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Bayari, Celal

The University of Sydney

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Celal Bayari

The University of Sydney.
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Abstract

Chinese economic growth has accompanied the rise and development of the Chinese economic model with its own types of multinational enterprises, and state-owned enterprises. Major stock market plunges in 2015 have taken away the focus from the model and the manufacturing base that upholds it. Analyses of the system of the Chinese state, its enterprises and the private sector need to continue to understand the future of this economy and its implications for the rest of the world. Central Asian energy markets, which China has entered a decade ago, are important in this context, as their future behaviour will have consequences for the EU, North American and Australian markets. The Chinese state is the owner of the largest banks and sovereign wealth funds in the world. When China lost its energy independence in 1993, it began to rely on Central Asian energy markets and increasingly placed more emphasis on the region as a hub for its economic expansion, and as a strategic location and export market. The region, neighboring Xinjiang Uyghur Autonomous Region, is one of the foci of organizations such as the Shanghai Cooperation Organisation (SCO), and projects such as the Silk Road Economic Belt (SREB). Chinese trade and foreign direct investment (FDI) in the region involve plans to build economic and other links from Xinjiang Uyghur Autonomous Region across Central Asia. This paper argues that Central Asia faces some challenges due to its landlocked status, and industrial structure and markets, despite its energy and mineral resources, some of which is yet to be developed.

Keywords: China, Central Asia, natural gas, crude oil, trade and FDI

Introduction

Contemporary international trade and FDI order is primarily reliant upon the co-operation of individual participants, or their coalitions, and the existence of stabilizing hegemonic powers in international politics, as per numerous theoretic constructions (Ikenberry et al., 1988; Kindleberger, 1973; McKeown, 1983; Snidal, 1985). International trade and FDI environment is built on international economic power structures that are not always stable (Lake, 1988; Waltz, 1979). There is divergence of opinion on whether the co-operation of individual countries or their conflicts shape the international order (Grieco, 1993; Keohane, 1984; Krasner, 1991). John H. Dunning's 'eclectic paradigm' of 'ownership, locational, internalization, [OLI] advantages' has been instrumental in defining and evaluating trade and FDI activities of multinational enterprises (MNEs) (Dunning, 1988, 1993, 1995, 1997, 2006). According to Dunning, the 'international trade' perspectives (such as Aliber, 1993; Kojima, 1982) that are inspired by neo-classical framework downplay the significance of the advantages that MNEs possess and utilize (Dunning, 2000). Such perspectives implicitly assume that in trade all goods are exchanged between independent buyers and sellers across national borders while in fact, as theories that simultaneously cover international trade and international production (i.e. the 'eclectic paradigm') explicitly postulate, the

transfer of immediate products is undertaken within the same MNEs (Dunning, 1998, p. 2). A contemporary example of this is visible in the operations of Chinese corporations, MNEs, and state owned enterprises (SOEs) that invest and trade in overseas energy and mineral markets, and also export overseas. Overall, international trade and FDI are the two complementary domains of MNEs and SOEs. The post-Second World War international order originates from the global expansion of Western market institutions that themselves had emerged in Europe over a period of several centuries. Capitalist models in Korea, Japan and China are built on non-Western institutional frameworks (Dunning, 1995, p. 461). Prior to the rise of China, the Japanese model represented the East Asian capitalism (Park, 2011, pp. 248-250). The post-Second World War reconstruction of the Japanese economy was simultaneous with the Japanese model getting co-opted, as an ally of the US, into the new order (Bayari, 2012, p. 160). Chinese state-guided capitalism is a much later entrant to the contemporary trade and investment order (Hsu et al., 2011; Urio, 2012). Models such as the Chinese and Japanese exist in context of the international order but with their own respective institutions. The post-Second World War growth period was the best era that the Japanese economy has ever had (Cumings, 1997, pp. 152; Schaller, 1985, p. 239; Tsuru, 1993, pp. 83-84). In later decades, it was the accession of China to the WTO that allowed its market model to participate in the world of trade and FDI agreements (Dunning, 2003, p. 1). Thus, the post-Second World War trade and FDI order includes the “constructors” of the order, and the countries that became “co-opted.” Japan and China’s growth would not have come about if they had not been allowed access to Western markets of consumers, resources, technology and education (Dunning and Lundan, 2008, p. 755). MNE trade and FDI activities have always included lobbying foreign countries for friendly economic policies (Dunning, 1995, pp. 464, 483). Since the early 1980s, the relationships between MNEs and governments have become increasingly co-operative, within the process of globalization (Dunning, 1998, p. 282). The Chinese capitalist market reforms of the early 1980s and the subsequent expansion of Chinese SOEs coincided with this new international business environment. China’s capitalist market take off has been characterized by simultaneous search for markets and natural resources (Dunning, 2008, p. 8). The Chinese model began as a national, and yet an internationalizing model, that is, its viability as a national economic system has always been dependent on its cross-border success, which also expanded into the Central Asian crude oil and natural gas industries. Dunning’s ‘investment development path model’ proposes that as a country develops, there is a change in the configuration of the ‘OLI advantages’ that its corporations enjoy overseas (Dunning et al, 2001). The Chinese state, SOEs, and MNEs have long been aware that expansion in the domestic market is not disassociated from expansion of Chinese business activity overseas. The Chinese state’s ‘go out [zou chu qu]’ strategy, backed by its foreign currency reserves, has been the main impetus behind the start of the Chinese corporations’ overseas expansion to find markets and resources (Alon et al., 2010, p. 4; Chen, 2011, p. 1; Sauvart, 2005, p.676). The Chinese foreign currency reserves were US\$4 trillion as of October 2014 government figures, which are the largest in the world, and more than the total of the next nine largest reserves held by governments (State Administration of Foreign Exchange, 2014). Chinese SOEs’ international character derives from their securing of critical raw materials and energy via mergers and acquisitions internationally (Athreye and Kapur, 2009, p. 211). Japan was in the same situation in the late 19th and early 20th centuries as it needed to export industrial output and secure raw materials simultaneously that required the overseas networking of its general trading companies

