The Emerging Political Economy of OBOR

The Challenges of Promoting Connectivity in Central Asia and Beyond

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A REPORT OF THE
CSIS SIMON CHAIR IN POLITICAL ECONOMY

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The Emerging Political Economy of OBOR

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Introduction

In September 2013 at Nazarbayev University in Astana, Kazakhstan, Chinese president Xi Jinping announced that China would fund a New Silk Road Economic Belt across Eurasia to connect China with Europe, the Middle East, and South Asia.¹ Chinese officials subsequently revealed ambitious plans to invest hundreds of billions of dollars in new infrastructure investments and upgrades—including highways, pipelines, railroads, and power grids, along with related port and logistics upgrades in maritime partner countries. Together, the land belt and maritime belt are referred to as One Belt, One Road (OBOR) or the “Belt and Road.” Media estimates investment in OBOR at between $800 billion and $1 trillion, covering 890 projects in over 60 partner countries.²

A mix of strategic and domestic factors drives OBOR. Internationally, by investing in transit and logistics, China hopes to boost its international trade and foreign economic relations, foster a political community of neighboring states more friendly to Beijing, and promote new Chinese-led financial institutions such as the Asian Infrastructure Investment Bank (AIIB) and the BRICS New Development Bank.³ Domestically, Chinese officials are looking to provide new outlets for Chinese companies to divert excess capacity (especially in construction-related sectors like cement and steel) during the domestic economic slowdown and empower local and regional government actors.⁴ And OBOR is itself emerging as the signature legacy of President Xi Jinping’s tenure. The South China Morning Post described the initiative as “the most significant and far-reaching project the nation has ever put

forward,” while other commentators have made parallels between OBOR and the U.S.-sponsored Marshall Plan that aided in the reconstruction of postwar Europe.5

Global reactions to OBOR and preliminary studies have tended to focus on either its geopolitical implications (“gamers”) or its likely developmental consequences (“traders”).6 Gamers have speculated about the implications of these plans for China’s position in the international system and its role in the system of global governance, including the question of whether new financial institutions such as the AIIB will complement or undermine the Western-led system of development financing and global governance. Traders, by contrast, have spotlighted the acute need across Eurasia and adjacent regions for infrastructure investment. The consulting firm McKinsey calculates that Asia will require about $8 trillion over the next decade to make up for regional underinvestment and anticipate rising demand.7 Although Traders readily acknowledge that investments will be geared to the needs of Chinese companies and that not all projects will succeed, they are generally positive about the potential socioeconomic impact of OBOR while also identifying opportunities for Western investors and financial institutions. Perhaps tellingly, interested governments themselves have adopted versions of these positions: U.S. government officials, presenting themselves as Traders, have prioritized fostering regional connectivity and economic cooperation across the region; Russian policymakers, by contrast, have tended to view OBOR as Gamers, commenting favorably at how OBOR will erode Western sources of finance and regional influence and increase ties among non-Western countries.8

Less attention has been paid to how the influx of Chinese-led projects will interact with local political agendas, social conditions, and networks across different regions. Gamers emphasize, and perhaps give too much credit to, the strategic goals, intentions, and understanding of Chinese planners, while ignoring the local contexts in which these projects will be executed. Conversely, Traders take a sanguine view of “connectivity,” which is oddly ahistorical given that the field of development studies traditionally has been rife with debates about the distributional consequences, sustainability, and long-term impact of externally financed large investment projects.

This report advances a research agenda for exploring the political economy of OBOR, including scrutinizing its analytical assumptions, anticipating unintended consequences, and mapping possible interactions among its political and economic elements in different

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8 Indeed, according to one report, the Russian Ministry of Finance initially rejected participation in the AIIB in 2014 because of tightening budgets in the fallout of the Ukraine crisis, but the Kremlin itself reversed this decision, largely on geopolitical grounds, and Russia joined the bank in July 2015 as a founding member. Alexander Gabuev, “Why Did It Take Russia So Long to Join the Asian Infrastructure Bank?,” Carnegie.ru, March 30, 2015, http://carnegie.ru/publications/?fa=59554.
partnering countries. In particular, it questions the underlying premise that large-scale external investments in transportation infrastructure will necessarily promote economic development and political stability.

