



# RESEARCH BRIEF

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## Chinese Cotton Diplomacy in Tajikistan: Greasing the Ties by Reviving the Cotton Economy

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### Key Points:

- Chinese investment in Tajikistan's cotton sector signifies "cotton diplomacy," representing a context-specific form of diplomacy.
- These investments align with the Tajik government's development agenda to grow the light industry sector and reduce the export of low-value raw cotton.
- Chinese agribusinesses use diverse normative orders in an attempt to mitigate risks.
- They primarily lease land from Tajik elites, and, in doing so, benefit from pre-existing inequalities of access to land.

### Introduction

At the entrance of one of the primary bases of a Chinese agribusiness, visitors are welcomed with a billboard expounding the goals and ethics of the company. One of the sections states (in Tajik and Chinese):

"Based on the experience of sowing cotton in the territory of the People's Republic of China, we will promote the dissemination of high-quality seeds, advanced methods of sowing cotton, demonstration of advanced agricultural machinery and modern water supply facilities. ... We will ... through high cooperation ensure the stability of production in the country."

The billboard further declares that it is the company's "eternal dream" to use "local forces" to create a leading team. The emphasis on cooperation resonates with the official discourse of the Belt and Road Initiative (BRI), and the Tajik government also frames the relationship between Tajikistan and China as amicable. As a case in point, in 2014, Tajikistan's president Emomali Rahmon named a Chinese cotton seed variety "Friendship no. 1" (*Dusti-1*) on the spot, according to Chinese media, and called for nationwide promotion to encourage planting of this variety.<sup>1</sup>

<sup>1</sup> Li Yuanhai, *Henan cotton seeds hit the "Belt and Road"*, CHINA DAILY (May 9, 2017), <http://china.chinadaily.com/cn/a/201705/09/WS5bdf377a3101a87ca90e8b5.html>.

Around the time of the introduction of “Friendship No.1” Chinese-Tajik agricultural interactions intensified. Among the diverse Chinese actors engaged in Tajikistan’s rural economy today, Chinese large agribusinesses’ investments in the country’s cotton economy are most visible in the physical landscape. By bolstering the (for the country, core) cotton industry,<sup>2</sup> the Chinese companies’ activities align with the Tajik government’s aims to transform the country’s agrarian-based industry into an industrialised agrarian economy, and simultaneously strengthen China’s political and economic clout in Tajikistan. The objective, to end the export of low-value raw cotton by expanding the textile manufacturing base, has been on the Tajik government’s agenda for years, but given the reluctance of international donors and the hesitancy of foreign investors to invest in cotton,<sup>3</sup> growth remained limited in previous years. Chinese “cotton diplomacy” (棉花外交)<sup>4</sup> benefits elites, and Tajik society also accrues certain benefits such as labour opportunities in rural areas. The latter is particularly emphasised with society to legitimise the transfers of land and farm assets. The increase in cotton output also enhances supplies of cottonseed oil, which is an essential derivative as the most popular cooking oil in Tajikistan, as well as the availability of so-called “cotton cake,” used as animal feed.

This Research Brief focuses on China’s “cotton diplomacy” in Tajikistan and the approaches

Chinese agribusinesses take to secure their operations in Tajikistan. I analyse the development of one Chinese company, which registered a local subsidiary, partnering with two national level elites in Tajikistan in 2014, for which it approached an international law firm. Thus, the Chinese company has been using various normative orders to operate in Tajikistan.<sup>5</sup> A statement by a lawyer working for an international law firm in Dushanbe confirmed this approach: “Chinese.. their work rules are different from other [investors]. In the first stage they work closely with us but ... after 15 days they contact ...officials and they are open to bribes, yes they do not need our services except [for] officials.”<sup>6</sup>

Domestic and foreign companies in Tajikistan tend to be advised to seek patronage (a “roof” (*krisha*) or an “uncle” (*tagho*)), to secure their business. Chinese companies adapt to these norms. After all, such practices are also common in China’s domestic business affairs. However, this does not mean that Chinese actors operate smoothly. Focusing on dynamics related to access to land and cotton, I shed light on different obstacles experienced by one Chinese company over the course of time. Yet before doing so, I briefly address the role of cotton in Tajikistan, and provide a microlevel case which illustrates “cotton diplomacy.”

