

Research on the Risk of China's Direct Investment in Five Central Asian Countries Against the Background of "the Belt and Road Initiative"

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Abstract—Because of its unique geographical location and abundant natural resources, the five central Asian countries¹ have become important destinations for Chinese enterprises' OFDI. China's investment in the region also shows the characteristics of expanding scale, mainly state-owned enterprises and concentration in the energy and mineral sectors. Through the risk evaluation and analysis of five central Asian countries, this paper finds that political risk, legal risk, economic risk, risk of policy shift and social and cultural risk are the main risks facing Chinese enterprises in central Asia, and the causes of the risks can be attributed to the theory of resource plunder, unfair competition theory and national security threat theory. In order to protect the interests of Chinese enterprises in foreign investment, it is necessary to mobilize the participation of the state, society, industry and enterprises, and take corresponding countermeasures against different types of risks.

Keywords—the Belt and Road Initiative; the five central Asian countries; direct investment; risk categories

I. INTRODUCTION

Since President Xi Jinping put forward the "the Belt and Road Initiative" strategy in 2013, China's OFDI has been booming. In particular, in 2015, China's OFDI made a historic breakthrough, surpassing Japan to become the second largest OFDI country in the world. According to "2017 China's OFDI Statistics Bulletin", in 2017, China made direct investment in nearly 3,000 overseas enterprises in 57 countries along the "Belt and Road" route, with a total investment of 20.107 billion US dollars, up 31.5% year-on-year. From 2013 to 2017, China's cumulative direct investment in countries along the "Belt and Road" route reached US \$80.73 billion. Among the countries along the "Belt and Road" route, the five central Asian countries are considered to have the greatest investment potential due to their unique geographical geographic position² and rich natural resources, and are increasingly favored by

international capital. Rich as they are in natural resources, their domestic market is relatively small and their economic development is facing a "capital bottleneck". Therefore, there is an urgent need for direct investment in China. China's huge consumer market and strong investment strength are external resources that the five central Asian countries need to rely on to develop their own economy and improve their comprehensive national strength. Due to the complementary economic structure, investment cooperation has naturally become an important part of China's economic cooperation with central Asia. In recent years in particular, China's direct investment in the five central Asian countries has made great progress, and the five central Asian countries have become important target countries for China's OFDI.

However, with the development of international political environment becoming more complicated, the investment environment of the five central Asian countries also faces more uncertainties. As all developing countries, the five central Asian countries have problems such as weak economic foundation, insufficient legal system and single domestic economic structure, and high political risk due to complicated geopolitics and frequent regime change. These factors bring great uncertainty to Chinese enterprises' investment in this region. Therefore, Chinese enterprises must be prudent in making investment in these countries. Before making investment, they should make scientific and reasonable assessment of risks, and make early warning and preventive plans to ensure the safety and efficiency of investment.

II. CURRENT SITUATION AND CHARACTERISTICS OF CHINA'S DIRECT INVESTMENT IN FIVE CENTRAL ASIAN COUNTRIES

A. Development Status of China's Direct Investment in the Five Central Asian Countries

Through sorting out data of "China's OFDI Statistics Bulletin" from 2006 to 2017³ (as shown in "Table I"), it is

¹ The five central Asian countries are Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.

² Located at the junction of Eurasia, the five central Asian countries are not only the core area of the central Asian economic belt, but also an important strategic node of the "Silk Road Economic Belt".

³ Statistics on China's outward direct investment (OFDI) have been available since 2002, but relatively comprehensive data on direct investment in five central Asian countries have only been available since