Empirically, I examine how OBOR is likely to impact post-Soviet Central Asia. Central Asia is a region of strategic interest to China, Russia, and the United States and lies at the core of many of OBOR’s planned new routes and intraregional corridors. Most instructively, Central Asia has experienced the intensification of Chinese economic engagement and the construction of a slate of new large infrastructure projects, allowing us to identify with greater confidence some of key issues and challenges associated with Chinese-led railroads, pipelines, highways, and power plants. My hope is that this analysis encourages both scholars and policymakers to develop nuanced responses to OBOR, distinguish among its different political and governance challenges, and to more comprehensively assess and evaluate the costs and impact of OBOR in specific sectors and locations.

Central Asia, “Connectivity,” and China’s Rise

Located in the heart of Eurasia, the post-Soviet states of Central Asia have once again become the site of external geopolitical and economic interest. During the 1990s, the region was relatively neglected and focused on the challenges of state-building and post-Soviet extrication brought by independence. During the 2000s external powers intensified their security and economic engagement with the region. Following 9/11 the United States partnered with regional governments to secure security cooperation and military access in support of Operation Enduring Freedom and developed the Northern Distribution supply network; Russia sought to institutionalize its primacy by integrating the Central Asian states with new Moscow-led economic and security organizations such as the Collective Security Treaty Organization (CSTO), the Eurasian Economic Community (EurAsEC), and, most recently, the Eurasian Economic Union (EEU); and China marked its renewed engagement with the region by increasing bilateral ties and establishing the Shanghai Cooperation Organization (SCO) in 2001—composed of China, Russia, Kazakhstan, Kyrgyzstan, Uzbekistan, and Tajikistan—and channeling many of its foreign policy and security priorities through the organization. Throughout the 2000s, Beijing proposed economic initiatives and roles for the SCO, including its use as a free-trade zone, a source of emergency project finance during the financial crisis, and a new SCO Development Bank. However, none of these initiatives came to fruition, mostly due to Russia’s foot-dragging and preference for promoting its own regional economic architectures. In terms of infrastructure, all of these external powers acknowledged the poor state of Central Asian infrastructure. The landlocked region was enmeshed in Soviet-era networks of pipelines, power grids, roads, and railways designed to serve the needs of the Russian hub of the Soviet economy—while intra-Central Asian linkages and eastward and southern-oriented infrastructure remained underdeveloped. Moreover, the collapse of public investment, the

rise of cumbersome new borders, and the loss of skilled Soviet personnel to manage these networks accelerated the decay of Central Asia's infrastructure.¹¹

In turn, each of these external patrons has promoted its own strategic vision of regional integration and new connectivity.¹² These included U.S. attempts to promote connections between Central Asia and South Asia (especially Afghanistan/Pakistan), Russia's attempts to draw the Central Asian states away from the West and integrate them into its new regional organizations; and Beijing's promotion of new developmental projects designed to connect with its underdeveloped and restive province of Xinjiang.

**China's Regional Rise in the 2000s**

The 2000s witnessed the intensification of Beijing's rise as the region's major investor and club goods provider. According to the IMF, official trade volumes between China and Central Asia exploded—from just under $1 billion in 2000 to over $30 billion in 2010 and then $50 billion in 2013—which itself is probably a low figure given the tendency of Central Asian customs officials to underreport trade with China.

China also made its mark as a critical energy investor and completed major new pipeline projects. These included the Aktau-Alashankou oil pipeline that traverses the length of Kazakhstan and the China-Central Asia natural gas pipeline that originates in the gas fields of Western Turkmenistan and traverses Uzbekistan and Kazakhstan before joining with the West-East pipeline in Xinjiang. The latter has been of enormous significance geopolitically, as it has reoriented Central Asian gas production away from the Soviet-era pipeline system that went to Russia, and toward the East.¹³ Additional spur lines in Kazakhstan (Beineu-Bozoi-Shymkent) and a proposed Line D (currently mothballed) will also bring gas to Kyrgyzstan and Tajikistan, underscoring that China National Petroleum Corporation (CNPC) has both displaced Gazprom as the region's major gas exporter and is also creating a regional distribution network.

