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# Investment Risk Analysis and Countermeasure in Five Central Asian Countries for Chinese Investors

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## 1. INTRODUCTION AND RESEARCH QUESTIONS

Adjoining China, Central Asian countries are on prior situation of Belt and Road Initiative (BRI). In the process of Chinese global overseas investment, countries in Central Asia have gradually become the focus in the world[1]. Central Asia is a very unique region, which is a key hub connecting the Europe and China. It contains 5 countries, including Kazakhstan, Turkmenistan, Uzbekistan, Kirghiz Tanzania and Tajikistan, with a population of more than 74 million. The Eurasian Development Bank pointed out in the latest regional research report that the total GDP of the five countries was 347 billion US dollars in 2021. The initiative of "one belt and one road" has provided great opportunities for Chinese enterprises to carry out foreign trade and overseas investment in Central Asian countries.

Data collected and made available by the China Global Investment Tracker of the American Enterprise Institute and the Heritage Foundation suggests that Chinese companies invested almost USD 50 billion in Central Asian countries in 2005 – 2020: USD 35.58 billion in Kazakhstan, 4.73 billion in Kyrgyzstan, 2.15 billion in Tajikistan, and 5.79 billion in Uzbekistan. According to another source12 China invested more than USD 70 billion in Kazakhstan; about 80% of its investment in the region. After the epidemic era, Central Asia needs more help from China. Therefore, Chinese enterprises should seize the opportunity to increase investment in Central Asia, and rapidly expand overseas markets[2]. International political and economic situation are grim and complicated. Enormous risks, such as poor political stability and immaturity should not be overlooked. It is necessary and urgent to accurately identify and quantify the investment risks in Central Asian countries.

## 2. THEORY AND RESEARCH FRAMEWORK

Analytic hierarchy process (AHP) is adopted to analyze the investment risks of Central Asian countries. In this model, as shown in Figure 1, goal layer is investment risk rank of Central Asian countries. Criterion layer contains economic condition, debt ability, social environment, legal system, and political factor[3]. Alternatives are five countries in Central Asia. Data indicators selected in the whole evaluation system come from the open data information of authoritative institutions at home and abroad, such as the Economist, the global economy, the official websites of the United Nations and China Customs. Other annual reports are issued by above mentioned institutions, such as the Statistical Bulletin on China's Foreign Direct Investment, the Human Development Report of the United Nations Development Programme.

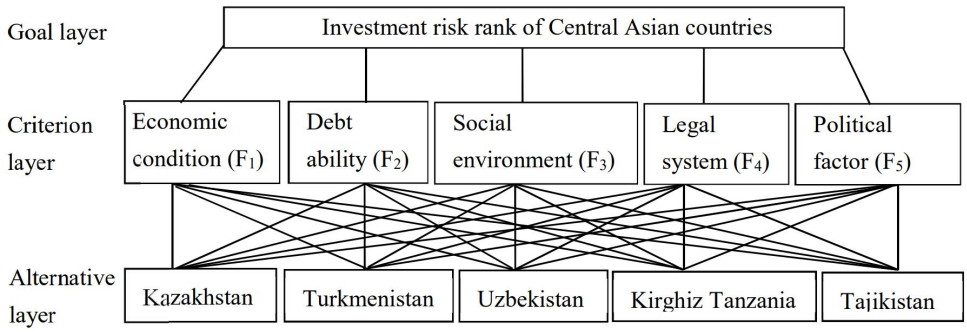


**Figure 1. Analytic Hierarchy Process for investment risk rank in Central Asian countries**

After one by one pair comparison, judgment matrices form. All the criteria are the same importance to each other with respect to investment risk rank of Central Asian countries. Criterion layer judgment matrices of alternatives are evaluated. Hierarchical single ranking is the criterion of evaluating the relative weight of each factor according to the relative weight of

the criterion layer. Characteristic vector of the judgment matrix is obtained through mathematical calculation. The feature vector represents the influence degree of some elements (or all) in this layer on the elements in upper layer, that is, the weight value. In this way, the results of the single ranking of this layer form. Risk identification and quantization can provide reference for overseas investment of Chinese enterprises, and improve the success rate of foreign investment.

## 3. RESULTS AND MAJOR FINDINGS

Table 1 gives the results of the hierarchical total ranking. Comprehensive evaluation of Kazakhstan is the best, Turkmenistan is slightly lower, Kirghiz Tanzania and Tajikistan are ranking in middle. Uzbekistan is the lowest one. Two conclusions can be drawn. First, Central Asian countries are generally suitable for overseas investment. This is due to complementary effect of industrial structure between host countries and China, and governance level is in a relatively superior position. Secondly, different countries have different risk levels. Among them, Kazakhstan has the lowest risk, regardless of economic condition, social environment, legal system, and political factor. Uzbekistan also has lower risk. Uzbekistan has high enthusiasm in attracting Chinese investment. Tajikistan and Turkmenistan have moderate risk, since their infrastructure constructions are imperfect. They have attracted lots of Chinese investment. Kirghiz Tanzania has slightly higher investment risk. Recent growth rate of Chinese investment in Kirghiz Tanzania is lower than that in other countries.

**Table 1. Hierarchical total ranking of investment risk.**

| Criteria | $F_1$ | $F_2$ | $F_3$ | $F_4$ | $F_5$ | Evaluation of total ranking |
|---|---|---|---|---|---|---|
| Weight | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | |
| Kazakhstan | 0.1682 | 0.0952 | 0.2985 | 0.3333 | 0.6307 | 0.3052 |
| Turkmenistan | 0.1460 | 0.1923 | 0.1983 | 0.1667 | 0.0744 | 0.1555 |
| Uzbekistan | 0.1682 | 0.6010 | 0.1688 | 0.1667 | 0.0761 | 0.2362 |
| Kirghiz Tanzania | 0.2257 | 0.0574 | 0.1688 | 0.1667 | 0.0910 | 0.1419 |

## 4. CONTRIBUTIONS

Central Asian countries are generally suitable for overseas investment. RMB internationalization should be promoted in order to facilitate financial overseas trade and investment. With increasing recognition of BRI, China formally accessed to Special Drawing Right basket of currencies[4]. RMB internationalization can effectively reduce settlement risk of investment, and effectively promote development of common financial markets. To avoid investment risk, communication should be strengthened, multilateral trade agreements should be consolidated and expanded[5]. China should use the advantages of oversea culture by organizing cultural activities and setting up cultural exchange organizations, and establish a peaceful and friendly international image[6]. Learning from advanced international experience, we should improve our over-seas investment and financing insurance system. An important function of financial products is to transfer and disperse risks.

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