<sup>2</sup> See also Dirk van der Kley & Niva Yau, *How Central Asians pushed Chinese Firms to Localize*, CARNEGIE MOSCOW CENTER (Oct 15, 2021), <https://carnegieendowment.org/2021/10/15/how-central-asians-pushed-chinese-firms-to-localize-pub-85561> (for similar observations in Central Asia).

<sup>3</sup> Irma Hofman & Oane Visser, *Towards a geography of window dressing and benign neglect: the state, donors and elites in Tajikistan’s trajectories of post-Soviet agrarian change*, LAND USE POLICY (in press).

<sup>4</sup> Lizhi Wang, *Cotton institute boosts Tajikistan’s agricultural level to improve*, CHINESE ACADEMY OF AGRICULTURAL SCIENCES (Nov. 8, 2019), <http://caas.cn/xwzx/hzjl/gjhz/299219.html>.

<sup>5</sup> See also Matthew S. Erie, *Chinese law and development*, 62(1) HARV. INT’L L.J. 51-116 (2021) (on Chinese overseas actors’ use of different normative orders).

<sup>6</sup> Interview, Dec. 22, 2020.

## Legacies

Cotton has a long history in Central Asia. While the crop is indigenous to the region, under Tsarist Russia cotton production was intensified and, after 1917, the Soviet leadership further bolstered cotton production throughout Central Asia. But agricultural development in Tajikistan came to a halt in the 1990s following the breakdown of the Soviet Union, civil war, and the resulting economic crisis. Cotton is still labelled as a strategic commodity, important for foreign currency earnings. However, rather than the state, it is private elites benefiting from cotton exports that have seen cotton volumes shrinking, partly as a result of international donors' pressure on the Tajik government to diversify away from cotton, farmers' disinterest in cotton, and also due to low seed quality and environmental problems. In the absence of donor support for cotton, the Chinese companies' capital injections have been welcome to help revive the industry. Cotton has also been of great importance for China's domestic economy, a similarity which drives the strengthening of ties in cotton trade, production, and scientific research.

## Cotton diplomacy

In 2020, the Cotton Research Institute of the Chinese Academy of Agricultural Sciences developed and received approval for six new cotton varieties especially destined for Uzbekistan and Tajikistan. In doing so, it is said to respond to the BRI, carrying out "cotton diplomacy"<sup>7</sup> and implementing the "go out" policy in technological terms, with the long-term goal of enhancing cotton imports.<sup>8</sup> Such initiatives have a long-term

perspective. More visible in Tajikistan's rural landscape today, and with immediate impact, are Chinese agribusinesses' operations.

Chinese investment in Tajikistan's agriculture gained momentum around 2014 after the Agricultural Bank of China (ABC) signed an agreement on cooperation in the agricultural sector with Tajikistan's long-troubled and recently bankrupted AgroInvestbank (AIB). The ABC subsequently registered a branch in Tajikistan and was hosted by the AIB. The then-director of the AIB, himself an authority on the agricultural economy and former deputy prime minister responsible for agrarian reforms, apparently played an important role in initiating these developments. Just before and just after the agreement, two investments by Chinese agribusinesses, one state-owned enterprise (SOE) and one private-owned enterprise (POE), were announced. Both had been receiving substantial investment from Chinese policy banks over the years, including the China Development Bank and the ABC. While the companies operate as locally registered joint ventures (partnering with Tajik elites), in daily parlance they are referred to as Chinese (which I will do in this Brief too) and as two separate entities, despite the fact that the SOE became a shareholder of the POE around three years ago.

The Chinese SOE's subsidiary was initially comprised of two branches: one in partnership with the then-director of the AIB, and the other with a close relative of the president, who himself owns a large farm enterprise in the president's place of birth. Thanks to the investments, the production and processing capacity of cotton have

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<sup>7</sup> Wang, *supra* note 4.

<sup>8</sup> *Six Cotton Varieties Approved for Export to Countries along the Belt and Road*, WORLD CLOTHING SHOES AND HATS NETWORK, <http://www.sjfxm.com/global/en/576505.html>.

increased and the company's activities generate extra tax income for the local economy. By renting out land to the Chinese company, elites controlling large farms can also profit substantially privately. For authorities hosting the Chinese company in their locality, the company's cotton output helps to fulfil the state's production plans, which remain important for ensuring officials' job security, and incentivizes them to support Chinese companies' labour demands during the peak harvest by mobilising workers. Cotton still surfaces in many aspects of political and daily life in Tajikistan, and for such actors, investments in the sector are particularly welcome. The following case of Guliston illustrates this.