Beijing has become the region's main external creditor. During the financial crisis, China extended loans for energy agreements worth $8 billion to Turkmenistan and $13 billion to Kazakhstan, making it a de facto lender of last resort and regional development assistance provider.¹⁴ In cash-strapped Kyrgyzstan and Tajikistan, where China has financed highway projects, the Export-Import (Exim) Bank of China is the largest single external creditor, holding 49 percent and 36 percent of their respective government debt.¹⁵

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¹³ Legally, the line is also structured in an unusual way, as it is not a consortium, but composed of three joint ventures between China and each Central Asian country.
Major Central Asian and Eurasian Projects of the OBOR

The major OBOR-related projects in the region build upon these previous initiatives and create new transportation linkages. They include:

1. **China-Central Asia Pipeline (Line D)**: The natural gas pipeline traversing Turkmenistan, Uzbekistan, and Kazakhstan spurs A/B became operational in December 2009 (spurs A/B, capacity 30 bcm). A parallel Line C, with an additional 25 bcm capacity was completed in 2015. Plans for a line D (an additional 30 bcm capacity), which would traverse Kyrgyzstan and Tajikistan (where CNPC has an additional investment), were signed in September 2013.

2. **Eurasian Land Bridge**: Referred to as the New Eurasian Continental Landbridge or the Second Landbridge (the first being the Trans-Siberian railway), the railway corridor originates in the Chinese port of Lianyungang, traverses Mongolia and Kazakhstan, before going on to Russia, Poland, and Germany. Some route maps indicate that the final route may bypass Mongolia and go through Kazakhstan. The land bridge is meant to dramatically reduce shipment times between China and Europe.

3. **China-Central Asia-West Asia Corridor**: This corridor is a spur that shoots off of the China-Kazakhstan railway near Astana, Kazakhstan, and then heads southwest through Uzbekistan, Turkmenistan, and into Iran.

4. **Khorgos-Aktau Railway**: In 2015, Astana announced plans, in partnership with China, to build an additional trans-Kazakhstan railway line from the Caspian oil port-city of Aktau to the logistics hub of Khorgos.

5. **China-Kyrgyzstan-Uzbekistan Railway**: The proposal revives an earlier Chinese project to build a new 270-kilometer high-speed rail link between the Western Xinjiang cities of Kashgar/Kashi via the southern Kyrgyz city of Osh to Andijon in eastern Uzbekistan.

In addition, several projects adjacent to the region have also been planned. These include the China-Pakistan corridor; a China-Mongolia-Russia corridor; and, within Russia itself, the Moscow-Kazan high-speed railway. The Kazakh border city of Khorgos is also being expanded as a logistics hub and node to support several of these projects.

**Political Challenges: Stability or Distributional Conflicts?**

We can disaggregate the major challenges that OBOR will confront into unintended political consequences and governance questions.

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The Political Economy of Transportation-Led Modernization: Does Economic Investment in Infrastructure Breed Political Stability?

The overwhelming assumption of OBOR and the “traders” is that infrastructure investment fosters economic development, which, in turn, provides the bedrock for political stability, both domestically and internationally.

Nowhere can this be seen more acutely than within western China itself and how Beijing has promoted economic development in its restive Western province of Xinjiang in order to depress demands for autonomy or “splitism.” In response to Uighur violence of July 2009, the Chinese government increased regional investment in the region, mandated a system of fiscal transfers from richer regions to the Xinjiang, and promoted national “connectivity projects” intended to provide national opportunities to mobile Uighur minorities.

Part of the problem with Chinese assumptions about the purportedly stabilizing effects of transportation infrastructure is that not all Uighur residents of Xinjiang consider themselves the primary beneficiaries of Beijing’s investments. Large-scale construction projects or state-led investment is sometimes criticized for disproportionately benefiting ethnic Han in positions of access or connected state-owned enterprises (SOEs) such as the Xinjiang Construction and Production Corp and encouraging additional Han settlement. Rather than promoting mobility and assimilation, these investments might accentuate ethnic divides and reward insider political connections, while highly visible transit projects can also trigger a defensive social backlash.

