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Externalization of Domestic Economic Constraints: China's Spatial Fix in Kyrgyzstan and Tajikistan

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Abstract

Growing capital over-accumulation and excessive industrial production have forced policy makers 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 theorizes BRI as a spatial fix, aimed to overcome the recurring problem of over accumulation of capital. This paper focuses on BRI-led projects in Kyrgyzstan and Tajikistan. By conducting unstructured interviews with experts and examining projects, this paper found that BRI-led projects in Kyrgyzstan and Tajikistan not only provided a new geographical space and under saturated market for Chinese surpluses but also created demand for Chinese state-owned enterprises (SOEs) which were facing 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 Kyrgyzstan and Tajikistan serve as a spatial fix for China.

Keywords: *Spatial fix, Belt and Road Initiative, China, Kyrgyzstan, Tajikistan*

1. Introduction

In 2013, when president Xi Jinping announced the Belt and Road Initiative (BRI), Central Asian countries were among those who were first attracted towards this global connectivity mega initiative. Being landlocked, the Central Asian Republics needed connectivity with the outside world for economic development. Beijing's win-win rhetoric and its call for closer economic cooperation and connectivity were one of the key factors that invited great interest from the Central Asian states. Additionally, the Central Asian States

were particularly buoyed by the no political strings attached nature of Chinese money because, contrary to the West, these states thought China would never demand change in domestic politics in return for money. In terms of 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. In other words, the region is China's gateway to Europe and West Asia. Out of a total of six economic corridors of the overland component of the BRI, two economic corridors namely the China-Central West Asia and the New Eurasian Land Bridge passes through this region. Several large scale projects such as construction of railway line, road building and rehabilitation, electricity transmission lines in Tajikistan and Kyrgyzstan has been carried out under the BRI. 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, still it is viewed in a more skeptical way. According to Van der Merwe (2019), "The infrastructure plans expose the initiative [BRI] as unashamedly colonial, as it reinforces the legacy of transporting resources towards ports – and not between neighboring 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. In this regard, despite connectivity and other projects are being carried out, they are not contributing to the production capacity of the host countries, whereas the investments are helping China to relocate its surpluses.

The main argument of this paper is its conceptualization of BRI as a spatial fix. In this regard, this paper commences with highlighting the structural problems of the Chinese economy which evolved and matured in the post reform era, and later on emerged as drivers of the BRI. Building on that, this paper analyzes the BRI-led projects in Kyrgyzstan and Tajikistan to highlight how these two countries offer new geographical space for China to externalize its domestic economic woes. Both Kyrgyzstan and Tajikistan are landlocked, underdeveloped states, and share borders with China, therefore, it can be argued that they offer under-saturated markets for China to spatially reorganize its surpluses. The following section elaborates the evolution of Chinese economy in post-reform era and outlines the structural problems in Chinese economy.

The dynamics of the domestic economy in China force both the policy makers and market actors to strive for an overseas market, as the 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 country (Yao, 2010). As explained by Gramsci (1971), to strengthen their rule, the ruling elites through a passive revolution spectacularly alter the course of policy. Similarly, in China, in the post reforms era the form of capitalism that emerged was hierarchical and hardnosed (Hart-Landsberg & Burkett, 2004). Furthermore, China's membership in the World Trade Organization (WTO) in 2001 allowed Beijing to enjoy more cuts in tariffs and further liberalization of the agricultural and services sectors. Thus, the limitations of global neoliberalism aided China to embark on a new chapter of internationalization of its economy (Clifford & Panitchpakdi, 2002).

The problem of surplus capital in China has a direct link with the 1978 reforms policy that paved the way for China's integration into the world economy, which at that time was experiencing a transformation: the information technology sector was booming and the costs of production began to decline. As a result, it became easier to bring together various phases of production over time and space. Specifically, global value chains were divided and therefore provided opportunities for less developed countries to invest in the manufacturing sector and specialize accordingly. In this regard, Zhang (2017) explained how China developed export processing industries by relying on low labour costs and targeting advanced export markets such as Japan and the US. China's export industry benefited significantly when China joined the World Trade Organization in 2001 (Rafiullah, personal communication, 2020), thus sustaining its economic growth for several decades. As seen in Table 1, China's export "boom" during the early 2000s is evident from its rapidly increasing share of total exports in GDP: increasing from 20.3% in 2001 to 36.0% in 2006, thus resulting in an approximately 16% increase.

Table 1 Percentage Increase in Chinese Exports, 2001–2006

Year	2001	2006
Share of Exports (GDP, %)	20.3	36.0

Source: World Bank (2020).

While the GDP share of exports increased and China saw massive economic growth with rapid industrialization, simultaneously, problems such as trade surpluses and rising labour costs began to emerge. The social changes which came about through industrialization resulted in higher costs of labour. Since the export-oriented processing industries were established in the southeastern coastal cities, the need for cheaper labour became more pressing by early 2004. According to Demiryol (2019), the ostensible average wage in China increased by more than seven-fold from 2007 to 2017 alone.

While China's competitive advantage began to erode due to these rising costs, the export boom after China's entry into the World Trade Organization was sustained, i.e., the key factor that sustained this boom was the high global demand for its products, which in turn sustained China's trade surplus and became the key to its economic growth model and uplifting its economy.

