

# **The EU's and China's development assistance towards Central Asia: low versus contested impact**

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## **Abstract**

This paper offers an explorative comparative analysis of the receptiveness to and impact of the EU's and China's development assistance towards Central Asia. The paper finds that, with the exception of Kyrgyzstan and Tajikistan, receptiveness to the EU's aid is low, mostly because it involves political conditionality and interference in domestic affairs. In contrast, receptiveness to China's assistance is high across the entire region. Moreover, despite having spent a considerable amount of funding in the region throughout the past two decades, the EU's development assistance to Central Asia fails to have a significant impact. In turn, China's foreign aid to Central Asia is more pervasive, and has a tangible impact on the ground. However, the positive impact of China's assistance, not least improved living standards as a result of enhanced transport and electricity infrastructure, is being offset by the negative implications of its increased involvement, including deepening economic and financial dependency.

Keywords: development cooperation; China; European Union; Central Asia

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## **Introduction**

In recent years, both the European Union's (here after EU) and China's international development activities have been attracting growing attention in the academic literature. However, the development assistance to Central Asia by China and the EU has received little attention, despite their increasing involvement in the region. While almost absent in Central Asia in the 1990s, China has made a remarkable rise over the last ten years up to the point where it is now a leading actor in the region. The EU's role in Central Asia has also evolved significantly, from that of little more than an invisible and arguably ineffective donor in the 1990s to that of a strategic player by the late 2000s (Bossuyt 2010a; Bossuyt 2015).

This paper provides a comparative analysis of EU and Chinese development assistance towards the Central Asian countries. In doing so, it explores the question what impact their assistance has on the ground and how receptive the Central Asian states are to the assistance provided by these two leading actors.

This comparative analysis is relevant for several reasons. First, although China and the EU are the region's main sources of development aid (Kassenova 2009; Peyrouse et al. 2012), their role and impact as donors in Central Asia remains understudied in the academic literature. Second, although they are intrinsically different types of donors, as relatively new actors in Central Asia, China's and the EU's emergence on the Central Asian scene has followed a similar - strongly interest-driven - path (Bossuyt 2010a; Bossuyt 2015; Peyrouse et al. 2012). Moreover, their involvement is driven largely - but not exclusively - by an interest in the region's stability, which they both feel can be achieved through development aid (Bossuyt 2015). However, their vision of development differs strongly. While the EU envisions the achievement of stability through inclusive and sustainable development methods, China equalises development with economic growth instigated through improved infrastructure. And while the EU believes development in the region can only be durable if accompanied with enhancements in governance, China adheres to the principle of non-interference, and hence does not promote any governance-related norms (Bossuyt 2015). This indicates, in turn, that this comparative analysis is also relevant against the background of the changing international donor landscape, which is increasingly divided into two categories of donors, namely the traditional - mostly Western - donors, which are members of the Organization for Economic Cooperation and Development's (OECD) Development Assistance Committee (DAC), and the (re-)emerging donors, which are not members of the DAC (see e.g. Zimmermann and Smith 2011). As the EU and China are leading donors within the two respective categories, a comparison of their development assistance to Central Asia will help to

shed further light on the fast changing international aid landscape, and in particular, on how the differences between the traditional and the emerging donors are being played out in terms of their effectiveness and impact on the ground.

This paper seeks to contribute to filling this gap in the literature by providing an exploratory comparative analysis of the impact of and receptiveness to the EU's and China's development assistance towards Central Asia. Given the lack of literature on this topic, the paper uses an exploratory research design (Friedrichs and Kratochwil 2009). This implies that the paper does not seek to test a theory or prove a specific causality. Rather, it aims to better understand a phenomenon that has so far received little attention. It does so by means of, on the one hand, the formulation of expectations based on different insights from the literature on the effectiveness (or lack thereof) and impact of international aid and studies on the rise of non-DAC donors, and, on the other hand, a detailed analysis of relevant empirical data. As such, the paper follows an 'abductive' approach, which holds the middle between deduction and induction (Friedrichs and Kratochwil 2009, 709, 714-715).

In focusing on the EU's and China's development assistance to the Central Asian states, this paper considers Central Asia in a global context, where state strategies, local complexities and actions of international organisations and regional powers interact (Ohayon et al. 2014). The paper thus starts from the assumption that complex factors and processes at various levels have influenced the development trajectories of the Central Asian countries. This suggests that the impact of one factor – i.e. the impact of external actors such as the EU and China – cannot be examined in a vacuum and needs to be considered alongside other factors, including domestic specificities (e.g. level of openness towards external aid and natural resource endowment).

While Central Asia has long remained outside of the geographical remit of development studies, recent scholarship localises Central Asia firmly within the 'South', characterising the region's development problems along typical North-South dimensions (see e.g. Ohayon et al. 2014). Central Asia was traditionally the most underdeveloped part of the Soviet Union and grew a strong socio-economic dependence on the Soviet system. Following the demise of the Soviet Union, poverty and inequality in the region increased sharply. With the exception of Kazakhstan - which was much more integrated into the Soviet industrial economy and which experienced steep economic growth in the 2000s -, the average level of wealth remains markedly low (Bossuyt 2010b). Large numbers of Central Asians subsist on less than two dollars per day, revealing a very high degree of poverty (UNDP 2014a). Overall levels of prosperity in most states in the region are lower than in countries in Eastern Europe and North Africa, and come close to those in countries in Sub-Saharan Africa (Bossuyt 2010b). Moreover, basic public services, such as education and healthcare, although already established several decades ago, are in decline due to a lack of investment in human capital and basic public well-being (Hohmann et al. 2014).