[sogo shosha] (Dunning and Lundan, 2008, p. 157). Chinese SOEs are enterprising hallmarks of Chinese capitalism. The term “state capitalism” is not highly relevant in this context as the boundary between private capital and state capital in China has not yet been clearly defined. Trade and investment activities originating from China are subsidized by the state through direct and indirect contributions, and by channeling these activities through SOEs (Haley and Haley, 2013, pp. 3-14). Chinese SOEs have 96 per cent share of the top ten corporations in the country, excluding unlisted entities such as public utilities and services (Büge, 2013; Wooldridge, 2012; Szamosszegi and Cole Kyle, 2011). Chinese capitalism has enabled growth without destabilizing the existing power structure, and ensured the continued dominance of Communist Party while improving the allocation of resources (Acemoglu and Robinson, 2012). SOEs may change organizational character but are unlikely to ever assume a role that goes against the interests of the Chinese state that has always provided support for them. China Petroleum and Chemical Corporation (Sinopec Ltd), the world’s largest corporation by revenue level, China National Petroleum Corporation (the world’s third largest corporation by revenue level), and State Grid Corporation of China (the world’s eighth largest corporation by revenue level) are all SOEs. The Chinese state also owns the largest sovereign wealth funds (SWFs) in the world, which sets the pace for others (Xing and Shaw, 2013; Xu and Bahgat, 2011). Thus, the state leadership has characterized the indigenous institutional organization of the Chinese model, and the clearest contemporary evidence of the state creation and sponsorship of markets is visible in the Chinese electronics and telecommunications manufacturing sector that includes Huawei, which is the largest global corporation in its sector. Huawei, ZTE, Haier and Lenovo (all major exporters to Central Asia and elsewhere) are all either creations of the Chinese state, or upheld by its financial support (Hawes, 2012). The largest and founding shareholder of Lenovo is a form of a state think-tank, and Haier, after its inception as a SOE, has long identified itself as a privately owned collective, which is also what Huawei presents itself as (McGregor, 2012, pp. 201-204). What they all arguably have in common is the state assistance. (Dalton, 2011; Montlake, 2012; Muncaster, 2012; Schmidt et al., 2012). The success of Chinese manufacturers and their internalization of foreign markets have progressed in conjunction with the increase in the Chinese corporate mergers and acquisitions overseas. In Dunning’s ‘eclectic paradigm’, ‘locational advantages’ of the host market and ‘ownership advantages’ of the investor determine the type of investment. Overall, the Chinese FDI displays a pattern in which the type of investment is highly dependent on the type of host market, i.e. ‘developed countries’ and ‘developing countries’ (Cheung and Qian, 2009, p. 336).

What is Beijing Consensus?

The term of Beijing Consensus, first coined in 2004, has arguably come to symbolize the Chinese economic model. Some have argued this be relevant, as an alternative economic growth model, to some developing nations that did not benefit from the distribution of FDI and trade in the last so many decades of globalization. The Beijing Consensus’ interaction with such countries is in direct proportion to the fiscal powers and aims of Beijing. The Beijing Consensus is argued by some to be an alternative (to the Washington Consensus) global organization, and a model that answers to the particular needs of Chinese society (Dirlik, 2006, p. 7). There is also the held notion that the Beijing Consensus recognizes the co-existence of commonality and difference (Rebol, 2010, p. 7). It is also argued that the ‘consensus’ is Beijing’s way to manage China’s globalization, the eventual outcome of which may lead to a complex network of inter-state relationships (Abad, 2010, pp. 14-15). The notion of such a consensus

