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EXTERNALISATION OF DOMESTIC ECONOMIC CONSTRAINTS: CHINA'S SPATIAL FIX IN KAZAKHSTAN AND TURKMENISTAN©Σ

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ABSTRACT

Growing capital over-accumulation and excessive industrial production have forced policymakers in Beijing to search for profitable outlets overseas. The Belt and Road Initiative (BRI), which focuses on infrastructure connectivity projects across Eurasia, reflects these efforts. This paper theorises BRI as a spatial fix aimed at overcoming the recurring problem of over-accumulation of capital. This paper focuses on BRI-led projects in Kazakhstan and Turkmenistan. By conducting unstructured interviews with experts and examining projects, this paper found that BRI-led projects in Kazakhstan and Turkmenistan not only provided a new geographical space and under-saturated market for Chinese surpluses but also created the demand for Chinese State-Owned Enterprises (SOEs) which were facing a decline in returns. This paper also found that through elements such as non-competitive bidding, embedded conditionality, and double preferential loans, China has successfully stimulated overseas demand for its surpluses. The study, therefore, concludes that BRI-led projects in Kazakhstan and Turkmenistan serve as a spatial fix for China.

Keywords: Kazakhstan; Turkmenistan; spatial fix; BRI China.

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EKSTERNALISASI KEKANGAN EKONOMI DOMESTIK: PENYELESAIAN RUANGAN CHINA DI KAZAKHSTAN DAN TURKMENISTAN

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ABSTRAK

Pengumpulan modal yang semakin meningkat dan pengeluaran perindustrian yang berlebihan telah memaksa pembuat dasar di Beijing untuk mencari cawangan yang menguntungkan di luar negara. Inisiatif Jalur dan Laluan (BRI), yang memfokuskan pada projek ketersambungan infrastruktur di seluruh Eurasia, mencerminkan usaha ini. Makalah ini berteori BRI sebagai penetapan ruangan yang bertujuan untuk mengatasi masalah berulang pengumpulan modal yang berlebihan. Makalah ini memberi tumpuan kepada projek yang diterajui BRI di Kazakhstan dan Turkmenistan. Dengan menjalankan temu bual tidak berstruktur dengan pakar dan meneliti projek, makalah ini mendapati bahawa projek yang diterajui BRI di Kazakhstan dan Turkmenistan bukan sahaja menyediakan ruang geografi baharu dan pasaran kurang tepu untuk lebihan China tetapi juga mewujudkan permintaan untuk Perusahaan Milik Negara China (SOE). yang menghadapi kemerosotan dalam pulangan. Kertas kerja ini juga mendapati bahawa melalui elemen seperti pembidaan tidak kompetitif, syarat tertanam dan pinjaman keutamaan berganda, China telah berjaya merangsang permintaan luar negara untuk lebihannya. Oleh itu, kajian itu menyimpulkan bahawa projek yang diterajui BRI di Kazakhstan dan Turkmenistan berfungsi sebagai penetapan ruangan untuk China.

Kata kunci: *Kazakhstan; Turkmenistan; penyelesaian ruangan; BRI China*.

Introduction

In 2013, when President Xi Jinping announced the Belt and Road Initiative (BRI), Central Asian countries were among those that were first attracted towards this global connectivity mega initiative (*China Briefing* September 22, 2021). Being landlocked, the Central Asian Republics needed connectivity with the outside world for economic development (Khan, Govindasamy and Akhir 2022, 157). Therefore, the key factors that fascinated Central Asian leaders towards the BRI were China's official rhetoric of win-win, closer economic cooperation, and connectivity under the initiative (Khan, Govindasamy and Akhir 2021, 1272). In addition, the Central Asian Republics were attracted towards the idea that Chinese money comes without political strings attached, unlike the West, which demands changes in the domestic policies of a country, such as human rights. In terms of the centrality of the region to BRI, it links Asia (especially China) with Europe by offering a direct path to Western Asia, South Asia, Russia, and Eastern Europe (Liao 2019, 495). In other words, the region is the Chinese gateway to Europe and West Asia. Out of six economic corridors of the overland component of the BRI, two economic corridors, namely China-Central West Asia and the New Eurasian Land Bridge, pass through this region. Several large-scale projects, such as construction of railway lines, road building and rehabilitation, and electricity transmission lines, have been carried out under the BRI (Jinbo 2022, 217). These projects are expected to enhance connectivity, economic growth, and prosperity.

Although China's official narrative related to the initiative is that it is a win-win project for all, it is still viewed in a more sceptical way. According to Merwe (2019, 198), "The infrastructure plans expose the initiative [BRI] as unashamedly colonial, as it reinforces the legacy of transporting resources towards ports – and not between neighbouring states. Even in the case where transport infrastructure is created between states, the assumption is still that this would facilitate the movement of Chinese remotely manufactured goods onto markets". Moreover, concerns are growing that China is practising debt trap diplomacy through this initiative (Kassenova 2022, 206). In other words, China first makes the economically weak countries dependent on it and then exploits it. In this regard, despite connectivity and other projects being carried out, they are not contributing to the production capacity of the countries.

This paper commences with a critical assessment of the factors that compelled China to embark on BRI and highlight ambiguities that are not in line with China's official rhetoric of win-win. This paper conceptualises the BRI as a spatial fix, reflective of both general and specific problems and contradictions of capital accumulation in China. The paper then explores the implications of this meta-project for Central Asia through two case studies of countries heavily involved in the initiative: Kazakhstan and Turkmenistan.