In turn, the extent to which the five states differ in size, geography and resource endowments

largely corresponds with their difference in national wealth. Kyrgyzstan and Tajikistan, which are mountainous and have no hydrocarbon resources, are the poorest countries in the region. Uzbekistan has the largest population and has some gas reserves. Kazakhstan and Turkmenistan have substantial energy reserves, and are the most prosperous countries in Central Asia. However, all of them are landlocked, which implies high transaction costs. Control over the most valuable resources in all five Central Asian countries - hydrocarbons, pipelines, mines, power generation, large industrial enterprises - is subject to neo-patrimonial or patronage politics controlled by the president and his immediate family and clan. This has earned the countries in the region the label of typical 'rentier states'. Political power in Central Asia is defined by the ability of leaders to control these patronage pyramids. These have been attributed as a hold-over of Soviet times, a result of economic shortages and an over-reliance of natural resources in the country's economic profile, the weakness of formal political institutions and cultural practices in the region that pre-date Soviet rule (Collins 2006). In this respect, some have drawn parallels between Central Asian states and those in post-colonial Africa, remarking upon how both had to construct a new order with an institutional inheritance that provided economic and social problems and a weak state capacity to help solve them (Beissinger and Young 2002; Collins 2006).

Progress on achieving the Millennium Development Goals has been mixed. While the region scores high on universal primary school education, some countries continue to face problems with maternal mortality, the fight against HIV/AIDS, infant and child mortality, and malnourishment among women and children (UNDP 2014b; UNDP Kyrgyzstan 2014; UNDP Tajikistan 2014). Water scarcity remains a serious problem in most areas of Central Asia, which is increasing human vulnerability (Fritz 2007).

In theorising the effectiveness (or lack thereof) and impact of international aid, development studies point to both domestic (i.e. inherent to the local context of the recipient country) and donor-related factors. Effective development aid tends to be strongly correlated with the 'absorptive capacity' of recipient countries and their overall governance performance and institutional capacity (Kihara 2012). In the case of Central Asia, this means that the poor governance performance and weak institutions of the countries' governments are likely to undermine the effectiveness of the international aid delivered to them. On the donor side, the effectiveness and impact of aid have appeared to be compromised by DAC donors' internal stringent and inflexible bureaucratic procedures and high transaction costs related to their aid machinery (Kihara 2012). In contrast, assistance provided by emerging donors tends to be less costly, more streamlined and faster in reaching its target than most DAC aid, which makes it more effective and efficient (Kim and Lightfoot 2011). However, this effectiveness – which usually entails a lack of transparency - has proved to be at the expense of governance, human rights and the environment, as demonstrated by several studies on China's foreign assistance in Africa (Brautigam 2009; Tan-Mullins et al. 2010). At the same time, receptiveness to the aid provided by emerging donors tends to be higher than to the aid provided by DAC donors, in

particular in countries governed by authoritarian regimes, precisely because of the absence of political conditionality and interference in domestic affairs that characterizes the emerging donors' assistance (Kim and Lightfoot 2011).

Based on these insights from existing studies, we can expect Central Asian states to be more receptive to China's assistance than to the EU's aid, because the latter typically involves political conditionality and interference in domestic affairs. In terms of impact on the ground, China's assistance is likely to have both a positive impact and a detrimental effect on the region. In turn, we can presume the impact of the EU's assistance to Central Asia to be low due to unfavourable local conditions relating to poor governance and weak institutions, as well as the cumbersome bureaucratic process of the EU's aid machinery.

The paper is structured as follows. The first section offers a qualitative analysis of the EU's and China's development assistance, tracing their involvement as a donor in Central Asia from 1991 until today. Next, the paper moves on to explore what impact these two donors have on the ground, and assesses how receptive the Central Asian countries are to the assistance. The conclusion of the paper summarises the main findings, and points to the overall (economic, political and security) implications of the EU's and China's increased involvement in the region for the development prospects of the Central Asian countries.

Methodologically, the paper draws on document analysis of primary and secondary sources. The primary sources include statistical data, official documents of the Chinese government (including press releases by Chinese embassies in the region), the EU and the Central Asian states. The secondary sources consist of a combination of academic publications, newspapers from specialised media and reports by think-tanks and research institutes. Additional data were gathered through semi-structured interviews with relevant stakeholders, including officials, experts and practitioners.

