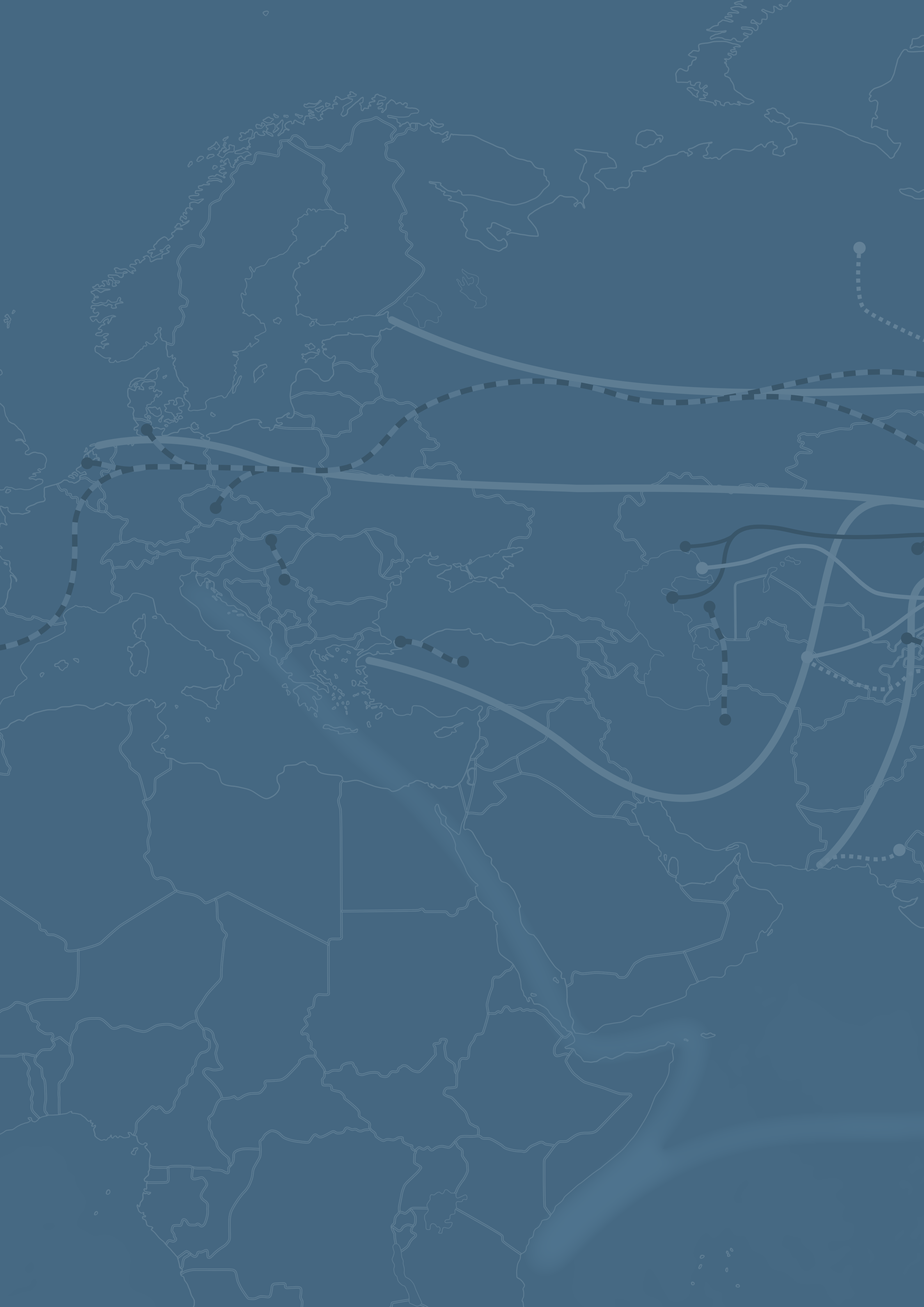
CHINESE GRAND STRATEGY IN THE EURASIAN HEARTLAND

The Belt and Road Initiative in Russia, Belarus, Central Asia and the Caucasus

SKOLKOVO Institute for Emerging Market Studies (IEMS) 2019



Dear Readers,

It is my pleasure to present to you this new report by the SKOLKOVO Institute for Emerging Market Studies on the Chinese Grand Strategy in the Eurasian Heartland.

At EY, building a better working world includes the flow of investment capital to promote economic growth and employment across the world. The transformative initiatives of strategic magnitude that significantly affect markets across the continents need to be thoroughly studied from all possible angles and debated in all possible ways with one ultimate mission: to help business and policymakers make better-informed decisions.

The Belt and Road Initiative is definitely one of the most significant undertakings of the modern global marketplace, initiated by China, a successful economic story in its own right. The Eurasian Heartland, that includes Russia, Central Asia, and the Caucasus is an extremely complicated set of unique, yet interconnected, markets. The progress on the Belt and Road Initiative across the Eurasian Heartland is a continuing story, and one that will evolve, which is why we praise the authors for contributing their perspectives to the discussion. What makes this report stand out for me is that it is based on the analysis of more than 160 individual Belt and Road deals in the Eurasian Heartland, implemented over the course of seven years, providing a unique database of progress, and challenges, which inform the future investment blueprint.

The Belt and Road Initiative is special and unprecedented in many ways not least because it touches many nations. It relies on cultural awareness and international cooperation and demonstrates a willingness to build trust, openness, and mutual respect for different cultures. At EY we believe that this is the right way of building a better working world.

We especially welcome this particular report as it builds on the cooperation of two sister organizations - SKOLKOVO Institute for Emerging Market Studies and HKUST Institute for Emerging Market Studies. EY has been supporting both of the (IEMS) programs for a number of years, and we encourage this cooperation as we are convinced that due consideration from local perspectives helps to produce insights that the individual institutions could not make alone.

We are very proud to have been supporting the Moscow School of Management SKOLKOVO for a number of years. We appreciate the spirit of independent and creative thought leadership that has always been in the school's genes, and we share the common values of ethical leadership and life-long relationships our collaboration creates.

Jay NIBBE

Global Vice Chair – Markets
EY

Dear Friends,

I am happy to introduce to you this new report on Chinese Grand Strategy in the Eurasian Heartland by the SKOLKOVO Institute for Emerging Markets Studies. As SKOLKOVO has always been an internationally oriented school with a special focus on the emerging economies in general and the neighboring countries in particular, this report naturally replenishes the broad collection of SKOLKOVO thought leadership works on the market transformations in the region.

Our practice-oriented thought leadership research has a clear purpose - to support an education process by converting our vast knowledge and intellectual capital into something practical that our clients can use in their work. Since 2018 we have been offering our clients a very special program - a joint-degree HKUST-SKOLKOVO Executive MBA for Eurasia. In many ways, it is a program based on values. We believe that to be a true leader in Eurasia one has to understand the region in all its diversity, which is only partially political and economic. In my view, to a very large extent, the complexity of the region is in its unique mindset, in the way how people think, how they make decisions, build alliances, interact, communicate, and behave. You may learn all the proper frameworks in strategy and marketing only to find that they do not work because people in the region think differently. This is why our program is only partly education and to a large extent, it is an experience. There are things that you cannot learn by reading or listening to a lecture, you have to live them through. And we offer this at our program by thoughtfully mixing the group, taking the group all over the region for immersing the group into the local business context intellectually, emotionally, and physically. What we build is a Eurasian mindset - an ability to read anyone and work with anybody for whom Eurasia is home.

This report is one of the good examples of the ideas that we offer our delegates to get to know and discuss in the class. It is rigorous but not too academic, you do not need a PhD to read this. It is practical, based on the real-life data: over 160 real deals were analyzed for over US$ 80 billion dollars spent by China under the Belt and Road umbrella in the Eurasian region in 2011-2017. It is much more than just facts and raw analytics: it gives you observations and insights that at the end of the day can help you - our clients - be better strategic leaders for your teams and achieve more in the region in the long-term. Just as our joint-degree HS EMBA program, this report is also a product of cooperation between SKOLKOVO Institute for Emerging Markets Studies and HKUST Institute for Emerging Markets Studies – a research alliance, which is an important backbone element of our cooperation with the Hong-Kong University of Science and Technology.

We are very grateful to our strategic partner EY who has been supporting us for more than 10 years now. We appreciate this longstanding and inspiring partnership: being a truly global company, EY is not only a great group of talent from all over the world, but it is also an endless source of Better Questions that make us all think in a more creative and unconventional way.

Andrey SHARONOV

President
Moscow School of Management SKOLKOVO

Dear Readers,

I am very happy to strongly endorse this well-researched report on Chinese Grand Strategy in the Eurasian Heartland: The Belt and Road Initiative in Russia, Belarus, Central Asia and the Caucasus. This report has been initiated and led by the Institute for Emerging Market Studies (IEMS) of Moscow School of Management SKOLKOVO, with contributions from researchers at the Institute for Emerging Market Studies at the Hong Kong University of Science and Technology (HKUST). As an input to this report, the two Institutes organized a workshop earlier in 2019 to intensively discuss China's engagement in Belt and Road countries throughout the world, with Russia and Central Asia being a focus of attention. The IEMS at HKUST has a research program on China's Belt and Road Initiative supported by the Hong Kong government, and our Faculty Associates have a good understanding of the motivations for the Belt and Road Initiative from the China side and the implementation of the Initiative in the Asia region. Thus, it has been an extremely fruitful partnership to collaborate with the IEMS at Moscow School of Management SKOLKOVO, whose research staff has unparalleled expertise on Russia, Belarus, and Central Asia. This cobranded report builds upon a previous successful collaboration on the report Geo-Economics of the Eurasian Heartland, also led by the IEMS of Moscow School of Management SKOLKOVO.

Public commentary on China's Belt and Road Initiative has become increasingly polarized in recent years, with many in the US and some in Europe describing it as a neo-colonial strategy by China to make their neighbors dependent on them through debt traps and economic domination, while China insists that its goals are primarily altruistic--to help other countries enjoy the same benefits that China has enjoyed during the past several decades of rapid growth through improved infrastructure and greater connectivity to the Chinese and global economies. Both sides agree that the Initiative is ambitious and wide-ranging. It has now been more than five years since the Belt and Road Initiative was launched in 2013, and the goal of this report, and of our larger Belt and Road research program is to provide evidence-based insights on the actual implementation of the program, to deepen understanding of what are the real opportunities and challenges facing China and Belt and Road countries who participate. How much investment has actually occurred in different countries, and what types of projects have been selected? Have proposed investments been effectively implemented, and have they had positive or negative impacts on the economy, local workers, and the environment? Has the experience differed across countries, and if so, why? These are critical questions for gaining a deeper understanding of the implications of the Initiative, and which this report begins to address for Russia, Belarus, and Central Asia, areas that are key targets for Chinese investment.

For all of these reasons, this report on China's Grand Strategy in the Eurasian Heartland is both timely and relevant for businesses and policy makers with a global outlook.

Albert PARK

Director,
HKUST Institute for Emerging Market Studies

CONTENT

EXECUTIVE SUMMARY

At the Second Belt and Road Forum in Beijing, held in April 2019, it was declared that the Belt and Road Initiative (BRI) included 125 countries and involved over 1000 projects, worth a total of US$ 3-4 trillion. But the BRI was born big. President Xi said as much when he announced it in 2013 in Astana. Since then, estimates have, if anything, risen as the initiative has gained momentum.

For the Eurasian Heartland, the last six years have seen US$ 80 bn brought by China into the region spread across over 160 projects. Russia and Kazakhstan have been the major recipients, and energy, metals, agriculture and chemicals the major sectors. The Heartland's trade with China has been growing at double-digit rates over a number of years, and reached a record US$ 140 bn in 2018. These are all tangible and impressive results, especially in the context of the overall fragmentation of the global economy in general, and the Russian periphery in particular.

When something is working, there are two questions which can still cause unease. How exactly is this working? And is what we are seeing all that is happening, or are there other effects which are not immediately visible? Both can be important to understand, especially with respect to something as vast as the BRI. What makes research even more important is that in all these years the BRI has never been explicitly presented and explained as a program, strategy or plan. It remains one of the most vague undertakings of humankind.

Some might say that there is nothing wrong with that so long as the money keeps flowing in. However, others prefer to know what game they are playing, or what game is being played with them. This study is for people and institutions in the latter category.

We have carried out extensive field and desk research in order to find answers to three questions:

1. What is the nature of this game?
2. Who is playing it, and in what roles?
3. What are the effects and side effects, intended and unintended, it is having on those who live in the Eurasian Heartland?

The short answer to the first question is that the name of the game is **"going out, to stay safe within"**. China is implementing by far the largest coordinated investment initiative in human history. It is motivated by pressing internal problems. These include a) dangerously growing internal disparity between the East and the West of the country; b) a pledge of eternal annual growth above 6.5%, which is something that cannot be achieved by the Chinese economy in isolation; c) a desperate need for cheap resources for the growing economy and population; d) an environmental crisis which is the consequence of the artificially accelerated industrialization and urbanization.

China has created a whole range of institutions and augmented mandates for existing agencies and they involve literally everyone in China in the implementation of this initiative: from newly established financial institutions and old-fashioned political banks to state-owned enterprises and globally-listed Chinese blue-chip companies; from the Confucius

Institutes to private military companies. Using intergovernmental agreements, official development assistance, loans and investment, construction contracts, soft and military power, China is building its version of the "community of shared destiny for mankind". That is President Xi's favorite slogan, one which he has repeated over 100 times since 2012 in different forums, from Davos to the UN.

Being used to being directed by ideologemes, whether Chairman Mao's "Great Leap Forward", or Deng Xiaoping's "Peaceful Rise of China", the collectivist mindset of the Chinese has accepted the Belt and Road Initiative as the common descriptor for the country's overseas activity, and for a considerable amount of the domestic agenda too. The key difference from previous ideologemes is that the Chinese leadership now needs to communicate its ideas beyond Chinese society, in other words: to people who do not necessarily share the collectivist mindset. This is a novelty for China's leadership. It is important to bear mind that China as a nation had no experience of national expansionism in modern times before the BRI.

We have reconstructed the pragmatic decision-making patterns which China uses to decide where to go with its BRI projects. To get a high BRI Attractiveness Score (BRIAS) a potential recipient country needs to have a) a perfect transit potential; b) a rich mineral resource base; c) a large market potential for Chinese goods and/or cheap manufacturing capability so that environmentally questionable and/or labor-intensive industrial facilities can be relocated there; and d) a leadership willing to negotiate with China.

Based on this set of criteria, taken together with actual cash inflows to the individual countries of the Eurasian Heartland in the last seven years, we ended up categorizing the ten countries into four groups, towards each of which we see distinct Chinese behavior patterns. This begins to answer the second question: who is playing, and in what roles?

The first group – **"Strategic"** – includes Kazakhstan and Russia and has received US$ 55 bn, or 65% of all Chinese money in the region. It enjoys a special level of cooperation with China: the biggest projects and a balanced win-win relationship. In addition, there are lots of security issues are involved.

The second group – **"High Potentials"** – include Azerbaijan, Belarus, and Uzbekistan. This is the most promising one, as it has a high BRI Attractiveness Score, yet none of the countries has yet received comparable Chinese cash inflows. Together, they have received only US$ 11.5 bn, or 15% of the total.

The third group – **"Midpoints"** – includes Kyrgyzstan, Tajikistan and Turkmenistan. They have received US$ 17 bn, or 20% of total, and are on the verge of financial crises as they borrowed more from China than they can comfortably repay. They are interesting for China only because to bypass them would be expensive, though Turkmenistan, while unpredictable, is at least a source of natural gas and a potential test bed for Huawei telecoms solutions.

The fourth and last group – **"Sleeping Beauties"** – includes Armenia and Georgia. They have the least involvement. There is not much happening with them. They have received 370 m or 0,5% of the total, and we do not expect this to change significantly in the near future.

Overall, the map of the BRI game in the Eurasian Heartland is uneven. The dominating heights are occupied by Kazakhstan and Russia, while the most dynamic participants are Azerbaijan, Belarus, and Uzbekistan.

In answer to the third question – what are the effects and side effects, intended and unintended, for those who live in the Eurasian Heartland? – the BRI has created a number of direct and indirect positive effects on the Eurasian Heartland. Apart from **US$ 80 bn directly** spent by China in the region, it appears that Chinese financial intervention has stimulated long-awaited **economic reforms** which could open up many of these previously static societies at the national level. Above that, an **institutional transformation** at the supranational level, including the **Caspian Constitution** (signed in 2018), seems to have **triggered foreign investment** from third parties, including the **Islamic World**, Asia, and Europe, possibly amounting to about **US$ 130 bn**[1] to date. There is no doubt that the BRI has contributed to making the **Northern Sea**

Route a commercially promising undertaking. Chinese involvement in **LNG** projects in the Russian north has made it a potentially viable transport artery.

At the same time, there have been some less desirable side effects. No matter how hard China has tried (and it really has tried), it seems that the **perception gap** is growing wider rather than narrower, especially and importantly with the Muslim population. The **business culture distance** has yet to be bridged, and economically unsustainable relationships – or simply **debt traps** – require fixing, especially in Kyrgyzstan and Tajikistan. China's limited expansionist experience and insufficient regional expertise make it difficult for the Chinese to see many of the non-economic consequences of their economic interventions. In our view, if these issues are not addressed properly, the future of the BRI in the region could become quite uncertain.

The **grand strategy pattern** we have reconstructed represents the consistent, coordinated behavior of a whole universe of different **actors and institutions**, some of which were specifically established to implement the BRI. They have applied to that a relatively limited but yet effective **toolkit** in order to achieve clearly justified and rational **objectives** by sensibly allocating resources, and implementing well considered actions in pursuit of those objectives.

The only weak or missing element in the pattern is a **feedback loop**. It is obvious that not everything has gone as smoothly as perhaps China thought it would, but we still see no significant change of behavior in response to the less desirable side-effects mentioned above. This could be due to persistence, lack of feedback, or both. Whatever the cause, that missing piece in the jigsaw will impose a lot of **uncertainty** on the future of the BRI in the Eurasian Heartland.

INTRODUCTION

In this work, we would like to take you on an intellectual expedition to the Eurasian Heartland as seen from the Chinese point of view. It starts with a discussion of the notion of grand strategy as China sees it today, then goes on to its application by China in the Eurasian Heartland, and ends with observations and insights on the major effects and side-effects of that project for this region.

Before going into the regional context, we discuss Chinese grand strategy in the context of a morphological analysis of the Belt and Road Initiative. Collectively, this gives us a pair of lenses through which we can interpret the Chinese activity in the region. We start by referring to some classical works by Edward Luttwak[2], who defined grand strategy as «the employment of the state's resources, including military strength, diplomacy, and intelligence, which interact with the employment of these resources by other states», and Henry Mintzberg, who called strategy in general a «pattern, a consistency of behavior over time».[3] The statement that «all states have a grand strategy, whether they know it or not» (Luttwak) gives us confidence that we can study China's grand strategy by observing patterns of consistent behavior over time.

Where the Chinese touch comes in is in the way the message is structured and communicated. It is curious that six years down the road we still here and there find people asking what this Belt and Road Initiative is all about? At best, what they get in response is the «community of shared destiny for mankind» – President Xi's slogan, which he has pronounced over 100 times since 2012 in different forums, from Davos to the UN. The reason is not that the Chinese government is hiding something important. Rather it is that the Belt and Road Initiative is yet another ideologeme[4] that Chinese society is so accustomed to, be it Chairman's Mao «Great Leap Forward» or Deng Xiaoping's «Peaceful Rise of China». The collectivist mindset means that people need no further details; they elaborate the broad concept with individual meanings so that at the end of the day everyone is included—or excluded if the boss so wishes. The only difference now is that this is the first time in history that China has gone global and finds that it needs to explain itself to non-Chinese people.

This suggests another perspective that is critical for our study: Chinese civilization has a remarkable 4000-year history but, as Edward Luttwak notes, China spent the most of that time in the «Great Absence of an Equal», while strategy starts from the conflict with notional «equals». We argue that China has had no expansionist experience, especially when compared with some much younger civilizations, those who built and lost large empires by betting on expansionism – British, Russian, German, Spanish, French, Turkish, Japanese, etc., and later the US. For China, taking the first steps on such a thin ice as expansionism, specifically in modern times, and with such an immense undertaking as the BRI, involves considerable risk.

With this in mind, we cold-bloodedly dissected the Belt and Road Initiative to find out how it works. By now, especially after the Second Belt and Road Forum in Beijing in April 2019, anyone who has any interested in the BRI knows that it involves 125 countries and over 1000 projects, worth US$ 3-4 trillion in investment.[5] What we also know is that the BRI is an integrated concept that includes, primarily, the Silk Road Economic Belt, linking China to the Central and South Asia, the Middle East and onward to Europe, and the New Maritime Silk Road, linking China to the nations of South East Asia, the Gulf Countries, North Africa, and on to Europe.

What is usually less well-known is that the BRI is a unique type of a softly coordinated organization. It is a whole universe of actors and institutions, including financial and industrial, state-owned and private, old-established and new, Chinese and international. To describe the behavior of this unseen organization we borrowed two more definitions. The first was from Wilhelm Liebknecht, who coined the phrase «state capitalism», which suggests a model in which the state takes over regular business functions, like owning and running business. The second one is from Mariana Mazzucato, who coined the phrase the «entrepreneurial state»[6], which suggests a model in which the state assumes risk by financing innovative research and development, often working through business. For the purpose of this work, we decided to examine the BRI through both of these prisms combined, calling China an example of «entrepreneurial state capitalism». Our thesis is that, although there is not much technological innovation connected with the BRI, China as a state is taking all the risks in the country's first attempt at overseas expansion.

Remarkably, China itself seems to take two approaches at once. It spends enormous sums of money to improve its soft power-orientated Confucius Institutes and other instruments for promoting Chinese culture, yet at the same time Chinese defense spending has been growing for 24 consecutive years to the point where it is the second largest globally. The military budget is about US$ 250 bn, reflecting an 83% growth since 2009 only. These two diligent and systematic activities send mixed signals to the world, especially to the smaller countries, like some in the Eurasian Heartland. They want to know who exactly they are dealing with. Is it an unknown and undervalued friendly nation, or a sinister neo-colonial state willing to take what it wants using whatever means it considers as appropriate? This unnecessary ambiguity leaves a lot of space for concerns and uncertainty in the region, which is far from being simple and settled.

Here we offer a very brief introduction to the diversity and complexity of the Eurasian landscape, immediately followed by a detailed, structured, and thorough retrospective of Chinese BRI activities in Eurasia. We use the grand strategy lenses and use them to interpret Chinese activities in the region. As have noted, the region is far from being simple and settled. On the contrary, it is very diverse and complex. On the one hand, it is a vast territory with over 240 million people. It is rich in natural resources and fertile land; it offers unparalleled transit opportunities to Europe and the Middle East, having a cheap, trained and educated workforce and industrial base. On the other hand, these countries did not exist before the collapse of the Soviet Union. There are more than 100 ethnicities within them, with people speaking more than 30 languages. Some countries are rich, some poor; some are Muslim, some Christian. There are many border, water, and ethnic conflicts between them. The region also borders some unsettled areas, like Afghanistan, so external threats are real too.

Ten countries make up the Eurasian Heartland. They are Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Turkmenistan, and Uzbekistan. On top of that, there are a few supranational organizations that must be considered. Some promote economic cooperation, like the Eurasian Economic Union; others promote security, like the Collective Security Treaty Organization; there are a few which do both, like the Shanghai Cooperation Organization. The region has obvious strategic importance for China, but the opportunities presented by the BRI will be elusive without a nuanced, region-by-region approach. You cannot use a one-size-fits-all approach. At the same time, you cannot do something with one country without affecting the other. Neither will work in so varied a region.

We identified at least four distinct patterns that China has used in the region. In the period of 2011-2017, it spent over US$ 80 bn in loans and direct investments, spread over more than 160 projects. Based on the strategic criteria (transit, resources, economy, governance) we developed a «BRI Attractiveness Score» (BRIAS) to measure how different countries in the region could be seen through the BRI grand strategy lenses. As we compared the Chinese money flows to these countries, we identified four groups with clearly differing patterns: «Strategic» (Kazakhstan, Russia), «High Potentials» (Azerbaijan, Belarus, Uzbekistan), «Midpoints» (Kyrgyzstan, Tajikistan, Turkmenistan), and «Sleeping Beauties» (Armenia and Georgia). This approach not only helped us to interpret what has happened under the BRI umbrella in these countries in the past but reveals patterns which give certain insights on potential future BRI dynamics in the region.

After exploring the region in depth, we step back and present our conclusions, observations, and insights on how the BRI in the region has operated to date, and how it might operate in the future. On the effects side, the dramatically increased trade turnover is obvious. Investment from China has triggered inflows from other countries, including the Muslim World, Japan, and Korea. Another main conclusion is that China has influenced the institutional development of the region. The BRI provoked five nations to sign the Caspian Constitution, an agreement that had not been concluded in over 25 years of negotiation since the collapse of the Soviet Union. Also, people-to-people contacts have been growing thanks to the BRI and the fact that overall interest in Chinese culture is at a historic high in the Eurasian Heartland.

At the same time, there have been some less desirable side effects. We found a growing perception gap, conflict in business projects driven by misinterpretations of the regional context, and some economically unsustainable consequences of Chinese initiatives in the region (debt traps). However, we argue that China is not in fact concealing neo-colonial intentions. That would have been too sophisticated for a country which is new to expansion and whose only visible pattern is «full-speed-ahead». The problem is that China's grand strategy has one missing piece: a feedback loop, the absence of which downgrades a grand strategy to a grand plan.

A conventionally functioning feedback loop sends signals that something is not going as it should or that the unintended side-effects have reached a state in which the plan requires re-consideration. Ideally, strategy should respond to feedback. We believe that China does not always understand the economic and non-economic consequences of its interventions, mainly because in most cases China does not bother to take a broader view and think beyond the specific project or initiative. Changing course is therefore often out of the question. In this sense, we argue that China is not a neo-colonialist state. That would be too complicated as a strategy, and the Chinese do not really mean it. However, it is the case that sometimes the result of their actions can be quite unexpected.

Going back to where we started, with Edward Luttwak's phrase of the Great Absence of the Equal: perhaps this is the weakest link in the Chinese grand strategy as it by definition excludes a feedback loop as a strategic element. The possibility is that China will end up with accumulated problems of such magnitude that it would be easier to leave than to continue. Our argument here is that millions of people in the Eurasian Heartland do not see themselves as just people in between China and Europe. They have interests, values, faith, and self-respect. In our view, China's effort to understand them has been token at best, and sometimes worse than useless. They have largely failed to come to terms the local culture, or to build trust and relationships. The general public perception is far from positive. China makes propaganda about co-operation, yet it persists in bringing a Chinese workforce to the region and ignoring local environmental standards. Business culture is another issue. First of all, Kazakhs are very different from Azerbaijanis, and those two are very different from Belarusians in their negotiating culture, perceptions of time, etc. Having the largest-ever investment initiative being implemented by groups of people who have not done anything together in the past constitutes an enormous risk.