The Post-reform Evolution of China's Economy and the BRI Imperative

The dynamics of the domestic economy in China coerce both the policymakers and market actors to strive for an overseas market, as surplus production and capital over-accumulation require the export of excessive production. Following the opening and reform policy of 1978, China quickly progressed towards market-flattering the established mechanism of resource allocation in the country (Yao February 2, 2010). As explained by Gramsci (1971), to strengthen their rule, the ruling elites, through a passive revolution, spectacularly altered the course of policy. Similarly, in China, in the post-reform era, a more hierarchical and hardnosed form of capitalism emerged (Luxemburg

2004, 34). Furthermore, with China's entry into the World Trade Organization as a member in 2001, it allowed Beijing to enjoy more cuts in tariffs and further liberalisation of the agricultural and services sector. Thus, the limitations of global neoliberalism aided China in embarking on a new chapter of internationalisation of its economy (Clifford and Panitchpakdi 2002, 17).

As a result of the reforms, China's export-driven sector swiftly became the country's growth engine. It is evident from the fact that in 1980, total global exports of China were worth US$11.3 billion, while by 2019, it had reached to worth US$2.6 trillion (*World Bank* 2021). In other words, this significant increase in exports is 212 times more. Given the increase in continuous scores of exports, Vanaik (2013, 196) maintains that "China is now characterised by a powerful urban–industrial capitalist class, especially in the southern coastal region, significantly influencing government circles up to and including the Politburo, as well as having close ties with foreign investors and companies based in China for export purposes". Furthermore, given the wealth of Chinese members of parliament, where hundreds are billionaires, it implies that there is a significant link between the public and private sectors (Wee March 1, 2018). As a result of this link, Lui (2007, 91) contends that given the members' connection with the state-owned enterprises at a managerial level, and in order to facilitate their personal business gains, they exert pressure by demanding support for the export sector and infrastructure construction throughout the country.

Consequent to the dynamics depicted above, contradictions in the Chinese economy began to grow and mature. Chinese cheap labour, which once was Beijing's comparative advantage, became no longer inexpensive. China's rapid economic growth contributed significantly to the wage rise, which in turn created a shortage of workers, especially in the southern coastal areas where foreign direct investment was initially welcomed. The key element of concern in this equation is the difference between increases in wages and labour productivity. In other words, since 2010, labour wages in China have increased faster than labour productivity (Kley and Yau 2021). As a result, both the profit rate and profit share in China witnessed a decline.

For an economy to maintain export competitiveness and transcend imports, the key concern is not the wage rates but rather how high they are relative to labour productivity. Given the increase in wages, some big companies, such as Foxconn (a Taiwanese company which assembles iPhones) in response, relocated its assembly units to interior China (Carmody, Taylor, and Zajontz 2021, 58). This internal relocation motivated the Chinese government to develop and improve transport connectivity from inland to the East of China. It can be contented that the relocation of assembly units from Eastern to inland China implies a preliminary aspect of the spatial fix to pressure exerted by declining profits (Bitabaroba 2018, 152). Building on this, it can be argued that BRI represents the fullest manifestation of spatial fix.

Pertaining to the decline in profit rates, it is pertinent to mention that between 1990 and 2010, the profit rate of the business sector of China was around 25 percent (Li 2016, 165). This positive profit rate contributed significantly to the capital accumulation of China. However, since 2011, China's profit rate has dropped by 30 percent. It is not surprising that rate of profit, even in 2019 was not higher than it was recorded in 2009. Furthermore, it has also been recorded that China's multi-factor productivity reduced at a rate of 2.3 percent annually from 2008 to 2010 (Carmody, Taylor, and Zajontz 2021, 60). The decline in multi factor productivity implies that the country was confronted with and struggling against the middle-income trap. Moreover, it also indicates that China is

no longer an inexpensive labour-cost producer.

Furthermore, another economic impediment that the Chinese economy was facing is the augmenting difference between the rate of accumulation and profit rate growth. In other words, China's profit growth rate was lower than the rate of accumulation. Resultantly, this difference decreased the capital-output ratio. For example, between 2001 and 2010, China's rate of accumulation was 45.2 percent, and its profit growth rate was 13.3 percent. However, between 2011 and 2014, the rate of accumulation rose to 63 percent, whereas profit rate declined to 2.7 percent (Li 2016, 168). Building on this, it can be argued that the declining trend in profits compelled China to search for a new geographical space and create a demand for state-owned enterprises in order to generate more profit.

In addition to the problem of declining profits, the occurrence of the global financial crises of 2008-09 added more to the economic woes of China. Due to the financial crises, the Western economies were confronted with recession. Therefore, the crash of demands in consumer markets (US and EU) badly hit the export industries in China, leading to a 30 percent contraction in exports (Harvey 2017, 23). In this regard, to overcome the impact of crises, the immediate response of the Chinese leadership was the announcement of a stimulus package worth RMB 4 trillion, which at that time was equal to approximately US$580 billion. A major chunk of the package was spent on infrastructure building. It is not surprising that China used more cement in two years (2011 to 2013) than the US used in the entire 20th century. In addition, China's annual steel production in 2008 was 512 million tons, which then increased to 803 million tons in 2015. Massive use of steel and cement in the construction sector, as a result, increased China's gross fixed capital formation from US$1 trillion in 2006 to US$6.1 trillion in 2019 (*World Bank* October 17, 2021).

