



Risky Business: A Case Study of PRC Investment in Tajikistan and Kyrgyzstan

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OE Watch Commentary: China’s “New Silk Road” or “Belt and Road Initiative” (BRI) has reached Central Asia in resounding fashion. As a result, the republics of Tajikistan and Kyrgyzstan have seen large increases in Chinese presence and investment. Although both countries have overlapping needs, the degree and character of PRC involvement in each has differed. Development experts classify both countries as “high-risk” for debt distress given public debt projections. However, despite the risk of such an outcome, both countries appear inclined to welcome PRC investment with open arms, as a way of funding needed investment like power generation and logistical links with the outside world.

Tajikistan

China is currently the country’s largest external creditor, with over \$1 billion owed to China’s Export-Import Bank as of 2016. The World Bank and the Asian Development Bank are Tajikistan’s two largest creditors behind China, with \$318 million and \$217 million in debt ownership, respectively, with the (most recent assessment) total external debt coming in at \$2.9 billion.

While a large share of the approximately \$1 billion in loans from China Export-Import bank to Tajikistan has gone to road projects, including a major highway between the two countries, most funding has gone to tackling Tajikistan’s energy crisis. Heavy PRC investment into the energy sector—primarily coal power plants—significantly improved Tajikistan’s power production picture. The 400 megawatt (MW) Dushanbe–2 plant, which was opened in 2012 and reached full generation capacity in 2016, helps keep the lights on in the capital. The plant’s construction was funded through \$331 million in Chinese loans, paired with \$17 million in funding from Tajikistan. TBEA, the Chinese company that built the plant, received the rights to and profits from multiple gold mines in the north of the country to offset the cost of Dushanbe–2.

Another noteworthy aspect of China’s likely future involvement in Tajikistan’s power sector: supplying coal. Right now Tajikistan imports its coal from other Central Asian countries, like neighboring Kyrgyzstan and Uzbekistan. In 2016 alone Tajikistan imported 1.6 million tons of coal from those two countries, but their new projects will require around 500 million tons of coal. While the country has three coal mines that can help pitch in, Tajikistan will likely have to purchase Chinese coal meet the new demand.

PRC investment is pushing into Russia’s near abroad, offsetting some of the financial load Russia used to shoulder. Russia’s financial role in Tajikistan has shrunk while its political involvement has grown. As recently as 2004, Russia wrote off \$300 million in loans to Tajikistan for a military base south of Dushanbe (that has since been extended until the year 2042).

Kyrgyzstan

BRI investment in Kyrgyzstan resembles that of Tajikistan in important ways. Lending from China has climbed sharply, to the point where \$1.7 billion of Kyrgyzstan’s \$3.8 billion in external debt is owed to China. Like Tajikistan, Kyrgyzstan’s debt to China is substantial; unlike Tajikistan, it is seeking to use PRC lending to invest in technological and transportation infrastructure.

Kyrgyzstan’s “Taza Koom” or “Smart Nation” program seeks to launch the Kyrgyz Republic into twenty-first century relevance with modern technological infrastructure, from faster internet connections to increased surveillance and security systems. As part of Kyrgyzstan’s ambitions to become a “digital hub” for China’s New Silk Road, PRC firms such as Huawei and China Telecom have partnered with the Taza Koom project. Huawei has stated its intention to help convert two of Kyrgyzstan’s largest cities into so-called “smart cities”: the capital of Bishkek and Osh to the south. Smart cities allow municipal authorities to better monitor and manage their cities’ resources, and may improve traffic flow and emergency response times. However, they also bring with them the potential to enable more effective state surveillance, and to provide PRC intelligence services with electronic backdoors into target countries’ systems.

Where energy projects seemed to take precedence in Tajikistan, transportation projects have taken precedence in Kyrgyzstan, with a large sum of that going to the proposed railroad via Bishkek to Samarkand, Uzbekistan and beyond, as part of China’s planned New Silk Road rail corridor. Kyrgyzstan will likely cede access to some of its natural resources to China to offset some of the railway’s proposed \$2 billion construction costs.

As in Tajikistan, Russia’s involvement looks increasingly narrow when compared with that of the PRC. In Kyrgyzstan, it is largely focused on countering other regional powers. Kyrgyzstan only owes Russia \$240 million, a payment plan for which was ratified in the Russian parliament earlier this year. The Russian military has a base in the country, and is exploring the possibility of to add another.

Even though Tajikistan and Kyrgyzstan are heavily in debt to China and will remain so for many years, both seem inclined to welcome the Belt and Road Initiative as a way to bolster their regional standing and fund needed infrastructure investment in a number of sectors. With Russia constrained in its ability to match the PRC’s financial firepower, the close attention paid both these republics by China’s signature foreign policy initiative may help cement PRC influence in this corner of Eurasia for years to come. **End OE Watch Commentary (Anderson)**

Source: “TBEA can get license for further mining deposit if profit from the gold deposits doesn’t cover the cost of CHP plant,” *Asia-Plus*, 1 May 2018. <https://news.tj/en/news/tajikistan/economic/20180501/tbea-can-get-license-for-further-mining-deposit-if-profit-from-the-gold-deposits-doesnt-cover-the-cost-of-chp-plant>

...He noted that the Tajik government had agreed to give TBEA the rights to further mining deposits (the location was not identified) if the profit made from the gold deposits doesn’t cover the cost of building the Dushanbe-2 CHP plant.

...TBEA in 2013 received necessary licenses from the Government of Tajikistan to conduct exploration operations at both these deposits until 2017. The company was also exempted from customs duties and value added tax on import of equipment...