## **EU and Chinese development assistance to Central Asia**

### **EU assistance to Central Asia**

The EU has been active as a donor in the region since the early days of post-Soviet independence. The European Commission opened its first delegation office in Central Asia in 1994, in Almaty, the then capital of Kazakhstan. The delegation was charged with implementing part of the EU's technical and financial assistance in Kazakhstan, Tajikistan and Kyrgyzstan, which were beneficiaries of the EU's financial instrument for the former Soviet states, namely 'Technical Assistance for the Common Wealth of Independent States' (TACIS). At the time, the European Commission was already represented in the region through the Central Asian office of the European Community Humanitarian Office's (ECHO), which had opened in Dushanbe in 1993 in order to coordinate the EU's provision of humanitarian aid to Tajikistan and Kyrgyzstan. As an

instrument introduced shortly after the collapse of the Soviet Union in 1991, TACIS was designed to promote the post-Soviet countries' transition to a market economy and to reinforce democracy and the rule of law. Throughout the 1990s, TACIS mostly aimed at economic development, government services capacity building and poverty reduction (European Commission 2002). A range of other aid instruments is introduced in the 1990s to assist the countries in the region. Local NGOs and media, for instance, have been sponsored through the European Instrument for Democracy and Human Rights (EIDHR), although the number of projects remained scarce until the mid-2000s. Next to these national assistance programmes, the EU established a number of regional and cross-border programmes, including the Central Asia Drugs Action Programme (CADAP) in 2001 and the Border Management Programme for Central Asia (BOMCA) in 2003.

With EU assistance between 1991 and 2002 totalling around €944 million, the EU grew to become the largest donor in the region in the first decade of their post-Soviet independence (European Commission 2002, 12). However, this cumulative amount conceals the paradox that, despite being the most generous donor in the region, the EU was a rather invisible development actor, especially in comparison to other donors, including the U.S., the UN and Asian and Muslim development agencies (Bossuyt 2010b). Moreover, assessments of the impact of the EU's assistance programmes showed mixed results with limited success. One of the problems was the breadth of the objectives and programmes, which negatively affected the timeliness of delivery, effectiveness and follow-up of the projects (European Commission 2002). Another obstacle was that reform in the Central Asian states was slower than in most other post-Soviet countries, amongst other things, due to limited administrative and technical capacity. Crucially, this indicated that the Central Asian states faced problems that went beyond matters of transition and for which TACIS was not adequately equipped. To address this problem, the EU gradually started to focus more on poverty reduction in the region, especially in Kyrgyzstan and Tajikistan. In the mid-2000s, the EU decided that assistance for the Central Asian countries should be provided via the financing instrument designed for developing countries rather than for post-Soviet countries. Since 2007, therefore, the five countries have been beneficiaries of the Development Cooperation Instrument (DCI).

Overall, the amounts and sorts of assistance<sup>1</sup> that the EU has been providing to the five countries over the last decade reflects the governments' disparate attitudes towards foreign involvement in their development initiatives, as well as the countries' divergent economic growth paths. As the poorest countries in the region, Kyrgyzstan and Tajikistan have been the main beneficiaries of EU aid. Turkmenistan, in contrast, has received the least assistance. The gradual opening of Turkmenistan following President Niyazov's death in 2006 led to a more open stance towards foreign assistance and created new opportunities for the EU to step in and expand its development assistance to the country (Bossuyt 2010b). Nevertheless, the regime remains tough to work with it, and ten years after Niyazov's death the EU still sees little scope for promoting

reform (Peyrouse et al. 2012, 19). Similarly, although Uzbekistan has maintained closer relations with the EU, the EU finds it hard to cooperate with the Uzbek government and sees limited potential to offer effective aid to the country. Kazakhstan, with its GDP increasingly dwarfing that of the other four states, no longer needs development assistance. Therefore, in recent years, EU assistance to the country has concentrated mostly on capacity building rather than poverty reduction (Bossuyt 2010b). Moreover, as an upper middle-income country, the country will no longer receive bilateral assistance via DCI under the latest multi-annual programming cycle, i.e. 2014-2020. Instead, EU bilateral cooperation with Kazakhstan will be financed through the Partnership Instrument, a new instrument that builds on the Instrument for Cooperation with Industrialized countries. Nevertheless, Kazakhstan will continue to receive funding through the DCI regional assistance programmes for Central Asia as well as through thematic programmes such as EIDHR. Similarly, EU bilateral aid to Turkmenistan is likely to be phased out within a couple of years, as the country might soon be reaching the upper middle-income status (Interview 1).

To help implement the ambitious political strategy that the EU agreed in 2007 for its cooperation with Central Asia (Council of the EU 2007), the European Commission more than doubled its aid budget for the region for the 2007-2013 period, earmarking an indicative budget of €719 million for the assistance provided through DCI (European Commission 2007, 3). Additional funding for the implementation of the strategy was granted by a number of EU Member States, which committed themselves to launch new projects under the framework of the strategy. France and Germany, for instance, are the lead coordinators in developing the EU Rule of Law Initiative for Central Asia, which aims to support reform and the sharing of experience between the EU and the Central Asian states in the area of legal and judicial matters.

Under the Regional Strategy Paper for Assistance to Central Asia for the 2007-2013 period, the EU pursued a more balanced dual track of bilateral and regional cooperation, with a regional approach for problems occurring across or involving all five countries, including water resource management, transport infrastructure and anti-drug trafficking initiatives, whilst following a bilateral, tailor-made approach for individual national issues (European Commission 2007). At the bilateral level, assistance through DCI in 2007-2013 focused on two priority areas, namely poverty reduction and increasing living standards; and good governance and economic reform (European Commission 2007). Within these two priority areas, three focal sectors were identified per country in accordance with their particular requirements and policies (European Commission 2010, 16). In addition, the countries, and in particular Kazakhstan, Kyrgyzstan and Tajikistan, received assistance via EIDHR and the thematic programmes and instruments, including the Non-State and Local Authorities programme (NSA-LA) and the Instrument for Stability (IfS).