This trade surplus resulted in China's excessive foreign exchange reserves, which in 2013 peaked at US$4 trillion. It is interesting to note that comparatively, the US's total reserves were valued at US$537 billion the same year (Demiryol, 2019). It is commonly believed that the composition of the reserves held by the Central Bank of China is classified, but according to Rafiullah (personal communication, 2020) and Wang (2016), China was able to invest approximately US$1.4 trillion of its financial assets by buying US Treasury bonds (which constitutes a form of debt security). According to Luft and Nye (2017), from 2001 to 2017, China's share of US foreign held financial assets increased from 6% to 25%, reinforcing the significance of China's trade surplus. Simultaneously, the most concerning element for China in this equation was the continuous depreciation of foreign reserves: between 2001 and 2017, interest rates of China's financial assets declined by two-thirds (Luft & Nye, 2017). Therefore, given these declining interest rates on debts, China was forced to seek alternate avenues to divert its massive foreign exchange reserves away from buying financial assets (i.e., debt) toward more productive investments.

In 2005, Beijing realized the flaw in its export driven growth model and looked for an alternate strategy to rebalance the economy. Initially, Beijing thought to restrict the rate of trade surplus accumulation to deal with surplus capital, thus decreasing the profitability of exports. Furthermore, China wanted to encourage manufacturers to enhance production for the domestic market instead, thus indicating a shift towards a more consumption and inward driven growth path. In line with these policies, a new exchange rate was introduced by Beijing in 2005 which pegged the renminbi (RMB) to a basket of foreign currencies. Capital was redirected to the domestic infrastructure and real estate sectors, which were mainly financed by local governments. Hence, the policies devised to rein in the export boom created imbalances at the domestic level in turn. In other words, debt was rising because of decreasing return on investment (ROI) on excessive investments in the domestic real estate sector (Amighini, 2015).

China's drive to address the unfolding capital accumulation "crunch" was not limited to domestic policies, but the authorities considered external initiatives as well. Therefore, the "Go Out Policy" policy (走出去战略, romanized in pinyin as "zouchuqu zhanlue") became the outcome, where Chinese firms were encouraged to invest abroad, especially in the infrastructure and energy sectors. This was not a novel idea: since 1994, state-

owned enterprises (SOEs) have been engaged in limited scale oil exploration in Africa, but because the former priority was to develop the domestic energy sector, those overseas investments did not receive much support from the government. SOEs were encouraged to invest in overseas projects only when the government announced its above mentioned "Go Out Policy" in 1999 (incidentally, this was the same year the Great Western Development (GWD) was announced) and launched a year later. To coordinate these overseas efforts and engagements, a separate State-owned Assets Supervision and Administration Commission was established by Beijing under the State Council, which resulted in a massive outward FDI flow, as seen in Table 2.

Table 2 China's Outward Flow of Foreign Direct Investment, 2000–2016

Year	2000	2005	2009	2015	2016
Outward Flow of FDI (US$ billion)	1	12	69	145	196

Source: Demiryol (2019).

It is evident that this outward flow was on the increase during the period surveyed. Compared to 2000–2008, the outward flow of FDI from 2009–2015 peaked at US$76 billion, clearly indicating that China wanted to diversify its surplus capital by investing in more profitable outlets, rather than just being content with less productive bonds – comparatively, FDI inflow stayed at US$133 billion in 2016 (UNCTAD, 2019). The primary motive of the "Go Out Policy" was to alleviate the pressure of over-accumulation, and the most viable option was the redirection of the trade surplus toward overseas investments in infrastructure building. One could say that this was an antecedent of the BRI.

The abovementioned trajectory shows that while China's export driven growth model contributed significantly to its economic expansion, the same model resulted in the problem of surplus capital. Therefore, under the BRI-led projects, China attempted to diversify, switching from a focus on US Treasury bonds to infrastructure and energy investments. In other words, China was now mobilizing its surplus capital away from debt buying and toward debt financing, i.e., diverting capital to more productive investments while also reducing dependency on the US dollar.

In addition to the challenge of surplus capital, Beijing was also confronted with the problem of industrial overproduction. As already predicted by classical Marxists, who argue that oversaturation is inevitable in a capitalist economy, the 2008–2009 global financial crisis is generally considered the main factor for China's industrial overcapacity and surplus foreign exchange reserves. However, evidence suggests that overproduction in Beijing's domestic policy was a matter of concern for policymakers even before 2008,

as reported to the National People's Congress by the State Council in 1997, which stressed "the excess production capacity of certain industries" as a grave problem, and that a structural adjustment was needed (State Council of the PRC, 1997). According to Zhang (2017), since 2003, the National Development and Reform Commission (NDRC), as the key office in charge of long term economic planning, has continuously highlighted overproduction as the main concern in the national economy – a problem shared by both labour-intensive traditional industries and high-value added emerging ones. Among the traditional industries, nine were identified as "problem creators": steel, cement, plate glass, aluminum, coal, shipbuilding, solar, wind energy and petrochemicals. All nine sectors are related to energy, infrastructure construction and real estate development, thus reflecting the nature of China's heavily investment driven economy. While the common practice in a market economy would have been closing this inflated industrial segment, in China this was not feasible given the Communist Party of China (CPC) leadership's staunch commitment to high economic growth: any solution causing short-term economic contraction would not be considered. Initially, the preferred strategy was to instead divert investment domestically toward underdeveloped regions. The practical manifestation of this strategy was the GWD program, which was launched by the Chinese government in 1999, which aimed to mitigate the development gap between the eastern coastal provinces and the interior western regions. Furthermore, the GWD initiative sought to develop China's western provinces by encouraging them to invest in infrastructure and establish trade ties with other regions, which would subsequently boost demand for domestic goods and commodities. Although fiscal subsidies were provided to the region, the entire program was a failure.