### **An icon of Soviet agriculture**

Guliston,<sup>9</sup> a locality in southwest Tajikistan, was an icon of Soviet agricultural development and it became famous for its advanced irrigation system design. However, after decades of large-scale cotton production, large parts of the land were abandoned in the 1990s. Essential water pumps fell into disrepair so intensive farming in the arid environment became all but impossible. When land reforms started, local inhabitants were offered the possibility of setting up individual farms. However, given the then-impoverished situation, many people rejected that option, thus preventing them from claiming the right to land in the future.

In the 2000s, the then-director of the National Bank of Tajikistan and, until recently, the AIB, acquired land in the locality. He envisioned a revival of large-scale farming with international donor support. His plan initially appeared

successful in securing this support, but without adequate maintenance much of the irrigation infrastructure quickly became obsolete again. Subsequent requests to donors for support were denied: in the late 2000s the Tajik government approached foreign donors, who concluded, after assessments, that the capital required was too large. The situation remained unchanged until, in 2014, the Chinese agribusiness referred to above showed interest. In addition to other activities, the company invested substantially to upgrade Guliston's irrigation system. In doing so, the potential for cotton farming returned and the company resumed large-scale cotton production in the area. Many local inhabitants now regret having rejected the option to establish a farm in previous years. As a local state official stated: "People are clinging to land again," but all the fields are occupied nowadays.<sup>10</sup> The Chinese company has reinvigorated the potential for commercial farming in the area, but uses most of the fields, thereby benefiting local inhabitants only by offering employment.

### **Local competition**

One would assume that, given the involvement of local high-level partners, legal local registration licenses for industrial activities, and a formally liberalised cotton sector, the Chinese-led companies would operate smoothly. To mitigate potential risks, Chinese agribusinesses explicitly demand authoritative local persons to be appointed in key roles. Most of these local actors have a long history and private interests in Tajikistan's cotton affairs. However, connections cannot rule out the possibility that obstacles will emerge, particularly at the local level, where different actors have an interest in cotton, and

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<sup>9</sup> I use a pseudonym here to give anonymity to the locality.

<sup>10</sup> Interview with a state official, Oct. 3, 2020.

where high-level elites have to show they are responsive to local concerns. Chinese companies' large budget, compared to local actors, also makes them a target for fines.

### Cotton competition

Besides engaging in cotton production, Chinese enterprises started buying up cotton from local farmers after their arrival in Tajikistan. In doing so, they competed with local elites owning ginneries and became popular as they paid more and in dollars, directly upon sale, in contrast to local ginneries, which primarily pay in the local currency and often with a delay. As a result, local ginneries saw their profits dwindling. A few of them protested in the media demanding state support, claiming unfair competition.<sup>11</sup> In an effort to earn at least a modicum of income, some started renting out their bases to Chinese agribusinesses.

The elite stakes in Tajikistan's cotton economy make it a difficult sector for others to enter and make profit. In 2014, a Swiss agrobusiness engaged in cotton procurement suddenly left Tajikistan. According to local voices, this sudden departure was the result of pressure from elites as these local actors faced competition.<sup>12</sup> In the case of the Chinese, the impact thus far is that cotton procurement prices have been reduced so that they are now nearly on par with local ginneries' offers. What is more, in particular localities local elites have pressured the district government to forbid Chinese companies from buying up cotton<sup>13</sup> to the regret of some farmers. As a local lawyer of

an international law firm explained: "That is [a] very specific cultural thing we [in Tajikistan] have. We have unofficial requirements .. that are not set in law but mandatory to follow. Region or district-specific. They [authorities] will set a restriction that is not stipulated by the law, it doesn't have a law backing, but you have to follow it."<sup>14</sup> Here, the pressure of local elites has forced the Chinese company to lower prices and it has seen cotton supplies from local farms dwindle.