found that, in terms of flow, China's direct investment flow for five central Asian countries from 2006 to 2012, basically maintained a steady growth trend, the total flow rate increases from \$0.82 billion to \$3.377 billion; it had been declined since 2013, and even became negative (history lowest - \$2.326 billion) in 2015; until 2016 it slowly began to improve, and restored to \$2.26 billion in 2017. From the perspective of specific countries, the individual differences between the five countries are large. Among them, the direct investment flow to Uzbekistan has been low, which is at a lower level compared with the other four countries. Uzbekistan even saw withdrawals of US \$0.046 million, US \$0.27 billion and US \$0.76 million in 2010, 2012 and 2017, respectively. The direct investment in Turkmenistan fluctuates greatly. Before 2007, the investment level was very low, with annual flow of less than US \$0.015 million. In 2010, the investment suddenly reached US \$451 million, making it the largest among the five central Asian countries in that year. Large withdrawals followed in 2011 and then the direct investment fluctuated at low levels after 2012. However, direct investment in Kazakhstan, Tajikistan and Kyrgyzstan has shown a steady growth trend in five countries, investment in Kazakhstan is far above the other four countries. This is not only because Kazakhstan is the country with the highest level of economic development among the five countries, with relatively complete infrastructure, supporting industries and labor resources, as well as abundant natural resources, but also because Kazakhstan has relatively complete laws and regulations, and thus relatively small investment risk.

TABLE I. FLOW AND INVENTORY OF CHINA'S DIRECT INVESTMENT IN THE FIVE CENTRAL ASIAN COUNTRIES FROM 2006 TO 2017 (UNIT: US \$100 MILLION)

Year	2006	2007	2008	2009	2010	2011
<i>Flow</i>	0.82	3.77	6.56	3.45	5.80	4.54
<i>Inventory</i>	4.46	8.72	19.42	22.56	29.18	40.33
Year	2012	2013	2014	2015	2016	2017
<i>Flow</i>	33.77	10.99	5.51	-23.26	10.74	22.60
<i>Inventory</i>	78.24	88.93	100.94	80.90	91.44	117.66

^a. Data source: "China's OFDI Statistics Bulletin" from 2006 to 2017

From the perspective of inventory, from 2006 to 2017, the inventory of China's direct investment in the five central Asian countries, except for some fluctuations in some years, showed an overall trend of significant increase. In 2006, China's investment inventory in the five countries was only US \$446 million. In 2014, after the "the Belt and Road Initiative" was put forward, it exceeded US \$10 billion and reached US \$10.094 billion. In 2015, affected by the sharp economic recession of Kazakhstan, the devaluation of the currency and the sharp drop in the international oil, gas and metal prices, China's investment inventory in Kazakhstan and Turkmenistan both declined to a large extent, falling below \$10 billion to \$8.09 billion. It began to recover slowly in 2016, and reached a peak of \$11.766 billion in 2017, topping \$10 billion again. Among the five countries,

Kazakhstan has the strongest economic strength, so China's stock of direct investment in Kazakhstan is bound to be the largest. The inventory of direct investment in Kyrgyzstan and Tajikistan has also grown rapidly, but that in Turkmenistan and Uzbekistan has declined. On the whole, in recent years, China has strengthened its direct investment in Kyrgyzstan and Tajikistan on the basis of keeping Kazakhstan as the main destination of its direct investment, but its direct investment in Turkmenistan and Uzbekistan has weakened somewhat.

B. Basic Characteristics of China's Direct Investment in the Five Central Asian Countries

1) *The scale of investment keeps expanding and the distribution of investment is unbalanced:* With the improvement of outward investment capacity, China's investment in the five central Asian countries is on the rise as a whole. In terms of scale, China's investment in central Asian countries has been increasing year by year and is expanding. For example, in 2006, China's investment inventory in the five central Asian countries was only US \$446 million. In 2017, it jumped to US \$11.766 billion, an increase of nearly 30 times. In terms of investment distribution, China's inventory of direct investment in Kazakhstan has always been the largest and far larger than the other four countries. In 2006, investment inventory in Kazakhstan was \$276 million, 1,725 times that of Turkmenistan, the smallest, at \$0.0016 billion. The investment inventory in Kazakhstan was \$7.561 billion in 2017, which was 22.11 times higher compared with \$342 million in Uzbekistan, the smallest. Although the investment inventory gap between the five central Asian countries is smaller than in 2006, the gap is still large.

