

**CHARLES UNIVERSITY**

FACULTY OF SOCIAL SCIENCES

Institute of Political Studies – Geopolitical Studies

**Chinese Foreign Aid, Trade and Investment in Central Asia:  
Implications on Sino-Russia Relations from a Geopolitical  
Perspective**

Master's Thesis



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Subject: **GPS**  
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## **Abstract**

This thesis examines China's foreign aid, trade and government-sponsored investment activities in Central Asia from 2001 to 2014, asking and answering the question if any implications on Sino-Russian relations occurred as a result. As China continued to experience sustained economic growth, its development disbursements internationally began to expand as well. This work attempts to analyze the size and scope of these disbursements from China into Central Asia to see if it has impacted Sino-Russian relations utilizing the theoretical framework of geoeconomics put forth by Edward Luttwak and refined by Blackwill & Harris. Understanding the trajectory of Chinese and Russian foreign aid, trade and investment structures historically and contemporarily allows for a clear understanding of both nations' approach as neither actor is a member of the OECD and as such does not adhere to rigid definitions of what constitutes as foreign aid or other. The Central Asian Republics of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan comprise a geostrategic region, with each individual state endowed with tremendous resource potential that remain in global demand. As China's domestic demand of energy surpasses its supply, it will seek new outlets to further its national interests. The potential geopolitical implications of deepening economic ties with the Central Asian Republics that are largely recognized as being under Russia's sphere of influence is worthy of further understanding.

## **Keywords**

Geopolitics, geoeconomics, foreign aid, Central Asia, foreign trade, government-sponsored investments, Sino-Russian relations, state-owned enterprises, China, Russia, resource-backed lending, financing.

## **Range of Thesis**

**20,720** number of words, **131,762** number of characters with spaces excluding initial pages, thesis proposal, figures, tables, bibliography and appendix.

## **Declaration of Authorship**

1. The author hereby declares that he compiled this thesis independently, using only the listed resources and literature.
2. The author hereby declares that all the sources and literature used have been properly cited.
3. The author hereby declares that the thesis has not been used to obtain a different or the same degree.

Prague 2019

Carter Oswood

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# Master Thesis Proposal

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## Proposed Topic:

**Chinese Foreign Aid and Investment in Central Asia: Implications on Sino-Russian Relations from a Geopolitical Perspective**

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## Topic Characteristics:

My thesis will focus on Chinese foreign aid and investment within Central Asia, and its effects on Sino-Russian relations from a geopolitical perspective. The main reason why governments provide foreign aid to nations differs from country to country, and reasoning becomes increasingly vague when analyzing authoritarian regimes. It is significant to understand why aid and investment has been provided to better understand any underlying geopolitical objectives, if they exist. Central Asia is deemed as Russia's "Near Abroad," and is composed of former Soviet states that gained independence after the dissolution of the Soviet Union. As this region is distinctly within the realm of Russia's sphere of influence, the geopolitical implications that Chinese foreign aid and investment to Central Asia can have is significant. Additionally, analyzing proposed infrastructure projects in each country as a result of the Belt and Road Initiative will provide a framework of analysis. As China continues to see sustained economic growth at a time when Russia's economy maintains its fragile form, the ability to provide perpetual foreign aid and investment as well as infrastructure development to the region is valuable to assess. Understanding any potential repercussions to Sino-Russian relations can have far reaching ramifications both regionally, as well as globally.

## Hypotheses:

1. Chinese foreign aid and investment in Central Asia has increased over the past decade relative to Russian foreign aid and investment.
2. Chinese foreign aid and investment have been used to secure access to a growing domestic demand for energy.
3. Central Asian nations are voting in line with Chinese agenda in the UN.
4. Favorability for the Chinese among the civilian population is increasing.

## Methodology:

In regard to analyzing Chinese foreign aid and investment, I will attempt to acquire accurate data where available. AidData will provide me with a jumping off point for data interpretation for Chinese and Russian aid and investment, however as both regimes operate in secrecy, I understand the inherent limitations. Through the use of a method called TUFF (Tracking Underreported Financial Flows) I will be able to access data sets from the information compiled, allowing the interpretation of financial aid and investment to the region by both nations. A qualitative case study will allow me to analyze any underlying political motivation from China to

issue aid and investment in return for securing access to energy. I will utilize polling data from multiple sources to assess favorability of Central Asian nations' perspectives towards Chinese to search for any correlation that may exist. Furthermore, I will analyze each Central Asian countries' voting patterns in the UN to assess any noticeable differentiation in the period under observation. A full analysis of resources and reserves for Central Asia will be given, showing any potential geopolitical advantages the region may provide now and into the future for both countries with regard to energy security. All Belt and Road Initiative for infrastructure development proposed, in progress, or completed, will be analyzed. Conclusively, a historical analysis of Sino-Soviet/Russian relations will be given, providing an overarching perspective. Any and all trends will be evaluated and presented.

**Outline:**

1. Introduction
2. Literature Review + Definition of Concepts
3. Methodological Section
4. Sino-Russian Relations
  - a. Historical Perspective
  - b. Trend Analysis
5. Geopolitical Importance of Central Asia
  - a. Historical Review
  - b. Resources and Reserves
  - c. Opportunities for Both Nations
  - d. Borders and Their Consequences
6. An Analysis of Chinese and Russian Foreign Aid and Investment in Central Asia
  - a. Current Data That Available
  - b. Analysis by Country
  - c. Viability of Funding
  - d. Statistical Analysis
7. Nation Favorability
  - a. Poll Data - Population
  - b. Analysis of Trends
  - c. Government Voting Agenda – Historical to Present
8. Conclusion
  - a. Summation of Previous Sections
  - b. Sino-Russian Relations Overview with Any Trend Discovery
  - c. Potential Implications on Relations
9. References / Bibliography

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## List of Abbreviations

BRI	Belt & Road Initiative
CARs	Central Asian Republics
CCP	Chinese Communist Party
CDB	Chinese Development Bank
CIA	Central Intelligence Agency
CIS	Commonwealth of Independent States
COMINTERN	Communist International
CNPC	Chinese National Petroleum Corporation
CSTO	Collective Security Treaty Organization
DAC	Development Assistance Committee
DPRK	Democratic People's Republic of Korea
EURASEC	Eurasian Economic Community
FAGIA	Foreign Aid and Government-Sponsored Investment Activities
FATGIA	Foreign Aid, Trade & Government-Sponsored Investment Activities
FDI	Foreign Direct Investment
ITC	International Trade Centre
LOC	Line of Credit
MOFCOM	Ministry of Commerce
OBOR	One Belt, One Road
ODA	Official Development Aid
ODI	Outward Direct Investment
OECD	Organization for Economic Cooperation and Development
OOF	Other Official Flows
PLA	People's Liberation Army
PRC	People's Republic of China
RF	Russian Federation
SCO	Shanghai Cooperation Organization
SOE	State-Owned Enterprise
TUFF	Tracking Underreported Financial Flows
UN	United Nations
USD	United States Dollar
USSR	Union of Soviet Socialist Republics
WTO	World Trade Organization

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# **1. Introduction**

## ***1.1. Research Question & Design***

The research question that this thesis is dedicated to answering is: has Chinese foreign aid, trade and government-sponsored investment activities in Central Asia impacted Sino-Russian relations? This question is viewed through a geopolitical perspective, and more specifically analyzed through the prism of geoeconomics, providing a coherent and comprehensive analysis of the question. The allocation and interpretation of relevant data, in tandem with an analysis of historical and contemporary events, drive the research design that is implemented. A more detailed understanding of the methods employed will be addressed in the relevant section.

## ***1.2. Literature Review***

The geopolitical importance of Central Asia has been well understood, and a growing interest in the region academically is reflected by an uptick in articles published in successive years. Residing under the direct influence of the USSR until 1991, the dissolution of the Soviet Union opened the door to outside investment into the newly established republics. This transitional period came at a time when the region's neighboring country of China sustained its path of economic growth which allowed the nation to concomitantly expand its ability to extend development finance to other countries. This was kept largely under wraps, with transparency into the structure and functioning of its development assistance apparatus extremely limited until 2011 when the Chinese government published its first White Paper detailing vaguely the structure and extent of its foreign assistance programs. A second White Paper was published in 2014 which gave more clarity, though has been criticized for significantly lacking in detail. Numerous academics have furthered the field of research within foreign aid analysis, Sino-

Russian relations and geoeconomics. This body of work is built upon these contributions, and brief overview of existing literature will be given, followed by the desired contribution of this work.

### **1.2.1. Existing Literature**

Understanding the structure of an organization that has intentionally attempted to keep the cogs and gears out of the public's observation is a daunting task. Deborah Bräutigam has dedicated her academic career to understanding the inner-workings of Chinese financial activities with a specific focus on Africa. Bräutigam (2011) published an article with the title "*Aid with Chinese Characteristics.*" Her article comprehensively explains similarities and differentiations that exist between China's aid structure and that of the Organization for Economic Co-operation and Development (OECD) in response to the release of China's first White Paper in 2011 offering opaque insight into the size and scope. Johnston & Rudyak (2017) further flush out the inner-workings of this intentionally impervious explanation to China's aid structure. They focus on the pragmatism that drive its structure while highlighting the innovative aspects that have developed.

Another crucial academic who has produced a robust body of research on Central Asia with regard to China is Niklas Swanström. He has produced countless academic papers revolving around Asia in the realm of security and has contributed greatly to the growing study of China's involvement within Central Asia. Swanström (2005) broaches the topic of Central Asia becoming the location of a new Great Game with a thorough analysis of Sino-Central Asian relations both historically and contemporarily.

Sino-Russian relations have been analyzed from an innumerable number of dimensions throughout history. They are the subject of intense debate among scholars, and their inner-

workings have been greatly expanded due to the body of research conducted by foreign policy expert and former diplomat Bobo Lo. With the publication of his academic book *Axis of Convenience*, Lo (2008) greatly contributed to the field of Sino-Russian relations.

The field of geoeconomics has been growing steadily since the term was coined by Luttwak (1990) in an article describing it as a branch of geopolitics. Geoeconomics is largely attributed to being established by Edward Luttwak and French political scientist Pascal Lorot. In his book *Turbo-Capitalism*, Luttwak (2000) further clarifies the theoretical elements of geoeconomics. This would come to be refined by Blackwill & Harris (2017) in their book *War by other means: Geoeconomics and statecraft*. The economic weaponry that a state has at its disposal has shown itself to be increasingly important and allows future research to expand the field of geoeconomics.

### **1.2.2. Desired Contribution**

Much of the material written on the topic at hand has been to a large degree focused on Africa and other areas where the sheer amount of foreign aid and investment is staggering. The Central Asian republics represent a region of immense geopolitical importance, and as such the body of knowledge surrounding the financial dealings are of utmost interest to numerous persons and organizations inside and outside of academia. Unfortunately, access to accurate data is limited, though it is growing as researchers create new methodologies for aggregating past financial information. Though the body of research dedicated to this narrow field has been growing, it remains relatively small. The desire of this work is to further the limited research and understanding of these financial transactions that have occurred throughout the Central Asian republics, while contributing to the overall field in meaningful and comprehensive way. The geopolitical ramifications of large financial agreements, both bilaterally and multilaterally,

taking place across immediate borders are of significant interest in understanding Sino-Russian relations from a geopolitical perspective.

### ***1.3. Theoretical Framework: Geopolitics & Geoeconomics***

Since it was first coined in the late 19<sup>th</sup> century by Rudolf Kjellén, the term geopolitics has since experienced a myriad of transformations after its inception into the lexicon of international relations. The term has been defined, deconstructed, buried, dusted off and redefined. After Nazi Germany's adherence to aspects of its tenets, geopolitics as a branch of strategic studies was largely demonized for a period, though it began to resurface and has since been re-examined in a new light. The United Kingdom, France and the United States of America produced notable figures whose writings would develop the field that we see today. These ideas significantly influenced not only academic circles, but also the foreign policies of great powers in the international arena. Early geopolitical thinkers such as Halford Mackinder, Nickolas Spykman and Alfred T. Mahan are revered for their postulations, contributing immensely to what has been labelled Classical Geopolitics. Mackinder for his Heartland Theory emphasizing the importance of the resource dense Eurasian landmass; Mahan for his conjectures on naval superiority highlighting the undeniable strength a command of the seas offer; and Spykman for his Rimland Theory, influenced tremendously by both of the abovementioned geopolitical thinkers.

These informed inferences conclude that geographic factors, both natural and human, influence the relations of nations. Geopolitics as such is viewed as fundamentally dynamic, an everchanging realm subject to the creation, expansion, contraction and death of states. It is concerned with geographic space and technology. In his book, Cohen (2015) posits that there are four pillars that constitute a state's power: military, economy, ideology and cohesivity of government, concluding that economic strength is more important than military strength (p.2).

This thesis is conducted through a geopolitical perspective, its primary focus is geoeconomic in nature.

The term geoeconomics, like geopolitics itself, is broad and dynamic. It was coined by the economist Edward Luttwak in an article published in 1990 and has since been refined (Luttwak, 1990). Blackwill & Harris (2017) give clarity by stating that “geoeconomics essentially combines the logic of geopolitics with the tools of economics, viewing the economic actions and options of a given state as embedded within larger realities of state power (p. 24). This thesis operates under the definition put forth by Blackwill & Harris (2017) that geoeconomics is “the use of economic instruments to promote and defend national interests, and to produce beneficial geopolitical results; and the effects of other nations’ economic actions on a country’s geopolitical goals” (p. 20).

Additionally, this framework will utilize Luttwak’s geoeconomic assumption that the logic of conflict brings about the necessity for cooperation against a common enemy...while in contrast, the logic of commerce may bring about competition, inevitably the preservation of the alliance will triumph. He further clarifies this reason of thinking by stating that “if the security needs dictated an alliance against a common enemy, even while there was head-to-head economic competition with that very ally, the preservation of the alliance had absolute priority, for its aim was survival not merely prosperity” (Luttwak, 1990, p. 20; Luttwak, 2000, p. 138 – 139). This provides us with a more concrete theoretical framework under which this thesis will be conducted. With the framework defined, the next section will introduce the hypotheses that this work will test.

## ***1.4. Hypotheses***

The four initial hypotheses proposed have undergone minor alterations due to revelations of their contributive power coupled with a refinement of the methodological approach to the research question. The hypotheses that are central to this thesis are:

1. Chinese Foreign Aid, Trade and Government-Sponsored Investment in Central Asia has increased over the time period of 2001-2014 relative to Russian Foreign Aid, Trade and Government-Sponsored Investment.
2. Chinese Foreign Aid, Trade and Government-Sponsored Investment in the region has been used to secure access to natural resources in Central Asia to satisfy domestic demand of energy.

The third hypothesis originally proposed was that the Central Asian Republics voted in line with the Chinese agenda within the United Nations for the time period under analysis. It was determined that access to, and the aggregation of, the required data necessary to test the hypothesis lay outside the scope of the true nature of this thesis. After in-depth research into the area of voting patterns, fascinating information was uncovered by Erik Voeten at Georgetown University while analyzing voting trends in relation to the United States. Voeten has produced a user-friendly interface of this aggregated data, which a research associate at Yale named Yiqin Fu has followed for data regarding China, though this is a time-consuming process and is not yet complete. As such, though fascinating, the original third hypothesis has been removed.

The fourth hypothesis postulated that China's favorability among the local population was growing. The reasoning for not pursuing the testing of this fourth hypothesis was due to the fact that the majority of states under analysis are to a large degree autocratic, and as such, the opinion of the people was deemed irrelevant as pertains to the nature and time frame of analysis. With

this being said, government is dynamic, and history is flush with examples where this hypothesis explored in an alternative way could produce fruitful research results.

### ***1.5. Methodology: Mixed-Methods***

To answer this research question and to ensure a complete and thorough analysis, the use of a mixed-methods approach was selected that is primarily qualitative with quantitative attributes that contribute to the overall aim of this thesis which will be described below.

#### ***1.5.1. Qualitatively-Driven Approach***

This thesis is qualitatively driven due in part to the topic under focus, coupled with the inherent limitations that arise when unearthing sensitive data. This thesis uses a case study approach which utilizes an intrinsic, single-study design (Stake, 1995). The qualitative aspect of this work operates through the use of historical analyses of past events and critical junctures that pertain to the states involved, which allows for a comprehensive and descriptive understanding of the foreign aid, trade and investment structure that both nations are founded on. Additionally, as pertains to investigating the geopolitical importance and resource potential of the Central Asian republics, both historically and contemporarily, a descriptive analysis utilizing the state as the unit of analysis is conducted for the purpose of exposing vital areas of interest if they exist.

The time-frame in which this research question is asked, thoroughly analyzed and answered has been specified to begin in the year 2001 and conclude in the year 2014. The selection of this time frame was the result of multiple factors including access to reliable data sets and critical junctures that will be further elaborated upon within the body of this work. Qualitatively analyzing the political ideology, economic cooperation and security dimension allows for a precise framework in which to understand Sino-Russian relations. All data collected and analyzed qualitatively was done through the use of primary and secondary sources in the form of

academic articles, books, and declassified documents as well as treaties and official statements from both governments.

### **1.5.2. Contributive Quantitative Analysis**

Quantitatively speaking, data sets from multiple sources have been acquired and will be analyzed. Authoritarian states go through great lengths to keep documents related to financial transactions and state spending a secret. The waters become ever murkier when reporting agencies in the states under analysis refrain from, or simply neglect to, produce an account of financial transactions. Nevertheless, a surface-level analysis of quantitative data obtained from a myriad of sources were used. To reduce bias and complete a well-rounded portrait of the financial landscape, data from the Rand Corporation and Aiddata, as well as data sourced from the International Trade Centre (ITC) and the Central Intelligence Agency (CIA) World Factbook will be used. Furthermore, secondary information is also employed to strengthen any correlated findings. An attempt will be made to analyze the foreign aid and trade conducted by both nations, using a comparative analysis to test the first hypothesis. Additionally, by using a boxplot to graphically depict China's FATGIA to Central Asia, any outliers that emerge will be discussed in detail to help test the second hypothesis. Any and all trends or significant relative increases and decreases will be reflected accordingly.

### **1.6. Definition of Concepts**

Due to ambiguity that exists within the field of study, a few terms are subject to further conceptual clarification. This will allow for a more concrete understanding of the anchoring terminology used throughout this work. The terms FATGIA, Central Asia and Sino-Russian relations will be further clarified in the following section.

### **1.6.1. Foreign Aid, Trade and Government-Sponsored Investments (FATGIA)**

The definition of foreign aid is a matter of which organization or government you ask, and in what year the question is asked. It is a dynamic and quasi-malleable term that has recently seen a rise in popularity for what it is, and more critically, what many believe it is not. Used as a tool of foreign policy since time immemorial, the 20<sup>th</sup> and 21<sup>st</sup> centuries have seen the collectivization of western nations attempt to adhere to normative guidelines set within institutions that have slowly accumulated new members. It is no secret, however, that many nations who are not a party to these predominantly western-centric organizations operate by a different set of rules, or in some cases, no rules at all. As pertains to this thesis, foreign aid is aid offered by a donor nation to a developing nation. This can be financial such as cash transfers, grants, concessional loans, interest-free loans, debt relief. This can also take on aspects that are not directly financially focused, such as technical expertise, medical teams and more importantly military aid.

Within the Organization of Economic Co-operation and Development (OECD) there is a Development Assistance Committee (DAC) forum tasked with aggregating and analyzing members' aid contributions. Under this framework, the DAC delineates what constitutes as Overseas Development Aid (ODA), Overseas Development Finance (ODF), and Other Official Flows (OOF). ODA meets the DAC requirements that it sets for its members, while OOF are transactions that fall short of this and occur most of the time in a bilateral manner.