Moreover, over the last decade, several high-profile cases have shown that Chinese-funded infrastructure can become entangled in local ethnic tensions and concerns about distributional conflicts. In Myanmar, for example, construction of a $3.6 billion Myitsone dam was suspended by the parliament after reversion to civilian rule. The project had become intensely politicized over concerns of environmental degradation, anti-Chinese sentiment, and the ongoing conflict between Kachin rebels and the Myanmar government. Chinese firms have also been criticized for upsetting a ceasefire in the northern Shan state as the Myanmar Army secured the route for the construction of new CNPC-sponsored oil and gas pipelines. Similarly, in Pakistan, Chinese projects (mining and construction) and workers have been attacked by Baloch rebels and have become embroiled in separatist struggles with the Pakistan government. The China-Pakistan corridor, a major planned spur of the OBOR that spans the mountainous Karakorum highway all the way through to the port of Gwadar, runs through Balochistan and is an area prone to insurgent attacks. In both cases, the Chinese government clearly did not intend to become entangled in these “domestic disputes”;

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18 For example, in 2014 authorities inaugurated the region’s first high-speed railway line, the Lanxin Railway, that links Urumqi with Lanzou in Gansu province.
however, local political actors embroiled China and its state companies in these conflict dynamics.20

Moreover, as presidential election campaigns in Zambia, Kyrgyzstan, and Sri Lanka have shown, national candidates campaigned on a platform that questioned the legitimacy of Chinese investments and contracts; tellingly, however, in all of these cases, after they were elected they tilted back to Beijing. But the general point is that large-scale infrastructure commitments, especially highly visible transportation projects, are routinely the subjects of political posturing, nationalist appeals, and competitive political appeals.

It is precisely on this issue that Beijing faces two potential major challenges in Central Asia: growing Sinophobia and regional ethnic and social divisions. The sources of Sinophobia in Central Asia are complex, but include a lasting Soviet legacy of mistrust, a lack of widespread contact with China or language training, and a press that is prone to unfavorable coverage of Chinese activities. As scholars have noted, in countries with a more open media like Kazakhstan and Kyrgyzstan, Chinese-related scandals and corruption stories are the most politically acceptable way of criticizing regional officials for corruption and graft.21 In Kazakhstan, sociological surveys show an increase in anti-Chinese attitudes between 2007 and 2012 in nearly all parts of the country, while widespread demonstrations in Kazakhstan in April 2016 against the long-term leasing of Kazakh lands to Chinese farmers have further stoked concerns.22 And in April 2016, anti-Chinese sentiments were inflamed in Kyrgyzstan when Prime Minister Temir Sariyev resigned in the wake of a parliamentary commission accusation that he awarded a $100 million road tender to a Chinese company that had allegedly lacked a required license and had been underbid by a Kyrgyz and a Turkish competitor.23

None of this implies that the Central Asian social and political environment is permanently hostile to increased Chinese investment. On the contrary, China is widely viewed as a critical—and often the critical—investor. At the same time, however, large segments of the Central Asian public also remain suspicious and anxious about China’s potential influence over their political leaders.

Local actors may also use certain OBOR-related projects to make ethnic appeals and related political claims. One example that has already arisen in Central Asia is Kyrgyz foot-dragging

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20 Tellingly, Beijing’s response in both of these cases has been to blame the messengers, especially Western nongovernmental organizations, and accuse them of harboring a clear anti-Chinese agenda. See “Better to Aid Myanmar Than Blame China,” Global Times, March 7, 2015, http://www.globaltimes.cn/content/910676.shtml.
over the proposed China-Kyrgyzstan-Uzbekistan railway. At first glance, the transportation project appears to add critical regional connectivity by giving China a direct link to Uzbekistan, via southern Kyrgyzstan. However, the Kyrgyz government and civil society groups have objected to its potentially divisive social impact on Kyrgyzstan itself. Southern Kyrgyzstan has already witnessed two bouts of horrific ethnic violence pitting ethnic Uzbeks, a majority in the city of Osh, against ethnic Kyrgyz. The most recent occurred in 2010 following the collapse of President Bakiyev’s regime during major ethnic violence in which hundreds were killed in the southern cities of Osh and Jalalabad. The Kyrgyz government itself has dithered on the project, both praising and then criticizing it, and it currently remains stalled even though the Uzbek portion was completed in October 2015. Although Bishkek appears to be using ethnic concerns as a bargaining tactic to secure additional concessions such as higher transit fees from Beijing, Bishkek’s position highlights just how the “connectivity” of major transport corridor projects can cut in either direction of the ethnic divide.