2) *State-owned enterprises are the main investors:* From the perspective of Chinese investors in the five central Asian countries, the majority of them are state-owned large enterprises. This is because investment in central Asian countries is mostly some infrastructure, energy and mineral investment projects, which tend to have a long construction period, large investment amount, and slow investment recovery. In addition, some countries have many restrictions on the entry of private enterprises, so at present, the majority of Chinese investment in the five central Asian countries are state-owned large enterprises, mainly including Sinopec Group, China National Petroleum Corporation, CITIC Group and China Nonferrous Metal Industry's Foreign Engineering and Construction Co., Ltd. ETC.

3) *The investment industry is obviously concentrated in the energy and mineral fields:* China's direct investment in the five central Asian countries is mainly resource acquisition investment. The five central Asian countries have relatively small domestic markets, weak manufacturing capacity and poor legal environment, but rich energy and mineral resources. Therefore, most of the foreign capital flowing into the five central Asian countries belongs to

2006. Therefore, this paper selects the data of China's direct investment in five central Asian countries from 2006 to 2017 as research data sources.

"resource-acquisition" OFDI, and the proportion of manufacturing investment is low. The specific investment distribution of Chinese enterprises' resource acquisition investment in the five central Asian countries is: investment in oil and uranium resources is concentrated in Kazakhstan; investment in gas resources is concentrated in Turkmenistan, Uzbekistan and Kazakhstan; investment in power resources is concentrated in Tajikistan, Kyrgyzstan and Kazakhstan.

III. ASSESSMENT AND ANALYSIS OF THE RISK OF CHINA'S DIRECT INVESTMENT IN THE FIVE CENTRAL ASIAN COUNTRIES

A. Risk Assessment Scores and Results of Five Central Asian Countries

This paper uses the method in the "Country Risk Rating of Overseas Investment from China" in 2018 issued by the Institute of World Economics and Politics Chinese Academy of Social Sciences for reference and evaluates the country risk of the five central Asian countries respectively. The evaluation method mainly includes five indexes including economic basis, solvency, social resilience, political risk, and relation with China, and 41 subdivided indexes. The specific evaluation process is as follows. Firstly, the scores of the sub-indexes of the five major indexes are standardized and weighted respectively to get the scores of each index. The score interval is 0-1. The higher the score is, the lower the risk is. Then, the scores of the five indicators dealt with weighted averaging, with the weight as 0.2. Finally, the scores obtained are converted into corresponding grades, including AAA, AA, A, BBB, BB, B, CCC, CC and C. AAA and AA are low risk levels, A and BBB are medium risk levels, and BB and below are high risk levels.

1) *Overall index analysis*: According to "Country Risk Rating of Overseas Investment from China" (2016-2018), this paper collates and summarizes the risk rating results of five central Asian countries and the ranking of 35 "Belt and Road" countries⁴, as shown in "Table II".

It can be seen from "Table II" that the risk ratings of Turkmenistan and Kyrgyzstan of the five central Asian countries did not change for three years from 2015 to 2017, and the other three countries all changed. Among them, Kazakhstan's risk rating was reduced from A in 2015 to BBB in 2016 and 2017, while Uzbekistan and Tajikistan were briefly reduced from BBB in 2015 to BB in 2016 and then returned to BBB in 2017. On the whole, the risk levels of all the five countries are moderate except for Kyrgyzstan, which is at the high risk level. With the exception of Kazakhstan, which ranks slightly higher, the other four countries are at the bottom of the list, with Kyrgyzstan in particular at the bottom.

2) *Sub-index analysis*: Based on the data attached to the "Country Risk Rating of Overseas Investment from China" in 2018, this paper further calculated the score of each sub-index of the five central Asian countries in 2017. The specific calculation results are shown in "Table III".