Cutting through these perspectives is the fact of Islam and the Turkic peoples of the region. China is notorious for being hostile to the Muslims within their own country. In the Eurasian Heartland, there are over 80 million Muslims, and most of them are of Turkic descent.[7] The biggest uncertainties for the BRI in the region revolve around the possibility of an escalation of the conflict that today is going on in the Chinese province of Xinjiang (XUAR). Will that spill over into the region more widely? Basically, there are two scenarios. One is that China reduces the pace and starts working toward bridging the perception gap, cleaning up the mess that has already been created, and develops new inclusive strategies that will work better for the common benefit. The other one is that China will use more power to pursue its interests in the region, including military power. We know that China has not decided yet, but we also know that it has started building a military base on the Tajikistani border in Afghanistan.

PART 1. The Grand Strategy of China and the Belt and Road Initiative

In this part, we shall discuss what makes the BRI very different from any other large-scale, long-term, development initiative and why there are, nevertheless, only three critical things you need to know in order to read between the lines. First, in our view the BRI is China's actual Grand Strategy. This gives a very helpful interpretation framework, that works specifically well with what look like paradoxical decisions at first glance. Second, the BRI is an ideologeme, a traditional Chinese management tool, that is not as commonly used in the rest of the world, which is why it leaves so many questions. In our view, it is more beneficial to learn how to understand ideologemes than, to paraphrase Confucius, keep on looking for a black cat in a dark room, knowing there is no cat. Finally, the BRI, along with all other Chinese strategizing in the past 4000 years, was born within the "Great Absence of Equal", which is a culturally predetermined inability of Chinese to treat others as equals, and therefore seriously take them into their strategic considerations. At the end of the day, this weakens the feedback loop of the Grand Strategy, making it a perfect plan of moving forward, but not so perfect when it faces unexpected and unplanned for variables.

1.1 THE NOTION OF THE GRAND STRATEGY

THE CONCEPT

Perhaps the fact that the subject of the Grand Strategy is relatively fashionable in the field of security studies and in geo-economics, leaves it without a universally accepted classical definition. Instead, there are many, derived from various schools, and that number keeps on growing. A prominent grand strategy scholar, Edward Luttwak, defines grand strategy as "*the employment of the state's resources, including military strength, diplomacy, and intelligence, which interact with the employment of these resources by other states.*"[8] Another scholar, Paul van Hooft, goes into more detail: "*Grand strategy is the highest level of national statecraft that establishes how states, or other political units, prioritize and mobilize military, diplomatic, political, economic, and other sources of power to ensure what they perceive as their interests.*"[9] And he gets even more specific "*Depending on one's theoretical perspective, these perceived interests focus the most minimal goal of ensuring the state's survival, pursuing specific domestic interests or* *ideational coalitions, or establishing a specific regional or global order*"[10]. Without delving any further into Grand Strategy theories, we have taken the liberty of summing up here with what the most scholars agree: the **Grand Strategy deals with the actions undertaken by the state involving all possible resources pursuing its overarching interests, often with an idea of influencing the regional or global order**.

THE METHOD

With this framework of Grand Strategy in mind comes a question: how do you study somebody's Grand Strategy without actually knowing their overarching interests and ideas? Here, we are fully aligned with the school represented by a number of respected scholars, who basically say that the behavior is the strategy. Henry Mintzberg was the first to offer a notion of strategy as "*a pattern, that is, consistency in behavior over time*".[11] Kevin Narizny in his "The political economy of grand strategy"[12] stipulates that "*There is little analytical difference between a plan and a pattern of behavior that reflects consistent values, goals, and trade-offs.*" that perfectly echoes the somewhat sarcastic "*all states have a grand strategy, whether they know it or not*" by Edward Luttwak.[13]

Based on the above, for the purpose of this work we have concentrated on the observation of Chinese strategic behavior under the BRI umbrella in the Eurasian Heartland boundaries with the ultimate objective of identifying, interpreting, and reconstructing the pattern that is consistent over time.

MATERIAL

We base our observations on the more than 160 individual projects announced, initiated, or implemented under the BRI umbrella between 2011 and 2017, which covers all BRI activity in the region within that period. We also take later activities into consideration on a more selective basis. In addition, we use other sources for crosschecks, and have made background searches for information on the multiple actors and institutions involved.

1.2 THE BELT AND ROAD INITIATIVE AS A GRAND STRATEGY IDEOLOGEME

BACKGROUND

While visiting Kazakhstan in 2013, President Xi officially announced his expansive geo-economic vision of bolstering ties around the globe to promote greater globalization: The Belt and Road Initiative is the most ambitious plan ever proposed in human history. Initially, the idea was to revive the ancient Silk Road in order to connect China with the rest of the world by constructing both hard and soft infrastructure, inaugurating new trade routes and deepening political and cultural ties. Since then the BRI has become a euphemism for what, *de facto*, is the Chinese Grand Strategy.

In a changing geopolitical order, China is trying to abandon the policy of keeping a low profile in international affairs and biding its time, as set by Deng Xiaoping, the original architect of China's economic reforms. Instead, China now aims at what the current President considers appropriate to a great power: shouldering its responsibilities and obligations. China's new global ideology is to build a community of common destiny – the term that President Xi used in his speech during the UN General Assembly Session in 2015 – making a greater contribution to peace and the development of mankind.[14]

After the second BRI forum held in April of 2019[15] it is possible to say who is not part of the initiative, primarily the US, Japan, India, and a few others. However, these numbers do not mean much anymore as the Belt and

Road Initiative now includes more than 125[16] countries. Between them, they account for over 65% of the world's population, 75% of its known energy reserves, and probably close to half of the global economy. The BRI is an integrated concept that includes, primarily, the Silk Road Economic Belt, linking China to the Central and South Asia, the Middle East and Europe, and the New Maritime Silk Road, linking China to the nations of South East Asia, the Gulf Countries, North Africa, and Europe. As the BRI aims to promote connectivity between continents, the Chinese leadership presented six possible land belts: the China-Mongolia-Russia corridor; the New Eurasian Land Bridge; the China-Central Asia-Western Asia Corridor; the China-Pakistan Corridor; the Indochina Peninsula Corridor and the Bangladesh-China-India-Myanmar Corridor.[17] Together, they are described as a "win-win" initiative that promotes peace, development and friendship by enabling cooperation on five key priorities: policy coordination, facility connectivity, unimpeded trade, financial integration and people-to-people and cultural exchange.[18] If implemented according to what has been declared, the BRI would create tight networks around the globe, providing it with much-needed infrastructure and deepening economic interdependence. Chinese initiatives could transform the economic and social environment by easing tensions and stabilizing security in restive areas of the world. With over 1000 individual projects, worth a total of US$ 3-4 trillion, the line between the success and failure is hard to define, especially as there were no clear objectives.

Despite the attention the BRI has received, a major research challenge is the lack of transparency. There are no agreed definitions of the initiative itself, nor even of the individual BRI projects. In 2015 the Chinese government released an official document on BRI policy[19] which did not suggest any classification, nor give a list of countries and/or companies participating or official instruments to be used for BRI implementation. Though launched officially in 2013, the BRI included projects started years earlier, as long as they fitted into the concept. Beyond investments in real projects, China is organizing a massive awareness campaign. The BRI banner hangs over a wide and ever-expanding list of activities such as concerts, exhibitions etc. Chinese state media claim that global awareness of the BRI has tripled between 2014 and 2017.[20] In 2019, 36 world leaders and representatives from more than 125 countries visited China to attend President Xi's Belt and Road Forum. Although awareness both within China and abroad has been growing, there are still a lot of concerns. Having received extensive global coverage, the initiative is in the limelight of the international community. However, it is somewhat tainted by fears of Chinese world economic domination, and the absence of reliable information.

IDEOLOGEME

Where the Chinese touch comes in, is in how the message is structured and communicated. It is a little funny that six years down the road we still occasionally hear people asking what this Belt and Road Initiative is all about? The reason for that is not that the Chinese government is hiding something. Well, maybe they are, but that is not the point of this work. The point is that the BRI is yet another *ideologeme* that the Chinese society is so very much used to, reminiscent of Chairman's Mao "The Great Leap Forward" or Deng Xiaoping's "Peaceful Rise of China". The word *ideologeme* has Greek roots meaning a "verbally expressed unit of an ideological system", or, in other words, some catchphrase that represents a certain ideology. An *ideologeme* is usually characterized by ambiguity and the vagueness of its meaning. But the collectivist mindset never fails: people need no further details; they would just stuff the broad concept full of their little meanings so that at the end of the day everyone is included. Or excluded, if the boss wishes it so.

For China, the BRI is grand strategy delivered in the form of an ideologeme. The only difference now is that, perhaps for the first time in history, China is going global and needs to explain itself to other people than the Chinese.

1.3 A GREAT ABSENCE OF EQUAL AND THE PATTERN OF THE CHINESE GRAND STRATEGY

«GOING OUT TO STAY SAFE WITHIN» STRATAGEM

In the Western civilization there has always been a wealth of explorative zeal and curiosity at the core of expansionist undertakings. Ancient Greek seafarers produced not only the first maps of the sea and land and true accounts of people living in other parts of the ancient world, but also a lot of food for the imagination, inspiring such masterpieces as The Argonauts and The Odyssey. From Viking expeditions to North America, to the Age of Discovery that has shaped the world as we know it. In discussing BRI as an evolving phenomenon and a part of our everyday reality we should not forget that this is the first time in modern history that China has reached out beyond its own borders. It is more than two thousand years since the Chinese have manifested an inclination to expand. Instead, they have referred to their country as the Central State (Zhōngguó, where "zhōng" is for "central" and "guó", is for "state") which generally says a lot about their interest in the rest of the world. In other words, unlike such nations as Britain, Russia, France, Germany, or the United States, China has no experience of expansionism whatsoever.

Edward Luttwak sees a form of **"strategic autism"** in the great power: "Strategy begins with the recognition that there is the other. That there is somebody else. The Chinese are perfectly capable of making extremely elaborate plans but they forget about the existence of the other because historically they did not have the other. The difference with China is that Chinese culture grew with the ocean on one side, and very thinly populated jungles, the Tibetan plateau, and the steppe on all others. So China did not have an interaction with others. China did not evolve fighting neighbors. Absence is a big thing. Absence of having dealt with equals. The Celestial Empire, the Middle Kingdom, had no equals around, just peripheral kingdoms that paid tribute to the emperor and an emperor who rewarded them in return. There was no antagonist historically. Today, the problem persists: China is too big as a country. With everything that is going on inside, how much attention can the top leadership really dedicate to understanding others? Probably not much."[21]

For the case of the BRI, we argue that it has never been something that China really wanted. Just as Genghis Khan started building his empire to prevent Mongolian tribes from eventually wiping each other from the surface of the Earth in the endless wars between themselves, Chinese expansionism stratagem is **"going out to stay safe within"**: there are so many pressing issues in the country that push China out that they simply have no choice. Being a global factory for decades presents its bill. We know President Xi as an author of the BRI, but in our view, he is only the harvester, the seeds were sown by Deng Xiaoping and Henry Kissinger in 1979.

Following high-profile media and talking to experts in the region, we get the impression that there is considerable concern about Chinese neo-colonialism. Perhaps this is one of those things that can be easily mistaken about the BRI; effects could be seen as objectives, which in this case, is absolutely incorrect in our view. Although, along with many concerned observers, we see some signs that could be interpreted in a certain way, based on the above we believe that neo-colonialism would have been too sophisticated, as well as quite unnecessary, a grand-strategy for an autistic newbie. At the same time, knowing that opportunism is the true name of Chinese strategy, we believe that there is an opportunistic colonial behavior in benefitting from the unplanned collateral side effects occurring when the originally planned actions have no colonial objectives.

IT IS ALL ABOUT ALTERNATIVES

As mentioned above, Grand Strategy is great in explaining paradoxes because what looks like a paradox at the level of a separate initiative, or a battle, to use military terms, can be perfectly logical from the point of view of the whole war, the superior interest, or the meta-idea.

When we think about the BRI from the conventional wisdom perspective it does not make any sense: building thousands of kilometers of multi-billion dollar infrastructure across the continent which is probably the second worst in terms of peace and stability after Africa sounds like a questionable enterprise from both economic efficiency and risk perspectives. It is going to be very expensive to build and to operate, including security and risk mitigation costs. Nevertheless, China forges ahead. We will discuss more reasons for China to be doing so but the major one is that the **BRI is all about alternatives**. At present, up to 90% of China's trade and strategic supply of all resources is going through the sea routes, while the sea is 100% controlled by the US Navy, which is one of China's biggest strategic vulnerabilities, specifically now when trade wars are on the rise. In theory, the US can blockade the whole Chinese economy in a matter of hours. With this in mind, let us repeat, BRI is all about alternatives, basically, **at any costs**.

ENTREPRENEURIAL STATE CAPITALISM ON THE GO

China is often referred to as a textbook example of state capitalism. Mariana Mazzucato in her 2013 book[22] calls the US an entrepreneurial state, arguing that the US government has been taking a lot of risk by investing in breakthrough innovations. China is not as well-known for innovation as the US, but going global for the first time in history nonetheless exposes the country to a considerable amount of risk.

Without actually consulting either Wilhelm Liebknecht, who coined the term "state capitalism", or Mariana Mazzucato on the "entrepreneurial state", we will take the liberty of discussing the BRI through both of these prisms, seeing China as an example of **entrepreneurial state capitalism**. What we observe is that China employs a complex structure of governmental funds and institutions to implement BRI projects, as well as using its political and administrative power to encourage, incentivize, support, and coordinate multiple activities of public and private actors. Perhaps this is what puts Chinese overseas investment strategy in the paradoxical high-risk-low-return-expectations category, making it almost the only investor available for many developing economies, including some in the Eurasian Heartland. In essence, China invests in many projects with little or no immediate economic viability when building infrastructure and bringing connectivity to the region. This makes China a very special actor in the Eurasian Heartland, as others are unwilling or unable to follow suit.

IMPERFECTION OF PERFECTION

We shall discuss in more details across this work that China has managed to build an amazing, **state-of-the-art, soft-coordinated network organization** to implement the BRI that includes 'Communist Party of China (CPC), old and new financial institutions and companies, traditional and specially established, national and international, state-owned and private – aesthetically speaking this is beautiful. Moreover, this organization delivers: it builds infrastructure for billions of dollars across the globe, including the Eurasian Heartland, using a relatively limited but effective toolkit that includes inter-governmental agreements, official development aid, loans and investments, construction contracts, soft and military power.

Summing up on the above, what we have got here with the BRI is a highly capable autistic and opportunistic newbie with a high-risk appetite going all out at any cost. That can be successful only when fine-tuned by an extremely sensitive **feedback loop**, capable of identifying weak signals of something going wrong and making proper interpretations which can separate real threats from the background noise of everyday life. Perhaps such loops do exist, but we have not seen any sign that they work. Without that, we suggest we are entering an era of extreme uncertainties for the BRI in the Eurasian Heartland.

CONCLUSION

After centuries of biding its time, China is debuting in the global arena, spreading investment and loans, building infrastructure, sometimes introducing new technologies, and triggering trade and investment across Asia and beyond. China's unprecedented economic expansion is bringing emerging markets into its orbit in an attempt to turn the whole world into a complex network of supply chains and trade arteries — according to the country's homegrown vision of globalization. The BRI marks a new stage in Chinese foreign policy which, by building bridges with remote parts of the world, is having a profound effect on the Eurasian Heartland.

At the same time, six years down the road, the rules of the game still have not been explicitly presented by China — or the Chinese government, to be more precise. And this is what leaves room for heated debates on what the BRI really is. Is it a plan or a strategy, a vision or a concept, a process or just an evolving phenomenon? Perhaps this question is not as rhetorical as it sounds. It is a big game with a lot at stake, especially for relatively small economies, and knowing what is on your partner's mind is essential in order to plan intelligently. With this work we offer our thoughts on the BRI, namely that it is a well-established and elaborate Grand Strategy, which can be decoded, at least to a certain extent. Taking BRI as anything less than Grand Strategy would mean severely underestimating the phenomenon, specifically when it comes to decisions taken beyond common sense – the paradoxical decisions.

6 PROPOSED ECONOMIC CORRIDORS UNDER THE BRI

MARITIME SILK ROAD

ISLAMIC WORLD
Green are the Muslim majority countries.
Russia and India have strong multimillion Islamic minorities:
Russia - circa 20 million, India - circa 200 million

RAILROAD CONNECTIONS:
Existing
Planned or under construction

OIL PIPELINES:
Existing

GAS PIPELINES:
Existing
Planned or under construction

PART 2. Morphology of the Belt and Road Initiative

2.1 «GOING OUT TO STAY SAFE WITHIN»

China is the second largest economy in the world and its economic interconnection with the others significantly influences globalization. Positioning itself as a super-power, China is investing massively abroad, while also becoming one of the world major borrowers. In recent years its outbound investments have been steadily rising, making China number 2 in the world ranking of foreign investors. China's BRI gave an extra impetus for state-owned and private companies to invest abroad with government backing.

The Chinese idea of a great rejuvenation is emerging in an era of rising fragmentation, protectionism, and trade wars. Two of China's major trading partners, the US and the EU, are facing challenges from within. Populists and anti-globalists in Europe are gaining credibility because of migrant crises, economic difficulties and ongoing disintegrative processes as the United Kingdom leaves the EU and European authorities fail to develop a coordinated policy. Meanwhile, American President Donald Trump has decided to review US policy toward China, focusing on American interests first. As a trade war between the two economic powers began, and the US introduced new tariffs on the import of Chinese goods, the wider economic situation has become less stable. This global context influences the steps China's authorities are taking. At the 2017 Davos economic Forum, President Xi pointed out that interconnectivity and economic interdependence is the only "win-win" way to cooperate. "Protectionism is like locking oneself in a dark room. No one would emerge a winner in a trade war," President Xi said, adding that there's no point in blaming globalization for economic pitfalls. China's BRI is aimed at solving this problem.

Although China declared its ambitious plan to promote equality, economic development, security, and growth through "win-win" cooperation, the Belt and Road is a Chinese response to the changing economic realities that suggest the need to protect China's national interest from the internal economic and political challenges the CPC envisages are threatening today. Four of them should be highlighted:

1. **Internal disputes:** China's north-west is less developed economically than the rest of the country, with a high level of unrest among the population. The Xinjiang Uyghur Autonomous Region (XUAR) is the largest Chinese region. It is populated by many national minority groups such as Uyghurs, Kazakhs, Kyrgyz, Tajiks and others who historically are part of the Islamic world, with different customs, traditions and religions from mainstream Chinese ones. The region bordering on Central Asia has substandard infrastructure and a complicated social situation. Occasional terrorist attacks and clashes between the local population and government forces are not unheard of. There is surveillance, an increased military presence, and re-education camps by way of a government response to insecurity. All that makes the situation in the region a smoldering fire. A few years ago, the Chinese government, in an attempt to ease tension and secure

control of the region, announced a national program to develop its north-western areas, including the XUAR, providing people with much needed infrastructure and employment opportunities. As the XUAR borders Mongolia, Russia, Kyrgyzstan, Tajikistan, Pakistan and India, it is a core part of the global BRI. China is trying to enhance security and stability within the country through implementation of the BRI by strengthening transitional routes both within the country and within the region.

2 **The Promise of endless economic growth and economic overcapacity:** China's rapid growth and President Xi's commitment to the idea of the great Chinese rejuvenation have some consequences that are not entirely positive. Overproduction in key industries and the will to become a world super-power influence China's economic planning as well as its foreign trade relations. The Chinese economy is heavily dependent on foreign markets. China needs new buyers and safe and reliable trade routes to continue growing. In 2015 the Chinese leader announced its new initiative "Made in China 2025".[23] The aim is to achieve self-sufficiency and to transform the country into a hi-tech powerhouse with a leading position in advanced industries such as robotics, aviation, and pharmaceuticals, with much of that production being exported.

3 **Resources and food provision:** China is one of the world's main importers of minerals, which are needed for its growing economy. China's population is growing and also becoming wealthier. According the latest data, it has 1.398 bn people. It is an acute problem for the government to provide all these people with enough quality food and to provide industry with the resource base needed for economic growth at the minimal level of 6.5%[24]. That in turn requires safe and secure supply chains. As of now, most Chinese foreign trade uses long maritime routes that are physically controlled by the US Navy. In many ways, China sees it as a vulnerability, so it is looking for safe and reliable alternatives almost at any price, the more the better.

4 **Environment and sustainability issue:** The ecological situation in China raises concerns, not only in Chinese society but also across the globe. According to official CPC documents, China is committed to sustainability and environmental conservation. The CPC appears to have found a solution: cement and other polluting productions will be phased out within China. In early 2018, the Chinese premier introduced a new plan to deal with national overcapacity based on the "Make skies blue again" strategy.[25] It envisages capacity cuts in steel and coal of 30 and 150 m metric tons respectively, though that will either increase imports or increase Chinese overseas investments in those fields. Moreover, China, as a signatory of 2016 Paris Climate Agreement, is to lower carbon dioxide concentrations (carbon dioxide emissions per unit of GDP) by 60 to 65 % from the 2005 level and increase the share of non-fossil fuels in primary energy consumption to around 20 %[26].

Initially set to integrate China into the world economy and improve globalization through multilateral partnership, the BRI at its heart remains an inward-looking initiative, strongly corresponding to the vital Chinese state objectives of preserving national security, enhancing economic development and improving the resource endowment of the country. China has always had its own vision of its own state and the rest of the world, and the way it interacts with the external world over the BRI is part of that.

The BRI was a response to a clear recognition that the previous economic model of the "global factory" had run its course and what was needed was a change away from the inward-looking, low-profile concept of national development. China's new global strategy is described in this stratageme: "going out to stay safe within". Metaphorically speaking, China picked up the globalization banner from fallen Western warriors who started flirting with isolationism and trade-wars. The result is a perfectly justified and rational objective nicely packaged for both internal and external audiences.

2.2 ACTORS AND INSTITUTIONS

Inevitably, such a radical change of course requires the establishment of an implementation subsystem with relevant scale, capacity, and capability. To repeat: the BRI involves over 1000 projects and envisages expenditure of more than US$ 3 trillion. In order to achieve that, China made two major institutional changes. First, it established special BRI-dedicated agencies and institutions, both domestic and international. Secondly, it formally or informally extended the mandate of the existing agencies of all types so that they include BRI-related activities. Sending a political message that BRI is a new vector has done the rest of the job as most state-owned enterprises (SOEs) and strategically significant private companies rushed to support the initiative by reflecting it in their strategies and action plans. At the end of the day we see an unprecedented super-massive mix of state and private actors coordinating their activities in implementing the BRI initiative across the globe. The Eurasian Heartland is one of the early «test beds».

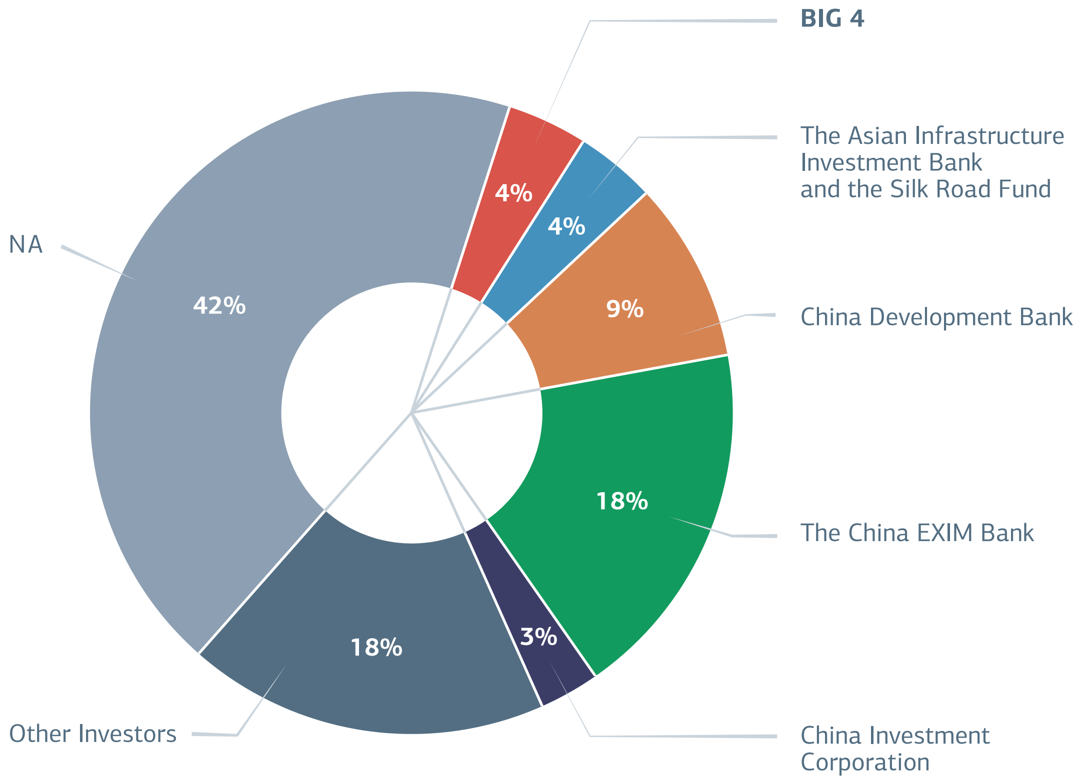
An important fact, that China created domestic and international financial institutions under the BRI framework to ensure the project financing will comply with international regulation and could be ecologically and socially responsible. A US$ 40 bn Silk Road Fund (SRF) was established in 2014 to provide investments for trade, economic cooperation and connectivity under the BRI. The Fund was capitalised by the China EXIM Bank (15%), the China Investment Corporation (15%), the China Development Bank (5%), and the State Administration of Foreign Exchange (65%).[27] There are two major types of SRF activities. First, establishing dedicated development funds and buying equity shares in critical assets, an example of which was a US$ 2 bn agreement made in 2015 with Kaznex Invest to establish a China-Kazakhstan Production Capacity Cooperation Fund with the overall idea of aligning the BRI with the Kazakhstan national development program, Nurly-Zhol. Another example from 2015 was the US$ 1.2 bn acquisition of a 9,9% equity stake in the Yamal LNG Project Company, a liquefied natural gas manufacturer in the Russian north. Apart from the Russian mother company, Novatek, other shareholders include the China National Petroleum Corporation (20%), and the Total Group (20%). This is a strategic BRI deal as China is one the largest Russian LNG consumers.