With the release of its White Paper on Foreign Aid in 2011, China made no attempt at a comparison between the DAC definition of ODA and its version of foreign assistance that it declared as being “mutual help between developing countries, focuses on practical effects, accommodates recipient countries' interests, and strives to promote friendly bilateral relations

and mutual benefit through economic and technical cooperation with other developing countries” (State Council Information Office, 2011). What makes this analysis unique is that the two nations under analysis, the Russian Federation (RF) and the People’s Republic of China (PRC), are not members of the OECD and as such are not required to adhere to these set standards. Russia was on the road to membership status, while China has now broken through as a top 10 donor globally (Kitano, 2016). As will be seen throughout this work, foreign aid has historically entangled itself with trade and government-sponsored investments and this entanglement exists today. As such, the foreign aid, trade and government-sponsored investment activities of China and Russia examined individually in some instances for comparative purposes, however, in this body of work they are largely analyzed in the aggregate and are hereafter labelled as FATGIA.

### **1.6.2. Central Asia**

The region under analysis warrants conceptual clarification as Central Asia does not abide by a universally accepted spatial understanding. Throughout this thesis Central Asia will refer to the five post-Soviet republics of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan. The terms Central Asia, Central Asian Republics (CARs) and post-Soviet republics will be used interchangeably with reference to the aforementioned states. Cohen (2015) presents the “spatial hierarchy of the global structure,” in which the Geopolitical Realm is the highest level (p. 44). It is within the second level, which he has labelled the Geopolitical Region, that this analysis takes place. More specifically the area in focus is where the Eurasian Continental Realm rubs up against the East Asian Realm, and borders the Middle East Shatterbelt to the south as can be seen in the map below:

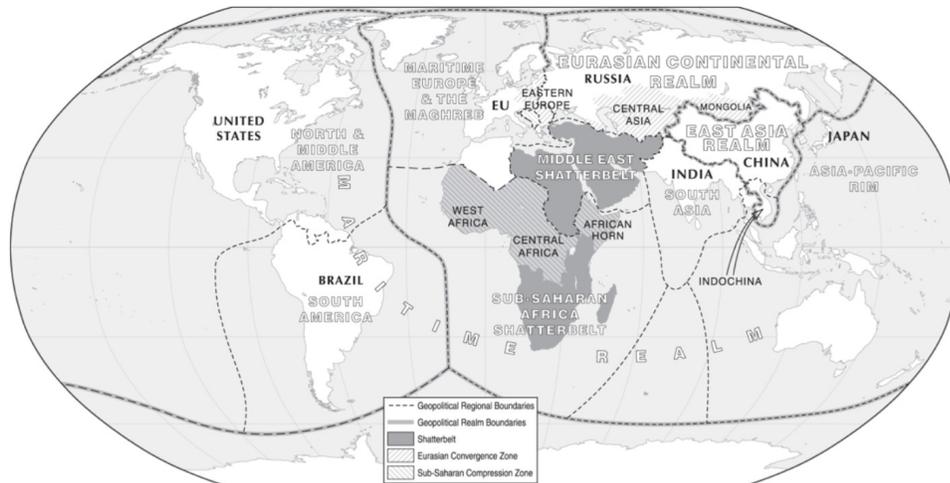


Figure 1. Map of the Geopolitical Realm. Taken from: Cohen, S. B., (2014). *The Geopolitical World: Beginning of the Twenty-First Century*. The Geography of International Relations. p. 45. Copyright 2014 Cohen.

### 1.6.3. Sino-Russian Relations

This thesis analyzes Sino-Russian relations through the three-pronged pillars of political ideology, economic cooperation, and the security dimension. These three pillars are the foundation on which relations between the two countries have been established, and as such will be analyzed. The relationship that exists is calculated, pragmatic and extremely practical in nature. Politically, the two nations have had an affinity for a cohesive stance both internationally as well as domestically. Economically, both nations are advantageous partners for numerous reasons and, in many ways, have been economically interconnected since the establishment of the PRC. The security dimension is multifaceted, with gains and losses occurring on both sides of the border. Culturally divergent, with a long history of mistrust that exists still today, the trilateral selection of political, economic and security as the foundation of the analysis allows for a well-rounded approach to understand the relationship that existed between the two nations from 2001 – 2014.

## **2. Russian Foreign Aid, Trade and Government-Sponsored Investment Activities**

Understanding the historical roots of Russia's foreign aid, trade and investments from the era of Soviet expansion through to the present, allows for a comprehensive understanding of its underlining aims and ambitions. In turn, this allows for a unique comparative analysis with the history and structure to that of the People's Republic of China. Being that China's first aid donor and significant trading partner was the Soviet Union, this analysis attempts to shed light on structural overlap. Keeping in line with the above-stated timeline, the first section will briefly detail aid, trade and investment from 1950 through to the union's dissolution. The next section begins with the creation of the Russian Federation, its efforts to regain economic dominance, and the path it has taken concluding with the present day. Furthermore, key strategic objectives and critical junctures leading to calculated pivots of the time period under analysis will be identified.

### ***2.1. Historical Assessment of Soviet FATGIA: 1950-1991***

In the midst of a bitter winter in 1950, Sino-Soviet relations began to heat up with the signing of the "Treaty of Friendship, Alliance and Mutual Assistance." In the treaty, Article 5 clearly spelt out the desire for economic ties to grow stronger with the mutual understanding that in doing so both parties would conform to the "principles of equality, mutual benefit, and mutual respect for the national sovereignty and territorial integrity and non-interference in the internal affairs of the other contracting party" (Treaty of Friendship, 1950, p.3). Interestingly enough, the terms laid out in Article 5 of the treaty reflect nearly verbatim the first two principles stated by Zhou Enlai in 1964 when he discussed the *modus operandi* of China's foreign aid program which will be discussed in the next section. Furthermore, it was Zhou Enlai who led the delegation to Moscow, and it is his signature that appears on the Treaty of Friendship (1950,

p.4). This treaty would be the catalyst to Soviet concessional lending to the PRC, the first of which began with a loan in the amount of \$300 million (Wantanabe, 2013). Crucially, the loan had strings attached which bound China to buy military supplies from the lender, along with other commodities (Johnston & Rudyak, 2017, p.434).

The Treaty of Friendship, and subsequently the loan extended to the PRC, was constructed and implemented near the end of Joseph Stalin's tenure as leader of the USSR. It was, however, under Khrushchev's leadership that the USSR began the formation, expansion and implementation of Soviet aid in the mid 1950s. In 1956 at the 20<sup>th</sup> congress of the CPSU, Khrushchev marked the departure from Stalinist ideology in a speech given to those gathered, stating to many attendees' surprise that Stalin had deviated from Marxist-Leninist thought, and announced that a course correction was needed (Khrushchev, 1956). This speech ushered in a new era for all socialist states and would lay the groundwork for the Soviet aid strategy referred to as 'peaceful transition,' in which providing economic aid would help develop the receiving state along socialist lines. According to Guan-Fu (1983), Khrushchev believed that "the Soviet Union could foster state-operated industry as well as obtain control of the new country's foreign trade," thus nurturing it along a socialist path (p. 71). Foreign aid within regimes who do not adhere to a set definition often use an amalgamation of aid, trade and investment without specificity as they are not required to report disbursements. As the Sino-Soviet friendship began to grow through the 1950s, so too did the states' economic ties, with half of all trade in China coming from the Soviets in 1958 (Hoeffding, 1963). This was short-lived however, as the impending Sino-Soviet conflict would deeply strain these ties and would see Moscow reel in all technical experts back to the USSR in 1960.

The 1960s saw a surge in Soviet aid to Africa, primarily as economic assistance, technical expertise, and the creation of industrial projects with Khrushchev announcing at the 15<sup>th</sup> United Nations General Assembly the willingness of providing Soviet aid to any African state that asked (Guan-Fu, 1983). Over 70% of aid disbursed from 1959 through to the end of the 1960s was primarily to those African countries that aligned themselves ideologically with socialism (Central Intelligence Agency, 1984, p.6). Though aid may have been largely driven by political and ideological factors, notable projects were completed with the help of Soviet funding and technical know-how, most notably the Aswan Dam in Egypt 1960 (Holbik & Dachman, 1971). The tentative strategy of ‘peaceful transition’ has largely been seen as unsuccessful due to Soviet involvement in local affairs, even causing backlash from Egypt’s President Nasser (Guan-Fu, 1983). Additionally, Soviet economic commitments were severely outpaced by those of the West, which would play a role in the Soviet’s pivoting strategy during the 1970s (Central Intelligence Agency, 1984).

Throughout the 1970s and 1980s Soviet foreign aid would shift its course to focus on providing military aid and arms sales in tandem with treaties (Iran, Somalia, Iraq, Syria, Congo among others) as it was unable to compete economically with its Cold War rival (Guan-Fu, 1983). The pivot signaled the end to a peaceful existence of two systems, and with the Brezhnev Doctrine, Soviet policy began to shift its course in aid, trade and investments. The 1970s through to its dissolution saw the USSR begin resource procurement, primarily oil and gas, from the military regimes it was now funding. Though much of this is supported on the pretense of foreign aid, Guan-Fu (1983) found that when you examine aid flowing from the USSR with Soviet foreign trade statistics, “those countries which accepted Soviet assistance are all major trade partners of the USSR” (p. 77). Furthermore, from 1955 until 1980, Soviet trade turnover to

developing nations rose 7,000% while the USSR dually increased its overseas investments by establishing over 100 joint equity firms (Guan–Fu, 1983). Many thought the Soviet economic system would continue on its perceived charted course, though this was not the case and its subsequent dissolution ushered in a new era of Russian foreign aid, trade and investment.

## ***2.2. Russian Federation FATGIA Structure: 1991-Present***

With the dissolution of the Union of Soviet Socialist Republics in 1991, foreign aid that once flowed out of the Soviet Union now reversed its flow into the newly declared Russian Federation headed by the elected Boris Yeltsin. According to a report produced for Congress, Soviet leadership reached out to the U.S. for the first time in 1990 seeking both food and medical assistance (Tarnoff, 2002, p. 4). In addition to US aid, large amounts of investments and trade deals also began to enter Russia from the US (Kramer, 1995). For much of the 1990s, the Russian Federation was a recipient of foreign aid, primarily from the G7 establishment, and as it began to rebuild its economy it was largely dependent on aid disbursements. The DAC had listed the Russian Federation as an aid recipient of overseas assistance from OECD nations (Rakhmangulov, 2010). Unsurprisingly, most of the existing literature examines aid flowing into Russia after its declaration of independence up until Yeltsin’s resignation and Putin’s subsequent ascension to acting president. This began to shift around the year 2000, the same time period as the PRC’s development of its “going-out” strategy, and the Russian Federation began a transition from recipient to donor.

Like China, the Russian Federation lacked a comprehensive legal framework in regard to what was considered foreign aid, as well as the mechanisms that oversaw its creation and implementation. This changed when the Russian Federation published Russia’s Participation in International Development Assistance Concept (hereto referred to as Concept) in 2007. The

Concept provided an outline of a system-wide approach for Russian aid, but it lacked a rigid timeline for that accomplishment. The Concept shed light on the inner workings of departments responsible; namely the Ministry of Foreign Affairs, in tandem with the Ministry of Finance were responsible for a large portion of aid creation and implementation overseen by other federal executives (Rakhmangulov, 2010). The Russian Federation had been working with the OECD since 1992, made a request to join in 1996, and was provided with a “roadmap to accession” by the OECD Council less than five months after publishing the Concept in 2007 (Concept, 2007; “RF and the OECD,” 2019).

Prior to the release of the Concept, data for Russia’s foreign aid is largely unreliable due to a number of different reasons ranging from the lack of cohesivity in federal budget accounting systems, to a desire to keep the information secretive. Russia went from being a recipient of foreign aid from G7 members in the 1990s, to becoming the 8<sup>th</sup> member of that intergovernmental forum in 1997. It remained the only member among the G8 not a part of the OECD, and in light of the events in Crimea in 2014 the members of the OECD postponed the Russian Federation’s accession to the organization (“Status of Accession”, 2014). The G8 was also relabeled the G7 in the same year for the same reason. Throughout its duration as it aspired to become a member, Russia does not and never has reported fully its ODA to the DAC, while non-member nations such as the UAE and Saudi Arabia have been known to do so (Rakhmangulov, 2010).

### **3. Chinese Foreign Aid, Trade and Government-Sponsored Investment Activities**

As the People’s Republic of China experienced unparalleled economic growth, their ability to provide foreign assistance to developing nations grew as well. Additionally, through the

unique architecture of state-owned enterprises (SOEs), the ability to trade with and invest in foreign nations also experienced a significant increase. As growth in the PRC's aid, trade and overseas investment began to blossom, so too did the interest of foreign nations and academics alike. This interest produced a rich abundance of research and articles dedicated to understanding the unique structure of Chinese foreign aid, trade and investment. The following section will begin with a brief historical assessment of this development beginning with the establishment of the PRC, followed by an analysis of economic reforms and a shift in strategy. The section will conclude with an analysis of the current understanding of the structure of foreign aid, trade and investment mechanisms in China.

### ***3.1. Historical Assessment of Chinese FATGIA: 1950-1990s***

China's foreign aid is seen by many as an enigma for various reasons, ranging from who is in control of formulating policy, to how much is pledged and delivered. Though there is much debate surrounding the accuracy of current estimates of aid, trade and investments, there is somewhat of a cohesive consensus on China's own experience as an aid recipient historically that has driven the model that we see today. As Johnston and Rudyak (2017) discuss in their paper, the PRC in its early years (pre-1978) was economically intertwined with the Soviet Union and it "exposed China to tied concessional lending" which according to the authors, "is the mode China uses for its outbound aid today" (p.434). While China continued to develop its economy, Japan also played a critical role not only as a donor, but an investor as well. In return for access to Chinese raw materials (such as copper and coal) the PRC accepted loans and investments from Japan tied to these resources which, as we will see in the following section, is a method that the PRC utilizes today (Lengauer, 2011).

Almost as soon as the PRC began receiving aid, it began disbursing aid itself to other nations, such as Egypt and the Democratic People's Republic of Korea (DPRK), which even today the PRC remains North Korea's largest supplier of aid (Asmus, Andreas & Müller, 2017; Copper, 2016). This aid expanded to Vietnam and other socialist countries in the years that followed. Throughout the 1950s and into the 1960s China's aid program continued to grow and would evolve a set of principles that Zhou Enlai would announce at a speech in Africa in 1964 (Johnston & Rudyak, 2017, p.435). What would come to be known as the *Eight Principles for Economic Aid and Technical Cooperation to Other Countries* would dictate the creation and implementation of China's policy driving its foreign aid (See Appendix A).

Interestingly, the first two principles stated by Zhou Enlai are almost identical to what was laid out in Article 5 of the Treaty of Friendship (See Appendix B). Throughout much of the 1970s flowing into the 1980s, the PRC maintained aid disbursements and adhered to the abovementioned Eight Principles. A critical juncture occurred during the famous period of *Gǎigé kāifàng* or "reform and opening-up," which is more commonly known in the West as the Opening of China (Gallagher, 2002, p.339). This period of reform under Deng Xiaoping saw the main driver behind aid disbursement transform from political to economic, in tandem with a "transformation of various ministerial structures into state-owned enterprises," which "laid the groundwork for the way in which Chinese aid is implemented today" (Johnston & Rudyak, 2017, p.435). This conversion of ministerial structures into SOEs has had a severe impact on Chinese aid, trade and investment, which further muddles the already opaque understanding of China's aid program. This "opening-up" period allowed the PRC to shed the skin of its centrally-planned economy, subsequently transitioning it to a market-oriented economy (Lengauer, 2011). Though the nation did not fully embrace Thomas Friedman's "Golden Straitjacket," this pivot from

Maoist-era economic policy drastically improved China's economic situation whilst retaining political and societal control firmly under the Party's grip. China quickly learned the importance of foreign investment and embarked on an audacious state-sponsored program to increase the nation's reach into foreign markets.

In the late 1980s, continuing through the 1990s, this foreign investment was linked directly with its aid programs. In an article which examined outward investment from China's transitioning economy, Wu and Chen (2001) state that SOEs "exploited their respective experience of extensive foreign aid to undertake labor collaboration and contracting, and to establish joint venture companies in developing countries" (p. 1236). The PRC had investments in over 120 countries, numbering over 1300 operations, all by the end of 1992 (Wu & Chen, 2001). This tremendous expansion in overseas investment would continue unabated, yet incentivization would begin to alter course. As the economy grew, so too did the nascent need to satisfy its insatiable appetite for resources. According to Wu and Chen (2001), this new craving for resources showed that "the proportion of total overseas investment accounted for by resource development increased from 1.1% in 1993 to 11.1% in 1996" (p. 1241). Though an in-depth exploration into the specifics of China's vast history of foreign direct investment lays outside the scope of this work, the importance of its creation and development helps to provide an understanding of the drivers behind policy creation and implementation. The policy of the PRC to "open its doors" by embracing the benefits of an open-market economy would soon see the nation go out into the world through those same doors.

### ***3.2. "Going Out" Policy and China's FATGIA Structure: 2000-Present***

As the economic reforms of the "opening up" era began to pay-off quite literally, the PRC embarked on a strategy that it called *Zouchuqu Zhanlue*, known in the west as the "Going-Out

Strategy” (Maurin & Yeophantong, 2013, p. 282). The period following the start of the new millennium experienced a large influx of overseas investment in numerous sectors, with resource markets making up a noticeable amount of that outflow (Smith & D’Arcy, 2013). With foreign aid disbursements growing, albeit in still a somewhat *ad hoc* manner, trade ties deepening, and outward direct investment (ODI) steadily increasing, the PRC experienced both external and internal pressure domestically to increase the transparency of its institution’s commercial activities abroad. A report was prepared for the US Congress written by Thomas Lums (2009) aimed at investigating China’s Foreign Aid and Government-Sponsored Investment Activities (FAGIA) in Africa, Latin America and Southeast Asia. Other pressures began to mount against the PRC, with a large body of research becoming dedicated to better understanding the PRC’s handling of foreign aid, trade and investments.

In part, this led to the production of a White Paper in 2011 published by the PRC detailing its aid activities from their beginning, along with its aid structure and the institutions responsible for overseeing its aid activities (State Council Information Office, 2011). It stated that foreign aid fell into three categories: (1) grants, (2) interest-free loans, and (3) concessional loans (See Appendix C). The first two are financed by state institutions, while the third (concessional loans) are handled by the Export-Import Bank of China (Asmus *et al.*, 2017). We also learned from the White Paper that the Ministry of Commerce (MOFCOM) is responsible for budget and expenditures relating to the PRC’s aid activities. MOFCOM produces a yearly budget that gets reviewed by the Ministry of Finance, which then makes its way to the State Council and National People’s Congress for final approval and the budget’s subsequent implementation (Asmus *et al.*, 2017; Bräutigam, 2011). The report delves into the specificities of what it constitutes as aid, which have been analyzed by numerous academics and continues as a source of debate. Another

White Paper was produced by the PRC in 2014 addressing aid that it had provided for the years 2010-2012, while providing specifics regarding projects both proposed and completed (Asmus *et al.*, 2017; State Council Information Office, 2014). As is the case with many other countries, MOFCOM is responsible for bilateral trade, while the Ministry of Finance is responsible for multilateral aid (Bräutigam, 2011; Lancaster, 2007). An overwhelming amount of foreign aid was delivered bilaterally between the PRC and the receiving nation, as opposed to multilaterally. Though this does not make China unique, it is noteworthy due to the sheer amount of aid provided. Kitano (2015) analyzed data, and concluded that from 2001 until 2014, bilateral aid made up a considerable amount of the PRC's aid as can be seen in the graph below:

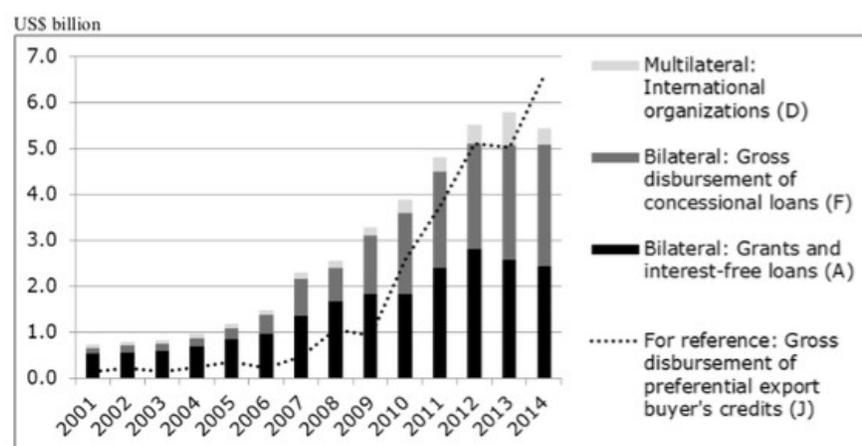


Figure 2. Chinese Bilateral and Multilateral Aid Disbursements. Taken from: Kitano, N. (2015). Estimate of China's Gross Foreign Aid, *Journal of International Development*. p. 30. Copyright Kitano.

