, 28 June 2013, <https://www.theatlantic.com/international/archive/2013/06/the-tajiks-who-fight-their-own-government/277336/>.

residents angered by a clumsy police operation in central Khorog burned state security headquarters and other government buildings.⁶⁸

The purpose of the PRC facility, up until the end of 2016, seemed to be to gather information and to ensure that terrorists were prevented from travelling to the regions near the PRC border. The Wakhan Corridor has no roads to China and the GBAO-PRC border only has one road crossing which is well-policed on the PRC side. The area is mountainous and it would be difficult to cross on foot, but it seems the PRC government has decided the border must be completely secure. The fact that the PRC has stationed personnel on Tajikistan soil suggests a lack of confidence in the ability of Afghan and Tajik forces to undertake the role. The base as of 2016 did not seem prepared for managing instability in the GBAO. The location away from unrest in Khorog and very small size suggests that it is not designed to deal with intra-Tajikistan conflict. That may be a mission in the future, but it was not at the end of 2016.

What about the PLA? This author makes the judgment call that there probably is communication between the PLA and PAP on their operations in the region, and perhaps there is contingency planning which requires People's Liberation Army Air Force (PLAAF) support. But so far, no PLA personnel are on the base. The author's opinion is based on the following fragmentary evidence.

First, the Joint Staff Department of the Central Military Commission established an Overseas Operations Office in 2016. It focuses on "directing and coordinating overseas operations" for both the PLA and PAP (but not the MPS).⁶⁹ One would expect this to extend

⁶⁸ "Rivals for Authority in Tajikistan's Gorno-Badakhshan."

⁶⁹ "PLA Sets up Overseas Operations Office to Strengthen Overseas Rapid Reaction," *China Military*, 25 March 2016, http://english.chinamil.com.cn/news-channels/pla-daily-commentary/2016-03/25/content_6977517.htm; "Ministry of National Defense: Overseas Operations Office Coordinates the Military's Overseas Military Non-War Activities" [国防部：海外行动处统筹全军海外非战争军事行动] *China News*, 31 March 2016, <http://www.chinanews.com/mil/2016/03-31/7819367.shtml>.

to PAP operations in Tajikistan. This, in addition to the 2015 counterterrorism law, requires that overseas actions undertaken by the PAP or PLA be approved by the CMC.

Second, changes to the PAP bureaucracy further link the PLA and PAP. When the basing and operations started in 2015/16, the PAP was under the dual administration of the PLA and MPS. In 2017, most of the PAP's functions, including counterterrorism, moved under sole administration of the CMC which also oversees the activities of the PLA. While the PAP's overseas actions might still technically count as 'civilian' or 'paramilitary', they have been under the auspices of a military leadership organ since 2017.

Third, Wang Ning became the Commander of the PAP in 2014. He was previously the Deputy General Chief of Staff of the People's Liberation Army General Staff Department. He had a lot of experience on PLA exercises in Central Asia. In August 2014 (only months before he joined the PAP), Wang was the "Chief Director of the 2014 Peace Mission" (总导演 – English term from PRC state media) in his PLA capacity.⁷⁰

Fourth, the timing of meetings in early 2016 suggest Fang Fenghui of the PLA and CMC was involved in initial discussions. Fang met with President Rahmon in Beijing in late February 2016. During that meeting Fang said "China is willing to further enhance military cooperation and multilateral counter-terrorism collaboration with Tajikistan."⁷¹ He had a meeting with Afghan President Ashraf Ghani just a couple of days later saying the same thing. This was about the time the joint operations started. These points taken together do suggest that there is communication between the PLA and PAP on the PAP Tajikistan operations.

⁷⁰ "Wang Ning, Former Deputy Chief of PLA Joint Staff is the New Commander of the People's Armed Police, and Wang Jianping also Reassigned" [解放军原副总参谋长王宁履新武警部队司令员, 与王建平对调], *The Paper*, 31 December 2014, http://m.thepaper.cn/wifiKey_detail.jsp?contid=1290466&from=wifiKey.

⁷¹ "Tajikistan, China to Boost Defence, Anti-terrorism Cooperation," *Xinhua*, 1 March 2016, http://eng.chinamil.com.cn/news-channels/china-military-news/2016-03/01/content_6934425.htm.

Finally, evidence suggests the PLA is preparing to support the PAP in contingencies that could apply to Xinjiang, Tajikistan or the Afghan Wakhan. Wang Ning who is the commander of the PAP (Wang is an ally of Xi and was shifted from the PLA) said that “[PAP] Special Forces need to be the sharp edge of counterterrorism with air forces for effective support.”⁷² The PAP troops in Tajikistan are from Xinjiang.⁷³ PAP troops in Xinjiang conduct counterterrorism exercises with the PLA in Xinjiang that involve air support. For example, in February 2017, eight PLA helicopters, 10 civilian aircraft and an unknown number of PAP aircraft conducted a rapid response exercise which moved thousands of PAP and PLA troops to locations throughout Xinjiang with a focus on the Tianshan Mountains (which traverse the China-Tajikistan border).⁷⁴

Any operations (current or future) would likely involve local forces in some capacity to appease the local government. Li Wei of China Institutes of Contemporary International Relations said China's overseas counterterrorism activities “wouldn't be unilateral but must be in collaboration with the local government.”⁷⁵

It is probable that the actions in Tajikistan have been organised at the highest level. Overseas operations for the PAP require approval from the CMC which is headed by Xi Jinping. The law requiring that approval is the 2015 counterterrorism law which was a pet project of Xi Jinping. Everything points to a dedicated centrally-driven effort here.

⁷² “Special Forces Need to be the Sharp Edge of Counter-Terrorism Work with Air Forces to Provide Efficient Support” [中国武警部队改革时间表公布 今后怎么建如何用], *Sina*, 2 July 2018, <http://mil.news.sina.com.cn/china/2018-07-02/doc-ihespqry3753669.shtml>.

⁷³ A report from the *Washington Post* showed a photo of one of the personnel. His uniform had a red collar insignia which looks like a PAP chief Sergeant 4th class (武警四级警士长). See Gerry Shih, “In Central Asia's forbidding highlands, a quiet newcomer: Chinese troops.”

⁷⁴ Xinjiang PAP Air Lifts Thousands of Troops to Undertake Counterterrorism Drills [新疆武警部队空中投送数千兵力进行反恐演练], *Observer*, 28 February 2017, https://www.guancha.cn/military-affairs/2017_02_28_396416.shtml.

⁷⁵ Ben Bland and Nicolle Liu, “China Seeks Global Role for Elite Counter-terrorism Forces,” *Financial Times*, 30 September 2018, <https://www.ft.com/content/fad58218-c46d-11e8-8670-c5353379f7c2>.

PRC personnel in Tajikistan need to be put in context. It remains a relatively small deployment – perhaps 100 people – in a remote corner of Tajikistan. Russia has a military base in Tajikistan across three facilities in Dushanbe, Qurghonteppa and Kulob. Most of the approximately 7000 troops are stationed in Dushanbe, though the other two locations each hosted a motor-rifle regiment until 2013. One regiment was withdrawn from Qurghonteppa in 2013. Those three locations are quite a long way from the PRC's base in the GBAO. In addition to the base, Russia operates the *Okno* space surveillance complex, located near Nurek. Its task is to detect and track ballistic missiles aimed at Russian and Central Asian territory. So, while the PRC now has a permanent troop presence on the ground – and that is a significant development – it still lags a long way behind Russia.

Conversely, PRC security services have not put any emphasis on protecting Kyrgyzstan's southern border with Tajikistan. This was true for the entirety of the 2006 to 2016 period. The obvious difference is the emphasis placed on the Afghanistan-Tajikistan border (as opposed to the Kyrgyzstan-Tajikistan border) by the PRC.

Once again, for comparison, the Russian 999th Air Base near Bishkek in Kyrgyzstan is manned by 400 Russian personnel. There are mixed reports on the amount of equipment. As John C.K. Daly wrote in 2013:⁷⁶

According to Agence France-Presse and Russia Today (October 30), Kant presently has ten Sukhoi fighters, two Mi-8 helicopters and about a dozen other transport and training aircraft. Other Russian media reports state, however, that there are only five Su-25s, together with two Mi-8 helicopters stationed at the airbase.

Either way, this is a much larger presence than the PRC maintains in Kyrgyzstan. The Russian military also maintains the Dastan underwater weapons testing site in Karakol,

⁷⁶ John C.K. Daly, "Russia to Double Aircraft at Kant Airfield in Kyrgyzstan," *Eurasia Daily Monitor*, 13 November 2013, <https://jamestown.org/program/russia-to-double-aircraft-at-kant-airfield-in-kyrgyzstan/>.

its military communications centre in Kara-Balta and a radio-seismic laboratory in Mayly-Suu.⁷⁷

So, to sum up, PRC deployment in Kyrgyzstan and Tajikistan remains limited to a small outpost, perhaps under Tajik command, located in the GBAO and staffed by PAP reconnaissance troops from Xinjiang. At the end of 2016 it had a very specific role to provide surveillance in the remote areas of the GBAO and Afghan Wakhan Corridor near the PRC border. This is a different mission to Russian troops and is genuinely different to the activities of any other foreign power in Tajikistan and its presence is much smaller than Russia in Tajikistan or Kyrgyzstan.

Joint Border Patrols on the China-Central Asia Border

The PRC's border with Central Asia is also of interest to Beijing – namely the Kazakhstan-PRC, Kyrgyzstan-PRC and Tajikistan-PRC borders. Chinese security personnel have conducted bilateral joint border patrols with Kazakhstan, Kyrgyzstan and Tajikistan. Given that Tajikistan is the Central Asian country of greatest security importance to the PRC, one would expect patrols with Tajikistan to be the most frequent. But the opposite is true. Publicly available information suggests joint border patrols on the PRC border with Tajikistan have been very rare. Conversely, the PRC has conducted extensive and ever-increasing joint border patrols with both Kazakhstan and Kyrgyzstan.

On 15 September 2016 Tajikistan and China conducted a military joint border patrol. This was the first public record of a joint patrol (military or civilian) that the author could find between these two countries. The operation was repeated again in September 2017.⁷⁸ Each year, the patrols lasted for a single day. The photos published for the exercises indicated

⁷⁷ John C.K. Daly, "Russia to Double Aircraft at Kant Airfield in Kyrgyzstan."

⁷⁸ "China and Tajikistan Border Guards Conduct Joint Patrols to Ensure Border Stability" [中塔边防官兵开展联合巡逻确保边境稳定], PRC Ministry of Defence, 18 September 2017, http://www.mod.gov.cn/action/2017-09/18/content_4792175_5.htm.

ritualised activities rather than serious operations. There are no public reports of joint China-Tajikistan civilian border patrols. One of the PLA officers who participated in the 2017 event said that both sides had established “a mechanism for regular joint patrols.”⁷⁹ So maybe there will be more patrols in the future.

