New Eurasian Age: China's Silk Road and the EAEU in SCO space ©

or

"Noodles and Meatballs in a Breaking Bowl" ©

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Table of Contents

Introduction

At their 3-4 July 2017 meeting in Moscow, Vladimir Putin and Xi Jinping spoke about the formation of a "broad Eurasian partnership" and "coordination of the Belt and Road initiative with the (Russian-led) Eurasian Economic Union".[1]

At the 14-15 May 2017 Belt and Road Summit in Beijing, Kazakhstan's president Nursultan Nazarbayev said "the idea of creating a single economic space of Greater Eurasia acquired a new meaning. The Silk Road Economic Belt can advantageously link the platforms of the Shanghai Cooperation Organization, the Eurasian Economic Union and the European Union[2] into a single regional prosperity area".[3]

What does all this mean? And, what are the prospects and possible implications?

Is there to be a new age of Eurasian economic – and power – primacy? Or, is it really "Noodles and Meatballs in a Breaking Bowl"? ©

The Silk Road Economic Belt (SREB) part of the Chinese "One Belt, One Road" (OBOR) or "Belt and Road" initiative announced in 2013[4] has focused increased attention on central Eurasia.

The central Eurasian geographical area is not easy to define, but its importance to the world is immense. Central Eurasia undoubtedly includes the former USSR countries of Central Asia (Kazakhstan, Uzbekistan, Turkmenistan, Tajikistan and Kyrgyzstan) and Afghanistan, but more crucially it also includes parts of – or is of great importance to – their much bigger neighbors Russia, China, India and Pakistan. Central Eurasia is thus a mix of countries and parts of countries, ranging from very small to very large, whose relationships with each other do not always have a happy history.

All these countries have both economic and security issue at stake in central Eurasian developments, and it is not always easy or even possible to disentangle these. This book mainly concentrates on the economic issues and does so by way of examining the most important international economic institutional arrangements and integration ideas impacting on the central Eurasian geographical space. These are presently dominated by Russia and China, but some changes are underway.

The main institutional arrangements are the Russian-led Eurasian Economic Union (EAEU) and the Shanghai Cooperation Organization (SCO). The main idea is China's SREB.

The EAEU consists of Armenia, Belarus, Russia, Kazakhstan and Kyrgyzstan. The first two countries are not considered part of central Eurasia, and only make a brief appearance in this book. The present members of the SCO are China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, and (since June 2017) India and Pakistan.

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[1] "Press statements following Russian-Chinese talks", July 4, 2017
http://en.kremlin.ru/events/president/news/54979

[2] This text does not attempt to directly address issues connected with the European Union.

[3] Malika Orazgaliyeva, "Kazakh President attends One Belt, One Road forum, meets with leaders in China", the Astana Times, 16 May 2017
http://astanatimes.com/2017/05/kazakh-president-attends-one-belt-one-road-forum-meets-with-leaders-in-china/

[4] The "One Belt, One Road" Initiative, "Belt and Road" Initiative, "BRI", and "B&R" essentially describe the same thing. However, there has been a subtle change in the way China has presented the "initiative" since it was initially raised in 2013 and this may possibly mean that some of the quoted material by various analysts etc would have been different if they had known of later developments. Thus, when quoting I have used the terminology originally included in the quote. Otherwise I use the "Belt and Road" term. In Chinese it is still referred to as "yidai yilu" which literally means "one belt one road".

In December 2015, Chinese Premier Li Keqiang[5] and Russian Prime Minister Dmitry Medvedev signed a "Joint Communique on the results of the 20th regular meeting between the heads of the Russian and Chinese governments" that clearly states "the parties hold that the SCO is the most effective forum for aligning the construction of the SREB with the building of the EAEU".[6]

A more recent mid-2016 report by the Russian International Affairs Council (RIAC) says that "Russia has "expressed interest in formats of interaction between the SCO, the EAEU and the SREB".[7] And, in November 2016, Li Xin of the Shanghai Institute for International Studies (SIIS) wrote a report suggesting that "Chinese scholars" believe that "the SCO should play a central role as a platform for aligning the SREB and the EAEU".[8]

Vladimir Putin also referred to this issue several times at the 14-15 May 2017 Belt and Road Summit in Beijing. After a meeting with Xi Jinping, Putin said that "the integration of the Eurasian Economic Union and the Silk Road projects means reaching a new level of partnership and actually implies a common economic space on the continent"[9], and in his formal speech at the Summit he said that "by adding together the potential of all the integration formats like the EAEU, the OBOR, the SCO and the ASEAN[10], we can build the foundation for a larger Eurasian partnership".[11]

However, in reality there are many actual and potential issues that stand in the ways of a successful linking of the EAEU, the SCO and the SREB.

These include the actual uncertain future of the EAEU and SCO themselves. While Russia would like to see the EAEU expand, particularly with the addition of Tajikistan, the EAEU is having trouble developing a positive internal integration strategy. New SCO members Pakistan and India will undoubtedly bring their own views about what the SCO should and should not be doing.

An RIAC report says that **"**Russia has not ruled out the possibility that the future of regional security in the area of the SCO's responsibility could be determined by a strategic balance of the 'division of roles' between Russia and China within this organization, with Russia primarily being in charge of security and China being in charge of economic development, trade and mutual investment."[12]

Such a division of labor would seem to ultimately put China at the mercy of Russian security interests, and so it would be less keen than Russia on such an allocation of roles. Moreover, not all other members of the EAEU or the SCO are likely to be enamored with such an arrangement.

Apart from the very Chinese Silk Road Fund (SRF), the nominally international Asian Infrastructure Investment Bank (AIIB) is relevant because of its Chinese foundations and focus on issues that will aim to facilitate successful implementation of SREB pronouncements.

This book starts by looking at the general Russia-China relationship because this will largely determine how all other events unfold. Secondly, Central Asia itself is considered with an emphasis on those

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[5] Chinese put the family name before the personal name (ie the reverse of English). However, in this text I have used whatever format has been used in any documents that are referenced.

[6] Joint Communiqué on the 20th Regular Meeting of Chinese and Russian Prime Ministers http://www.fmprc.gov.cn/ce/cedk/chn/zgwj/t1325537.htm

[7] Russian International Affairs Council, Report, "Russian-Chinese Dialogue: the 2016 Model", 25/2016 http://russiancouncil.ru/en/inner/?id_4=7733#top-content

[8] Li Xin, "Chinese Perspective on the Creation of a Eurasian Economic Space", Valdai Discussion Club Report, November 2016 http://valdaiclub.com/files/12585/

[9] "Russia, China agree to integrate Eurasian Union, Silk Road, sign deals", RT, 8 May 2015 https://www.rt.com/business/256877-russia-china-deals-cooperation/

[10] This text does not attempt to directly address issues connected with ASEAN.

[11] Putin speech in Beijing at Belt and Road Summit, 14 May 2017 http://en.kremlin.ru/events/president/news/54491

[12] Russian International Affairs Council, Report, "Russian-Chinese Dialogue: the 2016 Model", 25/2016 http://russiancouncil.ru/en/inner/?id_4=7733#top-content

internal issues which may ultimately impact on the EAEU, the SREB and the SCO. Thirdly, the relationship between Russia and the countries of Central Asia is examined, with a particular focus on the EAEU. Fourthly, the relationship between China and Central Asia is considered. Fifthly, the SCO is considered. The book then moves on to describe and consider the SREB, the SRF and the AIIB as they are ultimately Chinese creatures.

Finally, it considers the ways in which the EAEU, the SCO and the parts of the SREB associated with these countries can work together, and the actual prospects for this. It also concludes with a view about future developments in this part of the world.

Part A: Russia and China

This chapter deals with the main issues impacting on the direct relationship between Russia and China. While it could be read as a separate short article on this relationship, its main purpose to provide background for the subsequent chapters. Although the relationship is strong at the highest political level, it will be shown that it is quite weak in almost all other areas. Russia-China relations can be accurately described as both "hot at the top and cold at bottom"[13] and "hot politics, cold economics".[14] In the view of this author, the short-term and medium prospects for change are not significant.

1. Political Relationship

The relationship between Russia and China is the dominant one in the central Eurasian geographical space[15] and will continue to be so. Over the longer-term the nature and quality of the Russia-China relationship is likely to change as their economies and political leaders change, and will be influenced by the relationship that both countries have with third countries.

Russia and China would seem to have the makings of a profitable and happy relationship, with one being very resource rich and the other a manufacturing powerhouse with a large population and great need for resources.

Historically, relations between China and Russia have not always been smooth. Following the establishment of the People's Republic of China by the Communist Party of China in 1949, China and the then Union of Soviet Socialists Republics (USSR) became allies. But differences related to communist ideology eventually emerged, and border disputes even led to military conflict in 1969. From the early 1980s, however, relations began to improve as ideological differences dissipated and a series of agreements formally settled the border between China and Russia in 2003.

Despite the gradual decline in the differences in the 1980s, the two countries seemed to do their best to ignore each other for about two decades after the collapse of the USSR in 1991. There was a Russian tendency, in the words of former diplomat and Asian expert, Georgy Toloraya, to "habitually look

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[13] Sergey Luzyanin, Director of the Institute of Far Eastern studies of RAS, speaking at "Russia and China: Taking on a New Quality in Bilateral Relations", Russian International Affairs Council Conference, Moscow, 29-30 May 2017 http://russiancouncil.ru/en/rucn2017

[14] "Russian-Chinese Dialogue: the 2017 Model", RIAC Report 33/2017 http://russiancouncil.ru/papers/Russia-China-Report33-En-Preprint.pdf

[15] In this book I use the broad term "central Eurasia" to encompass much more than what is commonly called Central Asia. In addition to Central Asia, I am including all countries which are actual and potential members of the Shanghai Cooperation Organization – that is, Russia, China Kazakhstan, Uzbekistan, Tajikistan, Turkmenistan, Kyrgyzstan, India and Pakistan where relevant.

down on China"[16] and Russia focused on its relationship with Europe (and the US). While China quickly established formal diplomatic relations with Central Asian countries when they became independent, it did little else with these countries or with Russia as it was intent on selling manufactured goods to Western markets which could be accessed by sea routes.

The moves by the European Union and NATO to expand in an easterly direction began to decidedly change the Russian view of its possible relationship with the "West". This resulted in the annexation of Crimea in 2014 when internal events in Ukraine seemed to be leading to an anti-Russian government.

In the view of this author, Russia could have got away with this action without too much trouble if it had been a little apologetic, as the population of Crimea generally welcomed the move to Russia and there were legitimate historical and national security reasons (particularly, the naval base in Sevastopol) for the Russian action. Moreover, the Ukraine consistently shows that it is incapable of almost any form of good government. Instead of taking a conciliatory path, Russia allowed a true military conflict to arise in eastern Ukraine which led to the shooting down of Malaysian Airlines Flight MH17 and a serious deterioration in relations with the "West".

This falling out with the "West" and resulting economic sanctions led the Russian leadership to conduct a "series of brainstorming sessions" which led to the obvious conclusion that Russia needed to build a closer relationship with China, while reducing its reliance on energy exports to Europe and imports of Western capital and technology.[17] As will be shown later this was easier said than done.[18]

In particular regards to China, Moscow decided that it needed to remove "three key informal barriers".[19] In the future, sales of advanced weapons to China would have fewer restrictions, China would be allowed greater participation in large Russian infrastructure and natural-resource projects, and greater efforts would be made to cooperate with China in Central Asia.

Even before the Crimean issue, the attraction of China to many Russians had been growing. The global financial crisis which had begun in 2008 made the US-style liberal capitalist system look weaker than it really was in the eyes on many people who did not have much understanding of either the system itself or the causes of the crisis. The much better performance of the Chinese economy during this time suggested to many that its economic system had greater resilience, and was even the way of the future.