For the first time since its establishment, the PRC provided access to the inner workings of its structure dealing with foreign aid, which shed more light on the differences that exist between what have come to be known as “traditional” and “non-traditional” donors.

Created in 1960 with the aim of improving global economic development, the OECD has grown in its size and influence with now over 30 members. Traditional donors operate under the strict parameters set by the DAC which operates within the OECD. The DAC set rules and

norms for its member countries as regards foreign aid and economic disbursement for development, allowing for a high level of transparency and cohesion among its participants. China presents a unique case in that it is not a member of OECD, has no plans of accession to membership as Russia previously had, yet it now ranks within the top 10 donors globally (Kitano & Harada, 2015).

The PRC may publish materials attempting to clarify what they assert composes foreign aid, but the result is that it has no accountability to a multilateral regime in defining the term. This lack of oversight has led Naim (2007) to insinuate that countries who engage in similar programs provide what he calls “Rogue Aid,” stating that “in recent years, a variety of wealthy, nondemocratic regimes have begun to undermine development policy through their own activist aid programs,” and says that the aid provided by these states is “development assistance that is nondemocratic in origin and nontransparent in practice” (p. 95).

While trade and investment may look on the surface to be separated from foreign aid, the ‘holy trinity’ of foreign aid, trade and government-sponsored investments as Shimomura and Wang (2015) labelled it, are very much intertwined and as such must be examined together (p.12). While China does not adhere to any set definition like those nations in the OECD that report their contributions to the DAC, it is imperative that this analysis take into consideration foreign aid, trade and investments collectively.

In the 2011 White Paper, the PRC provided data on where aid has been geographically distributed which has been aggregated into a pie chart that can be seen below:

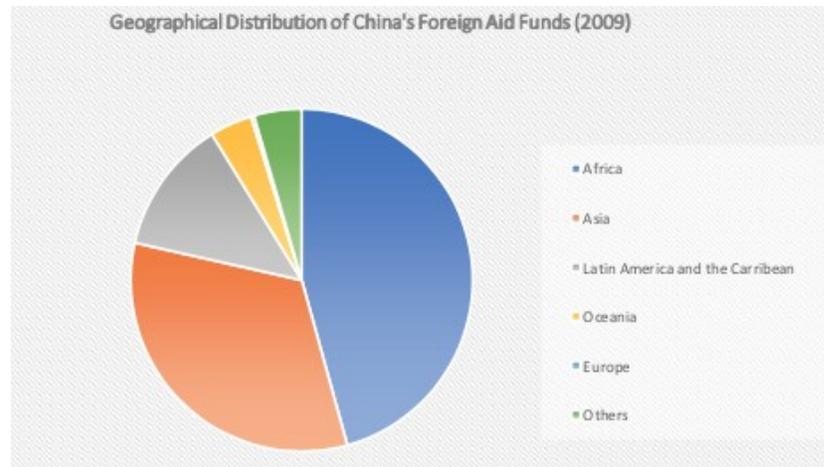


Figure 3. China's Foreign Aid Funds Geographically Distributed in 2009. Source: Adapted from 'China's Foreign Aid' White Paper (State Council Information Office, 2011). Created by: Carter Oswood.

Though this is useful in providing an overall sense of aid distributed in its totality, the PRC has not released any information in terms of aid disbursements on a country-to-country, or even on a sub-regional level. This has led to an attempt by researchers to quantify, using a variety of different methods, aid that has been provided to individual nations.

Much focus has been placed on Chinese foreign aid, trade and investment to Africa, which has seen an explosion of articles and books in recent years (Bräutigam, 2011). Latin America has similarly received a fair amount of attention. Regionally, Asia presents a fascinating case to examine due to its proximity to the PRC, combined with the fact that a third of all aid disbursed is received by Asian nations (State Council Information Office, 2011). Central Asia in particular has been under analyzed, yet when viewed through a geopolitical lens, is a region of great significance. Composed of independent states that were once part of the Soviet Union, Central Asia has in large part remained under the influence of Russia since the dissolution of the Soviet Union and is still deemed as Russia's "Near Abroad" (Cameron & Orenstein, 2012).

Historically, this region has played an influencing role in the dynamic of Sino-Russian relations. To gain a better understanding of the region's geopolitical significance and its

influence on Sino-Russian relations, the next section will analyze Central Asia's historical importance to both nations as well as the resource potential that exists in the region.

## **4. Geopolitical Significance and Resource Potential of Central Asia**

Looking at a map of present-day borders as they are currently demarcated, the significance of the region under analysis becomes self-evident when viewed through a geopolitical lens. Central Asia's historical and contemporary relations with both China and Russia will briefly be discussed in first section. Additionally, the geopolitical significance of the region will be analyzed providing a framework for analysis in the following two chapters. Secondly, the endowment of natural resources that each state in Central Asia possesses, and which is demanded globally, will be analyzed using the individual state as the unit of analysis. Lastly, a summation of the findings that are significant will conclude the chapter. This will allow for a cohesive understanding of the region, its endowment of resources demanded globally, and subsequently its geopolitical significance.

### ***4.1. Geopolitical Significance of Central Asia***

The nations comprising Central Asia have a rich and lengthy history of commerce, war, cultural connection to, and political pressure from, both of its large bordering neighbors of China and Russia. Contact between dynastic China and Central Asian leaders date back to the Silk Road network in 130 BCE, with goods flowing throughout the region making their way cross-continently (Millward, 1998). The Ming Dynasty established diplomatic relations in Central Asia as early as 1394, and even though these relations were not strengthened or even maintained, goods would still flow through the established trade routes (Mosca, 2017). It was the Qing conquest of Xinjiang in 1755 that would greatly expand China's reach into Central Asia. Kazakh

horses were highly sought after by the Qing Dynasty, though much debate abounds around whether the act was considered as tribute or trade (Millward, 1998). The 18<sup>th</sup> and early 19<sup>th</sup> Centuries would see relations deepen between the Central Asian Khanates and dynastic China. As China continued to develop Xinjiang militarily, trade would continue to increase between China and the rulers of Central Asia (Millward, 1998).

The first account of Russian contact with the peoples of Central Asia were Cossack scouts in the mid-16<sup>th</sup> century, around the same time when Ming relations began to taper off (Landers, 2010; Mosca, 2017). Throughout much of the 19<sup>th</sup> century, Russia began to send military campaigns southward to conquer the unforgiving Central Asian terrain, and subsequently the peoples that inhabited its lands. Though these attempts at times were tragically unsuccessful, most notably General Perovsky's Khivan Campaign of 1839, the Russian Empire throughout the 19<sup>th</sup> century conquered much of Central Asia, installing leaders favorable to the Russian Empire (Hopkirk, 1992). The period surrounding Russian southward expansion, and consequently British reaction of these events due to the proximity of its Indian possession, would be referred to as the Great Game. Tensions between the two great powers would cease in 1907 with the establishment of the Afghan border and the signing of the Anglo-Russian Entente (Hopkirk, 1992). It was in 1881, however, that the Sino-Russian Treaty of St. Petersburg was signed, demarcating China's western border solidifying what is now its largest and, from a security standpoint its most problematic, province of Xinjiang (Zhao, 2006). The Russian Empire effectively ruled over Central Asia through Russian Turkestan with its capital of Tashkent (capital of modern-day Uzbekistan) as well as maintaining its political influence with surrounding Emirs and Khans (Hopkirk, 1992). With the revolutions of 1917 disassembling Tsarist Russia, a period of chaotic uncertainty would embrace the region until the late 1920s and

early 1930s when Soviet influence was re-established which ultimately created the Autonomous Soviet Socialist Republics that we recognize today as the region of Central Asia (Kassymbekova, 2016). This history is voluminous in nature, though it deserves brief mentioning as this period would see the semi-solidification of Central Asia's current borders. Additionally, understanding the region's historical construction allows for a stronger understanding of Sino-Russian relations as relates through to the period under analysis.

The Soviet Socialist Republics of Central Asia would see their industries develop under a centrally planned top-down approach, with projects and funding coming directly from Moscow. The region as a whole began to experience an expansion in the form of agriculture and infrastructure, most notably in the form of cotton and railways respectively. This model of development would dominate the region, with large plans drafted in the 1950s and 1960s for massive dams to produce hydroelectric power while focusing on implementing irrigation to develop new agriculture. According to a CIA report produced in 1969 that was declassified in 2012, the Soviets were well aware of the resources present in the region and had made strong projections for utilizing these oil and gas deposits. It projected that by 1975, the Soviet Central Republics would produce 15% of the crude and almost a third of all natural gas for the USSR (Central Intelligence Agency, 1969, p.3). However, due to infrastructural limitations and logistical pitfalls this proved a harrowing task. No pipeline had been created, and at the time the primary transport was the railway network. Everything that was produced, from cotton to crude, was redistributed back into the centrally-planned Soviet economy. With the dissolution of the USSR in 1991, funding and maintenance of infrastructure dissolved with it, causing numerous problems, while at the same time, also opening the door to outside investment in the newly independent republics that would drastically reshape the region.

The region under analysis has played a significant role historically due to its geographic location, influencing Sino-Russian relations as early as the mid-19<sup>th</sup> century. The spatial dimension is undeniably important, with major trade routes linking world economies since the time of the Silk Road. Falling under Soviet control throughout much of the 20<sup>th</sup> century, Central Asia has ushered in a new era of transformation since the independence of its republics and has once again altered the geopolitical situation with technological advancements in resource extraction and large investments flowing into the region. Though many things have happened in the region since the early days of the Silk Road, Swanstrom (2005) accurately states that “the only change today is that the traders have replaced jade, tea, silk and rhubarb with oil, weapons and infrastructure” (p. 577). The next section will briefly discuss the resource potential of the region as it exists today.

#### ***4.2. Resource Potential: State as the Unit of Analysis***

When the USSR collapsed, the states that comprised Central Asia gained independence. With that independence came the challenges and opportunities of shifting from a centrally-planned economy to that of a free market. Wu and Chen (2001) state that, “following the break-up of the Soviet Union, Chinese investment also began to penetrate the Commonwealth of Independent States,” adding that the reasoning was in part due to “their extensive resource endowment, China has gradually begun to expand its economic and technical collaboration with these countries” (p.1252). The nations comprising Central Asia are located on a resource-rich and geostrategic corridor of land separating China from the Middle East that border on the PRC’s least stable province of Xinjiang in the westernmost part of the country. As the natural resources of the region are not distributed evenly among the nations, large discrepancies in resource endowment are visible. As such, this section will concisely analyze the geographic

features and resource potential of each republic comprising Central Asia using the state as the unit of analysis. Though the Chinese government mainly coordinates its policy with the region as a whole (much to the dismay of the states that comprise it) this will provide a more comprehensive understanding of what each individual state possesses in terms of its natural resource potential (Swanstrom, 2005). Additionally, operating under the declared theoretical framework, the state is the primary actor and it is the desire of this section to expose imbalances that exist within the geographic space under analysis.

#### **4.2.1. Kazakhstan**

With a total area of sprawling land that reaches over 2.7 million sq. km, Kazakhstan is the largest nation among the five republics by a factor of 5 and contains large deposits of petroleum in tandem with reserves of natural gas (Central Intelligence Agency, 2018). Other precious materials dot this vast territory such as copper, nickel and cobalt. The country is completely landlocked (the most landlocked of any other country to be precise) but enjoys a coastline with the Caspian Sea to its southwest and is bordered to the north entirely by the Russian Federation, which runs a staggering 6,800 km, making it the 2<sup>nd</sup> longest border in the world after the US-Canada border (ADB, 2010). Kazakhstan shares a 1,700 km border with China to its east where the Altay and Tien Shan mountain ranges tower into the sky and are the source of critical water flow into the region. In contrast to the other four republics, Kazakhstan has substantially lower amounts of irrigated land, and its agricultural output has not made any significant changes in the specified time-frame under analysis (World Bank, 2019). What it lacks in agricultural output, it makes up for significantly in its fossil fuel resources; particularly in coal, oil and natural gas. After the Russian Federation, Kazakhstan has the largest known amount of oil and it is taking full advantage of its highly sought-after resource endowment through the exploration and

extraction largely funded by international commitments which will be discussed in the following section. In 2015 it occupied the spot of 9<sup>th</sup> largest exporter of crude oil, finding itself behind Venezuela (Central Intelligence Agency, 2018). Its output has doubled between 2000 and 2008, with the majority of its reserves located near the Caspian Sea (World Energy Council, 2019). Kazakhstan has massive amounts of proven natural gas reserves, placing the country in 14<sup>th</sup> place in 2018 in terms of largest amounts of proven reserves (Central Intelligence Agency, 2018). This large abundance disproportionately exceeds its domestic use (9.4% of use in 2014) and the country largely consumes other fossil fuels, which has provided a substantial market opportunity for the nation to become a net exporter (World Energy Council, 2019).

#### **4.2.2. Kyrgyzstan**

Totaling just under 200,000 sq. km, Kyrgyzstan is the region's second smallest country and is extremely mountainous, with over 90% of its entire territory covered by mountains (ADB, 2010). It is bordered by China to its east, Kazakhstan to its north, and by Uzbekistan and Tajikistan in its southern corridor which gives way to the contentious Ferghana Valley. Given its terrain, it significantly lacks any demanded fossil fuels that ignited the Kazakh economy during the years after the dissolution of the USSR. Though the country took significant economic reforms after independence, even becoming the first CIS state to join the WTO, the country's population is largely dependent on remittances from labor in Russia which makes up almost 25% of the nation's GDP with the government heavily reliant on foreign donors (Central Intelligence Agency, 2018). Kyrgyzstan may not possess the reserves of fossil fuels that its northern neighbor does, but its hydropower capabilities are significant, making them worth mentioning. The Tien Shan mountains in the northeast of the country divide Kyrgyzstan from China and feed the Naryn and Syr Darya river basin which flows into the Toktogul Reservoir (Burghart &

Sabonis-Helf, 2004). Built in the 1970s by the USSR, this dam regulates the flow of water downstream for irrigation by its riparian neighbors and subsequently has the capability to generate large amounts of hydropower. Of all electricity produced in 2017, 93% of it was recorded to come from hydropower which its domestic populous is largely dependent on (International Hydropower Association, 2018).

### **4.2.3. Tajikistan**

With a territory of 144,000 sq. km, the Republic of Tajikistan is Central Asia's smallest country and is the poorest nation among the republics (Central Intelligence Agency, 2018). Similar to its northern neighbor of Kyrgyzstan, the territory is predominantly mountainous, 93% to be exact (ADB, 2010). Tajikistan is bordered to the west by Uzbekistan, to the east by China, and to the south by Afghanistan. Due to its geographic proximity, it is reported that 30-50% of its GDP is due to narcotic activity (Central Intelligence Agency, 2018). With a population of 8.6 million people, 1 million laborers work outside the country and like Kyrgyzstan its working population is heavily dependent on remittances stemming from work conducted in the Russian Federation (Central Intelligence Agency, 2018). Though the country does not possess large reserves of natural gas and oil, it does have an economy generated in mineral processing and its potential to harness hydropower is seeing an acceleration due in large part to foreign investment which will be discussed in the following section. It has the ability to rival its northern neighbor in terms of potential hydropower production, and it has been placed among the top 10 nations for world hydro capabilities (ADB, 2010).

### **4.2.4. Turkmenistan**

Bolstering a territory that is three times the size of its neighbor Tajikistan, with around 488,000 sq. km, yet possessing a population that has 3 million fewer people than that same

neighbor, Turkmenistan has struggled due to internal fragmentation since its establishment (Central Intelligence Agency, 2018). Though the country supports agricultural production of cotton and wheat, Turkmenistan has significant deposits of petroleum and natural gas which have been exploited for close to a century. According to the World Energy Council (2019) as of 2014, Turkmenistan possesses the world's 4<sup>th</sup> largest reserves of natural gas globally and ranks as the 11<sup>th</sup> largest producer. The Turkmen economy grew at an incredible rate of 7.5% during the specified time frame analyzed, largely due to exports of its hydrocarbons and large investments from foreign firms (ADB, 2010). This economic boom, however, noticeably began to slump in 2014 with the downturn in world oil prices. Despite this, hydrocarbons account for a quarter of the nation's GDP and a significant portion of this production went to China in the form of natural gas transfers (Central Intelligence Agency, 2018).

#### **4.2.5. Uzbekistan**

Historically, Uzbekistan is the richest and most powerful politically and economically among all of the republics in Central Asia, functioning as the cross-roads from its Silk Road cities of Bukhara, Samarkand and Khiva bustling with travelers and traders. It is comparable in size to Turkmenistan, yet a significant proportion of its astounding 30 million inhabitants live in the fertile and controversial Ferghana Valley, making it one of the most densely populated areas in the whole of Central Asia (Central Intelligence Agency, 2018). Though the country sits on a sizeable amount of natural gas, its export potential has been limited due to Soviet-era infrastructure, though this is quickly changing due to increased amounts of foreign investment aimed at improving pipeline logistics and resource deliverance (ADB, 2010). Historically, the country was a large producer of cotton during the Soviet era. This hasn't ceased but has reduced noticeably with a larger emphasis placed on the exploitation of its mineral resources; largely

gold, copper, lead and zinc (Central Intelligence Agency, 2018). As it is a riparian state downstream from Kyrgyzstan, it is heavily reliant on water to power its sizeable agricultural economy to fuel exports abroad while strengthening its own economy.

### ***4.3. Summation of Findings***

Functioning throughout history as a fulcrum of trade, travel and commerce, Central Asia has been a region of significant geopolitical importance. Both tsarist Russia and dynastic China attempted relations and domination over the region, which would see the Central Asia succumb to Russian ambitions where it would remain under direct control of a centrally-planned economy and receiving orders from Moscow. With the dissolution of the USSR, the region would see marked improvement in the exploration and extraction of its resources generating substantial interest and investment throughout the region.

## **5. Chinese and Russian FATGIA to Central Asia**

Foreign aid, trade and investment enters into the Central Asian Republics from Russia and China through both bilateral and multilateral channels. This section seeks to analyze, through the use of multiple data sources, the extent of this volume to the region throughout the specified time period of 2001 - 2014. The first part will comparatively analyze bilateral trade from China and Russia into the region. The next section will analyze Chinese foreign aid and government-sponsored investments into the region with a focus on natural resource procurement. Raw trade data was retrieved from the International Trade Centre, a joint agency created by the WTO and UN. Primary data is collected by the ITC from country specific organizations such as the General Customs Administration of China and Federal Customs Service of Russia, among others. Additional data sets from Rand Corporation (RAND) and Aiddata were acquired and analyzed. The final section discusses the role that multilateral organizations, the Shanghai Cooperation

Organization (SCO) in particular, play as a delivery mechanism of money from China into the CAR's.