For Kyrgyzstan and Tajikistan, a significant part of the DCI funding has been provided through sectoral budget support as a way to foster increased accountability and good governance

(Peyrouse et al. 2012, 18). In Turkmenistan and Uzbekistan, the EU does not provide budget support because it sees insufficient scope in these countries for promoting reform and is even concerned that such kind of support would only strengthen the authoritarian regimes (Peyrouse et al. 2012, 19; Boonstra and Hale 2010). Similarly, EU instruments that promote democracy and support civil society, such as EIDHR and NSA-LA, are active in Kazakhstan, Tajikistan and Kyrgyzstan, but much less so in Uzbekistan and Turkmenistan.

For the period 2014-2020, the EU sets forward the trend of increasing its assistance to Central Asia by earmarking an indicative budget of one billion euros for its foreign aid to the region via DCI (Council of the EU 2015, 4), an increase of about one third compared to the previous multi-annual period. Additional funding will come from the EU's other financial instruments, including EIDHR, and contributions by EU member states and European finance institutions. About one third of the pledged funding, i.e. € 360 million, is earmarked for regional assistance (EEAS 2014). Kyrgyzstan and Tajikistan will remain the principal beneficiaries, with the two countries being allocated € 184 million and € 251 million respectively. € 168 million is earmarked for Uzbekistan, and € 36.5 million for Turkmenistan (EEAS 2014). As mentioned, Kazakhstan no longer qualifies for bilateral assistance through DCI.

Responding further to mixed evaluations of its assistance to the region, the EU has sought to make its bilateral assistance under the latest multi-annual programme more differentiated and more result oriented - in accordance with the countries' needs -, therefore focusing on an even narrower number of policy sectors. In 2014-2020, the two main recipients, Kyrgyzstan and Tajikistan, will receive bilateral assistance in three priority areas and Uzbekistan and Turkmenistan in only one (EEAS 2014). Apart from education and rural development, priority sectors for Kyrgyzstan and Tajikistan are rule of law and health respectively. For Uzbekistan, the focus will be on rural development and for Turkmenistan on education.

In 2010, the EU launched the Investment Facility for Central Asia (IFCA), a blending mechanism to help Central Asian countries to improve key infrastructure, mainly in the field of energy efficiency and the environment (European Commission 2012). IFCA is financed based on a combination of grants provided by the EU and concessional loans extended by the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and/or other (European) development finance institutions. The facility has been used, for instance, to implement a project in Tajikistan aimed at reducing electricity loss in the Sugd region, the second largest region of the country. The project was financed by a DCI grant of € 7.2 million, an EBRD loan of € 7 million and an EIB loan of € 7 million (European Commission 2012, 11). The IFCA is considered a key instrument to unlock additional financing for investments that would otherwise not have been affordable (EEAS 2015, 35). In the current climate of continued public spending cuts in the EU, blending helps to scale up financial resources and catalyse investments. For the 2014-2020 period, the EU has pledged to channel more support to the region through the IFCA, and both the EIB and the EBRD have committed to increase their loans to the IFCA.



## **China's aid to Central Asia**

Although there are no detailed official accounts or records available of China's assistance to Central Asia, the numerous reports in the media, often of multi-billion dollar projects, reveal that Chinese involvement in the region has grown exponentially in recent years and has undoubtedly outgrown that of the EU. China may well offer relatively little ODA compared to the EU, but the amounts it spends on other forms of assistance, including soft loans, are enormous. However, the absence of detailed official records of its assistance makes it difficult to give precise estimates. The latter vary widely depending on how aid is defined. Only a small portion of China's international development activity fits the OECD-DAC definition of ODA as: 'flows of official financing to developing countries provided by official agencies, which have a clear development or anti-poverty purpose and are at least partially concessional in nature, with a grant element of at least 25 per cent.'<sup>2</sup> This includes grants, food security aid, humanitarian assistance and social welfare programmes. Most of the assistance provided by China consists of soft loans – i.e. concessional or low-interest loans below market rates, which do not contain grant elements - and government-backed or subsidised investments in infrastructure and natural resources (Government of the PRC 2014; also see Lum et al. 2009; Kassenova 2009: 9). Chinese aid thus tends to blur the distinction between development loans and foreign investment. Unlike the traditional aid provided by Western donors, Chinese aid comes with tangible benefits for the donor, such as increased access to energy resources and lucrative contracts for Chinese companies. Hence, the Chinese refer to cooperation rather than aid, highlighting that cooperation involves a win-win situation, as it benefits both recipients and donors.

China started providing assistance to its Central Asian neighbours in the early 1990s. For the most part, it concerned small loans and grants allocated to the newly independent states to purchase Chinese consumer goods (Wacker 2011, 83). China's assistance to the region slowly started expanding in the first half of the 2000s, taking the form of investments in and financing of infrastructure projects, and then rapidly increased in recent years (Wolf et al. 2013). At the SCO Summit in Tashkent in 2004, former Chinese President Hu Jintao announced a development loans package of US\$ 900 million to the Central Asian SCO member countries. 600 million was extended to Tajikistan and 300 million to Kyrgyzstan (Peyrouse et al. 2012, 12). In 2009, China provided a loan package of no less than \$10 billion to Kazakhstan (Peyrouse et al. 2012, 14). In 2013, the announcement by Chinese president, Xi Jinping, of China's plans for a Silk Road Economic Belt during a 10-day tour through Central Asia was accompanied by an estimated US\$ 48 billion worth of investment and loan agreements, mostly related to the energy, trade, and infrastructure sectors (Yakobashvili 2013).