By contrast, since 2010, the PLA Torugart Company have held annual joint patrols with Kyrgyzstan's military in the areas near the Torugart Pass. In 2013 the frequency was increased to three times per year.⁸⁰ In 2015, MPS Border Control units from the Kizilsu Kirghiz Autonomous Prefecture zhidui (equivalent to PLA regiment) held six days of joint patrols with Kyrgyz Border Defence Guards from Osh.⁸¹

In Kazakhstan, the Jiamanqi (加曼奇) Company from the Tacheng Military Subdistrict (塔城军分区) has been cooperating with Kazakhstani frontier defence units stationed in Makanchi and Zaysan since 2003, according to reports from PLA-affiliated sources.⁸² The exact nature of the early cooperation is unclear. From 2007 until 2015, the Company conducted at least one “border management operation” every year under the name “Shoulder-to-shoulder” (肩并肩) with Kazakh border troops. These usually take the form of joint patrols combined with some exercises. The operations typically involved 10-20 people from each side. The distance patrolled ranges from dozens of kilometres up to 500 kilometres. Most of the activities only lasted for one day but there were occasionally multiple

⁷⁹ “China and Tajikistan Border Guards Conduct Joint Patrols to Ensure Border Stability” [中塔边防官兵开展联合巡逻确保边境稳定], PRC Ministry of Defence, 18 September 2017, http://www.mod.gov.cn/action/2017-09/18/content_4792175_5.htm.

⁸⁰ “China and Kyrgyzstan Border Guards Conduct First Joint Patrol of the Year” [中吉边防官兵举行今年首次联合巡逻], *PLA Daily*, 8 June 2014, <http://mil.news.sina.com.cn/2014-06-08/0400783478.html?domain=mil.news.sina.com.cn&vt=4&from=wap>

⁸¹ Zhao Geshe, “China and Kyrgyzstan Conduct First Joint Law Enforcement Activity” [中国与吉尔吉斯斯坦首次边境联合执法], *People's Daily*, 16 June 2015, <http://qh.people.com.cn/n/2015/0616/c182778-25255111.html>

⁸² Guo Fahai, “China-Kazakhstan ‘Mountain Search 2016’ Joint Border Management Operation Successfully Concludes” [中哈“山地搜索-2016”联合管边行动圆满结束], *PLA Daily*, 28 September 2016, http://jz.chinamil.com.cn/n2014/tp/content_7281258.htm.

day operations. A report on a PLA-affiliated website claimed PLA frontier defence units stationed in Tacheng carried out joint frontier control and management actions with Kazakhstani frontier defence units stationed in Makanchi and Zaysan nearly 100 times as of September 2016.⁸³ Between June and October 2016, the arrangement became more formalised, and the two sides agreed to patrol simultaneously for five days of every month.⁸⁴

Kazakhstan-PRC civilian border cooperation was late to develop. Between 3-6 September 2016, the Altay zhidui (支队, roughly equivalent to a PLA regiment) which is a part of the Xinjiang BCT zongdui (总队, roughly equivalent to a PLA division⁸⁵) undertook control and management (边境管控) operations with its Kazakh counterpart. According to the MPS website, this was the first time that units from the Xinjiang BCT participated in this type of activity with Kazakhstan.⁸⁶ In October 2016, another Xinjiang BCT unit, the Yili zhidui (支队, equivalent to a PLA regiment) with its Kazakh equivalent in Kaysan jointly conducted a single day patrol in the area around Khorgos Free Trade Zone.⁸⁷ Photos indicated about a dozen people from each side were present.

So, bringing this all together, Kazakhstan has by far the most developed cross border patrolling mechanism with the PRC, then Kyrgyzstan. Tajikistan – at least publicly – only held one symbolic single day joint patrol between 2006 and 2016.

⁸³ Guo Fahai, "China-Kazakhstan 'Mountain Search 2016'."

⁸⁴ China, Kazakhstan Conduct Joint Border Control Operation in Mountain Region, *China Military*, 22 June 2016, http://english.chinamil.com.cn/news-channels/china-military-news/2016-06/22/content_7113994.htm.

⁸⁵ Zi Yang, "China's Counter-Terrorism Vanguard: Public Security Border Control Troops' Organisation, Strategy, Training and Intelligence Capability," *China Brief*, 2 July 2015, <https://jamestown.org/program/chinas-counter-terrorism-vanguard-public-security-border-control-troops-organization-strategy-training-and-intelligence-capability/>.

⁸⁶ "China-Kazakhstan Joint Mountain and Border Inspection Curb Illegal Cross-Border Activity" [中哈联合清山清边踏查打击跨境违法活动], *Xinhua*, 6 September 2016, http://news.xinhuanet.com/legal/2016-09/06/c_1119521668.htm.

⁸⁷ "China and Kazakhstan Begin Joint Border Security Enforcement Operation 'Unity 2016'" [中哈启动“团结—2016”边防联合执法行动], *Xinhua*, 13 October 2016, http://news.xinhuanet.com/photo/2016-10/13/c_1119711972_2.htm.

Tajikistan is seen as the biggest security risk in Central Asia by the PRC. It seems unlikely that the PRC chose not to increase its joint border patrols and operations with Tajikistan when it has developed increasingly frequent border patrols with both Kyrgyzstan and Kazakhstan. Thus, the lack of cooperation likely points to institutional limitations on cooperation with Tajikistan rather than a strategic choice by the PRC. Tajik security services are spread very thinly in the regions near the Chinese border. It is mountainous, sparsely populated and Tajikistan does not have the resources to station significant personnel there. The fact that in 2016 the PRC chose to deploy personnel on the Tajik side of the border suggests they do not believe the Tajik side had the capacity to manage border control. This indicates that capacity of the partner state also has influence over the level of joint border patrols. Thus, it is not surprising that the most security capable state, Kazakhstan, has the greatest level of joint patrolling out of all of the PRC's Central Asian neighbours.

To recap, plank one of Beijing's strategy is to use its forces to protect its interests in Tajikistan and Kyrgyzstan. In Tajikistan, the PRC deployed PAP personnel in Tajikistan. They have been conducting joint operations in Tajikistan and Afghanistan since at least 2016 (perhaps earlier). The base is in a remote part of GBAO which is a location that both Russia and US largely ignored between 2006 and 2016. It serves a different purpose to the very large Russian base in Tajikistan. Russian and PRC troops in the country do not appear to be cooperating. This is in addition to many joint border patrols on the PRC-Kyrgyzstan border. The lack of joint patrols with Tajikistan on the PRC border is likely due to a lack of Tajikistani capacity.

6.4.2 Capacity Boosting

The second plank of Beijing's security strategy is to build capacity. Beijing has undertaken three main tasks to boost Kyrgyzstan's and Tajikistan's security capacity:

- Building and supplying new security equipment and infrastructure
- Providing civilian and military security training to the Kyrgyzstan and Tajikistan
- Conducting joint exercises with both countries.

The PRC is not the first country to undertake these activities with Kyrgyzstan and Tajikistan. Between 2006 and 2016, Russia did all of these things to a much greater level than the PRC, aided by a common language, culture and similar security structures (due to the USSR). The US also provided significant equipment, facilities and training although its presence decreased after the NATO withdrawal from Afghanistan and closure of the Manus Air Base in Kyrgyzstan. But India, Kazakhstan, Turkey, NATO and the Organization for Security and Co-operation in Europe among other all provided some sort of capacity boosting to both countries' security services.

The PRC faces problems in terms of protecting its interests through capacity building. The main issue (that Russia, the US and others face too) is that new equipment and facilities enhance the capacity of security personnel to engage in graft and intimidation of the populations of Kyrgyzstan and Tajikistan, and that new security capacity does little to solve the systemic problems in either country. A case in point is the failed attempt by Tajik Special Forces to quell unrest in Khorog (mentioned earlier in this chapter). They were trained by the US and armed by Russia. Their activities could be viewed by some as intimidating local populations rather than pursuing genuine security threats. Even if the threats were genuine, the special forces failed to locate and capture their four targets, and they were repelled by poorly armed untrained civilians. Russia, the US and China are all aware of this problem but have decided that boosting capacity is still worthwhile.

Building and supplying new security equipment and infrastructure

Prior to 2014, PRC security aid was limited to small amounts of non-lethal aid. There was noticeable change in 2014. The PRC started to build security infrastructure for Tajikistan and to a lesser extent Kyrgyzstan. This was spread across civilian and military organs.

The PRC built officers' quarters for Tajikistani (in Dushanbe) and Kyrgyzstani soldiers (in Bishkek). They also provided a small amount of money for weapons upgrades and new vehicles.⁸⁸

After this, Beijing went on a building spree. Huawei installed 870 cameras (normal cameras, not facial recognition) around Dushanbe in 2014 as part of the Safe City project which monitors traffic violations and public order. The project reportedly cost USD 22 million. USD 20.9 million was financed by a 20-year Chinese loan (exact source unclear), and the remaining USD 1.1 million was funded by the Tajik side. Repayment is to be financed by traffic fines. The Interior Ministry reported it collected approximately USD 8 million in fines in the first two years.⁸⁹ Some new technical security capacity has been provided by private Chinese companies.

The MPS also funded the construction of a three-story building for the Tajik Drug Control Agency in Kulob in 2016 (approximately 40 kilometres from the Afghan border). China Jing'an Import & Export Corporation, which is a major arms and materials supplier to China's security services, undertook the construction.⁹⁰

⁸⁸ Joshua Kucera, "China Boosts Military Aid to Kyrgyzstan, Tajikistan," *Eurasianet*, 4 September 2014, <https://eurasianet.org/china-boosts-military-aid-to-kyrgyzstan-tajikistan>.

⁸⁹ Mehrange Tursunzoda, "The 'Safe City' Project in Tajikistan Earned 64 Million Somoni" [Б Таджикистане проект «Безопасный город» заработал 64 млн. Сомони] *Asia Plus*, 22 July 2016, <https://news.tj/news/tajikistan/laworder/20160722/v-tadzhikistane-proekt-bezopasnyi-gorod-zarabotal-64-mln-somoni>.

⁹⁰ "China's Ministry of Public Security Builds and Hands over Office Building for the Kulyab Branch of Tajikistan's Anti-drug Agency" [中国公安部援建塔吉克斯坦库利亚布禁毒分署办公楼项目竣工交接], *Xinhua*, 19 March 2016, http://www.xinhuanet.com/world/2016-03/19/c_128814017.htm.

In 2016, the press service of the Tajik Border troops announced that the PRC would provide a grant to build four new border posts, three commanders' quarters and a new training facility on the Tajik-Afghan border.⁹¹ At the announcement, the press service also stated that one of the watchtowers 'Gulkhan' in Shamsiddin Shokhin had already been built with Chinese funds.⁹² *Radio Ozodi* reported that three other new border posts were built nearby – two in Panj and one Farkhor – around the same time as the announcement.⁹³ It is rare for the Tajik government to finance four new outposts on the Tajik border of its own volition, so these reports of Chinese financing would seem to be quite credible. There is no indication of the quality and how these functionally differ to pre-existing facilities. According to the Tajik Border troop press service, the Tajik side was in charge of Chinese worker safety.⁹⁴

The PRC government has not constructed facilities for the Kyrgyz government to the same level. This is likely a function of the greater importance placed on security relationship with Tajikistan by the PRC government. Once again, this indicates the centrally-driven nature of the security engagement.