To sum up the above depicted account, China's export-driven growth model contributed significantly to the economic growth of the country. However, the limitations of this model exposed in the form of an increase in labor wages, which in turn exerted pressure on profit rates. Furthermore, the industries became capital intensive, thus substituting the labor. There are two possible ways to overcome the problem of declining profits: exploit the labour by depressing their wages or expand to a new graphical space abroad through trade. Since the legitimacy of the Communist Party of China (CPC) regime is dependent on economic prosperity, therefore the feasible option for Beijing was to export its surplus capital and production to a new under-saturated market as a potential spatial fix for its domestic economic concerns, such as over-accumulation and declining profits (Khan, Govindasamy and Akhir 2021, 1271).

Belt and Road Initiative as a Spatial Fix

Given the expansive nature of capital, it has been the nucleus of classical Marxist theories of imperialism. For example, Lenin (1948, 13) contended that the over-accumulation of capital demanded new geographical spaces for investment. Likewise, Luxemburg (2004, 45) maintained that for continued profits, the capitalists struggled to export surplus production overseas and accessed new labour pools as well. Harvey (1982, 22) labelled this quest of capitalists as a spatial f, which he refers to as a likely response to the problem of over-accumulation. Harvey (2014, 12) argues that in a capitalist mode of production, the emergence of crises is normal, primarily indicated by the over-accumulation of capital, defined as "some combination of surplus capital looking for productive investment, surplus commodities looking for buyers, and surplus labour power looking for productive employment" (Ekers and Prudham 2017:1374).

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Harvey (2014, 24) argues that when capital remains idle and does not find profitable outlets for a long period of time, such crises emerge. Here, capital is to be considered as a process, one through which money is invested in productive labour for greater profitability. If this process stops, then economic growth will stop, hence leading to surpluses of capital (money, commodities, and machines) as well as labour (unemployed workers), resulting in social unrest and ultimately threatening the legitimacy of a government. Harvey (2014, 151) explains that such crises are often managed by a "spatial fix", i.e. "[t]he absorption of these surpluses through geographical expansion and spatial reorganisation helps resolve the problem of surpluses lacking profitable outlets". Simply put, a spatial fix is a strategy to find new avenues or opportunities to accommodate capital and labour and earn profit by utilising them. Similarly, spatial reorganisation refers to the territorial relocation of surpluses in a new geographical space. The spatial fix can take several forms; for instance, making an environment conducive to business by relaxing trade and investment hindrances or identifying new spaces for investment and the building of extensive infrastructure that can both absorb surpluses and provide new means for the infiltration of capital into a new geographical space. Examples of such fixes are evident in history. Britain, for example, exported its surplus capital and labour to the United States, Argentina and South Africa in the 19th century. Likewise, Japan, South Korea and Taiwan exported surplus capital, mostly to China, in the last two-quarters of the 20th century (Harvey 2014, 152).

As mentioned, the trade surplus, which was the outcome of the export boom and high global demand, resulted in China's excessive foreign exchange reserves. These reserves necessitated re-investing in a profitable outlet; therefore, it was one of the factors that compelled Beijing to embark on a new mega plan (Khan, Akhir, Govindasamy 2022, 158). In so doing, Xi first announced the overland Silk Road Economic Belt in 2013 as a mega infrastructure construction initiative to integrate Asia with Europe. Later, the maritime component was announced, which aimed to connect China across the Indian Ocean to Eastern Africa.

After one year of launching the BRI, Beijing established the Asian Infrastructure Investment Bank (AIIB), with an initial capital of US$100 billion (Carmody, Taylor, and Zajontz 2021, 58). Furthermore, a separate fund named Silk Road Fund worth US$40 billion was also inaugurated. Thus far, Beijing has hosted two Belt and Road forums. The necessity of going out under the BRI is evident from its incorporation in the constitution of the CPC. This implies the importance of economic concerns in China's policy considerations. It is estimated that BRI-led investments range from worth US$1.4 trillion to US$6 trillion (Zhai 2018, 87). All this implies the necessity of spatial fix to the

economic concerns of China. In this regard, China's need for a spatial fix is evident from He Yafei's, Vice-Minister of the Ministry of Foreign Affairs of China opinion published in *South China Morning Post*, in January 7, 2014. Yafei stated that:

> The excess capacity has been caused by China's fundamental economic readjustments against the global economy. With the ensuing knock-on effects of the global financial crisis manifesting in the economic stagnation of advanced nations, coupled with the slowdown in China's domestic demand, industrial overcapacity, accumulated over several decades, has been brought into sharp relief . . . [and] has resulted in a steep drop in profits [and] the accumulation of debt and near bankruptcy for many companies. If left unchecked, it could lead to bad loans piling up for banks, harming the ecosystem, and bankruptcy for whole sectors of industries that would, in turn, affect the transformation of the [Chinese] growth model and the improvement of people's livelihoods. It could even destabilise society. The Chinese government, guided by the principles laid out at the third plenum, has put forward guidelines for its resolution. The most important thing is to turn the challenge into an opportunity by "moving out" this overcapacity on the basis of its development strategy abroad and foreign policy (*South China Morning Post* January 7, 2014).

In addition to these, the making of the Industrial Capacity Cooperation (ICC) policy, which is aimed to move the excessive industrial capacity of China offshore, together with BRI, clearly implies the severity of domestic economic concerns of China. It makes it evident that industrial overcapacity and capital accumulation are the key drivers behind Beijing's geographical expansion under the BRI. Resultantly, it can be argued that BRI is a multi-vector fix achieving multiple objectives simultaneously.