In addition, the occurrence of the global financial crisis of 2008–2009 added more to the economic woes of China. Due to the financial crisis, the western economies were confronted with recession, therefore, the crash of demand in consumer markets (US and EU) badly hit the export industries in China leading to a 30% contraction in exports (Harvey, 2017). In order to overcome the impact of the crisis, the immediate response of the Chinese leadership was an announcement of a stimulus package worth RMB4 trillion which at that time was equal to approximately US$580 billion (Demiryol, 2019). A major chunk of the package was spent by the sub-national governments on building infrastructure. It is not surprising that China used more cement in two years (2011 to 2013) than the US used in the entire 20th century (Carmody, Taylor, & Zajontz, 2021). In addition, China's annual steel production in year 2008 was 512 million tons which then increased to 803 million tons in 2015 (Cai, 2017). As a result, massive use of steel and cement in the construction sector increased the gross fixed capital formation of China from US$1 trillion in 2006 to US$6.1 trillion in 2019 (World Bank,

2021). In addition, Jones and Zeng (2019) noted a 30% overproduction in other industries such as iron, glass, cement, aluminum and power generation, while Harvey (2017) noted that from 2007 to 2015, 12,000 miles of high-speed railways were laid from scratch. For Beijing, excess capacity became a proverbial sword of Damocles hanging over the Chinese economy, where firms with excess capacity also exerted pressure on the Chinese government and wanted a market for economic engagement. In the same vein, Assel Bitabarova (personal communication, 2020), a doctoral candidate at the Graduate School of Letters of Hokkaido University, observed that:

> China wants to utilize the BRI to move whole production facilities out of China. Moving excess capacity to the recipient or partner countries helps China reduce the supply surplus at home while helping less developed countries to develop their industrial bases … Beijing wants to use the BRI to upgrade the country's industry by exporting Chinese technological standards. The building-up of a China-centered value chain will help Chinese producers to move higher up in the value chain.

Another factor leading to economic pressure and excess capacity was the dynamics of China's political regime. To increase local growth rates, local governments compete to attract subsidized funds from the central government, which are then channelled into already oversaturated sectors. As reported by Reuters (2018), the "hidden" (off-balance-sheet) borrowings of local governments could be as high as 40 trillion yuan (US$5.78 trillion), which has been labelled a 'debt iceberg with titanic credit risks'". While the stimulus package proved helpful in protecting the economy from sliding into a recession, by 2010, local governments were in debt – ironically this was because of the cash injected and spent under this package. In addition, Davis (2011) posited that investments under the stimulus package in urban and infrastructural projects further inflated the existing property bubble. As stated earlier, local governments floated state-owned bank credit into real estate development, which saturated the housing market. In this regard, Dr Li Mingjiang (personal communication, 2020) highlights how several new towns (colloquially known as "Ghost Cities" in Western discourse) still remain empty even after their construction. In 2014, the China Investment Network published the "Ghost Town Index", noting that there were nearly 50 new, virtually unoccupied towns (Sum, 2019). Jane Cai's (2017) description of this peculiar urban condition is useful to quote at length below, in order to give us a clearer idea of the magnitude of this problem.

> Six skyscrapers overlooking a huge, man-made lake once seemed like a dazzling illustration of a city's ambition, the transformation of desert on the edge of Ordos in Inner Mongolia into a gleaming residential and commercial complex to help secure its future prosperity … at noon on a cold winter's

> day the reality seemed rather different. Only a handful of people could be seen entering or exiting the buildings, with hardly a trace of activity in the 42-storey skyscrapers. The complex opened five years ago, but just three of its buildings have been sold to the city government and another is occupied by its developer, a bank and an energy company. The remaining two are empty – gates blocked and dust piled on the ground. Ordos, however, was just one project in China's rush to urbanize. The nation used more cement in the three years from 2011 to 2013 than the United States used in the entire 20th century … other mostly empty ghost towns can be found across China, including the Yujiapu financial district in Tianjin, the Chenggong district in Kunming in Yunnan and Yingkou in Liaoning province.

This building boom was financed by a rapid increase in debt, which then created repayment concerns. In this regard, Jones and Hameiri (2020) noted that "[f]rom 2008 to 2016, local government debt rose from RMB5.6 trillion (US$864 billion) to RMB16.2 trillion (US$2.5 trillion), while corporate debt – 60% of which is held by state-owned enterprises (SOEs) – grew from US$3.4 trillion to US$12.5 trillion between 2007 and 2014". In addition, due to heavy investments in infrastructure construction and real estate development, the Chinese economy witnessed a significant decline in rate of returns. In this regard, X. Zhang (2017) posited that:

> Despite strong overall growth performance, the capital return rate of the Chinese economy has started to be on a sharp decline recently. Although the results vary by different estimation methods, research in and outside China points out a recent downward trend. For example, two economists show that all through the 1980s and the first half of the 1990s, the capital return rate of the Chinese economy had been relatively stable at about 0.22, much higher than the US counterpart. However, since the mid-1990s, the capital return rate experienced more ups and downs, until the dramatic drop to about 0.14 in 2013. Since then, the return to capital within [the] Chinese economy has decreased even further, creating the phenomenon of a "capital glut".