One area where Beijing has not provided much support is in the supply of lethal weapons. China begun selling lethal weapons systems to other states in Central Asia around 2014. Uzbekistan, Turkmenistan and Kazakhstan have acquired drones from China. Beijing

⁹¹ "The PRC Will Allocate a Grant to Tajikistan to Strengthen the Tajik-Afghan Border" [КНР выделит Таджикистану грант на укрепление таджикско-афганской границы], *Sputnik*, 27 September 2016, <https://ru.sputnik-tj.com/economy/20160927/1020739532.html>; Note that other sources came up with slightly different numbers, see Avaz Yuldashev, "China will Build 10 Border Posts on the Tajik-Afghan Border" [Китай построит на таджикско-афганской границе 10 погранзастав], *Asia Plus*, 14 November 2016, <https://news.tj/ru/news/tajikistan/security/20161114/kitai-postroit-na-tadzhiksko-afganskoi-granitse-14-obektov>.

⁹² "The PRC will Allocate a Grant to Tajikistan to Strengthen the Tajik-Afghan Border."

⁹³ Rahmatzoda, Mahmudjon, "The 'Gulkan' Border Post Built with Chinese Money" [Погранпост "Гулхан" построен на китайские деньги], *Radioi Ozodi*, 21 March 2016, <https://rus.ozodi.org/a/27625536.html>.

⁹⁴ Rahmatzoda, Mahmudjon, "The 'Gulkan' Border Post Built with Chinese Money."

seems to have provided the HQ-9 Air Defence system to both Turkmenistan and Uzbekistan.⁹⁵ These were likely through a commercial deal with Chinese defence companies. Tajikistan and Kyrgyzstan could not afford to purchase expensive weapons systems. Beijing has not supplied significant volumes of lethal security aid either.

By comparison Russia supplied significant lethal weapons to Kyrgyzstan and Tajikistan between 2006 (and before) and 2016 (and after). In Tajikistan, between 2006 and 2012, the Russian military gave Tajikistan two Mi-24 attack helicopters and two Mi-8 utility helicopters in 2006 and four upgraded L-39 training aircraft in 2007. In 2009, Russia provided a modernised S-125 Pechora-2m air defence system, equipped with digital components, a new radar, and a modernised missile. It also provided various small arms.⁹⁶ As part of a 2012 deal for extending Russian basing in Tajikistan, Moscow promised USD 200 million in military aid. The initial offer seemed to be part of a tactical discussion around basing. But as time moved on, Russia became more concerned about security in Tajikistan (just as the PRC had) and also by the PRC security inroads. By 2015, the promise ballooned to 1.2 billion dollars' worth of military aid "within the next few years". It is unclear if this number will ever be reached but from late 2016 Russia began handing over second-hand equipment. In 2017, Russia provided Tajikistan with USD 122 million worth of free equipment, including T-72B1 tanks, BTR-80 and BTR-70 armoured personnel carriers, BMP-2 infantry fighting vehicles, Mi-24 and Mi-8 helicopters, D-30 howitzers, anti-aircraft mounts, surveying equipment, spare parts for armoured vehicles, communications equipment, logistic property and a large number of small arms. That is far more military hardware than the PRC has ever provided Tajikistan.⁹⁷

⁹⁵ Data accessed from SIPRI Arms Transfer Database on 15 February 2019.

⁹⁶ Dmitry Gorenburg, "External Support for Central Asian Military and Security Forces," Stockholm International Peace Research Institute Working Paper, January 2014, <https://www.sipri.org/sites/default/files/SIPRI-OSFno1WP.pdf>.

⁹⁷ "Russian Arms and Military Equipment delivered to Tajikistan — Defence Ministry," TASS, 19 December 2017, <http://tass.com/defense/981765>.

It was a similar story in Kyrgyzstan. In 2007, Russia provided USD 2 million of equipment for Kyrgyzstan's mobile troops. USD 2.4 million of equipment was transferred in 2008. It is possible that the equipment included new radars and surface-to-air missile systems that were installed on Kyrgyzstan's southern border by the end of 2009. After unrest in southern Kyrgyzstan in 2010, Russia provided extensive assistance for Kyrgyzstan's border guard such as vehicles, tractors, excavators, engineering machinery, communication means, technical equipment for border protection and uniforms. A 2012 assistance package included parts for armoured vehicles, 14 tank machine guns, 60 AN-94 Abakan machine guns, and other equipment. Also, in 2012, Russian agreed to provide offered \$1 billion worth of military and security assistance to Kyrgyzstan as part of a deal to extend Russian basing in the country. As in Tajikistan, this aid has been slow to emerge and was well short of USD one billion as of 2016. But Russia has since provided new ammunition transport aircraft, trucks and other logistics equipment.⁹⁸ Kyrgyzstan's former Prime Minister Omurbek Babanov underlined Russia's continued strength in the region when he said in 2017: "Central Asia...is becoming a bulwark of Russia's defence which absorbs the initial shock of local conflicts, drug trafficking and contraband that first and foremost target Russia."⁹⁹

The US also supplied significant equipment and arms to both Kyrgyzstan and Tajikistan between 2006 and 2016. The major driver of this was US-led efforts in Afghanistan. The US rebuilt border posts and barracks around Shuroobod in 2011 which is not far from where the PRC rebuilt border posts in Panj and Farkhor.¹⁰⁰ Two new border posts were commissioned at the same time.¹⁰¹ This type of assistance continued beyond 2016

⁹⁸ "Kyrgyzstan Receives Military Assistance from Russia," *Kabar*, 17 December 2017, <http://kabar.kg/eng/news/kyrgyzstan-receives-military-assistance-from-russia/>. This was cited in

⁹⁹ Omurbek Babanov, 'Tsentrarnoaziatskie vyzovy dlia Rossii,' *Russian International Affairs Council*, 13 September 2017, <http://russiancouncil.ru/analytics-and-comments/analytics/tsentrarnoaziatskie-vyzovy-dlya-rossii/>.

¹⁰⁰ "Tajikistan: U.S. Government Rebuilds Border Guard Facilities in Shurobod," 30 June 2011, *Fergana News*, <http://enews.fergananews.com/news.php?id=2108>.

¹⁰¹ Dmitry Gorenburg, "External Support for Central Asian Military and Security Forces,"

– the US funded construction of a new border post on the Tajikistan-Afghanistan border in 2018.¹⁰² It was similar in Kyrgyzstan while the US had a base there. In October 2009, the US financed a USD 9 million training centre for Kyrgyzstan's special forces Scorpion Battalion in Tokmok.¹⁰³ The USA financed barracks, checkpoints, and a new command centre for southern Kyrgyzstan and provided 45 jeeps, 45 ATVs, and 30 passenger and cargo vehicles in 2011. In 2012, a new staff building, residential quarters, dormitory and dining room were completed for the Batken border guard detachment.¹⁰⁴

There are numerous other countries and organisation that have also provided lethal and non-lethal security aid to Kyrgyzstan and Tajikistan. Turkey for example provided items such as ambulances, transport vehicles, night vision goggles, uniforms, gas masks, body armour, and portable radios and uniforms for the border guards in 2011.¹⁰⁵ Turkey renovated the Kyrgyz national military school and built an Armed Forces Military Institute in Osh.¹⁰⁶ Kazakhstan provided GAZ-66 and ZIL-131 trucks, and BTR-80 armoured personnel carriers with weapons and ammunition.¹⁰⁷ India too has provided other military equipment to Tajikistan and Kyrgyzstan, including Mi-17 helicopters and trucks.¹⁰⁸ One outcome of this is most of the weapons used by the Tajik Border service at the Chinese-funded watchtowers would likely be Russian (Soviet) and American – a by-product of both countries' wars in

¹⁰² "U.S. Embassy Hands Over Border Post at Ushturmullo in Shahritous District," *Asia-Plus*, 3 December 2018

<https://news.tj/en/news/tajikistan/security/20181203/us-embassy-hands-over-border-post-at-ushturmullo-in-shahritous-district>.

¹⁰³ Dmitry Gorenburg, "External Support for Central Asian Military and Security Forces," Stockholm International Peace Research Institute Working Paper, January 2014, <https://www.sipri.org/sites/default/files/SIPRI-OSFno1WP.pdf>.

¹⁰⁴ Dmitry Gorenburg, "External Support for Central Asian Military and Security Forces."

¹⁰⁵ Dmitry Gorenburg, "External Support for Central Asian Military and Security Forces."

¹⁰⁶ Dmitry Gorenburg, "External Support for Central Asian Military and Security Forces."

¹⁰⁷ Dmitry Gorenburg, "External Support for Central Asian Military and Security Forces."

¹⁰⁸ Dmitry Gorenburg, "External Support for Central Asian Military and Security Forces."

Afghanistan.¹⁰⁹

Training

China has made many promises of greater military and civilian security training for both Kyrgyzstan, Tajikistan and Afghanistan. Certainly, there are an increasing number of short-term and long-term training options in China for Tajik, Kyrgyz and SCO security personnel. But up until 2016, the training delivered in practice still seems to be quite modest. The reason for this is a lack of uptake by Kyrgyz and Tajik security personnel. In the period between 2006 and 2016, there were many options available to Kyrgyz and Tajik personnel offered by the US, NATO and Russia where there was less of a language and cultural barrier. No doubt the PRC will keep working at this as Beijing has big plans to increase long term and short-term training.

Military Training

From the available opaque information, China's military training program for Tajik and Kyrgyz military personnel remains small-scale. The PRC does not release annual figures on the total numbers of foreign personnel undertaking some sort of training in the PRC, so it is hard to tell whether numbers increased over time. But it is evident that large numbers of foreign personnel (Tajikistan and Kyrgyzstan are discussed further on) have trained at PLA institutions for a long time. For example, according to the PRC Ministry of Defence, in 2007

¹⁰⁹ A video of a Tajik border guard facility features Soviet BMP tanks and a type of Cougar MRAP frequently used by the US in both Afghanistan and Iraq, last viewed 4 November 2018, see https://www.youtube.com/watch?v=TOwzgsGvb0Q&fbclid=IwAR2o6g4AtAq9D3LvXrWQhFFM7q9-DdE06p3NasXThT_0T8LK0mPmes3VX3g.

and 2008 more than 4000 foreign military personnel from 157 countries undertook training in the PRC (unfortunately this information is not released annually).¹¹⁰

At the end of 2016, the PLA had 67 military academies. According to David Shambaugh in 2012, around half of those were open to train foreign officers and offered both short term and long-term programs.¹¹¹ At these institutions, there has been a clear effort over time to increase long-term training options for foreign personnel.