Belt and Road Initiative in Central Asia

Central Asia, being a geographically proximate region, provides well under-saturated market for China to absorb its excessive industrial capacity and capital. Geographical limitations and underdeveloped infrastructure connectivity have kept this region less integrated with the outside world. As a result, the region has not performed well in terms of economic development. The logical outcome of these facts is that Central Asia has always needed major investments in infrastructure and other sectors so as to uplift its economy. As China was striving for new markets to stimulate demand for its capital and surplus production, in a strategic stroke of action and rhetoric, Beijing decided to announce the Silk Road project in Kazakhstan as well as combining it with Beijing's win-win rhetoric. The following section highlights BRI-led projects in two case study countries: Kazakhstan and Turkmenistan.

Projects in Khazastan

Kazakhstan has strong energy ties with China due to Beijing's direct involvement in its national oil companies. Historically, they established diplomatic relations in 1992, and the subsequent process of rapprochement started with border agreements, enhancing economic cooperation, and strengthening strategic partnerships. In 2013, the announcement of the BRI added a new impetus to these ties, indicating Kazakhstan's importance to China. At this time, Kazakhstan's oil-dependent economy was badly affected by the sharp decline in oil prices in 2014. Therefore, to improve its economy, the government announced its "*Nurly Zhol*" ("Bright Path" or "A Road to the Future") strategy the same year, which was primarily meant to ensure sustainable and long-term economic growth. It was envisaged that economic growth could be achieved with the

development of efficient infrastructure integrating its main "macro-regions". This strategy took the form of a five-year economic plan (from 2015 to 2019), valued at US$9 billion (Bitabarova 2018, 165). However, due to the lack of capital needed to execute this strategy, Kazakhstan responded positively to the BRI. By integrating the Nurly Zhol strategy into it created opportunities for Chinese SOEs to invest in Kazakhstan. At the same time, surpluses in the Chinese domestic economy could be relocated accordingly. Several BRI projects are currently being developed in Kazakhstan, with Table 1 showing the extent to which China is engaged in railway, road, and energy connectivity projects.

Table 1: List of Belt and Road Initiative Projects in Kazakhstan

Years	Project	Financing	Description
2018–2021	Reconstruction of the Center-South Corridor of the Astana-Karaganda-Balkhash-Kurty-Kapshagai-Almaty (Karaganda-Burybaytal) Road: Karaganda-Balkhash section.	US$ 727 million. Source of financing: Publicly guaranteed loan from Exim Bank.	BRI-Nurly Zhol integrated project.
2017–2022	Karaganda-Balkhash section of the Center-South Corridor.	US$852 million. Source of financing: Public loan from the AIIB.	
2017–2022	Center-West Road.	US$1.111 billion. Source of financing: Public loan from the AIIB.	
2017–2020	Reconstruction of the Taldykorgan-Kalbatau-Ust-Kamenogorsk Highway; KM 287–1073 section.	US$796 million. Source of financing: Publicly guaranteed loan from Exim Bank.	
2017–2020	Reconstruction of the Merke-Burybaytal Road; KM 7–273 section.	US$253 million. Source of financing: Publicly guaranteed loan from Exim Bank	
2015–2019	First phase of the railway system in Astana.	US$1.887 billion. Source of financing: (1) 80% publicly guaranteed loan from the CDB; (2) The remaining 20% is financed by a consortium of three SOEs: (a) China Railway No 2 Engineering Group Co., Ltd; (b) Beijing State-Owned Assets Management Co., Ltd.; and (c) China Railway Asia–Europe Construction Investment Co., Ltd.	This project will help solve Astana's public transportation problem. Even though the project is expensive, the Chinese consortium claims that it is highly unlikely that they will get an ROI anytime soon, and therefore, this project is more of a public relations move meant to attract future clients. The project was launched under the loan agreement between the Astana Light Rail Transport Joint Stock Company (JSC) and the

			State Development Bank of China in 2015.
2015–2017	Almaty 1-Shu railway	US$110 million. Source of financing: National Fund of Kazakhstan and Kazakhstan Temir Zholy (a national company).	BRI-Nurly Zhol integrated project. The project aims to increase travelling speed, reduce travel time, and increase freight capacity. As a result, transportation efficiency will increase. Travel time will be reduced by 1.5 times. Freight capacity is aimed to increase from 25 million to 80 million tons.
2014–2017	Modernisation of Aktau Port	US$121 million Source of financing: Loan from the JSC "Development Bank" of Kazakhstan.	BRI-Nurly Zhol integrated project.
2014–2017	Construction of the Khorgos Dry Port	US$ 239 million. Source of funding: Fully financed by the government of Kazakhstan. After the project was launched, an SOE, Lianyungang Port Holding Group Co. Ltd., bought 49% of the port's shares.	Coordination of the activities of the Khorghos hub with the Aktau seaport as Kazakhstan's main transport hub on the Transport Corridor Europe Caucasus Asia and North–South international corridors will create an effective route for the movement of goods from the western and central regions of China to Iran, the Persian Gulf, Turkey, and Europe. This strategic project has great commercial potential.
2013–2014	Kazakhstani Terminal in the Lianyungang Sea Port (in China)	US$99.3 million Owned by Kazakhstani KTZ Express (49%) and Lianyungang Port Company Group LLC (51%).	BRI-Nurly Zhol integrated project. For Kazakhstan, entry to Lianyungang reduces transport time to Asia-Pacific markets by 3.5 times. Kazakhstan plans to launch the second terminal in Lianyungang, China, mainly for wheat exports to Japan and Korea.