does not make strong claims about, for example, an equitable distribution of resources, wealth, services, or products but rather refers to a policy of open door to discussions of a variety of topics. It is imbued with the idea that it is a model of a co-opting process with a difference. This paper does not probe the validity of this argument, which would require more space, and which is highly problematic. Chinese economy's mixed character is most intriguing, as the country has evolved sets of institutions, which are dissimilar to those of the countries in the West, and the Chinese institutions have created high rates of growth, which nevertheless may present eventual drawbacks, as per the Nobel laureate Douglass C. North (North, 2013, p. 18). The 'China model' has one overwhelming priority, which is to keep functioning within the global economy, while masking over domestic issues (Dirlik and Prazniak, 2012, p. 287). 'Chinese globalization' is a process that has been partially shaped by the global economy. The 2008 global financial crisis reduced Chinese investment in export related expansion and increased domestic investment in infrastructure, welfare, housing and health (Abad, 2010, p. 58). In short, when business overseas proved unprofitable, there was an increased investment in the vast domestic market. Overall, the notion of Beijing Consensus is not an officially professed policy and is a rather broad definition of the Chinese state's methods of simultaneously dealing with its domestic politics, economic growth [in its varying rates across the regions in China], and the global economy through Chinese SOEs and MNEs (Xing and Shaw, 2013, pp. 88-89). Both SOE and MNE overseas activities are supported by the Chinese SWFs. In the case of China, the private investment and government investment are synchronized because of the political system, which creates a competitive advantage against other major economies. Chinese corporations' overseas construction and other types of project proposals are priced at low profit margins and/or backed by loans from domestic institutions such as the China's Export-Import Bank (Goh, 2014; Bradsher, 2014). Thus, one of the aims of this neo-mercantilism, defined as a form of economic nationalism, is to reject efficiency and short-term-profit-driven market calculations in favor of those seen to be advancing national power (Ziegler and Menon, 2014, p. 19). Chinese foreign currency reserves provide further advantages in this respect. China has several economic tools at its disposal. The largest foreign currency reserves, growing investments overseas, the world's largest consumer market, and a centrally driven economy with state guided or state owned gigantic corporations.

Chinese trade and FDI in Central Asia

The paper will now discuss the Chinese trade and FDI in Central Asia in reference to economic structuring in the region. When the Soviet Union disintegrated, five new countries emerged in Central Asia, and at that time many presumed that the region would inevitably come under Iranian influence but instead there developed a complex international rivalry, bringing to mind the 19th century 'Great Game' paradigm of the British and Russia imperialist aims, to influence and control Central Asia's destiny, trade, and oil, gas and mineral resources (Blank, 1995, p. 187). Discussions on the region include Azerbaijan due to its high volume energy exports, its membership of the Turkic heritage and the geographical proximity between Turkey, Azerbaijan Turkmenistan and Kazakhstan (Çagatay, 2006; Frye, 1996; Johanson and Csató, 1998; Prazniak, 2013). Iran is also home to Azerbaijani and other Turkic minorities (Souleimanov et al., 2013). After the collapse of the Soviet Union, Russia remained keen to maintain its near monopoly over the transport of natural gas and crude oil resources of Kazakhstan, Turkmenistan and Azerbaijan, and worked with Iran to prevent the split of the Caspian Sea into five sovereign sectors, and thus making the

construction of new non-Russian territorial pipelines out of Central Asia construction difficult (Ruseckas, 1998, pp. 52, 55, 58, 60). Turkmenistan was thus unable to build pipelines to Azerbaijan to export energy to the EU via Georgia and Turkey. Moreover, Russian, and Iranian, support for Armenia and its occupation of Azerbaijani territory limited the possibilities of new pipelines. Presently, Azerbaijan-Turkey links have to detour via Georgia, another country that has long suffered post-Soviet era territorial crisis. However, the most significant change that affected the region's economy came from elsewhere. In 1993, as its oil consumption exceeded its production levels China lost its energy independence (Mathews, 2008, p. 60). This intensified its focus on Central Asia as the location of nearest foreign reserves, and its investment levels in the region are now fast surpassing those that are from Russia (Nichol, 2014, pp. 16-17). China has become a major global investor and trader of Asian, African and Latin American commodities. Its fiscal status is the main factor in this context. Of twelve global banks with over a trillion US\$ in assets, four are from China and each one of them is valued over US\$2.4 trillion, as per Table 1

Table 1: World's Top Banks

Rank	Bank name	Total assets (US\$ Billion)
1	Industrial & Commercial Bank of China (ICBC)	3,181.88
2	HSBC Holdings	2,758.45
3	China Construction Bank Corporation	2,602.54
4	BNP Paribas	2,589.19
5	Mitsubishi UFJ Financial Group	2,508.84
6	JPMorgan Chase & Co	2,476.99
7	Agricultural Bank of China	2,470.43
8	Bank of China	2,435.49
9	Credit Agricole Group	2,346.56
10	Barclays PLC	2,266.82
11	Deutsche Bank	2,250.64
12	Bank of America	2,149.85
13	Japan Post Bank	1,968.27

Source: <http://www.relbanks.com/worlds-top-banks/assets>, March 31 2014 balance sheets and exchange rates.

While China has become both the dominant investor and trader in Central Asia, Russia, by contrast, has remained dependent on continuous FDI to explore, extract, and export its energy reserves, which are its primary revenue sources (Coburn, 2010b, p. 24).