The most prominent institution is The Defence Affairs Institute (国防大学防务学院) which is affiliated with the National Defence University but located at a separate campus from the main campus in Beijing. For many years it has trained mainly mid-level and senior officers with courses of 1 month, 5 months and 1 year.¹¹² Since 2012 the Defence Affairs Institute has offered full masters programs to foreign military members. The first class of 61 students graduated in September 2014.¹¹³ Since its inception in 1956 until December 2016, the Defence Affairs Institute trained nearly 10,000 students from over 160 countries.¹¹⁴

Another prominent institute, the Nanjing Army Command Academy (南京陆军指挥学院), has a Foreign Training Department, known as the International Military Education Exchange Centre (南京陆军指挥学院国际军事教育交流中心). Courses generally range from a month to a year. As of 2011, the centre has helped train nearly 4,000 mid-level and

¹¹⁰ Wang Qiaobao, "China's Military Diplomacy in the Last Decade—Retrospect and Prospect [十年来的中国军事外交——回顾与展望] *Global Review* 2 (2013); Taylor Fravel, "China's Doctrine and Force Structure for Frontier Defence," *Journal of Strategic Studies*, 4-5:30 (2007): 722-723.

¹¹¹ David Shambaugh, *China Goes Global: The Partial Power*, (New York: Oxford University Press, 2012), 81-83.

¹¹² Dennis Blasko, *The Chinese Army Today: Tradition and Transformation for the 21st Century*, 69-73.

¹¹³ Ceng Aiguo, "NDU Defence Affairs Institute Awards 61 Senior Foreign Officers with Masters Degrees [国防大学防务学院授予 61 名外国高级军官军事硕士学位]," *PLA Daily*, September 6, 2014, http://www.81.cn/jmywyl/2014-09/06/content_6126999.htm.

¹¹⁴ Chu Zhenhong, "Foreign Military Officers Come Here to Understand China" [外籍军官，在这里读懂中国], *PLA Daily*, http://www.81.cn/jfjbmap/content/2016-12/09/content_163751.htm.

senior command and staff officers from 107 countries.¹¹⁵ The People's Liberation Army Navy (PLAN) Command Academy in Nanjing and the PLAAF in Beijing offer similar programs for foreign Naval and Air Force officers.¹¹⁶ The Science and Technology University has run multiple mine clearing courses for foreign students and also has cadet exchange programs with other countries.¹¹⁷ The point here is there are lots of options for foreign military personnel to study in the PRC.

There are no exact numbers for Kyrgyzstan or Tajikistan military personnel attending military academies in the PRC, but all indications are the numbers are small. According to Kyrgyzstan's former Prime Minister Omurbek Babanov, 100 Kyrgyz personnel trained in at Chinese institutions between 2000 and 2012 – less than 10 a year.¹¹⁸ The author could not find official data for the number of Kyrgyz military personnel who have trained in China since that date. There certainly are reports of individual Kyrgyz personnel receiving training at PLA institutions since 2012.¹¹⁹ It is possible the number of trainees has increased. But there are few, if any, official records of large groups receiving training at PLA institutions.

There are few, if any, officially verifiable records of total numbers of Tajikistani military personnel who have trained in PLA institutions. One unofficial source claimed 400 Tajikistan personnel trained between 1999 and 2015 at PLA institutions but that is

¹¹⁵ "Foreign Military Officers in China for Training," *Xinhua*, March 20, 2011, http://www.chinadaily.com.cn/china/2011-03/20/content_12199043.htm.

¹¹⁶ David Shambaugh, *China Goes Global*, 81-84.

¹¹⁷ Dennis Blasko, *The Chinese Army Today: Tradition and Transformation for the 21st Century*, 71.

¹¹⁸ Anna Timofeenko, "Prime Minister: Over 12 years, 100 Servicemen from Kyrgyzstan's Defence Ministry Trained in China" [Премьер-министр: За 12 лет 100 военнослужащих Минобороны Кыргызстана прошли обучение в Китае] <https://knews.kg/2012/04/05/premer-ministr-za-12-let-100-voennoslujaschih-minoboronyi-kyrgyzstana-proshli-obuchenie-v-kitae/>.

¹¹⁹ "International College of Defence Studies Holds a Rank Promotion Ceremony for Tajik Students" [防务学院为塔吉克斯坦学员举行军衔晋升仪式], International College of Defence Studies, 27 November 2013, http://www.cdsndu.org/html_ch/to_articleContent_article.id=8a28e6d84b09c34b014b0a4d6aff0067.html.

completely unverified.¹²⁰ As with Kyrgyzstan, there are records of individuals or even small groups undertaking training¹²¹, but there is nothing to indicate significant numbers of personnel undertaking training at PLA institutions.

Numerous other countries have provided military and civilian training to Kyrgyzstan and Tajikistan between 2006 and 2016. Russia is the largest provider in both countries by a long distance.

Major General Rayimberdi Duishenbiev, Chief of the General Staff of the Armed Forces of the Kyrgyz Republic said in a 2017 interview that many Kyrgyz “military personnel, officers are trained in specialised military universities of Russia and Kazakhstan.”¹²² He added “The military personnel who make up the commanding staff, the backbone of the Kyrgyz army, are trained only in Russia and Kazakhstan. We have a similar system, because we share a common past. We studied in the same universities. In China and Turkey, we train exceptionally narrow specialists. For example, military translators who are very necessary in the current environment. Military medicine is very developed in Turkey, so our military medics are trained there.”¹²³

The available evidence suggests the Major General is correct. The bulk of Kyrgyzstan's senior military personnel received their military education in Russia according

¹²⁰ “Bilateral Military-Technical Cooperation between China and Tajikistan” [Двустороннее военно-техническое сотрудничество Китая и Таджикистана], *Central Asian Monitor*, 8 September 2016 <https://camonitor.kz/25350-dvustoronnee-voenno-tehnicheskoe-sotrudnichestvo-kitaya-i-tadzhikistana.html>.

¹²¹ “International College of Defence Studies Holds a Rank Promotion Ceremony for Tajik Students” [防务学院为塔吉克斯坦学员举行军衔晋升仪式], International College of Defence Studies, 27 November 2013, http://www.cdsndu.org/html_ch/to_articleContent_article.id=8a28e6d84b09c34b014b0a4d6aff0067.html.

¹²² “Army Reform Necessary,” [Реформа армии необходима], *Novyye Litsa*, 28 February 2017, <http://www.nlkg.kg/ru/society/security/reforma-armii-neobxodima>.

¹²³ “Army Reform Necessary.”

to Sebastien Peyrouse.¹²⁴ Russian Minister of Defence Sergey Shoigu said there were 320 Kyrgyz military personnel studying for free in Russian military institutions in 2014.¹²⁵ Shoigu offered to increase the number.¹²⁶ This compares to an average 10 per year in China between 2000 and 2012. Kyrgyzstani air force personnel also receive training from Russian officers at the Kant air base near Bishkek.¹²⁷

Kazakhstan has also trained both Kyrgyzstan and Tajikistan citizens at its military institutions.¹²⁸ According to Kyrgyzstan's Ministry of Defence, approximately 110 Kyrgyz citizens were studying in Kazakh military institutions in 2011, and 70 had already completed study between 1998 and 2010.¹²⁹

The US Department of Defence too has delivered significant training to Kyrgyz special forces, counterterrorism and counternarcotics units. The support peaked when the US operated the air base at Manas Airport in Bishkek between 2005 and 2013. In those years the US routinely budgeted to train over 1000 Kyrgyz security personnel in any given year. That dropped back to tens of individuals after 2014.¹³⁰ NATO has trained Kyrgyzstan's 25th

¹²⁴ Sebastien Peyrouse, "Russia–Central Asia: Advances and Shortcomings of the Military Partnership," in *Central Asian Security Trends: Views from Europe and Russia*, ed. S. Blank, (Carlisle, PA: Strategic Studies Institute, 2011), 8.

¹²⁵ "Russia Offered to Train More Soldiers from Kyrgyzstan" [Россия предложила обучать больше военных из Кыргызстана], *Vecherniy Bishkek*, 25 December 2014, https://www.vb.kg/doc/297983_rossiia_predlozila_obychat_bolshe_voennyh_iz_kyrgyzstana.html.

¹²⁶ "Russia Offered to Train More Soldiers from Kyrgyzstan."

¹²⁷ Dmitry Gorenburg, "External Support for Central Asian Military and Security Forces."; Vladimir Paramonov and Oleg Stolpovski, 'Russia and Central Asia: Bilateral Cooperation in the Defence Sector', Advanced Research and Assessment Group Central Asian Series, May 2008, https://www.files.ethz.ch/isn/92591/08_May.pdf.

¹²⁸ "Military Education in Kazakhstan" [Военное образование в Казахстане], Kazakhstan Ministry of Foreign Affairs, last accessed 4 March 2019, <http://mfa.gov.kz/ru/paris/content-view/voennoe-obrazovanie-v-kazahstane>.

¹²⁹ Yuri Khachaturov, "CSTO – 15 Years Together in the Name of a Safe World and Stable Development" [ОДКБ – 15 лет вместе во имя безопасного мира и стабильного развития], *TASS*, 25 May 2017, <https://tass.ru/opinions/4276931>.

¹³⁰ United States Department of Defence and the United States Department of State, *Foreign Military Training Fiscal Years 2013 and 2014 Joint Report to Congress Volume I*, 1 October 2013 <https://www.state.gov/documents/organization/230192.pdf>.

Special Forces “Scorpion” Brigade and begun providing English language training for Central Asian soldiers in 2015.¹³¹

India started construction in 2016 on a joint training centre specialising in mountain operations in Balykchi, in Kyrgyzstan's Issyk-Kul district.¹³² So, the PRC was far from the only provider of military training to Kyrgyzstan between 2006-2016, and by many counts it was a relatively minor provider of military training in Kyrgyzstan.

The story is similar in Tajikistan. As of 2014, 70 percent of Tajikistani special operations forces officers graduated from Russian military institutes, such as the Ryazan Paratrooper Institute and Interior Ministry schools in Perm and St. Petersburg.¹³³ More recently, between 2015 and August 2018, Russia trained 1000 Tajik military personnel at the Russian 201st base in southern Tajikistan.¹³⁴

The US Department of Defence trained many Tajik security personnel across a range of areas – sometimes hundreds in any given year.¹³⁵ Some training has continued after 2014. For example, in the 2016 financial year the US trained 540 troops from Tajikistan.¹³⁶

¹³¹ Igor Rotar, “Russia Offers Generous Support for the Kyrgyz Army,” *Eurasia Daily Monitor*, <https://jamestown.org/program/russia-offers-generous-support-for-the-kyrgyz-army/>.

¹³² John C. K. Daly, “India and Kyrgyzstan Deepen Their Military Cooperation,” *Eurasia Daily Monitor*, Jamestown Foundation, 31 May 2018, <https://jamestown.org/program/india-and-kyrgyzstan-deepen-their-military-cooperation/>.

¹³³ Dmitry Gorenburg, “External Support for Central Asian Military and Security Forces.”

¹³⁴ Russian Servicemen Prepared approximately 1,000 Junior Specialists for the Armed Forces of Tajikistan [Российские военнослужащие подготовили около 1000 младших специалистов для Вооруженных сил Таджикистана], *Rambler*, 24 August 2018, <https://woman.rambler.ru/children/40634577-rossiyskie-voennosluzhaschie-podgotovili-okolo-1000-mladshih-spetsialistov-dlya-vooruzhennyh-sil-tadzhikistana/>.