As part of the so-called "One Belt, One Road" strategy, the Silk Road Economic Belt is a major investment initiative aimed at expanding transport and energy corridors, connectivity, and

establishing new transport links between Asia and Europe. To finance the plans, China has launched the Silk Road Fund, a \$40 billion infrastructure fund, overseen by the China Development Bank, aimed at providing funding for the construction of roads, high-speed rail lines and energy pipelines in Central Asia and western China (Xinhua 2015). Additional funding is expected to come from the Asian Infrastructure Investment Bank (AIIB), initiated by China in 2013 to offer a new multilateral financing and investment platform for infrastructure development and improvement in Asia and set to become operational by the end of 2015 (Xinhua 2015; AIIB 2015). The heavy focus on infrastructure of the One Road, One Belt initiative – and of China’s development cooperation more generally - neatly reflects China’s view on development. Strongly inspired by its own development model, China adheres to the idea that construction and improvement of productive infrastructure feeds into economic growth, private enterprise and employment, and strengthens regional connectivity. As stated on the website of the China-dominated AIIB, ‘infrastructure development contributes to the reduction of poverty and enables business activity through improved access to basic services, including a reliable electricity supply, efficient transport systems, clean water supply, access to sanitation services, and modern telecommunications’ (AIIB 2015).

Chinese concessional loans are officially extended to the recipient government, but while the latter is invoiced as the official payee of the loan, the money is usually directly transferred from the China Export-Import Bank (Eximbank) to the implementing company that has won the tender (Kassenova 2009, 9). As these are usually Chinese companies, the money thus stays within Chinese hands. Concessional loans can be extended for the procurement of equipment, materials, technology and services, but 50 per cent of the procurement needs to come from China.

For activities in the extractive and mining sectors, China applies a distinct loan scheme, the so-called Angolan model, according to which loans are provided on the condition that they are repaid in the form of natural resources (Kassenova 2009, 8). Such loans have been extended to all five Central Asian states, which are now all substantial debtors of the Chinese state. China is very interested in Kazakhstan’s oil, uranium, gold and copper, Turkmenistan’s and Uzbekistan’s gas, Kyrgyzstan’s hydropower and gold, and Tajikistan’s hydropower and aluminium, among other things. Accordingly, a considerable amount of Chinese loans and FDI in Central Asia has gone into the extraction and energy transport industries. Major projects in these sectors include the Atyrau-Alashankou pipeline connecting oil fields across Kazakhstan with refineries in Xinjiang and the Sino-Central Asian gas pipeline, which transports gas from Turkmenistan across Uzbekistan and Kazakhstan to China.

In just a few years, China has grown to become the single largest donor in the region. Its assistance today goes primarily to the construction and upgrading of infrastructure, in particular transport infrastructure (roads, tunnels, bridges and railways, especially in Kyrgyzstan and Tajikistan) and extraction infrastructure. The focus on infrastructure is set to further increase with the Silk Road Economic Belt now being well under way. Assistance is also provided to build

turnkey hydropower stations and upgrade the telecom sector (internet and mobile phone networks) (Peyrouse et al. 2012, 14). In Kyrgyzstan, for instance, recent major Chinese loans and investments went into the construction or renovation of power grids in Southern Kyrgyzstan, Date Ka - Plaquemines power transmission line in the northern part of Southern Kyrgyzstan, the Osh - Batken - Isfana road corridor, hydropower transformation in Bishkek, the North - South Highway, a gas pipeline, Kara-Balta oil refinery, Tokmak oil refinery and road rehabilitation in Bishkek (China's embassy to Kyrgyzstan 2013a, 2014a). In Kyrgyzstan and Tajikistan, China also provides aid to build schools and hospitals (see e.g. China's embassy to Kyrgyzstan 2013b, 2014b; also see Wacker 2011, 84). Also in Uzbekistan, China has grown to become a major donor in the health and education sector. Across the country, schools and hospitals are benefitting from Chinese grants allocated for the improvement and upgrading of specialist equipment, technology and logistics (Uzbek government, 2014a, 2014b). In Kyrgyzstan, China has also been providing assistance for the reconstruction of the residential areas in Southern Kyrgyzstan that were affected by the violent ethnic riots in 2010, including Osh (China's embassy to Kyrgyzstan 2014b). As Tajikistan and Kyrgyzstan are the poorest and least stable countries in the region - with poverty and instability being interconnected in China's view - they receive the largest share of Chinese aid to the region. In turn, this has further amplified their dependence on foreign aid (Peyrouse et al. 2012; Wacker 2011).

