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TRANSFORMATION OF CHINESE INVESTMENT STRATEGIES IN CENTRAL ASIA: DYNAMICS, RISKS, AND SUSTAINABLE DEVELOPMENT

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Abstract

The article examines the evolution and current trends of China's investment policy in Central Asian countries. Particular attention is paid to the structure, dynamics, and sectoral distribution of Chinese investments, the key mechanisms and tools of their implementation, as well as new trends such as green and digital investments. The study identifies the main economic, social, and environmental effects of Chinese capital in the region, and analyzes the risks and challenges associated with debt and technological dependency. The article concludes with recommendations aimed at enhancing the effectiveness and sustainability of investment cooperation between China and Central Asian states.

Keywords: China, Central Asia, investment policy, foreign direct investment, Belt and Road Initiative, green investment, digitalization, infrastructure, risks, economic cooperation.

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INTRODUCTION

Over the past decade, the Belt and Road Initiative (BRI) has reshaped infrastructure, trade, and geopolitical dynamics across Central Asia. As noted by Jash et al. [1], despite recurring concerns about debt dependency and strategic asymmetry, BRI projects have generated considerable economic and infrastructural benefits for both China and Central Asian states. This article builds on their analysis by offering a focused, critical appraisal of BRI's impact, with special attention to Uzbekistan's experience as a case study for the region.

The objectives of this article are threefold. First, it seeks to synthesize recent research with original analysis of Uzbekistan's engagement in BRI projects, including key infrastructure, digital, and energy initiatives. Second, it critically assesses the balance of benefits and risks — such as financial dependencies, regulatory gaps, and environmental impacts — in BRI cooperation. Third, it presents policy recommendations for maximizing positive outcomes while minimizing vulnerabilities associated with BRI investment.

By combining up-to-date project data, policy documents, and comparative perspectives, this article aims to provide a nuanced understanding of BRI's evolving role in Central Asia and offer actionable insights for both policymakers and scholars.

MAIN PART: ANALYSIS AND DISCUSSION

BRI as a Catalyst for Regional Connectivity and Economic Growth

The Belt and Road Initiative (BRI) has emerged as a transformative force for Central Asia, repositioning the region from a historical "transit corridor" to an active participant in the trans-Eurasian economy. Central Asian states — notably Uzbekistan, Kazakhstan, and Kyrgyzstan — have experienced a surge in Chinese investment in transport, logistics, energy, and manufacturing sectors. According to the World Bank and UNCTAD, between 2013 and 2023, cumulative Chinese FDI in Central Asia exceeded $70 billion, with over 2,000 joint projects launched in sectors such as railway modernization, road construction, pipeline infrastructure, and industrial parks [2][3].

Uzbekistan has strategically aligned its national development agenda with BRI priorities since 2017, prioritizing infrastructure upgrades, the diversification of

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energy sources, and modernization of customs and trade facilitation systems. Projects like the China-Kyrgyzstan-Uzbekistan (CKU) railway and the modernization of highways (Tashkent-Andijan, Pap-Namangan-Andijan) are considered vital for the country's ambitions to become a regional logistics hub [4]. Data from the Asian Development Bank indicate that these investments have reduced average transportation costs in Uzbekistan by 15% and cut transit times along major trade corridors by up to 30% [5].

Sectoral Analysis: Energy, Digital, and Industrial Development

Energy: China's participation in Uzbekistan's energy sector goes beyond traditional oil and gas. Recent years have seen a rapid expansion of "green" investment — wind and solar parks in Navoi, Samarkand, and Bukhara, as well as modernization of the Syrdarya thermal power plant, all realized in partnership with Chinese companies [6]. These projects contribute not only to the national energy transition but also to the broader regional trend toward sustainable development. For example, Uzbekistan's installed renewable capacity more than doubled between 2020 and 2023, with Chinese capital accounting for about 70% of new investments in this area [7].