A final consideration lies in the political stability of the Central Asian regimes themselves. With the exception of Kyrgyzstan, which is a democracy but has also been prone to bouts of instability and the collapse of two regimes following protests, the Central Asian states are autocracies, mostly controlled by ruling families and their allies. In Uzbekistan, the recent death of President Islam Karimov—on the country’s 25th anniversary of independence—has generated intense speculation about the new government’s future political orientation, but also has drawn renewed attention to whether Kazakhstan’s long-serving president, Nursultan Nazarbayev, has formulated a succession plan. In Turkmenistan, current President Gurbanguly Berdimuhamedow succeeded the personality cult rule of Saparmurat Niyazov in 2006 with few signs of political liberalization, while President Rahmon in Tajikistan over the last two years has consolidated power and shattered the pact reached with the Islamic Renaissance Party of Tajikistan following the end of the country’s civil war in the 1990s. Chinese analysts themselves tend to view the issue of political succession and political stability in the region with great concern, not least because Xinjiang shares borders with Kazakhstan, Kyrgyzstan, and Tajikistan.

The Geopolitical Dimensions: Partnership or Influence?

If the domestic political impact of Chinese investment might potentially feed social and political tensions, OBOR also carries important geopolitical connotations. Strikingly, both Russia and the United States have publicly endorsed Chinese plans in the region, though for opposite reasons: U.S. policymakers engaged with Eurasia and Central Asia view OBOR as promoting connectivity across Central Asia and offering alternatives to Russian-led initiatives, while Russian officials continue to cultivate a strategic partnership to Beijing against Western influence and have reconciled themselves to trying to shape China’s regional plans rather than oppose them.

The core of Russia-China discussions is now focused on how to reconcile the Russian-led

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Eurasian Economic Union with OBOR. By their definition, OBOR and the EEU appear different philosophically: while OBOR aims to connect China to regions like Europe, the Middle East, and South Asia, via Central Asia, the EEU is a political project intended to create a Russian-led, regional bloc designed to give preferential treatment to an internal market within its post-Soviet members and affiliates. All things being equal, Moscow would prefer China to fund projects that promote pan-Russian projects and corridors, such as the Tran-Siberian railroad. Behind the scenes, Moscow could try and block certain initiatives by insisting that Chinese projects or transit corridors adopt EEU-based regulatory and environmental standards. But any concessions that Beijing offers are likely to be more symbolic than substantive—for example, China has already agreed to formally deal with EEU representatives, thus giving the Russian-led organization the international standing and legitimacy that Moscow craves. But such symbolic interactions are unlikely to substitute for further OBOR-related negotiations in Beijing’s intensifying bilateral relations with EEU member countries Belarus, Kazakhstan, and Kyrgyzstan. Moreover, Moscow now has waning leverage as a result of Western sanctions following the Ukraine crisis and its high-profile “pivot to the East,” which has signaled a willingness to accommodate Beijing’s priorities more than before.

At the same time, regardless of Moscow-Beijing negotiations, a number of Eurasian countries view OBOR as a politically critical initiative to guard against becoming dependent on Moscow.25 A good example is the generally pro-Western country of Georgia, which over the last few years has been vigorously cultivating its ties to China and now eagerly presents itself as a willing hub for China for the South Caucasus and the Caspian region.26 Similarly, although with more public tact, Kazakhstan, in need of a hedge against being completely locked into the EEU, has wedded its own plans to boost internal transit infrastructure development and cross-country shipping plan (Nurly Zhol) with the OBOR.

To what extent such economic partnership will affect the foreign policy positions of partner governments remains an open question. Some recent research has shown that countries that receive more Chinese aid and investment or that sign bilateral currency swap agreements (BSAs) to exchange RMB are more likely to side with China on votes at the United Nations.27 Traditionally, the unacknowledged “political conditions” of receiving Chinese investment have included supporting Beijing’s “One-China” policy and supporting its territorial integrity. But China’s growing assertiveness in the South China Sea appear to have added South China Sea policy to this list of concerns. Most strikingly, following the Permanent Court of Arbitration’s finding against China’s position on the South China Sea, the European Union failed to adopt a common position toward the ruling, as two of the EU members, Hungary

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and Greece, both OBOR partners, were cited in media reports as wary of upsetting their economic relations with Beijing.  