This evidence above suggests that it became difficult for China to sustain its economic growth by pursuing the existing model. Given the above-mentioned scenario, overproduction and the decline of profits in the Chinese economy is indeed a reality that the central government has to grapple with. Furthermore, according to Peter Cai (2017), overproduction caused declining prices and many SOEs faced negative ROIs, which increased the number of non-performing assets held by the banks. In other words, many SOEs borrowed heavily during the global financial crisis, resulting in over-lending and over-borrowing in every sector. However, the economic slowdown, low international demand and excess supply saw the reduction of SOE profits, subsequently making it difficult for them to repay their loans. Consequently, the Chinese banking system came under a tremendous stress due to the

accumulation of these bad loans, leading China to adopt a policy that was expressly designed to deleverage the financial system. Banks tightened their credit lending policies, and this policy intervention temporarily delayed the need to confront this underlying issue. However, the structural limitations of the capital accumulation model remained due to China's overreliance on global value chains (a system which it cannot influence). After decades of remarkable export oriented economic growth, the structural limitations of this model resulted in progressive economic slowdown since 2010, partly because of the global financial crisis: a 10.6% GDP growth in 2010 decreased to 6.1% in 2019.

Table 3 China's Annual Gross Domestic Product Growth, 2007–2019

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Percentage	14.2	9.6	9.4	10.6	9.5	7.8	7.7	7.4	7.0	6.8	6.9	6.7	6.1

Source: World Bank (2022).

However, the most important factors at play here remained the problems associated with structural issues in the export driven growth model. Therefore, it can be argued that the BRI-led projects are an attempt by China to fix the problem of surplus capital, labour and commodities. When China first witnessed capital over-accumulation, it began to invest in domestic urban and infrastructural projects, which then oversaturated the market. Consequently, this paper argues that both Kyrgyzstan and Tajikistan offer China under-saturated markets to absorb its surpluses, thus creating a demand for SOEs which saw less ROI at home. Since the SOEs play a critical role in the state's decision-making process, engaging them in continued economic activities became the main priority of the central government.

2. 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) contended that the over-accumulation of capital demanded new geographical spaces for investment. Likewise, Luxemburg (2004) maintained that for continued profits, the capitalists struggled to export surplus production overseas and accessed new labour pools as well. Harvey (1982) labelled this quest of capitalists as spatial fix which he refers to a likely response towards the problem of over-accumulation. Harvey (2014) argued 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 labor power looking for productive employment" (Ekers and Prudham, 2017: 1374).

Harvey (2014) argued 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 would 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) explained that such crises are often managed by a "spatial fix", i.e., "[t]he absorption of these surpluses through geographical expansion and spatial reorganization helps resolve the problem of surpluses lacking profitable outlets". Simply put, spatial fix is a strategy to find new avenues or opportunities to accommodate capital and labour, and earning profit by utilizing them. Similarly, spatial reorganization refers to 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).

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. 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 is 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, & Zajontz, 2021). Furthermore, a separate fund named the 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 ranges from US$1.4

trillion to US$6 trillion (Zhai, 2018). All this implies the necessity of spatial fix to the economic concerns of China. In this regard, China's need for spatial fix is evident from He Yafei's, Vice-Minister of the Ministry of Foreign Affairs of China, opinion published in the *South China Morning Post*, in 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.

In addition to these, the making of the Industrial Capacity Cooperation (ICC) policy, which is aimed to move excessive industrial capacity of China to 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.

3. Belt and Road Initiative in Central Asia

Central Asia, being a geographically proximate region, provides a well under saturated market for China to absorb its excessive industrial capacity and capital. Geographical limitations and under developed 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: Kyrgyzstan and Tajikistan.

3.1. Projects in Kyrgyzstan

Kyrgyzstan and China share a long history of over 2000 years. Friendly ties between China and Kyrgyzstan gained momentum after the emergence of Kyrgyzstan as a new republic in 1991. Since Kyrgyzstan is not known as a country with vast energy reservoirs, China is more interested in investing in connectivity projects due to the country's inefficient and insufficient connectivity infrastructure network. According to one of the indicators on infrastructure index from the World Economic Forum *Global Competitiveness Report* (2013: 243), Kyrgyzstan's score in quality infrastructure was 3.4 (out of 7 indicators) and when compared to other countries in terms of infrastructure development, it ranked at 108th among 148 countries. The same report highlighted Kyrgyzstan's quality of roads which was 2.5 (out of 7 indicators) and it ranked 133rd among 148 countries surveyed. Thus, keeping in view these scores, it can be argued that China made a strategic move to relocate its surpluses and SOEs to Kyrgyzstan by investing in infrastructure projects. In so doing, when completed, China will have better connectivity in transporting, exporting and importing resources throughout the Central Asian Region. Therefore, the launching of the BRI in 2013 was a strategic move for China to gain access to resources as well as use its surpluses in Kyrgyzstan.