### ***5.1. Bilateral FATGIA: A Comparative Analysis***

After the dissolution of the Soviet Union, economic cooperation that once propped up Soviet Central Asia ceased quite rapidly. Turnover of goods between the newly established Russian Federation and the CAR's experienced a tenfold decrease between 1991 to 1992, and would remain dismally low until 1998 (Sinitsina, 2012). Chinese involvement in the region remained relatively low, as this was still largely perceived within the context of Russia's sphere of influence among other motives. The time interval of the analysis begins in 2001 and was chosen for a number of reasons. America's involvement in Central Asia began to expand due to the September 11 attacks and its ensuing "War on Terror" which began to shift the balance of power in the region with the arrival of US war materials. The Shanghai Five announced its evolution into the Shanghai Cooperation Organization, which was established in the same year, and the economies of both Russia and China continued to grow steadily. Throughout much of the 1990s, bilateral economic relations were largely political, this began to shift, however, for both China and Russia at the turn of the century (Peyrouse, 2008). The year 2014 was chosen as a concluding year for numerous reasons. Access to reliable data during this period was a primary driver. This is coupled with Russian aggression in Crimea and plummeting global oil prices that drastically reshaped Russia's economic situation. The time interval concludes in 2014, though as more recent data becomes available this leaves room for further analyzation and interpretation.

When analyzing trade volume from 2001-2014, noticeable trends begin to appear that are worthy of further inspection. Aggregate exports from all Central Asian Republics to Russia and China can be seen in the graph below:

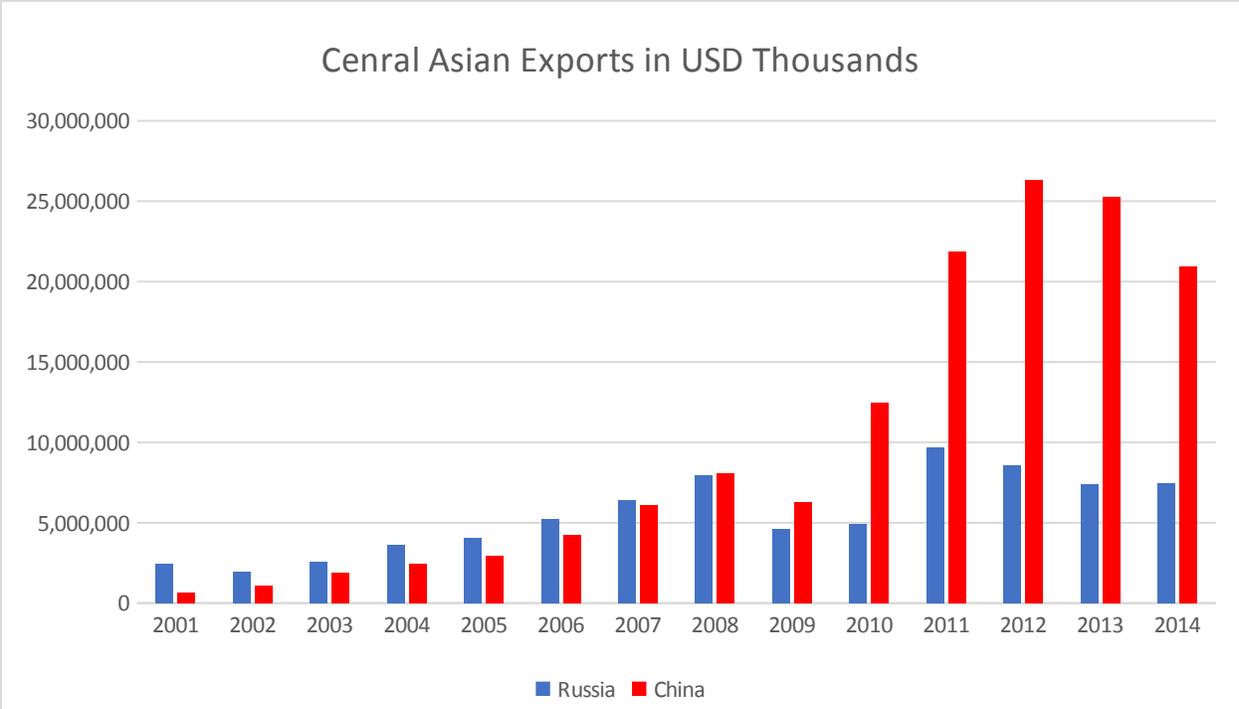


Figure 4. Aggregate Exports from Central Asia to China and Russia. Source: International Trade Centre (2018). Created by: Carter Oswood.

Data was acquired from the ITC, which uses multiple sources of reporting including country specific reporting regimes as well as UN funded agencies (See Appendix D). From the figure above we can see that both countries experienced relative growth throughout the specified time interval, minus a downturn in exports in 2008 which is attributable to the 2007-2008 Financial Crisis. Russia received the larger amount of exports from the region until 2008, when China overtook it. After 2009, the CARs exported a two-fold, and in some cases a three-fold, increase in the amount to the PRC than it did to Russia. Tajikistan was excluded from the aggregate exports due to a lack of transparency in its reporting. Data for Tajikistan begins in 2014 but was excluded in the final year of this analysis so as to maintain consistency. Continued reporting from all CAR’s exists up till 2018 which opens the door for further research.

Exports from Kazakhstan to China in a ten-year period from 2001-2010 experienced over a 2,400% increase. Over the same period, Kazakh exports to Russia increased as well, but by a significantly smaller rate of 333.51%. When we look at the increase of total aggregate exports from 2001-2014 taken from the ITC, Russia experienced an increase of 200% while China saw an increase of just over 3,000%. It must be kept in mind that access to reliably accurate trade statistics is inherently difficult as every state conducted in this analysis is to some degree or another authoritarian. Nevertheless, relative increases with such magnitude are noteworthy and provide insight into trends that may be observed.

In the next section, the percentage of total imports from each Central Asian Republic have been graphically represented. Data extracted from the CIA archival files provided the information of each nation's top trading partners, and the year 2002 and 2011 were selected for juxtaposition of relative increase (See Appendix E). The CIA World Factbook archives a profile of every nation, and the economic section of the report details the top three or four largest trading partners in regard to total percent of trade. Below are the tables for both years followed by pie charts visually representing the relative changes:

**Total % of Imports in 2002**

	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
Russia	37.1%	19.9%	22.7%	6%	22.6%
China	9.3%	10.1%	N/A	19.8%	5.2%

**Total % of Imports in 2011**

	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
Russia	20%	13.9%	16.4%	14%	21.4%
China	30.1%	59.7%	45.9%	11.1%	15.1%

*Table 1.* Aggregate Exports from Central Asia to China and Russia. Source: CIA World Factbook (2002; 2011). Created by: Carter Oswood.

## Total Imports By Country (%)

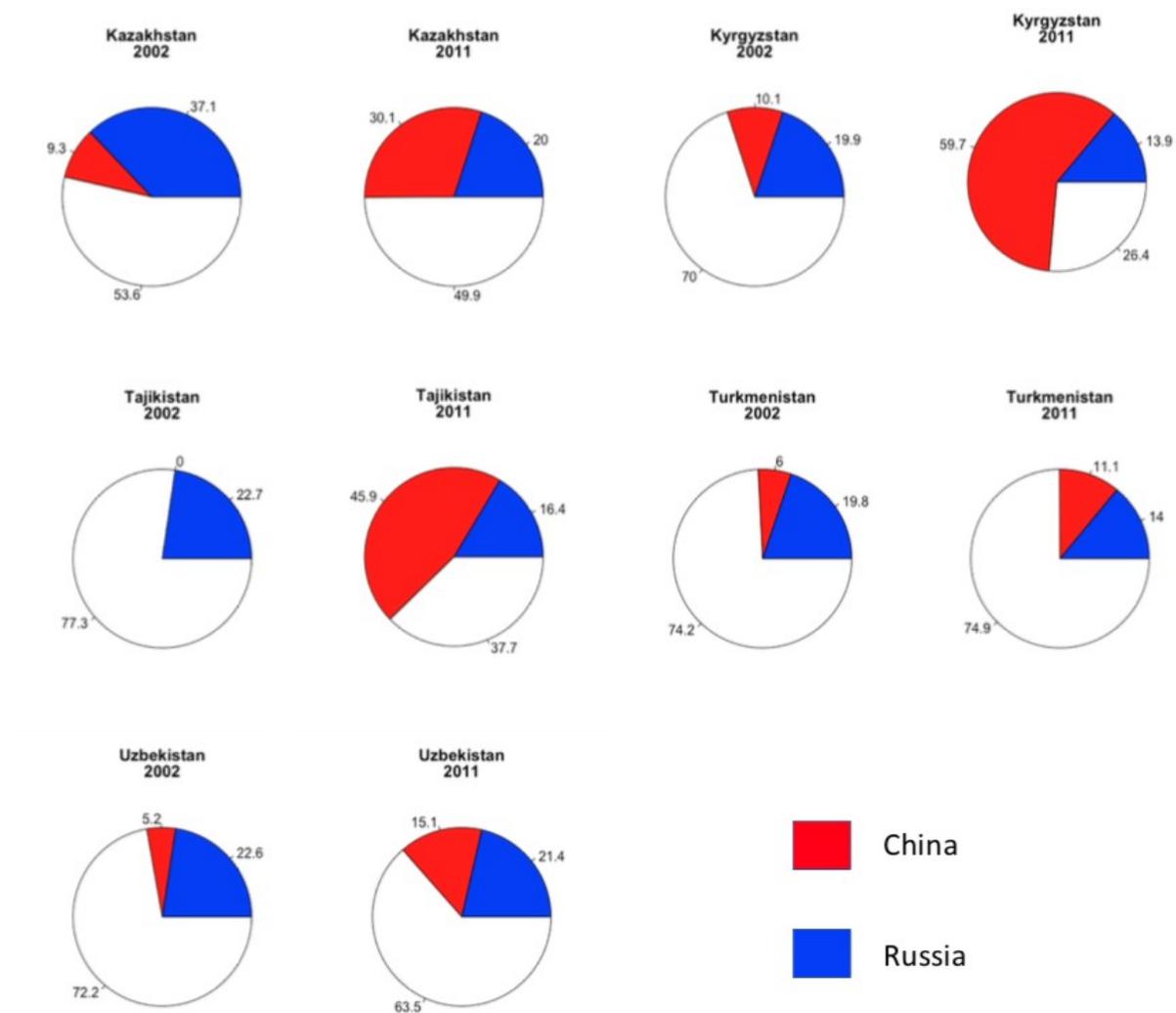
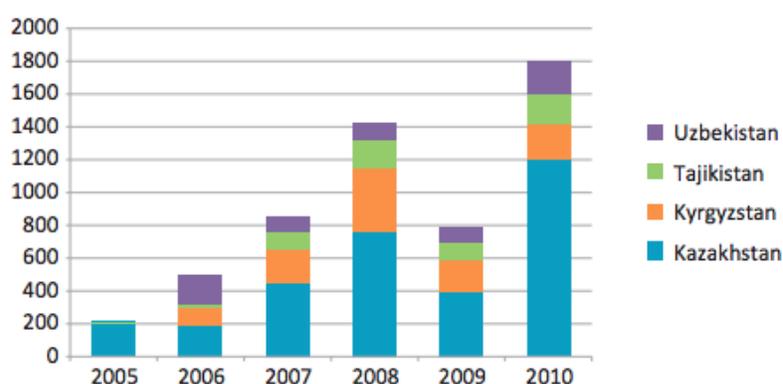


Figure 5. Percentage of Total Imports by Country in 2002 and 2011. Source: CIA World Factbook (2002; 2011). Created by: Carter Oswood.

From the data we can see that in under a ten-year period, Chinese imports to every CAR tripled, excluding Turkmenistan where it nearly to doubled. For Tajikistan in 2002, trade imports from China is reflected by “N/A” meaning the country most likely conducted trade, though it was not a top trading partner and subsequently is included in the remaining 77.3%. We can see from selecting these two years that Chinese imports to each nation has significantly increased, while at the same time in all countries Russia has experienced a decline. As we see

across all years, though this increase and decrease is a repeating norm and not a rule, it still remains significant to the overall analysis. Similar conclusions were reached by Andrijauskas (2013) when interpreting data sets obtained from *China Statistical Press*, the author found that total trade between China and Kazakhstan went from \$6.8 billion in 2005 to \$25 billion in 2011 (p. 118). Though this may look to an outside observer as nothing more than an increasing market share that benefits China, the long-term geopolitical ramifications that exist as a result are important to understand. Some may also point out, correctly, that overall trade can be mutually beneficial and does not exist as zero-sum. Geoeconomic coercion, however, is another story entirely. As Blackwill & Harris (2017) explain using Russia as an example, “in the recent past, Georgian wines, Ukrainian chocolates, Tajik nuts, Lithuanian and even American dairy products and McDonald’s have all fallen afoul of sudden injunctions” (p. 50.).

Next, we turn to Russia’s foreign aid and government-sponsored investment activities in Central Asia. In a report produced by Irina Sinistina, the author produced a graph using data retrieved by Rosstat (Russian Federal State Statistics Service) that shows investment flows from Russia to all CARs from 2005 – 2010:



*Figure 6.* Russian Investment to Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. Source: Sinistina, I. (2012). *Economic Cooperation Between Russia and Central Asian Countries: Trends and Outlook. SSRN Electronic Journal.* p. 28. Copyright 2012 Sinistina.

As can be seen above, Kazakhstan received the largest amount of investment throughout the years provided. Though investment flows have experienced growth, this growth in absolute terms is relatively small (Sinistina, 2012). To put this into perspective, though 2010 saw Russian investments into Kazakhstan grow to their largest amount over the period, according to the national statistic's agency in Kazakhstan, Russia did not make it into the top ten foreign partners and furthermore for 2009 and 2010 Russia was not ranked within the top 10 donors for any of the CARs (Oilphant, 2013, p. 8; Sinistina, 2012, p.28). This trend does not hold with Uzbekistan and Tajikistan, however, as Russia is a top investor to both countries in terms of overall FDI amount. Turkmenistan is provided the lowest amount of FDI and ODA among all CARs. Below is a graph from 2001 to 2009 of Russian ODA granted to the CAR's in USD millions:

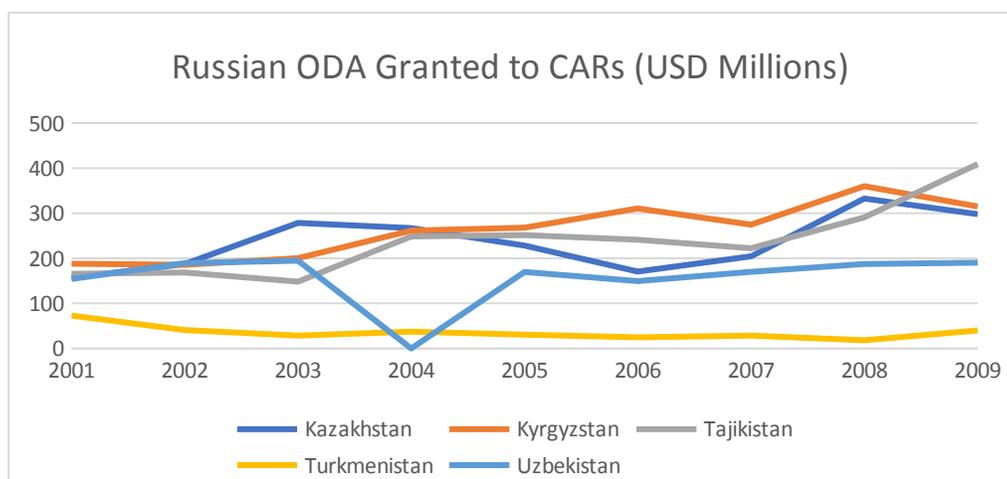


Figure 7. Russian ODA Grant to CARs. Source: Sinistina, I. (2012). Economic Cooperation Between Russia and Central Asian Countries: Trends and Outlook. *SSRN Electronic Journal*. p. 52. Graph created by Carter Oswood. Copyright 2012 Sinistina.

This graph illustrates the amount of ODA, according to DAC guidelines, that Russia provided to the Central Asian Republics. Additional years were unavailable to complete the graph, however data taken from the OECD official website have been procured to complete more of the picture. Some information was absent and has accordingly been labelled as “n/a” for not

applicable (See Appendix F). This discrepancy in information further sheds light on the inconsistency of ODA, OOF and other types of disbursements made from non-OECD members that do not conform to a specified definition. Furthermore, with no adherence of reporting to a committee, this further opens the door to utilizing aid, trade and investments to obtain political objectives.

When analyzing Chinese foreign aid and government-sponsored investment activities, a similar trend of increasing amounts pledged and delivered begins to appear. In a report produced for RAND Corporation, Wolf, Wang, & Warner (2013), found that of all regions considered in their analysis of Chinese FAGIA, Central Asia received the least amount of funding for the years 2001-2011. Though accurate, the statement is misleading as their report also highlights the fact that the region experienced an increase from “\$27 million in 2001 to \$7.8 billion in 2011,” and state that the majority of the amount granted was “offered to fund oil, natural gas, and mining projects” (Wolf et al., 2013, pg. 40). Their findings of pledged and delivered FAGIA can be seen below:

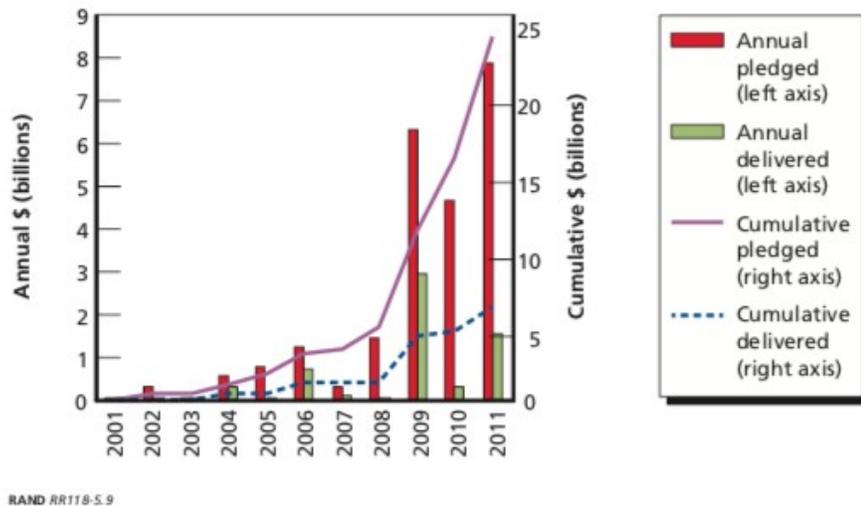


Figure 8. Annual and Cumulative Estimates of Pledged and Delivered FAGIA to Central Asia Source: Wolf, C., Wang, X., & Warner, E. (2013). *Chinas foreign aid and government-sponsored investment activities: Scale, content, destinations, and implications*. p. 41. Copyright RAND Corp.