It was thus quite easy, according to Alexander Gabuev, for many Russian officials and businesspeople to "convinced themselves that sanctions weren't a real threat to Russia, especially if it partnered with China."[20]

Given its own concerns about separatism in the western regions (Tibet and Xinjiang) and its claims over Taiwan, China could hardly support the splitting-off of Crimea from the Ukraine or the Russian

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[16] Georgy Toloraya, "Two Heads of the Russian Eagle", Russia in Global Affairs, 13 February 2017
http://eng.globalaffairs.ru/number/Two-Heads-of-the-Russian-Eagle-18592

[17] Alexander Gabuev, "Friends With Benefits? Russian-Chinese Relations After the Ukraine Crisis", Carnegie Moscow Center, 29 June 2016
http://carnegie.ru/2016/06/29/friends-with-benefits-russian-chinese-relations-after-ukraine-crisis-pub-63953

[18] I was living in Shanghai at this time and had come to Russia on behalf of a Chinese business client who had expressed some interest in purchasing a Russian bank or other financial entity. A senior official in a well-known mid-sized Russian bank showed me a document that he had been asked to prepare by his boss who sometime earlier in the month had returned from a "meeting at the Kremlin" with a request to prepare a list of goods that Russia could export to markets in China. It was, as the bank official ruefully acknowledged, a quite spare list!

[19] Alexander Gabuev, "Friends With Benefits? Russian-Chinese Relations After the Ukraine Crisis", Carnegie Moscow Center, 29 June 2016
http://carnegie.ru/2016/06/29/friends-with-benefits-russian-chinese-relations-after-ukraine-crisis-pub-63953

[20] Alexander Gabuev, "Russia and China: Little Brother or Big Sister?", Carnegie Moscow Center, 5 July 2016
http://carnegie.ru/commentary/?fa=64006

supported separatists in the Russian-Ukraine border areas. But, China could basically keep adopt a low profile on the issue and even try to subtly use the weakened position of Russia to its own advantage.

One advantage for China was that Russia's actions sapped the focus and energy from the US "pivot to the East" by the US Obama administration. China needs to have as much control as possible over the sea approaches to its coastlines and the "pivot" was sees as a threat to China in much the same way as NATO expansion was seen as a threat to Russia. The "pivot" could only have increased the Chinese determination to maximize that control (the most obvious manifestation being the so-called "island building" in the South China Sea). This, in turn, has intensified the fears of other East Asian countries about possible Chinese aggression (in much the same way as the annexation of Crimea has, as will be discussed later, increased the fears of Russia's neighbors.)

These external events have been accompanied by the emergence of two powerful leaders in the form of Vladimir Putin and Xi Jinping. At the time of writing in mid-2017, both presidents seem likely to be in power (or exert significant power over their respective countries) for quite a few years to come. They have forged a very good relationship, no-doubt helped by the difficulties that their respective countries are having with the "West". Putin and Xi have had more bi-lateral meetings than either has had with any other foreign leader.[21] Xi himself, speaking in Moscow in July 2017, noted that he had been to Moscow six times since becoming China's President in March 2013.[22]

According to Gabu, Xi Jinping could be described as Vladimir Putin's "soul mate—a strong leader with a vision of his country becoming a great power again". Xi has been promoting his China Dream concept which is essentially about "national rejuvenation" while Putin could be said to want the same for Russia, although there are subtle differences in the details.[23] Gabuev says that Putin appointed "longtime friend" and billionaire businessman Gennady Timchenko to chair the Russian-Chinese Business Council in order give the relationship his personal imprimatur.[24]

The two dominant countries of the central part of the Eurasian economic space of concern to this book are now in a sort of embrace. However, although the presidential minds working at the "top" may want more, the broader bodies of society and their economies working at and toward the "bottom" exhibit a distinct lack of warmth for each other.

Andrei Denisov, Russian Ambassador to China has noted that "it is not a romantic union of one heart but a calculated marriage".[25] This is unlikely to change quickly, partly because "at virtually no stage in their history have the two countries enjoyed a comfortable relationship".[26] According to the "Toward the Great Ocean 4" report written by a group of prominent Russian analysts, "fears and uncertainties persist. Russia fears that China will turn toward the US. In China many are afraid that Russia will cave in under the weight of its geostrategic commitments and revert to quasi-colonial status in relations with the West."[27]

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[21] Bobo Lo, "A Wary Embrace", Lowy Institute, March 2017
https://www.lowyinstitute.org/publications/wary-embrace

[22] **"**Press statements following Russian-Chinese talks", July 4, 2017
http://en.kremlin.ru/events/president/news/54979

[23] These will become clear in later discussions in this book.

[24] Alexander Gabuev, "Friends With Benefits? Russian-Chinese Relations After the Ukraine Crisis", Carnegie Moscow Center, 29 June 2016
http://carnegie.ru/2016/06/29/friends-with-benefits-russian-chinese-relations-after-ukraine-crisis-pub-63953

[25] Country Report: Russia", The Asan Forum, 24 November 2016
http://www.theasanforum.org/country-report-russia-november-2016/

[26] Bobo Lo, "A Wary Embrace", Lowy Institute, March 2017
https://www.lowyinstitute.org/publications/wary-embrace

[27] "Toward the Great Ocean 4: Turn to the East – preliminary results and new objectives",
http://valdaiclub.com/files/11431/

Indeed, according to Gabuev, even the Russian "elite still hasn't figured out what this new friendship is. Is it just a tactic in Russia's game against the West, or a separate and rational strategy? The Chinese are also asking themselves whether Moscow is genuinely interested in building serious relations with Beijing or simply using the Chinese card to bargain with the West."[28]

In late 2016, Andrei Denisov suggested that China and Russia "largely continue to evaluate the content of cooperation in different ways". He said that some Russians were "waiting for a military alliance", or at least friendly relations in which the countries "regularly help each other on political and economic issues".[29]

However, the Chinese, according to Denisov, are "quite satisfied" with "mutual support in the international field" and otherwise just consider the relationship to be an "obligation".

In early 2016, Fu Ying, Chairperson of the China's Foreign Affairs Committee of the National People's Congress, said that "China has no interest in a formal alliance with Russia, nor in forming an anti-U.S. or anti-Western bloc of any kind. Rather, Beijing hopes that China and Russia can maintain their relationship in a way that will provide a safe environment for the two big neighbors to achieve their development goals and to support each other through mutually beneficial cooperation."[30]

This does not mean that some influential Russian and Chinese thinkers do not who want much stronger ties. Yan Xuetong of Tsinghua University says that a formal Russian-Chinese alliance is needed because both countries are "under pressure from the United States"[31] in their respective territorial disputes with the Ukraine and Japan.[32] He argues that Russia should "insist" on it.

One reason that Russia is unlikely to "insist" on this, according to Timofey Bordachev of the Valdai Discussion Club, is that Russia "is reluctant to link its enormous nuclear missile arsenal to China, whose policies in Southeast and Southern Asia are becoming increasingly assertive".[33] Moreover, much of the Russian military-industrial complex does not trust China.[34]

But it is also the case that most advocates of closer Russian-Chinese relations do not necessarily want a "formal" military alliance. Prominent Russian analyst, Sergei Karaganov and some others have written extensively about the formation of "geopolitical macro-blocs" in the world, and suggest the need for a "Community of Greater Eurasia" which would include "China, Russia, India, Kazakhstan, Iran and many other states".[35] As will be discussed later, such "macro-blocs" are seen as having both formal and informal aspects, and are only seen as being viable if "China does not claim hegemonic status in the region".[36]

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[28] Alexander Gabuev, "Russia and China: Little Brother or Big Sister?", Carnegie Moscow Center, 5 July 2016 http://carnegie.ru/commentary/?fa=64006

[29] Михаил Коростиков (Mikhail Korostikov), "Не перегнешь — не выпрямишь" ("Do not overreact - do not straighten it out"), Kommersant, 31 August 2016 http://kommersant.ru/doc/3077022

[30] Fu Ying, "How China Sees Russia", Foreign Affairs, January/February 2016 Issue. https://www.foreignaffairs.com/articles/china/2015-12-14/how-china-sees-russia

[31] Yan Xuetong, "Не понимаю, почему Россия не настаивает на формировании альянса с Китаем" ("I do not understand why Russia does not insist on forming an alliance with China"), Kommersant, 17 March 2017 http://www.kommersant.ru/doc/3243633

[32] He could also have mentioned the South China Sea.

[33] Timofey Bordachev, "Russia and China in Central Asia: The Great Win-Win Game", Valdai Discussion Club, 28 June 2016 http://valdaiclub.com/files/11127/

[34] Bobo Lo, "A Wary Embrace", Lowy Institute, March 2017 https://www.lowyinstitute.org/publications/wary-embrace

[35] Sergei A. Karaganov, Kristina I. Cherniavskaia, Dmitry P. Novikov, "Russian Foreign Policy. Risky Successes.", Perspectives. Spring, 2016. Available at https://we.hse.ru/data/2016/08/12/1118068145/Harvard_Interlational_Review.pdf

[36] Sergei A. Karaganov, "From the Pivot to the East to Greater Eurasia", Russian Embassy to UK, 24 April 2017 https://www.rusemb.org.uk/opinion/50

Russia has already tried to create its own small version of a "geopolitical macro-bloc" in the form of the Eurasian Economic Union" (EAEU), but – as its name implies – it is more economic than political despite Russian desires, and certainly does not have a military aspect. Despite being wary of Chinese actions in Central Asia, Russia hopes to shore-up this mini-bloc by linking it to the Silk Road Economic Belt (SREB) part of China's Belt and Road project and possibly making it the basis a "Community of Greater Eurasia" or something very similar.[37]

"At the core", according to Irina Kobrinskaya, "Moscow views Chinese regional policy through the prism of Russia's own efforts to strengthen (EAEU) integration within the post-Soviet space."[38] As shall be discussed later in this text, it is clear that Chinese policy makers know this and have consequently been cautious in how they have approached the "Belt and Road" in regards to Russia.

Looking to the future, it is hard to see what might bring Russia and China closer together.

In the view of this author, despite present tensions that have arisen over Crimea and Eastern Ukraine, Russians remain much more comfortable looking west to Europe than looking east to China. Georgy Toloraya is certainly correct when he says that "Russia still remains an integral part of the European Judeo-Christian civilization" and "the Russian political class still does not know the East, and all its knowledge of it is often reduced to trite clichés".[39]

The relatively low level of Russia-China student exchanges does little to change this lack of knowledge. Speaking in July 2017, Vladimir Putin said that "as of today, some 25,000 Chinese nationals are studying in Russia, and 17,000 Russian students are studying in China".[40] By way of comparison, each year Australia, with a population of only 25 million, has about 140,000 students from China.

The western part of Russia is almost free of Chinese, with the absence of East Asian faces on the streets of Moscow particularly noticeable when compared to a city like Sydney. Moscow, in the view of this author, may be relatively sophisticated in parts – but it is by no mean cosmopolitan.[41]

The Russia-China relationship also suffers from a significant language barrier, as both languages are difficult to learn and most discourse occurs via English – a fact which, in itself makes the users more inclined to look for contact in other countries where English is more common.

Denisov perceived a "different mentality" and contrasted "Russian dreaminess" and a tendency to "be thrown from side to side" – or unpredictability – with Chinese "pragmatism" and "consistency".[42]

Whether this observation is objectively true or not, the self-perception that Russians are more creative actually affects such things as Russian views on technology and national development. In mid-2016, this author was at an event in Moscow where Dmitry Peskov of the "National Technology Initiative" justified this policy by contrasting Russian creativity in regards to future technology with

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[37] This book will argue that such a linking and transformation is very unlikely.

[38] Irina Kobrinskaya, "Is Russia Coming to Terms with China's 'Silk Road'?", Russia in Global Affairs, 30 December 2016
http://eng.globalaffairs.ru/PONARS-Eurasia/Is-Russia-Coming-to-Terms-with-Chinas-Silk-Road-18526

[39] Georgy Toloraya, "Two Heads of the Russian Eagle", Russia in Global Affairs, 13 February 2017
http://eng.globalaffairs.ru/number/Two-Heads-of-the-Russian-Eagle-18592

[40] "Press statements following Russian-Chinese talks", July 4, 2017
http://en.kremlin.ru/events/president/news/54979

[41] In 2013, I began studying Mandarin while living in Moscow, and one of my young Chinese female teachers (living in Moscow because her partner was working for a Chinese trading company in Moscow) one day called me to cancel a lesson because the police were conducting some operation near her apartment and she did not want to go onto the street because as an "Asian", she thought she would be targeted by the police.

[42] Михаил Коростиков (Mikhail Korostikov), "Не перегнешь — не выпрямишь" ("Do not overreact - do not straighten it out"), Kommersant, 31 August 2016 http://kommersant.ru/doc/3077022

Asian production-line mentality in use of existing technology.[43] As shall be explained in the next section of this text, in the view of this author such Russian attitudes are a hindrance to further development of the Russia-China economic relationship.