¹³⁵ US Department of Defence and US Department of State, “Foreign Military Training Fiscal Years 2013 and 2014 Joint Report to Congress Volume I,” 2013, <https://2009-2017.state.gov/documents/organization/230192.pdf>; Tajik special forces come under a civilian banner but the training was conducted by the US military so this counted as military training by the author. For this chapter, the delineation between civilian and military is decided by the organisation conducting the training. If the organisation conducting the training is a military organisation, then it is counted as military training.

¹³⁶ “US Planned Big Boost in Military Aid to Tajikistan,” *Eurasianet*, 11 January 2018, <https://eurasianet.org/us-planned-big-boost-in-military-aid-to-tajikistan>.

So, in sum, the PLA tried to boost its training of Kyrgyz and Tajik military personnel but it finds itself in a very competitive field where Russia is the leader. The PLA has deep pockets and the PRC will always be in the region, so Chinese efforts will not stop. But at this stage available evidence suggest military training is modest – much less than the US or Russia, and the PLA is unlikely be the dominant provider anytime soon.

Civilian Training

As with PLA training, the MPS has provided training to foreigners, including Central Asians, for a very long time. But civilian training for Central Asians became relatively more prominent after Xi Jinping came to power.

Firstly, the MPS established a specialised institute just to train law enforcement officials from SCO countries. Secondly, other MPS institutes expanded their offerings both short-term and long-term. This trend had been underway for some time but it accelerated after 2013. MPS training for Kyrgyzstan and Tajikistan has likely increased more quickly than PLA training but numbers remain modest. Civilian security training in Kyrgyzstan and Tajikistan, like military training, is still a crowded field.

So, dealing with the specialised institute first: the China National Institute for SCO International Exchange and Judicial Cooperation (CNISCO) was established inside Shanghai University of Politics and Law in 2014 specifically to train Central Asian law enforcement personnel. It. According to Yang Liying who is on the management committee at CNISCO, the Centre trained over 300 Central Asian cadres between 2014 and June 2018 (less than 100 per year).¹³⁷ An unknown subset of those would be Kyrgyz and Tajik, perhaps a few dozen from each country per year. Reports suggest each round of training typically lasts one or two

¹³⁷ “Shanghai University of Political Science and Law Robustly Debates Xi Jinping Re-mentioning the SCO Training Base during the Qingdao Summit” [上海政法学院热议习近平主席青岛峰会再提上合培训基地], China National Institute for SCO International Exchange and Judicial Cooperation, 10 June 2018, <http://cnisco.shupl.edu.cn/html/dtxw/2018/06/10/15db71a9-024b-425c-9e16-6acd532cff50.html>

weeks.¹³⁸ The Centre plans to train 2000 Central Asian cadres between 2018 and 2020.¹³⁹ So, there are big plans for CNISCO to train lots of Central Asian officials but so far numbers have been limited – no more than a few dozen a year from Tajikistan and Kyrgyzstan on short-term training programs.

CNISCO has signed a deal with Zhejiang University to enrol foreign PhD students, with a focus on Central Asian students, in joint programs for law and non-traditional security studies from 2015 (in addition to the usual short-term training and visits).¹⁴⁰ There are very few public reports of nationals from either country taking up the opportunity.

In the broader training system, MPS-affiliated organisations conduct short-term training courses for Tajik and Kyrgyz law enforcement agencies.¹⁴¹ MPS institutes train officials on specific topics like counterterrorism, counter narcotics, cyber security or transnational crime. The majority of trainees come on short-term programs in delegations. After of before their course, the delegation sometimes travels to Beijing and one or two other

¹³⁸ “At the SCO Leadership Summit, Tajikistan’s Ministry of Internal Affairs Successfully Completed the ‘Three Provinces One City’ Internal Affairs Leadership Course at the SCO Training Base” [上合峰会之际，塔吉克斯坦内务部“三州一市”内务局领导研修班在上合基地圆满结业], China National Institute for SCO International Exchange and Judicial Cooperation, 10 June 2018, <http://cnisco.shupl.edu.cn/html/dtxw/2018/06/10/199237d2-fdc3-4b0c-bea1-64c24ab01743.html>.

¹³⁹ “Shanghai University of Political Science and Law Robustly Debates Xi Jinping.”

¹⁴⁰ “CNISCO and Zhejiang University to Jointly Develop People Skilled in International Judicial Matters” [我校与浙江大学联合培养国际司法高级人才], China National Institute for SCO International Exchange and Judicial Cooperation, 21 September 2015, <http://cnisco.shupl.edu.cn/html/dtxw/2015/09/21/a86e0f56-151d-4c40-89c0-cdaa563a52e3.html>

¹⁴¹ Examples of this type of training include: 14 officials from Kyrgyzstan’s State Security Commission undertaking 14 days of training at Guangdong Policy Academy in Jan 2016, see “Guangdong Police Academy Hosts Counterterrorism Training Class for Kyrgyz” [我院举办吉尔吉斯斯坦反恐培训班], Guangdong Police Academy, 8 January 2016, <http://www.gdppla.edu.cn/news/145221930296734689.html>; 15 officials from Tajikistan receiving training in criminal investigation techniques, see “Shandong Police Academy Hosts Training Class on Criminal Investigation Techniques for Tajikistan” [山东警院承办吉尔吉斯斯坦刑侦技术培训], Shandong Police Academy, 17 December 2010, <http://www.cpd.com.cn/n3547/n3655/n367791/c376226/content.html>; 10 officials from Kazakhstan’s State Security Commission undertook 10 days of training at the National Police University of China in Beijing, see Academy Hosts Graduation Ceremony for Kazakhs’ Counternarcotics Training Class [学院举行 2016 年哈萨克斯坦禁毒业务培训班结业典礼], Criminal Investigation Police University of China, September 29, 2016, <http://www.npuc.edu.cn/info/2268/23112.htm>.

cities to meet with their security counterparts in the MPS or other organisations.¹⁴² Once again, it is hard to get a grasp of total numbers; the author was able to find examples of groups of around 15 Tajiks or Kyrgyz going to the PRC every other year. Generally, the students were senior members of Interior Ministry of both countries. There are probably numerous other examples the author cannot find. But still it seems as though training is in the dozens per year and involves mainly senior personnel.

MPS training institutes and comprehensive universities have stepped up efforts to provide longer term and more rigorous training for Central Asians (and personnel from other neighbouring countries). MPS-affiliated academies have slowly begun to offer graduate degrees for overseas law enforcement personnel. For example, Yunnan Police Officer Academy (云南警官学院) began offering masters degrees to foreign personnel in 2015. Their first intake of 13 included (an unspecified number of) students from Kyrgyzstan and Afghanistan but none from Tajikistan.¹⁴³ MPS-affiliated universities (as opposed to academies and colleges) such as the People's Public Security University of China offer undergraduate and masters programmes in law and enforcement related topics for foreign students. These however are not restricted to law enforcement personnel – anyone can apply. These institutes train officials from all over the world, not just Central Asia.

The key point from this subsection is that as of 2016, the MPS is making lots of places available for training – both short-term and long-term – but extant evidence suggests it is still training a relatively small number of predominately senior Kyrgyzstan and Tajikistan personnel on short-term programs.

¹⁴² “The 2018 Tajikistan Counternarcotics Law Enforcement Training Course was Completed at Shandong Police Academy” [2018 年塔吉克斯坦禁毒执法培训班在我院结业], Shandong Police College, 21 July 2018, <http://www.sdpc.edu.cn/info/1024/9522.htm>.

¹⁴³ “Yunnan Police Officer Academy Counternarcotics Education and Training Produces Clear Results [云南警官学院禁毒教育培训成效显著], Yunnan Police, 27 June 2016, http://www.ga.yn.gov.cn/jwxw/xinwenfabu/201606/t20160627_385294.html.

As with military training, other countries provide significant civilian security training to the Ministry of the Interiors of both Kyrgyzstan and Tajikistan. Russia provides the most. Tens of first year Kyrgyz cadets go to Russia every year to undertake long-term study and undertake most of their training at universities of the Russian Interior Ministry.¹⁴⁴ A similar pattern occurs in the intelligence services. 20 Kyrgyz students are admitted to the training institutes of Federal Security Service of the Russian Federation (FSB) every year.¹⁴⁵ Upon return the students are required to serve in the Kyrgyz government, usually the intelligence service (GKNB). Kyrgyz and Tajik students they train alongside cadets from Russia and other CIS countries for multiple years in these institutions. That is a much greater level of interaction compared to the kind of security training delivered by the PRC to Kyrgyzstan and Tajikistan. It would not be possible from a security standpoint for Central Asians to undertake long term study at MSS schools in the PRC. This is in addition to numerous short-term training courses that happen quite routinely between the civilian security services of Russia and Kyrgyzstan/Tajikistan.

The FSB Operational Border Guard Group supports the Tajikistan and Kyrgyzstan border guards by training specialists and providing technological assistance.¹⁴⁶ In Kyrgyzstan, the Russian FSB border service has a taskforce of about 40 people stationed in Kyrgyzstan to advise and train the Kyrgyz border service (since 1999 when Russia handed border control back to Kyrgyzstan). The service was moved from the north of the country to Osh in 2010 after violence in the city (and there are rumours the task force is involved

¹⁴⁴ “30 Freshmen from the Interior Ministry Academy Sent to Universities of the Russian Ministry of Internal Affairs [30 первокурсников Академии МВД отправили в вузы МВД России], *Kaktus*, 25 August 2016 https://kaktus.media/doc/343581_30_pervokyrnikov_akademii_mvd_otpravili_v_vyzy_mvd_rossii.html.

¹⁴⁵ Yrysbebek Ulukbek Uulu, “What Knowledge do Kyrgyz Cadets Receive at the Russian FSB Academy?” [Какие знания получают кыргызские курсанты в Академии ФСБ России?] *Radio Azattyk*, <https://rus.azattyk.org/a/28143638.html>.

¹⁴⁶ Dmitry Gorenburg, “External Support for Central Asian Military and Security Forces.”; Sebastien Peyrouse, “Russia–Central Asia: Advances and Shortcomings of the Military Partnership,” 8.

political and espionage activities). A detachment of 15 Russian FSB officers was sent to Kyrgyzstan as part of a new training initiative in 2013.¹⁴⁷ It was tasked to “provide advice and guidance to their intelligence and law enforcement agencies in conducting operational, search and other special activities.”¹⁴⁸

The US, OSCE, Turkey, Kazakhstan and India all also provide some level of training to Kyrgyz and Tajik civilian security services.¹⁴⁹ So, as with military training, this is a crowded field. The linguistic, cultural and organisational roots of Kyrgyzstan's and Tajikistan's security services allow Russia to provide training that simply has not yet been made available in China. It also makes Russia a more attractive destination to the individual student. The PRC is stepping up its commitment but it remained comparatively moderate as of the end of 2016.

Exercises – Multilateral

Tajikistan and Kyrgyzstan participated in the same multilateral exercises that involved PRC in between 2006-2016 (exercises up to 2018 have been included for reference in the Figures below). Exercises provide an opportunity for different militaries to get to know each other at a personal level and become familiar with each other's equipment and methods. Numerous senior Chinese security figures are very familiar with Central Asian militaries. For example, Wang Ning, the current head of PAP, led the 2014 SCO Peace Mission. So, these exercises have provided a familiarity and basis for other cooperation such as on joint operations that occurred later.