It can be found from "Table III" that the investment risks of the five central Asian countries are generally high, among which the political risk is the biggest potential risk and the weak economic foundation is the biggest constraint. Specifically, in terms of economic foundation, Kazakhstan is the best among the central Asian countries, while Uzbekistan and Turkmenistan are the weakest. In terms of solvency, Kyrgyzstan and Tajikistan score relatively low in solvency, mainly because Kyrgyzstan has relatively high debt level and relatively insufficient foreign exchange reserves, and Tajikistan's non-performing loans account for a relatively large proportion of the total loan balance. In terms of social resilience, central Asian countries rank high overall, but there are some risks. Uzbekistan has long been plagued by extremist religious forces such as the Islamic Movement of Uzbekistan (IMU) and Hizb ut-Tahrir and other extremist religious forces; in Kyrgyzstan, clashes between the Kyrgyz and Uzbeks are likely to break out; Tajikistan has extremely backward infrastructure construction and the situation in Afghanistan will further worsen its internal security situation; Kazakhstan has ethnic problems and weak domestic infrastructure, but there is still a lot of room for improvement. In terms of political risk, it is mainly manifested as low government stability and effectiveness. For example, conflicts between regional political groups have not been solved in Tajikistan, and serious government bureaucracy, overstuffed institutions and low administrative efficiency exist in Kazakhstan. Due to the low transparency of foreign investment policy and serious official corruption, Turkmenistan cannot effectively attract foreign investment. In terms of relations with China, the bilateral political relations between central Asian countries and China are generally sound, especially Kazakhstan, which has frequent bilateral political exchanges with China. Unfortunately, Kyrgyzstan has yet to sign a bilateral investment treaty with China.

⁴ The 35 countries along the "Belt and Road" includes United Arab Emirates, Egypt, Pakistan, Belarus, Bulgaria, Poland, Russia, the Philippines, Kazakhstan, Kyrgyzstan, Cambodia, Czech Republic, Laos, Romania, Malaysia, Mongolia, Bangladesh, Burma, Kingdom of Saudi Arabia, Sri Lanka, Tajikistan, Thailand, Turkey, Turkmenistan, Ukraine, Uzbekistan, Greece, Singapore, Hungary, Iraq, Iran, Israel, India, Indonesia and Vietnam.

TABLE II. RISK RATING RESULTS AND RANKINGS OF THE FIVE CENTRAL ASIAN COUNTRIES FROM 2015 TO 2017

Country	2015		2016		2017	
	Rating	Ranking in the 35 countries	Rating	Ranking in the 35 countries	Rating	Ranking in the 35 countries
<i>Kazakhstan</i>	A	8	BBB	10	BBB	11
<i>Uzbekistan</i>	BBB	21	BB	29	BBB	21
<i>Turkmenistan</i>	BBB	28	BBB	19	BBB	17
<i>Tajikistan</i>	BBB	29	BB	28	BBB	20
<i>Kyrgyzstan</i>	BB	33	BB	32	BB	33

a. Data source: "Country Risk Rating of Overseas Investment from China"(2016-2018)

TABLE III. COMPREHENSIVE EVALUATION RESULTS OF EACH SUB-INDEX OF THE FIVE CENTRAL ASIAN COUNTRIES IN 2017

Country	Economic basis	Solvency	Social resilience	Political risk	Relation with China
<i>Kazakhstan</i>	2.17	1.76	3.16	2.60	2.79
<i>Tajikistan</i>	1.60	1.59	3.21	2.81	3.35
<i>Kyrgyzstan</i>	1.72	1.59	3.33	2.52	3.00
<i>Turkmenistan</i>	1.59	1.81	3.15	2.54	2.78
<i>Uzbekistan</i>	1.51	1.81	3.36	2.63	2.58

B. Analysis of the Risk Categories of Investment in the Five Central Asian Countries

1) *Political risk*: Generally speaking, the political and security environment in the five central Asian countries is unsatisfying. Its location where geopolitical conflicts frequently occur has brought a lot of unstable factors, leading to regime change and political instability that have been plaguing the five central Asian countries. The political system out of former Soviet Union has the problems of prominent internal contradictions among political groups, too much power in the hands of president, danger of regime change and relatively fragile domestic political stability, etc. Located at the intersection of eastern and western civilizations and inhabited by more than 100 ethnic groups and tribes, central Asia has complex ethnic and religious relations and conflicts occur from time to time. Examples are the historical contradictions between the Tajiks and the Uzbeks, standoff between Kyrgyzstan and Tajikistan border residents. Central Asia is also threatened by international terrorism. Central Asia is one of the main areas where the residual forces of the ISIS return and infiltrate. Coupled with the unbalanced economic development, complicated social, historical, cultural and religious factors in the region, and neighboring Afghanistan to the south, central Asian countries have been facing great pressure against terrorism.