Fu Ying would seem to agree with at least some of the views of Denisov when she says that "Russia and China differ in diplomatic style": "Russia is more experienced on the global theater, and it tends to favor strong, active, and often surprising diplomatic maneuvers. Chinese diplomacy, in contrast, is more reactive and cautious."[44]

Despite China's very strong promotion of its Belt and Road project, this is certainly how Russia likes to sees things, and it has – as will be discussed later in this book – implications for how many Russian opinion and decision makers envisage future developments in the central Eurasian land mass.

Like other countries, China took particular note of the annexation of Crimea. Gabuev wrote that "Chinese leaders were surprised by the degree of the Kremlin's unpredictability. The decision to annex Crimea and to directly challenge the U.S.-led international order – and to pay a huge economic price for doing so[45] – was, in Beijing's view, irrational and against Russia's long-term interests. Concerns that Russia was worryingly unpredictable were later confirmed by Moscow's direct involvement in Syria and the rapid escalation of tensions with Turkey, neither of which Chinese experts anticipated."[46]

Such Chinese views about the unpredictable nature of Russia are somewhat ironic given the earlier quoted comments by Bordachev about China's "increasingly assertive" policies in East Asia and how Russia does not want to be tied into this. This mutual caution can only reinforce the view that a formal alliance – particularly defence – is very unlikely.

It can be seen from the above discussion that there are, in the words of Kobrinskaya, a "range of complex and contradictory Russian attitudes toward China: from dramatic forecasts of rampant Chinese expansion into the Far East and Siberia to a future where Russia and China work together as strategic partners overpowering the West's weakening hegemony."[47]

Karaganov is – in the view of this author – certainly correct when he writes that the relationship lacks "strategic depth", which he defines as "a common long-term co-development goal".[48] Yet, this may not matter. Dmitri Trenin, of the Carnegie Moscow Center, seems satisfied with the present situation when he succinctly – and perhaps optimistically – sums up the present stage of the relationship saying it is "founded on the premise that the two will never turn against each other, but neither will they automatically follow each other: a fine combination of reassurance and flexibility."[49]

2. Economic Relationship

[43] For more on the National Technology Initiative, see: Jeff Schubert, "National Technology Initiative – "Waiting for High-Tech Tooth-Fairy" !", Russian Economic Reform

[44] Fu Ying, "How China Sees Russia", Foreign Affairs, January/February 2016 Issue. https://www.foreignaffairs.com/articles/china/2015-12-14/how-china-sees-russia

[45] The Russian leadership consistently rejects such suggestions of a "huge economic price".

[46] Alexander Gabuev, "Friends With Benefits? Russian-Chinese Relations After the Ukraine Crisis", Carnegie Moscow Center, 29 June 2016 http://carnegie.ru/2016/06/29/friends-with-benefits-russian-chinese-relations-after-ukraine-crisis-pub-63953

[47] Irina Kobrinskaya, "Is Russia Coming to Terms with China's 'Silk Road'?", Russia in Global Affairs, 30 December 2016 http://eng.globalaffairs.ru/PONARS-Eurasia/Is-Russia-Coming-to-Terms-with-Chinas-Silk-Road-18526

[48] Sergei A. Karaganov, "From the Pivot to the East to Greater Eurasia", Russian Embassy to UK, 24 April 2017 https://www.rusemb.org.uk/opinion/50 However, as will be discussed later in this text, Karaganov's goal is a "Greater Eurasia" on terms that are unlikely to appeal to Russia because of the strength of his "co-development goal".

[49] Dmitri Trenin, "National Interest, the same Language of Beijing, Washington and Moscow", Global Times, 29 December 2016 http://www.globaltimes.cn/content/1026358.shtml

A report by the RIAC following its May 2016 Russia-China conference said that "a distinctive feature of Russia–China relations is the significant gap between the level of political contacts and the scope of economic cooperation".[50]

A plenary session on the second day of this 2016 conference started with polite set presentations. But, as the day wore on and the discussion became more informal, some quite sharp criticisms started to be made. For example, former Chinese Ambassador to Russia, Li Fenglin, referred to the differing temperatures at various levels in the Russia-China relationship, when he said: "I have a feeling that Putin and Xi have a conceptual understanding of how we should work together, but there are problems of understanding in the mid-level."[51]

Indeed, the "personal relationship" between Putin and Xi seems to have been an important factor is the "few" major business deals between Russian and Chinese companies.[52]

At the following year's 2017 RIAC conference, Fares Kilzie, Chairman of CREON Energy, gave credence to this view when he said that "many Chinese are afraid to work in Russia" and that a solution for big projects is a "curator" or "strong man" – or someone at the top – to make things happen. If not Putin, such a curator could be a top Federal official or a powerful governor. Kilzie added that "outside the fuel and energy" complex there is only talk of investment because there were no such curators.

Here – in the view of this author – is an obvious major impediment to the development of a closer Russia-China economic relationship. Such a "curator" approach is time-consuming for the curators. Moreover, not all projects are "big", and a more complete Russia-China economic relationship will only be built if myriad smaller business deals "outside of the fuel and energy" sector are completed.

Whereas commentary at the 2016 RIAC conference had at various times referred to the lack of trust in aspects of the Russia-China relationship, the issue of "trust" became the dominant unofficial theme of the 2017 conference. At the end of the second day, a European attendee[53] publicly expressed her surprise at the extent of discussion on trust and how much it was at odds with the way most Western analysts regarded the Russia-China relationship.

There was little agreement among 2017 conference participants on just what and who is responsible for this lack of trust, and little agreement about what could be done about it. A number of speakers tackled the nexus between trust and cooperation, without agreeing which came first: Does successful cooperation lead to trust? Or does successful cooperation depend trust first being present?

Various issues were raised. The Deputy-Chairman of Russian-Chinese Business Council[54] said that the lack of trust was due to the ways in which Chinese took advantage of Russia's difficulties in its "pivot to the East" (for example, demanded high interest rates on loans which Russia sought to compensate for the effect of Crimea induced Western financial sanctions), while the Deputy Chairman of Vnesheconombank[55] mentioned Chinese requirements regarding use of Chinese equipment etc. when considering investing in Russian projects.

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[50] Russian-Chinese Dialogue: The 2016 Model", Russian International Affairs Council, Report 26, 2016 http://russiancouncil.ru/common/upload/Russia-China-Report25-eng.pdf

[51] Gleb Fedorov, "Target $200 bln: Russia, China explore ways to stimulate trade", Russia Beyond the Headlines, 2 June 2106 http://rbth.com/international/2016/06/02/target-200-bln-russia-china-explore-ways-to-stimulate-trade_599467

[52] Alexander Gabuev, "Russia's 'China Dreams' Are Less of a Fantasy Than You Think", War on the Rocks, 28 June 2016 http://carnegie.ru/2016/06/28/russia-s-china-dreams-are-less-of-fantasy-than-you-think-pub-63957

[53] Janeka Oertel, Program Director at Korber-Stiftung.

[54] Ivan Polyakov, Director-General of Interstate Corporation for Development, Deputy-Chairman of Russian-Chinese Business Council.

[55] Andrey Klepach, Deputy Chairman (Chief Economist) of Vnesheconombank.

Two Russian officials[56] put the view that the Chinese needed to put in greater effort in understanding Russian business conditions and laws. Such views are not uncommon. For example, Vasily Kashin, of the Center for Analysis of Strategies and Technologies, in considering Chinese investment in Russia has written that an impediment to Chinese investment in Russia is "obviously not so much the Russian investment climate as a lack of clear understanding in the Chinese private business community as to how to operate in countries with mid-level development like Russia".[57]

The use of the term "obviously" suggests, in the view of this author, a lack of understanding of the wider business world and Russia's need to adjust to it. There is a tendency, in the view of this author, for many Russians to blame others when things go wrong in international relations.

As hinted at earlier in this text, Russian co-operation at all levels and in all spheres with China is hindered by what Bobo Lo calls a "critical psychological dimension" – in that "Russia's great power traditions mean that inferiority to anyone is intrinsically abhorrent".[58] When Gabuev writes that the Russian leadership has an "unwavering conviction that the mighty Russia shouldn't be reduced to the role of a mere supplier of raw materials to Asia",[59] his choice of words says as much about the situation as his basic point.

It is not only officials who have such an attitude. This 2016 comment by Fares Kilzie provides an illustration that such thinking infects sections of the Russian business community: "Some Chinese companies work in Peru, some work in Libya, in Syria, in Iraq. But we are not Libya, Syria, Iraq, or Peru. We are Russia, we have our high technical and technological potential. We have breakthrough know-hows that were communicated to China 30–40–50 years ago."[60]

Indeed, many in Russia see it as a future high-tech industry world power-house and major exporter of advanced and innovative manufactured products.[61] This has led to such policies as the National Technology Initiative and to Prime Minister Dmitry Medvedev describing "import substitution" as the "core" of economic "structural reforms".[62] In this view of this author, as will be indicated later, both of these economic policies are flawed.[63]

On the Chinese side at the 2017 RIAC conference, the President of Shanghai Academy of Social Sciences[64] said that for "well-known reasons" the investment environment in Russia is not attractive to

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[56] Alexey Gruzdev, Deputy Minister of Economic Development of Russia, and Alexander Krutikov, Deputy Minister for Development of Russian Far East. "Russia and China: Taking on a New Quality in Bilateral Relations", Russian International Affairs Council Conference, Moscow, 29-30 May 2017 http://russiancouncil.ru/en/rucn2017

[57] Vasily Kashin, "Is China Investing Much in Russia?", Valdai Discussion Club, 9 June 2017 http://valdaiclub.com/a/highlights/chinese-investments-in-russia/

[58] Bobo Lo, "A Wary Embrace", Lowy Institute, March 2017 https://www.lowyinstitute.org/publications/wary-embrace

[59] Alexander Gabuev, "Russia and China: Little Brother or Big Sister?", Carnegie Moscow Center, 5 July 2016 http://carnegie.ru/commentary/?fa=64006

[60] Evgeny Nadorshin, Chief Economist at PF Capital, "Economic Basis of the Russian-Chinese Partnership" in Russian International Affairs Council, Event Report, Second International Conference, "Russia and China: Taking on a New Quality of Bilateral Relation", Moscow, 30-31 May 2016 http://russiancouncil.ru/common/upload/Conference-Report-RUCN2016-En.pdf

[61] Russian-Chinese Dialogue: The 2016 Model", Russian International Affairs Council, Report 26, 2016 http://russiancouncil.ru/common/upload/Russia-China-Report25-eng.pdf

[62] Dmitry Medvedev, "Social and economic development of Russia: Finding new dynamics", Russian Journal of Economics, Volume 2 Issue 4, December 2016 http://www.sciencedirect.com/science/article/pii/S2405473916300472

[63] See my critique of the National Technology Initiative at http://russianeconomicreform.ru/category/expert-group-5-moving-from-stimulation-of-innovation-to-growth-on-its-basis/

[64] Wang Zhan, President of Shanghai Academy of Social Sciences, Deputy of National People's Congress of China.

outsiders" while senior Chinese businessman Xin Zhongyi[65] said that the "Russian market is very different from other countries".

When asked by the discussion moderator to elaborate on this statement, Xin Zhongyi gave the impression of a school-boy who had spoken "out of turn" and refused to say anything further. In the view of this author, this was a pity because many Russians at the conference were genuinely interested in a detailed discussion about how Russia could improve its investment climate.

When examining economic relationships between countries it is generally best to start by looking at trade because such activities should be the easiest to observe and measure. However, measuring the exact size of trade between countries can often be difficult due to differences in the way countries account for specific items, changes in prices and exchange rates, and timing issues associated with record keeping.[66]

International Trade Centre's "Trade Map"[67] data for 2016 on separately identified Russian imports from China (based on Russian Customs data) and separately identified Chinese exports to Russia (based on Chinese Customs data) show the measurement difference is less than $US1 billion[68] with both numbers being close to $US38 billion. That is, both the Russian and Chinese sources give similar numbers.

However, there is a larger divergence in the "Trade Map" numbers when considering the one-way export flow from Russia to China (ie the other side of the trade relationship described in the above paragraph). Russian Customs based data puts 2016 exports to China at $US28 billion, while Chinese Customs based data puts Chinese imports from Russia at $US32 billion.