Central Asia and the Significance of Xinjiang Uyghur Autonomous Region for Chinese FDI

China is the largest trading partner of Central Asia. Turkmenistan enjoys a massive surplus from China trade, followed by Kazakhstan. The other three Central Asian countries run deficits of which Kyrgyzstan is the worst case with a deficit that is close US\$5 billion, as per 2012 figures (Table 2).

Table 2: Central Asia-China Trade in US\$ Billions

	Imports from China	Exports to China	Balance of Trade
Kazakhstan	11.001	14.675	3.674
Kyrgyzstan	5.073	0.088	-4.985
Tajikistan	1.747	0.010	-1.737
Turkmenistan	1.699	8.673	6.974
Uzbekistan	1.783	1.091	-0.692

Source: Mariani, 2013, p. 10.

Chinese energy imports from Kazakhstan and Turkmenistan, and exports to Central Asia form the bulk of the Chinese economic activity there (Nichol, 2014, p. 14). Further, China has long recognized that in order to stabilize and strengthen its economic growth it needs to further economically expand into Central Asia, and become the major player, thus guaranteeing stability in Xinjiang Uyghur Autonomous Region, home to another nation with the Turkic heritage (McMillan, 2004, pp. 3-5). China aims to transform this region into a regional hub for its trade with Central Asia, Russia, and the EU, that will involve the project named the 'Silk Road Economic Belt' (SREB). China's strategy in Xinjiang Uyghur Autonomous Region and Central Asia is defined by the endeavor to achieve a "double integration" of Xinjiang Uyghur Autonomous Region with China proper and Central Asia by extending modern infrastructure throughout Xinjiang Uyghur Autonomous Region and connecting them to neighboring Central Asian countries to reach their oil and natural gas resources, all of which have been underwritten by the Shanghai Cooperation Organisation (SCO), and bilateral political, economic and military relations (Clarke, 2008, pp. 107-111). Kyrgyzstan and Tajikistan are both economically challenged and politically fragile countries bordering China's Xinjiang Uyghur Autonomous Region, and will play a growing role in the transit of energy (Rickleton, 2014b). Kyrgyzstan and Tajikistan (the parts of the former Soviet border) and Xinjiang Uyghur Autonomous Region form a zone of what appears to be relative impoverishment and underdevelopment between China's industrialized, densely populated and wealthy east, and Central Asian countries of Kazakhstan and Turkmenistan which are the region's two biggest energy exporters. Turkmenistan, especially, is in a strong position as it has a relatively small population. The lack of industrialization in parts of Central Asia is, in part, a residual effect of the Soviet era, especially its last decades. China's 'Great Western Development' campaign, managed from Xinjiang Uyghur Autonomous Region, serves, among other functions, as a post-Soviet collapse stabilization remedy, to develop and better control Xinjiang Uyghur Autonomous Region in order to secure access to Central Asia, and increase the Chinese influence, as per one view (Clarke, 2013, pp. 7-9). It is, in conjunction with the SREB, an attempt to replicate the Soviet economic policy over the region, but from the opposite direction. As was the case with the Soviet era, the success of this current process depends on the fiscal and political stability of the 'centre' and the amounts it is willing to invest. Central Asia is an important zone of the Beijing Consensus. As such that, after building the SCO, the first multilateral group that China started on its own, and enlarging it to include discussions of trade, economics and energy, China had the SCO run a joint military exercise in the Xinjiang Uyghur Autonomous Region in 2003 (Cooper Ramo, 2004, pp. 47, 52, 53). China was subjugated by Western and Japanese capitalism in the nineteenth century, its development was blocked and it became their 'periphery', as Moulder argued in her application of Immanuel Wallerstein's 'core-periphery' dichotomy of the 'modern world system' (Moulder, 1977). In the late and early 20th centuries Japanese ownership levels in China were so high that the nation, colonized by several foreign powers at the time, hosted 77.5 per cent of the total Japanese FDI, spread through key sectors such as coal mining, iron works, shipping, cotton industries and banking (Dunning and Lundan, 2008, p. 157). Central Asia became Russia's periphery in the tsarist and the Soviet eras. It now occupies a peripheral place in relation to the Chinese economic expansion (Sutter, 2008, p. 263). The topic of Central Asia's current political relations with Russia is important but beyond the scope of this discussion. China has developed a dependence on commodities