From their findings, many points of interest can be identified. As can be seen in the graph, the trajectory for pledged and delivered has increased at a dramatic pace over their specified 10-year interval. Though it appears that large amounts of aid put forth were pledged, they found that “by the end of the decade, more than 40 percent of its cumulative pledged assistance was fulfilled (Wolf et al., 2013, p.40). Additionally, their report reflects that a considerable amount of aid provided was done so within the framework of the SCO, which will be addressed in the following section. It is, however, important to point out that the authors mention the SCO Development Bank for its role in project funding, though as late as 2018 there has been no solidified institution to handle the financial transactions of the SCO. The report additionally provided an intriguing graphical representation of the sectors into which Chinese FAGIA has been placed which can be seen below:

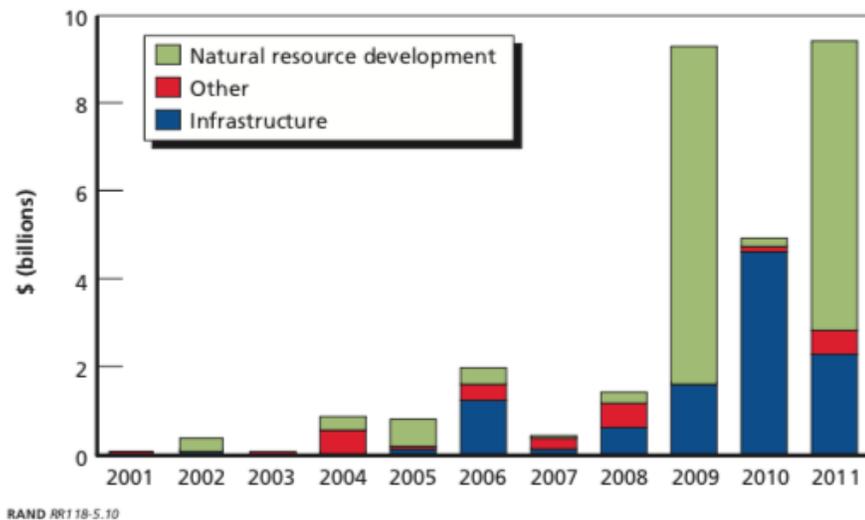


Figure 9. Annual Pledged Plus Delivered FAGIA Estimates to Central Asia by Category, 2001–2011 Source: Wolf, C., Wang, X., & Warner, E. (2013). *China's foreign aid and government-sponsored investment activities: Scale, content, destinations, and implications*. p. 42. Copyright RAND Corp.

According to their research, an overwhelming amount of the billions of dollars provided as aid or invested have been allocated to natural resource development. Infrastructure should not be

overlooked, as many times the two are interconnected as can be deduced from the graph, the year 2010 was predominantly spent within the infrastructure sector.

Though RAND allows for intriguing insight, to reduce bias a second source of data has been analyzed. Aiddata generated a methodology of Tracking Underreported Financial Flows (TUFF), which tracks information of financial dealings between China and multiple nations. In the data sets that have been acquired from Aiddata, the financial flows to the CARs have been isolated from overall global transactions. In their data set, Aiddata attempts to categorize each transaction made according to its flow (grant, loan, export credit, vague) or its flow class (ODA-like, OOF-like, vague). The data for this analysis is aggregated, and as such does not attempt to sift through what may or may not be classified as meeting the DAC requirements and furthermore, is solely interested in aggregate financial transactions.

The lending institutions vary from China's Eximbank to unspecified governmental lending institutions. Due to this ambiguity, this analysis is adjusted to consolidate foreign aid and government-sponsored investment activities. All amounts are reflected in USD and have been adjusted for inflation in its respective year throughout the entirety of the time frame specified. Furthermore, pledged and delivered amounts are combined, with a detailed analysis of the top three outliers that exist to each nation. Below is a boxplot that represents the spread of foreign aid and government-sponsored investment activities between 2001 - 2014:

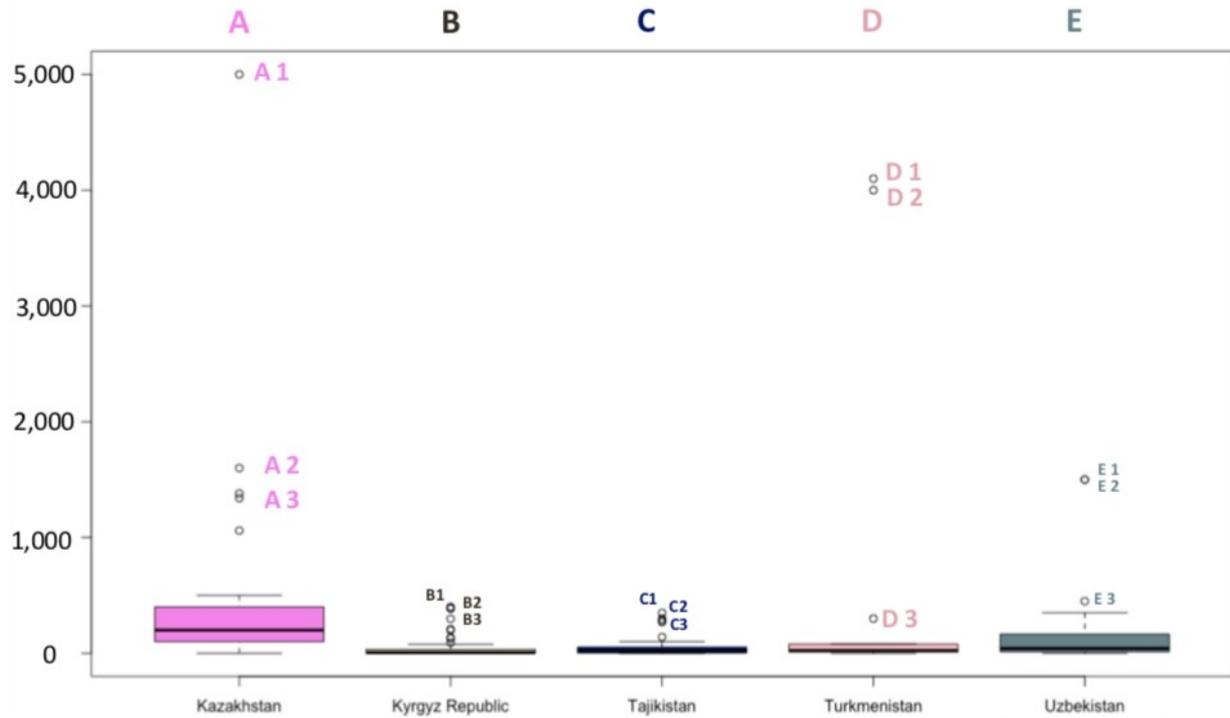


Figure 10. Aggregated foreign aid and investments from China to the CARs from 2001 – 2014. Source: Dreher *et al.* (2017) Created by Tamara Marcus & Carter Oswood. Copyright 2019 Carter Oswood.

From this graph we can deduce that a large proportion of overall disbursements were attributed to Kazakhstan and Uzbekistan, though this is in total aggregated amounts. The bars above and below the colored fields represent maximum and minimum values, while the box plots represent overall distribution of funds. The focus is placed on the outliers that clearly present themselves. These are significant for numerous reasons, not least that they are overwhelming amounts of money. In 2009, China’s Exim Bank extended a loan to Kazakhstan for \$5 billion which was more than the GDP of Tajikistan in that same year (World Bank, 2019). Aiddata provided the primary data used in this analysis, with full descriptions of each transaction being included (See Appendix G). The top three outliers from each CAR have been identified and paraphrased below:

## Kazakhstan

A1: In 2009, the leaders from China and Kazakhstan met in the capital of Astana and came to an agreement that China would loan Kazakhstan \$10 billion. China's EXIM bank was responsible for the loan of \$5 billion which is reflected above and was to be used toward the energy and infrastructure sectors. As of 2014, a little of \$3 billion has been used to fund projects.

A2: In 2011 the China Development Bank (CDB), a state-owned financial institution, agreed to loan \$2 billion to a Kazakh sovereign fund to be put towards mining operations. Reflected on the boxplot is the \$1.6 billion intended for mineral resource extraction and production.

A3: In 2011, China EXIM Bank agreed to loan the Kazakhstan Development Bank \$1.38 billion in financing for the construction of a resource plant. The construction of which had been contracted out to a Chinese SOE but seems to have been terminated. Financing has remained secured.

## Kyrgyz Republic

B1: China's EXIM Bank signed a \$400 million loan agreement with the Republic of Kyrgyzstan's Ministry of Finance. The loan would finance the construction of infrastructure projects, primarily road connections. The project was contracted through China Road and Bridge Corporation. All agreements were signed in 2013.

B2: In 2012, the PRC signed an agreement with the Kyrgyz Republic to lend, through preferential credits, \$389.74 million to construct a national power transmission line. The line of credit was extended to the republic through the China EXIM Bank.

B3: In 2013, China's EXIM Bank lent \$386 million to Kyrgyzstan at 2% interest per annum for 20 years with only interest payable for the first 11 years of the loan's life. Importantly, this was done within the framework of the Shanghai Cooperation Organization, though financed directly by institutions stemming from the PRC.

## Tajikistan

C1: In 2014, China's EXIM Bank extended a \$348.9 million loan to Tajikistan to finance a thermal power plant. Total cost upon completion is projected to be \$349 million, with \$17.4 million being provided by the Tajik government.

C2: An agreement was made between the leaders of China and Tajikistan, with the PRC lending the Tajik government \$300 million to finance the construction of a hydroelectric power plant. Uncertainty surrounds actual disbursement of funds.

C3: China's EXIM Bank lent the government of Tajikistan \$281 million to finance an infrastructure project. The loan was disbursed in 4 stages.

## Turkmenistan

D1: In 2009, China's vice premier Li Keqiang signed an agreement with the Turkmen President stating that the Chinese Development Bank (CDB) would loan \$4 billion to finance the development of the Galkynysh Gas Field. This loan was preferential, as well as conditional, upon the delivery specified cubic meters of gas annually from Turkmenistan to China.

D2: An additional loan agreement of \$4.1 billion was signed in 2011 between China and Turkmenistan. The loan was dispensed over 3 years and was backed by natural gas transfers from Turkmenistan to China over the course of 10 years.

D3: China's EXIM Bank signed an agreement in 2006 to extend a preferential loan of \$300 million at an interest rate of 3.0% to Turkmenistan. A signing ceremony was held between China's Prime Minister and the Turkmen President Gurbanguly Berdimuhamedov. The loan was for the construction of new facilities centered on resources. A Chinese SOE was contracted for construction, 90% of which was funded by the aforementioned loan.

## Uzbekistan

E1: In 2011, Uzbek President met with the Chinese Minister of Commerce to sign an agreement that would see Chinese banks lend \$1.5 billion. The loan was extended for the purpose of financing joint-investment projects within the infrastructure and resource sectors. Noteworthy, more than 25 agreements were signed at this meeting worth \$5 billion and financed by China's EXIM Bank, State Bank of China and the People's Bank of China.

E2: In 2011, the Chinese Development Bank (CDB) extended a \$1.5 billion loan to facilitate the construction of a copper mining project.

E3: In 2013, the Chinese Development Bank (CDB) issued a \$550 million loan to the government of Uzbekistan to finance the development telecommunications. Only \$100 million was disbursed in the first phase that adheres to the parameters of this time period analyzed.

### ***5.2.. Summation of Findings***

This analysis has presented insight into both country's financial dealings with Central Asia from 2001 – 2014. It is clear that China has significantly increased its FATGIA to each Central Asian Republic throughout the specified time interval. Furthermore, the first hypothesis proposed and tested stated that “Chinese foreign aid, trade and government-sponsored investment in Central Asia has increased over the time period of 2001-2014 relative to Russian foreign aid, trade and government-sponsored investment.” The analysis conducted shows

evidence of partial confirmation of the first hypothesis proposed, however, it must be kept in mind that access to accurate and reliable data is of utmost difficulty, and as such further research must be conducted to wholly confirm or reject this hypothesis.

Operating under the theoretical framework of geoeconomics, the authors have specified that endowments play a leading role in their use of shaping the geopolitical landscape. More specifically, Blackwill & Harrison (2017) describe a certain set of geoeconomic “mechanisms for channeling this investment” which that say are “state-owned investment vehicles for deploying reserve assets, sovereign wealth funds, state-owned banks, and state-owned enterprises, to name a few” (p.88). Crucially, the authors state that often times these mechanisms are mutually reinforcing. As we have seen, state-backed lending institutions are responsible for lending vast sums of financial capital that is often times backed by reserve assets and wealth funds. The governments of these states then utilize these loans by contracting the lending government’s SOEs to complete the work. As the outliers show us above, this has predominantly been allocated, many times at the behest of the lending government, for exploration and extraction of natural resources. The second hypothesis this thesis aimed to test was that “Chinese foreign aid, trade and government-sponsored investment in the region has been used to secure natural resources in Central Asia to satisfy domestic demand of energy.” This analysis has shown that there is a clear and concise trend that Beijing has used its financial might funneled through its FATGIA to the CARs to acquire valuable access to not only the natural resources in the region, but more importantly to own a percentage of the companies that make their use possible. This hypothesis is partially confirmed, though as more accurate financial information becomes available, this will allow further research that is needed to wholly confirm or reject the second hypothesis.

Excluding “E3” which was a telecom deal in Uzbekistan, all of the outliers from foreign aid and government-sponsored investment activities have been centered on resource extraction, exploration or infrastructure. Chinese SOEs have shown that they will use their investments to exploit a resource, even if this means incurring an economic loss, to increase the Party’s political strength in a given nation (Economy & Levi, 2015). Considering that SOEs are largely backed by credit extended through centralized banks controlled by the PRC, the repetition of this process, though economically inadvisable at times, is to a large extent sustainable. Though many of the individual distributions have features that the DAC may attribute to being within the orbit of its definition of ODA, multiple multi-billion-dollar extensions of credit that are resource-backed paints a very different picture. According to the theoretical framework of geoeconomics, Luttwak (2000) ascertains that “the final offensive weapon is predatory finance, if the artillery of research and development cannot conquer markets by sheer technological superiority; if operating subsidies are not enough, export sales may still be won against strong competitors by offering loans at below-market interest rates” (p.132). As has been presented above, even the billion-dollar outliers adhere to Luttwak’s statement, with lending institutions run by the state extending LOC’s at not only a competitive, but many times at unbeatable interest rates. Though Luttwak’s claim maintains that the financing must be predatory, this analysis has shown that financing at times is shown to have been backed by a resource desired by the lending government instead of an interest payment.

Additionally, it is noteworthy to mention that not all funds are disbursed bilaterally. As reflected in “B3” China also uses multilateralism to extend funding to those countries who participate in the Shanghai Cooperation Organization (SCO).

### ***5.3. Multilateral Contributions***

As has been previously mentioned, the vast majority of China's foreign aid and government-sponsored investment activity from 2001-2014 has occurred in a bilateral manner (Kitano, 2015). It is dually important to investigate substantial volumes that flow through multilateral institutions as well. It is no secret that China seeks to operate in a multi-polar world, one free of a unipolar hegemon. China finds itself aligned with developed nations on economic issues, while at the same time its views on global governance are more aligned with those of developing nations (Li, 2011). This allows the state to function in a unique manner; participating in well-established multilateral regimes, while also developing its own institutions that incorporate regional players that operate on a less democratic footing. Multilateralism brings about benefits, both tangible and intangible, providing an outlet for financial lending while also building goodwill. The primary multilateral institution under analysis will be the Shanghai Cooperation Organization, a political, security and more recently (relatively speaking) an economic organization that promotes regional cooperation in these three spheres.

The organization has transformed from its inception in 1996 as the Shanghai Five, which the organization referred to as a mechanism with the founding members being China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan (Ambrosio, 2008). On June 15, 2001 it was announced, in Shanghai, that this mechanism was now to be called the Shanghai Cooperation Organization (SCO) which on its website states that it is a "permanent intergovernmental international organization," and includes "the Republic of Kazakhstan, the People's Republic of China, the Kyrgyz Republic, the Russian Federation, the Republic of Tajikistan, and the Republic of Uzbekistan" (Shanghai Cooperation Organization, 2019). Though Turkmenistan is noticeably absent from this organization, bilateral economic relations between Turkmenistan and the PRC

continued to thrive. Andrijauskas (2013) brings attention to the fact that the country's natural resources had been on Beijing's radar, and "in 2006 both countries signed a framework agreement on a pipeline construction and long-term gas deliveries" (p.123). He continues by highlighting that due to a dispute between Turkmenistan and Russia, the Turkmen government allowed CNPC to invest a further \$3 billion into a recently discovered gas field that was reported to be the second largest in the world (Andrijauskas, 2013).

The politico-security organization has since broadened its scope to include economic issues, which this section is devoted to analyzing. The next chapter will evaluate, in-depth, the organization in its totality as relates to Sino-Russian relations within spheres of political and security. China and Russia remain the organizations strongest members and retain the sentiment that the SCO is not a military alliance, but rather it functions as "a mechanism for enhancing regional cooperation in political and economic spheres" (Yuan, 2010, p. 862). When analyzing the development of the organization in the broader context of existing regional organizations, it is evident that China's ambition and participation in the development and strengthening of the SCO from 2001-2014 outweighed that of Russia, economically speaking. It was in the interest of Russia to promote regional projects through the Eurasian Economic Community (EURASEC), while China vocally pushed for economic development through the SCO. Since the outset in 2002, China has taken the steps necessary to bring the members to the table on economic issues, and in 2003 then Chinese Premier Wen Jiabao floated the idea of creating a zone of free-trade among the members of the SCO (Bailes, Dunay, Guang, & Troitskiy, 2007). Over the next few years, the economic arm of the SCO would continue to develop with over 100 projects being approved by 2004, and agreements made between the SCO and EURASEC at the 2006 Shanghai Forum (SCO, 2019). Russia has, from the outset, been apprehensive about to what extent the

organization should operate economically. According to Bailes *et al.* (2007) “Russia’s most important concern about possible future developments in the SCO is China’s policy of using the organization as a vehicle for the economic penetration of Central Asian countries” (p.42). This would directly conflict with the interests of EURASEC and subsequently relinquish influence in the Central Asian sphere.

Throughout the timeframe of 2001-2014, a few notable economic developments occurred. China’s economic prowess during this interval continued unabated, as it began providing substantial amounts of capital to SCO members. In 2006, Chinese President Hu Jintao made available \$900 million in preferential buyers’ credits to all SCO members for the purpose of buying Chinese exports (Chinese Central Government, 2006). The next round of economic injection came in 2009 when Hu Jintao announced a \$10 billion loan to SCO members (China Daily, 2009). In 2014, during the 14<sup>th</sup> meeting of Council Heads of State of the SCO, President Xi Jinping announced an additional offering of \$5 billion in loans to the organization for infrastructure development and energy cooperation (China Daily, 2014). With these massive injections, the inevitable development of an SCO banking institution commenced. Nevertheless, the economic role China has played through this multilateral institution hasn’t gone unnoticed by heads of state and analysts alike.

Conclusively, in 2013 President Xi Jinping delivered a speech in Kazakhstan that would set in motion what the PRC labelled One Belt, One Road (OBOR) and has since been changed to the Belt and Road Initiative (BRI), which aims to expand infrastructure to support global trade on a historic level (Ministry of Foreign Affairs, 2013). This initiative began attaining traction in 2014 and has since gained a significant amount of attention throughout the world. Though much of

the progress made since the announcement in 2013 lay outside the time frame specified in this work, it opens the door for further research.

## **6. Sino-Russian Relations**

The relationship between China and Russia presents us with a convoluted history of deep-rooted mistrust, perpetuated territorial incongruity and oscillatory rapprochement. Sharing a currently demarcated land border of more than 4,000 kilometers, these two nations' histories have inevitably been intertwined. In the first section, an examination of the historical chronology will be presented, allowing for a concrete foundation of understanding as these effects have a significant influence on the interactions of the states under the specified period. The historical assessment begins in 1949 and terminates in the year 2000. Armed with a well-rounded historical perspective, the second section will dissect Sino-Russian relations from 2001-2014 through the three-pronged prism of political ideology, economic cooperation and the security dimension. These three founding pillars will function as the units of analysis for determining relations between the two nations.