Road projects highlighted in Table 4, which cost US$1.13 billion in total, were originally part of the Central Asia Regional Economic Cooperation (CAREC) corridors, which was created in 1997 to boost the Central Asian transportation networks and connect the region to China, South Asia, West Asia and Europe. However, given the poor condition of the roads, it needed rehabilitation. Since China was facing the problem of capital over accumulation and was seeking to stimulate external demand for its capital, goods and services, it therefore took advantage of Kyrgyzstan's need for rehabilitation of the existing roads. For example, key roads that connect Kyrgyzstan with China are Bishkek-Naryn-Torugart and Osh-Sarytash-Irkeshtam. It is not surprising that these roads along with others were constructed by China Road and Bridge Corporation (CRBC). Workforce employed in these projects was 30% locals and 70% Chinese, and 60% of the raw material used in the project was imported from China (Sim and Aminjonov, 2020). Moreover, China is also engaged in expanding its infrastructure building in the urban areas in Kyrgyzstan. In this regard, the Chinese government for the rehabilitation and development of street network in Bishkek has provided US$121 million worth as grants (Mogilevskii, 2019). Therefore, Kyrgyzstan is a prime example where China has invested its capital, labour and construction companies in an area in need of infrastructure connectivity. There are six infrastructure projects and four energy connectivity projects as indicated in Table 4.

China's engagement in Kyrgyzstan under the BRI can be seen in Table 4 which outlines infrastructure and energy projects. China is mainly involved in intra country energy connectivity projects and not in extracting energy resources in Kyrgyzstan. Since China was seeking to externalize its domestic problems, therefore, the poor energy transmission infrastructure in Kyrgyzstan became a productive venue for China to invest its capital, goods and services. Kyrgyzstan, for the supply of electricity from southwest of the country to the northeast was using the Soviet times transmission lines which was passing through Uzbekistan. As a result, Kyrgyzstan needed to pay transit fee to Uzbekistan for the transmission of electricity. In other words, electricity transmission was one of the big problems of Kyrgyzstan since its independence. In this regard, key energy connectivity project that is financed by the Chinese government is the construction of Datka-Kemin electricity transmission line and Datka substation. This transmission line allowed Kyrgyzstan to transmit electricity from southwest to the northeast bypassing Uzbekistan.

Another project is the Heat and Power Plant (HPP) in Bishkek. The project was designed to upgrade the heat and electricity transmission in Kyrgyzstan's capital city. As highlighted in Table 4, total cost of the project was US$386 million, and was completed in 2017. It is not surprising that the project was financed by China's Export-Import Bank as a concessional loan, and the project was executed by TBEA (Djanibekova, 2018). Therefore, it can be said that China has not only successfully invested its energy company but also relocated approximately US$0.98 billion in the energy sector of Kyrgyzstan (Mogilevskii, 2019). Moreover, in terms of companies' registration, according to Yan (2020), 574 Chinese companies have been registered in Kyrgyzstan.

Moreover, China also upgraded the existing transmission lines. As highlighted in Table 4, total cost of these energy connectivity projects was approximately US$600 million. It is not surprising that the projects were financed by China's Export-Import Bank as a concessional loan, and executed by one of China's leading electric company, Tebian Electric Apparatus Stock Company (TBEA) (Putz, 2015). It is pertinent to mention that to qualify for a loan from Exim Bank, the borrowing state should agree to use Chinese contractor, material and labour, in other words, embedded conditionality. The element of Chinese funding as loan and engagement of Chinese company to execute the project reinforces the point of embedded conditionality, which is helping China to invest its capital, goods and services in weak countries with much ease. Moreover, Ahmatbek Keldibekov, a Kyrgyz parliamentarian, while expressing his concerns over the mode of Chinese engagement in the Datka-Kemin project stated that, "There is no doubt about the need for this project. However, due to the fact that we are taking a loan, a tender must be held. China gives us a loan at 2% per annum and imposes on its contractor. It turns

Table 4 List of Belt and Road Initiative Projects in Kyrgyzstan

Project	Year Agreed	Financing (US$ million)	Terms				Description
			Repayment Period (years)	Grace Period (years)	Interest Rate (%)	Commission and Management (%)	
Rehabilitation of the Osh-Sarytash-Irkeshtam Road (KM 190–240)	2008	25.3	This project was based on the "resources in exchange for investments" scheme – fully financed by the Chinese side (i.e., the CDB and a consortium of SOEs); in exchange, the Kyrgyz government allowed a Chinese SOE, Full Gold Mining, to develop the gold deposit in Ishtamberdy.				Other parts of this road are financed by multilateral financial institutions.
Rehabilitation of the Osh-Sarytash-Irkeshtam Road (KM 123–190)	2009	75.3	20	5	2	0.5	
Rehabilitation of the Bishkek-Naryn-Torugart Road (KM 9–272)	2009	200.0	20	5	2	0.5	Other parts of this road financed by the ADB and the Islamic Development Bank.
Modernization of the electricity transmission lines in southern Kyrgyzstan	2011	208.0	20	7	2	0.5	Not applicable.
Construction of the 500 kV Datka-Kemin electricity transmission line and 500 kV Datka substation	2012	389.8	20	9	2	0.5	Part of the regional Central Asia-South Asia power project.
Modernization of the heat and power plant in Bishkek	2013	386.0	20	11	2	0.43	Not applicable.

Table 4 (continued)

Project	Year Agreed	Financing (US$ million)	Terms				Description
			Repayment Period (years)	Grace Period (years)	Interest Rate (%)	Commission and Management (%)	
Alternative North-South Road (Kazarman-Jalal-Abad and Balykchi-Aral Sections)	2013	400	20	11	2	0.43	Not applicable.
Gas pipeline (Pipeline D) from Kyrgyzstan to China	2013	1,000–1,200	FDI, no equity participation by the Kyrgyz Government				Completion date has not been given yet.
Rehabilitation of the Osh-Batken-lsfana Road (KM 220–232 and KM 248–360) and the Bishkek-Balykchi Road (KM 147–172)	2015	129.8	20	11	2	0.5	Other parts are financed by the European Commission, World Bank, European Bank for Reconstruction and Development as well as other European associations.
Alternative North-South Road (part Aral-Kazarman)	2015	185.3	20	11	2	0.36	Not applicable.
Development of street network in Bishkek (Phase 1)	2015	78.6 (RMB489.5)	Grant				Not applicable.
Development of street network in Bishkek (Phase 2)	2017	42.3 (RMB286.0)					Not applicable.

