China Looks to Central Asia as an Economic Alternative

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The United States and China reached a limited trade agreement on Friday, narrowly avoiding the White House-imposed December 15 deadline, which would have seen tariff increases on $156 billion of Chinese goods.

U.S. President Donald J. Trump has heralded the December 13 deal as "phenomenal." Under its terms, Chinese negotiators agreed to purchase more U.S. agricultural products, including soy beans and farm equipment, while the U.S. agreed to cut down tariffs on $120 billion of Chinese goods (Tranche 4A) from 15 percent to 7.5 percent. But the devil remains in the details, with little clarity on the state of intellectual property, pharmaceutical rights, and access to China's financial markets – thorny topics that will supposedly be addressed later. That makes the so-called "Phase One" agreement is more of an armistice in the trade war than a peace-treaty.

It's no wonder, then, that – even as it continues its negotiations with the U.S. – China has begun pivoting to its regional neighbors. As faith in its largest trading partner, the U.S., continues to wane, and great power competition escalates, China's impetus to foster economic relations with other advanced markets – like the EU – has become more urgent. This is one of the many drivers behind China's massive Belt and Road Initiative (BRI), a mammoth economic project that is projected to cost the PRC between $1 and $4 trillion.

But it is Central Asia that holds out the biggest promise for Beijing. The backbone of the BRI is the Silk Road Economic Belt (SREB), an overland network of infrastructure corridors connecting Chinese goods to European consumers via Central Asia. The SREB also plugs resource-hungry China into Eurasia's vast raw material wealth, from Afghanistan's rare-earth minerals to Turkmenistan's natural gas and Kazakhstan's oil and uranium deposits.

Kazakhstan, often referred to as the "Buckle of the Belt," is particularly well positioned to capitalize on a pivoting China. The massive country is an integral piece of the BRI due to the fact that it straddles Asian and European markets and boasts a relatively advanced, middle-income economy. Kazakhstan's $6.3 billion in annual exports to China are dominated by fossil fuels, metals, and cereals, fueling China's growth.

Moreover, the China-Kazakhstan oil pipeline, which pumps 130,000 barrels per day from the Caspian shore to western China, is the PRC's first direct oil route to Central Asia. And Kazakhstan's energy trade with China is growing; together with Turkmenistan, Kazakhstan supplies energy hungry China with 15 percent of its natural gas needs, and last year state-owned KazTransGas signed a five-year export deal to deliver up to 1.0 billion cubic feet per day of natural gas (10 billion cubic meters per year) to China.

Meanwhile, new financial mechanisms are helping Kazakhstan to promote regional development. In 2018, it launched the Astana International Financial Center (AIFC) and its accompanying Astana International stock exchange (AIX), which cumulatively form a financial nerve center designed to facilitate large scale development in keeping with the objectives of the BRI. The AIFC has even set up a "Belt Economics Department," which works with various financial institutions to develop investment models for the Belt and Road projects in Kazakhstan and beyond.

China's official Silk Road Fund has already invested in the Astana International Exchange, and both the China Development Bank and China Construction Bank are looking to provide lending for new infrastructure projects. The Shanghai Stock Exchange is a major AIX partner – alongside America's Nasdaq Composite and Goldman Sachs Group – which further demonstrates China's deepening ties with its middle-income neighbor.

As seen from Beijing, this involvement makes good strategic sense. China is actively looking for partners to show that the BRI is a truly international project, rather than simply a geopolitical expansion plan. The AIFC platform, with its common law jurisdiction and international standards, provides precisely the sort of vehicle China needs to structure deals in the region.

With bilateral ties between Beijing and Washington still far from promising, China is facing a new level of urgency to increase the breadth and depth of its alternative trade ties. The Belt and Road Initiative remains its best tool in this regard. And Central Asia – and in particular Kazakhstan – stands to benefit by serving as the physical and financial bridge for Beijing to new markets.

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