The overall result is that "Trade Map" shows that Russia has a balance of trade deficit with China of about $US10 billion when based on Russian Customs data, but of about $US6 billion when based on Chinese Customs data.[69]

These are not devastatingly large inconsistencies, and too much importance should not be placed on them. But, there is also a simple truth here in that Russia – in terms of overall trade – is not as important to China as China is important to Russia because the Chinese economy is so much bigger than that of Russia. Even if Russian attitudes do not reflect this, Chinese attitudes often do.[70]

Oil and related products are Russia's main exports to China. Needless to say, the value of these is significantly affected by changes in oil prices. According to "Trade Map" data (based on Chinese Customs statistics), China imports of "petroleum oils" and "crude" in 2016 from Russia were $US17 billion, down from $US25 billion in 2014. For 2016 this was about 14% of China's total imports, up from a share of 11% in 2014.

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[65] Vice-president of China Gezhouba Group of Companies.

[66] While detailed statistical issues can be very important for economic analysis, they are less so for a book like this which is concerned with broader relationships. Consequently, I have taken the liberty to round-out the data where such a process makes the text more readable and does not distract from the basic analysis.

[67] Trade Map" data is produced by the "International Trade Centre" which is a "joint agency of the World Trade Organization and the United Nations" http://www.intracen.org/itc/about/

[68] International Trade Centre's "Trade Map", http://www.trademap.org/countrymap/Bilateral_TS.aspx The Russian data is reportedly based on "Russian Customs Statistics" and Chinese data on "General Customs Administration of China" statistics.

[69] The quite detailed Russia-China statistical analysis contained in this section will not be repeated for other international trade relationships covered in this text. It is done here because of the importance of the Russia-China relationship, and as an illustration of some of the difficult practical issues and uncertainties involved in such analysis.

[70] In late 2014, I conducted two surveys regarding the attitudes of Chinese and Russians to closer economic and financial relations between their two countries. The surveys were conducted in Shanghai and Moscow. See: http://russianeconomicreform.ru/2014/11/what-do-chinese-tradeinvestment-people-think-about-russia-and-vice-versa/

In volume terms the "oil" data is similar. The "Trade Map" data for 2016 also shows that China imported 52.5 million tonnes (or about 1 million barrels per day[71]) from Russia, which was nearly 14% of total imports (of about 7.7 million barrels per day). The June 2017 BP "Statistical Review of World Energy" agrees with this assessment.[72]

Railway freight transport between Russia and China is via the Trans-Siberian Railway (with several branch border crossings into North and North-East China) or the much shorter route across Kazakhstan.[73] The Zabaykalsk-Manzhouli border crossing (on the North China border) was the main rail crossing for rail-tank oil from Russia to China which began in substantial amounts in 2005.

A 2009 agreement eventually resulted in oil being supplied through the East Siberia–Pacific Ocean (ESPO) pipeline which runs to Russia's Far Eastern Primorsky region. Oil is then shipped by sea from Kozmino port to China. Additionally, a branch of the ESPO pipeline enters China from Russia's Amur region[74] and began pumping oil in 2011.[75]

In mid-2014 an agreement was signed to provide gas through a new "Power of Siberia" pipeline from new fields in Eastern Siberia,[76] but the subsequent large fall in oil prices has impacted on world gas prices and caused delays with exports now scheduled to begin in December 2019.[77]

A mid-2016 RIAC report says that "the energy management authorities in Russia and China fail to understand each other's plans and programs for energy development as well as the industrial policy of the other party. In addition, companies do not have sufficient information about the socioeconomic situation, the investment climate, and the situation on the Russian and Chinese markets."

James Henderson and Tatiana Mitrova of the OIES give some data in their August 2016 publication concerning Chinese investment in the Russian energy sector. The data is for 2013 – and thus may not reflect the current situation – on "Chinese overseas oil and gas production by country and company". They note that "Chinese equity investment in Russian assets accounts for a relatively small 2.5% of total Chinese overseas production".[78] They also provide a list of "Russian oil deals discussed or completed with Chinese counterparties" in the period from August 2006 until June 2016, and note that "few cross-border deals have actually been closed".

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[71] One metric tonne is equivalent to 7.33 barrels. See:
https://www.bp.com/content/dam/bp/pdf/energy-economics/statistical-review-2016/bp-statistical-review-of-world-energy-2016-approximate-conversion-factors.pdf

[72] BP Statistical Review of World Energy June 2017
https://www.bp.com/content/dam/bp/en/corporate/pdf/energy-economics/statistical-review-2017/bp-statistical-review-of-world-energy-2017-full-report.pdf

[73] Border crossings at Dostyk and Khorgos.

[74] From Skovorodino in Russia to Daqing in China.

[75] James Henderson and Tatiana Mitvova, "Energy Relations between Russian and China: Playing Chess with the Dragon", OIES paper WPM 67, August 2016
https://www.oxfordenergy.org/wpcms/wp-content/uploads/2016/08/Energy-Relations-between-Russia-and-China-Playing-Chess-with-the-Dragon-WPM-67.pdf

[76] "Address by Gazprom Management Committee Chairman Alexey Miller at 13th International Investment Forum Sochi-2014," Gazprom, September 19, 2014, http://www.gazprom.com/press/miller-journal/335371/

[77] "Press statements following Russian-Chinese talks", July 4, 2017
http://en.kremlin.ru/events/president/news/54979

[78] James Henderson and Tatiana Mitvova, "Energy Relations between Russian and China: Playing Chess with the Dragon", OIES paper WPM 67, August 2016
https://www.oxfordenergy.org/wpcms/wp-content/uploads/2016/08/Energy-Relations-between-Russia-and-China-Playing-Chess-with-the-Dragon-WPM-67.pdf

They suggest that Russia is generally reluctant to "share assets" with China and fears being trapped as a "simple supplier of oil and gas" (that is, the "mere supplier of raw materials" issue discussed earlier) with Chinese companies controlling many "upstream assets".[79]

On the Chinese side, Henderson and Mitrova say, there may be concerns about Russian political motives and "distrust over Russian companies business practices". More recent factors on the Chinese side, they add, may be perceptions that Russia is in a "weak negotiating position, both politically and commercially" which has led Chinese companies to drive hard bargains; "corruption scandals in the Chinese oil sector" which have distracted key decision makers" from international deals; and fear of the possible flow-on effects on Chinese companies of Ukraine-related economic sanctions on Russia.

Henderson and Mitrova suggest that China presently has the upper-hand in its energy trade relations with China because "the majority of Russia's eastern hydrocarbon assets are effectively stranded without the availability of the Chinese market". That is, their geographical location means that these hydrocarbon deposits have few other possible markets other than China. They say that "China is exploiting its clear bargaining strength to ensure the best outcome for its companies".[80]

At the May 2017 RIAC, Shi Ze, Director of the Centre for International Energy Studies, suggested that the best time for increased cooperation between Russia and China on energy issues has passed because of increased world supplies and changes in technology.[81]

In the view of this author, Shi Ze may well be right – but not only for the reasons he gave! As suggested earlier, Russia was slow to see the economic potential of China because of its focus on Europe. Gabuev makes an interesting point that in 2000 Moscow was not against laying oil and gas pipes from the Central Asian region to China because "these supplies reduced the incentives of the Central Asian countries to search for routes to Europe bypassing Russia".[82]

Whatever the long-term prospects for the Russia-China energy relationship, Russia still needs its western markets. A mid-2016 RIAC report noted that "China will not replace the European gas market for Russia for the foreseeable future. Even if the Western and Eastern gas routes are built, their aggregate capacity after 2020 will total 78 billion cubic meters year, against the 146 billion cubic metres that Gazprom sold to Europe and Turkey in 2014."[83]

"Trade Map" gives a breakdown of Russian non-energy exports to China. As noted above, Russian Customs based data suggests total Russian 2016 exports to China of $US28 billion, while Chinese Customs based data puts Chinese imports from Russia at $US32 billion. In both cases the largest

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[79] "Oil and gas companies can generally be divided into three segments: upstream, midstream and downstream. Upstream firms deal primarily with the exploration and initial production stages of the oil and gas industry." See: http://www.investopedia.com/terms/u/upstream.asp

[80] James Henderson and Tatiana Mitvova, "Energy Relations between Russian and China: Playing Chess with the Dragon", OIES paper WPM 67, August 2016 https://www.oxfordenergy.org/wpcms/wp-content/uploads/2016/08/Energy-Relations-between-Russia-and-China-Playing-Chess-with-the-Dragon-WPM-67.pdf

[81] Shi Ze, Director of the Centre for International Energy Studies, Senior Research fellow, Former vice-president of the China Institute of International Studies. "Russia and China: Taking on a New Quality in Bilateral Relations", Russian International Affairs Council Conference, Moscow, 29-30 May 2017 http://russiancouncil.ru/en/rucn2017

[82] Александр Габуев (Alexander Gabuev), "Больше, да хуже. Как Россия превратила ШОС в клуб без интересов" ("More, yes, worse. How Russia transformed the SCO into a club without interests") , Carnegie Center Moscow, 13 June 2017 http://carnegie.ru/commentary/?fa=71212&mkt_tok=eyJpIjoiTVRVNE5tVmtPVEJtTkRNdyIsInQiOiJqUktCNnBsekRtOFhpTkI4cGhNdWhKZ0lIN05yV1ZQSU9UYWszUjRoUnRBaDdaZ1AwK2RHOGlvQkV0ZlM1a1poc0ZwbzJhSDllT1lUSEVzNjdDYk1wYjRVaVhZcnRIOGJxc3J5MVlHMEJFczBxUnJzV25LNkZrS3lwSzNUZzFsZSJ9

[83] Russian-Chinese Dialogue: The 2016 Model", Russian International Affairs Council, Report 26, 2016 Despite the long border, real business contact between Russia and China is quite limited except for some major resource deals, local trading in Russia's eastern regions, and internet based purchases. http://russiancouncil.ru/common/upload/Russia-China-Report25-eng.pdf

non-energy item is wood, followed by fish or various mineral ores. As noted earlier, "Trade Map" data shows that Russian imports from China in 2016 (based on both Russian and Chinese Customs data) is about $US38 billion. It is mostly machinery and equipment of various types and consumer products.

The reality is that, despite the long border, non-energy related real business contact between Russia and China is quite limited except for local trading in Russia's far eastern regions, and internet based purchases. At the 2016 RIAC conference, Li Fenglin indicated that the economic relationship needed to move on from state owned entities (such as Gazprom and Rosneft) to middle sized and smaller firms.[84]

But, progress in adding smaller deals to the big energy related transactions is very slow. At the same RIAC 2016 conference, Victor Vekselberg, Chairman of the Russian Chapter of the Russian-Chinese Chamber for Commerce in Machinery and High Technology Products, said: "Ultimately, joint projects are implemented by specific professionals, engineers, entrepreneurs, businesspersons on both sides. We need more formats which would provide Russia and China's businesses with a better understanding of how both countries live and develop."[85]

Vekselberg also said: "For nine years, the Chamber has been trying to establish partnership between our countries in the sector which, I believe, has the greatest prospects." "Our results for 2015 make me note the disastrously low level of our partnership in trade in machinery and innovative products."[86] He argued that "reasonable cooperation and alliance between our states would lead to the emergence of world-class top companies in Russia and China."[87]

In the view of this author, Vekselberg is certainly right about the role of professionals and businesspeople and the need for better understanding. The low level of Russia-China student exchanges has already been noted in relation to the knowledge of the Russian "political class", and the experience of such countries as Australia is that many students become migrants working in professional jobs and as businesspeople and thus enhance economic relations.

Ivan Safranchuk, who is in the same camp as Karaganov when it comes to "geopolitical macro-blocs", has argued that **"**if Russia builds a technological base of its own, it will be able to attract other countries into its economic and technological space as equal partners on a greater scale."[88] In essence, in the Russian view, this means a large "space" largely built upon the EAEU as the foundation stone.