exports from Central Asia. Overall, China has many peripheries but they are not locked in a similarly crucial and close proximity relationship (Stares et al., 2011). One analysis argues that Central Asians are unsure whether Chinese trade and FDI will benefit the economic development of Central Asia and whether China is engaged in economic imperialism as virtually all of China's imports from Central Asia are raw materials, and its exports to the region are cheap manufactured goods which prompt some Central Asians to conclude that China is dumping its goods in the region while looting their raw materials (Scobell et al., 2014, p. 42). Yet, in the future, some of the Chinese electronics and automotive manufacturing MNEs may move into the region, and transfer their technology and production systems for high value added goods manufacturing. After the 2008 global financial crisis, Chinese economic expansion continued with domestic demand growth, but it moved from the orbit of the OECD nations' economic cycles and increased its trade and FDI relationships with developing nations (Barcena et al., 2011, pp. 7, 29). China's development of a niche in frugal engineering enables them to manufacture low cost versions of goods for mass markets (Athreye and Kapur, 2009, p. 214). This has provided them with 'ownership advantages' that other nations' manufacturing MNEs lack. When the proximity of Central Asia as a ready-market for their manufactures, and their energy market relations with the region are taken into account, Chinese MNEs also possess a 'locational advantage' that other nations' MNEs can never develop as they are not bordering Central Asia. Essentially, there is no other country in the world that can replicate the price levels of Chinese manufactured consumer goods in Central Asian markets. This means that presently Central Asian markets appear to be in an asymmetrical reciprocal relationship with the Chinese market. The lack of strength of the Central Asian economies in comparison is apparent in the emergence of the SCO, the Collective Security Treaty Organization (CSTO), and the now-defunct post-Soviet formations (i.e. EurAsEc) all of which can be seen as attempts maintain the region's status quo, which is limited by its geography, and its underdeveloped institutions of manufacturing, trade and investment. International trade has long been characterized by fragmentation of production which parts and components manufacturing are outsourced, predominantly from China (Kierzkowski and Chen, 2010, pp. 67-69). Central Asia, instead of remaining an export market ground for low cost Chinese consumer goods, can negotiate itself, possibly as a type of regional trade bloc, into the Chinese manufacturing chains and produce parts and components as a condition of bi-lateral trade. This would significantly reduce the present asymmetrical reciprocity. However, this discussion is a mere conjecture of the present moment. China may never shift production outside its borders. Prior Asian waves of electronics exports to the EU and the US markets occurred without shifting production to those markets (Dunning and Lundan, 2008, p. 534). China may follow precedent, and given its still large rural population that it wants to urbanize, it may be even less willing to shift any production out of the country.

Central Asian Natural Gas and Crude Oil Exports

Central Asia has been an energy producer since period of the occupation by the Russian Empire. Azerbaijan became a major crude oil exporter in the middle of the 19th century, followed by Kazakhstan, and after the Second World War Turkmenistan and Uzbekistan became major natural gas and crude oil producers (Feddersen and Zuccatto, 2013, p. 160). Diversification of Central Asian crude oil routes out of the region started in the mid-1990s, and in the late 2000s natural gas exports began to be exported to markets other than Russia, which undermined the latter's aims to maintain

control over them (Coburn, 2010b, p. 21). Central Asia's detachment from the Soviet Union made a big impact on the Chinese economy.

Table 3: Crude Oil Reserves, Production, Consumption, and Production/Consumption Ratio (2013)

	R (Thousand M. tonnes)	P (M. tonnes)	C (M. Tonnes)	P/C Ratio (%)
Azerbaijan	1.0	43.4	4.6	10.6
Kazakhstan	3.9	83.8	13.8	16.5
Uzbekistan	0.1	2.9	3.3	113.8
Turkmenistan	0.1	11.4	6.3	55.3
Russia	12.7	531.4	153.1	28.8

Source: British Petroleum, 2014b, pp. 6, 10, 11.

Table 4: Natural Gas Reserves (excl. LPG), Production, Consumption, and Production/Consumption Ratio (2013)

	R (Trillion cu. ft.)	P (Billion cu. ft.)	C (Billion cu. ft.)	P/C Ratio (%)
Azerbaijan	31.0	16.2	8.6	53.1
Kazakhstan	53.9	18.5	11.4	61.6
Uzbekistan	38.3	55.2	45.2	81.9
Turkmenistan	617.3	62.3	22.3	35.8
Russia	1103.6	604.8	413.5	68.4

Source: British Petroleum, 2014a, pp. 20, 22, 23.

Table 5: Kazakh and Turkmen Natural Gas (excl. LPG) Export Markets (%) (2013)

	Russia	China	Iran	Other	Total
Kazakhstan	97.5	0.8		1.7	100
Turkmenistan	24.7	60.9	11.7	2.7	100

Source: British Petroleum, 2014a, p. 28.

In 2010, China's first international natural gas pipeline connection, the Central Asian Gas Pipeline (CAGP) connected its demand with the Central Asian supply, and began to transport natural gas from Turkmenistan, through Uzbekistan, and Kazakhstan to Xinjiang Uyghur Autonomous Region (Energy Information Administration, 2014a, p. 24). The intricacy of this path, determined by geography, is a representation of the Chinese reach to Central Asia. The CAGP is not to be confused with Central Asia-Center Gas Pipeline of Gazprom, which runs from Turkmenistan, Uzbekistan and Kazakhstan into Russia. As per China's crude oil imports from Central Asia, the Kazakhstan-China pipeline has been transporting Russian and Kazakh oil since 2006, and in 2011, the Russian-China crude oil pipeline began operations (Energy Information Administration, 2014a, p. 13). Crude Oil and natural gas pipelines form a new type of new Silk Road that connects Central Asia as well as Russia to all the importers and contribute to this century's energy politics (Coburn, 2010a, p. 19). However, this path of a possible reconstruction of the Silk Road stopped at Central Asia-Iran border. Turkmenistan has also been exporting natural gas to Iran through two pipelines since 1997. This trade relationship, despite its potential, has not progressed well, due to the disagreement over price. Iran is reportedly unwilling to continue to purchase the Turkmen natural gas that can eventually push up the share of the Chinese market beyond the current 70 per cent, making Turkmenistan solely reliant on exports to China (Pannier, 2014; Rickleton 2014a). Iran's history of relations with the West, which has made it hard for Central Asian energy exports to pass through Turkey, and then onto to the EU, has strengthened the Russian position at first. Then, this situation became increasingly less relevant with the rise of the China as the dominant consumer