### ***6.1. Historical Analysis: 1949 – 2000***

The Soviet Union immediately recognized the People's Republic of China in 1949, aligning ideologically with the Chinese Communist Party (CCP) and the establishment of a communist state from the outset. The path that led to this point in late 1949 was anything but smooth, with apprehension manifesting across both borders as Joseph Stalin and Mao Zedong took different stances in their aims on foreign policy (Westad, 2011). Disagreement would persist, hindering Sino-Soviet relations with divergent views on the reincorporation of Mongolia under CCP control, among other spats, as commonplace in the early stages. As has been mentioned previously in the second chapter of this thesis, though within an economic context, the two

nations signed the “Treaty of Friendship, Alliance and Mutual Assistance” in 1950 which would ignite Sino-Soviet relations (Treaty of Friendship, 1950). This would see an influx of not only monetary assistance, but technical expertise as well, with Russian labor crossing the border with the directive of increasing the nation’s capabilities in a myriad of ways including nuclear technology. In addition to money and labor, military equipment would also make its way across the Russian border which would strengthen relations further still (Lüthi, 2008). Though relations at this point may look rosy, the dealings between the countries were anything but. As talks continued into 1950, Stalin further irritated the leader of the PRC by making mention of signing separate treaties with the provinces it was attempting to bring into the CCP’s orbit of unification: Xinjiang to the west and Manchuria to the east (Westad, 2011). The Korean War, and the PRC’s growing involvement in it, would nudge the two nations ever closer. China’s intervention in October 1950 would be backed by Soviet air support, war materials and military advising throughout the duration of the war until its conclusion in 1953 (Westad, 2011). The death of Stalin in the same year saw Khrushchev’s ascendance to power, and his visit to the PRC in 1954 furthered bolstered relations between the two nations. As late as 1958, talk of a deepening military integration was being crafted, with the Soviets even preparing to supply China with submarines capable of carrying a nuclear weapon (Westad, 2011).

An ideological shift began to emerge between the two leaders into the late 1950s, and by 1960 all technical experts were recalled by the Soviet Union creating a full-stop on all joint-scientific projects that were in motion. Furthermore, the significance of ceasing tech transfers was predominantly felt within the sphere of progressing nuclear capabilities as the PRC was en route to successfully producing a nuclear weapon. In a decade, relations between the two nations saw China gain and lose its largest ally. The period throughout the mid-1960s is known

colloquially as the “Sino-Soviet Split” where this ideological divide would inhibit relations, with both sides withdrawing their ambassadors in 1967. This would escalate to a full-blown border conflict in 1969, which would see the Soviets amass troops along China’s border to the west in the unstable province of Xinjiang as well as fighting in the east that would result in casualties for both sides and the continued militarization spanning the length of the entire border (Lüthi, 2008; Westad, 2011). Relief would come in the winter of 1969 with negotiations, but full border demarcation would not occur until the mid 2000s.

Ambassadorial restoration occurred in tandem with renewed trade negotiations in 1970, and this decade would bring about triangular politics as the US used its position as political counterweight to both nations (Central Intelligence Agency, 1984). The death of Mao in 1976 would see Moscow attempt further reconciliation to no significant avail. Sino-Soviet relations continued to stagnate concomitantly with relations improving between Beijing and Washington with a visit from Nixon in 1972. China’s involvement in Vietnam and the Soviet’s invasion into Afghanistan would sour any attempt at reconciliation until the end of the decade. The 1980s brought a period of rapprochement from both sides, leading to a softening of relations and by the mid 1980s both sides agreed to an expansion of “trade, cultural and sport exchanges,” while also initiating joint scientific projects (Central Intelligence Agency, 1984 p. 7). This era of relations has largely been labelled one of “normalization” which re-established a basis for relations. Relations by 1994 had the two nations touting a “constructive partnership,” which within a few years turned into a “strategic partnership of equality, mutual confidence and mutual coordination for the 21<sup>st</sup> century” (Lo, 2008, p.29; Turner 2009). Confidence building measures would continue throughout the 1990s, gaining speed with summits and increased trade dealings (Rozman, 1998). China’s western border that had experienced skirmishes was settled in 1996

with the “Agreement on Strengthening Mutual Military Confidence in the Border Region, signed in Shanghai by Russia, China, Kazakhstan, Kyrgyzstan, and Tajikistan, provided for the withdrawal of all armored troops and heavy weaponry from a 100-km-wide frontier zone” (Lo, 2008, p.29). This demarcation now meant that China would share over 3,300-kilometer boundaries with Kazakhstan, Kyrgyzstan, and Tajikistan (Yuan, 2010). The signatures of these nations on the charter would be the precursor to the Shanghai Five, which would be the precursor for the Shanghai Cooperation Organization in 2001.

## ***6.2.Sino-Russian Relations 2001-2014***

As the prior analysis has shown, since the establishment of the PRC Sino-Russian relations have experienced extreme highs and lows. From largest lending partner, with lines of credit extended to purchase war materials, to adversaries that saw the militarization of borders with multiple fatalities on both sides. The 1990s ushered in a new era for both countries and with the turn of the century, relations had improved markedly. On July 16, 2001 China and Russia signed the “Treaty of Good-Neighborliness and Friendly Cooperation Between the People’s Republic of China and the Russian Federation” which is a twenty-year accord and an attempt to outline the capacity of the relations between the countries, but did not specify security guarantees or the establishment of an alliance (Bellacqua, 2010). Armed with a descriptive analysis of Sino-Russian relations, it is from this juncture that the analysis begins, using the trilateral foundations of political, economic and security.

### **6.2.1. Political**

Sino-Russian relations are predicated on the mutual understanding that exists between the RF and the PRC of a world order directly involving themselves playing a lead role in the international agenda. Both oppose American hegemony and the construct of a unipolar world,

instead opting for a world order that is multipolar in which they can directly involve themselves on the world stage. While the Sino-Russian “strategic partnership” has shown itself to surpass the expectations of many, its origins are rooted in mutual discontent with a US-led world order (Bolt, 2013). The establishment and continued existence of the “Shanghai Five” (China, Russia Kazakhstan, Kyrgyzstan and Tajikistan) included Uzbekistan in 2001 and would see this organization strengthen and evolve into the Shanghai Cooperation Organization (SCO). The signing of the “Treaty of Good-Neighborliness” signified rapprochement from both sides of the aisle. Relations took a turn in that same year after the attacks on US soil in September of 2001. America’s “War on Terror” brought Russia an opportunity to expand relations with the US by allowing American military operations into its sphere of influence in Central Asia. This meant that talk of multi-polarity would be placed on the backburner, with the hope of advancing relations with the USA for numerous reasons(Lo, 2008; Wilhelmsen & Flikke, 2011). As soon as Russia discovered it wasn’t attaining the political gains that it had hoped for, its stance quickly reversed in 2002 with President Putin stating “Russia and China have always stood for the establishment of a multi-polar world and the strengthening of the role of the UN” (as quoted in Turner, 2009, p. 166). With America’s 2003 invasion of Iraq, both countries renewed their call for a multi-polar world. It is important to note, however, that though both nations favor a multi rather than a unipolar world order, specificities as to what distinctly this would look like were not clear which leaves the door open for not only cooperation, but competition as well. With the signing of the SCO charter in 2002, a more coherent understanding of mutual aims materialized through this multilateral platform (Bellacqua, 2010).

The SCO has been used politically to symbolize the creation of a multilateral organization not spearheaded by the USA or any other western power. The symbology lies in its ability to

mediate regionally, any conflict that may arise through diplomatic channels that exclude the USA. This furthers the cohesion between its two largest members, Russia and China, while bolstering their standings in the international arena. The SCO has since expanded to include other nations including India and Pakistan, though this was in 2017 and subsequently lies outside the defined time period. Its beginnings were anything but gracious, with many then, and still now, skeptical about its functionality. The economic and security dimensions of the SCO will be discussed in the following sections, though it is worth noting that since its charter was established the organization has expanded, not contracted. This has played a role in strengthening the political ties between China and Russia by allowing the SCO to act as a diplomatic channel for dealing directly with each other if any bilateral disputes involving any of the four out of five CARs involved. Though Turkmenistan is not a member, this diplomatic channel also extends throughout the entire region.

In 2004, President Putin was invited by Premier Hu Jintao to visit Beijing; the arrival would celebrate the 55<sup>th</sup> anniversary of Sino-Russian diplomatic ties. The significance of the visit would manifest in a joint statement declaring the their 4,200km long border had been fully demarcated (China Daily, 2004). The deepening political connection between Russia and China led to the ill-defined “strategic partnership,” which has been shrouded in ambiguity and debate. At the 2004 Beijing meeting, the “Treaty of Good-Neighborliness” was further strengthened and reiterated by both sides which many claimed dually strengthened the “strategic partnership” (China Daily, 2004). It is worth noting here that interactions between the two countries, though they may be cordial, follow along the lines of pragmatic partners. Russian analyst Dmitri Trenin explains this point further by saying “there has never been a spirit of camaraderie about Russo-Chinese summits. The leaders do not take off their ties or use first names. And there have been

few truly strategic conversations. But the summits are invariably business-like and results-orientated” (Trenin, 2012 p.12). China and Russia converge and reaffirm each other on numerous domestic issues, with Lo (2008) stating that “the two sides give each other strong moral and political support on priority issues: Moscow backs Beijing on Taiwan, Tibet, and Xinjiang, while the Chinese reciprocate on Chechnya and the North Caucasus” (p. 38). This can be seen clearly in the political convergence on eliminating what has been labelled as the “three-evils; terrorism, separatism and extremism.” The desire of both nations to strengthen sovereignty while reducing dissent has led to hardline policies initiated at home and supported by each other.

It is clear that the political ideology of both nations overlaps in numerous areas and have experienced an increase in from 2001 – 2014. Since the signing of the “Treaty of Good-Neighborliness,” more than 50 bilateral agreements were initiated between the two nations covering numerous sectors to further bolster relations (Bolton, 2013). One of the most critical realities that exists within the political aspect of Sino-Russian relations is that a foundation of this relationship is built on practicality and pragmatism. Nowhere is this more apparent than in their economic dealings, where both nations aim to enhance their domestic standing through economic development. Though speeches, agreements and summits have shown that the rhetoric of Sino-Russian relations have converged, money speaks louder than words. In the following section, economic cooperation between the two countries will be explored for the time period of 2001 - 2014.

### **6.2.2. Economic**

Sino-Russian relations have repaired themselves in a multitude of ways. In no way is this more visible than through economic cooperation. This “partnership” may be more economically strategic than anything else. Following the brief period of rapprochement in the 1970s, trade

negotiations have paid off considerably as “trade turnover increased eightfold since 1999, from U.S.\$5.7 billion to U.S.\$48 billion, with China now Russia’s second largest trading partner after the EU” (Lo, 2010 p.38). Blackwill & Harris (2017), maintain in their theory of geoeconomics, that not all deals created and signed are in the best economic interest of either party and “many of these contracts, often negotiated autocrat to autocrat, seem designed to bolster the respective regimes in question, often proving effective” (p.45). From the prior analysis, we have seen this to be true as well with the heads of state often meeting at a summit to sign agreements and discuss deals autocrat to autocrat.

The 2000’s saw both nations’ economies grow, but at disproportionate rates. China’s economic boom allowed it to expand in every direction, but with this came the necessity to secure access to energy needed for production. It is important to note that Russia is one of the largest producers of energy in the world, while China is one of the world’s largest consumer of energy in the world. A perfect neighborly match, and with a now demarcated 4,200km border and all territorial disputes settled, economic cooperation became logical. Looking closer at the geographic make-up, it is clear that though they are neighbors their production and consumption occur at opposite ends of their territories with the majority of Russia’s fields and refineries in its west and China’s industrial powerhouse residing on its shoreside in the east of the country. Nevertheless, significant deals have been drafted and signed with billions of dollars crossing the border and mention of increased cooperation within the energy sphere spelled out in the treaty signed in 2001.

Though energy cooperation remained low in the early 2000’s, this was primarily due to infighting within Russian energy companies, the details of which are contributive for their understanding of autocratic SOEs, but which lie outside the scope of this thesis. From 2005 until

2014, nearly \$800 billion had been either signed in contracts or lent between Chinese and Russian companies (Røseth, 2017). Incredibly, over half of this total amount was a deal signed between SOEs from both nations in 2014. The deal Gazprom-China National Petroleum Company (CNPC) announced a gas deal labelled “Power of Siberia” and totaling \$400 billion (L0, 2008). In 2010, China outranked Germany and became Russia’s largest trading partner, though Russia did not even rank within China’s top 10 trading partners in that same year (Trenin, 2012). In the final year of this analysis, 2014, an incredible 74% of total exports from Russia to China were energy resources (Henderson & Mitrova, 2016). Dually important, in this same year, over 50% of Russia’s federal budget revenues were derived from oil and gas revenues (Røseth, 2017). Massive oil and gas deals were concluded throughout much of the time period from 2005 – 2014, which brought the two nations ever closer. The majority of these economic dealings have been SOE to SOE, which as we have seen are directly backed by the respective heads of state. Considering the fact that less than ten years ago many considered SOEs to be “saddled with bad debt and inexperienced leadership,” with expectations they could not operate outside of their domestic markets, “today they include some of the world’s biggest companies backed by some of the globe’s largest pools of capital, and can claim over half of the world’s top ten IPOs over the last six years” (Blackwill & Harris, 2017, p. 54). The Sino-Russian agreement for a thirty-year gas supply worth \$400 billion in the final year of this analysis bolstered relations to a new level.

The Sino-Russian economic relationship is one of asymmetry when focused on through a purely economic lens. Though this economic cooperation is mutually beneficial, it is clear that the roles have reversed since the USSR lent the PRC its first loan in 1950. Somethings, however, have not changed. The loan that was extended allowed the newly establish PRC to

acquire Soviet made military equipment, and according to SIPRI data, in 2001 China imported over \$2 billion worth of arms making it the largest importer of weapons with 85% of that \$2 billion spent going towards the procurement of Russian weaponry (Harkins, 2010). The sheer quantity, in tandem with the type of weapons transferred, presents an interesting aspect to the relationship (See Appendix H). In another estimate, a report prepared for US congress in 2008 claimed that from 1998-2008 around 95% of all military transfers to China came from Russia (Lo, 2008). Looking at this through a historical context helps explain the large amounts of transfers. After the Tiananmen Square Massacre in 1989, the EU imposed an arms embargo on China. Many nations, including the US and Israel followed. This virtually isolated the nation, making Russia the only source to procure arms throughout the 1990's. Many of the transfers that occurred from the late 1990s until 2014 were anything but small. High-tech transfers occurred through the time frame as well, vastly increasing the capabilities of the People's Liberation Army (PLA). Arms transfers burgeoned from the late 1990s until 2005, when it hit its peak and drastically declined in 2010 where it maintained until 2014 more than halving what it had been (Mieck, 2017). Though levels of transfers declined, security cooperation expanded to new, unexplored levels. The relationship will be explored through the security dimension in the following section.

### **6.2.3. Security**

China and Russia, once locked in a deadly militarization of borders, have markedly improved the cohesion of their policies toward domestic and regional security since 2001. Mentioned previously in the political dimension, both nations have taken drastic, and at times deemed overtly repressive, steps that have been coordinated at reducing the three "evils" of terrorism, extremism, and separatism. Two articles from the "Treaty of Good-Neighborliness" clearly spell

out the direction in which their mutual support would materialize. Article 7 reads that “the contracting parties shall adopt measures to increase trust between their militaries,” additionally stating that they “shall expand and deepen confidence building measures in the military field so as to consolidate each other’s security and strengthen regional and international stability” (Treaty of Good-Neighborliness, 2001). With this mutual support, Article 21 further specifies the capacity in which force will be used and against who by writing that “the contracting parties, in accordance with the laws of each country and the international obligation each has committed, shall actively cooperate in cracking down terrorists, splittists and extremists” (Treaty of Good-Neighborliness, 2001). The 2004 “Orange Revolution” in Ukraine and the 2009 “Urumqi Riots” in Xinjiang would see calculated and hardline responses from the respective actor’s sphere of influence. This would intensify as the years progressed, with both sides of the border maintaining a unified, or at the very least, an uninvolved or abstained response from the other.

Dialogue on the Sino-Russian security dimension must include the multilateral framework of the SCO. Joint-military exercises labelled “Peace Missions” were initiated in 2005 for the purpose of combatting the aforementioned “three evils.” These joint-military operations are said to be deterrent-based exercises, and often times include the CARs, though always include China and Russia. Joint-military exercises have been conducted in 2005, 2007, 2009, 2010, 2012, 2013 and 2014 (Meick, 2017). At times these may be small in scale, with little over 1,000 personnel, while others have seen nearly 10 times that number. In her article, Turner (2009) says that “although the 2001 Sino-Russo Treaty on Friendship and Cooperation did not establish a formal alliance between China and Russia, it did include rhetoric indicating the anticipated military cooperation of the two countries” and continues by saying that, “article 7 of the treaty states that each signatory should look after its nation’s security by maintaining reasonable and adequate

weapons and armed forces” (p. 170). In large part, the security dimension within the SCO has acted as a counterweight to NATO. It is worth noting here the intergovernmental military alliance signed in 1992 between Russia, Armenia and all of the CARs. This was renamed the Collective Security Treaty Organization (CSTO) which has since expanded, establishing its charter in 2002 wherein it was provided observer status in the UN General Assembly (Collective Security Treaty Organization, 2018). The importance of this militaristic organ in the region lay in its distinct wording of a military alliance. Unlike the CSTO, the SCO as we have seen operates in a more diverse way and is worded in a way as to not connote a military alliance.

Sino-Russian military exercises are not isolated to within the framework of the SCO alone. Joint-sea operations were conducted in 2012, 2013 and 2014 with up to 10,000 personnel participating (Mieck, 2017). It is worth restating that the vast majority of military material being used is Russian made. From 2001 to 2008 China purchased \$16 billion worth of military materials from Russia (Trenin, 2012). This is not to say that the security dimension that exists between the two has been without its apprehensions. The Russian Federation desired a market for its arms sales from 2001 – 2014, but it also took notice of its largest customer. Military drills performed by China’s PLA in 2006 and 2009 caught the notice of top-level generals across the border, which were met in 2010 with Russia’s largest military exercise conducted in two decades (Trenin, 2012).

### ***6.3. Summation of Findings***

From the prior analysis of Sino-Russian relations through the utilization of a three-pronged approach of political ideology, economic cooperation and the security dimension, there are a number of things that stand out. Analyzed in the aggregate, Sino-Russian relations from 2001 – 2014 have experienced a relative increase in each pillar. Politically, the two nations are aligned

on a platform of mutual dissatisfaction with a *status quo* unipolar world order led by the USA. This ideology, though it may be similar, is based more on what the two countries are dissatisfied with as opposed to how they view their place, or each other's place, within the system.

Economically, there is no question that since 2001 relations have improved markedly with trade deals totaling close to \$800 billion in 2014. This relationship is built on China's need for hydrocarbons which, as we have seen in the section prior, it has diversified by injecting capital into projects based in Central Asia. The economic pillar of the relationship on the surface looks as though both actors have benefited, which they have, but at an asymmetrical rate.

Conclusively, as far as concerns the security dimension, the "Treaty of Good-Neighborliness" enhanced relations trilaterally with distinct wording in article 7 and 21 spelling out military cohesion. This is nowhere near a military alliance, and though many joint-military exercises have been performed bilaterally, as well as multilaterally through the framework of the SCO, mutual distrust is still apparent as can be seen in the military exercises taken place by both countries.

## **7. Conclusion**

Sino-Russian relations are, at times perplexing, with rapid changes that occur within the span of a few years. Since its establishment in 1949, the PRC found a likely partner to its north that adhered for the most part ideologically to its political foundation. The ensuing decades would bring with them tumultuous events that would uproot the foundation on which relations had grown. Utilizing the model of foreign aid, trade and investment activities that the USSR had conducted with it, the PRC calcified its model of FATGIA. As it acquired economic strength in the 1990s and 2000s it applied this model around the globe. The first section will discuss the summation of findings that have been unearthed in this thesis, answering the research question

put forth. The second section will discuss the inherent limitations that existed throughout the duration of this thesis as applied to data collection, among other obstacles. It will dually discuss possibilities that this thesis has discovered, opening the door to further research. The final section will identify what the author believes personally based on this work are the short-term and long-term prospects for Sino-Russian relations embedded in geoeconomic theory and grounded in the trends excavated from this thesis.