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[84] Gleb Fedorov, "Target $200 bln: Russia, China explore ways to stimulate trade", Russia Beyond the Headlines, 2 June 2106
http://rbth.com/international/2016/06/02/target-200-bln-russia-china-explore-ways-to-stimulate-trade_599467

[85] Victor Vekselberg, Chairman of the Russian Chapter of the Russian-Chinese Chamber for Commerce in Machinery and High Technology Products, and President of the Skolkovo Foundation, Russian International Affairs Council, Event Report, Second International Conference, "Russia and China: Taking on a New Quality of Bilateral Relation", Moscow, 30-31 May 2016
http://russiancouncil.ru/common/upload/Conference-Report-RUCN2016-En.pdf p16)

[86] One factor contributing to this situation which was not mentioned by Vekselberg could be non-tariff barriers (NTBs). The Eurasian Development Bank reports that, within the EAEU, they have a "particularly crippling effect on the development and cooperation of high-tech industries, particularly mechanical and chemical engineering". See: Evgeny Vinokurov, "Eurasian Economic Union: Current state and preliminary results", Russian Journal of Economics, Volume 3 Issue 1, March 2017 http://www.sciencedirect.com/science/article/pii/S2405473917300041

[87] Victor Vekselberg, Chairman of the Russian Chapter of the Russian-Chinese Chamber for Commerce in Machinery and High Technology Products, and President of the Skolkovo Foundation, Russian International Affairs Council, Event Report, Second International Conference, "Russia and China: Taking on a New Quality of Bilateral Relation", Moscow, 30-31 May 2016
http://russiancouncil.ru/common/upload/Conference-Report-RUCN2016-En.pdf p16

[88] Ivan Safranchuk, "If Stakes Have Failed", Russia in Global Affairs, 23 September 2016
http://eng.globalaffairs.ru/number/If-Stakes-Have-Failed-18397

In reality – in the view of this author – such a "technology base" policy, Medvedev's "import substitution" policy, and the views of the Chairman of CREON Energy are a far-cry from what is really needed to best promote non-energy international trade with China.

For a start, while China is looking to develop its service sectors, it is not clear that it will be willing to cede its advanced manufacturing advantages and engage in the sort of cooperation that Vekselberg envisages. Secondly, the "import substitution" argument – at least in the opinion of this author – has limited historical validity and (except for some reasons of national security) is particularly counter-productive in the present fast-moving digitalization world.[89]

While it was clear after the events in Crimea that there was little Russian could sell to China besides energy and other natural resources, many in the Russian political and business leaderships were hopeful for increased Chinese support in the form of loans and investments. But, even here there was to be disappointment.

Towards the end of 2016, Russian Ambassador to China, Denisov noted: "About a year ago, Russian businessmen had the impression that they could go with open pockets, and the Chinese would fill them with money. Now there is a more sober approach, cognizant of the fact that the Chinese are not inclined to take risks."[90]

The lending risks include both commercial and political. Chinese commercial banks have not wanted to be caught-up in the US-led financial sanctions in place against Russia, although those Chinese institutions with a more political purpose (ie those involved on Chinese promotion of development, trade and obviously political relations) have recognized a need to be more open for business – not least because of the Putin-Xi relationship and because of the importance of the SREB part of the Belt and Road project.

Reliable statistics on international investment are generally harder to get than statistics on international trade. This is mostly related to the fact there is no physical movement of goods to be officially recorded for customs purposes.[91] While most countries attempt to collect data on international investment, private sector organizations often try to do a better job. Moreover, as already discussed in the case of energy,[92] there can be a significant difference between announced investment transactions and those which are actually completed.

Kashin, writing for the Valdai Club in mid-2017, refers to Russian Central Banks statistics showing "Chinese direct investment of all types amounted to $645 million in 2015 and $350 million in 2016".[93] After referring to several Chinese reports and quoting statements by various Chinese officials, he says that actual Chinese investment is several times these numbers, and that it can be assumed that "China is already one of the large investors into Russia, but the true volume of Chinese investment is unknown to both China and Russia" because much investment occurs via such places as Hong Kong and various jurisdictions with tax minimization and tough secrecy regimes.

This is almost certainly true, but some attempts have been made to get a better handle on this issue. According to Gabuev, also writing toward the middle of 2017, Chinese polling of Chinese companies that have invested in Russia has given a figure of "US$40 billion of cumulative investment by the end

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[89] My critique of the Russian National Technology Initiative explores this issue in more detail. See: http://russianeconomicreform.ru/category/expert-group-5-moving-from-stimulation-of-innovation-to-growth-on-its-basis/

[90] Country Report: Russia", The Asan Forum, 24 November 2016 http://www.theasanforum.org/country-report-russia-november-2016/

[91] This is also the case for many "service" transactions – for example, tourism and IT services provided by workers in one country to clients in another country.

[92] James Henderson and Tatiana Mitrova have pointed out that there is often a significant difference between announced investments and those that actually take place.

[93] Vasily Kashin, "Is China Investing Much in Russia?", Valdai Discussion Club, 9 June 2017 http://valdaiclub.com/a/highlights/chinese-investments-in-russia/

of 2016, with about a quarter (ie about $US10 billion) coming after the Crimea annexation (ie in early 2014)."[94]

The "China Global Investment Tracker"[95], jointly produced by The American Enterprise Institute and The Heritage Foundation, suggests that the "value of China's investment and construction combined overseas is approaching $1.5 trillion". It lists total individual transactions of $US858 billion for the 2005-16 period, with the Russian share at $US28 billion – or, a little over 3%. This Tracker only reports individual transactions of $US100 million and above.

According to the Tracker, the Russian share was also equal to around 3% in 2015, but in 2016 it fell back to $US2.2 billion or about 1% of China's total $US169 billion for that year.[96]

The difference between Gabuev's $US40 billion and the Tracker's $US28 billion could partly be due to Chinese investments in Russia before 2005, but in the opinion of this author most will be due to differences and difficulties in data collection. The same comments also apply to the differences in the data for 2015.

The Tracker covers both foreign direct (FDI) and indirect (ie portfolio) investments, but the presentation of the data means that it is not always easy to distinguish between the two. According to the Eurasian Development Bank's 2017 "Eurasian Economic Integration" report[97], "at the beginning of 2016, Chinese FDI stock in Russia remained at $US3.4 billion", but also noted that a "considerable number of major transaction executed in 2014 and earlier are still awaiting final implementation". In July 2017, Putin said that in 2016 "cumulative direct capital investment from China" was $US2.3 billion, but he characterized it as a 12% increase from 2015.[98]

The difference between Gabuev's $US40 billion and the Tracker's $US28 billion could partly be due to Chinese investments in Russia before 2005, but in the opinion of this author most will be due to differences and difficulties in data collection. The same comments also apply to the differences in the data for 2015. There will also be many investments of amounts less than $US100 million, although this is more likely to be important in countries with a better investment climate and a larger Chinese diaspora than Russia.

If true, these numbers – while not large in world terms[99]– would seem to indicate that some aspects of the Russia-China economic relationship are not as bad as the earlier quoted anecdotal evidence suggests.

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[94] Alexander Gabuev, "China and Russia: Friends with strategic benefits", Lowy Institute, 7 April 2017 https://www.lowyinstitute.org/the-interpreter/china-and-russia-friends-strategic-benefits

[95] "China Global Investment Tracker", compiled by The American Enterprise Institute and The Heritage Foundation https://www.aei.org/china-global-investment-tracker/

[96] These numbers are not too dissimilar to those contained in an early July 2017 joint report by the Chongyang Institute for Financial Studies, the Valdai Discussion Club, and The Kazakhstan Council of International Relations. It says that, in 2016, China's total foreign direct investment was $US170, up by 44% from the previous year, with Russia's share accounting for "a mere 0.7%". "Reshaping Eurasian Economic Space: Common Perspectives from China, Russia and Kazakhstan Think Tanks", Valdai Discussion Club, July 2017 http://valdaiclub.com/files/14845/

[97] "Eurasian Economic Integration, 2017", Report 43, Eurasian Development Bank https://eabr.org/upload/iblock/470/EDB-Centre_2017_Report-43_EEI_ENG.pdf

[98] "Press statements following Russian-Chinese talks", July 4, 2017 http://en.kremlin.ru/events/president/news/54979

[99] The "China Global Investment Tracker" puts "investment and construction" in Australia (like Russia, a resource rich country) in the 2005-16 period at $US85 billion, and in 2016 alone at $US5 billion. KPMG estimate that total Chinese "direct" investment in Australia since 2007 at around $US90 billion and estimate that in 2016 alone was over $US11 billion. There is thus a very large difference in the estimates for 2016, which highlights the difficulties in collecting such data.

At the more recent official level, the 3-4 July 2017 visit of Xi Jinping to Moscow brought the announcement that China's Development Bank (CDB) will join with the Russian Direct Investment Fund (RDIF)[100] to create a new investment RMB[101] 65 billion[102] vehicle for "cross-border" projects associated with the Belt and Road and with the EAEU.[103] At the same time, it was announced that Vnesheconombank would receive a RMB 6 billion loan from CBD to fund "energy, industry and transport in Russia, as well as cross-border projects in Siberia and Russia's Far East".

In mid-2016, a senior Gazprombank official, quoted in a RIAC report, indicated that there has been a "tremendous breakthrough in informing each other of the opportunities offered by the financial markets".[104] But, this banker then added the revealing qualifier that this "breakthrough has not taken on any flesh."[105]

Even if there has been a "tremendous" information breakthrough, it has come from a very low base.

According to a senior official of China's ICBC bank quoted in the same RIAC report, any significant developments are still in the future. "As regards the financial sphere, we propose to form as soon as possible a system of mutually recognized financial ratings, criteria for project financing or project-tied financing, a system of lending control. We also want to develop the market of ruble RMB derivatives and to actively use the hedging instruments against risks tied to interest rates, exchange rates, and inflation. Thus we could improve and advance our financial cooperation. Finally, we need to establish a bilateral mechanism for exchanging financial information, to jointly collect, process, summarize, and study relevant information and strengthen our risk-management regime."[106]

This ICBC wish list for financial sector development is very extensive and something which in reality would take many years to develop even under the best conditions for cooperation. Modern financial systems are both simple and complex. The simple part – compared to politics for example – it that activities and outcomes are numerically measurable and quickly learnt. The complex part is that solid institutional arrangements are needed to ensure that businesspeople and consumers have the confidence – or trust – to undertake significant non-cash financial transactions. As already discussed, there is a distinct lack of trust in the Russia-China business relationship.

While both Russia and China have many technical elements of a financial system that could implement some of the items on the ICBC wish list, the reality is that neither country is willing to develop the

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https://home.kpmg.com/au/en/home/media/press-releases/2017/04/maturing-chinese-investment-australia-1-may-2017.html

[100] Russia Direct Investment Fund https://rdif.ru/Eng_Index/

[101] Renminbi (often abbreviated to RMB) means "people's currency", and yuan is its basic unit.

[102] About $10US billion

[103] Max Seddon and Kathrin Hille , "China and Russia strike $11bn funding deal", Financial Times, 4 July 2017 https://www.ft.com/content/323f8254-60d2-11e7-8814-0ac7eb84e5f1

[104] Evgeny Nadorshin, "Economic Basis of the Russian-Chinese Partnership" in Russian International Affairs Council, Event Report, Second International Conference, "Russia and China: Taking on a New Quality of Bilateral Relation", Moscow, 30-31 May 2016 http://russiancouncil.ru/common/upload/Conference-Report-RUCN2016-En.pdf

[105] This does not surprise me as I spent most of 2014 and 2015 in Shanghai doing research on Chinese financial sector issues. I subsequently spent all of 2016 in Moscow and found little interest in Chinese financial issues. See: http://shanghai-ifc.org/

[106] Evgeny Nadorshin, "Economic Basis of the Russian-Chinese Partnership" in Russian International Affairs Council, Event Report, Second International Conference, "Russia and China: Taking on a New Quality of Bilateral Relation", Moscow, 30-31 May 2016 http://russiancouncil.ru/common/upload/Conference-Report-RUCN2016-En.pdf

institutional framework for the development of a truly sophisticated financial system that would allow a deeper financial relationship between their business sectors to develop.[107]

3. Influence of Domestic Policies on the Relationship

In the opinion of this author, the future development of the Russia-China relationship will – aside from that at the very "top" – continue to be impeded by the internal public administrative systems of both countries. Neither President Putin nor President Xi is prepared to allow internal political frameworks that are most conducive to the development of broader international social and economic relations.