and importer of the natural gas and crude oil from Turkmenistan and Kazakhstan, through pipelines and infrastructures built and paid for by the Chinese. The possession of 'asset-exploiting type of FDI' is necessary to extract resources, augment markets, create new ones, and co-ordinate, and integrate existing cross-border operations (Dunning et al. 2008, p. 9). Chinese SOEs' FDI, underwritten by the nation's foreign currency reserves, has established Chinese-Central Asian energy relations. The centre of the issue of Central Asian energy exports has thus long shifted to China. This will be the part of the region's status quo until such time when new export pipelines to Europe can be established. Central Asian energy exports will continue to grow. In terms of the volume of natural gas exports, reliability of demand, and a trade deal free of past political dimensions, the Turkmen economy first broke its isolation by opening to the outside world via the Chinese energy demand, which has kept growing. The Turkmen natural gas is transported to China through three pipelines (between 2009 and 2014 Line A, B, and C started operating with D being presently built) via central Uzbekistan, southern Kazakhstan, and northwest Xinjiang Uyghur Autonomous Region. Until 2009, Turkmenistan used to sell most of its natural gas to Russia's Gazprom, which has drastically reduced its purchase volumes, and China became the major buyer and investor in the pipelines, and fields (Ziegler and Menon, 2014, p. 24). China's 2014 deal with Turkmenistan will be boosting annual gas deliveries to China to about 65 billion cubic meters by 2020. Turkmenistan, unlike the other Central Asian countries, is not a member, observer, or dialogue partner, of the SCO of which the largest forces are Russia and China. China does not have border with Turkmenistan, but is a neighbour of Kazakhstan, which offers a secure and reliable replication of the volumes of oil it currently imports from East Africa, and the Persian Gulf (Du, 2011, p. 7). China began to invest US\$5 billion in Kazakhstan's Kashagan oil field in 2013, as part of a US\$30 billion deal (Lelyveld, 2013). Information on its crude oil reserves is presented above (British Petroleum, 2014b, pp. 6, 10, 11). The only transnational Turkmen crude oil pipeline goes to Kazakhstan via Uzbekistan, and Turkmenistan also exports crude oil via foreign oil companies that operate in the country, by transporting it across the Caspian Sea (Energy Information Administration, 2014b). Its crude oil production, refining and export industries have massive growth potential but this is unlikely to occur in the near future, due to a lack of sufficient FDI, poor infrastructure and the status of the Caspian Sea, which was raised above. In order to meet its needs, Turkmenistan plans to utilize new technologies to produce gasoline from natural gas (Oil and Gas Journal 2014). Uzbekistan, by contrast, has sufficient reserves to be a major exporter (Feddersen and Zuccatto, 2013, p. 175). The present natural gas production volume in Uzbekistan is more than the combined volume of Azerbaijan and Kazakhstan production, and is close to that of Turkmenistan, but it is primarily consumed domestically (British Petroleum, 2014a, pp. 20, 22, 23). Uzbekistan was a major producer, during the Soviet era, in the 1960s and 1970s, which depleted most of the existing fields. New investment is needed for extraction and infrastructure as its present production is mostly for domestic consumption (80 per cent) and the rest is exported, via Central Asia-Center Gas Pipeline, to Russia, Kazakhstan, Kyrgyzstan and Tajikistan, but China is also projected to be an export market following the loans provided by the Export Import Bank of China (Energy Information Administration, 2012, pp. 5-7). Among the few energy MNEs that invested in Uzbekistan, the US MNE, Tethys Petroleum, Korea National Oil Corporation, and the Malaysian SOE Petronas have withdrawn in 2013-2014 (Kim, 2014). In the long term, due to the close proximity to the region and its energy consumption levels, China may well be the largest source of new investment in the Uzbek oil and gas exploration and extraction industries, and

consequently it is possible that Chinese FDI may internalize these markets, and construct and manage their export routes across China to the Pacific seaboard to supply new buyers in Asia.

Central Asian Economies

The energy exports from Central Asia have been feeding the Chinese economic growth for the past decade. This trade expansion accompanied Chinese FDI in energy export related infrastructure. Central Asia, in return, increased its imports of Chinese manufactures. Overall, Central Asia has become a destination predominantly for the Chinese FDI.