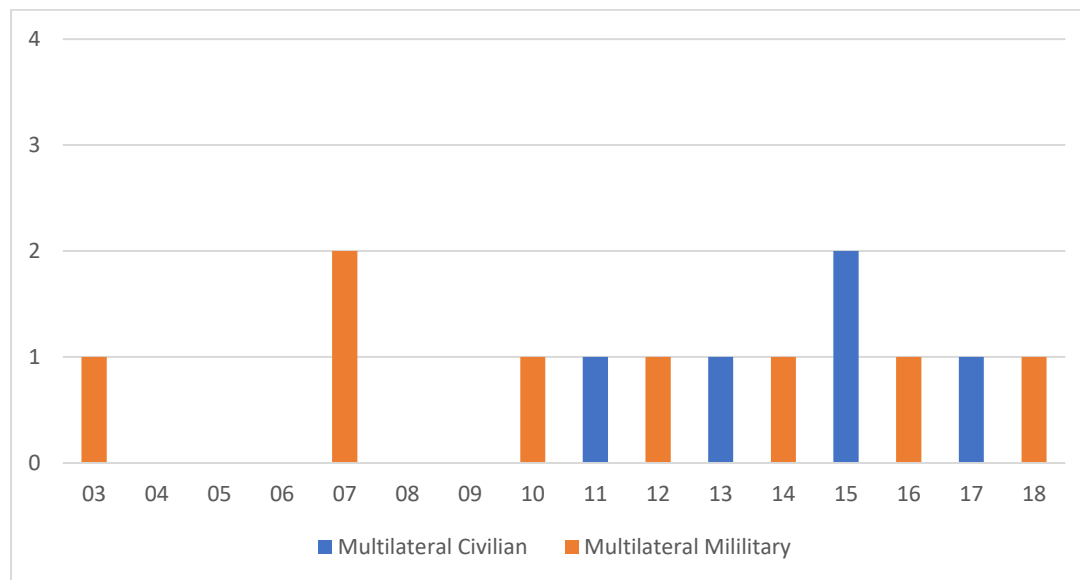
¹⁴⁷ David Lewis, “Reasserting Hegemony in Central Asia: Russian Policy in Kyrgyzstan after 2010,” *Comillas Journal of International Relations*, 3 (2015), 64.

¹⁴⁸ Andrei Soldatov. “The FSB Opens a New Foreign Front,” *Moscow Times*, 18 March 2013, <http://www.themoscowtimes.com/opinion/article/the-fsb-opens-a-new-foreignfront/477005.html>.

¹⁴⁹ “Omsk Academy of Ministry Of Internal Affairs Of Russian Federation,” Ministry of Education and Science in the Russian Federation, last accessed 15 July 2019, <http://en.russia.edu.ru/interbd/interdbv/1493/>; Dmitry Gorenburg, “External Support for Central Asian Military and Security Forces.”

On the military side, the SCO Peace Missions (held in 2003, 2007, 2010, 2012, 2014, 2016 and 2018) are the only multilateral exercises Tajikistan and Kyrgyzstan have conducted with the PRC. The Peace Missions were held every two years from 2010 which is the year after Hu Jintao made the initial step to move away from the 'Keeping a Low Profile' policy.

Figure 6.1 Number of Multilateral Security Exercises Involving China, Kyrgyzstan and Tajikistan per Year



Kyrgyzstan's and Tajikistan's participation in these exercises was modest between 2006 and 2016 (and 2018 for that matter). But the missions do provide the basis for some cooperation. Kyrgyzstan's Major General Rayimberdi Duishenbiev, Chief of the General Staff of the Armed Forces, said in an interview that for the 2016 Peace Mission that was held in Kyrgyzstan the PRC built all the barracks and infrastructure needed for the exercises. This was a form a military aid but it also theoretically provides a method for building joint facilities in the future. Once again, this would be a bilateral outcome from a multilateral forum.

On the civilian side the exercises have been more diverse: a humanitarian exercise (2013 and 2015) headed by the PRC Ministry of Civil Affairs with the MPS contributing firefighters and security personnel. These exercises have not been held since 2015.

In 2015 and 2017 (and presumably every two years into the future), the SCO held cyber security exercises in Xiamen. The information on these exercises is limited but they were focused on the cyber element of counterterrorism. One imagines that cooperation on terrorism between India and Pakistan can only go so far. So all-of-SCO cooperation is unlikely, but this could form the basis for future bilateral or minilateral cyber cooperation or support.

It is important to point out that Russia engages Kyrgyzstan and Tajikistan in multilateral exercises much more frequently than the PRC. The Russian-led Collective Security Treaty Organisation (CSTO) hosts three annual multilateral security exercises which usually involve both Kyrgyzstan and Tajikistan (as opposed to a single biannual exercise for the SCO):¹⁵⁰

- 1) “Rubezh” (which means frontier) – large scale military exercises annualised since 2004.
- 2) “Vzaimodeystviye” (which means interaction) – multilateral exercises for the CSTO Collective Rapid Response Forces. Held sporadically until 2008. Annualised thereafter.
- 3) “Grom” (which means thunder) – CSTO multilateral counternarcotics exercises. First held annually from 2012.

The CSTO frequently holds other ad hoc multilateral exercises involving Kyrgyzstan and Tajikistan. Both countries also occasionally participate in broader CIS exercises. Russia is a member of the SCO too, so in some years Russia can have up to five or six multilateral exercises with Kyrgyzstan and Tajikistan.

¹⁵⁰ Marcel de Haas, “War Games of the Shanghai Cooperation Organization and the Collective Security Treaty Organization: Drills on the Move!” *The Journal of Slavic Military Studies* 29, no. 3 (2016), 392-397.

Exercises - Bilateral

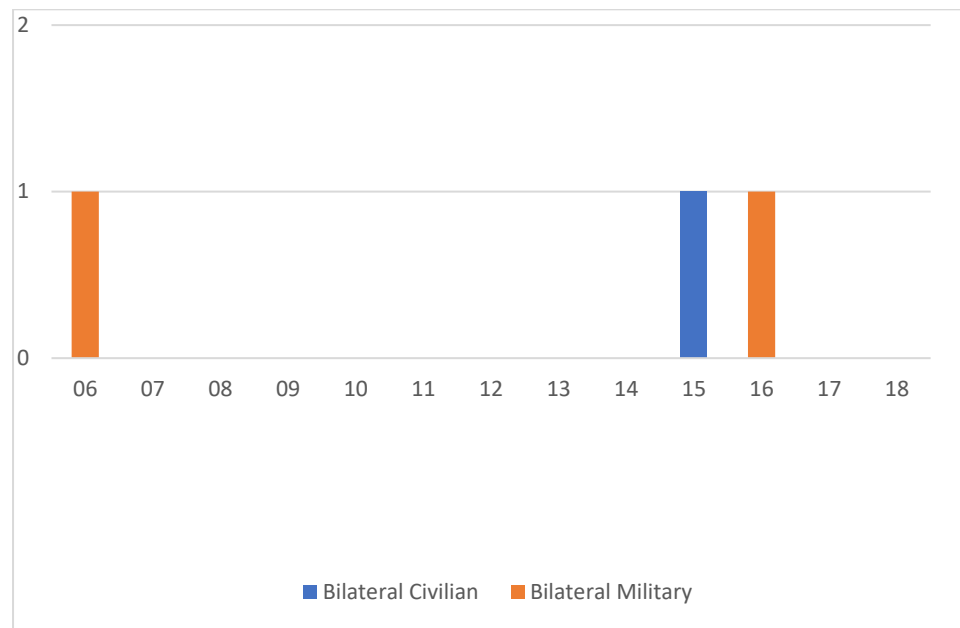
Bilateral exercises between PRC and Tajikistan and Kyrgyzstan are infrequent. There has been a modest increase since 2013 but it is so moderate that it is difficult to say this is a major component of Beijing's strategy. Since the fall of the Soviet Union, there have only been three bilateral security exercises with each country. China and Tajikistan have only ever held three bilateral security exercises. The first in 2006 was described by Dennis Blasko "as rudimentary as an exercise can be."¹⁵¹ That was the only exercise before Xi came to power. In 2015, Tajik and Chinese special operations forces conducted joint counter-terror drills at a mountain training centre outside Dushanbe. This was the first time the MPS Special Operations F conducted training exercises overseas. The exercises lasted two days and involved over 100 Chinese personnel. The following year, "Coordination 2016" involved four days of counterterrorism exercises on the Afghan-Tajik border. The Chinese Ministry of Defence (MoD) stated that both sides in total committed 414 troops.¹⁵² A Tajik Ministry of Defence official stated that a small mobile company of Chinese PLA troops took part in exercises involving up to 10,000 troops.¹⁵³ It is unlikely Tajikistan committed that number of troops given their armed forces number about 20,000 and many of them are not exercise- or operation-ready.

¹⁵¹ Dennis Blasko, "People's Liberation Army and People's Armed Police Ground Exercises with Foreign Forces, 2002-2009," 379-403.

¹⁵² 'China and Tajikistan Conduct Joint Counterterrorism Exercise 'Coordination 2016'' [中塔举行“协作-2016”联合反恐演习], 25 October 2016, PRC Ministry of Defence, http://www.mod.gov.cn/topnews/2016-10/25/content_4752612.htm.

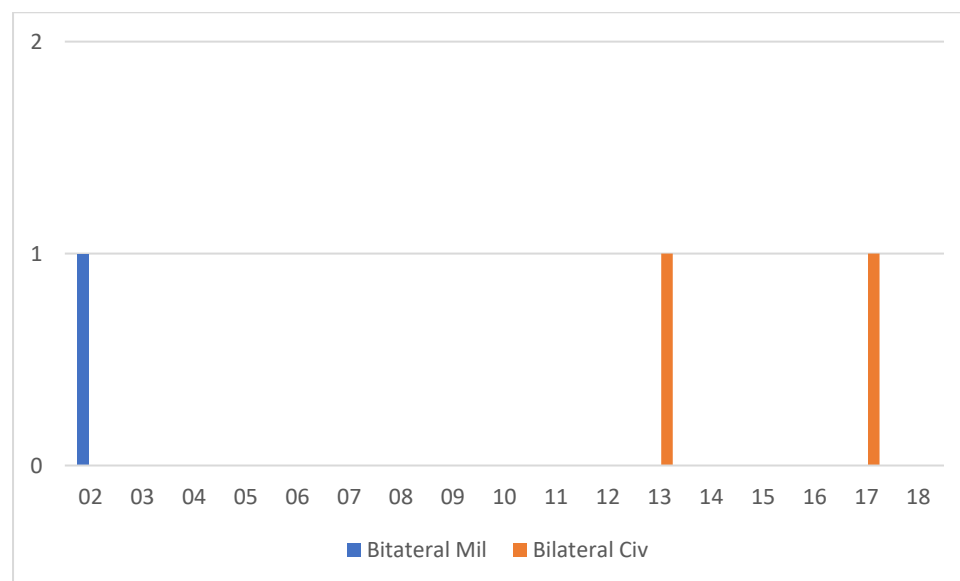
¹⁵³ "US Economic and Security Review Commission 2016 Annual Report," US Economic and Security Review Commission, 2017, https://www.uscc.gov/sites/default/files/annual_reports/2016%20Annual%20Report%20to%20Congress.pdf.