The Asian Infrastructure Investment Bank (the AIIB) is a Chinese-led multilateral structure with a focus on infrastructure development in Asia and beyond. The AIIB began operating in 2016 and now has 93 approved members. China was the largest provider of the initial capital for the bank. Beijing controls almost 28% of the bank's voting shares.[28] Other major donors include India, which controls 8% of voting shares and to date is the largest borrower, even though it is not participating in the BRI. Russia is the third largest shareholder, with a 6% stake. Some see this multilateral development bank with a "mission to improve social and economic outcomes in Asia by investing in sustainable infrastructure and other productive sectors in Asia"[29] as a potential rival to the World Bank, the International Monetary Fund and the Asia Development Bank. Indeed, there are concerns that the Chinese "loose" approach to international development could overturn traditional "rules-based" international development institutions.[30]

However, despite being a critical element of the BRI toolkit, the AIIB does not seem to challenge the existing international institutions. On the contrary, with all the compliance, governance, and transparency now in place, strategically the AIIB looks more like a bridge between China and the international financial system. The most illustrative AIIB project in the Eurasian Heartland would be financing the Trans-Anatolian-Natural-Gas Pipeline (TANAP), which was commissioned in 2018. The AIIB invested US$ 600 mn in the pipeline, whose purpose is to transport natural gas from Azerbaijan through Turkey to end consumers in southern Europe. This project is crucial for linking Azerbaijan gas fields with new markets, and for improving Turkey's energy security. Moreover, it is one of the few alternatives to Russian gas for Europe, no matter how small its volume might be. At the moment, China does not benefit directly from this project, but in the future it might be possible to connect China with the Caspian Basin and Europe.

Other official financial sponsors of the BRI are the major developments banks of China, also known as political banks: China EXIM Bank, China Development Bank, Agricultural, Development Bank of China; and the Big 4, namely the Agricultural Bank of China, the Bank of China, the China Construction Bank, and the Industrial and Commercial bank of China. An illustration of how these institutions operate would be US$ 550 m Industrial and Commercial Bank of China's commitment to a potash development project in Kazakhstan (Chelkarskaya and Zhelynskaya Deposits, 2014). Another example is the US$ 100 m Agricultural Bank of China's preferential loan to Agroinvestbank, Tajikistan. This was issued in 2014 as an official BRI project for the general improvement of the country's agricultural sector, though details of the terms and conditions have not been disclosed.

FIGURE 1. MAJOR BRI FINANCE PLAYERS IN THE REGION



BIG 4 includes: Industrial and Commercial Bank of China
Bank of China
China Construction Bank
Agricultural Bank of China

Source: SKOLKOVO IEMS

The pie chart here illustrates one of the fundamental issues with BRI analysis: the initiative is non-transparent. We can see the projects happening, but in more than 60% of the cases it is not clear where the money came from. We do not even know whether this is debt or equity investment. This makes generalization difficult. But still, the overall pattern is clear.

The biggest financial player in the region is the China EXIM Bank, followed by the China Development Bank. This suggests that most of the money comes as preferential debt. We can also assume that newly established institutions are not very active in the region as they seem to be reserved for projects of a different magnitude. Both the AIIB and the Silk Road Fund were initially established as transparent financial institutions, fully compliant with the strictest international standards. This is unlike the political banks and the Big 4. That might be why we find the Silk Road Fund working with such international projects as Yamal LNG where other investors include French Total Group, and the AIIB working on transcontinental pipelines, like TANAP. When it gets to the smaller-scale local or regional projects, we will most likely be dealing with the old-fashioned Big 4 and/or political banks.

These financial institutions, domestic and international, old and new, universal and specialized, are the backbone of the BRI. But in order to make real change happen on the ground, like building physical infrastructure, or starting to pump gas or grow soybeans, you need much more than a few banks, you need the full-scale involvement of the industry, both state-owned and private. That may be why most BRI projects involve state-owned enterprises. On one hand, that gives SOEs an opportunity to improve their competitiveness by working abroad and accumulating international competencies and qualifications. On the other hand, it enables the SOEs financing selected projects to act as lenders or equity investors, which apparently has become yet another way to finance BRI projects.

We will discuss China's investment strategy later, but it is predominately thanks to SOEs that China has developed the paradoxical appetite for high-risk projects and low-return expectations that gives SOEs flexibility in allocating funds and resources. The result is that it is the Chinese government which is, so to say, the "loser of last resort" as the expectation is that all projects will be completed whatever the financial implications.

Finally, as many deals under the BRI umbrella remain largely political, their starting point is often an Inter-Governmental Agreement on some specific project. For companies other than SOEs, it would not be possible to act based on this legal framework, which is quite common in the Eurasian Heartland, with or without the BRI. A typical example of SOE involvement in BRI is the China Railway Tunnel Group Co. Ltd., building a railway tunnel in the Qamchiq pass to connect the Fergana Valley in Uzbekistan with the rest of the country and, beyond that, with Kyrgyzstan and China. At almost 20 km, it is the longest in region and the 8th longest in the world. The total cost of the project was US$ 455 m, which was supported by a US$ 350 m loan from the China EXIM Bank.

One could also call BRI a remarkable example of a strategic public-private partnership (PPP) as we see a number of both iconic and ordinary private companies deeply involved in the implementation of the BRI. Huawei has already become a commonplace example of a private company widely involved in the implementation of the Chinese foreign policy at best, and intelligence gathering at worse. In the Eurasian Heartland, an example of Huawei's participation in the BRI would be the US$ 550 m project to construct telecoms infrastructure in Uzbekistan supported by a US$ 550 m China Development Bank loan. That is just to upgrade the local network. Also, Huawei equipment makes up to 90% of Turkmenistan's national telecoms network.[31] Along with selling traditional equipment, supported by the BRI financial institutions, to local telecom companies in the Eurasian Heartland, Huawei, in cooperation with other Chinese telecoms and digital solutions providers, are seeking to accompany hard infrastructure projects like pipelines or railroads with smart applications involving big data and artificial intelligence. This is how hi-tech giants scale up their domestic solutions to fit the continent and, by doing so, create a digital channel within the BRI.

Alibaba is another private company naturally involved in BRI. Despite the news that Jack Ma is a CPC member, Alibaba has usually been less closely associated with Chinese foreign policy.

At the same time, Alibaba is perhaps one of the most immediate beneficiaries of the BRI as e-commerce in Eurasia is booming and most of it comes through the Alibaba universe. The recent US$ 2 bn e-commerce alliance for the 100 million-user Russian market between Alibaba, Mail.Ru Group (Russia), and Megafon (Russia)[32] is another example of this pattern.

Huawei and Alibaba are two examples of the thousands of private companies involved in different ways in the implementation of the BRI. Without going into depth about the Chinese notion of strategy and management, we can say that this involvement is neither sporadic nor coordinated in a formal way. It is more of a common direction and soft coordination, and something that results in consistent collective behavior over time.

After having discussed all the actors and institutions involved in the implementation of the BRI, it is hard to say who in China is left out of the BRI. It is an important question as the country is accustomed to being run by ideologemes and having a collectivistic mindset. Perhaps it is natural for this nation to get together and act as it did, for instance, during Mao's Great Leap Forward in the 1950s. Unfortunately, this time things are more complicated. China is surrounded by the Islamic World, so wherever it wants to build bridges to it has to start by dealing with Muslims. This demands a lot of cultural intelligence in the sense of an ability to understand and appreciate other cultures, respect their national pride and interests, tolerate diversity and work together for benefit of the common good. And this is where China has not yet succeeded. So far, at home, Muslims and Uyghurs do not seem to have equal opportunities, to speak only of economics. This could have spillover effects elsewhere for the BRI. China is expanding for the first time in its recent history. Perhaps the fact that it goes back more than 4000 years makes it even harder for the Chinese to believe that no matter how old your own culture might be, other cultures matter. The simple fact is that the countries of the Eurasian Heartland do not see themselves as a mere midpoint between China and Europe. They have their own lives and ideas for the future that must be carefully considered if co-operation is to be mutually beneficial. Perhaps the main bellwether of wider success will be signs of China's ability deal with Muslims at home.

2.3 THE TOOLKIT

Remarkably, although China has created a sophisticated and almost invisibly orchestrated universe of actors and institutions implementing the BRI, the main strategic toolkit remains relatively limited and simple. What makes it difficult to read is the lack of information and the unconventional combinations of conventional instruments. Like us, many scholars have noted that the BRI lacks transparency. It is difficult to track projects. The BRI is definitely much more complicated and opaque than any legal international development initiative that has ever existed.

INTER-GOVERNMENTAL AGREEMENTS

One of the important distinguishing characteristics of BRI projects in the Eurasian Heartland is that many, if not all, of them have a very special legal framework which is not widely accepted in the developed economies but is very helpful to many state and private actors who wish to coordinate activities with BRI project implementation. This powerful BRI development tool is called an Inter-Governmental Agreement (IGA). Basically, it is a loosely-defined legal document that can be everything from a single page memorandum of understanding to a long and legally loaded contract-style document. It is usually signed by heads of states or prime-ministers, and then goes to parliament for formal ratification before it comes into force.

Its legal status in both countries is sufficient to mandate coordination by all the parties involved, be they state-owned or private companies. Legitimate contracts can be signed with so-called "authorized parties" for everything regulated by an IGA, from equity stake acquisition and preferential loan provision to soybean sowing or railroad construction. Most of the BRI projects in the Eurasian Heartland have been implemented on the basis of individual or framework IGAs.

OFFICIAL DEVELOPMENT ASSISTANCE (ODA)

According to the AidData report, between 2000 and 2014 China committed US$354.3 bn bn in official finance to 140 countries. Chinese state-owned and political banks typically issue concessional loans, with 25% of sum committed as grants, to poor countries to improve their relations or to help Chinese companies enter a new market. Such investments are known as "aid" intended for the development and welfare of the recipient country. It could be a grant for a hospital or for school construction, as in Armenia in 2012, or for more substantial projects, as in Kyrgyzstan. In the Eurasian Heartland China, became the main ODA donor after the Soviet Union collapsed. Today, Chinese financial aid is focused on cross-border technical and economic cooperation, including loans for the modernization of customs control systems, for transportation system upgrades, or educational and cultural center development, etc.

The main recipients of Chinese financial aid in the region, according to the AidData report, are Kyrgyzstan, with US$ 1.55 bn, Tajikistan with US$ 0.83 bn, and Turkmenistan with US$ 0.62 bn. ODA also could be considered as a part of a "good neighbor" policy, establishing a secure diplomatic environment for China and improving its image internationally. As an emerging economy and non-OECD (Organization for Economic Cooperation and Development) member, China is trying to act as a great power and boost its influence. In the regional context, Chinese ODA is becoming preferable as the Chinese government does not set any special institutional requirements for countries which want financial assistance. That eases the way for China to enter the country's market.

LOANS AND INVESTMENTS

Although China remains one of the world's largest borrowers with a debt-to-GDP ratio of over 250%[33], it has already become one of the world's largest creditors, partly due to the BRI. Going global, in search of an engine of eternal economic growth, has been possible only after the way was paved with a lot of cash.

In 2016, Chinese FDI has reached US$196.2 bn[34], putting it second only to the USA. Despite a decline in 2017, China remains among the three largest outbound investors globally, with US$158.3 bn, having been overtaken by Japan. Chinese outbound investments mainly go to acquire technologies, know-how, consumer brands, and market shares, mostly in Europe and other developed markets. One of the few exceptions is the purchase of equity stakes in oil and gas companies, including conventional, LNG, and shale assets, which are strategic resources for the Chinese economy.

In the Eurasian Heartland, this pattern persists, so we see more equity investment in oil and gas and other resources, while preferential loans are predominately used for developing agricultural projects, building infrastructure, and developing industrial parks. As for now, the Eurasian Heartland does not offer many opportunities for acquiring globally competitive technologies, know-how, and consumer brands. Russia could have been an exception as far as technology is concerned, but there are many legal restrictions on foreign investors in many industries. The Russian government is very cautious about selling assets to foreign companies, Chinese ones included.

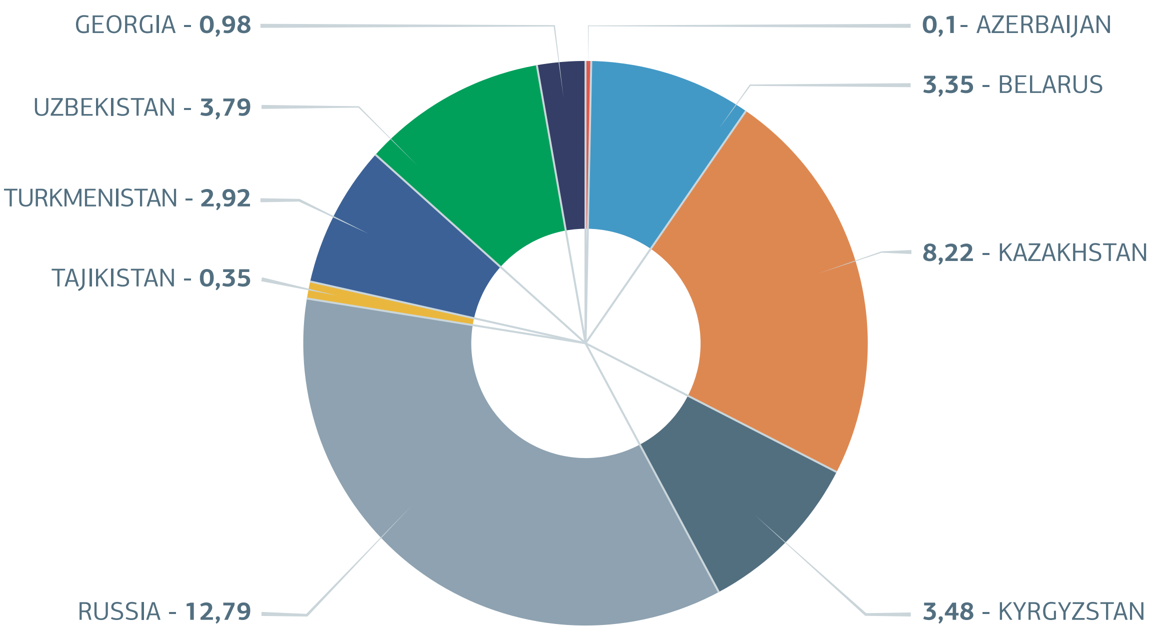
Perhaps that is why most of the BRI projects implemented in the Eurasian Heartland are financed as loans or preferential loans, not as investment.

Preferential loans and investments remain the major implementation tools for BRI strategy in general and in the Eurasian Heartland in particular. We shall discuss in more detail below where China directs its financial resources and what it gets in return.

CONSTRUCTION CONTRACTS

The BRI is not only about handing out money. As the number of infrastructure project is rising, China is often not only the biggest contributor but also the biggest contractor. Many projects co-financed by China, local governments, multilateral organizations such as the AIIB, the EBRD, the ADB, etc., are implemented by Chinese corporations. The American Enterprise Institute and the Heritage Foundation stated that in 2011-2017 Chinese companies won constructor contracts in the countries examined for more than US$ 54 bn, mostly in Russia (35,5%), and Kazakhstan (22,8%). Moreover, Chinese construction companies now dominate globally, with 7 out of the 10 biggest being Chinese.

FIGURE 2. CONSTRUCTION CONTRACTS, IN 2011-2017, US$ BN



Source: THE AMERICAN ENTERPRISE INSTITUTE

Infrastructure projects also have short-term implications for Chinese exports, aiding Chinese exports of construction-related goods. Chinese producers of steel, concrete, and other materials also benefit from these projects, as do Chinese engineering and construction firms. On the one hand, this gives a slight but important relief to Chinese domestic overcapacity, while on the other, it creates a dominant global player that eventually will stop financing its own projects and will legitimately and successfully challenge Western players in Western markets. Chinese construction companies have proven to be able to deliver quality work on time and budget. The only apparent downside is that these companies tend to bring a Chinese workforce. This may be justified economically, but it creates a lot of challenges at local and regional levels, as it turns out that long-awaited BRI projects do not create local jobs.

SOFT POWER

For the sake of this discussion, we will be referring to our earlier works, starting with the 2012 'Rapid-Growth Markets Soft Power Index' and the follow-up work in 2014.[35] They

used Joseph Nye's definition of soft power[36] as the ability to attract rather than coerce, and suggested a certain methodology for measuring the soft power.

Without going into the details, we list some of the factors which in our view should be taken into account. Among them are global university rankings, overseas applications, foreigners studying the national language and overall language distribution, the most popular national brands globally, influential people and remarkable personalities, including culture icons in the global media space, tourist inflows, tourist attractions including UNESCO Heritage sites, Olympic successes, school education levels (PISA), international patents awarded, and quantity of scientific publications. As this list shows, soft power is a complex phenomenon. It is also a long-term one too. A positive national image takes a long time to craft.

As we noted earlier, China has devoted significant resources and efforts to soft power development. There are nearly a thousand Confucius Institutes around the world dedicated to teaching Chinese language and culture. There is a 24-hour cable news channel inspired by Al Jazeera. And there is much more than that. Generally speaking, China's efforts have already paid dividends.

Chinese universities are amongst world's best, with the enrollment of foreign students having tripled over the past decade. Schools get high rankings in international competitions. Mandarin is becoming one of the most popular foreign languages to study. Jack Ma is definitely competing with Elon Musk and Mark Zuckerberg for the top iconic position in the hearts and minds of aspiring young entrepreneurs all around the world. Huawei, Xiaomi, Lenovo, ZTE, Tencent, and many others have already won the loyalty of their global clients. The number of international tourists going to China has increased dramatically and will continue to do so. Chinese cuisine is on a victorious march across the globe, from street food and food-courts to prestigious Michelin-star, down-town restaurants.

Soft power is one of the crucially important tools for the BRI in the Eurasian Heartland. However, it is always vulnerable. Though it takes a long time to build a positive image, that can be destroyed in a moment. Controversies with Muslims, ethnical Kazakhs and Kyrgyzs in XUAR, debt-trap fears in Kyrgyzstan, Tajikistan, Sri-Lanka, Pakistan and other places, and espionage allegations against Huawei almost everywhere are potentially damaging. So are more local conflicts, like that over Lake Baikal, which provoke fear, undermine trust, and indicate a lack of preparedness to work together. The overall attitude towards China in the Eurasian Heartland is very unstable and we can confidently say that it will require more work to raise the level of trust and acceptance. To repeat: the people of the Eurasian Heartland do not see themselves as mere links between China and Europe. They are almost 240 m people with their own values, views, and ideas. Though they are naturally friendly and hospitable, they need to be taken seriously as sovereigns in their own land and respected as such.

MILITARY POWER

China is no. 3 in the "firepower" ranking 2019[37], with an army 2.2 million strong and the fifth largest nuclear arsenal. Chinese defense spending has been growing for 24 consecutive years making it the second largest globally and, at about US$ 250 bn, reflecting an 83% growth since 2009 only. China has been involved in a number of territorial disputes in the South China Sea and in East China Sea and elsewhere. It has a regular presence in disputed sea areas. China has also recently established its first overseas naval base, in Djibouti, and there has been a growing number of Chinese military drills and joint exercises all over the world. In other words, China is a strong and growing military power that has already demonstrated its intention to expand its presence beyond its own borders.

As far as the Eurasian Heartland concerned, China is probably to start building its next military base abroad, in the province of Badakhshan in Afghanistan, bordering Tajikistan.[38] At the moment there is little information regarding the progress of this initiative, neither do we have any information on further Chinese plans for military expansion in the region.

Although a comprehensive security analysis of the region is beyond the scope of this report, we should take into consideration that BRI is an increasingly complex development initiative while the Eurasian Heartland remains little known, diverse and volatile. Due to the fact that the Central Asian and the Caucasian countries did not exist within their current borders before the collapse of the Soviet Union, there is a historic legacy of existing and potential border conflicts (Nagorny Karabakh, Fergana Valley), ethnic conflicts (Kyrgyzstan and Uzbekistan), water disputes (Uzbekistan, Kazakhstan and Kyrgyzstan, Uzbekistan and Tajikistan), and many other internal security challenges. Add to that global terrorism, including radical anti-China acts of terror like, just to name one, a suicide bomber attack on the Chinese Embassy in Kyrgyzstan,[39] and it is easy to see how China might feel insecure. That explains its wish to keep all options open to defend its hundreds of billions of dollars of investment in critical supply chains and trade routes in the area. At the moment it is impossible to say how far China will be prepared to go should there be a real threat to these investments. To date, this is one of the most significant uncertainties for the future of the BRI.

PART 3. Strategic Landscape of the Eurasian Heartland

THE COMMANDING HEIGHTS: WHY THE REGION MATTERS FOR CHINA

Historically speaking, the ancient Silk Road passed through Eurasian countries which now are relevant for the BRI. They are important to China because it is a diverse and dynamic region which combines ancient traditions with the forward-looking aspirations of newly developing countries for which the Chinese initiative is a crucial tool for economic growth and a game-changer for the regional narrative.

China's interest in Central Asia is not new. It has always been concerned with economic expansion and control over territory and resources. Since gaining independence, which has led to fragmentation in the region, the Chinese policy toward the Central Asia and the Caucasus (CAC) has changed. It is extremely rich in the mineral resources needed for China's growing economy, and it provides a natural link to Europe and the Islamic world. As China plays a significant role in the regional economy, its economic ties have had a considerable impact on the economic development and integration processes, which are especially important in an era of protectionism and trade wars. As one of the world's biggest economies, China is also one of the world's major creditors. Due to the unprecedented trade war with the US, China is now seeking new and secure trade routes to the CAC region. The result is that, in recent years, transport capacity has increased markedly, making access to Europe faster and safer.

The establishment of good relations with the CAC countries and control of the security situation were crucial points for China's officials. They remain acute issue as the region borders the north-west of China, which is less developed economically and has a high level of unrest among the local population. The Xinjiang Uyghur Autonomous Region is the largest Chinese region. It is populated by many minority groups such as Uyghurs, Kazakhs, Tajiks and others who historically are the part of the Islamic World. They have different customs, traditions and religions that make it difficult for them to integrate into the Chinese culture. As the XUAR borders Mongolia, Russia, Kyrgyzstan, Tajikistan, Pakistan and India it is a core part of the global Belt and Road Initiative and it is in the best interest of China to enhance security and stability within the country through implementation of the BRI in that region.

The next important fact is that cooperation with the Islamic World is key to providing security for the whole region. Afghanistan is a neighboring Islamic country which for decades has suffered from wars and terrorism, thereby creating political instability in the region. Its border with China, although only 90 kilometers long, poses a significant security threat because the country is a hotbed of extremism. On the Chinese side, Xinjiang is a region that is especially vulnerable to the effects of terrorism. The Shanghai Cooperation Organization includes most of Afghanistan's neighbors and nearby countries so it could serve as an important multilateral platform for coordinating policies combating such security threats.

Since 2014, China's Afghanistan diplomacy has become more proactive. After the withdrawal of the International Security Assistance Force (ISAF), China participated in the Istanbul process and hosted bilateral and trilateral meetings with regional powers such as Russia, India Iran and Pakistan[40], thus demonstrating its commitment to a smooth power transition in Afghanistan. To reach consensus and ensure stability of the new trade routes crossing the region under the BRI, China even launched the China-Afghanistan-Pakistan Trilateral strategic dialogue[41], while enhancing a strong bilateral approach at the same time. As the number of high-level official exchanges increased, the Chinese government allocated US$70 m worth of military aid and US$ 90 m of development assistance to Afghanistan. Having taken a strong position in the coordination processes, China announced the construction of its second overseas military base in Afghanistan (the first one was in Djibouti). Through construction, which has not started yet, is intended to use it to conduct counter-terrorism operations across the border with Xinjiang region.

The uneven business environment, general political and economic transformations, migration flows, disputes and conflicts combine to make this region a very risky place to invest in. Despite this, it has become an important destination for the Chinese capital. It is rich in mineral resources and has considerable transit potential for Chinese trade routes to Europe. Moreover, governments in the Eurasian Heartland see the BRI as a possible opportunity to address important domestic challenges. The result is that they are ready to deal with China on its own terms, especially given the fact that usually the Chinese government does not set any special institutional and economic requirements before offering finance. **All this makes the Eurasian Heartland an ideal BRI target for Chinese grand strategy.**

3.1 THE DIVERSITY OF THE LANDSCAPE

The biggest part of the BRI passes through the Eurasian continent: the China-Mongolia-Russia corridor; the New Eurasian Land Bridge; and the China-Central Asia-Western Asia Corridor. The Central Asia and Caucasus is a diverse and dynamic region situated on the crossroads between civilizations, between China, Russia, the West, and the Islamic World. This makes the region a crucial natural link between China and its second major trade partner – Europe, and one of its major energy resources suppliers, the Islamic world. The region stretches from the Black Sea in the west to China in the east and from Afghanistan in the south to Russia in the north. Central Asia is also known as Middle or Inner Asia.

Central Asia is an extremely large region of varied geography, including high passes and mountains (Tian Shan), vast deserts (Kyzyl Kum, Taklamakan), and treeless, grassy steppes. The steppe areas of Central Asia are thought of together with the steppes of Eastern Europe as a homogeneous geographical zone known as the Eurasian Steppe. Central Asia is bounded on the north by the forests of Siberia. The northern half of Central Asia (Kazakhstan) is the middle of the Eurasian steppe.

POLITICS

The Eurasian Heartland includes 10 post-soviet states that did not exist as independent sovereign states before the Soviet Union collapsed: 5 Central Asian republics – Kazakhstan, Uzbekistan, Turkmenistan, Tajikistan and Kyrgyzstan, 3 Caucasian republics Armenia, Azerbaijan and Georgia, as well as Belarus and Russia.

Political systems within the region differ significantly. From a parliamentary republic in Kyrgyzstan, to a conservative autocracy Turkmenistan. Kazakhstan, one of the region's major actors, is a presidential republic with a strong national leader, Nursultan Nazarbaev, who was President for 30 years and remains in power even after his formal resignation in 2019. Because of his strategic vision for the country and his strong commitment to modernization and the development of the human capital, many people call him the Lee Kuan Yew of Kazakhstan. The recent power transfer in Uzbekistan has led to range of open-ended reforms. The political environment in the countries still depends on cultural specifics. For example, soviet patterns of ruling make them vulnerable to, and restrain their integration in, the world system. In general, the region is on its way to improving government effectiveness in terms of the quality of public and civil services they provide and of policy implementation. There has been visible progress in Kazakhstan, Georgia, Belarus, and Uzbekistan; to a somewhat lesser extent in Azerbaijan, Armenia, and Kyrgyzstan, while Turkmenistan, Tajikistan are lagging behind the region's average.