Xi Jinping has reportedly said, in a speech to party members, that the USSR collapsed "because nobody was man enough to stand up and resist".[108] "I cannot over-emphasise enough the fact that the Chinese Communist party leadership continues to live under the Soviet shadow – they are hyper-conscious of the reforms Gorbachev undertook and absolutely refuse to go down that path," says David Shambaugh, director of the China Policy Program at George Washington University.[109]

In the view of Yongjin Zhang, University of Bristol, "China may attempt to defend that part of globalisation that China has benefited from, free trade for example. But it is not committed to globalisation as a liberal project for constructing the future world."[110]

To a large extent, it is not so much the collapse of the political USSR itself, but the economic shambles that followed in Russia that will be influencing such Chinese views – which are also held my many in Russia, including President Putin. His spokesperson as recently as December 2016, confirmed that Putin viewed the collapse of the USSR as a "disaster" which pushed back development in the ensuing independent states[111] and that this is a reason for the creation of the EAEU.

However, in the view of this author, behind all these Chinese and Russian views is a serious misreading of why Russia became such an economic mess in the early 1990s. It was not "liberalization" per se but the fact that Russian policy makers had a very simplistic view of what makes a truly modern economy function. When combined with foreign economic advisers who were almost totally ignorant of Russia, this became a recipe for disaster.

In an article written in 1992, this author (then chief economist of an Australian bank who had just visited Russia) criticized a numbers of aspects of the Russia reform program, including that there was "there is too little emphasis on the need for rapid and vital reforms in the accounting, banking and legal spheres, including anti-monopoly legislation."[112] The article also said the "danger with rapid privatization of larger enterprises is that its lack of control may deliver many state assets into the hands of only a few groups who will then exercise monopoly powers and control over the economy".

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[107] Later in this text the aim of Kazakhstan to create and International Financial Center in Astana will be considered. While the chances of success are not high, the Kazakh authorities are very conscious of the need for a good institutional framework. For more on financial sector development, see my writings at www.shanghai-ifc.org and my report for AustCham Shanghai on reform and development of the Chinese financial sector: http://www.austchamshanghai.com/application/files/6414/7097/8626/Australian_Financial_Services_Business_in_China_EN.pdf

[108] Jamil Anderlini, "How long can the Communist party survive in China?", Financial Times, 20 September 2013 https://www.ft.com/content/533a6374-1fdc-11e3-8861-00144feab7de

[109] Jamil Anderlini, "How long can the Communist party survive in China?", Financial Times, 20 September 2013 https://www.ft.com/content/533a6374-1fdc-11e3-8861-00144feab7de

[110] James Kynge, "China stakes a claim for globalism without liberalism", Financial Times, 28 January 2017 https://www.ft.com/content/11c80d68-e47f-11e6-9645-c9357a75844a

[111] Catherine Putz, "Eurasian Economic Union: A Customs Code and a Kyrgyz Dilemma", The Diplomat, 28 December 2016 http://thediplomat.com/2016/12/eurasian-economic-union-a-customs-code-and-a-kyrgyz-dilemma/

[112] See 1992 article entitled ""Russian Reformers and the IMF Get It Wrong." http://russianeconomicreform.ru/

While Putin and Xi will certainly understand many aspects of sophisticated international trade and financial markets in terms of basic data and financial indicators, they appear to have much less understanding of the great need for the trust and confidence that truly open – mainly "Western" – societies (including free mass media and independent courts with all their deficiencies) provide in a much better way than any other governmental system.

To summarize the economic and business situation, is clear that the overall Russia-China relationship is weak and is unlikely to significantly change anytime "soon". While presidents Putin and Xi may to a certain extent bang-heads-together in order to achieve a few high profile business deals, neither they nor their general business communities or most other sections of their societies are likely to put in the effort to achieve much more.

Part B: Central Asia

This chapter aims to provide an economics orientated overview of individual counties in Central Asia and of the complexities of their relationships with each other. Apart from their common tendency towards authoritarian government, what stands out is their diversity of their internal economic policies and their political and economic attitudes towards each other. This region is not a well-known part of the world, so the main goal here is to give the reader both basic economic and policy information and also to act as background to later chapters which concentrate on the EAEU, SREB and the SCO.

1. Introduction

Following the collapse of the USSR, the five newly independent Central Asian states (Kazakhstan, Uzbekistan, Turkmenistan, Tajikistan and Kyrgyzstan) had to build much of the administration of each country from scratch. This was never going to be an easy task.

A mid-2016 RIAC report states that Central Asia is a "rather complicated region with a complex system of tightly intertwined socioeconomic problems and security challenges"[113] and that "most of them are trans-border in nature". Moreover, many of the security challenges are related to religion. According to the report, "Central Asian states offer virtually no opportunities for legal Islamic parties and organizations" and "going underground is the only means of existence for the followers of political Islam, and it is conducive to its radicalization".

The inevitable disruptions at such a time in such a place provided fertile ground for the rise of authoritarian leaders in the 1990s. But, while they continued to be basically authoritarian internally, these countries they did adopt a wider variety of approaches to international political and economic relations. While each could claim that it was pursuing a "multi-vector foreign policy aimed at searching for the optimal balance in their relations with great powers",[114] the personal psychologies and preferences of such authoritarian leaders inevitably impacted on the choices.

"Multi-vector" has many possible exact meanings and each of the Central Asian countries has applied its own interpretation.

Kazakhstan and Kyrgyzstan sort to cooperate where possible with China and Russia and joined the EAEU, as well as the SCO and Collective Security Treaty Organization (CSTO),[115] the latter setup by former USSR countries to ensure security. Uzbekistan's economic focus was on independent industrial development, so it avoided the EAEU and eventually left the CSTO. However, it did join the SCO

[113] Russian International Affairs Council, Working Paper, "Prospects for Russian-Chinese Cooperation in Central Asia", 28/2016 http://russiancouncil.ru/en/inner/?id_4=7724#top-content

[114] Russian International Affairs Council, Working Paper, "Prospects for Russian-Chinese Cooperation in Central Asia", 28/2016 http://russiancouncil.ru/en/inner/?id_4=7724#top-content

[115] http://www.odkb.gov.ru/start/index_aengl.htm

because of its early focus on security issues which were relevant to it. Tajikistan has taken more of a middle road, and holds an intermediary position between these two groups; it is not a member of the EAEU, but it is a member of the CSTO and the SCO. Turkmenistan has basically refused to cooperate with anyone on any issue.

2. Domestic and International Economic Data

Understanding Central Asia and its existing and future role in the EAEU, SCO and SREB requires some statistical understanding of the individual countries that make up the area. The following table gives comparative data for the Central Asian countries, Russia and China. Generally the data should be taken as indicative rather than a statement of exact fact.

International comparisons of GDP and GDP per capita using simple nominal exchange rate calculations will clearly be influenced by changes in these rates, which may be set by financial markets or be managed or fixed in some way. Moreover, because prices in different countries can vary greatly, a Purchasing Power Parity (PPP) methodology[116] has been developed by economists in an attempt to make international comparisons of economic conditions more realistic. The process is necessarily subjective in many parts, and the PPP results can be significantly different to that obtained by using simple nominal exchange rates, so the data should be used cautiously. Both the World Bank and the IMF produce PPP data for all these countries, but the numbers differ little. Here, I have used the World Bank data for both nominal GDP per capita[117] and PPP based GDP per capita.[118]

	Russia	China	Kazakhstan	Kyrgyzstan	Tajikistan	Uzbekistan	Turkmenistan
Pop. Million	147	1,380	18	6	8	32	5
Nominal GDP per capita, 2015, $US	9,300	8,100	10,500	1,100	925	2,100	6,700
GDP (PPP) per capita, 2015, $US	25,000	14,500	25,000	3,400	2,800	6,100	16,500

[116] According to the OECD, "PPPs are the rates of currency conversion that equalize the purchasing power of different currencies by eliminating the differences in price levels between countries". See OECD explanation of the way PPP is calculated:
http://www.oecd.org/std/prices-ppp/purchasingpowerparities-frequentlyaskedquestionsfaqs.htm

[117] World Bank GDP per capita data using nominal exchange rates:
http://data.worldbank.org/indicator/NY.GDP.PCAP.CD?year_high_desc=false

[118] World Bank GDP per capita (PPP) data using nominal exchange rates:
http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD?year_high_desc=false

What particularly stands out is the wide disparity of PPP based GDP per capita between the Central Asian countries.

International trade data for the countries of Central Asia is very problematic. "Trade Map" does not use trade data reported by Uzbekistan, Tajikistan or Turkmenistan. Instead, it uses the data reported by their trading partners. Thus, for example, the 2016 data shown in the following table for these individual countries trade with China is actually based on Chinese Customs data (so, obviously, the numbers are the same).

"Trade Map" does use statistics reported by the authorities of Kazakhstan and Kyrgyzstan (which are both members of the EAEU). However, there are considerable discrepancies between Chinese version of events and the data of these two individual Central Asian countries. As can be seen in the first two columns of the table, China says that in 2016 its exports to Kazakhstan were worth $8,243 million, while Kazakhstan reports imports from China is the same period as being only $3,665 million. China says that in 2016 its exports to Kyrgyzstan were worth $5,640 million, while Kyrgyzstan reports imports from China is the same period as being only $1,465 million.

	Chinese exports to CA (Chinese Customs export data), 2016, $US million	**CA imports from China (CA country import data), 2016, $US million**	**Chinese imports from CA (Chinese Customs import data), 2016, $US million**	**CA exports to China (CA country export data), 2016, $US million**
Kazakhstan	8,243	3,665	4,793	4,213
Kyrgyzstan	5,640	1,465	71	79
Tajikistan	1,710	1710	31	31
Uzbekistan	2,033	2033	1,606	1,606
Turkmenistan	340	340	5,563	5,563
Total Central Asia	**17,972**	**9,213**	**12,064**	**11,492**

The last two columns show the other side of the trade equation – ie Chinese imports from Central Asian countries or Central Asia country exports to China. The discrepancy in the Kyrgyzstan data is insignificant, but the discrepancy in the Kazakhstan data amounts to $US580 million.

These various data issues mean that there is a very large difference between the total Chinese Customs number for its exports to Central Asia ($US17,972 million) and the Central Asian imports from China number ($US9,213 million) obtained by adding a variety of sources.

The table below shows "Trade Map" data for Russia and Central Asia. As in the above table, the statistics for Uzbekistan, Tajikistan or Turkmenistan are based on that of their trading partners (in this case, Russia). As can be see, the data discrepancies are much less.

	Russian exports to CA (Russian Customs export data), 2016, $US million	**CA imports from Russia (CA country import data), 2016, $US million**	**Russian imports from CA (Russian Customs import data), 2016, $US million**	**CA exports to Russia (CA country export data), 2016, $US million**

Kazakhstan	9,426	9,130	3,612	3,509
Kyrgyzstan	1,025	799	170	145
Tajikistan	661	661	26	26
Uzbekistan	1,965	1965	761	761
Turkmenistan	571	571	331	331
Total Central Asia	**13,648**	**13,126**	**4,900**	**4,772**

Kazakhstan is geographically the largest and also the most resource-rich Central Asian country. "Trade Map"[119] data – based on Kazakhstan Customs data – shows total Kazakh exports of $US46 billion in 2015, falling to $US37 billion in 2016, no doubt influenced by the fact that lower commodity prices meant that the share of "fuels and mining products" in total exports fell from 67% in 2015 to 60% in 2016 . Exports to China were about 12% of total exports in both years, to Russia about 9%, and to Italy about 17% (in this latter case, mainly fuels). The main imports were "machinery" and manufactured goods of various types. Kazakhstan positive trade balance also fell from about $US15 billion in 2015 to about $US12 billion in 2016.