## **Impact of the EU's and China's assistance**

### **Low EU impact**

The EU's assistance to Central Asia has delivered some positive results, but, overall, long-term impact on the ground – in terms of increased socio-economic development and reduced poverty - seems limited (Interview 2, 3, 4, 5; also see European Court of Auditors 2013; European Parliament 2011; ICAI 2012). The low impact of the EU's aid in the region is due to various factors, which include both EU-related issues and local factors. To begin with, although the EU was the most generous donor in the region by the early 2000s and its development assistance to Central Asia continues to grow, the amount of funding it has provided to the region is relatively limited. With bilateral assistance in the previous multi-annual period amounting to only some tens of millions of euros per country per year, there have been serious budgetary limits to what the EU's assistance can achieve on the ground (Boonstra and Hale 2010, 10; European Parliament 2011). Moreover, up until 2013, the EU's assistance remained too dispersed across several fields, which - given the limited funding - further reduces the likelihood of having a tangible impact on the ground and increases the transaction costs of the aid delivery (European Court of Auditors 2013, 18; Peyrouse et al. 2012). Similarly, the EU needs to put more effort into donor coordination with the EU member states active in Central Asia, both at the strategic and the operational level (Fritz 2007). In pooling sources in this way, the EU would be able to

concentrate its assistance in a number of projects and priority areas that is more feasible with the amount of funding available. According to the same logic, the EU needs to strengthen its coordination with other international donors in the region.

In addition, the EU's aid delivery in the region has suffered from serious delays in implementation. By the end of 2012, only half of the planned commitments for the 2007-2013 period under the DCI instrument had been contracted and just under 30 per cent had been paid (European Court of Auditors 2013, 27). The main factors contributing to the delays in implementation are opaque bureaucratic procedures in the Central Asian administrations, difficulties in finding suitable fundable activities and the complicated procedural and legal requirements of the EU's aid delivery (European Court of Auditors 2013, 27). The pace of implementation varies substantially among the five Central Asian countries. Implementation has been much slower in Turkmenistan and Uzbekistan than in Kyrgyzstan and Tajikistan. In the former countries, progress was hampered mostly due to the differences with the EU in priorities and approaches to development cooperation. Poverty reduction, for instance, is not recognised by those governments as a priority (European Court of Auditors 2013, 28). Being strongly aid dependent and Paris Declaration adherents, Kyrgyzstan and Tajikistan have much less differences with the EU in that regard. Unlike Uzbekistan and Turkmenistan, for instance, they have produced needs assessments for development assistance and poverty reduction strategies (European Court of Auditors 2013, 27).

The EU's assistance arguably has the largest impact in Kyrgyzstan and Tajikistan (Boonstra and Hale 2010, 16). Given their persistent need for funding and the fact that they receive the largest part of the EU's development aid in the region, these countries are relatively receptive to the EU's assistance. Hence, the EU has some leverage there through its provision of assistance. However, the EU's main aid delivery mode in Kyrgyzstan and Tajikistan, namely budget support, has been fraught with difficulties due to the pervasive corruption and the highly centralized, hierarchical governance modes in the administrations of both countries. As a result, progress in improving public finance management through EU budget support has been slow (European Court of Auditors 2013, 25; Boonstra and Hale 2010, 11-12). Also in other fields, EU assistance in the region has faced difficulties in achieving the targeted results due to poor governance and endemic corruption in the public administrations of the Central Asian countries (Boonstra and Hale 2010, 12; Bossuyt 2010b; Peyrouse et al. 2012, 15).

Perhaps the most tangible outcome of EU assistance in the region in spite of several obstacles is the involvement of local civil society, in particular in Kazakhstan, Tajikistan and Kyrgyzstan. Local civil society is attributed two roles in the EU's assistance. The first role is an advisory one: local civil society is consulted during the programming phase of the EU's assistance, for instance during the preparation of a new bi/tri-annual Indicative Programme (Boonstra and Hale 2010, 12). The second role is related to the delivery of the aid. Local NGOs and other societal actors can participate in tenders, and if successful, they are granted financial support to implement particular projects. While both roles serve a developmental purpose, the EU's support to local

civil society should also be seen in light of the EU's democracy promotion agenda for the region. In the aforementioned countries, this approach has paid off. In Tajikistan, for instance, government agencies and civil society are cooperating to implement joint EU funded projects, and state institutions are asking NGOs for advice (Boonstra and Hale 2010, 13).

In sum, the EU's assistance to the region has so far failed to have an effective impact on the ground. In line with the expectations drawn from the literature on the conditions and obstacles for effective aid, the EU struggles to have a real impact on the ground due to the local restrictive environment, including poor governance and weak institutions, pervasive corruption and governments' uncooperative attitude. In addition, the amount of funding has been too limited and the aid too dispersed across different fields for it to have a tangible impact on the ground. Another obstacle is the inflexible procedural and legal requirements of the EU's aid delivery

### **China's impact: extensive but contested**

Compared to the EU, the impact of China's assistance in Central Asia is more pervasive, not least because of the sheer volume of the assistance. In addition, it is also more visible. This is not surprising given that the largest part of Chinese development assistance is allocated to large infrastructure projects. China's engagement with the region appears to benefit the development of the Central Asian countries in three aspects. First, the construction of transport infrastructure, power transmission lines and hydropower plants offers direct benefits to the Central Asian countries insofar as it helps them to break from their landlocked geographic isolation, and therefore increases their development potential (Interview 3; Interview 4; Kassenova 2009, 22). Apart from facilitating domestic trade and doing business, the new transport infrastructure increases trade with China, bringing more Chinese products to the Central Asian markets. Like in Africa, cheap goods from China yield welfare gains for Central Asian consumers – which have much lower purchasing power than Western consumers - and help them to maintain a certain standard of living (Kassenova 2009, 22).<sup>3</sup> Moreover, by erecting new heavy-industry facilities and manufacturing factories, Chinese investors are playing a crucial role in rejuvenating the region's degraded industrial landscape, which in turn translates into job creation. Finally, through the construction and upgrading of electricity generation plants and transmission lines as well as energy transport and extraction infrastructure, China is not only contributing to the economies' electricity and energy independence, but it is also improving the quality of life of thousands of Central Asian citizens (Interview 3).