The pressing question of how Chinese planners will manage OBOR’s impact on political stability and geopolitical influence was dramatically underscored on August 30, 2016, following a suicide bombing of the Chinese Embassy in Bishkek—the first of its kind—attributed by Kyrgyz security services to Syria-based Uighur militants. Following the bombing, the Chinese Ministry of Foreign Affairs issued a scathing statement demanding that the perpetrators be caught and “punished severely,” implying a closely coordinated investigation between Chinese and Kyrgyz authorities. The Uighur issue remains a core security priority for Beijing—if the Central Asian states cannot demonstrate an independent capacity to prevent such threats on China’s borders and attacks on Chinese assets, Beijing is likely to calculate that more direct interference in the security and political affairs of its neighbors is warranted. The announcement, just a few weeks later, by Tajikistan that China will finance and help to construct several new outposts to guard the Tajik-Afghan border further suggests that the OBOR will be accompanied with increasing security cooperation between China and the Central Asian states.  

Governance Challenges

The second major set of challenges in Central Asia is how OBOR will affect governance and corruption in the region. The “development equals stability” equation emphasizes almost exclusively on the “hardware” of development, but it ignores the “software” that is necessary for development—namely how to overcome problems of graft, informal barriers, and rent-seeking that plague the region. Most analysts readily acknowledge that some corruption will be inevitable, but analytically and practically tend to treat it as a deadweight loss that is discounted into overall project costs. According to one report, Chinese officials privately expect to lose 80 percent of their investments in Pakistan, 50 percent in Myanmar, and 30 percent in Central Asia. One response might be to simply view such investment “leakage” as a necessary cost of doing business in the region and still point to the likely benefits brought to the region by infrastructure investments and diversification. 

But it is worth thinking more systematically and analytically about the different types of governance problems that large-scale infrastructure projects are likely to engender in a corruption-prone region like Central Asia. Recent experiences suggest that governance problems might not just be confined to “deadweight losses,” but might actually fuel and exacerbate some of the region’s most damaging economic practices and problems. Specifically, three governance issues are especially pressing: the privatization of public

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goods; the persistence of cumbersome border regimes; and the ratcheting of expectations of graft in foreign direct investment.

Public Projects, Private Rents

First, in states such as Central Asia that are vulnerable to state predation and chronic rent-seeking, the introduction of large-scale infrastructure projects without accompanying oversight, conditions, and the liberalization of transit services may further fuel additional rent-seeking on behalf of predatory elites. In other words, local elites may well use externally financed infrastructure and development projects for their own parochial purposes and in a fashion unintended by the patron.

And it is on this point that China’s customary noninterference policy in the domestic affairs of its recipients is likely to face the most strain. Comparative research in areas where transportation and logistics chains are characterized by rent-seeking suggest that new infrastructure projects are unlikely to promote efficiency gains without accompanying reforms in transportation services themselves, such as breaking up railroad monopolies and trucking cartels.32 The inflow of unconditioned aid and new infrastructure projects is as likely to prompt local elites to appropriate their income streams rather than allow these projects to function as public goods, even if they are intended as such by the donor or investor. For China, then, such outcomes would be antithetical to their intentions, as they would neither spur on regional development nor necessarily create greater market access and opportunities for Chinese companies.

A dramatic and illustrative example of the types of untended local appropriation of Chinese investment can be found in the fate of the Dushanbe-Chanak highway, a major highway in Tajikistan that was finished in 2010 with 80 percent financing from the Chinese Development Bank. On paper, the road was intended to promote transit between east and west Tajikistan, and also facilitate the shipment of Chinese goods. However, just weeks after its opening, the highway became a toll road operated by the company Innovated Road Solutions (IRS), a company registered in the British Virgin Islands with no previous history of operating a road or record of successfully winning a tender. Subsequent local investigative stories tied the offshore company to associates of the ruling family, estimating that it was opaque funnelling a private annual revenue stream of $25–30 million.33

The Enduring Hold-Up of Border Regimes

A second governance challenge centers around whether the introduction of new transportation infrastructures will necessarily improve the efficiency of border regimes and reduce the high informal payments and other barriers that hold up cross-border commerce.