Figure 6.2 China and Tajikistan Number of Bilateral Security Exercises by Year



A similar story can be seen with Kyrgyzstan. China's first overseas bilateral military exercise was held with Kyrgyzstan in 2002. They have since held two civilian counterterrorism exercises in 2013 and 2017 respectively. The two exercises were headed by the MPS and, unsurprisingly focused on counterterrorism and arms smuggling in border regions. They were all quite small in scale.

Figure 6.3 China and Kyrgyzstan Bilateral Security Exercises by Year (2002-2018)



Once again, for comparison, Russia has held many bilateral exercises with Tajikistan and Kyrgyzstan during the same period.

India has conducted annual bilateral military exercises with Kyrgyzstan since 2014 (formalised in agreement since 2015).¹⁵⁴ Prior to this there were small sporadic exercises between the countries. This means that India and Kyrgyzstan hold more frequent bilateral exercises than the PRC and Kyrgyzstan.¹⁵⁵ India also conducted occasional bilateral military exercises with Tajikistan. The US, Turkey and NATO have all held exercises with Kyrgyzstan and Tajikistan.¹⁵⁶

This section on the PRC's efforts at capacity building shows that Beijing has increased its support for building watchtowers, barracks and other facilities since 2014. This is combined with exercises and training which have grown. The exercises are still mainly under the multilateral SCO banner, and the training predominately bilateral. This has been designed to boost capacity where possible, promote closer relations and smooth the way for further cooperation like the base in Tajikistan. But it is clear the PRC has not been the only country engaged in these activities. Russia is far and away the leader. The other interesting part is that Russia's and the PRC's activities rarely overlap. Facilities, construction, weapons supplies, training, exercises (with the exception of SCO Peace Missions) all happen separately.

6.4.3 Aligning Kyrgyzstan's and Tajikistan's Security Interests with the PRC

The final plank of the PRC's strategy is to align the security interests of both countries with the PRC's. This has occurred in one form or another for many years. Tajikistan and

¹⁵⁴ John C. K. Daly, "India and Kyrgyzstan Deepen Their Military Cooperation."

¹⁵⁵ John C. K. Daly, "India and Kyrgyzstan Deepen Their Military Cooperation."

¹⁵⁶ Dmitry Gorenburg, "External Support for Central Asian Military and Security Forces."

Kyrgyzstan have extradited persons of interest back to China fairly routinely since the 1990s.¹⁵⁷ Certainly all the activities described in this chapter until this point can also create security alignment. Beyond this, there are three specific tools which Beijing uses to align security interests:

- Economic alignment
- More intensive security diplomacy at bilateral and multilateral levels
- Placing new security capacity in areas of interest to the PRC (namely the Afghan border).

Economic Alignment

There is one specific project, the gas pipeline Line D (first announced in 2014), which is specifically designed to align Beijing's interests with Bishkek and Dushanbe. Line D will run from Turkmenistan through Uzbekistan, Tajikistan and Kyrgyzstan to the PRC. As was discussed in previous chapters, the decision to build the route through Tajikistan and Kyrgyzstan was more difficult and expensive than through Kazakhstan so the routing was a decision for energy security reasons rather than economics. Kyrgyzstan will receive transit fees of approximately USD 75 million per year for gas transit (224 km of pipeline), according to the head of the State Committee for Industry, Energy and Subsoil Use of the Kyrgyz Republic, Ulanbek Ryskulov.¹⁵⁸ Officials have been tighter-lipped in Tajikistan but the pipeline length in the country is longer (400 km) so one would expect transit fees to be higher.¹⁵⁹ These fees will annually go directly to government budgets (and pockets of

¹⁵⁷ Amnesty International, "Amnesty International Report 2008 – China," 28 May 2008, <https://www.refworld.org/docid/483e2782c.html>; Human Rights Watch, "Devastating Blows: Religious Repression of Uighurs in Xinjiang," 11 April 2005, 23; James Millward, "Violent Separatism in Xinjiang: A Critical Assessment," East West Centre, 2004, 20.

¹⁵⁸ Kubanychbek Zholdoshev, "Gas Pipeline from Turkmenistan to China: Is Kyrgyzstan Losing?" [Газопровод из Туркменистана в Китай: Кыргызстан в проигрыше?], *Radio Azattyk*, 31 May 2018, https://rus.azattyk.org/a/kyrgyzstan_politics-gas/29261891.html.

¹⁵⁹ "Tajikistan Resumes Building Turkmenistan-China Pipeline," 31 January 2018, *Eurasianet*, <https://eurasianet.org/tajikistan-resumes-building-turkmenistan-china-pipeline>.

officials). This is different from loans for roads and other infrastructure that do not directly fill government coffers. Line D is slated to supply about 30 bcm/year of gas. China imported about 115 bcm of natural gas in 2018.¹⁶⁰ If Line D becomes operational, Tajikistan's and Kyrgyzstan's stability will have a direct impact on China's energy security. So, this is an intentional decision by China to tie both countries' stability to its own energy security. No other country has sought to build a pipeline through Kyrgyzstan and Tajikistan since the fall of the Soviet Union.

At this stage, Beijing is striving for Tajikistan and Kyrgyzstan to protect PRC workers on this project and others. The Tajik side was in charge of Chinese worker safety during the construction watchtowers on the Afghanistan-Tajikistan border.¹⁶¹ Beijing is using bilateral efforts at multilateral forums to try and make this happen which is described in the next subsection.

More intensive security diplomacy at bilateral and multilateral levels

In 2014 Xi Jinping mentioned protection of oil and gas pipelines for the first time at the SCO Leaders' Summit.¹⁶² He was the first Chinese leader to do so at that forum. Guo Shengkun, who was then the State Counsellor in charge of Public Security (as well as Minister of Public Security) said to his Tajik counterpart in 2016 that China would like to

¹⁶⁰ Chen Aizhu, "China's Soaring Natural Gas Output Unable to Meet Demand Set Loose in Pollution Fight," *Reuters*, 18 February 2018, <https://www.reuters.com/article/us-china-pollution-gas-production/chinas-soaring-natural-gas-output-unable-to-meet-demand-set-loose-in-pollution-fight-idUSKBN1FP006>.

¹⁶¹ Rahmatzoda, Mahmudjon, "The 'Gulkan' Border Post Built with Chinese Money," [Погранпост "Гулхан" построен на китайские деньги], *Rodio Ozodi*, 21 March 2016, <https://rus.ozodi.org/a/27625536.html>

¹⁶² "Speech by Xi Jinping at the Fourteenth Meeting of the Council of Heads of State of the Shanghai Cooperation Organization (Full Text)" [习近平在上海合作组织成员国元首理事会第十四次会议上的讲话（全文）], *Xinhua*, 12 September 2014, http://www.xinhuanet.com/world/2014-09/12/c_1112464703.htm.

improve security cooperation on large-scale projects in the country.¹⁶³ Recent visits by Chinese Ambassadors to Kyrgyzstan and Tajikistan have included inspections of security measures.¹⁶⁴ This is something that was not common previously.

In 2017, the MPS hosted its first conference on international gas and oil pipeline safety (it had been incorporated into a longer running forum on Eurasian security – The Lianyungang Forum).¹⁶⁵ There were representatives from 35 countries at the meeting but MPS Vice Minister Huang Ming only held bilateral meetings with representatives from Kyrgyzstan, Tajikistan and Pakistan. This is notable given China has pre-existing pipelines with numerous other countries present at the event.¹⁶⁶ The solutions for Line D's protection still seem to be getting worked out. A plan to train 1000 people, including 400 law enforcement officials from the countries involved was announced at the second iteration of the meeting in June 2018.¹⁶⁷ There are very few extra details available at the time of writing but it looks as though Line D will not be completed until 2022 (provided all goes to plan).

But, for most projects, security is still worked out by individual companies. According to an online account of a SinoHydro employee who works at the Golovnaya Hydropower plant site in Tajikistan (actually funded by an ADB grant), the company

¹⁶³ “Guo Shengyu Holds Talks with the Minister of Internal Affairs of Tajikistan” [郭声琨与塔吉克斯坦内务部部长举行会谈], *Xinhua*, 25 February 2016, http://www.gov.cn/guowuyuan/2016-02/25/content_5046305.htm.

¹⁶⁴ “Yue Bin, PRC Ambassador to Tajikistan, Inspected China Heavy Machinery Company's Tajikistan Project. (Article Contributed by the PRC Embassy in Tajikistan) [驻塔吉克斯坦大使岳斌赴中国重型机械公司在塔项目巡视考察(驻塔吉克斯坦使馆供稿)], PRC Ministry of Foreign Affairs, 21 April 2017, <https://www.fmprc.gov.cn/chn//gxh/tyb/zwbd/jghd/t1455585.htm>.

¹⁶⁵ “The 3rd Lianyungang Forum and the first international security cooperation conference for transnational oil and gas pipelines were successfully held” [第三届连云港论坛暨首届跨国油气管道国际安保合作会议成功召开], *China Police Daily*, 12 December 2017, <http://news.cpd.com.cn/n3559/c39973494/content.html>.

¹⁶⁶ “The 3rd Lianyungang Forum.”

¹⁶⁷ Enze, Zhao, “Lianyungang Forum Promotes International Law Enforcement Security Cooperation which Allows the New Eurasian Continental Bridge to Become the ‘Avenue of Peacefulness’” [连云港论坛促进国际执法安全合作让新亚欧大陆桥成为“平安大道”], *People's Daily*, 13 June 2018, http://paper.people.com.cn/rmrb/html/2018-06/13/nw.D110000renmrb_20180613_2-16.htm.

employs a local security company.¹⁶⁸ Local security companies were present on some the author's site visits to projects in 2015-2016. Many project sites had minor security and the author was able to walk onto the site without hindrance or could simply talk to the single bored guard stationed at the gate.

Beijing also established a new military mechanism in 2016 called the Quadrilateral Cooperation and Coordination Mechanism in Counter Terrorism which has Afghanistan, Tajikistan, Pakistan and the PRC as members. This is one of those groupings where cooperation between all four countries is unlikely because of ongoing tensions between Pakistan and Afghanistan. It was first announced during a visit to Afghanistan in March 2016 by Fang Fenghui who was Chief of Joint Staff and a member of the CMC (he was purged in 2017). Fang also met with President Rahmon in Beijing in late February 2016. During that meeting Fang said "China is willing to further enhance military cooperation and multilateral counter-terrorism collaboration with Tajikistan."¹⁶⁹ Just two months before, the PRC passed its counterterrorism law which required CMC (which Fang sat on) to approve PAP activities overseas. This is about the time that PAP troops started operations in Tajikistan and Afghanistan. The timing suggests that Fang's meetings and the subsequent quadrilateral mechanism have been the forums in which the PAP deployments were managed. As with the SCO and pipeline meeting mentioned earlier in the section, this is a case of Beijing managing an issue with a subset of the members of a larger multilateral forum. This does not require all-of-organisation consensus.