Compared to the EU's aid, China's assistance is perceived as more 'attractive' by the local regimes, which increases their receptiveness (Interview 2; Interview 3; Interview 4). The Central Asian governments are first and foremost attracted by the fact that China's assistance does not involve the sort of conditionalities that the EU and other Western donors attach to their aid delivery, concerning, for instance, human rights performance, economic management or good

governance (Interview 2; Interview 4; Lengauer 2011; Kassenova 2009; Peyrouse et al. 2012). The absence of this kind of conditionality in China's foreign aid policy stems from its strong commitment to the principles of non-interference in internal affairs and the treatment of other countries as equals. China promotes its own example of development, but - unlike traditional donors - does not impose blueprints and models. Instead, China adjusts itself to the development needs of the recipient countries and asks – in most cases - what areas require Chinese funding (see e.g. Gatev 2015, 40). This approach fits well with China's overarching goal to have stable and loyal friends along its borders (Interview 3). Equally attractive to the local regimes is that China delivers results quickly and effectively (Kassenova 2009; Peyrouse et al. 2012). As Kassenova puts it, 'it has the finances, experienced companies, cheap and disciplined labour force, and a streamlined and effective process of negotiating and delivering projects' (2009, 22).

However, China's overwhelming presence in the region also has a considerable number of drawbacks. More so than in Africa, concerns are expressed in Central Asia about the negative impact of China's assistance on the region. Most concerns regard the lack of sustainability of China's assistance. To begin with, Chinese aid hardly involves competence- and capacity building and therefore does not help Central Asian economies to become autonomous actors in their own development (Peyrouse et al. 2012, 14). On the contrary, it aggravates their economic dependency on China's assistance and products. In implementing aid projects, Chinese companies mostly employ Chinese workers. As a result, local job creation remains limited and no technology transfers take place.

Moreover, local industries are unable to compete with imported Chinese products. This does not only entail job losses, but also leads to further trade dependency of Central Asian states on China. The Sino-Central Asian trade structure is mostly characterised by China importing minerals, metals and hydrocarbons and exporting manufactured goods (Wacker 2011, 81; Cooley 2012a, 86). These are mostly textiles, shoes, consumer goods and electrical appliances (Wacker 2011, 81). Moreover, as their Chinese debts are mounting, the local governments are increasingly concerned with the consequences of becoming financially dependent on Beijing. This is particularly worrying for the two poorest countries. Kyrgyzstan, for instance, currently owes the China Exim Bank no less than \$ 11 billion, which is a third of its total external debt (China's embassy to Kyrgyzstan 2015). In addition, China's lack of aid conditionality and monitoring standards, as well as its direct dealings with the authoritarian governments, reduces the transparency of its projects and exacerbates local governance problems (Cooley 2012b).

In sum, in line with the expectations formulated in the introduction based on insights from existing studies on China in Africa, the win-win situation that China aspires to create in Central Asia is rather a win-win/loss situation. While China reaps sizeable benefits from its involvement in the region (increase in commercial opportunities for its companies – which are moreover the main benefactors of the loans extended to the Central Asian countries – and enhanced access to natural resources), the benefits for the Central Asian countries are being offset by the negative implications of China's assistance. A concrete example of this is Aktobe, an oil-rich town in

north western Kazakhstan, where a substantial Chinese economic presence has not translated into prosperity for the local population (ICG 2013, 14). Instead, the locals complain about a decrease in job opportunities, poor and hazardous working conditions, health problems resulting from environmental depredation, alleged abuse of workers, low pay and limited economic trickle down (ICG 2013). Similar complaints have been expressed in Kyrgyzstan and Tajikistan (Interview 3; Interview 5). Such cases have engendered mistrust and antipathy towards China and its nationals across a region, where Sinophobia is already rife (ICG 2013; Kassenova 2009; Peyrouse et al. 2012). Not accidentally, the past few years have seen an increase in the number of Chinese companies experiencing difficulties on the ground (Interview 3; Interview 4; Interview 5). In Kyrgyzstan, the brand new Chinese oil refinery in Kara-Balta was even forced to close down after repeated local protests (Eurasianet 2014). China's assistance may well have strong governmental backing, but the lack of grassroots exchanges and engagement on a societal level, together with the differences in culture and language, entails that Chinese involvement is not equally backed up by public support (Xue 2014). Moreover, popular distrust towards China is often abused by local politicians hoping to gain something out of China's steep expansion into the region. In Kara-Balta, for instance, the protests were reported to have been fuelled by an opposition politician eager to destabilize the Kyrgyz government (Eurasianet 2014).

These limitations of China's assistance are reminiscent of the early days of the Bretton Woods financial institutions, when their infrastructure-focused development model, which rested on the same vague economic trickle-down assumptions as those currently espoused by China, started to reveal several negative externalities (Abdenur 2014, 94). Setbacks incurred by Chinese assistance have raised China's awareness that its approach will need to cater for the sustainability of the projects (Interview 2). However, China – firmly committed to the principle of non-interference - does not yet seem to acknowledge that without good governance and capable administrative institutions in the beneficiary countries its assistance is unlikely to have a durable impact on these countries' development.