ECONOMY

The region's economic performance since the USSR's collapse has been mixed. Its natural resources are among the richest in the world, but lack of infrastructure is a major challenge. The economies of the CAC countries vary significantly. Basically, they can be grouped into 3 types: oil- and gas-export oriented countries, agriculture-based countries and industrialized countries. Since the 1980s, gas- and oil-rich Kazakhstan and Turkmenistan have accumulated greater wealth than the other countries. New economic reforms and an 'open-up' policy have led to significant changes in the region. In the World Bank's GDP ranking for 2017, Russia and Kazakhstan are the leaders. Russia ranked 11th ($1.6 trillion), putting it between South Korea and Canada. Kazakhstan ranks 55th in the general list with a nominal GDP of about $159 bn. Uzbekistan occupies the 85th ($ 48.7 bn), and Turkmenistan 88th positions ($ 42.3 bn). Kyrgyzstan is at 145 ($ 7.5 bn), and Tajikistan 147 ($ 7.1 bn).

Kazakhstan has become one of the main destinations of FDI due to the favorable business environment there. Azerbaijan and Russia lead the region in terms of competitiveness. Armenia, Tajikistan, and Kyrgyzstan have not yet reached their level in terms of productivity of their economies. For example, the unemployment rate varies from 2.4% in Tajikistan to 18.5% in Armenia, but the governments have embarked on a course toward economic effectiveness. At the same time, most countries still rely more on the Soviet legacy in their economic systems which, since 1991, have not yet recovered. The poverty rate in Tajikistan is 46%, and country's position in the ease of doing business index is only 132, whereas in Armenia the poverty rate is only 7.5% and the country's rank in terms of ease of doing business is 41.

SOCIAL / DEMOGRAPHY

This vast area is home to more than 240 m people representing more than 100 ethnicities, speaking more than 30 languages and practicing all world's largest religions. The young population – the median age is under 27 – represents significant human capital. The literacy rate is almost 100 per cent and the tertiary education enrolment rate is up to 50 per cent with governments helping young people to obtain a world-class education. They are competitive, well-educated and active Internet users. For instance, according to the World Bank, in Russia, Azerbaijan, Kazakhstan, Uzbekistan, Georgia and Armenia every second person in the country is an Internet user, which is the above world's average of 46% (2016). Consistent improvement of HDI is observed throughout the Eurasia. The Russian score of over 0.8 implies very high human development. The majority of the region – Kazakhstan, Azerbaijan, Georgia, Uzbekistan, and Armenia – are in the group of high human development, while Kyrgyzstan's and Tajikistan's HDI score in 2017 was just a little over 0.6, ranking them at 122 and 127 respectively. Although the region is modernizing and integrating into the international economy, there are still unsolved issues connected with employment, migration, human rights and delayed urbanization (urban-rural divide).

Eurasia is also part of the Islamic World. Turkey, Iran, Afghanistan and Pakistan are the key neighboring countries. Historically, Turkey and Iran have had a significant impact on the Eurasian region in terms of religion, language and geopolitics. They left footprints in local traditions and everyday lifestyles. These legacies and connections are a common heritage. For instance, Turkey was the cradle of the common Turkic civilization represented by the peoples of Kazakhstan, Kyrgyzstan, Uzbekistan, Turkmenistan and Russian regions like Tatarstan and Bashkortostan. Their languages are similar, all having Turkic roots.

As of 2017, the Central Asia and Caucasus region had more than 240 million people[42], with a significant part of that (except Georgia and Armenia) being Muslim. The total number of Muslims in the Eurasian region – over 86 million – is comparable to the population of Germany, Iran or Turkey, and considerably more than the population of such states as France, the UK, Italy or South Korea. It is slightly less than half the population of Pakistan and one third that of Indonesia. Eurasian Muslims are predominantly Sunni, except in Azerbaijan where the majority, 85%, identifies itself as Shia. The number of millennials in the region is 135 million, and over 50 mn of them are Muslim. The Islamic roots of the region, including Russia where over 20 mn of population is Muslim, represent a strategically important point for China's BRI initiative because it is aimed at developing China's Western province, Xinjiang, which has a large Muslim population, the Uighurs.

Timur's (Tamerlan's) Doors (1872), Vasily Vereshchagin. Tretyakov Gallery, Russia

MAP: THE EURASIAN HEARTLAND

KAZAKHSTAN ★ NUR-SULTAN
BRI Attractiveness score 40
GDP US$bn 159.40 | % 3.99
US$bn 18.41 | 33
中 5 | 中 0

RUSSIA ★ MOSCOW
BRI Attractiveness score 38
GDP US$bn 1577.50 | % 1.54
US$bn 35.71 | 55
中 19 | 中 2

AZERBAIJAN ★ BAKU
BRI Attractiveness score 36
GDP US$bn 40.75 | % 0.10
US$bn 1.37 | 8
中 2 | 中 0

UZBEKISTAN ★ TASHKENT
BRI Attractiveness score 34
GDP US$bn 48.72 | % 5.30
US$bn 3.79 | 19
中 2 | 中 0

BELARUS ★ MINSK
BRI Attractiveness score 32
GDP US$bn 54.44 | % 2.42
US$bn 6.49 | 25
中 4 | 中 7

TAJIKISTAN ★ DUSHANBE
BRI Attractiveness score 31
GDP US$bn 7.10 | % 7.10
US$bn 2.37 | 10
中 2 | 中 1

TURKMENISTAN ★ ASHGABAT
BRI Attractiveness score 25
GDP US$bn 42.30 | % 6.50
US$bn 8 | 2
中 0 | 中 0

KYRGYZSTAN ★ BISHKEK
BRI Attractiveness score 13
GDP US$bn 7.56 | % 4.58
US$bn 6.84 | 15
中 4 | 中 21

GEORGIA ★ TBILISI
BRI Attractiveness score 6
GDP US$bn 15.10 | % 4.99
US$bn 0.37 | 3
中 1 | 中 1

ARMENIA ★ YEREVAN
BRI Attractiveness score 4
GDP US$bn 11.50 | % 7.50
US$bn 0 | 0
中 1 | 中 3

GDP — Gross Domestic Product, US$bn
% — Gross Domestic Product growth, %
US$bn — BRI volume of investment, US$bn
Number of projects
中 — Confucius Institute
中 — Confucius classroom

BRIAS 40 — 0

3.2 THE COMPLEXITY OF THE LANDSCAPE

The diversity of the region and its historic ties with Russia, China and the Islamic World significantly affect integration processes in Central Asia. Shortly after the Soviet Union collapsed, the regional landscape changed dramatically, revealing inconsistencies but demonstrating the interdependence of these new states which triggered a drive towards integration. Starting in the early nineties, some Central Asian and the Caucasian states were vulnerable to extremism and terrorist threats from the neighboring territories of Afghanistan and Pakistan. Economic opportunities for young people were limited, so they were easy targets for extremist recruiters. That helped trigger regional security cooperation.

SECURITY DIMENSION: The Shanghai Cooperation Organization (hereinafter the SCO)[43] was created to foster the all-round development of political cooperation and the development and improvement of the military component, which included counteraction against international terrorism, extremism, illicit drug and arms trafficking, and other threats. Now the SCO consists of 8 member-states: China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Uzbekistan, India, and Pakistan. The Central Asian and the Caucasian states had never existed within their current borders before 1991, and the collapse of the Soviet Union led to territorial, ethnic and water disputes, and extremist propaganda. However, international terrorism still remains an acute issue on the international agenda. The Collective Security Treaty Organization[44] (consisting of Armenia Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan) was created to strengthen peace, international and regional security and stability through collective protection of the independence, territorial integrity and sovereignty of Member States by peaceful means relying on the strong multilateral ties in the region.

SOCIO-ECONOMIC DIMENSION: After gaining independence in 1991, these new states transited to market economies while trying to maintain close political and cultural ties within the post-Soviet area. The Commonwealth of Independent States[45] was founded as an international organization that included almost all the former Soviet republics. Currently it consists of Azerbaijan, Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan and Uzbekistan. Turkmenistan participates as an “associate member”. The main goals are cooperation on economic, political, cultural and environmental issues, ensuring human rights and freedoms, and peace and security in the post-Soviet space, as well as mutual legal assistance.

Now, as a leading economic integration platform, the Eurasian Economic Union (hereinafter the EAEU)[46] is a vital mechanism for the cooperation needed to create a common market and stimulate the economic development in the region. Today, the member-states are Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia. The EAEU is an essential partner for China in Central Asia and provides Chinese companies with access to the regional markets. As the most of the BRI corridors go through Eurasia it is becoming an important destination for large-scale Chinese investments. In 2017 China and the EAEU signed a protocol on economic cooperation. This is expected to evolve into a legal framework for Chinese-EAEU cooperation and to reduce or fully eliminate trade barriers for Chinese companies and goods after signature of a trade and economic cooperation agreement in spring 2018.[47]

Basically, the integration processes in the Eurasian Heartland are focused on two subjects: security and economics. This is a Soviet legacy, as after the USSR collapsed in 1991 relations and economic interaction between the newly established countries deteriorated. Territorial and water disputes, ethnic conflicts, terrorist threats and economic slowdown stressed the need for regional integration.

Since the collapse of the Soviet Union, the region has opened up to foreign investors. Although international institutions will remain central in setting standards and providing assistance, such countries as Japan, South Korea and those of western Europe, for which cheap fuel and safe trade routes amid uneasy international climate

MAP: CONFLICTS IN THE EURASIAN HEARTLAND

WATER CONFLICTS

Water has always been a bone of contention in the region sparking conflicts and territorial disputes.

The main sources of water in Central Asia are the Syr Darya and Amu Darya Rivers, fed by snow- and glacier melt from the Pamir, Hindu Kush and Tien Shan mountains – the Water Tower of Eurasia. Both, Syr Darya and Amu Darya Rivers flow to the shrinking Aral Sea.

Permanent divergences exist between two groups of countries:

KZ TM UZ   KG TJ

STAKEHOLDERS

Interstate Commission for Water Coordination of Central Asia

The United Nations Special Programme for the Economies of Central Asia (SPECA)

Global Environment Facility

Ehe International Fund for Saving the Aral Sea (IFAS)

BORDER AND ETHNIC CONFLICTS

TAJIKISTAN:

The Tajikistani Civil war(1992-1997)

The Gorno-Badakhsnan Clashes in Tajikistan (2012)

THE COMPLEXITY OF THE FERGANA VALLEY:

The Fergana Riots (1989)

The Osh Riots (1990, 2010)

THE NAGORNO-KARABAKH CONFLICT
(1988- 1994, 2008,2010,2011-2013,2014,2016)

GEORGIA

The Georgian–Ossetian conflict (1991-1992, 2008)

The Abkhaz–Georgian conflict (1992-1993, 2008)

STAKEHOLDERS

Russia

United Nations

Organisation for Security and Cooperation in Europe

United States

are crucial, are implementing their own foreign policy toward the region. They are investing in infrastructure and mineral resources projects. Japan was quick to establish diplomatic relations with the CAC countries and became one of the major investors shortly after the Soviet collapse, providing ODA to the region. In CAC countries it is still one of leading investors according to data from the Eurasian Development Bank. Its research shows that the main recipients of the Japanese investment are Russia and Kazakhstan, with more than 65% of investments are made in the energy sector (Russia received US$ 15.1 bn in 2016). Moreover, one of the most important financial players in the region is the Japanese-led Asia Development Bank which, apart from infrastructure projects, finances the Central Asia Regional Economic Cooperation (CAREC) Program[48]. This promotes development through cooperation, and has led to accelerated growth and poverty reduction. It is supported by 6 multilateral organizations in Japan, South Korea, India and other states. India is also an emerging financial partner. Indian investments in Russia and Kazakhstan amount to US$ 9.1 bn and US1.5 bn respectively. Moreover, after the recent visit of Vladimir Putin to India, it is expected that the Indian government and the EAEU will intensify talks on a free-trade agreement which could increase Indian engagement in the regional economy.

According to official data, the European Bank for Reconstruction and Development invested in these countries more than US$ 56.6 bn and officially supports the Chinese BRI initiative by providing much-needed help to the region. In the volatile geopolitical context of President Trump's policy toward Iran, Russia and China, the European Union is bound to search for an alternative. With the help of the BRI, Europe may get access to cheap Iranian or Azerbaijani and Turkmen oil and gas resources through new, shorter routes. Now the oil and gas exports of the Eurasian countries are mostly "East oriented", but if Iran's rail revolution succeeds and the proposed new pipelines through Caspian Sea are constructed, Europe will have an alternative to dependence on Russian energy supplies.

The interests of South Korean companies in the post-Soviet space are concentrated mainly in two EAEU countries: Kazakhstan and Russia. Unlike with Japanese investment, Russia is not the main recipient of South Korean FDI, although it has 39% of it (US$ 2.1 bn). Kazakhstan has received the bulk of the direct investment: US$ 3.1 bn, or 58% of the total Korean FDI in post-Soviet countries. The energy, machinery and agriculture sectors attract the largest volume of investment from South Korean companies. At the same time, there is no South Korean FDI in the Russian fuel complex.[49]

Islamic countries are also making significant investments in the region. Interestingly, the most attractive destination for Islamic money is Kazakhstan, which receives major investments from Turkey, the UAE and others. The capital flow from Turkey is one of the most stable and diverse. In 2016, Turkey invested more than US$ 16.5 bn in Eurasian countries with projects in almost all economic fields. The direct investments from the Turkish companies in Kazakh economy increased by 34% in 2016 and amount to US$ 315 m.

The Eurasian Heartland opened up to the rest of the word only in 1990. Although the interest in the region is growing, the biggest part of the investment has been made in energy and other mineral resources, as well as in the infrastructure necessary to secure the supply chain for non-regional powers. Kazakhstan and Russia, the largest economies in the region, have been the main recipients of FDI. As the region has strong Islamic roots, it is also evolving as a destination for Islamic finance flows. This suggests not only that China has an interest in deepening relations with the Eurasian states, but also that current volumes of investment from other sourse are far below China's financial flows to the region.

INTEGRATION PLATFORMS

Eurasian Economic Union
Predominately trade and investment organization established in 2014, members are Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia

Shanghai Cooperation Organization
Eurasian political, economic, and security organisation, members are China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Uzbekistan, and India and Pakistan since June 2017

Collective Security Treaty Organization (CSTO)
Security block between Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan

The Turkic Council
An organization for promoting cooperation among Turkic states, established in 2009 by Azerbaijan, Kazakhstan, Kyrgyzstan, and Turkey; Turkmenistan and Uzbekistan are observers

INTRAREGIONAL DEVELOPMENTS

Political transition
CAC is still in the process of transition from planned to market economies

Security – disputes, conflicts
ISIS risks, potential border conflicts (Nagorny Karabakh, Fergana Valley), Ethnic conflicts (Kyrgyzstan and Uzbekistan), water security disputes (Uzbekistan and Kazakhstan, Kyrgyzstan and Tajikistan)

Migration
Ethnic and labor migration from the CAC into Russia, South Korea, Turkey and the Middle East

3.3 STARTING DISPOSITION: CHINA RELATIONSHIPS

During the Soviet period, the interaction between China and Central Asia was limited due to the political rivalry between the USSR and China. From 1991 to 1997, relations were mainly security-driven because some Central Asian states have a common border with China, and specifically with the Xinjiang Uyghur Autonomous Region. In 1997, as the Chinese government announced its need for external energy and food sources to sustain its economic and population growth, cooperation with the CAC region started to broaden to include trade and investment in energy, agriculture, etc.

The emergence of new states on China's western border forced the Chinese government to change its policy in the region. Since the Soviet collapse, China has established strong bilateral ties with the CAC countries, establishing warm official relations and providing them with economic assistance. The Central Asian states and China have a mutual interest in developing their relations. The Chinese approach to new states in the region is multi-faceted, based on the specifics of each country as far as its geopolitical position and socio-economic potential is concerned.

Most experts divide the Chinese approach in the Central Asia into two stages:

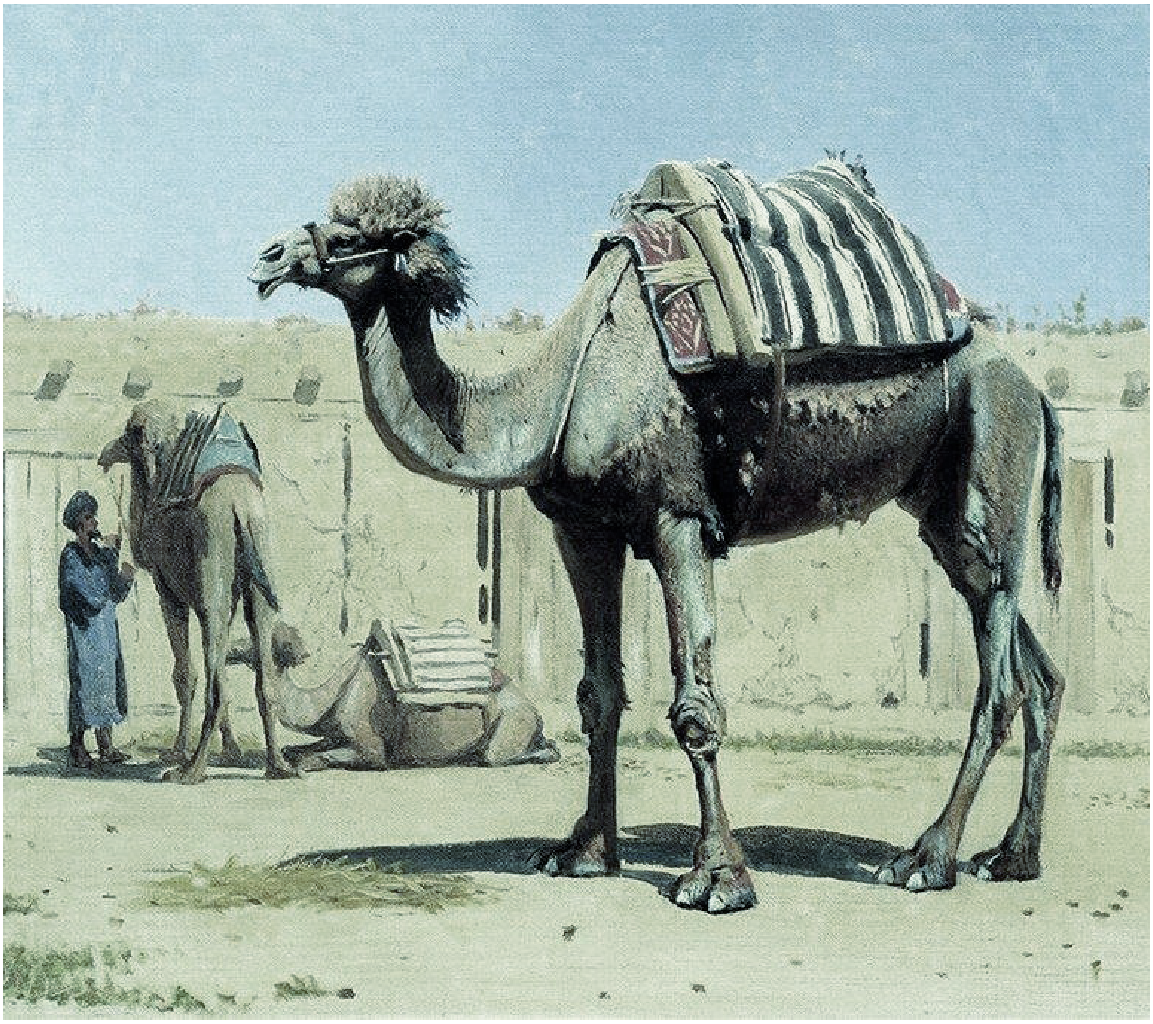
- Establishing diplomatic relations in the 1992-1996 period
- Forming mechanisms and institutions for regional cooperation in the 1996-2001 period.

During the first stage of this strategy, the Chinese leadership pursued the aim of establishing friendly relations with the post-Soviet countries on the basis of "watching the situation and reacting in kind". This was part of the Chinese policy of "biding time and keeping a low profile in the international agenda" that had been set by Deng Xiaoping. In the second stage, China became more active and the first institutional frameworks of cooperation were formed. Visiting Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan, China's Prime-Minister Li Keqiang pointed to four main areas for development of relations with the region:

- adhere to a diplomatic course towards good-neighborliness, friendship and peace
- develop mutually beneficial cooperation and promote shared prosperity
- respect peoples' will and the principle of non-interference in internal affairs
- respect the sovereignty of the countries of the region and promote regional stability.

In a speech in Almaty, Li Keqiang emphasized key principles for the development of trade and economic relations with the CAC countries:

- adherence to the principle of equality and mutual benefit, and compliance with economic regulations
- diversification of forms of cooperation
- proceed from real opportunities to fully utilization of local resources
- improvement of transport corridors and infrastructure facilities
- economic assistance to the CAC countries as a symbol of the friendship of China.



Camel in the Courtyard of the Caravanserai (1860-1870), Vasily Vereshchagin. Tretyakov Gallery, Russia

PART 4. Retrospective Analysis of the BRI Implementation in the Eurasian Heartland

4.1 FOLLOWING THE MONEY UP AND DOWN (METHODOLOGICAL REMARKS)

This study provides a cross-disciplinary analysis of the BRI implementation in the Eurasian Heartland in different sectors of and its impact on region's socio-economic development. For our analysis we used bottom-up approach. We picked up 10 Eurasian countries Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Turkmenistan and Uzbekistan, - and collected the dataset of over 160 specific Chinese projects announced, initiated, or implemented under the BRI umbrella between 2011 and 2017, which covers all BRI activity in the region within that period. We predominantly used "follow the money" approach and for that our main sources included: FDI Markets Financial Times, The American Enterprise Institute China Global Investment Tracker, and Aiddata. In addition, we used other open sources for crosschecks, and have made background searches for information on the multiple actors and institutions involved. We also took later activities into consideration on a more selective basis.

To discuss the perception and awareness level over the BRI we used the data from the third parties' sociological surveys, and supported this with our own online opinion survey and several formal and informal interviews with high-profile regional experts and representatives of the business society. The official statistic information on socio-economic, political and environmental aspects supports the study with the regional specifics.

GROUP WISDOM

As a part of our study, we went through a number of semi-structured in-depth questionnaires and interviews with the regional business experts. We wanted to learn what in their view was going well with the BRI in the region, and what was not so well. All of them have vast experience working with China in different capacities and collectively their views are perfectly complementary and fall into three generic groups: cultural gap, sustainability challenges, and implementation exclusivity:

- Cultural gap. All of our experts admit that the level of mutual understanding between the business partners is dramatically low. Businessmen from Eurasia do not understand Chinese businessmen, and vice versa. It is not only the language barrier; it is the whole way of doing business. On top of that, more than half of our experts support the view that the business ethics and the contract discipline of the Chinese counterparts are not seen as transparent and trustworthy.

- Sustainability and economic viability of the projects. The majority of our experts stated with certainty that the Chinese BRI projects are never completed on time and budget, in many ways saying, that the share of political projects under the BRI umbrella remains high. On top of that, there is strong concern about economic sustainability, as, according to more than half of our experts, China uses non-transparent schemes to finance its projects, especially, in economically vulnerable economies.

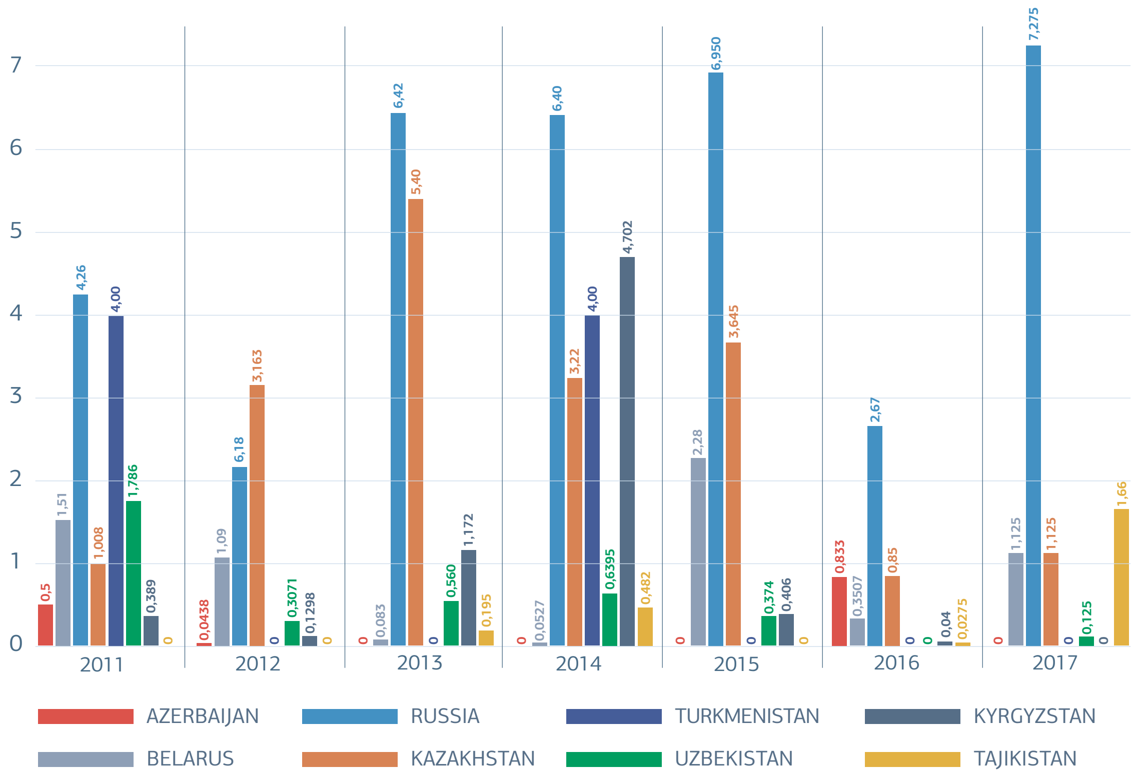
- Implementation exclusivity. Although almost half of our experts think that the BRI could become a good opportunity to transform the economic environment of the region for better, there is a dominating opinion that the Chinese companies hire Chinese workforce and operate the projects using construction contracts for the Chinese companies with China's technologies, so basically, the Chinese money goes back to China and the real economic impact in the host country is very limited.

All this, according to the experts, makes the Chinese Grand Strategy in the region vulnerable in the long run.