Source: "Kyrgyzstan and the Belt and Road Initiative" by Roman Mogilevskii (2019), University of Central Asia, Available at: <https://www.ucentralasia.org/Resources/Item/2153/EN; http://piumotc.kg/en/main/>.

out that with their loan they invest in their own company. It was necessary to involve other foreign companies to the tender and choose the one who will offer the most favorable price" (Vecherny Bishkek, 2012). Once again, this statement clearly indicates the presence of the element of embedded conditionality. Therefore, it can be argued that China's strategy of embedded conditionality is aimed to diversify its surplus capital through debt financing and export its surplus goods to a new geographical space.

Furthermore, China has adopted a strategy of non-competitive bidding in BRI-led projects. The bidding process for projects should only be among Chinese SOEs: in other words, the contract should be awarded only to them. As a result, they will have a monopoly over the project. Similarly, it has been found that the projects executed in Kyrgyzstan were mainly by Chinese contractors. Having monopoly over the projects allow Chinese companies to import the inputs for the projects from China. This once again reflects that Beijing has designed the overall BRI in a way to create demand for its surpluses, which in turn will mitigate the pressure on China's domestic economic concerns.

In terms of loans, it is worth mentioning that China has adopted a strategy of "double preferential loans" to finance the BRI-led projects. In other words, the CPC government is working hard to centralize all government loans which will eventually return to Chinese entities. In this cycle, policy banks (e.g., Exim Bank or the CDB) will process the loan and Chinese SOEs will become their exclusive recipients. As per such arrangements, the money will effectively circulate within the Chinese economy within an arrangement that has been designed as a combination of government-to-government concessional loans and export credits. The interest rates on such loans are relatively low and the repayment duration is also lengthy, and these loans are provided only upon the requests made by local governments of the recipient states to the policy banks. Their expression of will must be accompanied by a letter of support by their local Chinese ambassador. The BRI-led projects in Krygzystan are all financed through such double preferential loans (Yan, 2020). This arrangement once again strengthens the argument that China's BRI-led investments are for its own economic development.

Regarding the effects of these projects on bilateral trade, it can be argued that China is benefitting more than Kyrgyzstan. China mostly imports gold extracts (starting in 2010) and in exchange, exports heavy machinery and other equipment for Kyrgyzstan's infrastructure development. However, from 2015 to 2017, these imports of gold extracts witnessed a surge, valued at US$30–40 million annually and constituting around 2% of Kyrgyzstan's exported goods (Mogilevskii, 2019), although this was vastly outstripped by the amount spent on its Chinese imports. Between 2011 and 2017, Kyrgyzstan's imports of machinery and other equipment were valued at

US$300–500 per annum, which makes 20–25% of its total machinery imports, or 6–10% of its total imported goods (Mogilevskii, 2019).

Since China is benefitting from the projects which were actively implemented between 2011 and 2017, their impact on the Kyrgyz economy appears not to be significant. As highlighted in Table 4, around US$4 billion was invested during this period, of which US$2.2 billion alone was allocated for infrastructure projects and US$1.9 billion in the form of FDI. While this appears to be a very considerable contribution to the Kyrgyz economy, its actual contribution to aggregate demand was substantially smaller because a majority of these funds were then spent importing goods from China. Through these investments, Kyrgyzstan obtained only improved roads, energy transmission lines and substations: while infrastructure is significant in itself, in other words, it received nothing more substantial than an accumulated stock of fixed capital.

3.2. Projects in Tajikistan

Tajikistan is one of the first participants of BRI and also one of the first members of AIIB. The primary factor that attracted Tajikistan towards the BRI was 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. Among the post-Soviet states, Tajikistan is one of the poorest countries. On one hand, it is a landlocked country and on the other hand it is a country with high mountainous terrain in its North and East. Due to the complex geographical landscape and lack of infrastructure connectivity, Tajikistan is less integrated with the outside world especially a big economy like China. Tajikistan, like Kyrgyzstan, is a country with few energy resources. Therefore, China is more interested in infrastructure building rather than energy projects in Tajikistan. Tajikistan's inefficient infrastructure connectivity is evident from the World Economic Forum *Global Competitiveness Report* for the year 2014–15. According to the report, Tajikistan's score in quality of overall infrastructure was 3.4 (out of 7 indicators) and it ranked at 107th among 144 countries. In terms of road infrastructure, according to the same report, its score in quality of roads was 3.0 (out of 7 indicators) and it ranked at 109th among 144 countries. Figures clearly indicate that how low is Tajikistan's score in quality of overall infrastructure. Against this backdrop, it can be argued that Tajikistan's poor connectivity infrastructure provided an opportunity for China to invest its surplus capital, to employ its labour and engage its construction companies abroad under the BRI.