So, Beijing uses subsets of multilateral forums to align the security interests of Kyrgyzstan and Tajikistan (SCO, pipeline forum, Quadrilateral). Bilateral moves to discuss

¹⁶⁸ Liu Wei and Huang Silong, "The Warm Homes of Employees on Overseas Projects" [海外项目员工温馨的家], SinoHydro 16 Co., 23 November 2018, http://www.mjgcj.com/art/2018/11/23/art_5198_262809.html.

¹⁶⁹ "Tajikistan, China to Boost Defense, Anti-terrorism Cooperation," *Xinhua*, 1 March 2016, http://eng.chinamil.com.cn/news-channels/china-military-news/2016-03/01/content_6934425.htm.

worker protection accomplish this too. Beijing also utilises its economic capacity to align security interests.

The final element is the PRC security aid discussed earlier in the chapter. The PRC's decision to fund and build outposts on the Afghan-Tajik border attempts to place more Tajik assets in that region. Likewise, joint operations assign Tajik personnel onto missions with Chinese personnel which naturally distributes Tajik assets towards Chinese security interests. There has also been a big step up in cross border patrols on the China-Kyrgyzstan border that has a similar effect.

6.5 Conclusion

The PRC has steadily cultivated closer security relationships with Kyrgyzstan and Tajikistan since the establishment of the SCO in 2001. The PRC and Kyrgyzstan conducted the PLA's first ever overseas military training exercise in 2002. There was a jump in activity in 2010 when SCO multilateral military exercises were made biannual. But there was a clear step change from 2013 onwards, both in frequency of activity and level of engagement. More effort has been put into training, exercises, capacity building and joint operations. The most significant change of all was PRC security personnel operating on Tajik and Afghan soil since 2015/2016.

The purpose of these efforts is to boost Kyrgyzstan's and Tajikistan's capacity where it matters most to Beijing and to align the security interest of the two countries with Beijing where possible. Beijing also has undertaken basing and joint operations to fill gaps in coverage near the PRC border.

But there are also limitations. Training and joint exercises have only moderately progressed since 2014 despite efforts in China to do more. Endemic institutional weakness

hinders serious capacity building and cooperation. China is not the first country to experience this – the US and Russia have found similar problems.

The PRC is not the only country providing security assistance to Kyrgyzstan and Tajikistan. This chapter shows that Russia is the leader in most security areas in both countries. The US plays a significant role too and many other countries cooperate with both countries on security.

But there are two areas where PRC actions are genuinely different from other countries. First, they are conducting trilateral patrols. No other country has undertaken trilateral patrols on both sides of the Afghanistan-Tajikistan border. The area they are operating in – the GBAO and Wakhan Corridor – have largely been ignored by Russia and the US. Second, the PRC is working with both countries so that Tajikistan and Kyrgyzstan security services can protect PRC projects. Tajik border guards already provided security to Chinese workers on the Afghan border. The key project for Beijing is the new gas pipeline which could potentially provide 25 percent of the PRC's gas needs.

Put into the context of the whole thesis, this chapter argues that top-down centrally driven politics in Beijing were the decisive factor in shaping the security relationship. This is a departure from the theoretical framework in the rest of the thesis which uses an organisational framework to examine the PRC's economic policies in Kyrgyzstan and Tajikistan. It is fair to say there are a lot more actors in the economic field. Security is a relatively more controlled field for Beijing, and so it is not surprising that security is more centrally driven.

Chapter 7 Conclusion

“If I could go back in time, I would definitely not choose to invest in Tajikistan.”

Zhejiang businessman Zhu Bailin, speaking in 2017

This thesis began with an anecdote of the PRC providing buses to Bishkek in 2009. In total, 50 buses were delivered. They were ubiquitous on my first trip to Bishkek in 2011. I saw them every day. On my last trip to Bishkek in 2018, I do not recall seeing a single China-Kyrgyzstan friendship bus on the streets of Bishkek. They had almost all been left in a yard to the north of Bishkek, essentially a bus cemetery. The Soviet-era trolleybuses continued to run. But the PRC vehicles had disappeared. Why? The buses provided by Yaxing Coaches were bottom of the range. The company took the China aid money but never supplied parts for maintenance or training to the operators so within ten years almost all of them became unusable. This was a case of a PRC manufacturer taking government money to line its pockets but not really investing in maintenance of long-term relations with the end user.

This anecdote like many of the examples in the thesis demonstrate that organisational interests rather than high-level Chinese foreign policy interests often drive the actions of Chinese companies and bureaucracies in the Kyrgyzstan and Tajikistan. These examples and the data provided in the thesis makes three contributions to the academic literature.

First, the thesis contributes to the theoretical study of FPA. The thesis provides a rich case study for the Hyde-Price version of OPM in which SOPs play the most important role, but bureaucratic politics are also a factor. This could be described as “OPM with bureaucratic politics characteristics”. There is much room for a formal theory combining both the OPM and BPM in the future. The thesis could form a starting point.

Second, the thesis pushes back against the dominant realist framework for describing Chinese actions in Central Asia (including Kyrgyzstan and Tajikistan). Much of the existing work assumes companies operating in Tajikistan and Kyrgyzstan do so because of PRC government planning. But the reality is many of them are escaping difficult conditions back in China and they do receive subsidies to invest overseas but it is rarely dictated that these investments need to be in Kyrgyzstan or Tajikistan. Much more is decided by the companies interests.

Third, the thesis draws on rich and new empirical research both in terms of primary language documents and on-the-ground interviews to support this argument. These have not been used in English language academic or popular literature. They provide detailed and new insights into choices made by individual Chinese organisations in Kyrgyzstan and Tajikistan.

The biggest support for the theory of organisation fragmentation and siloing has been provided by Xi Jinping's efforts to stamp it out. Just to take one of many examples - prior to 2018, the PRC had no organisation that oversaw or coordinated China's aid programs. Instead 33 separate agencies played segmented roles in the system. The company provided the buses and there was no follow up or oversight mechanism to evaluate the effectiveness of the project. The fragmentation of PRC aid was noted and an aid coordination agency established in 2018.¹

There are many data points and anecdotes in this thesis which show poor economic outcomes for the PRC actors in these two Central Asian countries. For many of the PRC investors in both Tajikistan and Kyrgyzstan, this was their first or nearly first overseas investment. Their subsequent overseas investments have mostly been in other countries which speaks to the limited opportunities and difficulty of making a profit in both countries.

¹ Marina Rudyak, "Will China's New Aid Agency be Effective?" Lowy Interpreter, 20 April 2018, <https://www.lowyinstitute.org/the-interpreter/will-china-new-aid-agency-be-effective>.

In Tajikistan, numerous PRC investors have had their business forcibly taken over by Tajikistan's security services. Zhu Bailin who is quoted at the start of this chapter approached the Chinese Embassy in Dushanbe. Zhu said they refused to help because counterterrorism cooperation was more important to them than his business interests. This shows that not all PRC investments are valued by the PRC government. Similarly, every large PRC-invested project in Kyrgyzstan has faced significant delays due to protests over labour conditions. These are caused by perceptions of the preferential hiring of PRC nationals and environmental degradation near Chinese-run projects. The Chinese government has been unwilling or unable to stop the protests.

Traders on the whole have been more successful than their investing counterparts. Small-scale traders boosted cross-border trade. The driving factor was the PRC's role as the global supplier of cheap consumer goods – perfect for poor countries in Central Asia. This thesis provides strong evidence against the contention that XPCC-produced goods account for a significant percentage of the goods exported to Central Asia. Instead, goods produced on the eastern seaboard are routed through the XPCC trading companies in order to attract subsidies. Here again recipient states had agency over import practices. Kyrgyzstan removed most of its tariffs for bazaar goods while Tajikistan (and Kazakhstan) did not. Thus, Kyrgyzstan became the re-export hub for Chinese-produced goods in Central Asia. Then just as quickly, Kazakhstan's and Kyrgyzstan's choice to enter the EAEU led to the demise of most of this trade. But businesspeople have proven resilient and the most ambitious of the traders have moved into manufacturing using imported Chinese and Turkish inputs.

Concessional loans are Beijing's most prominent economic tool in Kyrgyzstan and Tajikistan. Companies play a huge role in the choice of projects. This thesis shows that the CRBC lobbied the Kyrgyzstan government for a number of years on alternatives to the China-Kyrgyzstan-Uzbekistan railway. They ended up pushing the alternate north-south road

through Balychki. The road neither linked to China nor Uzbekistan. These suggestions got accepted by the Kyrgyz government and the company won multiple contracts worth approximately USD 850 million. The project was originally schedule to be finished in 2018. That has now been pushed back to 2021.² Companies also have a significant role explaining to recipient states which projects are likely to receive funding. In this way, recipient states and companies work together towards the same goal – extracting money from Eximbank.

PRC companies, like many other foreign companies in Kyrgyzstan and Tajikistan, engage in highly corrupt practices. The system of opaque loans provided by Eximbank combined with single company bidding has seen highly inflated contract prices for contracting companies. This has come to light more readily in Kyrgyzstan because of the open political system. Numerous Kyrgyzstani politicians are in jail for their role in the Chinese-funded upgrade of one Bishkek's thermal power plants. This has destroyed the reputation of PRC companies operating in the region. The PRC government has repeatedly warned companies to stop these practices. That message has fallen on deaf ears.

China's central leadership clearly has directly imposed its will in Tajikistan and Kyrgyzstan at times. The most obvious case was the 2014 decision to construct a gas pipeline through both countries. The choice of route was more difficult and expensive than previous pipelines through Central Asia. The route choice was political one, not an economic one.

The disconnect between declaratory policy of the PRC leadership and the day-to-day SOPs of the implementing organisations is an example of Lieberthal's "fragmented authoritarianism" where the polity operates in two spheres: elite politics and the rest. This combines with David Zweig's and David Lampton's observation that consistent elite attention is required to achieve state goals. These ideas are commonly used in scholarly

² Victoria Grigorenko, "Will the Ministry of Transport be Able to Complete the North-South Project?" [Сможет ли Минтранс завершить проект "Север-Юг"?], *Vechernii Bishkek*, 14 June 2018, https://www.vb.kg/doc/371477_smojet_li_mintrans_zavershit_proekt_sever_ug.html.

works on PRC foreign policy but rarely for PRC policy in Central Asia. The thesis combines Lampton's work with that of Cooley, Heathershaw, Goh and many others who studied the agency of recipient states.

Finally, the security policy-making dynamics are different. There are only three main organisations – PAP, PLA and MPS. Two of them come under direct control of the CMC. Increases in security activity were obvious after Xi Jinping came to power which suggests the link between the central leadership and PRC security activity is quite strong and well-coordinated.

The PRC's economic footprint has grown substantially in Tajikistan and Kyrgyzstan, which gives Beijing more political leverage. But seeing everything through state-level analysis misses a lot of the reasons that PRC projects are happening. This thesis has sought to address that gap.

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