### ***7.1. Summary***

It is clear that the early functioning of Chinese foreign aid and trade was experientially based off of its dealings with the USSR and Japan. This model of economic activity took on its own shape in the decades that followed yet was rooted in its relations from its own experience as a developing nation. As soon as it began receiving foreign aid, it began distributing it along these lines of thought to the DPRK and Vietnam. Though China has had an extremely historical relationship with the peoples of Central Asia, any and all dealings were conducted with the USSR as they were administered until its dissolution in 1991 when the CARs gained their independence.

As the economic situation in the PRC continued to experience sustained economic growth through the 1990s and 2000s, the creation of SOE's began to emerge utilizing an already existent foundation of networks and relations built from foreign aid ties. China's economic growth expanded concomitantly with its interests in resource procurements as its demand of raw material began to outgrow its domestic supply. Trade deals that were primarily in the energy sector with Russia, as we have seen, began to balloon in 2005. This would continue unabated until the concluding year of this analysis, 2014. Analyzing this situation through the spatial dimension, it is clear that resource dependence on its Russian neighbor is unsustainable for two

reasons; over dependence geoeconomically speaking means that Russia could hold leverage over its supply of much-needed oil and gas to fuel its domestic production and; the routes that the hydrocarbons flow is from the west in Russia to the east in China. Diversification was a necessary solution to this overarching problem. This diversification viewed through a geopolitical prism presents the Central Asian Republics as the preferred supplier due in part to the vast reserves the region possesses, in tandem with its spatial proximity on China's western border.

Performing an examination of the region using the state as the unit of analysis has shown that each Central Asian Republic is disproportionately endowed with its own natural resource. The potential of these resources from the analysis shows conclusively, that it is within China's national interest to diversify its resource procurement. According to geoeconomic theory, a state will use economic instruments to promote and defend national interests, and these will be used to produce beneficial geopolitical results (Blackwill & Harris, 2017, p. 20). These instruments and mechanisms are sovereign wealth funds and currency reserves which prop up state-run financial institutions. In this thesis I have shown, through the use of a qualitative and quantitative approach, that these institutions have provided all Central Asian Republics vast sums of money. These funds do not adhere to any western-defined terminology as being classified ODA, OOF or other as the PRC is not a member of the OECD. Though grants make up a portion of foreign aid distributed, the outlier loans are of more significance. Additionally, Chinese SOEs have been responsible in every facet for facilitating transfers, executing construction contracts and providing a platform for energy transmissions back to the state. As the analysis in chapter five has shown, FATGIA to Central Asia has increased relative to Russia's FATGIA from 2001 - 2014, which to a limited extent confirms the first hypothesis. Due to limitations on the

acquisition of reliable, contrastable data, further research must be conducted to outright confirm this hypothesis.

From the report produced by RAND Corporation, their data show that an overwhelming amount of foreign and government-sponsored investment activity within Central Asia was aimed at the natural resource sector. Taking into consideration that this is an American based think-tank, a second source that aggregated primary data sets were used to reduce this bias.

Information was extracted and parameters established to visualize outliers in foreign aid and government-backed investments to the region. The top three outliers for each of the five nations were selected and paraphrased to flush out the largest financial transfers. All but one was found to have been infrastructure based or resource motivated. Many of the outliers showed an ability to secure access to resources in each country, or at the very least the loan extended was *quid pro quo* with an understanding of a return in the form of interest payments or resource transfers.

This makes a strong case for the confirmation of the second hypothesis set forth in this thesis, but without a more in-depth study it cannot wholly be confirmed.

The final chapter attempted to gauge whether there has been an increase, decrease or no change in Sino-Russian relations using political ideology, economic cooperation and the security dimension as the units of analysis. From 2001 – 2014, the evaluation has shown that relations have grown since the signing of the “Treaty of Good-Neighborliness” in 2001 in all three of the pillars. This relationship has deepened with summits and over 50 agreements signed between 2001 – 2014. A summit in the 2000s saw both sides reaffirm their adherence the treaty signed in 2001. The political relations between the nations are purely pragmatic and based on a desire to overturn the current world order. There is a lack of cohesivity in the understanding of what specifically a multipolar world order would be and their respective place inside it.

Economically, the analysis performed has proved conclusively that relations have drastically improved with massive deals in multiple sectors having been signed and adhered too. This relationship is asymmetric and favors the PRC in a number of ways through the time period investigated. However, from 2001 – 2014 economic relations grew deeper with both actors mutually benefitting from economic interactions. Arms transfers paint a picture of the PRC being isolated after 1989 and finding Russia as a partner that would supply it with defense materials. Arms transfers grew from 2001 – 2005, but drastically decreased from 2005 – 2010, maintaining a low level through 2014. The security dimension has shown that the Sino-Russian relationship is committed to combatting the “three evils” in a bilateral and multilateral manner. An attempt by both China and Russia to push back against NATO through the security aspect of the SCO framework has allowed joint-military drills to take place. These have been recurrent, and at times required a high degree of collaboration that have no doubt strengthened this pillar of the relationship. Importantly, unilateral military exercises have taken place on both sides of the borders, and according to many analysts, the time and place of these independent exercises combined with the sheer scale, have been aimed at projecting power toward one another. These activities place a limit on the true cohesivity of Sino-Russian intentions, and subsequently the relations.

Rooted in Luttwak’s (1990) theoretical use of geoeconomics based on the logic of conflict adapted to the logic of commerce, he states that the logic of conflict brings about the necessity for cooperation against a common enemy. This I have placed as the conflictual acceptance of the US-led world order that existed during the time period examined. It follows, however, that while the logic of commerce may bring about competition, inevitably the preservation of alliance will triumph. Competition, economically speaking, existed from 2001 – 2014 between China and

Russia within the Central Asian region. This region is deemed Russia's "Near Abroad" and Russia considers it to be under its sphere of influence. Significant amounts of money have been injected by the PRC to all CARs which has not gone unnoticed by the Russian Federation. The United States' "War on Terror" saw US military forces stream into Central Asia, at first with the approval of Russia based on an assumption that did not materialize. Due to this, the approval quickly waned with Russia changing course. With its security situation rebalanced, its course correction saw its relationship with China deepen. Luttwak (2000) explains that if the need for security requires an alliance against a common enemy, even though there may be economic competition with that ally, the alliance is to be prioritized.

This thesis, and subsequently the analyses that compose it, have been dedicated to answering the question if foreign-aid, trade and government-sponsored investment activities from China to the CARs has impacted Sino-Russian relations. The research conducted has shown that the injection of capital and increased trade by the People's Republic of China with nations under Russia's sphere of influence have impacted the relations between China and Russia. Agreements for the transference of raw materials that would otherwise be supplied from Russia is direct competition. The need to preserve an alliance against a common enemy from 2001 – 2014 has outweighed the need to reduce economic competition. Further research is required to examine with absolute certainty the direction and scale that Chinese FATGIA has placed on the impact on Sino-Russian relations. Throughout the entirety of the production of this work, there were several obstacles. These will be discussed in the following section, as will other topics of intrigued that were generated during this thesis.

## ***7.2. Limitations and Further Research***

Every single nation that was analyzed in this thesis operates as an authoritarian style government led by strongmen who, in most cases, held power through the time interval examined. Autocratic and democratic states alike go through great lengths to keep money transfers under the radar for numerous reasons. This challenge was known to the author from the outset and was pursued with an understanding that the benefits of conducting this thesis and its contributive power to social science outweighed the difficulties that would ensue of attaining reliable and accurate information. Large quantities of information were aggregated from numerous sources. Many times, information for some years were completely unattainable due to either the nations unwillingness to report it or a lack of a regime for doing so. Selecting unbiased sources presented another limitation, which was alleviated with an attempt to include numerous data sets and reports. These limitations opened many doors to further research that have the ability to contribute to the under-researched area of Eurasian studies within the area of geoeconomics.

Tracking financial flows is a harrowing task. States go through great lengths to keep their finances a secret. Aiddata was a unique source of information, but the field in general could benefit from a more comprehensive and interactive system of aggregated FATGIA for all countries. The process of extracting data sets from the CIA World Factbook was time consuming and overall frustrating. Furthermore, it left room for a larger margin of error in accounting. Many look to this source for reliable data, yet the archival exploration is anything but user-friendly. This opens an opportunity for the aggregation and interpretation of useful material that would benefit the field of social sciences in its totality.

Though many in the west view their definitions of foreign-aid with a sense of concreteness, it is important to understand that many outside of the OECD do not. This opens the door to improving the clarity of definitions, which will further allow more accurate research into financial transfers. Information redundancy also occurred, which often times did not reconcile the numerical values being analyzed between sources. A unified system of amounts pledged, delivered and its reason for disbursing is paramount. With the announcement of the One Belt, One Road initiative (OBOR) in 2013, numerous amounts of money are being transferred for the production of massive infrastructure projects. It is now, more than ever, important to have a system in place which tracks these financial flows allowing more accurate reports to be conducted.

Conclusively, 2014 was the final year of the specified time frame in this thesis. The study of geopolitics is dynamic in nature. The annexation in Crimea and international sanctions against Russia, plummeting global oil prices and developments of the Chinese Belt and Road initiative all occurred at the end of 2014. This opens the door to continued analyzation of Sino-Russian relations utilizing geoeconomic theory. In the next section, short and long-term prospects will be put forth.

### ***7.3.Short-Term and Long-Term Prospects***

In the short-term, Sino-Russian relations will maintain along a pragmatic path with the two moving ever closer toward each other. Cooperation will expand in numerous sectors, as each have benefitted from the adherence to their strategic partnership of rejecting the political and economic *status quo*. The returns will continue unabated, and Blackwill & Harris (2017) identify six changes in the geopolitical landscape. One deemed as particularly relevant in the short-term is that “once-distinct security and economic tensions tend to reinforce each other to a

greater degree than in previous eras” (p. 46). This is visible in the Sino-Russian relationship, with economic deals reinforcing security measures. In 2015, Russia signed the largest arms deal in a decade with China. The \$3 billion deal equipped the PLA with S-400 Surface to Air Missile (SAM). Furthermore, 2017 saw the US sanction China over a reported \$15 billion arms purchase of Russian jets and other equipment. Under this trajectory, the Sino-Russian relationship will continue to expand politically, economically and within the security dimension. The SCO will allow a platform for dialogue and will act as a mediator for the injection of Chinese capital into the Central Asian region. The SCO will play a larger role in the international arena, with the addition of India and Pakistan initiated by Russia and at the discomfort of China.

In the long-term, the relationship will look very different. As we have seen through the historical analysis, Sino-Russian relations can change drastically within a decade. Though the two actors are intertwined economically as well as militarily, no formal alliance exists, and the lengths China will go through to protect its investments has the potential to compromise relations. With the massive amounts of lending in Central Asia, any instability would be disadvantageous for both Chinese and Russian interests. This could see deeper military involvement from the PLA in the region to secure its investments. Furthermore, this stems from an unwavering stance of sustained economic growth to maintain domestic confidence in the Communist Party. Measures to protect their investments in Venezuela and Sudan are just two examples of their willingness to stand firm, even putting them at odds with the US.

As this thesis has shown, massive amounts of capital have been lent to the CARs to finance infrastructure and resource projects, with the end goal of acquiring the fruits of these labors. As overland transmissions of raw materials present an easier target than sea lanes, the prospect of

increasing the security role under the guise of mitigating terrorist threats to its investments could put the two directly at odds. Additionally, the stabilization of Central Asia is in the interest of both China and Russia, though the way it should be handled in times of stress has yet to be tested. There are many points of contention that could see the relationship in the long-term erode. With the decline of the US as a global and regional hegemon, and with it the rise of multipolarity in the international system, both actors place in it and the view of where and to what extent the others role should be, will test the parallels of political ideology. Without a common adversary and a need for an alliance, economic competition according to geoeconomic theory, alters the relationship significantly. Though militarization may occur in small amounts, mainly in a retaliatory fashion, geoeconomic instruments will be at the top of each's arsenal and will be wielded so as to weaken the other if confrontation ensues.

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## The Chinese Government's Eight Principles for Economic Aid and Technical Assistance to Other Countries (January 15, 1964)

When providing economic aid and technical assistance to other countries, the Chinese Government shall act in strict compliance with the following eight principles:

1. The Chinese Government always bases itself on the principle of equality and mutual benefit in providing aid to other countries. It never regards such aid as a kind of unilateral alms but as something mutual.
2. In providing aid to other countries, the Chinese Government strictly respects the sovereignty of the recipient countries, and never attaches any conditions or asks for any privileges.
3. China provides economic aid in the form of interest-free or low-interest loans and extends the time limit for the repayment when necessary so as to lighten the burden of the recipient countries as far as possible.
4. In providing aid to other countries, the purpose of the Chinese Government is not to make the recipient countries dependent on China but to help them embark step by step on the road of self-reliance and independent economic development.
5. The Chinese Government tries its best to help the recipient countries build projects which require less investment while yielding quicker results, so that the recipient governments may increase their income and accumulate capital.
6. The Chinese Government provides the best-quality equipment and material of its own manufacture at international market prices. If the equipment and material provided by the Chinese Government are not up to the agreed specifications and quality, the Chinese Government undertakes to replace them.
7. In giving any particular technical assistance, the Chinese Government will see to it that the personnel of the recipient country fully master such technique.
8. The experts dispatched by China to help in construction in the recipient countries will have the same standard of living as the experts of the recipient country. The Chinese experts are not allowed to make any special demands or enjoy any special amenities.

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# The Treaty of Friendship, Alliance and Mutual Assistance Between the PRC and Soviet Union

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## Article 4

Both contracting parties, in the interests of consolidating peace and universal security, will consult with each other in regard to all important international problems affecting the common interests of China and the Soviet Union.

## Article 5

Each contracting party undertakes, in the spirit of friendship and cooperation and in conformity with the principles of equality, mutual benefit and mutual respect for the national sovereignty and territorial integrity and non-interference in the internal affairs of the other contracting party, to develop and consolidate economic and cultural ties between China and the Soviet Union, to render the other all possible economic cooperation.

## Article 6

The present treaty comes into force immediately upon its ratification; the exchange of instruments of ratification will take place in Peking.

The present treaty will be valid for thirty years. If neither of the contracting parties gives notice one year before the expiration of this term of its intention to renounce the treaty, it shall remain in force for another five years and will be further extended in compliance with this rule.

Done in Moscow on February 14, 1950, in two copies, each in the Chinese and Russian languages, both texts being equally valid.

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On the authorization of the Central People's  
Government of the People's Republic of China

CHOU EN-LAI

On the authorization of the Presidium of  
the Supreme Soviet of the Union of Soviet  
Socialist Republics.

A.Y. VYSHINSKY

## Appendix C

### Official Description of Foreign Aid Taken from the White Paper on Foreign Aid (2011)

#### **Grants**

Grants are mainly used to help recipient countries to build hospitals, schools and low-cost houses, and support well-digging or water-supply projects, and other medium and small projects for social welfare. In addition, grants are used in projects in the fields of human resources development cooperation, technical cooperation, assistance in kind and emergency humanitarian aid.

#### **Interest-free Loans**

Interest-free loans are mainly used to help recipient countries to construct public facilities and launch projects to improve people's livelihood. The tenure of such loans is usually 20 years, including five years of use, five years of grace and ten years of repayment. Currently, interest-free loans are mainly provided to developing countries with relatively good economic conditions.

#### **Concessional Loans**

Concessional loans are mainly used to help recipient countries to undertake productive projects generating both economic and social benefits and large and medium-sized infrastructure projects, or to provide complete plant, mechanical and electrical products, technical services and other materials. Concessional loans are raised by the Export-Import Bank of China on the market, and since the loan interest is lower than the benchmark interest of the People's Bank of China, the difference is made up by the State as financial subsidies. At present, the annual interest rate of China's concessional loans is between 2% and 3%, and the period of repayment is usually 15 to 20 years (including five to seven years of grace). By the end of 2009, China had provided concessional loans to 76 foreign countries, supporting 325 projects, of which 142 had been completed. Of China's concessional loans, 61% are used to help developing countries to construct transportation, communications and electricity infrastructure, and 8.9% are used to support the development of energy and resources such as oil and minerals.

## Appendix D

### Exports from Central Asian Republics from 2001 to 2014

Below is a table that contains the information extracted from the Central Intelligence Agency's World Factbook that provided the data used to create the graph and chart. The years 2002 and 2011 were used. This appendix provides the data to all years used in the time period.

<b>Kazakh Exports</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Russia	1,733,412	1,497,738	1,967,740	2,836,286	2,926,578	3,730,037	4,658,919	6,227,049	3,546,967	3,006,543	7,514,522	6,747,212	5,875,274	6,388,500
China	646,651	1,018,680	1,653,081	1,966,911	2,422,507	3,592,514	5,635,914	7,676,609	5,888,593	10,122,070	16,291,513	16,484,409	14,373,748	9,799,418
<b>Kyrgyz Exports</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Russia	64,510	79,389	97,017	137,729	134,398	153,781	234,627	310,172	185,590	257,758	284,419	219,116	152,701	122,293
China	19,374	40,126	23,342	39,344	26,572	38,120	61,877	44,391	19,328	28,255	42,040	61,374	38,955	32,783
<b>Tajik Exports</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Russia	n/a	64,499												
China	n/a	39,149												
<b>Turkmen Exports</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Russia	39,138	32,054	28,371	43,232	77,206	80,129	69,109	100,291	45,061	148,017	142,579	183,764	139,417	90,911
China	1,224	735	4,096	13,889	19,084	16,012	50,141	28,440	38,491	1,044,519	4,693,173	8,673,382	8,893,257	9,516,158
<b>Uzbek Exports</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Russia	584,169	344,168	485,043	613,352	904,023	1,290,420	1,459,557	1,298,017	846,344	1,513,472	1,756,215	1,390,799	1,256,885	869,829
China	7,617	27,403	200,251	403,066	450,495	565,937	363,450	328,882	349,419	1,300,780	807,315	1,091,833	1,938,093	1,597,910
<b>Central Asian Exports</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Russia	2,421,229	1,953,349	2,578,171	3,630,599	4,042,205	5,254,367	6,422,212	7,935,529	4,623,962	4,925,790	9,697,735	8,540,891	7,424,277	7,471,533
China	674,866	1,086,944	1,880,743	2,423,210	2,918,658	4,212,583	6,111,382	8,078,322	6,295,831	12,495,624	21,834,041	26,310,998	25,244,053	20,946,269

## Appendix E

### Total Percentage of Imports by China and Russia from CARs from 2002 to 2014

The table reflects total percent of imports by Russia and China from CARs from 2002 until 2014.

Taken from the Central Intelligence Agency's World Factbook, the information was extracted then consolidated into these tables.