4.2 ACROSS GEOGRAPHIES: THE TEN COUNTRIES' BRI ATTRACTIVENESS SCORE

The BRI was presented by the Chinese government[50] as a set of six economic corridors. Two of the six – the New Eurasia Land Bridge and the China-Central Asia-West Asia Economic Corridor – pass through the Eurasian continent, connecting China with the European Union and the Middle East.

FIGURE 3. CHINESE INVESTMENT BY COUNTRY IN 2011-2017, US$ BN



Source: SKOLKOVO IEMS

This geographically-anchored approach is the critical starting point for analyzing the BRI. To start with, the economic corridor is a broad category, which needs to be particularized to the level of the individual country. Despite the dense supra-national institutional landscape of a region that includes so many different economic and security unions and cooperation organizations, China prefers to engage in bilateral relations with selected countries, avoiding establishing any common ground for the region in regard to BRI implementation.

Having said that, we would like to suggest a pattern that reflects China's thinking about, and behavior towards, individual countries. To do this we shall look at it from three points of view:

- One would is the country's integrated BRI attractiveness score, which says something about how attractive this or that country is overall for China, looking through its BRI lense top-down.
- Another perspective is the accumulated cash inflows from China to a specific country under the BRI umbrella between 2011 and 2017, the data being collected bottom-up by analyzing over 170 individual projects. This is a crude reflection of the importance of each individual country to China in recent years.
- The third perspective involves the ratio of BRI cash inflows to the individual country's nominal GDP, which suggests a level of economic significance of the BRI to the particular country so far.

Putting these together into a single framework we hope to get some insights that might help to interpret China's BRI impact on the region, and to make an educated guess about possible future operations.

First, we discuss what makes a country a better or worse BRI target for China. Here there is a clear pattern, which is directly linked to the strategic objectives of the BRI as discussed above. The major criterion is the country's transit potential: it should be a good interconnector with either other interconnectors or directly with target markets or resource bases, whether by land, sea, or both. It is important that we talk about potential here, not limiting our considerations to existing roads, railroads, ports, and pipelines. Instead, we think more about the possibility of building infrastructure in this or that country, so it has more to do with political geography than current projects.

The second criterion is the country's mineral resources, as they needed in large volumes to fuel the growth of the Chines economy and feed the population. Here we consider already proven deposits, including oil, gas, metals, phosphates, timber, etc. Beyond this, arable land and overall agriculture potential, including livestock, dairy, and non-wood forest products, need to be included. Overall, we are talking about everything that China might need to take from any given country.

The third criterion is the country's economic potential. For the purpose of this analysis, we consider it in two dimensions. First of all, it is the manufacturing capability of a country, which is an ability to organize high-quality manufacturing at low cost. This could be a very wide range of industries – from environmentally questionable cement plants in Kyrgyzstan to top-notch software engineering teams in Belarus. All are driven by similar factors. Another economic perspective takes into consideration the domestic market potential for Chinese goods, which is basically a function of the population and the size of the economy. China is always trying to sell its own products, so it values the potential for linking BRI activities on the one hand with selling more Chinese goods to recipient countries on the other.

Finally, there is the governance criterion. By governance here we mean an institutional similarity between China and the partner country. Entering into large-scale, high-risk political deals with little or no economic viability suggests a certain risk-taking behavior on both sides. Moreover, implementation of these deals demands certain institutional arrangements and coordination (e.g. intergovernmental agreements) that are usually impossible within classical liberal market economy frameworks. They therefore require additional formal or informal institutions – e.g. intergovernmental commissions – or linking BRI projects with official national development programs, like the one in Kazakhstan. In the table Mapping the Eurasian Heartland: BRI Attractiveness Score we made a simplified ranking based on the criteria above.

TABLE 1. MAPPING THE EURASIAN HEARTLAND: BRI ATTRACTIVENESS SCORE

	OVERALL SCORE	TRANSIT	RESOURCES	ECONOMY	GOVERNANCE
KZ	40	10	10	10	10
RU	38	8	10	10	10
AZ	36	10	10	6	10
UZ	34	8	8	10	8
BE	32	10	2	10	10
TM	31	10	10	1	10
TJ	25	10	4	1	10
KG	17	10	1	1	5
GE	6	5	1	0	0
AR	4	3	1	0	0

Source: SKOLKOVO IEMS

Using the top-down analysis above, we shall look the other way round and see what the numbers have to say at country level. In 2011-2017 China invested about US$ 83 bn in the Eurasian countries, with US$ 19 bn as debt on undisclosed conditions and US$ 13 bn as equity with about two-thirds of all cash inflow to the region going to Russia and Kazakhstan.[51]

TABLE 2. BRI INFLOWS TO GDP RATIO

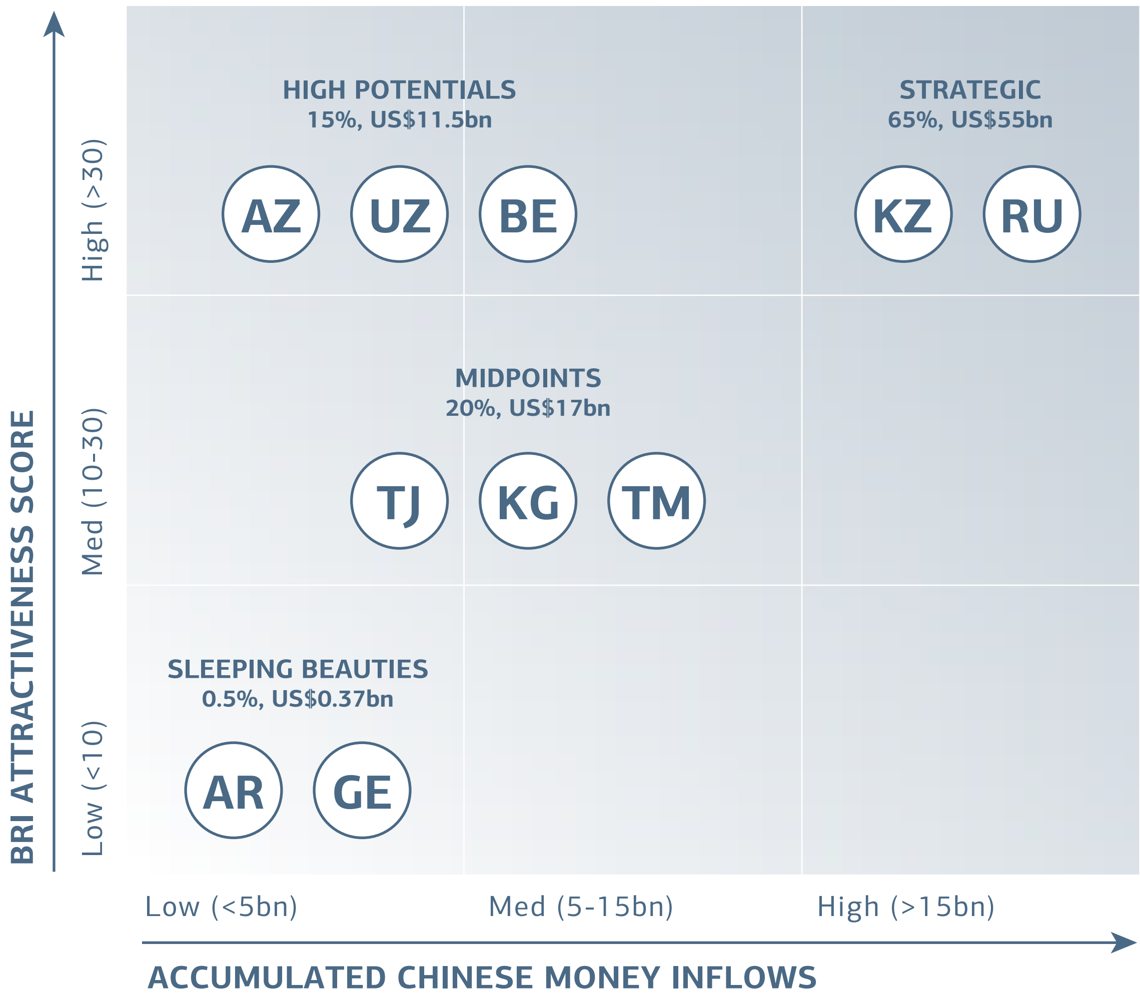
	RATIO, %	GDP, US$BN	BRI INFLOWS US$BN
KZ	40	7.56	6.83
TJ	38	7.10	2.36
TM	36	42.30	8.00
BE	34	54.44	6.49
KZ	32	159.40	18.41
UZ	31	48.72	3.79
AZ	25	40.75	1.36
GE	2.5	1577.50	0.37
RU	2.2	15.10	35.71
AR	0	11.5	0

Source: SKOLKOVO IEMS, World Bank

Although, at US $ 36 bn, Russia was by far the largest recipient of the BRI money in 2011-2017, that hardly makes up 2% of country's annual GDP. In other words, the BRI has not been economically significant for Russia. For countries like Kazakhstan and Belarus, we see a healthy balance at the level of about 10-12%, which makes the BRI a very important economic activity but still not a dominant one. Indicators of Turkmenistan, Tajikistan, and, especially, Kyrgyzstan raise questions as to whether the BRI has become a dominating economic initiative for the country, and how sustainable this might be. According to this table only, Azerbaijan and, to a lesser extent, Uzbekistan seem not to have fully leveraged the potential of the BRI. That could indicate an opportunity in the future.

With an idea of the reason for each country's nominal BRI attractiveness score, the actual size of Chinese cash inflows indicating the importance of the country for China in recent years, and finally with an idea of the relative significance of the BRI to a given country, we shall try to build up a meaningful combination of these three factors that might give us an insight into China's strategic behavior pattern in the region.

MATRIX 1. BRI PATTERN GROUPS IN THE EURASIAN HEARTLAND



Source: SKOLKOVO IEMS

This matrix suggests that there are four clearly distinguished pattern groups in which all countries fall. For convenience, we will assign nicknames to these groups. For Group 1 with Kazakhstan and Russia let it be **Strategic** as it truly reflects the complex and multifaceted nature of the Chinese relationship with these two. Group 2, including Azerbaijan, Uzbekistan, and Belarus, will be **High Potential** as we see that their attractiveness score has not yet resulted in significant money flows, which might suggest future potential. Group 3, including Kyrgyzstan, Tajikistan, and Turkmenistan, we will call **Midpoints**, which implies not only that they are in the middle of this matrix, but also that they are of interest due to their transit potential. Finally, there is Group 4, Armenia and Georgia, which have the lowest BRIAS results and received the least amount of Chinese money. We will call these the **Sleeping Beauties** of this story, as we can easily explain why they are there where they are, but we can never be sure if there is no brighter future for them.

GROUP ONE – STRATEGIC

Kazakhstan is an ideal BRI target as it has the highest transit potential in the region. It has common borders with China (XUAR), other Central Asian states, and with Iran and Azerbaijan via the Caspian Sea. The country also is very rich in mineral resources and fertile lands, has the second largest population in Central Asia, a living standard higher than Russia's, and a wise and flexible leadership. It is no surprise that Chairman Xi chose the Kazakhstani capital, Astana (now Nur-Sultan), to announce the Belt and Road Initiative back in 2013. Kazakhstan is the dominant economy of Central Asia, generating nearly 60% of the region's GDP. In 2017 its GDP reached US$ 162.9 bn, with an average annual growth rate of about 4.1%. However, income from the extractive industries makes up nearly 20% of the country's GDP. After the BRI announcement, then President Nursultan Nazarbayev was quick to see this as an opportunity to leverage the economic development of the country. Since then the BRI has become one the most important enablers for country-level initiatives, improving Kazakhstan's relative position in the region, attracting FDI, and transforming the country into a regional financial and infrastructure hub. As of now, China has invested US$18.4 bn in 33 projects. It has also become the country's second major trade partner, with a turnover by the end of 2017 of US$ 10.49 bn, and showing 32.8% annual growth.

Though Kazakhstan's government advocates economic diversification, the country's economy is still heavily reliant on the extraction sector, and China sees Kazakhstan mainly as a resource supplier. 76% of investments have been made in energy, 5% in agriculture and 4% in infrastructure, making a clear pattern. Chinese relevant SOEs have stakes in big energy projects and participate in exploration of the richest gas and oilfields in Kazakhstan. In 2013 the CNPC acquired an 8.3% stake in one of the biggest Kazakh oilfields, investing over US$ 5 bn. In 2017 Kazakhstan started supplying gas to China through a new pipeline. This is part of a bigger project, the Central Asia-China pipeline, which will cross Turkmenistan, Kazakhstan, Uzbekistan, Tajikistan and Kyrgyzstan.

Apart from energy, logistics development is a key target. The Khorgos Dry Port is a multilateral flagship BRI project in Kazakhstan. Created as a Special Economic Zone, it is to become an international logistics hub for this landlocked country. By 2018, 51% of the Khorgos Dry Port was owned by the Kazakhstani Railroad subsidiary KTZ Express, 24.5% by China's Port of Lianyungang and 24.5% by the Chinese giant COSCO Shipping Corporation.

Another BRI project could be the establishment of the Astana International Financial Center (AIFC). The ambition is to make Astana a regional financial hub, involving a capital market, financial technology, Islamic finance, etc. This will be a special institutional zone regulated by Common law with English as an official language. The Astana International Exchange (AIX) is part of this concept. The Shanghai Stock Exchange, the Silk Road Fund and Goldman Sachs are among the stakeholders, and Nasdaq a technological partner. At the same time, ex-President Nursultan Nazarbayev has always been a wise politician who conducted a multi-vector policy, remaining a close ally of Russia while building strong and diversified ties with Europe and the Muslim World, and benefiting from the BRI, but not allowing over-dependence on any one of them.

Although **Russia** also has a high score – 38 out of 40 – in the table and has the largest nominal accumulated Chinese cash inflow of US$ 35.7 bn, it remains a completely separate case for two main reasons. First, Russia and China are among the world's largest economies and are permanent UN Security Council members, so their bilateral relationships, including those related to BRI, operate in a much broader global context. Secondly, Russia has long had its own concept of Eurasia, while China as a powerful but still new regional player, is joining a game that has long been played by rules that China has yet to learn, no matter how many billions have already been spent. China seems to accept this, at least for now.

In the last several decades, Sino-Russian cooperation has not been smooth. There was a short period when the Soviet Union helped Mao Zedong build up a communist China, but after Stalin's death in 1953 the relationship between two nations quickly deteriorated — actually to the point of border conflict in 1969 (on Damansky Island). For the next 20 years, cooperation was frozen, which was particularly important in the period, starting from 1979, when Deng Xiaoping embarked upon his reforms. That was not long after the historical visit of Henry Kissinger which helped open China up to the rest of the world. Mikhail Gorbachev was the first Soviet leader to visit China, but that was only in 1989, right after Tiananmen events, by which time the West was reconsidering its approach to working with China.

By then, 10 years of relationship-building with capitalist China had already been lost. In 1991 the Soviet Union collapsed and for the next two decades Russia focused on solving its internal problems and building relationships with the West, disregarding China economically. That lost another 20 years, making over 30 in total. Formally speaking, China reappeared on the Russian political radar only in 2001 when Jiang Zemin and Vladimir Putin signed a major agreement on Sino-Russian relations. But even then, not much happened in the economic sense until 2014 when oil price collapse Russia's disagreement with the West over the Crimea prompted Russia to seek an alternative market for its oil and gas in response to Western sanctions. That finally resulted in the US$ 70 bn Power of Siberia pipeline construction project, signed in October 2014, which remains the world's largest ongoing infrastructure scheme. It is accompanied by a30 - year, US$ 400 bn gas supply contract.

That signified a revival of the bilateral economic relationship, with trade growing at double-digit rates year-on-year since then, exceeding US$100 bn in 2018. Now we see another wave of intensification of Sino-Russian economic cooperation in the context of the US-China trade wars, specifically, in regard to LNG projects in the Russian Arctic and overall interest from China in the Russian Northern Route from Europe to Asia. In 2015 the CNPC and the SRF acquired stakes in the Russian Novatek's project, Yamal LNG: 20% and 9% respectively. In 2019 the Chinese company CNODC, a CNPC subsidiary, signed an agreement with Novatek to acquire 10% in its Arctic LNG-2 project, though the terms of the deal remain undisclosed.[52]

The second largest area of Chinese interest is agriculture, with more than $6 bn invested in such projects in 2011-2017. In 2014 a Chinese firm struck a deal worth up to $448 m to take a 49-year lease on 115,000 hectares of land on which to grow crops and rear livestock in eastern Siberia. Although this Land Lease project is controversial today, the hope then that it would trigger economic activity in the area, as the development of the Siberian and Far Eastern territories is a very sensitive issue for the Russian government.

The pattern of the bilateral relationship is clear: both Russia and China are traditionally Western-oriented economically but in times of trouble they need each other as an alternative. It has always been about alternatives. What changed over time was the motive. In 1949 it was communist ideology and the idea of a world revolution; in 1989 it was the realization that the socialist state was not working; today it has become purely pragmatic. It is just big business and global security.

To conclude on the first group, it is important to emphasize that it represents a market-driven pattern in the sense that these two nations will always be of paramount importance, irrespective of the current opportunities for BRI. That is not necessarily the case for the other countries in the region.

GROUP TWO – HIGH POTENTIALS

In the second group, the **High Potentials**, there is a counterintuitive combination of very different countries. They are in different parts of the region, with contrasting geopolitical contexts, and represent different economic models. What is probably most important is that they all have completely different approaches to interaction with China. What makes them a group is that they are all positioned high on the BRI attractiveness scale, but at the same time have not been able to match that with Chinese cash inflows. Seeing these three countries as a group might help understand the BRI pattern both today and in the future.

Azerbaijan is a resource-rich South Caucasian country, having been known to Western consumers from the late nineteenth century when the Nobel brothers, together with Royal Dutch Shell, started exploiting the oil deposits in the country. Shakh Deniz is one of the world's richest off-shore gas fields and has been a significant gas supplier to Europe since the TANAP was commissioned in 2018. Its importance goes beyond its capacity as it is one of the very few alternatives for Europe to Russian gas. Azerbaijan is a Caspian nation, which together with Iran, Kazakhstan, Russia, and Turkmenistan, signed the Caspian Constitution. This was a breakthrough international agreement on joint regulation of the use of the Caspian Sea. It clearly defined the space for commercial activity for each Caspian nation. In addition to the recently modernized land interconnections with Iran, Russia, and Turkey via Georgia, now Azerbaijan is all set to work with China on energy and transit to Europe. And it most certainly will. There is also an ambition to expand more into the digital economy. There is an ongoing discussion around building a trans-Eurasian data super-interconnector (TASIM), which would include Turkmenistan, Afghanistan, and Azerbaijan, by Huawei and China Telecom, as well as developing the Azerbaijan Digital Hub as a part of the BRI. We expect that, once these preparations are in place, we will see Azerbaijan among the most dynamic participants of the BRI in the next few years, both in the old and the new economy.

Belarus has become an important BRI target, as it is strategically located between Russia and the European Union. Basically, it is one of the BRI's gates to Europe. The country has a very strong industrial manufacturing capacity with a relatively cheap, yet highly-educated and well-trained, labor force, specifically in equipment manufacturing and software development. In addition, agriculture has always been one of the country's strong points. China has invested almost US$ 6.5 bn since 2011 in upgrading the country's infrastructure and setting up a large-scale industrial park, called Great Stone, with a view to developing the manufacture of goods for the European and Russian markets, as well as doing research and development on high-tech and innovations, including software. Among the early tenants of the industrial park were the Chinese technology giants, Huawei and ZTE. Belarus will probably not demonstrate the same dynamics as Azerbaijan in attracting new Chinese money in the near future but, given its reputation as the Bangalore of Eastern Europe, deeper cooperation between Belarus and China is likely, as is its transition from an industrial to a digital economy.

Uzbekistan is a special case for the BRI. Being entirely landlocked, it is strategically located right in the middle of the Eurasian Heartland. In a sense, it is the heart of the Heartland, as it is home to the most famous historical Silk Road capital cities of Bukhara and Samarkand. Their remarkable cultural heritage of unparalleled preservation is not only the pride of the nation but also an iconic tourist attraction. Uzbekistan borders all other Central Asian states as well as Afghanistan, which puts it in the center of any discussion regarding transit routes across the continent. In addition to that, its population of 30 million is by far the biggest in the region. It makes it attractive as a market as well as a pool of the cheap and qualified labor. Before China did so, the Koreans realized this, building a Daewoo car plant in the country. This has become an important supplier for the whole region, including Russia, Kazakhstan and Turkey. Uzbek people are hard-working and entrepreneurial, and recent economic reforms introduced by President Shavkat Mirzoev (elected in 2016) have brought hope, new ventures, and the return of people and capital. The country is rich in mineral resources, predominantly oil and gas, gold, metals, and potash for fertilizers. Finally, Uzbekistan is an important food producer for the region with great growth potential given the scale of arable land and its livestock capacity. All this makes the country a good BRI target. Some highlighted BRI initiatives in Uzbekistan include joint oil exploration of the Mingbulak oil-field by the China National Petroleum

Corporation and Uzbekneftegaz; cement factory construction in Karakalpakstan financed by China Development Bank; a high-tech industrial park, Jizzakh, focused on innovative agro-mechanical and industrial engineering, financed by China Development Bank, and the development of the national telecom operator, UzMobile's, capacity with Huawei equipment using a US$ 550 m China Development Bank loan.

To conclude on the second group, it is important to reiterate that this is where we believe most of the BRI's future activity in the region will be concentrated in the next 3-5 years. There is a strong possibility for any or even all of these countries to rise in the ranking and reach the strategic group, if not in monetary terms, then perhaps in volume and quality of their BRI project portfolios. At the same time, two out of the three markets, Azerbaijan and Uzbekistan, are also becoming increasingly attractive destinations for other interested parties, especially Islamic national and supranational investment institutions. The dynamics around this group are one of the uncertainty factors in the future of BRI in the region.

GROUP THREE – THE MIDPOINTS

The **Midpoints Group** comprises Kyrgyzstan, Tajikistan, and Turkmenistan. It is the most fragile of all as they all display relatively weak social and economic development. Two of them are on the verge of a debt crisis, for which China is partly responsible. At the same time, they are strategically located on transit routes, and rich in the mineral resources desperately sought for by China. These countries are the regional showcase for the negative public perception of China, resulting from over-leveraged economies through debt and over-extensive exploitation of mineral resources, yet without sharing benefits with the local population.

Kyrgyzstan is probably the most typical BRI case in the third group, as the initiative has the greatest effect on the country's economy. Kyrgyzstan is predominately Islamic. It also has high transit potential. It borders China's XUAR as well as three Central Asia states of Kazakhstan, Uzbekistan, and Tajikistan that makes it a very important partner for China in terms of transcontinental transit and security cooperation. In 7 years, China put US$ 6.8 bn into Kyrgyzstan, mostly in loans. That equates to 90% of GDP, creating high risk of debt distress. The China EXIM Bank usually issues loans for a country's infrastructure and facilities reconstruction. In 2014 a loan worth over US$ 1.3 bn was issued for rebuilding the Manas and Osh airports. China is also developing Kyrgyz oilfields. In 2014, the China Rongsheng Heavy Industries Group's subsidiary, Ocean Sino Holdings Limited, acquired a 60 % equity stake in four oilfields adjacent to the Fergana Valley, comprising five oilfield zones. On the one hand, these BRI projects make a positive contribution to the economy of Kyrgyzstan, but on the other, the way they have been implemented – loans, Chinese workforce, etc. – triggers a negative public response and Sinophobic attitudes. Kyrgyzstan is the only country in the Eurasian Heartland to have experienced an anti-Chinese act terrorist act—when a suicide bomber attacked the Chinese embassy in 2016.

Tajikistan is in the IMF list of debt-trap risks along with Kyrgyzstan as its economy does not manage its debt sustainably. Investment cooperation with China began in 2011, when the two countries settled their border dispute. Between 2011 and 2017 China invested US$ 2.37 bn in the country, predominately on debt terms. In 2017, China's construction giant, Yunnan Construction Engineering Group, announced that it would build an aluminum plant worth US$ 1.6 bn to boost ties with its strategically important neighbor. Tajikistan is the poorest of the post-Soviet republics, and borders with restless XUAR and war-torn Afghanistan.

Turkmenistan is a resource-rich Caspian country with a strong authoritarian leader. For years it was China's main gas supplier in the region. Under the BRI umbrella the interaction between the sides has so far been limited to cooperation in the energy field, although other initiatives have been discussed, including one in the digital economy. In 2011-2017 China invested US$ 8 bn in two separate gas projects. In 2011 the China Development Bank issued an additional preferential loan to develop the giant Galkynysh gas field. The CNPC is helping to explore the field, which was committed in 2009 to supplying gas to China for 30 years. In 2014, the CNPC invested US$ 4 bn in in the industrial development of Turkmenistan's gas-rich Bagtyyarlyk contract area.

GROUP FOUR – THE SLEEPING BEAUTIES

Finally, the **Sleeping Beauties**: two Caucasian countries, Armenia and Georgia, stand out as the least involved in BRI implementation so far. In many ways this is self-explanatory from their scores in the table above. In a certain sense, these countries do not have much to offer. However, we could see some change in the near future. Armenia has the advantage of a common border with Iran and one of the loosest trade and travel regimes with Russia. It is uniquely positioned to become a regional interconnector between two large and politically rather isolated world economies. China could play a role here too. So far, Chinese money has come to Armenia only as ODA, and the volumes have been negligible. Georgia has started benefiting from the TANAP, as it will do from the future transit of Chinese goods coming through Azerbaijan from Central Asia. So far, the main Chinese activities in Georgia, besides ODA, have been represented by Xinjiang Hualing Industry and Trade Group, which acquired a local bank and made an investment of about US$ 370 m in development projects, predominately in hotels and resorts.

The aim of this exercise was not to group countries in this or that way per se, but to take a careful look at the region through the BRI lens and see how complicated the regional landscape is. Even so, we excluded geopolitical, institutional, political, and humanitarian issues, and concentrated on the economic dimension only. The complex realities of this area are such that confident predictions for the future are impossible.

However, we believe that there are some useful insights to be gained, based on patterns identified from the grouping exercise above. First, we believe most accelerated BRI dynamics will concentrate around Azerbaijan and Uzbekistan, specifically in connection with building transit routes across the Caspian Sea. That could also involve Turkmenistan, though it is possible it might be omitted. These accelerated activities would include not only pipelines and transport infrastructure but also elements of the digital economy, from undersea fiber-optic cables to digital hubs and industrial parks. Within this, Belarus could be not only showcased but also somehow integrated.