Nursultan Nazarbayev, who became president when Kazakhstan separated from the USSR, has promoted both Kazakh nationalism and a multi-culture identity. The Kazakh language has been promoted while efforts have been made to retain the loyalty of the Russian speaking minority which is about 20 percent of the population[120] with many of these living along the long northern border with Russia and having "staunchly pro-Kremlin"[121] views. Kazakhstan is planning to gradually change from using the Cyrillic alphabet to the Latin alphabet during the period to 2025.[122]

According to Kazakhstan's Ministry of Foreign Affairs, "Kazakhstan's foreign policy is based on the principles of multi-vector, balance, pragmatism, mutual benefit and solid defense of its national interests".[123] According to Kirill Nourzhanov of the Australian National University, Nazabaev has consistently "followed the notion of Eurasianism" which sees Kazakhstan has a cultural "bridge" between Asia and Europe.[124]

Nazabaryev has periodically launched new initiatives to develop the Kazakh economy and society. In 2014, he announced Kazakhstans' New Economic Policy ("Nurly Zhol"[125]), aimed at developing nearly

[119] International Trade Centre's "Trade Map", http://www.trademap.org/countrymap/Bilateral_TS.aspx

[120] Fabio Indeo, "The Eurasian Economic Union and the Silk Road Economic Belt: the impact of the Sino-Russian geopolitical strategies in the Eurasia region", "Maastricht School of Management", Working Paper No. 2016/5 https://www.msm.nl/resources/uploads/2016/09/MSM-WP2016-5.pdf

[121] Joanna Lillis, "The long read: why Russia should see off China in Central Asia's new great game", The National, 26 March 2015. http://www.thenational.ae/arts-lifestyle/the-review/the-long-read-why-russia-should-see-off-china-in-central-asias-new-great-game

[122] Aigerim Seisembayeva, "Kazakh President lays out principles for modernization of nation's identity", The Astana Times, 18 April 2017 http://astanatimes.com/2017/04/kazakh-president-lays-out-principles-for-modernisation-of-nations-identity/

[123] Cited in Kirill Nourzhanov, "Kazakhstan and the Eurasian Economic Union: The Dilemmas of Alliance-Making in the Post-Soviet Period", Chapter 12 in "A Quarter Century of Post-Communism Assesses", Edited by M.Steven Fish, Graeme Gill and Milenko Petrovic, 2017. https://link.springer.com/chapter/10.1007/978-3-319-43437-7_13

[124] Cited in Kirill Nourzhanov, "Kazakhstan and the Eurasian Economic Union: The Dilemmas of Alliance-Making in the Post-Soviet Period", Chapter 12 in "A Quarter Century of Post-Communism Assesses", Edited by M.Steven Fish, Graeme Gill and Milenko Petrovic, 2017. https://link.springer.com/chapter/10.1007/978-3-319-43437-7_13

[125] Nursultan A. Nazabayev, "Nurly Zhol, Bright Path to the Future", The Business Year, 2015 https://www.thebusinessyear.com/kazakhstan-2015/nurly-zhol-bright-path-to-the-future/inside-perspective

all aspects of Kazakhstan's infrastructure. A "100 concrete steps" program was launched in 2015 which aimed to boost national unity and the economy via a number of reforms. More recently, in January 2017, Nazarbayev used his annual national address to announce Kazakhstan's "Third Modernization". He said that the "first modernization" was the "creation of an entirely new state based on the principles of a market economy", while the "second" included the building of Astana as the new capital. The "third" includes mooted institutional reforms and the creation of a "National Technology Initiative".[126]

While the Russian "National Technology Initiative" is entirely focused on "new emerging markets" based on digitalization, the Kazakh version also seeks to use technology to more directly boost the competitiveness of existing sectors (such as agriculture) in which Kazakhstan would seem to have a natural advantage.[127]

Although far from ideal, Kazakhstan stands out as the most progressive country in Central Asia. Not only is it in the best geographical position to take advantage of China's Belt and Road initiative, it has the greatest aptitude. The other four countries in Central Asia suffer from very incompetent public administration.

According to Andrei Kazantsev of the MGIMO, "**Kyrgyzstan** by the standards of Central Asia is a very democratic country, with traditionally greater freedoms, but a very high internal instability",[128] including the so-called "Tulip Revolution" in 2005 and the "Revolution of Roses" ethnic conflict in 2010. Kyrgyzstan is rich in water resources and potential hydro-electricity generation and has considerable potential as an electricity exporter.

"Trade Map" data – based on Kyrgyzstan's Customs data – shows Kyrgyzstan total exports of only about $US1.4 billion in 2015 and 2016, with "precious" metals and stone of various types accounting for nearly 40%. Russia, Kazakhstan and Uzbekistan each accounted for about 9% of exports in 2016. Exports to China were a tiny 3%. Exports to Switzerland were a very large (which is not surprising given the share of "precious" metals and stones in its exports).[129] The "Trade Map" data shows that imports were $US3.8 billion in 2016, with 38% of this coming from China, 21% from Russia, and 16% from Kazakhstan. The balance of trade is shown is shown to be in deficit of $US2.6 billion in 2015 and $US2.4 billion in 2016.

There has to be a lot of doubt about this trade balance result for a number of reasons, including Kyrgyzstan's location as a transit country for Chinese exports, the accuracy of reporting due to both corruption and Kyrgyzstan's 2015 entry in the EAEU,[130] and the question of how it is financed.

Tajikistan, with a Muslim majority, is prone to strong Islamic influence. Andrei Kazantsev says that "culturally Tajikistan is increasingly becoming a part of the Islamic world",[131] something that it's leadership is trying to resist. One factor here is the fluctuating influence of Iran which can play on the fact that the Tajik language is a Persian dialect. As already noted, the "Trade Map" internet site notes that data for Tajikistan is not based on this country's own data sources, but on the data of its trading partners. Exports are shown at less than $US1 billion in 2016, with aluminium and various mined products accounting for most of this. Exports to China and Russia in both cases were only about 5% of

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[126] Aigerim Seisembayeva. "President Announces Third Modernisation of Kazakhstan", The Astana Times. 31 January 2017 http://astanatimes.com/2017/01/president-announces-third-modernisation-of-kazakhstan/

[127] "В Москве обсудили политические и экономические реформы в Казахстане" ("Political and economic reforms in Kazakhstan were discussed in Moscow"), Zakon.kz, 2 February 2017 https://www.zakon.kz/4842362-v-moskve-obsudili-politicheskie-i.html

[128] Андрей Казанцев (Andrey Kazantsev), "Таджикистан будет непростой ношей для ЕАЭС" (" Tajikistan will be a difficult burden for the EAEC"), 9 September 2015 http://regnum.ru/news/polit/1966419.html

[129] International Trade Centre's "Trade Map", http://www.trademap.org/countrymap/Bilateral_TS.aspx

[130] Interestingly, the "Trade Map" site says that ITC calculations based on UN COMTRADE statistics since January, 2015, although it used EAEU data during 2014. Before this it also used UN COMTRADE statistics.

[131] Андрей Казанцев (Andrey Kazantsev), "Таджикистан будет непростой ношей для ЕАЭС" ("Tajikistan will be a difficult burden for the EAEC"), September, 2015 https://regnum.ru/news/polit/1966419.html

total exports, while Kazakhstan took about 20%.[132] The main imports were "machinery" and manufactured goods of various types. According to the "Trade Map" data, the balance of trade balance was in deficit of about $US2.7 billion. This figure itself must be in doubt, because it is not known how it is financed.

As already noted, **Uzbekistan**, like Turkmenistan, has refused to participate in most regional and international multi-lateral processes and gives priority to building bilateral relations. Uzbekistan has put emphasis on developing its industrial sector. It also produces irrigated cotton, which because of intensive water usage has had a detrimental effect on the environment and has been a cause of conflict with some of its neighbors. As is the case with Tajikistan, the "Trade Map" internet site notes that data for Uzbekistan is not based on this country's own data sources, but on the data of its trading partners. It shows total exports of $US7 billion in 2016, with gold accounting for about 40%, natural gas 11%, cotton and cotton products about 10%. Gold exports to Switzerland account for 40% of total exports. Exports to China were about 23% of total exports and dominated by natural gas, uranium and cotton. Exports to Russia equal to about 10%, led by cotton and associated products. The main imports were "machinery" and manufactured goods of various types. "Trade Map" data, the balance of trade balance was in deficit of about $US4 billion.

Obtaining economic data on **Turkmenistan** is extremely difficult. Turkmenistan has nearly 10% of the world's natural gas reserves.[133] Its huge gas exports, almost totally to China, and relatively small population mean that its GDP per capita is higher than any other Central Asian country apart from Kazakhstan. As is the case with Tajikistan and Uzbekistan, the "Trade Map" internet site notes that data for Turkmenistan is not based on this country's own data sources, but on the data of its trading partners. Exports were nearly $US7.4 billion in 2016, with natural gas accounting for 76% of this. In value terms, natural gas exports peaked at over $US9 billion in 2013.

Turkmenistan is not a member of the WTO, but is a member of the IMF. In March 2017, IMF staff visited Turkmenistan and this was followed by a press-release[134] which said little more than that the "Turkmen economy continues to adjust to a challenging external environment, including persistently low natural gas prices and slower growth in trading partners"[135] with China's gas demand to 2020 much lower than had previously been expected.[136] The main imports were "machinery" and manufactured goods of various types. "Trade Map" data show the balance of trade balance was in surplus of about $US2.7 billion.

3. Relationship between Central Asian Countries

Leaving aside security issues, there are several approaches that could be used to consider the most important relationship between the individual Central Asian countries.

One is the importance of these countries as transit routes for Chinese exports and imports, and here the discussion is really about pipelines and railways. The pipelines-railways issues will be considered later in the part of this book dealing with relations between China and Central Asia.

More general bilateral relationship issues are also important, and the most important of these is that between Kazakhstan and Uzbekistan, which may to some degree be called competitors for leadership in

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[132] International Trade Centre's "Trade Map", http://www.trademap.org/countrymap/Bilateral_TS.aspx

[133] BP Statistical Review of World Energy June 2017
https://www.bp.com/content/dam/bp/en/corporate/pdf/energy-economics/statistical-review-2017/bp-statistical-review-of-world-energy-2017-full-report.pdf

[134] http://www.imf.org/en/News/Articles/2017/03/21/pr1791-turkmenistan-imf-staff-concludes-2017-article-iv-mission

[135] http://www.imf.org/external/pubs/ft/weo/2016/02/index.htm

[136] Bobo Lo, "A Wary Embrace", Lowy Institute, March 2017
https://www.lowyinstitute.org/publications/wary-embrace

the region.[137] While they have displayed differing attitudes to international involvement, they do consult on issues. Transport and transit connection are considered a priority issue. Following the death of long-term leader Islam Karimov in September 2016, the new Uzbek leadership under Shavkat Mirziyoyev has been making more of an effort to cooperate with other countries in various economic areas,[138] which has been welcomed by Kazakhstan.

The most contentious issues between Central Asian countries relate to water and electricity, which are basically hangovers from the period of the USSR and have a possible direct relationship to the SREB because of the enormous infrastructure needs.

In Soviet times the integrated water and electricity systems of Central Asia were controlled by a center in Tashkent. In winter water accumulated in dams in Kyrgyzstan and Tajikistan, while these countries receiving coal and natural gas from the other three Central Asian countries. In summer, Kyrgyzstan and Tajikistan supplied water and surplus hydro-electricity to Uzbekistan and Kazakhstan. In 2009, after several disputes and interruptions to power, Uzbekistan pulled-out of the system, followed by Turkmenistan.