In addition, another factor that provided opportunity for China to expand and strengthen its economic activities in Tajikistan was the alignment of

Tajikistan's National Development Strategy (NDS-2030) with the BRI-led projects. Key sectors that contribute to Tajikistan's economy are export of minerals, cotton industry and remittances. However, the contribution of these sectors is insignificant for sustainable economic growth. Therefore, for future sustainable growth, the country needed more investments and increase in its export capacity, which the country was lacking in. To overcome this situation, Tajikistan announced its NDS-2030 in 2016 to ensure long term economic development which would ultimately raise the living standards of the people. According to the Ministry of Internal Affairs of the Republic of Tajikistan (2018), key objectives of the development strategy are to ensure energy security, and development of infrastructure for connectivity. As a result, the plan is expected to contribute socio-economic development and bring diversification to the national economy which would ultimately result in economic sustainability. According to a World Bank Report of 2018, full implementation of Tajikistan's development strategy needs US$118 billion, which Tajikistan lacks (World Bank, 2018). This equation implies that for the economic development of Tajikistan, access to the outside market was much needed, and it was possible only through investments in infrastructure connectivity. Therefore, China capitalized on Tajikistan's weak economic stature by investing in building its infrastructure. In addition, a politically and economically stable Tajikistan would help China in the development of its Xinjiang autonomous region. In this equation, China is naturally compelled to diversify its resources into Tajikistan. Table 5 highlights the extent to which China is engaged in rail and road connectivity and energy projects under the BRI in Tajikistan.

Table 5 indicates that in the road building sector, two projects have been completed. Originally, both the road projects are part of CAREC (Mardell, 2020), which were aimed to connect Tajikistan with neighbouring countries, but due to the poor condition it needed rehabilitation. Therefore, China, which was already struggling to stimulate external demand for its capital, goods and services, capitalized on Tajikistan's inefficient road infrastructure by investing in the rehabilitation of these roads. For example, as highlighted in Table 5, China's AIIB invested US$27.5 million as loan in the rehabilitation of Dushanbe-Uzbekistan Border Road. Similarly, in railway sector, the Export Import Bank of China invested US$69 million as loan in constructing the Vahdat–Yovon section of Dushanbe–Kurgantube railway, and the project contractor was China Railway No. 19 Bureau Group Company Limited. Thus, this evidence implies how successfully China has invested its capital and construction companies in the road and rail sector of Tajikistan. It is pertinent to mention that Tajikistan does not have any local content requirement under which foreign companies may be bound to hire local workers. Therefore, it provides enough opportunity for Chinese companies to employ Chinese labour

force. Moreover, according to Yan (2020), by 2019, 400 Chinese companies have been registered in Tajikistan.

In Tajikistan, China is not investing in the energy extraction projects under the BRI. However, it has invested in building the power plants and oil refinery projects. In terms of building power plants, Dushanbe-Combined Heat and Power Plant (CHPP) project has been completed. As highlighted in Table 5, total cost of the project was US$349 million, wherein the share of Export Import Bank of China was US$332 million and US$17 million by the Tajik government, and the project was executed by TBEA. It is quite evident that China had monopoly over the project. Having monopoly over the project allows the contracting company to import resources from China. In terms of the CHPP project, there is an important link between Harvey's argument of development through debt financing and this project. As explained by Harvey, debt financing helps the creditor to relocate its surplus capital, but it makes the resources of the recipient state vulnerable to be plundered if it fails to repay. In this context, given Tajikistan's weak economic performance and lack of repayment capacity, the TBEA was granted exclusive rights to operate two gold mines in Tajikistan until it recovers its US$332 million, which it invested in the CHPP project (Eurasianet, 2018). Therefore, China is not only benefiting by relocating its surpluses in Tajikistan but also exploiting its gold mine as a result of the debt-equity swap.

Another project wherein China relocated its capital and industrial capacity was the building of an oil refinery in Dangara free economic zone. There are two phases of this project with a total cost of US$400 million. Thus far, as highlighted in Table 5, phase one has been completed with total cost of US$80 million. It is not surprising that 90% of investment for this project is by China's Dong Ying Heli Investment and Development Company. Given the share of Chinese company in the project, it is quite understandable that China has not only invested its funds but also transferred its industrial capacity to a new geographical space, which is the most feasible option then closure. The above discussion shows that China has successfully spatially reorganized its surpluses in Tajikistan which has resulted in considerable benefits for Beijing.

4. Conclusion

Decline in profit rates, industrial overproduction and capital over accumulation constituted a matter of serious concern for policy makers in China. In other words, these structural problems embedded in Chinese economy points at an existential crisis. In order to overcome the problem, Beijing needed a fix. As explained by Harvey, emergence of such crisis is inherent to capital, and it can be mitigated through geographical expansion and spatial reorganization. It is against this backdrop, the BRI was announced as a rescue plan. After

