

EURASIAN UNION VERSUS SILK ROAD ECONOMIC BELT?

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While Russia and China are heralding a new “strategic partnership,” this policy brief explores how competition between the two countries may increasingly emerge in regard to Central Asia—a region where both are attempting to further bolster their influence through the Russian-led Eurasian Economic Union and China’s Silk Road Economic Belt.

On the face of it, relations between China and Russia have never been so good. On May 21 this year they signed an historic energy deal worth US\$400 billion designed to deliver Russian natural gas to China through the “Power of Siberia” pipeline. The following month, on June 6, an embryonic China-Russia security co-operation mechanism met for the first time in Beijing. The two powers also found common positions in vetoing a UN Security Council resolution on Syria, while China has refrained from adopting a position against Russia vis-à-vis events in Ukraine. However, frictions between Beijing and Moscow may increasingly emerge in relation to a crucial region in which they both have strong interests: Central Asia.

Central Asia: Race for Resources

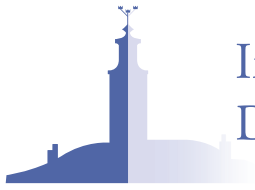
Both Russia and China are engaged in their own projects to advance their interests in the region of Central Asia. On the one hand, there is the Eurasian Economic Union (EEU), which was founded in Astana on May 29 by Belarus, Kazakhstan, and Russia, and which might soon (later in 2014 or at the latest 2015) be joined by Armenia, Kyrgyzstan, and Tajikistan. First promoted by President Nazarbayev in 1994, Eurasian integration has become Putin’s chief geopolitical project since his re-election as president in 2011. Putin’s main aim is to use the Union’s richness in energy and mineral resources as an instrument to build a powerful “bloc” centred around Russia and capable of balancing both Western powers and China.

China has also accorded greater attention to the region. In September 2013, President Xi Jinping visited four Central Asian nations and unveiled the “Silk Road Economic Belt” initiative, which is a grandiose project of pipelines,

infrastructures, and economic development linking China with Western Europe through Central Asia. Whereas precise details concerning the initiative are at the moment rather scarce, China has already massively invested in energy and resources in Kazakhstan, Uzbekistan, and Turkmenistan, and is now the biggest economic player in the region.

China’s formidable economic penetration into the region has not gone unnoticed in Moscow: 81 percent of Turkmenistan’s exports—predominantly natural gas—already go to China; the same is true for 20 percent of Kazakhstan’s exports (compared to Russia’s 10 percent share); furthermore, two pipelines (one from Turkmenistan and the other from Kazakhstan) connect Central Asia with China. China needs oil and gas in order to sustain its economic growth. In addition, its dependence on energy from the Middle East and Africa (from where 80 percent of its energy imports originates) makes it vulnerable to choke-points (such as the Malacca Straits) and thus sensitive to the necessity to bolster land links with energy sources.

Russia, for its part, has made oil, gas, and building pipelines the cornerstones of its neomercantilist economic model. Such a model draws on the idea that political power strongly relies on the control of economic resources, which are used to bolster state power in international relations. A mercantilist EEU based on Russia’s external tariff might have a negative impact on trade with third countries and could clash with China’s interests, especially if other countries including Tajikistan and Kyrgyzstan join Putin’s integration project. Similar considerations are valid for other resources in which Central Asia is rich—among them, uranium, copper, gold, aluminium, and rare earths, all of which are highly important to China and are at risk of be-



ing “locked up” in a Russia-led EEU.

From a financial viewpoint, however, the EEU risks being “squeezed” between the West, led by the United States, and China. Russia’s banks and equity markets are rather undeveloped: the Moscow Exchange in July 2014 had a market capitalisation of approximately US\$661 billion compared to London with \$3.396 trillion or Shanghai, \$2.408 billion. In addition, Russia’s main financial institutions are heavily state-controlled. Kazakhstan meanwhile is trying to develop its own financial markets but, despite the ambitions of its Central Bank Governor, Kairat Kelimbetov, with a market capitalisation of just US\$24 billion, Kazakhstan’s Stock Exchange still has a long way to go. Financially, EEU countries thus risk becoming dependent on foreign capital (Chinese or Western), particularly if their markets are still controlled by corrupt state apparatuses.

The EEU further faces limitations in that the Central Asian states are becoming increasingly critical of Russia, as Kazakhstan’s recent insistence on the “only economic” nature of the EEU illustrates. Kazakhstan’s small businesses have already complained about the influx of cheap goods from Russia, while Astana also worries about Moscow’s designs regarding its four-million-strong ethnic Russian population. This is not to say, however, that the Central Asian capitals will instead seek to become over reliant on China. Accordingly, a new “multivectoral” foreign policy might thus be soon necessary—one which seeks to balance Russia and China and bring in other players.

Conclusions

China has until now remained largely silent on the EEU. Its rhetoric insists on the compatibility between the latter and its “Silk Road” initiative. Indeed, Chinese sources tend to emphasize that their goals are not conflicting. In many ways, Beijing feels confident that its approach will succeed. China’s loan terms are generous, and there is no overt attempt to politically influence the countries where it invests. Moreover, China attaches a high value to its relations with Russia and is chiefly interested in energy and trade, not geopolitical influence. A further concern for it (which is also not at odds with Moscow) stems from the unrest in Xinjiang and Beijing’s need to monitor the approximately 200,000 Uyghurs living in Central Asia. In fact, both Moscow and Beijing share common concerns as articulated through the Shanghai Co-operation Organisation’s (SCO) goals of controlling

the threats of terrorism, extremism, and separatism.

But while Beijing has downplayed the prospect of competition with Moscow, it has perhaps underestimated the role Russia attributes to Central Asia in geopolitical and strategic matters. Moscow is in fact pursuing traditionally realist Great Power politics, and is strongly focusing on preserving a sphere of interest, particularly in the former USSR states and countries where Russia’s national interests are at stake: depending on energy markets, controlling Central Asia through the EEU has thus become for Moscow more and more crucial. For its part, China has been contained by the U.S. “pivot to Asia” on its maritime front, and is also increasingly looking to Central Asia in terms of energy and security. In spite of Beijing’s refrain that it has no geopolitical ambitions, its need for resources and securing trade relations with Central Asian countries might after all force it to adopt a more assertive regional foreign policy. This begs the question whether the “strategic partnership” between Beijing and Moscow might soon show its limits?

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