### Land

Besides obstacles to the procurement of cotton, this Chinese company has not been operating at its full potential in recent years due to changes in access to land. Foreign actors can obtain lease rights to land for a period of up to 49 years in Tajikistan, as well as rent land from local farmers. Most often the Chinese agribusinesses rent land from elites. Thus, Chinese companies benefit from pre-existing inequalities to land. However, elites do not lease out land for free.

The Chinese company studied in this Brief, has seen access to land declining over the years. While media explained the drop by referring to water issues,<sup>15</sup> there are also other factors at play. In 2019, the company rented nearly all the land of two "seed breeding" farms (controlled by elites, both with around 4,000 hectares of arable land) in southwest Tajikistan. With rental prices of over US\$300-500 per hectare per year, these elites must have received not less than US\$1 million. This is a clear example of a way in which "ties with China are becoming an increasingly important means of

<sup>11</sup> Abdullo Ashurov, *One Chinese company uproots 10 local companies*, OZODI (Nov. 7, 2018), <https://www.ozodi.org/a/29586937.html>.

<sup>12</sup> Irna Hofman, *Politics or profits along the "Silk Road": what drives Chinese farms in Tajikistan and helps them thrive?* 57(3) EURASIAN GEOGRAPHY AND ECONOMICS 457-81 (2016).

<sup>13</sup> Interview with a state official, Oct. 3, 2020.

<sup>14</sup> Interview, Dec. 9, 2020.

<sup>15</sup> Alisher Zarifi, *Chinese-Tajik company returned a part of Khatlon's land*, OZODI (Dec. 15, 2019), <https://www.ozodi.org/a/tajik-china-economy-land-rent/30325844.html>.

self-enrichment for [ruling elites]”.<sup>16</sup> The leasehold with these landowners then ended in 2019. Some workers linked it to Covid-19, others to the high rental prices that had to be paid in full midway through the season. Another explanation may be that the elite owners experienced pressure from formal farm shareholders’ (rural inhabitants) and decided to end the leasehold.

Second, the director of the AIB and the AIB itself became troubled in 2020. According to local voices, the director’s close ties to Chinese businesses and his image as a charismatic patron were regarded as threats by the ruling regime. His farms were declared bankrupt and some of his fields, which had been allocated to the Chinese company in previous years, were offered to other elites. As a result, the Chinese company lost access to farmland and its two branches were merged. Such risks are difficult to predict and mitigate against. The ABC was also impacted, as the AIB was declared bankrupt late 2020, and is waiting to see its loans repaid. However, it seems to be aiming to continue in Tajikistan as plans to establish a representative office in were announced in October 2021.<sup>17</sup>

## Conclusion

The nature of Chinese investment in Tajikistan’s agricultural sector illustrates the role of local actors in shaping the characteristics of China’s

BRI, or better, China’s globalisation. By investing in cotton, the Chinese state and companies support the development of Tajikistan’s agro-industry and simultaneously strengthen loyalty of Tajik elites. Taking a long-term perspective, they may also enhance the potential for Tajik companies to supply the Chinese economy with cotton. For doing so, the Chinese state provides essential support but as a Chinese interlocutor repeatedly stated: “It will take decades to achieve a return on investment.”<sup>18</sup>

Doing business in Tajikistan’s cotton economy requires balancing on a tightrope, regardless of an investor’s nationality. This applies to Chinese agribusinesses in Tajikistan despite or perhaps because of their partnerships with high-level elites. Chinese companies follow local advice to find a local “roof” under which they might safeguard their business and expediate bureaucratic processes. While the roof should provide a shield, Tajik high-level elites cannot fully ignore local concerns and Chinese companies can get caught in local elite powerplays which then requires them to compromise and adapt accordingly.

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<sup>16</sup> Temur Umarov, *Dangerous Liaisons: How China Is Taming Central Asia’s Elites*, CARNEGIE MOSCOW CENTER (Jan. 29, 2021), <https://carnegiemoscow.org/commentary/83756>.

<sup>17</sup> AsiaPlus, Representative office of Agricultural Bank of China to open in Dushanbe, ASIA PLUS (Oct. 20, 2021), <https://asiaplustj.info/en/news/tajikistan/economic/20211020/representative-office-of-agricultural-bank-of-china-to-open-in-dushanbe>.

<sup>18</sup> Interview with a Chinese interlocutor, Apr. 20, 2021.

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