2) *Legal risk*: In terms of legal environment, the five central Asian countries also have the problems of imperfect legal system and weak legal awareness of their citizens.

Even after the corresponding legislation is passed, presidential decree will also be carried out to modify the legal provisions. Since their domestic investment laws change frequently, for foreign investors, the risk of legal changes is greater. Taking Kazakhstan as an example, the foreign investment law of 1994 has been in force for only four years before the new one was promulgated. In addition, the two would have to be used in parallel before the newer investment law was enacted, which was issued eight years later. The basic law in the field of investment has been revised three times in a decade, during which various administrative orders and temporary policies have been issued, which undoubtedly makes the stability of the investment law much less stable. Moreover, the judicial systems of the five central Asian states are often not independent. Judicial organs are greatly influenced by the will of government leaders and higher authorities, and law enforcement personnel are highly subjective in the process of law enforcement, which brings certain risks.

3) *Economic risk*: Due to weak economic foundation, imperfect market economic system and single economic structure, the five central Asian countries are very vulnerable to the global economic downturn and international financial market fluctuations. The economic risks that Chinese enterprises often encounter mainly include the following two types:

a) *Financial exchange rate risk*: Since independence, the five central Asian countries have generally had a low level of financial development, limited financial market

opening, poor risk resistance ability, and thus are easily affected by international financial risks. The risk of turmoil in central Asia's financial markets has increased as the US looks to raise interest rates. In recent years, affected by the global economic crisis, the increasing economic sanctions imposed by the US and Europe on Russia and the decline of international energy prices, the five central Asian currencies have depreciated to varying degrees. This brings risks to Chinese companies' economic exchanges and out flow of profit during their investment in central Asia. In addition, due to the single payment methods, backward trade settlement methods, common phenomenon of payment arrears, complicated exchange procedures of foreign exchange, etc. in central Asian countries, the efficiency is low, and the investors' legitimate earnings often cannot be returned and transferred as scheduled. This seriously affects the turnover of trading funds and economic benefits, and upsets the normal operation of enterprises.

Capital operation risk: Due to the large capital demand and long construction period of Chinese enterprises' OFDI projects at present, as well as the problems of the five central Asian countries, such as the low maturity of financial markets, lack of financial products, low availability of capital and insufficient market supervision capacity, the risk of unsustainable capital of OFDI has been greatly increased. In terms of corporate financing environment, bank loans are the main financing channels for foreign enterprises in central Asia, and it is often difficult for them to obtain funds through the securities market. For example, there is no securities market in Turkmenistan and Tajikistan. Uzbekistan and Kyrgyzstan, meanwhile, have smaller stock markets that are largely unsuited to financing foreign companies.

b) Risk of policy shift: The five central Asian economies are highly dependent on energy. In recent years, some countries in this area have been shifting their economic policies, especially tax policies frequently, in order to avoid impacting their national economy, due to the continuous decline of international energy prices and the depreciation of rouble and the generally weak economic growth of central Asian countries, which caused great loss to Chinese enterprises investment in central Asia. Taking tax risks as an example, the relevant tax laws and regulations of the five central Asian countries are based on the former laws and regulations of the Soviet Union, and they constantly learn from the legal and regulatory experience of western countries, thus forming the unique characteristics of tax laws and regulations in the region. The specific manifestations are as follows: the tax laws of some countries are various, frequently revised, and lack of certain stability. As a result, there are differences in interpretation of individual tax laws between tax departments and enterprises, so it is easy to generate tax risks. There are many problems in central Asian countries such as irregular law enforcement by tax authorities, low transparency and arbitrary interference in enterprises. In case of tax disputes between tax departments and enterprises, enterprises are often in an unequal position, thus bearing greater tax risks.