Total % of Imports	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan	
Russia	37.10%	19.90%	22.70%	19.80%	22.60%	2002
China	9.30%	10.10%	n/a	6.00%	5.20%	
Russia	39.00%	24.70%	20.20%	21.50%	22.30%	2003
China	6.20%	10.30%	n/a	4.20%	6.50%	
Russia	34.60%	26.30%	20.20%	9.70%	26.80%	2004
China	15.40%	22.30%	4.80%	n/a	5.80%	
Russia	35.90%	19.80%	19.30%	8.90%	26.70%	2005
China	21.40%	43.20%	7%	n/a	7.20%	
Russia	36.40%	38.10%	24.60%	9%	27.80%	2006
China	19.30%	14.40%	8.60%	6.40%	10.40%	
Russia	35.40%	40.50%	32.10%	11.60%	30.10%	2007
China	22.10%	14.70%	10.80%	9.10%	13.30%	
Russia	35.90%	36.60%	32.30%	16.90%	24.70%	2008
China	24.30%	17.90%	11.90%	15.90%	15.40%	
Russia	28.50%	19.34%	23.92%	18.03%	23.72%	2009
China	26.72%	57.03%	23.74%	16.45%	20.36%	
Russia	34.30%	17%	23.50%	21.60%	25.40%	2010
China	27.70%	61%	35.30%	9.20%	13.90%	
Russia	20%	13.90%	16.40%	14%	21.40%	2011
China	30.10%	59.70%	45.90%	11.10%	15.10%	
Russia	n/a	17.40%	15.80%	12.60%	20.70%	2012
China	28%	55.20%	41.20%	19.50%	16.60%	
Russia	20.50%	21.20%	15.80%	15.30%	20.00%	2013
China	30.60%	51.90%	41.30%	13%	20.50%	
Russia	32.90%	17.10%	17.90%	12.30%	20.80%	2014
China	25.90%	56.40%	42.30%	10.90%	20.80%	

## Appendix F

### Net ODA Reported to OECD by the Russian Federation from 2009 to 2014

Below is a table that shows the official development assistance from the Russian Federation to the CARs to conclude the time from 2009 – 2014.

As the table shows, all of 2009 and 2010 are missing or reported as not applicable. Data was retrieved from the OECD database for the years 2001 to 2014, with the table below showing the remaining years needed for the analysis. Worth noting, the years 2001 to 2010 are shown as “n/a” as well.

	2009	2010	2011	2012	2013	2014
Kazakhstan	n/a	n/a	n/a	1.07	0.08	0.55
Kyrgyzstan	n/a	n/a	12.65	37.92	76.73	202.87
Tajikistan	n/a	n/a	6	15.21	17.12	19.48
Turkmenistan	n/a	n/a	n/a	1.26	n/a	n/a
Uzbekistan	n/a	n/a	n/a	0.92	0.34	1.15

## APPENDIX G

### Explanation of Project and Scale from Aid Given to the CARs from China taken from Aiddata

#### Kazakhstan

A1: December 12, 2009, Chinese President Hu Jintao met with Kazakh President Nursultan Nazarbayev in Astana, and both sides agreed to implement an agreement on a loan of \$10 billion USD, to create conditions for deepening cooperation in the energy, mineral and non-resource areas. The agreements were signed in April, 2009, including a loan for \$5 billion from the China EXIM bank to the Development Bank of Kazakhstan for infrastructure and modernization in energy sector to diversify the economy. Reuters reports that the \$5 billion loan from EximBank will be used to import Chinese equipment to build non-oil infrastructure projects such as railroads and chemical plants in the central Asian nation. As of 2014, 3.1 billion of these funds had be utilized by the DBK for projects and 500 million have been repaid in advance. Together with the \$5 billion from CNPC, Chinese energy companies would control around 15 percent of Kazakhstan's 2009 total oil output.

A2: In 2011, a Kazakh sovereign fund secured a \$2 billion loan from the China Development Bank for two mining projects operated by a London based operator (ENRC). The loan went to two mining units run by ENRC; \$1.6 billion went to the iron ore unit (Sokolov-Sarbai Mining and Production Union) and \$400 million went to the ferro-chrome unit (Kazchrome). Although the mines are operated and partly-owned by ERNC, CDB's loan was specifically for the Kazakh wealth fund.

A3: In 2011, during a high-level bilateral visit, the Chinese EXIM Bank signed an agreement with the Kazakhstan Development Bank to finance the construction of a gas chemicals plant near Atyrau for 1.38 billion USD - the construction of the plant was originally contracted out to SinoPec. However, in 2014, due to disagreements with Kazakhstan Petrochemical Industries (KPI), the contract between it and SinoPec was terminated - this does not mean that the project is stalled or that China is no longer invested in the project, given that its first phase was financed by the Chinese EXIM Bank, and the funding remained secure. The loan has a maturity of 13.5 years.

#### Kyrgyz Republic

B1: In September, 2013 officials from China's Exim Bank and the Kyrgyz Republic's Ministry of Finance signed a \$400 million USD loan agreement to finance the construction of the North-South alternative road in Ala Archa. This loan would fund the first of three phases, with the total cost of the project estimated at \$850 million USD. Implementation of this project was contracted to China Road and Bridge Corporation, and construction began in 2014. The aim of this international North-South transport corridor is to reduce trade costs and connect Russia, Central Asia, Iran, and India. As of 2015, phase 1 was still in implementation, and an agreement had been signed for the financing of phase 2.

B2: On June 5, 2012, China and Kyrgyzstan signed an agreement to construct a national power transmission line from Datka to Kemin and a substation in Kemin, Kyrgyzstan. The preferential

credit agreement of 389.74 million USD was ratified by the Kyrgyz law on June 19, 2012. The construction of the line and substation began in 2012 and ended in 2015, with the inauguration of the transmission line occurring on September 1, 2015. The loan was financed by the Chinese EXIM Bank, and the line and substation were constructed by the Tebian Electric Apparatus company after an agreement with the National Electric Network of Kyrgyzstan. This is probably linked to project.

B3: On Dec. 11, 2013, The Parliament of Kyrgyzstan passed the draft law ratifying a \$386 million loan from the Export-Import Bank of China through the Shanghai Cooperation Organization, at 2% interest per annum for 20 years. Kyrgyzstan will pay only interest for the first 11 years of the term of the loan. Modernization of the Bishkek TPP will take three years, said its director Andrey Voropaev. Two turbines (unit 12, 13) will be installed with a capacity of 150 megawatts. As a result, capacity of the station will increase by 125 megawatts. Today, the annual output of electricity at the plant is one billion kWh. After upgrading, the production will reach 1.8 billion kWh. Heat production will increase from two million gigacalories to three million gigacalories per year. This is one of the projects in the joint construction of the economic zone of Silk Road. There were sources saying that Exim Bank picked the contractor and it would have been cheaper if CMEC has won the contract.

### Tajikistan

C1: In 2014, China Exim provided a \$348.9M loan to Tajikistan for the construction of Dushanbe CHP-2 (Phase II), a thermal power plant. A total cost of the project is reportedly 349 million USD and it is being implemented due to a loan provided by the Export-Import Bank of China and 17.4 million USD provided by the Tajik government. This coal-powered plant has been built in the Luchob area of the Tajik capital. Construction of the coal-powered plant was reportedly in compliance with Tajikistan's environmental regulations.

C2: China will build a \$300 million hydroelectric power plant in neighbouring Tajikistan to help alleviate frequent energy shortages. The agreement was reached during talks between Chinese leader Hu Jintao and Tajik President Imomali Rakhmon. The planned power plant, Nurobad-2, would have capacity of between 160 and 200 megawatts. However, it is unclear if the funds were actually disbursed, as further project details remain unclear.

C3: In March 2006, a memorandum of understanding was signed which identifies the financing project of implementation of 1st stage of Road Project Kulma-Dushanbe-Chanak, Tajikistan. This project was financed by EXIM Bank of China. The cost of the reconstruction was \$281,105,000 through 4 annual disbursements. The project includes the construction of the Shahristan tunnel, the Maikhura tunnel, 39 big and small bridges, and 6 km of avalanche defenses. The project began in July 2006, and was expected to be completed in 2008. It was completed in 2010.

### Turkmenistan

D1: In June 2009, visiting Chinese vice-premier Li Keqiang and Turkmen President Gurbanguly Berdymukhammedov signed an agreement stating that China Development Bank would provide Turkmenistan with a long-term preferential loan of 4 billion USD to help develop the giant South Yolotan \_\_, \_\_ Osman Field (Galkynysh Gas Field) while Turkmenistan will supply China with up

to 40 billion cubic meters/year of gas for 30 years under deals signed June 24 in Ashgabat. They include a supplementary agreement covering CNPC's exploration and production activities at Bagitiyarlik, where the company has a license to produce up to 30 Bcm/year, and a separate contract under which state-owned Turkmengaz will deliver 10 Bcm/year to CNPC.

D2: In April 2011, China signed an additional 4.1 billion USD loan agreement with Turkmenistan. The loan will be dispensed in the course of 3 years, and in return Turkmenistan will supply natural gas to China for 10 years. The project officially started in August 2010, and was completed on September 4, 2013.

D3: On Aug. 24, 2006, Turkmen President Saparmurat Niyazov has permitted its State Bank for Foreign Economic Activity to conclude a \$300-million USD loan deal with the Export-Import Bank of China. The loan is to be released for 20 years at a preferential rate of 3.0% annually. In the end of the talk between Turkmen President Gurbanguly Berdimuhamedov and Chinese Prime Minister Wen Jiabao, the ceremony of signing bilateral documents was held. The Agreement on providing the lax credit for construction of new facilities and reconstruction of MaryAzot Production Association (US\$ 239,358,000) and the Agreement on providing lax credit for construction of glass-manufacturing plant in Turkmenistan (\$ 60,642,000). This is the first foreign long-term loan that Turkmenistan received in recent years. MaryAzot Production Association is a carbamide plant with the capacity of 400 thousand tons in the town of Mary. The 266-million-USD reconstruction project was contracted to CITIC Group, 90% of which was funded by the preferential loan provided by Chinese government aforementioned.

### Uzbekistan

E1: On April 21, 2011, during a meeting between Minister of Commerce Chen Deming and Uzbek President Islam Karimov, leading Chinese banks agreed to loan 1.5 billion USD to Uzbekistan banks to finance joint investment projects, such as transportation and chemical production projects. Some of the banks mentioned were China's Exim Bank, the State Bank of China, and the People's Bank of China. More than 25 investment agreements worth a total of 5 billion USD were signed at this meeting.

E2: Soon after Karimov's state visit to China in 2011, in December 2011 CDB signed a memorandum of understanding with Kazakhmys plc to extend a USD 1.5 billion loan facility to the Kazakh miner for the development of the Aktogay copper project.

E3: In December 2014, China Development Bank issued a loan of 550 million USD to Uzbekistan to develop the Uzmobil national GSM-operator. However, the only portion of those loans to be disbursed is a 100 million-dollar first phase that was signed with Huawei Technologies.

## Appendix H

### Arms Transfers from Russia to China from 2001 to 2014

Below is data taken from the Stockholm International Peace Research Institute (SIPRI) of all reported arms that were transferred from the Russian Federation to the People's Republic of China from the year 2001 to 2014. This contains the year the arms were ordered but considers that the delivery occurred within the time period analyzed.

Recipient/ supplier (S)	ordered	No. designation	Weapon description	Year(s) Weapon of order	Year delivery	of delivered	No. Comments
<b>China</b>							
S: Russia	(105)	Su-27S/Flanker-B	FGA aircraft	1996	1998-2007	(105)	Part of \$1.5-2.5 b deal for 200 but about 95 cancelled; assembled from kits; Chinese designation J-11
	(1000)	Kh-31A1/AS-17	Anti-ship missile/ARM(1997)		2001-2016	(1000)	Kh-31A and Kh-31P or Kh-31AMK and Kh-31PMK version; for Su-30, J-8M and/or JH-7 combat aircraft; including production of Kh-31P in China as KR-1, YJ-9 or YJ-91
	(1100)	Krasnopol-M	Guided shell	(1997)	1998-2002	(1100)	Probably incl production in China as Red Soil; incl for use in China for development of GP-1
	(1500)	9M119 Svir/AT-11	Anti-tank missile	(1998)	2001-2015	(1500)	For Type-98 and Type-99 tanks; possibly produced or copied in China as GP7 from 2015 or technology used in development of GP7
	4	Fregat/Top Plate	Air search radar	(2001)	2004-2007	4	For 2 Type-051C (Luzhou) and 2 Type-052B (Luyang-1) destroyers produced in China; probably produced (possibly without license) in China
		AK-176 76mm	Naval gun	(2004)	2008-2018	(28)	Chinese-produced H/PJ-26 version for 28 or more Type-054A (Jiangkai-2) frigates produced in China
		Mineral/Band Stand	Sea search radar	(2004)	2005-2018	(30)	For 28 or more Type-054A (Jiangkai-2) frigates produced in China; probably produced (possibly without license) in China
	(8)	AK-176 76mm	Naval gun	(2005)	2007-2018	5	Chinese-produced H/PJ-26 version for 8 Type-071 (Yuzhao) AALS produced in China
		AK-176 76mm	Naval gun	(2010)	2013-2018	(44)	Chinese-produced H/PJ-26 version for Type-056 (Jiangdao) frigates produced in China
	(3000)	R-73/AA-11	SRAAM	(1995)	1996-2004	(3000)	For Su-27 and Su-30 combat aircraft

2	MGK-335MS/Bull Horn	ASW sonar	(1998)	2004	2	For 2 Type-052B (Luyang-1) destroyers produced in China; possibly incl production in China
8	MR-90/Front Dome	Fire control radar	(1998)	2004	8	For use with 9M38M2 (SA-N-12) SAM on 2 Type-052B (Luyang-1) destroyers produced in China
2	SA-N-12	Naval SAM system	(1998)	2004	2	For 2 Type-052B (Luyang-1) destroyers produced in China
(100)	Kh-29/AS-14 Kedge	ASM	(1999)	2001-2002	(100)	Incl for Su-27SK and Su-30MKK combat aircraft
(150)	Kh-59ME Ovod/AS-18	ASM	(1999)	2004-2006	(150)	Incl for Su-30 combat aircraft
6	Mineral/Band Stand	Sea search radar	(1999)	2004-2007	6	For 2 Type-052B (Luyang-1), 2 Type-052C (Luyang-2) and 2 Type-051C (Luzhou) destroyers produced in China
28	Su-27S/Flanker-B	FGA aircraft	1999	2000-2002	28	\$1 b deal (payment for debt); Su-27UBK version
38	Su-30MK	FGA aircraft	1999	2000-2001	38	\$1.5-\$2 b deal; Su-30MKK version
54	AL-31	Turbofan	2000	2001-2005	(54)	AL-31FN version for J-10 combat aircraft produced in China
(1)	Il-76M	Transport aircraft	(2000)	2002	1	Sold via Russia; originally to be modified to A-50I AEW&C aircraft in Israel but AEW order cancelled and aircraft delivered to China without AEW systems
(750)	RVV-AE/AA-12 Adder	BVRAAM	(2000)	2002-2009	(750)	For Su-27SK and Su-30MKK combat aircraft
(150)	48N6/SA-10	SAM	2001	2002	(150)	
(150)	9M317/SA-17 Grizzly	SAM	(2001)	2004	(150)	9M38M2 (SA-N-12) version; for Type-052B (Luyang-1) destroyers
35	Mi-8MT/Mi-17	Transport helicopter	2001	2002-2003	(35)	Mi-17-V5 version
4	S-300PMU1/SA-20A	SAM system	2001	2003-2004	(4)	\$400 m deal (partly payment for debt)
38	Su-30MK	FGA aircraft	2001	2002-2003	38	\$2 b deal; Su-30MKK version
(100)	Zhuk	Combat ac radar	2001	2001-2005	(100)	Zhuk-8 version; for modernization of J-8B (J-8-II) combat aircraft to J-8IIM
(150)	3M-54 Klub/SS-N-27	Anti-ship MI/SSM	2002	2005-2009	(150)	For modernized Project-877 and new Project-636 (Kilo) submarines; probably incl 3M14E land-attack version
(150)	48N6/SA-10	SAM	(2002)	2006-2007	(150)	For Type-051C (Luzhou or Shenyang) destroyers
(150)	53-65	AS torpedo	(2002)	2005-2006	(150)	For Project-636 (Kilo) submarines
(200)	9M311/SA-19	SAM	(2002)	2005-2006	(200)	For Kashtan AD system on Project-956EM (Sovremenny) destroyers
(150)	9M38/SA-11	SAM	(2002)	2005-2006	(150)	9M38M1 (SA-N-7) version; for Type-956EM (Sovremenny or Hangzhou) destroyers
25	Mi-8MT/Mi-17	Transport helicopter	2002	2003-2004	(25)	Probably Mi-171 and/or Mi-17V-5 and/or Mi-17V-7 version
(30)	Moskit/SS-N-22	Anti-ship missile	(2002)	2005-2006	(30)	For Sovremenny (Hangzhou) destroyers
(100)	PMK-2	Naval mine/torpedo	(2002)	2004-2007	(100)	
8	Project-636E/Kilo	Submarine	2002	2004-2006	(8)	\$1.5-2 b deal
2	Project-956/Sovremenny	Destroyer	2002	2005-2006	2	\$1-1.5 b deal; Type-956EM version; option on 2 more not used

2	S-300FM/SA-N-20	Naval SAM system	(2002)	2006-2007	2	For 2 Type-051C (Luzhou or Shenyang) destroyers produced in China
(150)	TEST-71	AS/ASW torpedo	(2002)	2005-2006	(150)	For Type-636 (Kilo) submarines
1	Zmei/Sea Dragon	MP aircraft radar	2002	2003	(1)	For use on balloon for surveillance of Taiwan Strait
24	Su-30MK	FGA aircraft	2003	2004	24	\$1 b deal; Su-30MKK2 naval attack version
(297)	48N6/SA-10	SAM	2004	2007-2008	(297)	
	Fregat/Top Plate	Air search radar	(2004)	2005-2018	(30)	For 28 or more Type-054A (Jiangkai-2) frigates and 1 Liaoning aircraft carrier produced in China; probably produced (possibly without license) in China
(200)	Kh-59MK/AS-18MK	Anti-ship missile	(2004)	2008-2015	(200)	For Su-30 combat aircraft; probably Kh-59MK2 version developed for and funded by China
	MR-90/Front Dome	Fire control radar	(2004)	2005-2018	(120)	For 30 or more Type-054A (Jiangkai-2) frigates produced in China; for use with HHQ-16 SAM; possibly produced in China
8	S-300PMU2/SA-20B	SAM system	2004	2007-2008	(8)	\$980 m deal
(100)	AL-31	Turbofan	2005	2006-2009	(100)	AL-31FN version for J-10 combat aircraft produced in China
(54)	Mi-8MT/Mi-17	Transport helicopter	(2005)	2007-2012	(54)	Mi-171 or Mi-171E version; possibly assembled in China from kits
(750)	48N6/SA-10	SAM	2006	2008-2009	(750)	For S-300PMU-2 (SA-20B) SAM system
9	Ka-27PL	ASW helicopter	(2006)	2009-2010	9	Ka-28PL version
9	Ka-31	AEW helicopter	(2006)	2010-2011	9	
24	Mi-8MT/Mi-17	Transport helicopter	2006	2006-2007	24	\$200 m deal; probably Mi-171 and/or Mi-17V-5 and/or Mi-17V-7 version
8	S-300PMU2/SA-20B	SAM system	2006	2008-2009	(8)	
(122)	AL-31	Turbofan	2009	2010-2012	(122)	AL-31FN version for J-10 combat aircraft produced in China
55	D-30	Turbofan	2009	2009-2012	(55)	For H-6K bomber aircraft produced in China and possibly for modernization of Il-76 transport aircraft
32	Mi-8MT/Mi-17	Transport helicopter	2009	2010-2011	(32)	Mi-171E version; possibly for incl police or other non-military government agency
123	AL-31	Turbofan	2011	2012-2014	(123)	\$500 m deal; AL-31FN version for J-10 combat aircraft produced in China
(150)	AL-31	Turbofan	2011	2012-2018	(120)	AL-31F version for J-15 combat aircraft produced in China
(184)	D-30	Turbofan	2011	2012-2017	(184)	For H-6K bomber aircraft and Y-20 transport aircraft produced in China and modernization of Il-76 transport aircraft
(5)	Il-76M	Transport aircraft	2011	2013-2015	(5)	Second-hand
52	Mi-8MT/Mi-17	Transport helicopter	2012	2012-2014	(52)	Mi-171E version; possibly for incl police or other non-military government agency