Secondly, although Kazakhstan and Russia will remain the largest BRI partners for the next 3-5 years, at the same time little is likely to happen. Kazakhstan has already reached a critical threshold of Chinese presence in its economy, which it would not like to test during a vulnerable period of the transition of power. In Russia, China has already hit all its main BRI targets. There is not much room for growth, though political pressure from both countries' leaders can never be excluded.

Finally, in our view, China will limit its future cooperation with Kyrgyzstan and Tajikistan in order to avoid debt-trap accusations, which could tarnish the image of the whole initiative in the region. The same is expected with regard to Turkmenistan, although here it is relevant that Turkmenistan remains important as a gas supplier and a possible part of the Caspian transit route. We also believe that Armenia and Georgia will remain relatively low on the BRI scale of priorities in the next 3-5 years, as we see little that could change that.

These observations should be taken as likely trends rather than concrete predictions. There is no discernable pattern to recent Chinese money flows. The reason for that is that much of the activity has been related to really large projects which are inevitably not everyday occurrences. It is hard to tell whether Chinese interest in the region has been growing or declining. What can be said is that China is mostly interested in large-scale anchor projects that can take years to prepare, while smaller-scale projects support those anchor projects, either at the preparatory or the implementation stage.

One year stands out, namely 2016. It saw a sharp drop in investment flows, down to only US$ 4.77 bn. However, we see that as just a technical drop. One reason is long project lifecycles: a lot of money had been spent in previous years and more was to follow. Single year reporting can be deceptive.

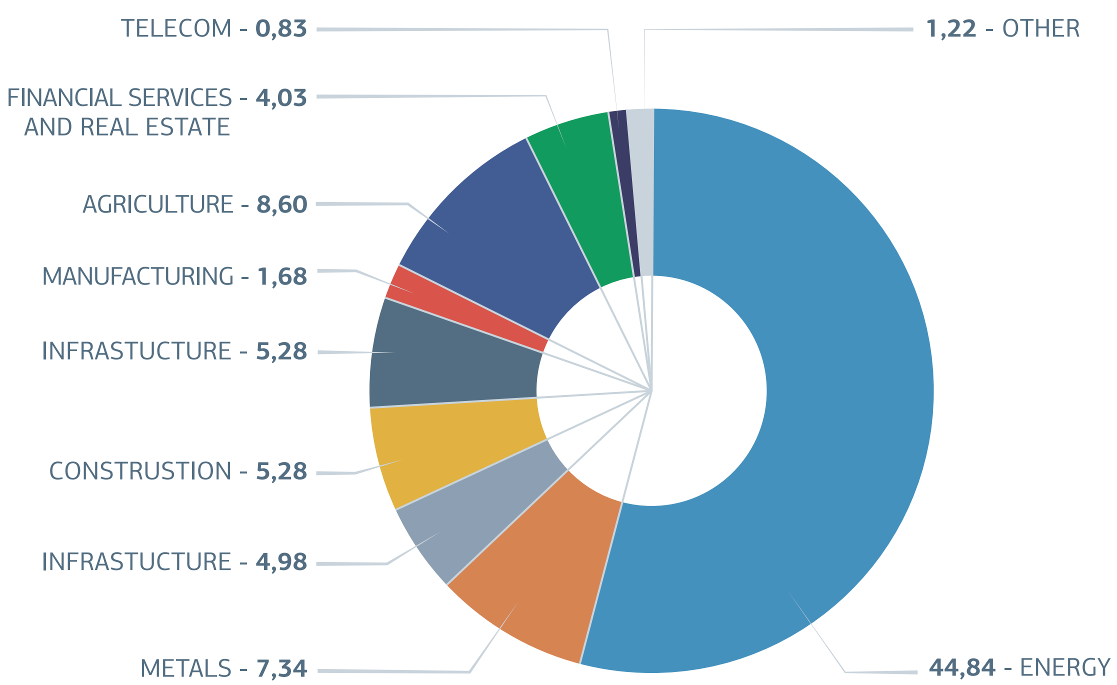
Another and probably more important explanation was the domestic situation in China. The Chinese government apparently recognized that many Chinese companies were investing too much money abroad in arguably frivolous projects like soccer clubs, yet calling it all BRI investment. At the same time the Chinese economy was suffering a shortage of investment in infrastructure and other important government programs. In response to that, China adopted a new policy of balancing domestic and foreign investment. Specifically, it limits the target categories. During this short rearrangement, Chinese foreign investment seemed to be slowing down, but with hindsight that did not reflected any significant change in the longer-term pattern.

The peak of Chinese inflows to the region was reached in 2014, especially to Kyrgyzstan and Turkmenistan which both received over US$ 4 bn. In fact, those country-level investments were driven by a single initiative which included the Bagtyyarlyk gas field development and construction of the Kyrgyzstan section of the Turkmenistan-China gas pipeline. Generally speaking, behind every year's gross numbers, there will be just a few large and possibly connected projects that make up the total. This is one of the reasons why we believe it is important to look behind geographies into the sector level data that we offer below.

4.3 ACROSS THE INDUSTRIES

Judging by the overall BRI project portfolio in the Eurasian Heartland, the region remains essentially a resource base and transit route for China. About 80% of total Chinese cash inflows have been directed to projects in energy, metals, agriculture, and chemicals. The remaining 20% went into industrial projects, including constriction, infrastructure, the financial sector, manufacturing, and telecoms. Basically, the pattern structure of Chinese cash inflows generally reflects the average structure of a resource-rich regional economy, with a very high component of mineral resources in GDP and relatively small part left for industry and services. In general terms, this leaves the question open for the host country: to what extent is each country willing to use the BRI as an opportunity to diversify its economy?

FIGURE 4. CHINESE INVESTMENT BY SECTORS, US$ BN



Source: SKOLKOVO IEMS

ENERGY

The Eurasian Heartland is rich in mineral resources, especially the oil and gas needed for the Chinese economy. After the Soviet collapse in 1991, the basic rationale for Chinese interest in the region was to secure borders and to get access to natural resources, especially in Turkmenistan, Kazakhstan and Uzbekistan. China has now invested over US$ 44.8 bn in energy projects in nine Eurasian countries. Russia, Kazakhstan, and Turkmenistan are the major Chinese partners in the region. In 2011-2017 China invested US$ 17.55 bn in Russia, to become one of the country's most important partners. The period after 2014 was particularly fruitful for Chinese companies as Russia became more flexible on the issue of foreign participation in strategic assets, including oil and gas. That allowed a number of large equity deals to be made with Chinese investors. In Russia and Kazakhstan, Chinese companies are trying to gain greater control over the industry, participating in field exploration, investing in equity and developing the whole value chain. By contrast, in Turkmenistan, China's presence remains limited to upstream activities only. We tracked only two projects in 2011-2017 with Chinese capital. US$ 4 bn was invested in the Galkynysh gas field development in 2011 and US$ 4 bn in the Bagtyyarlyk gas-field development after that. Natural resources are shared unevenly, so it was countries such as Russia, Kazakhstan, Turkmenistan, and Azerbaijan which prospered due to their large oil and gas reserves, while less energy-rich one, like Tajikistan and Kyrgyzstan, have ended up with debt problems.

TABLE 3. ENERGY DEALS IN RUSSIA

YEAR	PROJECT	CHINESE ENTITY	A VOLUME OF INVESTMENT, US$ M
2013	Yamal SPG	China National Petroleum Corporation (CNPC)	940
2015	Yamal SPG	Silk Road Fund	1210
2015	Purchasing Sibur shares	China Petroleum & Chemical Corporation (Sinopec)	1340
2016	OJSC Verkhnechonskneftegaz	Beijing Enterprises	1080
2016	Purchasing Sibur shares	State Administration of Foreign Exchange (SAFE)	1150
2019	Arctic LNG-2	China National Oil and Gas Exploration and Development Company (CNODC)	*
2019	Arctic LNG-2	China National Offshore Oil Corporation(CNOOC)	*

* the volume of investment made by the Chinese companies was not revealed yet

Source: SKOLKOVO IEMS

INFRASTRUCTURE

A major Chinese infrastructure development initiative in the Eurasian Heartland aims to connect western China with Central Asia. On the Chinese side, this would bring the security and economic growth in the region. So far, overall Chinese cash inflows to Central Asia are approaching US$ 5.3 bn. Major projects include the Qamchiq pass railway (a part of the Pap-Anghren railroad), renovation of roads in Kyrgyzstan, and the upgrading of highways in Belarus, financed with China EXIM Bank preferential loans.

In the next stage, China proposes building a new rail link from Xinjiang to Uzbekistan through Kyrgyzstan. This is one of the major but at the same time controversial rail initiatives in the region. At first sight, it appears to be a 'win-win' project, offering benefits for all three countries involved:

- For China, it creates an additional route through Central Asia for its exports (based on the notion that it would link into the existing Uzbek and Turkmen rail network running to the Caspian Sea), as well as improve access to gold, coal and other mineral deposits within Kyrgyzstan itself.
- For Uzbekistan, it offers a new rail route for trade with Asia-Pacific markets without depending on transit through Russia.
- For Kyrgyzstan, it offers potential earnings on transit fees of up to $200 million per year, by some estimates, as well as creating up to 20,000 construction jobs during the implementation phase.[53] More strategically, the project has been discussed as a key element of a wider infrastructure strategy designed to improve transportation links between the north and the south of the country.

However, in Kyrgyzstan this initiative has provoked concerns about its economic impact. This could be due either due to poor communication or inadequate feasibility studies, or to risk assessments that did not take into account the social and economic divide between the north and the south of the country.[54]

China also envisages an extensive transport network connecting the Eurasian Heartland with Europe, Turkey, and Iran. Chinese finance has been the main driver of the "Railway Revolution"[55] in Iran. The China EXIM Bank issued a US$ 1.5 bn loan for electrification of the Tehran-Mashhad main line, and if Iran's railway revolution objectives are achieved, the share of rail cargo in the country could reach 30% by 2020.This will make Iran another important transport corridor in the region, providing an alternative route for Chinese goods to Europe, as well as allowing faster and safer delivery of cheap Iranian oil to China.

TELECOMS

In the Eurasian Heartland, both SOE and private Chinese telecom companies are implementing a broad range of projects: from a data center for the Kazakhstan railways[56] to the possible operation of a Baku smart city project.[57] The Great Stone high-tech industrial park has been built with investment from Huawei and ZTE.[58] Uzbekistan's local mobile operator capacity development using Huawei equipment has been financed by a US$ 550 m loan from the China Development Bank. So far, China has financed a number of projects worth about US$ 1 bn in the telecoms industry in the Eurasian Heartland.[59]

One of the most ambitious initiatives for the next 3-5 years is the construction of a trans-Eurasian data super-interconnector (TASIM),[60] including Turkmenistan, Afghanistan, and Azerbaijan, by Huawei and China Telecom, as well as the development the Azerbaijan Digital Hub as part of the BRI.

At the same time, according to the open media sources, this may become a weak spot because Chinese giants like Huawei, ZTE and China Telecom are often accused of espionage and violating laws in the interests of China's government. Recently the US, Australia and the UK have imposed restrictions on the Chinese telecom companies' activities in their countries.[61]

AGRICULTURE

China has become one of the world's largest importers of food and agricultural products. Its food security concept requires increased control over food production abroad. For many years, China has invested in agriculture around the world and its strategy, as often happens, is a mix of foreign aid and commercial investments.[62] Projects range from small farms cultivating rice across the Russian border, or small dairy and meat farms in Central Asian countries, to massive projects in New Zeeland and Indonesia. China does everything from traditional land leasing or acquisition, where permitted, to buying out and integrating entire supply chains, from production, and processing to logistics and distribution. Usually, all products are for China's market exclusively. According to our study, between 2011 and 2017 Chinese companies invested more than US$ 8.6 bn in agricultural projects in the Eurasian Heartland. This accounted for up to 10% of the total volume of Chinese investments in this period. The three major recipients have been Russia, Belarus, and Kazakhstan. Food production will remain at the top of the Chinese foreign investment agenda and the Eurasian Heartland will be constantly examined for new opportunities. We also believe that in the next 3-5 years we will see more innovative initiatives in the agricultural sector, like the ones that have currently been explored in Jizzakh, Uzbekistan.

Generally, there are no surprises: China mostly sees the Eurasian Heartland as a transit route and resource base; this view is reflected in the project breakdown. At the same time, we see more projects in telecoms and the digital economy, some starting to address local consumers, and others that become test-beds for China's homegrown advanced technologies, including construction and biotech/agriculture. In other words, from a project-based perspective we see increased sophistication in the evolution of the BRI in the region, although the major sectors remain the same. Potentially, this could be the beginning of an important BRI lifecycle stage in the region – slowing down in absolute numbers and in the sophistication in substance and structures, but at the end of the day leading to deeper penetration by Chinese companies into the region and a gradual shift from state-owned to private businesses in the mid-term.

China's overall economic footprint in the Eurasian Heartland has grown significantly both in terms of trade and investment, surpassing that of Russia and other players. At the same time, the Eurasian Heartland is much more than just an economic battlefield between Russia and China, where Russia is being displaced by China. We have described the complex and dynamic strategic landscape of the Eurasian Heartland, as well as the elaborate and coordinated strategic behavior of China, involving different actors and institutions but applying a specific toolkit. The aim is to get an entrepreneurial-capitalist state moving across geographies and sectors with large-scale cross-cutting projects. This allows us to make some observations about strategic patterns, and identify major uncertainties that may affect the future of the BRI in the region.

As discussed, there is a relatively clear geographical pattern, which can be summarized like this. Azerbaijan, Uzbekistan, and Belarus are the most attractive, and would be the most dynamic, BRI partners in the region, while Kazakhstan and Russia will remain the largest. Kyrgyzstan, Tajikistan, and Turkmenistan might face a significant slow-down; and finally, little is likely to change for Armenia and Georgia, except perhaps for some transit initiatives affecting the latter. In the region generally, China prefers operating by large projects, some of which could easily involve more than one country. This is why going beyond geographies and drilling down to the sector and specific project levels is crucial.

Although the absolute numbers remain straight-forward for transit and resources, a growing number of new economy players are getting involved in BRI projects, like Huawei, Alibaba, China Telecom, and ZTE. The successful development of such innovative initiatives as Jizzakh or the Great Stone gives reason to believe that the BRI in the region is getting more complicated and therefore, actually, more nuanced and relevant to current economic profiles, which is a remarkable change for the recipient countries. What originally was perceived as a quick and cheap catch-up, piggyback opportunity for underdeveloped economies is turning into a leading-edge, hi-tech open platform.

In terms of strategic definitions, we would call this approach a transaction-driven pattern as opposed to a market-driven one. In other words, China does not work in countries, or with countries, it just pursues specific project opportunities, transnationally if need be. On the one hand, it is pragmatic as it concentrates resources and focuses on specific objectives that need to be achieved. On the other hand, this approach has the unexpected side-effect of what might be called contextual myopia. The more you concentrate on a specific opportunity, the less you care about the wider context, which might include both opportunities and threats, both present and future. A common manifestation of this is cultural unawareness. For example, if a Chinese company wants to build a cement plant on time and within budget, would it decide to bring qualified personnel from China or take a risk and hire locals? With a transactional-driven pattern, you would choose option one, with a market-driven pattern, you would probably think twice. Time and budget might matter for this particular project, but if it happens to be your last one in the region it might not be exactly what you aimed for. This goes back to the discussion about feedback, cultural intelligence, and the understanding that the people in the Eurasian Heartland might not want to be seen as just people in between. Changing the pattern from transaction-driven to market-driven is a significant cultural challenge for the Chinese, for two reasons. First, they are opportunistic by nature – this is a strategic asset – and secondly, they tend to build trust networks only within their own society. We believe that it will stay that way and the BRI will always remain just a set of aligned transactions. The Chinese will not permit any transformative interaction with the host countries they deal with. The only exception to this might be Russia, for reasons discussed above.

We have already mentioned that, despite the sophisticated strategic architecture of the BRI, including objectives, actors, institutions and activities, we could not find any feedback loops. The strategy is a dynamic behavioral pattern that varies in response to the changing environment, even though not everything goes as China could have wanted, e.g. with public acceptance, debt issues, or stale projects locked in conflicts of interest, etc. At the same time, we see no real change in the way China acts. Of course, this could be persistence and determination, but it appears to us rather to be strategic myopia, and that imposes a lot of uncertainty on the future of the BRI in the Eurasian Heartland.

As we have already mentioned, China has no experience of expansion. According to the prominent grand strategy scholar, Edward Luttwak, it is even worse than that. He sees a form of strategic autism in the great power: “Strategy begins with the recognition that there is the other. That there is somebody else. The Chinese are perfectly capable of making perfectly elaborate plans but they forget about the existence of the other because historically they did not have the other. The difference with China is that Chinese culture grew with the ocean on one side, and very thinly populated jungles, the Tibetan plateau, and the steppe on all others. So China did not have an interaction with others. China did not evolve fighting neighbors. Absence is a big thing. Absence of having dealt with equals. The Celestial Empire, the Middle Kingdom, had no equals around, just peripheral kingdoms that paid tribute to the emperor and an emperor who rewarded them in return. There was no antagonist historically. Today, the problem persists: China is too big as a country. With everything that is going on inside, how much attention can the top leadership really dedicate to understanding others? Probably not much.”[63]

In other words, that missing bit, the feedback loop, challenges the concept of China’s strategy as the Chinese do not seem prepared to treat others as equals by listening sensitively to their concerns, then modifying their own behavior accordingly.

What makes this even more important is that China and its BRI actors and institutions display both a high risk appetite and low return expectations. That can be successful only when fine-tuned by an extremely sensitive feedback loop, capable of identifying weak signals of something going wrong and making proper interpretations which can separate real threats from the background noise of everyday life. Perhaps such loops do exist, but we have not seen any sign that they work. Without that, we suggest we are entering an era of extreme uncertainties for the BRI in the Eurasian Heartland.

We have discussed a number of uncertainties, including the lack of feedback, zero experience in expansionism, a paradoxical high-risk-appetite and low-return-expectations profile, etc. Among these overarching factors, there are two specific pain points that we would like to highlight: interaction with the Muslim World and the use of military power.

Alongside the centuries-old economic presence of Russia and recently growing Chinese activity in the region, we also observe a large number of smaller-scale players getting involved in the economic development of the region, with Islamic national and international institutions playing a significant role among them. With the rise of the Islamic economies and growing Islamic populations, the economic links between the Eurasian Heartland and the Islamic World are likely to grow stronger. There may be more interaction between Chinese and Islamic actors and institutions in the region but, as discussed, cultural intelligence and the ability to deal with other cultures, especially with Muslims and Turkic nations, has always been China's weak point. Judging by the territory involved, the BRI is, in one sense, an Islamic economy initiative, at least in the Eurasian Heartland. All of Central Asia and much of the Caucasus, plus Iran, Afghanistan, Pakistan, and even 25-30 million people in Russia, and obviously and significantly those of the XUAR in China, are Muslims. Their situation is that they are getting better connected but not being included at the same time. This must create a tension between fact and hope which could cast a deep shadow of uncertainty about China's relations with the Islamic world, both within China and outside it. If a widespread sense of injustice, or just inequality, develops that could have serious implications for the progress of the BRI.

China is constantly increasing its military power in parallel with its development of the BRI. It claims to be creating "win-win cooperation that promotes shared development and prosperity". China's first overseas military bases have been built in important BRI destinations. That is unlikely to be coincidental. It should give us pause to question whether – or to be more precise, when – Chinese military power might be used beyond its borders to defend its economic interests. Keeping in mind the abovementioned lack of expansionist experience in general, and difficulties in dealing with Muslims and Turkic people, this question is far from being rhetorical. Lack of trust and even fear could affect the decisions that policymakers in the region will be making regarding future cooperation with China as far as the BRI is concerned.

In the next chapter, we will discuss the impact of the BRI on the Eurasian Heartland and suggest some possible futures in the context of which the uncertainties we have identified will have to be resolved.

PART 5.
BRI Impact Assessment

As we have just discussed, China is playing a big game in the region. It is natural to keep a score and measure success, but in this case it is not easy to do so, as a game of such magnitude has never been seen and there are no simple ways to do it. Obviously, there is a huge impact that the game makes on the Eurasian Heartland and we will try to discuss it in all its complexity, including the business and non-business dimensions. What is also important to think about is that the game is far from being over. It has probably just started, and perhaps along with good experiences there have been some not so good ones. There are lessons to learned on both sides so that all future matches are played in a mutually beneficial manner, for everybody's benefit.

In this chapter we discuss the effect that China has already had on the regional agenda, influencing socio-economic development, triggering investment flow and setting up the new frameworks for political and economic cooperation. We also address the challenges that both Chinese and local actors have faced while implementing the initiative, as well as the uncertainties that everyone in the game has been left with for the future.

5.1 EFFECTS: TRADE, INVESTMENT, INSTITUTIONAL, AND HUMANITARIAN

Recently China has become one of the most important trade partners for the Eurasian countries. The overall trade turnover with the 10 regional states reached almost US$ 140 bn in 2018. For Russia, China has become the biggest trade partner, with a historic record turnover of US$ 100 bn. For Kazakhstan, China is the second largest trade partner after Russia, with a turnover of US$ 10.49 bn. The Caucasus countries have more modest levels of trade generally but nevertheless their trade with China is constantly increasing and China is at the top of their trade partner list. In Azerbaijan it is the 4th most important trade partner with a turnover of almost US$ 1.3 bn or 5.75% of the country's trade.

Under the BRI umbrella China has spent over US$80 bn in the Eurasian Heartland, while the accumulated volume of FDI to the Eurasian Heartland from such countries as the Netherlands, Japan, India, the UAE, Singapore, Vietnam, Austria and Turkey increased by 11.8% in 2016 to reach US$ 128.9 bn.[64] We cannot say how exactly these two numbers are correlated as most of the countries have been in the region as long as China has, while some, like Russia, Japan, and Korea, have been around even longer. But what we can definitely say is that overwhelmingly large Chinese spending in the region has had two major effects: a) at the level of the national governments, it has accelerated opening-up reforms aimed at attracting other investors, though possibly at the cost of over-dependency on just one partner (read – China); b) at the level of the third parties (i.e. other international investors, e.g. the Islamic world), investment opportunities in the region have improved because Chinese investment infrastructure and anchor projects have triggered a sort of chain reaction in adjacent sectors.

In the framework of cooperation with the EAEU, Singapore has become more interested in investment in Union members. Although the major investment partner is Russia, by the end of 2016, accumulated Singaporean FDI in the EAEU had increased by 15% and exceeded US$ 800 m, with US$ 786 m accounted for by Russia, and US$ 15 m by Kazakhstan. Singaporean companies usually invest in three sectors: transport, agri-food and construction. The growing interest of their TNCs in the EAEU offers an opportunity to attract more foreign investment, and in the most advanced industries.[65]

The region is also fostering ties with the Islamic world. The presence of Islamic investors in the region is increasing as the main recipient, Kazakhstan, with its well-elaborated and multi-vectoral diplomacy, is bolstering cooperation with Turkey, Iran, Saudi Arabia and the UAE. In Kazakhstan there are about 200 enterprises with Emirates capital, and the volume of investment is US$ 1.5 bn, out of a total of US$ 2 bn in the post-Soviet space. Traditionally, South Korea and Japan are also active investors in the region, extracting mineral resources and implementing infrastructure projects. Russia remains the leading destination for Japanese investment to the CAC region with more than 56% put into in the energy sector. South Korean companies mostly focus on Kazakhstan, investing in energy, engineering and agri-food.

The 2011-2017 period saw significant increases of foreign investment in the region. The investors turned to the Eurasian Heartland as they were attracted by opportunities to strengthen their positions in this strategically important region. To this end, the BRI could be seen as a gamechanger to the region's economic landscape. At the same time, although economic diversification is at the top of the regional agenda, the biggest part of the investment was made in traditional fields such as energy and agriculture, with Russia and Kazakhstan being the major recipients. But the BRI and integration processes within the EAEU could significantly expand the list of partners, creating new partnerships and reviving old, historical ones, as for example with the Islamic World.

THE NORTHERN ROUTE

The development of the Northern Route has always been of strategic importance for Russia. There have been two major concerns: a) security of the Arctic submarine bases; b) the social, security and economic development of its northern territories. The Russian icebreaker fleet has always supplied the northern cities and remote areas with everything from fuel and equipment to food, apparel, and pharmaceuticals. Today, it is the biggest fleet in world, with 38 icebreakers, of which seven are nuclear-powered. However, their utilization was rather limited until recent developments in the region.

Climate change has had a dramatic effect on Arctic connectivity, making the area accessible for longer each year, and enabling the Northern route to act as an alternative international commercial shipping lane. The Arctic region is becoming an increasingly attractive investment destination for Europe, Japan, South Korea, and India as these markets seek safe, reliable and cost-effective suppliers of mineral resources, which is where region's wealth lies. The total reserves of minerals in the Russian Arctic are thought to exceed US$ 30 trillion in value. Under Russia's ambitious plan, the new Northern Trade route is currently being developed into a major international alternative route from Europe to Asia. Compared with the Suez Canal route it is believed to be more secure and also cheaper, as it takes two weeks less to traverse.

The region, though, has its own specifics as there are unresolved disputes over its legal status between five Arctic nations. Its strategic geolocation is a bone of contention for many other non-Arctic states as Japan, Singapore, India and others are also shifting toward North Pole by enhancing their presence in the region and defining their governments' official position in white books or strategic documents.[66]

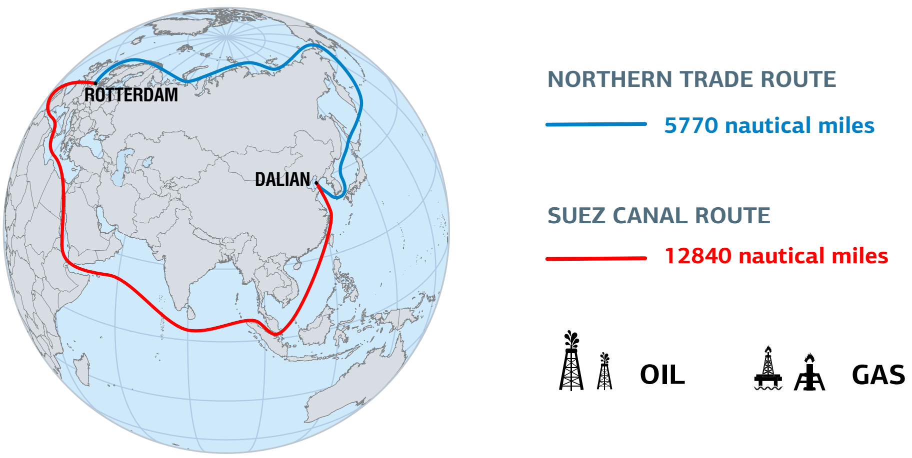
For China, the Arctic is more than just another resource base; it represents a viable alternative to the US-controlled maritime routes through the Pacific and Indian Oceans. This fact explains why China is playing an active role in the Arctic development. China has directly invested in Russian Arctic projects. China's CNPC and the Silk Road Fund signed a significant equity deal with Russia's Novatek to develop a gas field and construct an LNG terminal, in partnership with Total in the Russian Yamal region. With Chinese investment, the Northern Trade Route is set to become a full-scale LNG supply artery. Since its commissioning in 2018, there have been more than five LNG tanker deliveries made, three of them to China. LNG from Novatek's plant is also delivered to other Asian markets, Europe and the US. Moreover, the shipping giant, Maersk, for the first time used the new route, shipping Russian fish and South Korean electronics on an ice-class 42,000-ton vessel through the Norwegian Sea.