32 As noted in the case of sub-Saharan Africa, “the public sector sometimes proceeds to invest in infrastructure only to realise that the private sector is not following through in providing transport services.” See Monica Beuran, Marie Gachassin, and Gaël Raballand, “Are There Myths on Road Impact and Transport in Sub-Saharan Africa?,” *Development Policy Review* 33, no. 5 (September 2015): 674.
In short, will OBOR projects reduce cross-border transaction costs?

Here, recent evidence and experiences are discouraging. It is no exaggeration, as the figure below testifies, that Central Asia remains one of the most trade-unfriendly regions in the world. As data from the World Bank Doing Business unit shows, the times for imports and exports across the region can reach over 100 days, and, with only a couple of exceptions, have hardly improved from 2006 to 2014, despite all of the externally sponsored initiatives and investments into improving regional connectivity. Currently, it takes goods twice as long to pass in and out of Central Asia than it does in South Asia, and three times as long as in the Middle East and North Africa. Most strikingly, these long bottlenecks and informal barriers within the region have persisted even as overall trading volumes in the 2000s skyrocketed between Central Asia and the outside world.

Hopes that an externally backed logistical network would generate better quality governance have been advanced, and dashed, before. Proponents of the Northern Distribution Network (NDN) speculated that the logistics supply corridors that traversed the Eurasian landmass to supply nonlethal military supplies to U.S. troops in Afghanistan could also help to promote greater volumes of private commercial flows in and out of the region.\textsuperscript{34} In retrospect, however, not only did the NDN fail to stimulate increased private enterprise, but it seems to have further encouraged rent-seeking by state-dominated logistics contractors such as

trucking and railway companies. One report found that regional cross-border economic cooperation significantly deteriorated during the period of the NDN, as Uzbekistan, Tajikistan, and Kyrgyzstan hiked road and rail rates, with cargo bound for International Security Assistance Force (ISAF) in Afghanistan specifically targeted. Overall, the report estimated that 93 percent of the nearly $1 billion in annual NDN transit fees in Central Asia actually went to the coffers of regional governments, not private or market entities.\(^35\)

Nor has the introduction of new software, clearing practices, or shipment-tracking technologies seem to improve overall border delays, as Central Asian border officials are reluctant to adopt new cargo-tracking technologies designed to expedite cross-border shipments. An ADB study found that even though Afghanistan acceded to an international convention establishing the use of International Road Transport (TIR) carnets in 2010, the Afghan business community complained that it did not ship any containers using TIRs in 2012 or 2013 because Central Asian neighboring countries "refuse to accept TIR carnets from Afghan trucks."\(^36\)

Other experiences suggest that when forced to accept losses in informal revenues from certain areas, customs officials replace them by increasing rent-seeking in others. One analysis of the impact of the 2010 Russia-Belarus-Kazakhstan Customs Union (CU) agreement on Kazakh border-crossing times found that although the CU sharply reduced the average border crossing time for trucks entering the Russian Federation from Kazakhstan from 7.7 hours in 2011 to 2.9 hours in 2012, average crossing times between Kazakhstan and non-Customs Union countries (Central Asia and China) dramatically increased over the same period—from 8.6 hours to 21.5 hours. The overall rise was due mainly to increases in "queuing, customs clearance, health inspections, quarantines, and transport inspections" at a handful of major border-crossing points.\(^37\)

In short, contra both the Gamers and the Traders, the main factor that slows Central Asian trading times is not the lack of adequate transit infrastructure, but that state agents and customs officials who clear trade depend on these informal incomes and border practices. Without fundamental reforms in the political economy of customs regimes, the introduction of new transnational shipments such as high-speed rails is as likely to displace informal practices into other cross-border transactions as it is likely to improve overall border performance.

The Ratcheting of Graft and Problems of Oversight

Finally, without greater monitoring and checks on local graft, the introduction of high-ticket OBOR projects in the region threatens to ratchet up private payments and make it more difficult for companies from other countries to compete for investment opportunities in


\(^37\) Ibid., 50.
these same sectors. In the energy sector, for example, it is widely assumed that Chinese companies have an inherent advantage over Western counterparts in that they are able to offer side payments and a mix of private and public goods that Western counterparts simply cannot. 38 CNPC has been implicated in a high-profile corruption scandal when it acquired a stake in a state-owned oil company in Kazakhstan, while senior CNPC officials who headed subsidiaries in Turkmenistan and Kazakhstan were arrested in 2014 as part of the massive anticorruption campaign. 39 Chinese companies enjoy similar advantages in sectors with similar characteristics to energy such as telecommunications, mining, and road construction.