Table 6: GDP and population in Central Asia, Eurasia and Asia Pacific

	GDP (US\$ millions)	Population (millions)
Kazakhstan	231,876	16.4 million
Uzbekistan	56,805	29 million
Turkmenistan	40,826	5.2 million
Tajikistan	8,497	8.2 million
Kyrgyzstan	7,225	5.5 million
Azerbaijan	73,537	9.4 million
Turkey	819,990	75 million
Iran	367,098	77.4 million
Mongolia	11,516	2.8 million
Russia	2,096,774	142.8 million
China	9,469,124	1.4 billion
India	1,876,811	1.3 billion
Japan	4,898,530	127.1 million
Korea	1,304,468	49.3 million

Source: UN, World Population 2012, Department of Economic and Social Affairs, Population Division, 2014.

Table 7: Distribution of global FDI inward stock in Asia, the EU and North America (1995-2013)

	1995	2013	% Change
The EU	34.81	33.70	-3.19
N. America	32.81	21.91	-33.20
Japan	0.97	0.67	-31.11
China	2.94	3.76	27.89
Korea	0.53	0.66	24.12
Mongolia	0.00	0.06	5451.34
Iran	0.07	0.16	141.90
Turkey	0.43	0.57	31.64
Azerbaijan	0.01	0.05	462.90
Kazakhstan	0.08	0.51	504.68
Kyrgyzstan	0.00	0.01	225.28
Russia	0.16	2.26	1288.85
Tajikistan	0.00	0.01	448.86
Turkmenistan	0.01	0.09	649.54
Uzbekistan	0.00	0.03	985.11

Source: UNCTAD FDI/TNC database, 2014.

From a global perspective, Central Asia's share of net global FDI inflows are low and concentrated in mining, natural gas and crude oil extraction industries that involve relatively low skill jobs (OECD 2013: 15-17). In 2013, FDI inward stock in Central Asia

was 0.65 of the global total. This appears to be rather a poor distribution of global FDI inward stock given the predictions made about the region's future as an energy exporter but there were large percentage increases from 1995 to 2013 (Table 7) during which the totality of the global FDI inward stock increased by 640 per cent. In the area surrounding Central Asia, global FDI inward stock shares of China, Russia, Turkey and Kazakhstan were the highest in 2013 (Table 7). Kazakhstan holds the largest stock of FDI in Central Asia, and is by far the largest economy (over four times the size of Uzbekistan economy). Central Asian countries, Russia and Azerbaijan, among others, all belong to the United Nations Conference on Trade and Development classification of 'transitional economies'. As an investor, Kazakhstan is the largest foreign direct investing Central Asian country, followed by Azerbaijan (UNCTAD, 2014b, pp. 7, 72, 89). All Central Asian countries are in the group of 'land locked countries', which combined with their development status, and past political geography have made their prospects somewhat limited without construction of new infrastructure and sound market policies (Feigenbaum, 2011, p. 62). Turkmenistan and Uzbekistan are frequently urged to reduce the subsidies for household energy consumption, with a view to increase the share of private capital (IMF, 2014b, p. 56). This, however, may prove to be a recipe for civil discontent. Energy consumption subsidies are income supplements. They are a form of non-market income or welfare measure for the population that relies on them for above subsistence level living. Overall, Central Asia, as a region, compares poorly to other developing regions. It has some of the lowest 'employment-to-population' ratios in the world, and its unemployment rates, particularly among the youth, exceed the rates for other developing regions (IMF, 2014b, p. 86). The region also has developed reliance on consumption driven by a large consumer-lending sector (IMF, 2014b, p. 57).

Table 8: Share of manufacturing value added in GDP (%) in Central Asia and Asia Pacific

	2006	2011
Kazakhstan	11.74	11.03
Uzbekistan	no data	
Turkmenistan	no data	
Tajikistan	26.88	20.47
Kyrgyzstan	10.7	11.41
Azerbaijan	5.26	3.41
Turkey	17.51	18.07
Iran	10.9	10.37
Mongolia	5.96	5.97
Russia	15.45	13.71
China	32.62	34.15
India	14.78	14.89
Japan	21.8	20.53
Korea	25.37	27.74

Source: UNIDO, 2014, p. 196-203.

As displayed in Table 9, 'share of manufacturing value added' in GDP in percentage terms is not a major factor in Central Asian economies, nor is the 'share of world manufacturing value added'. The same situation applies to Azerbaijan, Mongolia and Russia as well, presenting a weakness in their economic connections to the rest of the world. None of them are significant participants in the value added manufacturing activities of the industrialised world. In their immediate neighborhood, only Turkey recorded a modest improvement from 2006 to 2011. Economically and politically,

Kazakhstan, and Turkmenistan to a lesser extent, are the most stable Central Asian countries, while Tajikistan, Kyrgyzstan and Uzbekistan have all experienced lower economic performance, law and order problems, including civil violence, and suffered from rising crime rates (Feigenbaum, 2011, pp. 60-63).

Table 9: Share of world manufacturing value added in GDP (%) in Central Asia and Asia Pacific

	2006	2011
Kazakhstan	0.09	0.11
Uzbekistan	no data	
Turkmenistan	no data	
Tajikistan	0.01	0.01
Kyrgyzstan	0	0
Azerbaijan	0.01	0.01
Turkey	1.14	1.27
Iran	0.28	0.28
Mongolia	0	0
Russia	1.61	1.49
China	10.44	16.42
India	1.7	2.25
Japan	12.74	10.7
Korea	2.84	3.36

Source: UNIDO, 2014, pp. 196-203.