The Northern Trade Route has seen rapidly growing traffic recently. In 2019 the volume of cargo increased by 61% compared to the previous year, reaching 29 m tonnes. The Russian government has set an ambitious goal: to develop the Northern Trade Route and increase the flow of goods through it up to 80 m tones by 2024.

In 2018, China became an Arctic nation after it issued a White Book on the Arctic, and the Russian Northern Route is a real – probably more real on the Russian side – part of the BRI, especially after the 2019 BRI forum held in Beijing, when Russian President Vladimir Putin said that the Northern trade route would be aligned with the BRI.[67]

This is a perfect example how a national-level initiative that originally was not a part of the BRI can become one, not only because of political will but also because of strong national interests and business sense. Russia is seeking more investors for this ambitious national project, while China is pursuing the objectives we have already discussed: new safe trade routes and mineral resources for domestic consumption, especially LNG. This looks like a very promising development for both countries.

MAP: THE NORTHERN TRADE ROUTE



INSTITUTIONAL DEVELOPMENT IN THE REGION

Apart from triggering new investment flows to the region, the BRI has Iran has the same for three years since 2018 the development of the supranational institutional landscape of the Eurasian Heartland.

AGREEMENT ON TRADE AND ECONOMIC COOPERATION BETWEEN EAEU AND CHINA

As discussed earlier, the Eurasian Economic Union is the only functioning economic cooperation organization in the region. There may questions about how this organization really works, but these days that kind of question can be and have been asked about almost any organization, the EU being an example. The EAEU is the only economic cooperation organization in the region with its own institutions, regulations, policies, bureaucracy, etc. The goal is a single market and free movements of goods, people, and capital. The current membership includes only Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia, though negotiations are in progress with others. Vietnam has had a free-trade agreement since 2015; Iran is on the way to that. The overall progress of the EAEU remains mixed so far, but it survived the 2008 economic crisis and the sanctions imposed on Russia in 2014. The members remain committed to the further development of the organization and we observe new ones willing to join. Overall, the EAEU should continue to play an important role as the only functioning economic cooperation organization in the region.

For years China has been trying to negotiate with the Central Asian states on a special trade regime for Chinese goods to ease access to their markets, but no agreement has been reached. China's usual tactics meant establishing strong bilateral political ties to put pressure on decision-makers. Or at least it was until 2015 when Russian President Vladimir Putin and Chinese leader Xi Jinping announced that the BRI would be officially aligned with the Eurasian Economic Union to foster strategic engagement within the Eurasian region. After three years of negotiation, an agreement on trade and economic cooperation was signed in May 2018 in Astana, Kazakhstan. This removes some trade barriers and facilitates economic activity. It is a very important step, as China agreed to align its project-based BRI, which does not have any explicit official regulatory framework behind it, with the only functioning economic cooperation organization in the region by grounding it in common policies, technical regulations, bureaucracy, etc.

This agreement, though, is only the first step to a fully-fledged, coherent cooperation framework with China. As of now, the agreement is not preferential and does not remove all duties or reduce all non-tariff barriers. What is most important is that China has changed its original pattern, having concluded an agreement with the EAEU, instead of dealing separately with individual members. This definitely strengthens the EAEU's position as the only viable economic cooperation organization in the region, and is perhaps the optimal institutional framework for BRI implementation. This could also improve the BRI's image and economic sustainability through simplification of norms and increasing the transparency of interaction within the region.[68]

CASPIAN CONSTITUTION

For many years after the Soviet Union collapsed, the Caspian countries could not come to any agreement on borders. That limited economic activity on the Caspian shores and made life difficult for some countries, especially for Kazakhstan and Turkmenistan, as they had no choice but to export their gas to the global market through Russia. There was stalemate for over 25 years.

But with the BRI gaining momentum in the Eurasian Heartland, and as opportunities for regional transformation have become clearer, agreement was finally reached and the so-called Caspian Constitution was signed in August 2018. With the increased activity of China, as the largest commodities importer in the region, and the idea of the BRI that potentially involved all those countries in mining and transit projects, a pragmatic and pressing reason developed for parties to come to an agreement. They made concessions and developed a transparent legal framework that would enable clear control over resource exploitation and third party involvement. But it would also allow each country to fully develop its own economic potential and forge cooperation on a regional scale.

For the oil and gas industry, this opens up new opportunities. The Convention on the Legal Status of the Caspian Sea clears the way for new pipelines that could potentially eliminate export bottlenecks. Under the new agreement, the surface of the Caspian is treated as international water, while the seabed is divided into territorial zones in accordance with international law. What is more important, it regulates the undersea pipelines that will allow countries such as Kazakhstan and Turkmenistan to ship oil and gas without going through Russia. "It is correct to view the recent summit and convention as an unprecedented milestone for the region that has been decades in the making", - stated principal research analyst for the Caspian and Europe at Wood Mackenzie, Ashley Sherman.[69]

The Caspian Constitution will change the transit landscape of the Eurasian Heartland, opening up new opportunities for the landlocked countries to benefit from the BRI. It was Chinese, BRI-based, resource-seeking diplomacy that was the main trigger of the agreement. Now Kazakhstan, Turkmenistan, and Azerbaijan are developing a Caspian port system that in future could be seen not only as a shipping route for mineral resources but as a full-scale trade route for the whole Caspian region, easily connected with the Black Sea via Georgia and Turkey, and the Middle East via Iran. No doubt, China and the BRI will benefit from this development as well.

SOCIAL CULTURAL ENGAGEMENT
CHINA'S SOFT POWER IN THE REGION

China's unique 4000-year-old cultural heritage includes a whole array of tangible and intangible artifacts from philosophy and literature to arts, design, architecture and calligraphy, and from music, theater and martial arts to cuisine, nature, and lovemaking. It makes China an eternal magnet for millions of different people from all over the world, from the most noble scholars to the most leisured seekers of beauty on Earth.

In 2007 Hu Jintao officially recruited all this into state service as he kick-started fully-fledged Chinese soft power strategizing, involving the whole arsenal of Chinese culture. He said *«The great rejuvenation of the Chinese nation will definitely be accompanied by the thriving of Chinese culture.»*[70] That imperative has not changed since then. However, if President Hu Jintao did it to make China more **attractive**, President Xi Jinping, who in 2014 stated that *«We should increase China's soft power, give a good Chinese narrative, and better communicate China's messages to the world»*[71], did it to make China more **acceptable**, and between those two words there lies a big difference.

Since 2007, Chinese culture has been an integral part of the soft power module of the Chinese grand strategy. With regard to the Eurasian Heartland and the BRI specifically, these soft power initiatives have addressed two major issues. The first one is awareness and acceptance among the general public in the region. Another is the business culture distance between the policy-makers and businesspeople.

The perception gap issue in the Eurasian Heartland varies from country to country. There is a difficult legacy in Kyrgyzstan and to a lesser extent in Kazakhstan, where people generally see China as a hostile nation and a threat. At the same time, in Russia and Belarus people usually think of China as a friendly nation, especially compared to some Western countries. This issue becomes a problem when people start to jeopardize projects and put pressure on their government to limit Chinese involvement in their national economies. Sometimes these public actions become nasty and violent, as has happened occasionally in Kyrgyzstan or Kazakhstan.

The business culture issue arises from the fact that Chinese business culture is notoriously special. When Chinese come to a country with their own money, they come in a position of power and expect a smooth implementation of their initiatives because they paid for them. However, the business cultures in Central Asia and the Caucasus are also special. These are predominately well-educated, highly-trained, hardworking, open and trusting people, very proud of what they are and where they are from. They have dignity and self-respect, and expect others to respect to their ethnic traditions and their religion – which is Islam, except for

Armenia and Georgia – and their whole way of life. They can turn cunning, cruel, irrational, and quite determined if they feel insulted or undervalued. Without going further, we should say that putting hundreds of billions of dollars into projects that are supposed to be implemented by the people of such different cultures, who have never done anything together, creates a considerable operational risk. China is addressing this risk by bringing in Chinese workforces, and that has seriously negatively effects on two levels: the general public sees a "Chinese invasion" while local business sees missed opportunities.

China is aware of the issue and is doing what it can to address it. It is working with host-countries through state channels such as ministries of economic development, tourism, and education to promote Chinese soft power in all possible ways, from education to information. In Kyrgyzstan, for example, all the leading state-owned TV channels have contracts with Chinese TV channels under which they broadcast TV shows produced in China and translated into the local language. There is also a newspaper, "Silk Road. Cultural Development". However, the content is not exactly in line with the expectations of the local community, since it concentrates more on the achievements and success of China, while the broad spectrum of issues that people are concerned with in regard to China's strengthening position in Kyrgyzstan are not always addressed.[72]

Generally speaking, there are three major ways of measuring Chinese success in this field: a) general public interest to the Chinese culture; b) willingness to go to China for holidays; c) attractiveness of China as a destination for those willing to study abroad.

First and most important has been the establishment of Confucius Institutes, where people have a chance to learn Chinese language, culture, and history. Students become more interested in China and get a chance to go there. The result is that they start to see China not as a threat or an enemy but rather as a good neighbor, etc. In the Eurasian Heartland, there are at least 36 Confucius Institutes and 28 Confucius Classrooms (i.e. small-scale Confucius Institutes). The number of students studying Mandarin in state universities is also rising constantly. For example, in Russia, the number has increased from 5,000 to 56,000.[73] Interest is there; no other single nation attracts so much attention now in the public domain. At the same time, we should bear in mind that Russian remains the lingua franca of the region and for the purposes of this discussion we will take Russia out of the competition.

Secondly, China has become a very popular tourist destination among Eurasian Heartlanders. Russia makes a major contribution here with double-digit growth in the number of tourists going to China, reaching about 2 million people annually and putting it in the top five tourist destinations. There are no reliable statistics for all countries, but many Kazakhs and Kyrgyz go to their neighboring Chinese regions, like Xinjiang, making up 20% of all the visitors there. This tourism might be mixed with border trade business trips, though that would still have a positive effect on Chinese efforts to increase awareness.

Likewise, Chinese inbound tourism to the Eurasian Heartland also benefits mutual understanding. Chinese tourists make up 20% of global spending.[74] Every year 10% more Chinese people travel abroad.[75] Recent currency depreciation in the Eurasian Heartland and the overall growth of the Chinese middle class makes the Eurasian Heartland a relatively cheap and accessible holiday destination for many Chinese. Russia, Kazakhstan, Uzbekistan, and Azerbaijan are the major Chinese tourist destinations, with more than a million Chinese visitors per annum. This number is likely to treble in the coming years. Interest in China has stimulated many Heartlanders to learn Mandarin and develop special offers for increasing their Chinese clientele. Although this is not exactly a soft power perspective, it is definitely a humanitarian one as it helps n build mutual understanding. Moreover, it helps to reunite the region and increase internal tourism cooperation. Officials in Kazakhstan and Uzbekistan have proposed a "Silk-visa" project to create an integrated space with common visa regulations. In the longer term, that could expand to include Kyrgyzstan, Tajikistan and Turkmenistan.

Finally, China has now become one of the important study destinations for Eurasian students in many fields beyond just language. There are a little over 50,000 students from the Eurasian Heartland in China. Over 20,000 of them come from Russia, about 15,000 from Kazakhstan, 11,000 from Kyrgyzstan, about 5,000 from Uzbekistan, and a few hundred from Tajikistan.[76] The vast majority of these students get scholarships from the Chinese government that fully cover their tuition fees and living expenses. When they return home, these young professionals are likely to be more prepared to work in joint projects and also work as natural cultural bridges. Again, many students from Central Asia and the Caucasus traditionally study in Russia or go to the West, so what we are seeing here is that China has appeared as an interesting alternative for many students in the region.

Concluding on the above we should, first of all, acknowledge the huge effort that China has been making to improve its image in the region and bridge the perception gap. Progress has been made in making China more attractive to those who look at it with an open heart and a little curiosity. Some of the others have concerns about the Chinese workforce taking jobs from locals, or about Chinese initiatives damaging local natural environment, or China buying mineral resources at unfair prices. There is also the worry in some countries about ending up in a debt trap. That issue is still there and the more the Chinese presence grows, the bigger it will become.

In our view, there are two reasons why this has happened. The first is that sometimes it is simply true, and China has not changed the way it works. No amount of soft power can help it look better. Secondly, China makes a lot of effort to be heard and to explain itself, but there are not many signs that it takes even a fraction of that amount of trouble to listen and try to understand what people in the Eurasian Heartland are saying to it. A simple Google search will give hundreds of links to Chinese Belt and Road study centers, and just a few on Central Asia and the Caucasus. Without any meaningful level of interest in 'the people in between', it highly unlikely that any soft power strategy, however subtle or persistently pursued, will work.

So far, China still lacks both expansion experience and the regional expertise to clearly realize all the non-economic consequences of its economic interventions, let alone an ability to balance multiple interests or mitigate the risks that these interventions trigger at the national and regional level. China is going global and its economic activity is increasing, but so are the **challenges**, both to China and the host-countries.

5.2 CHALLENGES: BRI TRIPLE BOTTOM LINE SCORE

As discussed in the previous chapter, in the last six years, China's BRI has made an impressive impact in the Eurasian Heartland. It is easily measured by increased trade and investment, the development of institutions, and improved humanitarian connections. Below we will discuss some unintended effects caused by BRI activities in the same period. We will use the Triple Bottom Line framework (TBL or 3BL), which is the accepted measure of sustainability. We will argue that any given initiative could be sustainable in the long run if it takes into account and balances these three dimensions: social, environmental and economic. They key word here is "effects" as accountability should be not only for the intended outcomes of any specific activity but also for the overall footprint of the BRI in all its complexity.

The point of discussing the unintended negative effects is to inform the feedback loop so that strategists can take third-party responses into account and adjust strategy accordingly. From the sections below it will be seen that the Eurasian Heartlanders take some of the negative effects of the BRI seriously. At the moment we have no idea how seriously China is taking them.

SOCIAL

Although China has made great progress in promoting its culture, when it comes to public perception and the experience of interaction, progress is more limited. According to the Eurasian Development Bank's public opinion surveys, only one in six Kazakhs considers China a "friendly country", compared, for example, to 84% in Russia and 48% in Belarus.[77] China is also among the top three nations most likely to be named as an "unfriendly country", according to the BBC research.[78] "Statistically, China is a very important trade partner of Kazakhstan. However, many people in Kazakhstan do not think of China as a big investor. Their fear of China is that it is trying to increase its economic influence without any benefit to our countries," said a Kazakh political scientist in an interview with the *Financial Times*.[79]

Labor remains one of the most sensitive issues for the BRI in the Eurasian Heartland, as China tends to bring a Chinese workforce for projects implemented in the region. The number of Chinese arriving both legally and illegally is on the rise and this causes friction with local governments and populations. The Chinese do not create jobs for locals, while they tend to create socially and economically closed communities that are quietly growing without any meaningful interaction with the host society. In Kazakhstan, for example, the number of the Chinese workers increased until, by April 2017, 12,400 Chinese legal workers were in Kazakhstan, representing 43% of all foreign workforce in the country.[80] The situation is worse in Kyrgyzstan, where, according to official data, Chinese workers constitute almost 70% of all foreign workforce in the country.[81] Chinese work at regional markets such as "Dordoi" and "Kara-Suu". Chinese are also hired for Chinese-Kyrgyz projects under the BRI, for example, the highway construction from Bishkek to Naryn-Torugart, or construction of the oil refinery in Kara-Balt. According to the PRC Embassy in Bishkek, officially there are about 20,000 Chinese citizens living and working in Kyrgyzstan. However, local migration experts believe the real figure is much higher.[82] In general, this does not help to build relationships of trust and cooperation, especially when local Sinophobia is flourishing.

Another sensitive area is China's policy on nationality and religious issues. What, at the first glance, looks like an internal Chinese affair, in practice turns out to be anything but that. As we have already mentioned, Islam and the Turkic ethnos are among the defining pillars of identity in the Eurasian Heartland. It is hard to overstate the importance of these two components of the cultural code of the whole region. Sometimes it is overlooked, but in Russia there are as many Muslims as there are in Saudi Arabia, and what is important is that they are not migrants, they are locals. They come from the Turkic republics of Tatarstan or Bashkortostan, or from the Russian Caucasus: Chechnya or Dagestan. The Central Asian states that share borders with China – Kazakhstan, Kyrgyzstan, and Tajikistan – are also predominantly Muslim, while Kazakhstan and Kyrgyzstan are predominantly Turkic.

With this in mind, it is natural that Beijing's official policy towards its Muslim and Turkic minorities in the XUAR, including the notorious "re-education camps", caused mass anti-Chinese campaigns in Kyrgyzstan and Kazakhstan. On the official level, though, the governments of Kazakhstan and Kyrgyzstan maintain a strategic silence over the XUAR conflict as China is a very important economic partner. For the Central Asian republics generally it is important to foster good relations with the Chinese government. Delegations from Kazakhstan and Kyrgyzstan are sometimes allowed to visit the region in order to assure themselves that the situation is under control and that all the issues over human rights violations in the XUAR are solved on a legal and secular basis.[83] In the Chinese town of Urumqi, XUAR, China and Kyrgyzstan have created a special coordination group for the XUAR issue by developing cross-border cooperation in the economic and security sectors.[84] Of course, China's government appreciates such an approach and thanks the Central Asian governments for supporting its de-radicalization scheme. It also uses them as an example to Western countries, or with Turkey whose leader, President Erdogan, has criticized the Chinese treatment of Muslims.

At the same time, ethnic Kazakhs and Kyrgyz continue to disappear in the XUAR. The local outcry over this has dramatically increased, making the topic a political issue that affects China's reputation in the region and influences the policy of regional leaders who have to take this into account to avoid strong opposition and population protests. Kazakhstan's and Kyrgyzstan's mild approach of dealing with China through diplomatic channels, dividing ethnic Kazakhs and Kyrghyz into the regional citizens and citizens of China, and then refusing to "interfere in the internal affairs of a foreign state", could become controversial.

Tajikistan, Kazakhstan, and Kyrgyzstan share a 3,300-kilometre border with China's XUAR region, so the countries have to work together, especially now, when the BRI is stimulating social and economic interaction between these countries. Paradoxically, the original Chinese intention to integrate XUAR into the rest of China resulted in more integration of XUAR with their Muslim and Turkic neighbors in the shape of the ethnic Kazakhs and Kyrgyzs across the border.

Bringing Chinese workforces, both legal and illegal, establishing constantly growing socially and economically closed communities, mistreating Muslims and Turkic nationals in XUAR has been observed as consistent Chinese behaviour which does not bode well for the future of the BRI in the region.

ENVIRONMENTAL

The other controversial aspect of Chinese behaviour under its grand strategy in the Eurasian Heartland is the environmental sustainability of the projects. Ecology is a sensitive issue for China, and it has special national programs aimed to improve situation at home. China is cutting coal production and cement manufacturing as it makes efforts to abide by the Paris Climate Agreement, etc. At the same time, on the global level, China is one of the biggest investors in coal[85] and cement. Across Eurasia, Chinese companies are buying into the cement industry, essentially moving polluting capacity from China to its neighbors. In Kyrgyzstan, Tajikistan, and Uzbekistan the number of the Chinese-run cement plants has increased.[86] Local activists organize protests[87] but that does not make any difference. Chinese projects march forward regardless.

The shortage of drinking water is another critical point for China. The recent project of water plant on Lake Baikal in Russia sparked massive local protests that triggered legal proceedings. As a result, the legal status, as well as the environmental and economic viability of the project, were examined by the Russian authorities.[88] The plant was considered a threat to the ecology of Baikal, as it was to be constructed in a wildlife conservation area, which would have entailed serious violations of Russian legislation. Moreover, this case provoked more anti-Chinese sentiment in Russia, especially in this region, which is one of the main destinations for Chinese tourists. According to local activists, Chinese businessmen illegally build hotels on Baikal's shore. Another example is the protests over the black market in timber in the neighbouring Republic of Buryatia, which was considered as one of the biggest and most significant anti-Chinese actions in recent times in Russia.[89]

Building substandard polluting manufacturing facilities and irresponsible use of the region's natural resources has become a consistent pattern of Chinese behaviour in the region. Over time, that will be less and less tolerated by the local population and the authorities.

ECONOMIC

Chinese projects often face criticism about their economic sustainability. The **Financial Times** recently claimed that almost 30% of BRI projects are in trouble.[90] Not only that, the international community is warning the most vulnerable economies about China's "debt-trap diplomacy". The China EXIM Bank, a political bank and one of the main creditors for the BRI projects in the Eurasian Heartland, issues loans to a developing country without any political or economic preconditions, and does not even expect the loans to be paid back in full. The best examples are in Pakistan, Sri-Lanka, and Laos. Countries unable to repay the debt have had to lease land on unfavorable terms to Chinese firms, or to allow a military presence, or to pay out the loans disproportionally, in kind, using mineral resources.

According to official data, as far as back in 2015, 45% of Tajikistan's external debt belonged to China (China EXIM Bank). A similar situation has emerged in Kyrgyzstan where the China EXIM Bank owns 44.9% of country's debt. Both countries are subject to the International Monetary Fund's Debt Sustainability Framework for low-income countries. This aims to guide borrowing decisions in a way that matches their financing needs with their current and future ability to repay.

The BRI does not set any specific institutional requirements for a country to obtain loans or investment, unlike traditional international financial organizations. At some point, suffering from economic and political crises, Kyrgyzstan and Tajikistan welcomed Chinese investors. However, opaque contracts and a lack of reliable information led to other risks. Now it is highly likely that these countries will have to turn for assistance to international financial organizations like the World Bank or the IMF. Alternatively, they could try to attract more sustainable forms of investment, like Islamic finance, to help them manage their debt and diversify their economic ties.

The impact of the BRI have become a high-profile issue in the media. Debt trap diplomacy has damaged China's reputation. The economies of some Eurasian states have not proven able to service large debt burdens. Recent data shows that China has renegotiated US$ 50 bn of loans to developing countries. What could be seen as a welcome step, which gives an opportunity to restructure debt and ease the pressure on the economy, turns out to be a tactical move on China's part, as there are always terms and conditions that apply. For example, Tajikistan, in exchange for restructuring its debts to China transferred to the rights to develop the gold and coal deposits in the country to Chinese companies.

At the recent BRI forum in Beijing, President Xi promised to make the BRI more transparent and sustainable, while negotiating with the IMF head, Christine Lagarde. Chinese officials presented new financing to attract more foreign investment partners to the BRI by alleviating some of their concerns over the ability of host countries to service their debt. Now the key question is whether China will fulfil its promises.[91]

Unintentionally setting debt traps for economically vulnerable countries and intentionally taking benefits-in-kind from that have become consistent Chinese behaviour patterns in the region. Nonetheless, the national governments which took the cheap money should also take some of the blame for the consequences.

The official state media usually do not cover anti-Chinese campaigns in the Eurasian Heartland. All the same, trade and investment partnerships with China have already become issues on the political agenda. The most serious resistance China faces is in Kyrgyzstan, where the economic situation and frequent protests – the suicide attack on the Chinese embassy in Bishkek in 2016 is an example - make headlines. In some parts of the world, working with China and the BRI has cost a president or prime minister his position. What we do not know is whether that tells us more about the BRI than about the country concerned. Whatever the answer to this question is, the sense of fragility is palpable.

To conclude on the above, if we were to give the BRI a Triple Bottom Line Score (3BL Score) today it would not be very impressive. In our view, there are two major reasons. One is that expansionism's newbie does not interest itself in the unintended non-economic effects of its economic interventions. The other is its unpreparedness to take them seriously. Since the BRI is far from being complete – on the contrary it is accelerating – these two perceptions could begin to cause a snowball effect. That will grow bigger the longer the problems remain unaddressed by the Chinese. Some of the issues are politically muted for now, but that cannot last forever. Sooner or later, these issues will have to be resolved, or the fall-out from not doing so accepted.

The greatest uncertainty for the BRI in the Eurasian Heartland is how China will respond to this situation. Basically, it has two options: to slow down and rethink what it has been doing or to add more power to overcome the impediments. Perhaps, given the complexity of the region, the two options are not equally applicable to different countries, but the generic dilemma is probably as simple as that.

5.3 UNCERTAINTIES: PACE AND POWER

As we have discussed, the overall sustainability of the BRI is questionable. Its Triple Bottom Line Score is not very impressive due to a growing perception gap, especially with regard to Muslim and Turkic populations, as well as to a number of environmentally damaging projects and, finally, due to the debt traps that have emerged in a few countries in the Eurasian Heartland.

Based on this observation we suggest that there are two main options on China's table now: slow down and rethink what it has been doing; or add more power and try to overcome the impediments. Complicating this is the fact that the range of options and external factors is much broader, which adds to the uncertainty. Below we will discuss a few of those by way of illustration.

One reason for China slowing down the pace of its BRI activities in the Eurasian Heartland could be simply that China has already achieved most of its objectives, at least, at the minimum level. Though unlikely on the face of it, we see some signs that current activity could be in preparation for something bigger. As usual, Chinese plans are not public knowledge. There is, of course, the possibility that opportunities elsewhere in the world, like in Africa, could seem more attractive. China might wish to redirect its resources there, instead of going further in the Eurasian Heartland where there are fewer lucrative opportunities left.

Another reason could be that China has been deterred by the costs and challenges of operating in Eurasia. Although, economically speaking, there may be reasons to press on, China might wish to withdraw because of social, environmental, or other compliance or reputational pressures. One such consideration could be concern about the security situation in the Xinjiang region and in neighboring countries like Kyrgyzstan, Tajikistan, and Afghanistan. Should there be any escalation threatening the trade routes and investment flows within the region, China might reconsider Eurasia as a safe route, and start looking for alternatives which, though unlikely, are possible.