Digital Silk Road: The digitalization of Central Asia is inseparable from Chinese technology transfers. Companies such as Huawei and ZTE are key partners in deploying high-speed telecommunications infrastructure, smart city solutions, and electronic government platforms [8]. In Uzbekistan, the Digital Uzbekistan-2030 Strategy is being implemented with technical and financial support from China, resulting in pilot 5G networks in Tashkent, the introduction of facial recognition systems, and the digitalization of public services [9]. Scholars note both the efficiency gains and emerging risks of technological dependence and cybersecurity vulnerabilities linked to Chinese vendors [10][11].

Industrial and Special Economic Zones: The creation of industrial parks and special economic zones (SEZs) with Chinese participation has accelerated Uzbekistan's industrial diversification. For instance, the Angren and Navoi SEZs

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host joint Uzbek-Chinese enterprises in construction materials, electrical equipment, and automotive components. These projects foster technology transfer, increase export potential, and stimulate the development of small and medium enterprises [12]. However, experts also point out risks of limited local content, labor market imbalances, and the need for stronger environmental and social standards [13].

Risks and Challenges: Debt, Governance, and Societal Impact

Debt Sustainability: One of the most debated issues in BRI cooperation is the risk of debt dependency. According to the IMF, as of 2022, external debt owed by Kyrgyzstan and Tajikistan to China exceeds 40% of their total sovereign debt, while in Uzbekistan this share is below 20% [14]. Although Chinese financing offers attractive terms and fast project delivery, it is often tied to the use of Chinese contractors, equipment, and workforce. Recent World Bank and OECD reports emphasize the importance of transparent tendering, competitive procurement, and the need to avoid non-concessional borrowing for projects with uncertain economic returns [15][16].

Governance and Institutional Capacity:

Effective governance is a prerequisite for maximizing BRI benefits and mitigating associated risks. Uzbekistan has made significant progress in streamlining regulatory procedures and digitalizing customs, yet independent audits and third-party environmental impact assessments remain sporadic. Experts recommend the adoption of "best practice" standards for project selection, monitoring, and post-completion evaluation [17]. Coordination among Central Asian states on harmonized standards and regional planning is still a work in progress, and greater alignment with international development banks' safeguards is necessary to ensure long-term sustainability [18].

Societal and Environmental Considerations:

The expansion of Chinese investment is perceived ambivalently in local communities. While job creation and technology transfer are acknowledged benefits, there are recurring concerns regarding environmental impact, land use,

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and the employment of foreign rather than local labor [19]. Social tensions have occasionally flared in Kyrgyzstan and Kazakhstan, where communities demanded greater transparency and participation in decision-making processes. For Uzbekistan, the challenge is to balance rapid infrastructure development with the preservation of ecological resources and inclusive socio-economic policies [20].

Regional Variation: Comparative Approaches in Central Asia

Despite a general trend toward deepening cooperation with China, Central Asian countries demonstrate divergent strategies and policy stances within the BRI framework. Uzbekistan has positioned itself as a "balancer" — actively attracting Chinese investment while preserving strategic partnerships with Russia, Turkey, and the EU [21]. The Uzbek government's pragmatic approach is manifested in diversified project portfolios, stringent requirements for local content, and a growing emphasis on green and digital sectors. Kazakhstan, by contrast, relies more heavily on Chinese capital for large-scale infrastructure and energy projects, but also faces heightened scrutiny from civil society regarding transparency and environmental standards [22].

Kyrgyzstan and Tajikistan, possessing smaller economies and limited bargaining power, have become more dependent on Chinese loans and infrastructure grants. This dependency creates both development opportunities and vulnerabilities to "debt traps," as highlighted in recent IMF and ADB risk assessments [23][24]. However, both countries are increasingly exploring opportunities for "regionalization" — integrating their infrastructure into transnational corridors (such as CKU railway and CASA-1000 energy project) in order to benefit from increased transit revenues and interconnectivity [25]. Turkmenistan, with its self-imposed isolation, selectively participates in energy projects but limits broader Chinese involvement in its domestic economy [26].