The types of insurgencies that troubled Kyrgyzstan, Uzbekistan and Tajikistan in the post-Soviet years have not been witnessed in Turkmenistan (Cornell and Jonsson, 2014, pp. 19-20). Kazakhstan, however, has experienced some troubles in 2011-2014 (Nichol, 2014, pp. 22-24). As per Table 10, Azerbaijan and Kazakhstan are the largest recipients, in Central Asia, of the OECD aid for development. However, the overall aid share of Central Asia in comparison to other developing regions is not high.

Table 10: Central Asia Share of the OECD Development Aid

	2006	2007	2008	2009	2010	2011	2012
Azerbaijan	0.078	0.000	0.000	0.223	0.269	0.431	0.509
Kazakhstan	0.395	0.941	0.625	0.593	1.352	0.813	0.407
Kyrgyzstan	0.285	0.219	0.242	0.183	0.234	0.331	0.274
Tajikistan	0.236	0.183	0.205	0.245	0.259	0.205	0.245
Turkmenistan	0.000	0.015	0.008	0.021	0.024	0.074	0.079
Uzbekistan	0.137	0.177	0.140	0.152	0.133	0.103	0.290

Source: OECD, 2014.

Russia and China have undeniable influence on the future of Central Asian resource and energy exports and the pertaining logistical problems (Feddersen and Zuccatto, 2013, pp. 165, 167, 169; Starr et al., 2014, p. 40). Central Asian energy exports are affected by demand, and price and the lack of diversified export markets simultaneously (IMF, 2014a, p.60). Logistical problems also trouble Central Asia's massive and primarily untapped mineral reserves. Kazakhstan has the most developed mining and processing industries that contribute to its economic growth, Uzbekistan and Kyrgyzstan possess two of the largest gold, and other important ore reserves in the world, and Tajikistan, despite its difficult terrain, has growth potential as is the case with Turkmenistan's underdeveloped mineral mining sector (Asian Development Bank, 2010, pp. 63-66). Tajikistan also possesses large aluminum reserves and is one of the biggest aluminum processors in the world (Nichol, 2014, p. 42). However, as in the case of Australia, resource rich countries can have problems developing value added

manufacturing, especially if they are far from major markets (Bayari, 2012). Mining and natural gas and oil extraction define FDI in Central Asia. Kazakhstan is the second largest recipient of FDI, followed by Turkmenistan, Azerbaijan, and Uzbekistan, Kyrgyzstan, and Tajikistan respectively (UNCTAD, 2014c, pp. 70-72). The EU is the largest investor, while North America is a minor one, in the region due to dual European needs of energy imports and access to export markets. The EU has also been the destination of FDI from the Russian Federation and Kazakhstan in 2005-2013 that has been dominated by investments in petroleum and natural gas companies but has also included purchases of rail transport companies, department stores, banks, and steel manufacturers (UNCTAD, 2014c, pp. 72, 75). This trend appears to represent a conciliation of Russian and Kazakh foreign interests overseas to smooth out their export market expansion. Overall, FDI has contributed to economic growth in Kazakhstan (especially in 2006-2008), Azerbaijan, Turkmenistan, and Mongolia, and the last two have been the largest recipients in the past five years (UNCTAD, 2014c, pp. 90, 91).

Conclusion

Chinese economy has built a solid relationship with Central Asian economies and the intensity of this connection will increase with further rises in Chinese energy imports and Central Asian consumption of Chinese manufactured products. China-Central Asia economic relations, via the presence of Xinjiang Uyghur Autonomous Region in the equation, are likely to expand further in the next several decades. One issue that has not been covered here is Central Asia's reliance on agricultural exports and its rapidly intensifying water shortages. Chinese foreign currency reserves play a major role in purchase and stockpiling, and thus price control, of agricultural exports, which accentuate the nature of economic relationship in between. Water is becoming an expensive commodity in Central Asia. The region is in fact exporting its precious water supplies when it exports cotton to China. The region's oil and gas industries are also major users of water. Overall, every export-related economic activity exacerbates the region's water trouble. Another major issue that needs to be discussed elsewhere is the security arrangements that involve Central Asia, such as the CSTO, and the SCO as well as the oft-quoted Silk Road Economic Belt project. These topics are crucial for the future of Central Asia. The discussion herein has defined the roles that Russia and China have had in Central Asia in the last so many decades and the impact of the Chinese economic growth on the region. Central Asia has immense natural resources, and needs to connect to new markets and augment its current market relations while dealing with the shortcomings in its industrial structures that readily make it an easy market for foreign consumer goods. Central Asia is not a major development aid receiver, and while its inward FDI stocks have increased since the fall of the Soviet Union, its energy sector is the primary recipient. Economic diversification, especially in manufacturing, appears to be the obvious answer that will require the development of domestically constituted market policies.

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