## **Conclusion**

The purpose of this paper was to provide an explorative comparative analysis of the impact of and receptiveness to the EU's and China's development assistance towards Central Asia. The analysis confirmed the expectations formulated in the introduction, which were drawn on different insights from development studies. To begin with, despite having spent a considerable amount of funding in the region throughout the past two decades, the EU's development assistance to Central Asia has so far failed to have a significant impact on the ground. This is due both to domestic factors, in particular, the poor governance performance and weak institutions of the Central Asian countries' governments, which negatively affect the effectiveness of the EU's aid, and EU-related factors, including the cumbersome bureaucratic process of the EU's aid machinery and the lack of priority given to Central Asia compared to other developing regions.

Moreover, with the exception of Kyrgyzstan and Tajikistan, the poorest countries in the region, receptiveness to the EU's aid is low, mostly because it involves political conditionality and interference in domestic affairs. In contrast, receptiveness to China's assistance is high across the entire region. China's foreign aid to Central Asia is also more pervasive, and has a tangible impact on the ground. However, the positive impact of China's assistance, not least improved living standards as a result of enhanced transport and electricity infrastructure, is being offset by the negative implications of deepening economic and financial dependency on China.

While there are popular concerns in Central Asia about the negative consequences of China's increased foothold in the region, the local regimes are very eager to continue cooperation with their Eastern neighbour. At the same time, China is keen to further extend its assistance to the region and its development cooperation is set to further expand in coming years. Central Asian countries' increasing dependence on Chinese aid is likely to change the geopolitical balance within the region, tilting it more in the direction of China. However, China's foreign aid approach, centred on large-scale infrastructure projects agreed at elite level and implemented by Chinese companies, has been starting to show its first cracks and fragilities. China's lack of aid conditionality and monitoring standards, as well as its direct dealings with the countries' authoritarian governments, reduces the transparency of the assistance and comes at the expense of governance, human rights and the environment, which, in turn, fuels popular distrust. In this regard, it remains to be seen whether China will be both willing and able to deliver assistance which is more sustainable and socially inclusive.

This study was only a first step in better understanding a largely unexplored topic. Therefore, the findings of this explorative analysis should be considered as a stepping stone towards more focused hypothesis testing on the receptiveness to and impact of China's and the EU's aid in Central Asia. Future research should also delve more deeply into specific case studies of the EU's and China's assistance in the different Central Asian countries. The broad scope of this topic entails that there are ample opportunities for future studies to advance academic discussions, not only on the impact of international aid, but also on issues relating to DAC versus non-DAC donors and on the development trajectories of the Central Asian countries.

Central Asia's growing dependence on China is likely to translate into more political influence for China, whose successful domestic development model is considered inspirational by the region's political leaders. This does not bode well for the EU's influence in the region, not least for its leverage to push for reforms. Therefore, if the EU is intent on remaining an important actor in the region, it will have to further reconsider its assistance and explore more effective ways of delivering aid in Central Asia. This would include coordinating more intensively with EU member states active in the region as well as with other international donors, including China.

As for the long-term development prospects in Central Asia, no external funding is likely to significantly impact the development of the Central Asian countries if domestic governance



remains heavily corrupt and the state is unable (and/or unwilling) to act as a developmental engine in the long-term interests of the country. Put differently, the positive impact of any external assistance is likely to remain futile as long as the countries' development is captured by narrow interests concerned with building clientelist networks rather than with the long-term interests of their country. In this respect, it remains to be seen to what extent the rise of China will create more opportunities for economic development in the region. Most scholars seem to suggest that China's positive impact on the countries' development can only be sustainable and inclusive if many other factors line-up to make that possible, including better governance and lower corruption. In the absence of these conditions, China's rise risks exacerbating existing inequalities and creating new problems rather than solving old ones.

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### **List of interviews**

Interview 1. Interview with official of European External Action Service, 17 March 2015.

Interview 2. Interview with Chinese expert, 14 June 2015.

Interview 3. Interview with Kyrgyz academic, 4 July 2015.

Interview 4. Interview with Uzbek development assistance practitioner, 4 July 2015.

Interview 5. Interview with German development assistance practitioner, 13 July 2015.

Interview 6. Interview with German development assistance practitioner, 21 September 2016.\*

Interview 7. Interview with Kyrgyz development assistance practitioner, 21 September 2016.\*

Interview 8. Interview with representative of the Central Asia office of INTRAC (International NGO Training and Research Centre), 22 September 2016.\*

Interview 9. Interview with Kyrgyz academic, 23 September 2016.\*

Interview 10. Interview with official of DG DEVCO (European Commission), 27 September 2016.\*

Interview 11. Interview with representative of the Central Asia office of International Crisis Group, 29 September 2016.\*

\* These interviews are not yet included in the analysis and still need to be processed in the paper.

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### **Notes**

<sup>1</sup> For a detailed overview of the amounts of funding and sorts of assistance provided by the EU, see Bossuyt (2010b) and Bossuyt (2015).

<sup>2</sup> OECD Glossary of Statistical Terms, online at <http://stats.oecd.org/glossary/index.htm>.

<sup>3</sup> At the same time, however, this blocks the possibility of manufacturing development in the region and undercuts local and regional entrepreneurial development opportunities.