Source: (Norwegian Institute of International Affairs; OSCE Academy, n.d.)

Table 1 reflects China's concentration on the railway and road connectivity projects in Kazakhstan. The sheer number of projects implemented indicates that they are

designed to relocate China's surpluses. Moreover, the table also summarises how the projects are mostly financed by the Exim Bank, China Development Bank (CDB) and the Asian Infrastructure and Investment Bank (AIIB), and that the maximum share of the projects belongs to Chinese SOEs. There is a distinct connection between how they are being financed by Chinese policy banks and the awarding of contracts to Chinese SOEs, a connection referred to as "embedded conditionality". What this means is that funds originating from China are tied to Chinese SOEs, which, therefore, imposes certain conditions. In other words, embedded conditionality includes a stipulation whereby the recipient country is obliged to accept Chinese labour, resources, technology, and regulations. Among China's policy banks, Exim Bank seems to be one of those that most actively uses embedded conditionality in its financing mechanisms – its key condition for loan qualifications is that the borrowing country shall use Chinese SOEs and labour to execute the projects (Laruelle 2018, 63). Using this strategy, it was estimated that nearly 2,800 Chinese firms had been registered in Kazakhstan by 2019 (Yan February 7, 2020). These arrangements reinforce the argument that China, through the economic corridors, is seeking to create demand for its SOEs and as well as export its surpluses to the Central Asian region.

Under the BRI, Beijing is engaged with Nur-Sultan in trade and soft power dimensions as well. Kazakhstan is an important transit partner for China despite falling under the Russian sphere of influence, and in fact, Beijing has surpassed Moscow as Nur-Sultan's main trading partner. In terms of China's economic engagement with its immediate neighbours, Zou Xiying (personal communication with Chinese official in Kazakhstan, June 12, 2020) stresses that the BRI aims to strengthen economic ties between China and its neighbours. To him, China's past economic relations were more closely connected with the West, a dependency which is no longer profitable due to the Sino-US trade war that has been waged over the past few years. Now that China is focusing on Central Asia, Beijing has become an increasingly important trading partner for Nur-Sultan. While bilateral trade was valued at US$3.3 billion in 2003, by 2013, it had reached US$28.5 billion, although this turnover declined to US$21.8 billion between 2013 and 2019 (Yan February7, 2020). Two factors caused this decline. First, China's economic slowdown resulted in a decreased import of oil from Kazakhstan, as reflected between 2013 and 2016, dropping from 11.98 million tons to 3.23 million tons. However, this amount rose again in 2019 when China imported 10.88 million tons of crude oil from Kazakhstan (*Xinhua* October 10, 2019). Second, the Kazakh tenge witnessed a sharp depreciation due to the Russian financial crisis in 2014, and as a result, Kazakhstan found it expensive to import goods from China.

Furthermore – pertaining to China's quest to stimulate demand for its capital, goods, and services – Beijing's strategy has involved lobbying and motivating host states to request funding from China. It is against this backdrop that the then Premier Le Keqiang's visit to Nur-Sultan took place in 2015, during which the Kazakh government presented 79 projects to their Chinese counterparts for approval. China agreed to transfer 55 industrial production sites to Kazakhstan under the BRI, collectively valued at approximately US$28 billion (*Kazakh Invest* September 10, 2019). The industries concerned included oil and gas processing, manufacturing (steel, flat glass, building materials, cement, and chemicals), transportation and electricity generation – these were all state sectors facing industrial overcapacity. Therefore, the specificity of the transfer reinforces the argument that the economic corridors are an attempted spatial fix. Furthermore, there is an important link between Kazakhstan's domestic economic limitations and the transfer of industrial sites from China.

Kazakhstan has been exporting crude oil to China in return for refined gasoline, kerosene, and motor oil since 1997. Besides these exports, a duty-free agreement was concluded in 2012, allowing Kazakhstan's crude oil to be processed in China before being sent back to Kazakhstan. In order for Kazakhstan to advance its oil and gas sector as well as increase its export capacity, it needed foreign processing technology. Given its economy's increased vulnerability to global oil prices, Kazakhstan began to consider developing its oil and gas processing capacity internally to reduce such a dependency on China, a strategy which coincided with China's aim to relocate its surpluses to Central Asia – meant in particular to ensure the profitability of excessive industrial capacity. In this regard, Kazakhstan provided the space for a spatial fix, leading to the signing of industrial transfer agreements for a variety of projects. To formally begin this transfer, a China-Kazakhstan capacity cooperation fund valued at US$2 billion was established in 2013. A year later, China committed an additional US$18 billion to the fund (Yau 2020). As of 9 September 2021, 19 projects have been completed as part of the China-Kazakhstan industrial development projects under the BRI.

Figure 1: China-Kazakhstan Industrial Development and Investment Projects Completed Under Government-to-Government Agreements

Project Type	Completed Projects	Approved Projects	Projects Under Consideration	Total Value (U.S. dollars)
Mineral Processing	2	3	6	$7.4 billion
Hydrocarbon Processing	3	1	3	$5.5 billion
Manufacturing	5	2	4	$1.8 billion
Chemical Production (Nonhydrocarbons)	0	0	2	$2.8 billion
Agroindustrial	2	2	1	$387 million
Healthcare	0	0	1	$189 million
Finance	1	0	0	$13 million
Mineral Extraction	0	0	1	$1.5 billion
Fossil Fuel Electricity Generation	0	0	3	$1.4 billion
Renewable Energy	5	2	2	$680 million
Transportation	1	2	1	$2.9 billion
Water Treatment	0	1	0	$60 million
Total	19	13	24	$24.6 billion

Source: (Kley and Yau 2021)

Table 2 indicates a clear diversification of Chinese investments in Kazakhstan, which include chemical and mechanical engineering, agriculture, infrastructure, and the power sector. Although China has already historically engaged with Kazakhstan in the energy sector, it is now evident that it is moving into the manufacturing sector as well to make full use of surplus capital. Thus, while it can be argued that the projects are indeed helpful for Kazakhstan, China is, in fact, primarily protecting its own economy by exporting surplus industrial capacity.