Others take the view that there is no reason why China should slow down the BRI in the Eurasian Heartland. First of all, there is a lot to explore in scaling up what has already been started. Billions of dollars have been invested and that will make a good stepping-stone not only for growth in traditional sectors such as energy and agriculture but also in the new, advanced ones like e-commerce, IT, bio-economics, etc. The stepping-stone is the strong official connections that have established. This provides a favorable quasi-diplomatic environment for Chinese companies in the region. Strong political support from the regional leaders opens up a lot of opportunities for Chinese companies to implement projects on a fast-track basis. Given the opening-up policy and recent economic reforms, China could use the investment capital already committed to the Eurasian Heartland to accelerate its activity under the BRI and gain "early bird" benefits, like better assets and more control in key sectors. The wider context includes the trade war with the US which has shown that China needs to move faster in building alternatives to US-dependent markets and trade routes. That puts the Eurasian Heartland at the top of the agenda.

Based on the above, we have a more or less equal number of reasons to believe that China could accelerate or could slow down its BRI activities in the Eurasian Heartland. At the same time, our general observations, supported by the expert interviews, suggest to us that China will seek to accelerate, or at least not decelerate, its BRI-related activities in the region for the next 3-5 years. This expectation raises the question of how exactly China will deal with the challenges and, specifically, how China will protect its investments and resources abroad.

As of now, most of the projects are under custodial control of Chinese Private Military Companies (PMCs). They have no experience of real conflict. However, the more China invests in Eurasia the more it has to protect, hence the concern about China's increasing military engagement in the region. Trouble could break out over China's policy in Xingjian or as a result of internal Eurasian disputes. Some experts are beginning to worry about the increasing military presence of China in the Eurasian Heartland, pointing to the fact of China's increasing military engagement around the globe – the military base in Djibouti, the artificial islands in the South China Sea, etc.

In this area, the most vulnerable points are Kyrgyzstan, Tajikistan, and Afghanistan. Experts have many theories of possible scenarios, especially after the announcement of the possible establishment of a military base in Afghanistan on the border with Tajikistan. If there were clear confirmation, that would be the first Chinese military base in the region and the second in the world outside China, Djibouti being the first. The Chinese government is also strengthening ties with Tajikistan, where, according to a Washington Post investigation, China has already established a military base on the border between Afghanistan and China's XUAR. Satellite images have revealed the presence of heliports and military installations suitable for a battalion-sized force with light infantry. Although officially neither China nor Tajikistan acknowledge any such construction, experts say that Chinese military personnel have been in Tajikistan for 3 or 4 years. On that point, Russian analyst, Dmitry Zhelobov, considers that China is driven by a desire to expand its regional ambitious and secure its influence in Central Asia. He predicts that China will have more military bases in Central Asia in 5 years' time. But the Chinese military presence in the region is not only related to expansion, but also to internal security and the Muslim population, especially in the XUAR, and with the safety of its trade arteries to with Europe.

As we discussed earlier, this kind of behavior sends a very mixed message to the countries in the Eurasian Heartland. China is trying to use soft power while building military bases, yet without having any tactical experience on the ground. At the same time, it is having difficulty solving the Muslim/Turkic problem at home. It is also violating environmental standards in neighboring countries and benefitting from unintentionally set debt traps. What kind of a player is this? What kind of strategic pattern is that?

Bearing all that in mind, we believe that the uncertainties surrounding Chinese behavior in the region can only be overcome as a result of better interaction with other parties. We have noted that China has little expansionism experience and a correspondingly weak feedback loop. Perhaps we should add that other countries, especially those of strategic importance to China, like Kazakhstan and Russia, could help China achieve a better understanding of the limitations of its chosen strategy in the region and help it construct feedback mechanisms. That might enable China to come up with a better working strategy for the region, more of a 'win-win', cooperative and consistent type, than the one it is currently implementing. In other words, the role of other players in the choices that China makes should not be underestimated.

Playing the Flute, Ren Yi (Ren Bonian), Walters Art Museum, The US

Conclusion

The Chinese grand strategy in Eurasia, is expressed in the Belt and Road ideologeme: "going out to stay safe within". This is a remarkable example of the first expansionist experience of a 4000-year old civilization which has been changing course as result of inner pressures, not out of curiosity or due to thirst for enrichment.

Widening socio-economic disparities, the need for constant growth, safer trade and supply routes, access to markets and resource bases and the need to reduce environmental pressure on China's "lungs" are all major long-term problems which have become impossible to solve from within. Decades of being a global factory have presented a bill to pay, with no delays accepted.

The Belt and Road Initiative has a vague description that is perfectly adequate for Chinese people who are accustomed to ideologemes as they can put their own meanings into any loose idea and feel included. That is how it has always worked in China. It is only recently that communication has become an issue for the Chinese government. It has to explain what the BRI is to millions of non-Chinese. It is remarkable 125 countries, many of which are puzzled, and some even frightened by, the "community of shared destiny for mankind", especially when they see China's growing defense budget spending, are content to accept involvement in the BRI.

To implement its grand strategy China has managed to build a unique type of softly coordinated organization. It is a whole universe of actors and institutions, including financial and industrial, state-owned and private, old-established and new, Chinese and international. This organization is equipped with a relatively limited but nevertheless efficient toolkit, including intergovernmental agreements, official development assistance, loans and investments, and soft and military power. The action pattern could best be described as "entrepreneurial state capitalism" as, although there are many different actors and institutions involved, it is the Chinese state which is taking the ultimate risk and will pay the bill if something goes wrong.

For the Eurasian Heartland, the Belt and Road Initiative has been a transformative development. As the region itself is diverse and complex so are the effects of the BRI. For some countries, they have more of a symbolic nature, for others, they are ground-breaking, or even shocking. On the positive side, there is the rise of trade and investment, institutional development, and growing humanitarian connections. At the same time, there is a growing concern about the overall unsustainability of the grand strategy in all three dimensions of the concept: economic, as BRI creates debt traps; social, as the perception gap has not been bridged yet, especially with Muslim and Turkic population, and environmental, as BRI not always has to be compliant with the highest environmental standards in the host countries. China existed for 4000 years in the "Great Absence of Equal", and it might not be fully aware that the Eurasian Heartlanders do not see themselves as just "people in between"

China and Europe; they have their culture, faith, interests, and self-respect.

With all credit to the scale and implementation vehicle of the Chinese grand strategy, there are still concerns about the feedback loop. Typically, that should send a signal that something is not working as planned, or that unplanned effects are reaching a scale that requires attention. Ideally, strategy is adjusted in the light of feedback received. At the moment, there is not enough information to make responsible judgments on whether Chinese grand strategy has a feedback loop at all, much less whether it is likely to influence real action. And if it does have an effect, how will that work?

When feedback loops are working, there are two generic types of response: a) slow down and adjust in order to take others into account; or b) push forward using more power. At the moment both options are possible with different probabilities in different groups of countries in the region. For example, something China might do with the "Midpoints" it will never do to the "Strategics". In this regard, it is important to mention, that it is not only about China and its grand strategy; other players and their grand strategies matter as much as China's.

Speaking at the UN Summit on Sustainable Development in 2015 then President of Kazakhstan, Nursultan Nazarbayev, said, "The time has come to rally around the idea of Greater Eurasia, which will unite the Eurasian Economic Union, the Silk Road Economic Belt and the European Union into a single integration project for the 21 century." Less than a year later, speaking at the plenary session of Saint Petersburg International Economic Forum, the President of Russia, Vladimir Putin, said, "We propose to think about creating a Great Eurasian Partnership with the participation of the Eurasian Economic Union, as well as countries with which we already have close relations - China, India, Pakistan, Iran and, of course, I mean our partners in the CIS, and other interested states and associations."

It is remarkable that both of these realpolitik pragmatists publicly expressed idealistic concepts. At the same time, there is a very strong and practical message at the core of each of these statements that emphasizes the cooperative nature of any realistic plans to make progress in the regional landscape. It would be an exaggeration to call these statements a warning, but they were definitely an invitation to dialog. After all, you cannot ignore the elephant in the room.

We would like to conclude this work with the words of paramount importance that the UN Secretary-General Antonio Guterres said at the opening ceremony of Belt and Road Forum in Beijing on May 14, 2017: "In order for the participating countries along the Belt and Road to fully benefit from the potential of enhancement activity, it is crucial to strengthen the links between the Initiative and Sustainable Development Goals. Those seventeen goals can guide policies and action under the Belt and Road towards truly Sustainable Development".

REFERENCES

1 The EABR report, 2017. Full text: https://eabr.org/analytics/integration-research/cii-reports/eaes-i-strany-evraziyskogo-kontinenta-monitoring-i-analiz-pryamykh-investitsiy-2017-/

2 Edward N. Luttwak, The Grand Strategy of the Byzantine Empire (Cambridge, MA: Harvard University Press, 2009), 409.

3 Henry Mintzberg, “Of Strategies, Deliberate and Emergent,” in Tracking Strategies: Toward a General Theory, ed. Henry Mintzberg (Oxford: Oxford University Press, 2007), 5.

4 *The word ideologeme derives from Greek roots meaning a verbally expressed unit of an ideological system that reflects a certain ideology: "idea" (ἰδέα) - type, form; prototype - in a broad sense is a mental prototype of an action, an object, a phenomenon, or principle, highlighting its core and essential features; and "logos" (λόγος) - word, thought, meaning, concept - is the term of ancient Greek philosophy, which means both “word” (expression, speech) and “concept” (judgment, meaning). An ideologeme is characterized by ambiguity and the initial vagueness of its meaning.*

5 Who is (and who isn’t) Attending China’s 2nd Belt and Road Forum, April 27, 2019. The Diplomat. URL: https://thediplomat.com/2019/04/who-is-and-who-isnt-attending-chinas-2nd-belt-and-road-forum/

6 Mariana Mazzucato. *The Entrepreneurial State: debunking public vs. private sector myth. Anthem press, 2013.*

7 The Islamic Economy – The Fastest Growing Large Economy. Eurasian Focus. SKOLKOVO Institute for Emerging Market Studies, 2018. URL: https://iems.skolkovo.ru/downloads/documents/SKOLKOVO_IEMS/Research_Reports/SKOLKOVO_IEMS_Research_2018-07-04_en.pdf

8 Edward N. Luttwak, The Grand Strategy of the Byzantine Empire (Cambridge, MA: Harvard University Press, 2009), 409

9 Van Hooft, Paul Alexander, Max Weber Fellow 2016-2018. This definition is available at https://www.eui.eu/ProgrammesAndFellowships/MaxWeberProgramme/People/MaxWeberFellows/Fellows-2016-2017/VAN-HOOFT-Paul-Alexander

10 Ibid

11 Henry Mintzberg, “Of Strategies, Deliberate and Emergent,” in Tracking Strategies: Toward a General Theory, ed. Henry Mintzberg , Oxford: Oxford University Press, 2007, 5.

12 Kevin Narizny, “The political economy of grand strategy”, Cornell University Press, 2007

13 The Rise of China vs. the Logic of Strategy with Edward Luttwak. URL: https://youtu.be/ufenYO_5Xp0

14 Full text: Action plan on the Belt and Road Initiative. URL:http://english.gov.cn/archive/publications/2015/03/30/content_281475080249035.htm

15 Who is (and who isn’t) Attending China’s 2nd Belt and Road Forum, April 27, 2019. The Diplomat. URL: https://thediplomat.com/2019/04/who-is-and-who-isnt-attending-chinas-2nd-belt-and-road-forum/

16 China’s Digital Silk Road: A Game Changer for Asian Economies URL: https://thediplomat.com/2019/04/chinas-digital-silk-road-a-game-changer-for-asian-economies/

17 Belt and Road Initiative/ World Bank Official site, URL: https://www.worldbank.org/en/topic/regional-integration/brief/belt-and-road-initiative

18 Full text: Action plan on the Belt and Road Initiative. URL:http://english.gov.cn/archive/publications/2015/03/30/content_281475080249035.htm

19 Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road. URL: http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html

20 Jonathan Hillman, "China's Belt and Road: Five Years Later". CSIS, 2018. URL: http://www.iberchina.org/files/2018/obor_csis_hillman_testimony.pdf

21 The Rise of China vs. the Logic of Strategy with Edward Luttwak. URL: https://youtu.be/ufenYO_5Xp0

22 Mariana Mazzucato. *The Entrepreneurial State: debunking public vs. private sector myth. Anthem press, 2013.*

23 Made in China 2025.Full text.URL: http://www.cittadellascienza.it/cina/wp-content/uploads/2017/02/IoT-ONE-Made-in-China-2025.pdf

24 China seeks to calm markets with pledge to keep growth on target. Full text: https://asia.nikkei.com/Politics/China-People-s-Congress/China-seeks-to-calm-markets-with-pledge-to-keep-growth-on-target

25 China's premier unveils smog-busting plan to 'make skies blue again'. Full text.URL: https://www.theguardian.com/world/2017/mar/05/china-premier-li-keqiang-unveils-smog-busting-plan-to-make-skies-blue-again-air-pollution

26 China's Contribution to the Paris Climate Agreement. Full text.URL:https://www.c2es.org/site/assets/uploads/2015/07/chinas-contribution-paris-climate-agreement.pdf

27 The Silk Road Fund Official Site, URL: http://www.silkroadfund.com.cn

28 The AIIB Official Site. URL: https://www.aiib.org/en/index.html

29 The AIIB Official Site. URL: https://www.aiib.org/en/index.html

30 The AIIB in the Liberal International Order. URL: https://academic.oup.com/cjip/article-abstract/12/1/61/5365410 The Misunderstood AIIB. URL: https://www.lowyinstitute.org/the-interpreter/misunderstood-aiib

31 Huawei in Turkmenistan. URL: https://arzuw.news/2739/huawei-v-turkmenistane-intervyu.html

32 Soyuz Alibaba, Meagfona, Mail.ru and RFPI. URL:https://www.vedomosti.ru/business/articles/2018/09/11/780609-soyuz-alibaba-megafona-mailru-rfpi-pretenduet-rossiiskoi-onlain-torgovle

33 China's debt is 250% of GDP and 'could be fatal', says government expert
https://www.theguardian.com/business/2016/jun/16/chinas-debt-is-250-of-gdp-and-could-be-fatal-says-government-expert

34 7th Issue of the EY China Go Abroad Series: Belt and Road – Exploring a Blueprint for Steady Growth in Overseas Investment

35 Rapid-Growth Markets Soft Power Index, SKOLKOVO IEMS 2012 URL: http://www.skolkovo.ru/public/media/documents/research/SIEMS_Monthly_Briefing_2012-06_eng.pdf

36 Nye, Joseph. 2004. Soft Power:Thee Means to Success on World Politics. Public Affairs, 2005

37 "Firepower" Ranking 2019. Official site:URL: https://www.globalfirepower.com/

38 China 'building military base in Afghanistan' as increasingly active army grows in influence abroad. URL: https://www.telegraph.co.uk/news/2018/08/29/china-building-military-base-afghanistan/

39 Suicide Bomber Attacks Chinese Embassy in Kyrgyzstan. URL: https://www.nytimes.com/2016/08/31/world/asia/bishkek-china-embassy-kyrgyzstan.html

40 What Behind China's Growing Attention to Afghanistan? URL: https://carnegieendowment.org/2015/03/08/what-is-behind-china-s-growing-attention-to-afghanistan-pub-59286

41 First Round of China-Afghanistan-Pakistan Trilateral Strategic Dialogue Held in Kabul. URL: https://www.fmprc.gov.cn/mfa_eng/wjbxw/t1236606.shtml

42 The World Bank Statistics, URL: https://data.worldbank.org

43 Shanghai Cooperation Organization Official Site, URL: http://eng.sectsco.org

44 The Collective Security Treaty Organization, Official Site. URL: http://www.odkb.gov.ru/start/index_aengl.htm

45 The Commonwealth of Independent States, Official Site, URL: http://www.cisstat.com/eng/cis.htm

46 The Eurasian Economic Union, Official Site, URL: http://www.eaeunion.org

47 Agreement on Economic and Trade Cooperation Between the EAEU and China, Full Text, URL: http://www.eurasiancommission.org/ru/act/trade/dotp/sogl_torg/Documents/Соглашение%20с%20Китаем/Текст%20ангийский%20(EAEU%20alternate)%20final.pdf

48 The Central Asia Regional Economic Cooperation (CAREC) Program / https://www.adb.org/countries/subregional-programs/carec

49 The EABR report, 2017. Full text: https://eabr.org/analytics/integration-research/cii-reports/eaes-i-strany-evraziyskogo-kontinenta-monitoring-i-analiz-pryamykh-investitsiy-2017-/

50 Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road. URL: http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html

51 Source: SKOLKOVO IEMS

52 NOVATEK and CNODC Sign Entrance Agreement to Arctic LNG 2. URL: www.novatek.ru/common/.../ALNG2_CNODC_Sign_Eng.p...

53 THE CHINA-KYRGYZSTAN-UZBEKISTAN RAILWAY PROJECT. FOREIGN & COMMENWEALTH OFFICE.

54 Ibid

55 Iran-Europe Transport Corridor. Full text: https://reconasia-production.s3.mazonaws.com/media/filer_public/49/dc/49dc89bd-312a-4283-b6ec-808bcf13c778/irans_railway_dreams_-_tim_banning_article.pdf

56 Huawei to Provide Data Center Solution to Kazakhstan Railway. Full text: http://e.huawei.com/en/news/global/2016/201610131750

57 China's Huawei to Build Smart City in Baku. Full text: https://www.azernews.az/business/110500.html

58 China's ZTE, Huawei to launch construction projects in Great Stone park in 2015. URL: http://www.cherven.gov.by/en/news/region-news/item/431-chinas-zte-huawei-to-launch-construction-projects-in-great-stone-park-in-2015.html

59 Source: SKOLKOVO IEMS

60 Trans-Eurasian Information Super Highway. URL: http://tasim.net/index.html

61 5G and National Security After Australia's Telecom Sector Security Review. URL: https://ecipe.org/wp-content/uploads/2018/10/TSSR-final.pdf

62 Gooch E., Gale F. Get Ready for Chinese Overseas Investment in Agriculture. The magazine of food, farm, and resource issues 2nd Quarter 2015 • 30(2)

63 The Rise of China vs. the Logic of Strategy with Edward Luttwak. URL: https://youtu.be/ufenYO_5Xp0

64 The EABR report, 2017. Full text: https://eabr.org/analytics/integration-research/cii-reports/eaes-i-strany-evraziyskogo-kontinenta-monitoring-i-analiz-pryamykh-investitsiy-2017-/

65 The EABR report, 2017. Full text: https://eabr.org/analytics/integration-research/cii-reports/eaes-i-strany-evraziyskogo-kontinenta-monitoring-i-analiz-pryamykh-investitsiy-2017-/

66 Singapore's Arctic Strategy, March, 2018. URL: https://www.brinknews.com/singapores-arctic-strategy/

67 Putin suggests allowing the BRI with the Northern Trade Route. URL: https://www.rbc.ru/politics/27/04/2019/5cc3e6159a794728a3a00473?utm_source=application

68 Official statement of the Kazakhstan's Minister of National Economy Timur Suleimenov

69 In a Prize for Big Oil Firms, Caspian Deal Eases Access. URL: https://www.nytimes.com/2018/10/08/business/energy-environment/caspian-sea-deal-eases-access.html

70 China's Soft Power Campign. URL: https://www.wilsoncenter.org/chinas-soft-power-campign

71 China's Soft Power is on the Rise. URL: http://www.chinadaily.com.cn/a/201802/23/WS5a8f59a9a3106e7dcc13d7b8.html

72 China's Soft Power in Central Asia. URL: http://asiais.ru/society/928.html

73 Chinese fever goes across Russia. URL: https://inosmi.ru/social/20180519/242265483.html

74 Source: Statista, Global Travel and Tourism Industry. URL: https://www.statista.com/topics/962/global-tourism

75 China Outbound Travel Takes Flight. URL:https://www.morganstanley.com/ideas/china-outbound-travel

76 China's Soft Power in Central Asia. URL: https://kyrgyztoday.org/ru/news_ru/kitajskaya-myagkaya-sila-v-tsentralnoj-azii/

77 The EABR report, 2017. Full text: https://eabr.org/analytics/integration-research/cii-reports/eaes-i-strany-evraziyskogo-kontinenta-monitoring-i-analiz-pryamykh-investitsiy-2017-/

78 BBC World Service Poll 2017

79 Farchy, Jack. 2016.Kazakh Language School shift from English to Chinese. Financial Times..

80 Ministry of Labour and Social Protection of the Republic of Kazakhstan

81 Migration in Kyrgyzstan, Official Report. http://ssm.gov.kg/wp-content/uploads/2018/01/6085ac55f5312eedfe985ed7b374466d.pdf

82 Kyrgyz Ask Why Jobs At Home Are Going To Chinese? URL:https://www.rferl.org/a/kyrgyzstan-chinese-jobs-unemployment/25170163.html

83 Kazakhstan and China discussed ethnic issues in XUAR. URL: https://www.nur.kz/1762968-kazahstan-i-kitaj-obsudili-problemy-etniceskih-kazahov-v-suar.html

84 http://mineconom.gov.kg/ru/post/1515

85 Why is China Placing a Global Bet on Coal? URL: https://www.npr.org/2019/04/29/716347646/why-is-china-placing-a-global-bet-on-coal

86 China shifts polluting cement to Tajikistan. URL:https://earthjournalism.net/stories/china-shifts-polluting-cement-to-tajikistan

87 Harmful cement Union of Tajikistan and China. URL: https://news.tj/en/news/tajikistan/economic/20170330/238089

88 Court Delayed the Construction of Water Plant. March 15, 2019. https://www.rbc.ru/business/15/03/2019/5c8b549c9a79474873b44e6e?utm_source=application

89 Rossia sdaet v arendy Kitay ocherednoy million hectarov na Dalnem vostoke, - SMI. August, 2018. https://ru.espreso.tv/news/2018/08/26/rossyya_sdaet_v_arendu_kytayu_ocherednoy_myllyon_gektarov_na_dalnem_vostoke_smy

90 China's Belt and Road projects drive overseas debt fears. Full text.URL: https://www.ft.com/content/e7a08b54-9554-11e8-b747-fb1e803ee64e

91 China Renegotiated US$ 50bn In Loans To Developing Countries.URL: https://www.ft.com/content/0b207552-6977-11e9-80c7-60ee53e6681d?desktop=true&segmentId=7c8f09b9-9b61-4fbb-9430-9208a9e233c8#myft:notification:daily-email:content

AUTHORS

Gaukhar NURGALIEVA, Head of Eurasian Studies, SKOLKOVO Institute for Emerging Market Studies (IEMS)

Oleg REMYGA, Head of China UNIT, SKOLKOVO

Anastasia LAZARIVA, Junior Analyst, SKOLKOVO Institute for Emerging Market Studies (IEMS)

Alexey KALININ, Academic Director, SKOLKOVO Institute for Emerging Market Studies (IEMS)

SUPERVISION

Bulat NUREEV, Managing Director, SKOLKOVO Institute for Emerging Market Studies (IEMS)

Natalia ZAITSEVA, Chief Sustainability Officer, SKOLKOVO

LAYOUT DESIGN

Svetlana BEDIRKHANOVA, layout designer

UNDERSTANDING EURASIA

OPPORTUNITIES ALONG THE BELT AND ROAD

Announced by Chinese President Xi Jinping in 2013 the Belt and Road Initiative aimed at linking China with Western Europe, the Middle East, and Africa, and developing trade, investment, and cultural exchange. The biggest part of the Belt and Road routes go across the Eurasian Heartland – Russia, Central Asia and the Caucasus – one of the most diverse and dynamic regions in the world, a home to over 240 million people, as well as the rich treasury for the mineral resources of all types.

THIS INTENSIVE 4-DAYS PROGRAM AIMED AT GETTING AN IN-DEPTH UNDERSTANDING OF RUSSIAN AND EURASIAN CULTURES, HISTORY AND TRADITIONS, ECONOMIC AND GEOPOLITICAL ENVIRONMENT, AS WELL AS PROVIDING ENGAGEMENT WITH LOCAL BUSINESS LEADERS AND GOVERNMENT OFFICIALS.

KEY STUDY ITEMS

- Cultural and regional diversity
- Current challenges and how they have been addressed in the regional transformation
- Understanding major industries and developments: infrastructure development, energy sector, including oil and gas, telecom and digital transformation

DOING BUSINESS IN RUSSIA AND EURASIA

GLOBAL CONTEXT:

- Lectures from leading professors

REGIONAL CONTEXT:

- Case studies & panel discussions with high-level speakers and government officials
- Best local business practises
- Fields trips to the industrial sights

KEY LOCATIONS AND COMPANY VISITS*

KAZAKHSTAN, NUR-SULTAN

- SAMRUK-KAZYNA
- ASTANA INTERNATIONAL FINANCIAL CENTER
- KAZAKHTELECOM

AZERBAIJAN, BAKU

- SOCAR
- AZERBAIJAN RAILWAYS
- AZPROMO

NAZARBAYEV UNIVERSITY

ADA UNIVERSITY

* indicative

Moscow School of Management SKOLKOVO
Institute for Emerging Market Studies
Sustainable Business Lab

Novaya ul. 100, Skolkovo village, Odintsovsky district
Moscow region, Russia, 143025

tel: +7 495 539 30 03
fax: +7 495 994 46 68

E-mail: iems@skolkovo.ru
Website: www.skolkovo.ru

Established in 2006, **the Moscow School of Management SKOLKOVO** is the largest private business school in Russia. SKOLKOVO trains business leaders to apply their professional skills in dynamically developing markets, training leaders who will set up and run their own businesses and lead the development of the Russian economy. SKOLKOVO offers a range of academic programs, including a full-time international MBA, an Executive MBA, corporate executive education programs, the SKOLKOVO Startup Academy for young entrepreneurs, and the SKOLKOVO Practicum. The SKOLKOVO community brings together those who believe that an entrepreneurial approach and proactive attitude are the keys to the successful development of the Russian and global economies. This includes representatives of the largest Russian and foreign companies, small and medium-sized businesses, and public authorities.

The SKOLKOVO Institute for Emerging Market Studies is a member of the global IEMS network, which is sponsored by EY and includes research institutions in Moscow, Shanghai, Hong Kong and Hyderabad. SKOLKOVO IEMS addresses the fields of strategy and innovation, global markets and institutions, sustainable development, Asian studies, digital technology and leadership. The mission of the institute is to promote Russia's multi-dimensional integration into the world economy. The institute helps the international business community better understand Russia as a market and as a global player, and supports the efforts of Russian businesses to attract investors and enter international markets.

For more information please contact:
iems@skolkovo.ru