4) Social and cultural risk: Objectively speaking, there are many differences between China and the five central Asian countries in cultural customs, values and other aspects. If Chinese enterprises' investment projects in the region are opposed, coupled with the lack of adequate understanding and support from the local government and people, it is likely to cause conflicts between Chinese enterprises and the local people of each class in central Asia, resulting in social disorder and investment failure. In addition, the five central Asian countries have insufficient effective demand due to their small domestic economic aggregate, low per capita income and small market size. If Chinese enterprises compete with local enterprises in a narrow market, local enterprises will fear that a large number of high-quality and cheap commodities coming with foreign direct investment exceed their market affordability and cause panic. Therefore, local people will have a strong resistance to foreign direct investment.

C. Cause Analysis of Investment Risks in the Five Central Asian Countries

If the causes of investment risks in the five central Asian countries are explored from the external environment and their own factors, they can be roughly summarized into the following three arguments.

1) Resource plunder theory: The vast majority of Chinese companies' direct investment in the five central Asian countries is non-renewable oil, natural gas and iron ore, and most of the energy mined is transported back to China by trade. Investment in energy and mineral projects is of course to meet the resource demand of China's rapid economic development, but from the perspective of scarcity, as the total amount of global resources is fixed, China's massive purchase of energy and mineral resources will inevitably lead to the impact of other countries' resource reserves. Therefore, it is understandable that Chinese investment in energy and mineral projects in central Asia has been questioned and blocked. In addition, compared with energy and mineral enterprises in developed countries, China's energy and mineral enterprises put too much emphasis on strategic layout and economic interests while ignoring reciprocity and social responsibility, and lacking comprehensive impact considerations on investment projects. For a long time, quite a few enterprises in China have misconceptions when expanding overseas markets. They often only attach importance to the development of relations with the host country's government or upper elites, while ignoring the opposition, non-governmental organizations or the voice of public opinion, lacking a comprehensive understanding and grasp of the host country's national conditions. At the same time, there is still not enough work and efforts to achieve win-win results. This often leads the other side to believe that China is the only beneficiary, leaving environmental pollution and ecological damage to the local area. As a result, local people

regard Chinese enterprises as the accomplices of the host government to grab social wealth, which leads to the conflict between the host government and the public.

2) *Unfair competition theory*: As the main force of China's OFDI, large and medium-sized state-owned enterprises (soes) are gradually emerging in the field of overseas investment with their strong capital and technological advantages. But China's state-owned enterprises, especially the central enterprises, are often questioned and criticized overseas, partly because of "unfair competition". Chinese state-owned enterprises enjoy various preferential policies given by the Chinese government in finance, tax, banking, insurance and other fields, especially in terms of capital financing and government subsidies. Moreover, state-owned enterprises have unshakable monopoly advantages approved by the government in their respective industries. For this reason, developed countries in Europe and America often reject the overseas investment of Chinese state-owned enterprises on the grounds of obstructing fair competition, believing that the host country enterprises are obviously in a weak position in the competition with Chinese state-owned enterprises, which is caused by non-market factors or government intervention. In fact, foreign governments have frequently discussed the overseas investment of Chinese state-owned enterprises as a political issue in recent years. They often impose accusations on Chinese state-owned enterprises under the pretext of "state capitalism" and "non-neutrality of competition", and regard normal market behaviors as non-commercial operations.

3) *National security threat theory*: On the one hand, China's state-owned enterprises face the suspicion of unfair competition, and on the other hand, it causes the host country to worry about its national security. State-owned enterprises (SOES) represent the Chinese government, so it is difficult for them to give up all the links with the government. Therefore, they are often mistaken as the practitioners of the government's strategic intention and the executor of administrative orders. Due to the differences in social culture and government management philosophy, as well as the essential differences between socialism and capitalism, the overseas investment behavior of Chinese state-owned enterprises is more likely to cause the host government's concerns about industrial and financial security, political and military security, social and employment stability and other aspects.

IV. CHINA'S RISK PREVENTION MEASURES

It can be seen from the above analysis that China's direct investment in five central Asian countries faces diversified, complicated and long-term risks. Therefore, to strengthen risk identification and enhance risk prevention and response capacity is an important guarantee for the healthy development of China's OFDI. Therefore, it is necessary to mobilize the participation of multiple subjects including the

state, society, industry and enterprises to jointly build multi-level investment risk prevention and control system.