One important development under the BRI is China's involvement in the international dry port of Khorgos, located at the Chinese-Kazakh border. Although it was initially solely constructed by Kazakhstan in 2015, recognising the strategic importance of Khorgos's location, China's largest shipping company, China Ocean Shipping Company Limited, and the Port of Lianyungang (both of which are owned by the state) acquired a 49 percent share in the dry port (Shepard July 18, 2017). Khorgos is expected to become the world's largest facility of its kind and is projected to handle 500,000 cargo containers

annually (Vakulchuk and Overland 2019, 117). As a duty-free port-cum-industrial logistics hub, it has earned the moniker of the "Dubai of Central Asia" (Nurbekov Oktober 7, 2015), becoming a logistics hub for Chinese trading products and helping to expand cross-border trade. The port also provides an opportunity for Kazakhstan to connect with the Lianyungang seaport (one of its shareholders) and the economies of East Asia.

Since China's economic footprint is growing in Kazakhstan, there is a divergent set of views on China's correspondingly increasing influence. While political elites in Kazakhstan are supportive of such economic engagement, having been impressed by the Chinese model, there are certainly critics of Beijing's growing regional influence. Dr Zhanibek (personal communication with the Chinese investor in Islamabad, June 18, 2020) highlights that for the majority of the general public, Chinese intentions are still unknown. Kazakhs are generally not familiar with Chinese culture, its language, traditions, and religions – instead, negative stereotypes of China largely dominate, which are often threatening to locals. Several incidents indicate Kazakh's sensitivity towards China's expansion. Similarly, Kazakhstan's expert community is more critical of China's growing economic influence. In this regard, Dosym Satpayev, a Kazakh political scientist and expert, states that:

> [s]tatistically China is a very important trade partner of Kazakhstan. But a lot of people in Kazakhstan don't think of China as a big investor. They think of China as a big problem – people here believe China tries to increase its economic influence without any benefit to our countries. (cited in Farchy May 9, 2016)

Since there is an authoritarian regime in place in Kazakhstan, therefore, its society and expert community remain ill-informed about the magnitude of relations between the Chinese and Kazakh authorities. Pertaining to this point of the lack of information, Konstantin Syroezhkin, a local sinologist, states that:

> There is no clarity regarding Chinese investments and debt obligations: in statistics they should be displayed in different articles, but I don't really understand how to separate them. Foreign direct investment in Kazakhstan from the PRC is small, somewhere around $2 billion. Everything else is loans. If you look at our external debt to China, which is accounted for by the National Bank of the Republic of Kazakhstan, it is about 20 billion [dollars]. Where to put everything else that was voiced? Maybe it's [sic] intentions? But the Chinese ambassador, in one of his speeches, called the figure investment for last year $50 billion dollars.... According to my estimates, the total obligations of Kazakhstan to China today amount to about 76 billion dollars, possibly more. According to this indicator, we have overtaken all post-Soviet countries, excluding Tajikistan, based on the gross debt-to-GDP ratio. (Razumov April 12, 2016)

This statement clearly indicates that how vague the information related to China-Kazakh economic engagement remains, even to experts. Furthermore, according to Adil Kaukenov, another local China expert, "these investments and [BRI] projects are like apparitions: everyone talks about them, but nobody has seen them" (Dave 2018, 100). This statement, like the others, once again indicates how detailed information related to the BRI projects in Kazakhstan is not made publically available. Against this backdrop, it can be argued that public trust in the government may erode, which may in turn, strengthen Sinophobic sentiments.

In addition to the unease of the expert community, general Kazakh society is also concerned about the growing expansion of China, the scale of which is evident from the fact that when foreigners were allowed to buy land in 2016, protests broke out all over the country, with many protestors concerned that Chinese nationals would now begin to purchase land (Vakulchuk and Overland 2019, 122). Moreover, discriminatory policies practised by Chinese employers (e.g., paying lower salaries to Kazakh employees) have also led to intermittent clashes with locals. Kazakhs are also concerned over interethnic marriages between Chinese men and Kazakh women, which will allow for the provision of more privileges to foreign spouses (Vakulchuk and Overland, ibid, 123). Recognising this intense resentment, China has embarked on building a softer image through people-to-people exchanges and education. China is aware that strengthening relations at the community level is the key to its long-term survival and the protection of its Kazakh investments. The importance of building Chinese soft power is recognised by President Xi himself, who explicitly states that "[w]e should increase China's soft power, give a good Chinese narrative, and better communicate China's message to the world" (*Xinhua* April 4, 2014).