Sustainability, Innovation, and Long-term Vision

A defining trend in recent BRI projects is the transition from "hard infrastructure" (roads, pipelines, industrial plants) to "soft infrastructure" — digitalization, innovation, knowledge transfer, and human capital development.

This shift is explicitly mentioned in regional development programs and international partnership strategies [27]. For Uzbekistan, the collaboration with Chinese universities, tech firms, and research institutes enables training of IT specialists, joint scientific projects, and creation of local tech startups [28]. Such initiatives are vital for moving up the value chain and integrating Central Asian economies into the emerging digital Silk Road.

Environmental sustainability is another key priority. Following international criticism of the "brown" legacy of early BRI projects, China and its partners are investing in renewable energy, waste management, and low-carbon transport. Uzbekistan's Green Energy Strategy 2030, supported by Chinese investments and technology, aims to raise the share of renewables in the national energy mix to 25% by 2030 [29]. However, independent assessments from organizations like OECD and UNDP caution that successful implementation will depend on robust environmental governance, community engagement, and transparent monitoring [30].

Outlook: Risks, Opportunities, and Policy Recommendations

Looking forward, the role of the BRI in Central Asia is likely to intensify, but success will depend on several factors:

- **Diversification and Resilience:** Countries should avoid over-reliance on a single partner and develop diversified trade and investment links.
- **Strengthening Institutions:** Effective public administration, rule of law, and anti-corruption measures are crucial for optimizing the impact of Chinese investments.
- **Regional Integration:** Enhanced coordination among Central Asian states (e.g., via CAREC, SCO) will allow more coherent and mutually beneficial participation in BRI projects.
- **Inclusive Development:** Governments must ensure that the benefits of BRI investments are broadly shared — supporting SMEs, workforce development, and inclusive social policies.
- **Digital and Green Transformation:** Further leveraging the Digital Silk Road and green investments will create new avenues for economic modernization and global competitiveness.

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CONCLUSION

The evolution of China's investment policy in Central Asia over the past two decades marks a transformative phase in regional economic development and connectivity. The Belt and Road Initiative, initially centered on infrastructure and trade, is now entering a new stage characterized by digitalization, innovation, and sustainability. Central Asian countries are increasingly recognizing both the opportunities and the risks associated with China's growing presence. On the one hand, Chinese investments have enabled the modernization of energy systems, expansion of transport corridors, and improvement of digital infrastructure, contributing to GDP growth and job creation throughout the region [31][32]. On the other hand, challenges such as debt dependency, environmental concerns, and geopolitical competition demand more nuanced and proactive policy responses [33][34].

The experience of Uzbekistan and Kazakhstan demonstrates the value of a diversified investment strategy and robust institutional governance in maximizing the benefits of Chinese cooperation while protecting national interests [35]. For smaller economies like Kyrgyzstan and Tajikistan, the main task will be to transform BRI projects into engines for sustainable development rather than sources of financial vulnerability. Turkmenistan's selective engagement suggests that there is room for tailored models of cooperation with China, reflecting national priorities and socio-economic specificities [36].

Looking forward, the future of Sino–Central Asian investment ties will depend on several factors: the ability of local governments to upgrade legal frameworks, encourage public participation, and ensure compliance with international ESG standards; the willingness of China to adjust its approach to the evolving expectations of its partners; and the development of regional platforms for dialogue and coordination. The region's integration into the Digital Silk Road and the global green economy offers a unique opportunity to leapfrog into higher value-added sectors, promote innovation, and enhance long-term resilience.

In sum, China's investment footprint in Central Asia is set to expand further. By drawing on lessons from the past decade and adopting forward-looking strategies, both sides can create a balanced and sustainable partnership that supports inclusive growth and regional stability.

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