A. Correspondence to Political Risk

As for political risk, it can be avoided by a combination of economic and political means. First, the Chinese government needs to strengthen investment risk management in central Asia, regularly assess the political environment of the central Asian countries and release information on political risks, and establish an early warning mechanism for political risks in central Asia if necessary. Second, it is necessary to make full use of China's existing overseas investment insurance institutions to deal with investment risks in central Asia. At present, China Export & Credit Insurance Corporation is the agency underwriting overseas investment risks. Chinese companies should insure investments in central Asian countries to reduce losses from political risk. Third, China's enterprises should use as far as possible investment in the form of project financing, and choose to cooperate with international financial institutions or local financial institutions in central Asia that have great influence on the region, so as to avoid the loss of Chinese enterprises caused by policies and measures that are unfavorable to foreign investment enterprises in central Asian countries. Fourth, it is also important for them to strengthen cooperation with specialized political risk assessment agencies of developed countries and timely obtain information needed for political risks in central Asia. At present, many foreign developed countries have assessment institutions especially for the political risk of countries around the world. Chinese enterprises should make full use of these institutions to keep abreast of political developments in central Asian countries, so as to ensure that they are fully prepared for political risks in central Asia and minimize losses caused by political risks. Fifth, energy and mineral resources projects in central Asia should be developed and operated jointly with local enterprises in central Asia. By closely linking the interests of Chinese enterprises and local enterprises in central Asia and sharing risks, this will not only make the central Asian countries hesitate to take measures against Chinese enterprises, but also increase the bargaining chip of Chinese enterprises after the occurrence of political risks in central Asian countries.

B. Correspondence to Legal Risk

The first step is to establish and improve overseas legal risk prevention mechanism. For this purpose, the State-owned Assets of Supervision and Administration Commission of State Council specially formulated and issued the "Guidance on Strengthening Legal Risk Prevention in the International Operation of Central Enterprises" in 2013. The guidance aims to guide central enterprises to constantly improve rules and regulations for overseas investment, incorporate legal risk prevention into their overall plans for international operations, and extend the legal risk prevention mechanism to overseas subsidiaries and institutions, establishing a series of prevention mechanism. Secondly, it is needed to strengthen the cultivation of foreign-related legal professionals and the construction of institutions. For China's OFDI enterprises,

there has been a shortage of overseas legal talents. To this end, the government can comprehensively strengthen the construction of foreign-related legal talents by holding a legal lecture hall, setting up an expert group on overseas legal risk prevention and a foreign-related legal talent pool. Foreign investment enterprises themselves should also speed up the building of high-quality foreign-related legal personnel, strengthen the legal training of their staff stationed abroad, and improve their legal awareness and rule awareness. Finally, China's OFDI enterprises should actively and prudently deal with foreign-related legal disputes. According to the experience of the Chinese enterprises to handle foreign-related legal disputes, lawsuits involving foreign enterprises should adjust measures to local conditions, strive for advantageous venue, institution and applicable laws and rules of action or arbitration, work actively to make careful plan, and reasonably use enterprise internal and external legal resources so as to actively assert and defend their rights.

C. Correspondence to Economic Risk

To guard against economic risks, the first step is to strengthen the cooperation between Chinese financial institutions and financial institutions of central Asian countries, so as to provide more financing facilities for Chinese enterprises' investment in central Asian countries. Secondly, Chinese enterprises can negotiate with central Asian countries to conduct local currency settlement so as to avoid risks and losses caused by currency depreciation of central Asian countries by reducing the link and frequency of exchange for US dollars. In addition, when financing large infrastructure projects in central Asian countries, it is feasible to involve more international and central Asian financial institutions, so as to decompose and reduce financial risks and losses caused by them. Finally, it is significant to set up the mechanism of government supervision of Chinese enterprise overseas investment, investment in central Asia for Chinese enterprise to provide information support, strengthen the consulting and guidance services of overseas institutions, and provide effective consulting services and legal guidance to Chinese enterprises on investment environment, tax policy changes, exchange rate fluctuations, contract signing and implementation, etc. in central Asian countries.