To improve people-to-people exchanges, China has expanded its "cultural industry" in Kazakhstan – of its many facets, we will pay particularly close attention to education. China is becoming an attractive destination for students to pursue their studies, and efforts to "internationalise" Chinese education have been boosted. In order to expand educational opportunities for Kazakhs, the Silk Road Education Alliance was established in 2014 and endorsed by 100 global educational institutions. Although the two countries have been engaged in this field since 2003 – even if only 20 Kazakh students studied in China between its inception and 2004 (Serikkaliyeva October 5, 2019) – it was only relatively recently that Kazakhstan became one of the top ten countries in terms of its foreign student population in China, a boost corresponding with the launch of the BRI. The number of Kazakh international students has almost doubled in five years, increasing from 9,657 in 2013 to 17,600 in 2018 (Serikkaliyeva Oktober 5, 2019). Given this increased number of students, a larger number of Kazakhs have become beneficiaries of student scholarships: following Xi's announcement of the BRI at Nazarbayev University in 2013, his government earmarked 25,000 scholarships for Kazakh international students (Markey 2020, 74).

Furthermore, in China's quest to establish a softer image, a key instrument in this regard is the establishment of Confucius Institutes. The emphasis on language as a soft power tool is apparent in Kazakhstan. Yan (February 7, 2020) notes that "over time, the Chinese Communist Party has found that Chinese language promotion is the most effective way of encouraging a Chinese voice in global affairs."

Not surprisingly, the key goals of Confucius Institutes are to teach Mandarin, spread Chinese culture and promote a positive image of China globally. In addition, there are Confucius classrooms, which are mostly established at lower, non-tertiary levels. Przychodniak's (2019) assessment of their global scale and reach claims that "by the end of 2017, more than 500 CI [Confucius Institute] branches and 1,100 Confucius Classrooms were operating in 146 countries. Most were in the U.S. (629 institutions), the UK [United Kingdom] (186) and Australia (83)". Confucius Institutes have proclaimed an equivalent role with other foreign institutions, such as the British Council (which has approximately 115 branches globally) and the Goethe-Institut (160 branches), which aim to promote the languages and cultures of their home countries worldwide. Currently, five Confucius Institutes, which are associated with several universities in China, operate in Kazakhstan, enrolling almost 2,000 local students annually (*Hanban News* May 9, 2018).

By increasing Chinese soft power through education, it is expected that Kazakhs will have a more positive image of China in the long run, in turn contributing to decreased resentment against Chinese investments in Kazakhstan. If China successfully alters its image among the Kazakhs, there is a potential to export more surpluses to Kazakhstan.

Projects in Turkmenistan

Turkmenistan is known for being a particularly isolated state and one of the world's least accessible countries. Since its emergence in 1991, despite its geographical limitations, Turkmenistan has unceasingly established relations with China, the core of which revolves around the supply of natural gas. Keeping in view the growing domestic energy demand, President Xi signed an agreement with the Turkmen authorities for the construction of Pipeline D in 2013. This project was proposed because the existing pipelines (Lines A, B and C), which are part of the Turkmenistan-China gas pipeline network, were swiftly running out of capacity in the face of China's rapidly growing demand for natural gas and its desire to curtail a dependency on the route through Kazakhstan. This network is, in turn, a part of the larger Central Asia-China pipeline network (which runs for nearly 3,666 km) and is the outcome of the strong focus on the energy component at the core of their bilateral relationship.

In 2007, the CNPC and the Turkmen authorities concluded an agreement under which Turkmenistan would supply 30 billion cubic meters of natural gas annually for 30 years through four pipelines. The Central Asia-China pipeline network commences at the Turkmen-Uzbek border area of Gedaim before crossing Uzbekistan and Kazakhstan and finally ending at Horgos, in western Xinjiang, before eventually connecting to China's second west-east pipeline, which ends in Hong Kong. Line A became operational in 2009, Line B in 2010 and Line C in 2014. But Pipeline D – in order to avoid running through Kazakhstan – follows a different route entirely, passing through Uzbekistan, Tajikistan, and Kyrgyzstan. Upon completion, it is expected to deliver about 25–30 billion cubic meters of natural gas to China annually – bearing in mind the Turkmen government's initial promise to supply 30 billion cubic meters yearly. Therefore not only meeting China's energy demands but also helping to diversify its sources of energy imports. Table 3 shows the number of local projects in domestic energy and rail connectivity sectors which are and were conducted with Chinese involvement.

Table 2: List of Belt and Road Initiative Projects in Turkmenistan

Years	Project	Financing	Description
2016–2017	Transnational railway: China-Kazakhstan-Turkmenistan-Iran. Contractor: China Railway No. 19 Bureau Group Co., Ltd.	Financed by ADB and the Islamic Development Bank.	The railway aims to increase transportation connectivity between Turkmenistan and its neighbouring countries, and with China in the process. It allows for cargo transportation to be sped up by land, because this is the shortest railway to deliver goods from China to the Persian Gulf. Timeline: (1) Test train: February 2016; (2) First train service from Changsha to Tehran commenced on 28 December 2017; (3) Second train service from Yinchuan to Tehran commenced on 29 December 2017; and (4) Third train service from Xi'an to Iran commenced on 30 December 2017.
2011	The Central Asia-China gas pipeline (Pipeline D, Turkmen section). Contractor: CNPC.	CDB.	The project aims to import an additional 25 billion cubic meters of gas per year. Turkmenistan will get revenue by selling gas and the countries of Central Asia which provides a transit route for the pipeline will obtain investments from China. Timeline: (1) Agreement signed in 2011; (2) Initial completion date planned for 2016; (3) Completion rescheduled to 2022.
2013	Construction of the gas processing infrastructure/exploitation of gas fields in Galkynysh (Yujnyi Iolotan). Contractors: From China, South Korea, and the United Arab Emirates.	Total cost: US$8.5 billion. Partly financed by a CDB loan (US$7.1 billion).	The project aims to increase the efficiency of the gas field and assures the supply of 30 billion cubic metres of gas per year to China.