Table 5 List of Belt and Road Initiative Projects in Tajikistan

Years	Project	Financing	Description
Future Project	Vakhdat-Karomik Railway	Estimated cost: US$2.5 billion.	This rail project aims to connect Xinjiang to the Persian Gulf. By doing so, it would connect the Vakhdat station east of Dushanbe with Karomik on the Tajik–Kyrgyz border.
2016–June 2021	Dushanbe-Uzbekistan Border Road Improvement Project (62 km)	Total cost: US$105.9 million. Source of financing: (1) US$27.5 million loan from the AIIB; and (2) US$62.5 million loan from the European Bank for Reconstruction and Development.	The project aims to rehabilitate and upgrade the road connecting Dushanbe to Uzbekistan's border. The project targets the last missing section of the Asian Highway Network; the CAREC Corridor 3, which was built 30 years ago and was in poor condition at the time of the project's commencement. In June 2016, the European Bank for Reconstruction and Development and the AIIB agreed to divide the costs to renovate the road.
2016–2020	Second Phase of the Central Asia Road Links Program.	Total cost: US$54.0 million. Source of financing: (1) US$9 million from Tajikistan; (2) US$38.25 million from the International Development Association; and (3) US$6.75 million from the World Bank.	This project aims to increase transportation connectivity between Tajikistan and neighbouring countries as well as support improvements in road operations. The sections of road to be financed prioritize connectivity between Sugd Oblast in Tajikistan, Batken and Osh Oblasts in Kyrgyzstan and Ferghana Oblast in Uzbekistan. Announced as a BRI project, the contractor is the China Railway Group.
2014–2016	Dushanbe-Kurgantube railway (Vahdat-Yovon section)	Total cost: US$72.0 million. Source of financing: (1) US$69 million GCLs from Exim Bank; and (2) US$3 million from Tajikistan.	This link is a vital connection between the northern and southern railway networks in Tajikistan, which involves the construction of a railway line along with five bridges and three tunnels. The route aims at improving bulk cargo transport capacity from the south of Dushanbe to the capital.

Table 5 (continued)

Years	Project	Financing	Description
			The Vahdat–Yovon section, which links Tajikistan's central region to the southern province of Khatlon and enhances the overall transportation capacity of the country, has China Railway No. 19 Bureau Group Co., Ltd. as its contractor.
2014 and 2016	The Dushanbe Combined Heat and Power Plant	Estimated cost: US$349 million. Source of financing: (1) US$331 million from Exim Bank to TBEA; and (2) US$17 million from the Tajik government.	The project added 400 MW to the system and combines heat and power generation capacity. The project's executing company was TBEA.
2015	Pipeline D of the China–Central Asia gas pipeline Network (410 km, Tajikistan section)	Estimated cost of the Tajik section: US$3.188 billion. Source of financing: CDB is a known financer.	Upon completion, it will carry 30 billion cubic meters of gas annually from Turkmenistan's gas fields to the Chinese border through Uzbekistan, Tajikistan and Kyrgyzstan. The project developer is the Sino-pipeline International Company Limited (which is a subsidiary of CNPC)
2014–2016 (First phase)	Oil refinery in the Dangara Free Economic Zone	Total cost: US$400 million. Source of financing: (1) First phase: US$80 million; (2) Second phase: US$300 million; and (3) Third phase (if added): US$500 million.	Oil refinery capacity will be 300,000 tons in the first phase and 1.2 million tonnes in the second phase. The investors are Chinese Dong Ying Heli Investment and Development (90%) and Tajik Khasan and Co (10%). There may yet be a third phase.

Source: Adapted from OSCE Academy in Bishkek, available at <http://osce-academy.net/en/research/cadgat/>.

analyzing the BRI-led projects in both Kyrgyzstan and Tajikistan, it has been found that the element of embedded conditionality is one of the key instruments helping China to reorganize its surpluses in the said geographical spaces. Moreover, China's strategy of aligning its projects with host states national development programs, for example Tajikistan, also provided ample ground for China to stimulate demand for its finance and surplus production. Building on this, it can be argued that the weak economic apparatus of Tajikistan provided an opportunity for China to capitalize on it.

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 maximize profits, solidifying the argument that the BRI-led projects in Kyrgyzstan and Tajikistan are not geo-strategically motivated, but 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 provides 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 for project funding in the hope of getting contracts, clearly implying that development financing under the BRI ultimately aim 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 Kyrgyzstan and Tajikistan. Building on all this, it can be contended that the BRI-led investments are meant for Beijing's own economic development and serve as spatial fix for China.

In addition, the limited impact of BRI-led investments on the domestic economy of Kyrgyzstan and Tajikistan further solidify the above argument. Comparing Kyrgyzstan's average annual GDP growth rates between two periods – i.e., from 2000 to 2010 (4.2% per year) versus 2011 to 2017 (4.8% per year) – reveals only a small increase, but this is not because of the China-led projects. Several other factors contributed to the slight increase of its GDP growth rates: increases in the inflow of remittances to Kyrgyzstan; political stability after the 2010 revolution which increased the confidence of both domestic and foreign investors; and Kyrgyzstan's accession to the Eurasian Economic Union, which allowed for the inflow of funds (including US$500 million from the Russian-Kyrgyz Development Fund). Similarly, in 2013, trade volume between China and Tajikistan was valued at US$682 million (Salimov, 2014), and in 2019, it reached US$1.68 billion (*Xinhua*, 2019). While an increase in trade is certainly a positive trend, however, this trade remains one-sided and in favour of China. As with Kyrgyzstan, Tajikistan imports

more from but exports less to China, thus creating a trade imbalance, evident from the fact that in 2019, Tajikistan's exports to China were valued at US$85 million while its imports were valued at US$1.9 billion (*China Briefing*, 2021). Thus, it has been found that trade imbalance is a common trend between the investor (China) and the recipient states (Kyrgzystan and Tajikistan).

Thus, it is quite evident how China is capitalizing on the economic and infrastructure compulsions of Kyrgyzstan and Tajikistan. The overall trends highlighted in this paper reflect the very features of Harvey's spatial fix concept.

Notes

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