D. Correspondence to Risk of Policy Shift

In view of the risks of policy changes, first of all, Chinese enterprises should try to include in their investment agreements such issues as profit repatriation and preferential policies that may occur in investment cooperation, which can be confirmed by the "presidential decree" issued. The five central Asian states follow Russia's political system in which the President has supreme power, sometimes even overriding the law. Thus getting a presidential decree means a lot of relief for businesses. Secondly, it is necessary to further strengthen the tax coordination between China and central Asia as well as the communication and coordination with the tax departments of central Asia countries, actively carry out China's tax rights protection actions in central Asia, and earnestly safeguard the legitimate rights and interests of

Chinese enterprises investing in central Asia. Chinese tax authorities should set up a research institute on tax laws and policies in central Asia and a tax dispute coordination institution to provide tax policy guidance for Chinese enterprises and timely help them solve tax disputes. If Chinese enterprises encounter unfair tax treatment when operating in central Asia, the Chinese tax dispute coordination agency should intervene in time, make full use of various communication platforms, actively protect the rights and interests of Chinese enterprises, and escort Chinese enterprises' investment in central Asia.

E. Correspondence to Social and Cultural Risk

First, cultural exchanges with the five central Asian countries should be strengthened to help enterprises make investment decisions more suitable for their own development. Many Chinese companies, especially private ones, have limited or reduced their investment in central Asia due to their lack of understanding of these countries. In this regard, various exhibitions and international conferences should be actively organized to promote exchanges between Chinese enterprises and central Asian countries, and Chinese enterprises should be encouraged to visit central Asian countries to learn about local customs and living habits, so as to facilitate targeted management after investment. Some central Asian countries are still suspicious and resistant to Chinese enterprises' investment in local areas, and have some misunderstanding of the purpose of "the Belt and Road Initiative" itself, believing that Chinese enterprises will replace local enterprises, thus affecting the local economy. For this case, Chinese enterprises can contact the local government for information sessions to eliminate unnecessary misunderstandings and better accommodate Chinese enterprises in the host countries. Finally, Chinese enterprises should implement local management, actively fulfill corporate social responsibility, and defuse social and cultural risks. On the one hand, Chinese enterprises should fully understand local social culture and carry out localized operation in the process of OFDI. Localization is mainly about respecting local social and cultural customs and legal systems, hiring and absorbing high-quality local talents to join the enterprise management team, and forming a close interest relationship with local manufacturers in enterprise operation, which is conducive to reducing social and cultural friction costs. On the other hand, enterprises should also pay attention to fulfill their social responsibilities, drive local employment and development, protect the ecological environment, and expand cultural exchanges with local people to promote harmonious development.

V. CONCLUSION

Driven by China's "the Belt and Road Initiative" and "going global" strategy, the five central Asian countries have become important regions for Chinese enterprises' OFDI due to their special geographical location and rich energy and mineral resources. However, at the same time, the five central Asian countries also bring great uncertainty to Chinese enterprises' investment due to their weak economic foundation, imperfect legal system, single economic

structure, complex geopolitics, ethnic and religious conflicts and other factors. Generally speaking, China's direct investment in five central Asian countries will face a series of risks, including political risk, legal risk, economic risk, policy change risk and social and cultural risk. Through analysis of the "Country Risk Rating of Overseas Investment from China" issued by the Institute of World Economics and Politics Chinese Academy of Social Science, it can be found that the five central Asian countries have high investment risks, among which political risk is the biggest potential risk and weak economic foundation is the biggest hindrance. These risks are caused by external environment, such as geopolitical conflicts, terrorism and extremist forces, ethnic and religious conflicts, and social and cultural differences. However, they are mostly caused by Chinese enterprises themselves, as can be seen from the so-called resource plunder theory, unfair competition and national security threat theory. In order to safeguard the legitimate interests of Chinese enterprises' overseas investment and effectively eliminate the concerns of the five central Asian countries on Chinese enterprises' direct investment, the state, society, industry and enterprises must strengthen their risk awareness and improve their risk prevention and control capabilities. This should include not only the overall efforts, but also targeted measures to address different types of risks, so as to promote investment cooperation and mutual benefit and win-win results between China and the five central Asian countries.

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