On both the evaluation and monitoring front, Chinese regulators face the difficult challenge of overseeing disparate domestic actors, each with distinct goals and motives, all of whom will be justifying their local dealings by referencing their commitment to OBOR. Moreover, it is unclear whether even a directive issued by a steering or oversight committee can effectively filter down to constrain or otherwise alter the behavior of Chinese companies that are accustomed to acting autonomously. The issue is especially pressing in Central Asia, a border region, where a range of Chinese government and private actors already have well-formulated strategic objectives and engagement tactics.

The potential privatization of public goods, the displacement of rent-seeking along the border, and the ratcheting of graft are all potential adverse consequences of OBOR on regional governance. These cases suggest that, contra the popular perception of the region being isolated from the global economy, Central Asian elites, their brokers, and external suitors have well-established practices of structuring elaborate deals using offshore vehicles to camouflage the identities of beneficial owners. 40 There is little theoretical or empirical basis to assume that OBOR projects, without accompanying commitments to reform these state-dominated transportation sectors, are likely to alter these existing informal networks and rent-seeking value chains. 41

Conclusions and Further Research Questions

China’s OBOR has generated a wave of commentary and speculation about its potential transformative impact. This essay has suggested that while prevailing geopolitical and developmental perspectives are important, a political economy perspective that focuses on how externally funded projects interact with local political agendas, networks, and cleavages

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38 Commenting on the advantage that Chinese companies have in Turkmenistan, U.S. ambassador Richard Morningstar observed in July 2009 that “It’s easy for Turkmenistan to make a deal with China, when China comes in and says, ‘hey, we’re going to write a check for X amount of money, we’re going to build a pipeline.’ That’s not a hard deal to accept, and we [the United States] can’t compete in that way.” M.K. Bhadrakumar, “China Resets Terms of Engagement in Central Asia,” Asia Times, December 24, 2009, http://www.atimes.com/atimes/Central_Asia/KL24Ag04.html.
is critical for understanding OBOR’s likely future impact. Recent experiences in Central Asia suggest that while OBOR has the potential to fund valuable new transit infrastructure, it also risks stirring domestic political competition, fueling networks of graft and rent-seeking, and not fulfilling its transformative potential. In fact, similar sectoral investments may well have different political and social effects, depending upon prevailing political and governance condition in the target country. In particular, three issues seem to be especially relevant for both researchers and policymakers.

First, it is important that scholars and policymakers scrutinize the assumption that infrastructure-driven development will necessarily produce domestic and international stability. In some situations and contexts, the construction of new roads and railways may well expand commerce and offer new economic opportunities; however, in other political circumstances, new high-profile projects may highlight ethnic and social cleavages, increase political competition over rents and income streams, and unleash anti-Chinese populist appeals. These outcomes may even happen simultaneously if Chinese investment disproportionately benefits one political group or cleavage over another.

Second, researchers and policymakers should refrain from treating physical connectivity in and out of the region as a desired end in itself. Improved infrastructure without accompanying reforms in the "software" will not produce efficiency gains or transformative effects. Promoting "connectivity" should not be a synonym for encouraging the Central Asian states to pursue multivector foreign policies or maintain cooperative relations with the United States. In particular, policymakers should advocate for the reform of transit and logistics-related state monopolies and cartels to unleash the full potential of new transit infrastructure.

Third, U.S. reactions to OBOR need to get beyond the current regional frameworks that have produced different attitudes toward the initiative in Central Asia and East Asia. In Eurasia, U.S. officials tend to support China’s ambitious plans and emphasize the compatibility of OBOR with Western goals of promoting intraregional connectivity and establishing the New Silk Road; however, in East Asia, a more competitive understanding of China’s regional role as a provider of development assistance, coupled with the U.S. Treasury’s initial opposition to the AIIB, has revealed greater geopolitical concern about the potential impact of OBOR on global economic governance. As this report has argued, the political economy of OBOR suggests both opportunities and potential concerns that cut across different regions and polities.
About the Author

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The Emerging Political Economy of OBOR

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