Source: (Norwegian Institute of International Affairs; OSCE Academy, n.d.)

Table 2 clearly denotes China's interest in the energy projects in Turkmenistan. The key project in this regard is the development of gas fields at Galkynysh. As highlighted, the total cost of the project was US$8.5 billion, most of it financed by a CDB loan. Since Turkmenistan lacks geographical proximity to China, therefore, no road infrastructure projects are covered under the BRI in Turkmenistan. However, in the rail connectivity sector, the China-Kazakhstan-Turkmenistan-Iran transnational railway has been constructed and is now operational, contracted out to China Railway No. 19 Bureau Group Company Limited. Since it is a transnational railway, Turkmenistan provides not only a market for Chinese goods but also serves as a transit route for China to reach the markets of West Asia.

Furthermore, given Turkmenistan's deteriorating economic conditions, China took advantage by expanding its investments in the energy sector. The Turkmen economy is highly dependent on natural gas exports, which has left the country susceptible to declining revenue. In this regard, a major setback to the economy appeared in the form of a plunge in the prices of oil and gas in 2014. Moreover, the economic situation further deteriorated with the onset of another external shock when Turkmenistan lost its two most important fuel customers – Russia and Iran. In 2016, Turkmenistan was involved in a row with the Russian gas giant Gazprom, and as a result, Moscow stopped buying natural gas from Turkmenistan. Likewise, in 2017, Iran also stopped its own natural gas imports from Turkmenistan to its northern cities due to a conflict over gas prices. As a result, the Turkmen economy faced severe damages – its natural gas exports, which were worth US$11.4 billion in 2014, dropped down to US$7.6 billion in 2017 (Bhutia February 4, 2019). Declining natural gas export revenue thus resulted in serious social, political and economic crises and left the country with only China as an option. Despite the vast distances between them, China then became the sole major customer of Turkmen gas, receiving more than 90 percent of the share of such exports (Mardell February 9, 2020). Between 2014 and 2017, during the plunge in oil and gas prices, China's imports rose from 18 million to 24 million tons (Merwe 2019, 198). These figures indicate its energy needs and the importance of Turkmenistan in its energy policy.

Moreover, given the low performing economy, Turkmenistan is unable to develop its untapped gas deposits without external support. Taking advantage of these economic compulsions, China stimulated its capital through debt financing in Turkmenistan. Since 2009, Chinese banks have been providing credit to Turkmenistan for the development of these gas deposits. According to the *ADB* (2019) despite the eventual recovery of oil and gas prices in 2018, Turkmenistan was still borrowing significantly. There is an increasing risk of more debt accumulation, which would then create problems in repayment. It was also reported that Turkmenistan's external debt-to-GDP ratio rose from 25.1 percent in 2017 to 26.7 percent in 2018 (*ADB* 2019). Of Turkmenistan's total external debt of US$9 billion, out of this, US$5.1 billion alone is owed to China (Trilling July 17, 2019), giving it around 13 percent of the share. If in any case Turkmenistan is not able to repay the loans, China may take control of the deposits. In 2009, China provided a US$4 billion loan to Turkmenistan in return for the right to exploit gas deposits in South Yolotan, located near the border region with Afghanistan – one of the largest natural gas fields in the world. The loan, part of a 30-year agreement, provides China with about 40 billion cubic meters of gas per year (Tian 2018, 26). In terms of Chinese soft power, this is comparatively low in Turkmenistan. Although there is no Confucius Institute in Turkmenistan, China established the Turkmenistan Centre at the Oil University in Xi'an in 2017.

Conclusion

The decline in profit rates, industrial overproduction and capital over-accumulation, constituted a matter of serious concern for policymakers in China. In other words, these structural problems embedded in the Chinese economy point to an existential crisis. In order to overcome the problem, Beijing needed a fix. As explained by Harvey, the emergence of such a crisis is inherent to capital, and it can be mitigated through geographical expansion and spatial reorganisation. It is against this backdrop the BRI was announced as a rescue plan. After analysing the BRI-led projects in both Kazakhstan and Turkmenistan, it has been found that the element of embedded conditionality is one of the key instruments helping China to reorganise its surpluses in the said geographical spaces.

In addition, it has also been found that Chinese economic agencies dominate the overall financing system. In other words, there seems a very little role for diplomatic, political, and military channels, further implying that the BRI projects under the economic corridors aim to support the expansion of SOEs into new geographical spaces to maximise profits, solidifying the argument that the BRI-led projects in Kazakhstan and Turkmenistan are not geo-strategically motivated, rather driven by economic considerations.

Furthermore, it is noteworthy that China's model of development financing is recipient-led. In other words, the recipient countries request that China provide funding, although, in reality, these supposed requests are, in fact, the outcome of the lobbying on the part of Chinese SOEs searching for business opportunities abroad. Their modus operandi is motivating foreign governments to request project funding in the hope of getting contracts, clearly implying that development financing under the BRI ultimately aims for China's own economic development – even if they are not always driven by top-down decisions. This phenomenon is witnessed mostly in Chinese investments in Kazakhstan and Turkmenistan. Building on all this, it can be contended that the BRI-led investments are meant for Beijing's own economic development and serve as a spatial fix for China.

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