The Rogun hydro-electric dam facility stands out as an issue. It is situated on the Vakhsh river in Tajikistan, which feeds into the Amudarya river in Uzbekisatn. Construction of the Rogun facility first began in Soviet times. It's reservoir would take many years to fill to capacity, reducing the water flow to Uzbekistan and Turkmenistan. Uzbekistan's former leader, Islam Karimov, strongly objectioned to Rogun (and to a smaller project at in Kyrgyzstan on another river system). "What will happen to those who live in the downstream countries?" he asked in 2012. "How much water will we have tomorrow if they build these barriers on the rivers? This could lead to regional confrontation and even war."[139]

While there is also another hydro-electricty dam on the Vakhsh river, Tajikistan wants to use Rogun for domestic consumption (and possibly become an exporter of electricity, including to Pakistan) and has recommenced construction on the Rogun facility. Some commentators suggest that Uzbekistan's Mirziyoyev has, for whatever reason, informally agreed to renewed work on Rogun.[140]

There are a number of unresolved border disputes, with the "most significant" being "concentrated in the Kyrgyzstan-Uzbekistan-Tajikistan triangle" where the three countries each have a share of the Fergana valley. Paul Goble says that "the topography of that region, the ethnically intermixed nature of the population, and the lack of agreements on the border all make this a potential flashpoint".[141]

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[137] Мирзохид Рахимов (Mirzoxid Rakhimov), "Отношения между ними часто выдаются как борьба за лидерство в регионе" ("Relations between them are often given out as a struggle for leadership in the region"), Central Asia Monitor, 23 April 2016
https://camonitor.kz/22861-vzaimootnosheniya-uzbekistana-i-kazahstana-osnovnye-tendencii.html

[138] Botagoz Baltabayeva, "Kazakh, Uzbek Delegations Discuss Agro and Industrial Cooperation", The Astana Times, 3 February 2017
http://astanatimes.com/2017/02/kazakh-uzbek-delegations-discuss-agro-and-industrial-cooperation/

[139] Rustam Qobil, "Will Central Asia fight over water?", BBC Uzbek, 25 October 2016
http://www.bbc.com/news/magazine-37755985

[140] Kanat Shaku, "CENTRAL ASIAN BLOG: Launch of Rogun dam project is leap in the dark", BNE Intellinews, 14 November, 2016
http://www.intellinews.com/central-asian-blog-launch-of-rogun-dam-project-is-leap-in-the-dark-110250/?source=blogs

[141] Paul Goble, "Border Conflicts Among Central Asian States Intensify, Casting Doubt On Cooperation Against External Threats – OpEd", Eurasia Review, 18 October 2016
http://www.eurasiareview.com/18102016-border-conflicts-among-central-asian-states-intensify-casting-doubt-on-cooperation-against-external-threats-oped/

According to Anna Matveeva, the governments of Kyrgyzstan and Tajikistan are "reluctant to act against the wishes of their border communities and force delimitation solutions that may cause social protests.[142] These countries have settled over half of their nearly 1,000 km mutual border but have not been able to agree on the remainder which is "in densely populated lowlands subject to mutual claims", particularly concerning water access and land which have occasionally led to local fighting and deaths.

Kyrgyzstan also has a border dispute with Uzbekistan with about a quarter of their 1,400 km border contested. The 1,300 km Tajikistan-Uzbekistan border also has an unresolved section.[143] Uzbekistan new leadership has reportedly being making an increased effort to resolve such disputes.[144] Uzbekistan is the only Central Asian country with a border on all the other "stans"!

4. Astana International Financial Center

Astana, which sits in the north of Kazakhstan near the Russian border, has been "officially" designated as an International Financial Center (IFC) as from 1 January 2018. While not directly related to the SREB, its expressed aim is to become "a financial hub for Central Asia, the Eurasian Economic Union, the Caucasus, the Middle East, West China, Mongolia and Europe".[145] It is good example of Kazakhstan's general leadership ambitions.

Almost all criteria for a successful IFC suggest that Almaty would have been a better city than Astana for an IFC as it is the commercial center of Kazakhstan, is more naturally part of the SREB, and has better climate in order to attract talented people. This latter point is very important because most studies and surveys of IFCs rank attracting and keeping talented people as the most difficult task, and Astana has a quite unpleasant climate with extremely low winter temperatures. The widely quoted Z/Yen semi-annual "Global Financial Centres Index" listed Almaty in 80th place in the importance of world IFCs as at March 2017.[146] It has been suggested[147] that the Astana IFC is really an attempt to fill new buildings after the Expo-2017,[148] which runs from June until September, has finished.

There is a general, although certainly not uniform, view that the English based "common law" system is more likely to facilitate international financial activity than European-style "civil law" of the types of systems seen in Russia, China and most of Asia.[149] This has prompted Kazakhstan to follow the Dubai route in Astana and base the IFC on the "principles of English law" which are only applicable for financial transactions conducted in certain defined areas. Applicable law of the Astana IFC will be "guided by principles, norms and precedents of England and Wales's law and standards." There will be a separate "Court" and "Arbitration Center" for resolving disputes related to IFC activities. Otherwise, the domestic Kazakh legal system applies. English will be the official language.

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[142] Anna Matveeva, "Divided we fall … or rise? Tajikistan-Kyrgyzstan border dilemma", Cambridge Journal of Eurasian Studies, 2 February 2007
https://www.veruscript.com/journals/cambridge-journal-of-eurasian-studies/tajikistan-kyrgyzstan-border-dilemma/

[143] Paul Goble, "Border Conflicts Among Central Asian States Intensify, Casting Doubt On Cooperation Against External Threats – OpEd", Eurasia Review, 18 October 2016
http://www.eurasiareview.com/18102016-border-conflicts-among-central-asian-states-intensify-casting-doubt-on-cooperation-against-external-threats-oped/

[144] Maksim Yeniseyev, "Uzbekistan, Kyrgyzstan join efforts to fight radicalism", Caravanserai, 7 April 2017
http://central.asia-news.com/en_GB/articles/cnmi_ca/features/2017/04/07/feature-01

[145] The Astana IFC internet site: http://www.aifc.kz/

[146] Z/Yen semi-annual "Global Financial Centres Index" http://www.longfinance.net/images/gfci/gfci_21.pdf

[147] In some of my conversations in Almaty, Kazakhstan

[148] See: https://expo2017astana.com/en/

[149] For a short discussion of this issue, see my 2016 White Paper, "Australian Financial Services Business in China", written for AustCham Shanghai.
http://www.austchamshanghai.com/application/files/6414/7097/8626/Australian_Financial_Services_Business_in_China_EN.pdf

Apart from legal and regulatory issues, the availability of talented people and good physical infrastructure, the Z/Yen surveys and other research suggest that successful IFCs also need to meet several economic criteria. These include cost competitiveness (the Astana IFC will offer a very concessional taxation regime), high quality financial reporting requirements, economies of scale and clustering. Existing financial centers have an advantage over new centers in that their "markets are deeper and more liquid" and provide "a richer array of services". "Since new business tends to be attracted to the largest center, the latter tend to grow still larger".[150]

Astana will be starting from a very small scale. It might be argued that the physical location and climate of Astana should not be of such great importance given the internet based connectivity of the world. However, the Z/Yen surveys suggest that "physical proximity is still very important" and that "professional services clusters are vital".[151]

A World Bank International Finance Corporation report said that Moscow's thwarted hopes of developing Moscow as an IFC faced a number of other impediments, including concentration of power in the financial sector and corruption.[152] Such impediments are present in the Kazakh financial sector.[153] Even with the Dubai approach, the Astana IFC may end having little more success than the Moscow IFC.[154]

Part C: Russia, Central Asia and the EAEU

This chapter is focused on the present and the future, but is heavily influenced by the historical USSR which bound the Central Asian countries to Russia in a wide variety of political, economic and emotional ways and for many years. Following independence, the five Central Asian countries have adopted remarkably different policy combinations in their relations with Russia. This reflects differences in their geographical location, populations and economic possibilities, with the presence of natural resources being a significant determinant of the latter. Under the leadership of Vladimir Putin, Russia is trying to reassert some control over Central Asian countries, but this is probably doomed to failure as the attractions of China to these countries grows.

1. Introduction

Following the collapse of the Soviet Union, Russia initially showed little interest in Central Asia following the collapse of the Soviet Union because it was seen as an "untenable economic and political burden".[155]

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[150] Pollner, "Russian Federation Capital Markets: Analysis and Diagnosis of the Financial Regulatory and Institutional Policies Required for Becoming and International Financial Center", IBRD IFC June 2012, p15 http://documents.worldbank.org/curated/en/540801468107678621/pdf/781030REVISED00ion0Review0Version0Z.pdf

[151] Elliot DJ 2011, "Building a Global Financial Center in Shanghai: Observations from Other Centers", China Center at Brookings, June 2011 https://www.brookings.edu/wp-content/uploads/2016/06/0610_shanghai_financial_center_elliott.pdf

[152] IBRD IFC, "Russian Federation Capital Markets: Analysis and Diagnosis of the Financial Regulatory and Institutional Policies Required for Becoming an International Financial Center", June 2012 http://documents.worldbank.org/curated/en/540801468107678621/pdf/781030REVISED00ion0Review0Version0Z.pdf

[153] These issues were often mentioned during my visit to Kazakhstan in November 2016.

[154] Moscow ranked 85th in the March 2017 "Global Financial Centres Index". A brief overview of the Moscow experience is available at Jeff Schubert, "Moscow as an IFC", Baltic Rim Economies, December 2015, Issue No 6 https://www.utu.fi/en/units/tse/units/PEI/BRE/Documents/BRE_6_2014.pdf

[155] Fabio Indeo, " The Eurasian Economic Union and the Silk Road Economic Belt: the impact of the Sino-Russian geopolitical strategies in the Eurasia region", "Maastricht School of Management", Working Paper No. 2016/5 https://www.msm.nl/resources/uploads/2016/09/MSM-WP2016-5.pdf

However, concerns about the threats to the regional security and stability and a resurgent desire to maintain its traditional influence over countries of the former USSR soon led to a change in strategy. This started with the establishment of the Collective Security Treaty Organization (CSTO) in 1992 by Armenia, Belarus, Kazakhstan, the Kyrgyzstan, Russia and Tajikistan. Uzbekistan has also on occasion been a member. The official internet site of the CSTO[156] does not list any "news" after 2012, which supports suggestions that it continues to exist mainly in nominal terms and as an organization that is not particularly active.[157]

Russia has military facilities in CSTO members Kazakhstan, Kyrgyzstan and Tajikistan, but the reality is that these will mainly be the result of bi-lateral relations. In early 2017, Putin visited these countries with security issues high on the discussion agenda, particularly in relation to Islamic related terrorism. Russian military bases in Kyrgyzstan and Tajikistan (near the Afghanistan border) are being upgraded.[158]

A mid-2016 RIAC report says that "from the point of view of Russia's security, the problem of labor migration is of particular relevance."[159] Generally demeaning jobs and relatively limited contact with broader Russian society provides fertile ground for Islamic radicalization while they are in Russia, and this can spread to their homelands.

It is perhaps not surprising that Timofei Bordachev and Andrei S. Skriba write that Russian efforts at Eurasian economic integration are "first and foremost a political project".[160] However, they also write that "this means that Russia's Eurasian policy must be understood in a much wider context than Eurasian integration itself. It enables Russia's claims to great power status in the world, ensures its regional security, and creates new opportunities for strengthening its influence and control over post-Soviet territory."[161]

This text has already touched upon aspects of how Moscow sees the world. Bordachev and Skriba write that "in Russian policymakers' understanding of international relations, great power status has never been directly connected to economic performance or national welfare, but is instead conferred by the ability to use national power to enforce Russian interests. Regional influence is a prerequisite for this view."[162]

Many in Moscow believe that the future world order will consist of macro-blocs (or alliances), and that in order to have leverage over world affairs, countries will need to be affiliated to one, or better still to dominate one. According to Karaganov, "having realized the futility of its hopes to establish a unipolar world, the United States has adopted a policy of containing China and building a new US-centered configuration around itself, using mainly economic and political tools. The first step was the launching of the Trans-Pacific Partnership (TPP)[163] with a group of Asia-Pacific countries".[164]

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[156] Организация Договора о коллективной безопасности (Organization of the Collective Security Treaty) http://www.odkb.gov.ru/start/index_aengl.htm

[157] Armenia reportedly recently proposed that Belarus be removed from the CSTO because of some of the latter's action in regard to Azerbaijan. See: http://www.eurasianet.org/node/82351

[158] Interview with Kirill Nourzhanov, Center Arab and Islamic Studies (the Middle East and Central Asia), ANU.

[159] Russian International Affairs Council, Working Paper, "Prospects for Russian-Chinese Cooperation in Central Asia", 28/2016 http://russiancouncil.ru/en/inner/?id_4=7724#top-content

[160] Timofei V. Bordachev, Andrei S. Skriba, "Russia's Eurasian Integration Policies" http://www.lse.ac.uk/IDEAS/publications/reports/pdf/SR019/SR019-Bordachev-Skriba.pdf

[161] Timofei V. Bordachev, Andrei S. Skriba, "Russia's Eurasian Integration Policies" http://www.lse.ac.uk/IDEAS/publications/reports/pdf/SR019/SR019-Bordachev-Skriba.pdf

[162] Timofei V. Bordachev, Andrei S. Skriba, "Russia's Eurasian Integration Policies" http://www.lse.ac.uk/IDEAS/publications/reports/pdf/SR019/SR019-Bordachev-Skriba.pdf

[163] The Trans-Pacific Partnership (TPP) project has been abandoned by the Trump administration, but there are no signs that Karaganov (or Moscow) has abandoned his view.

This belief is one of the driving forces behind the earlier discussed Russian National Technology Initiative (NTI) that aims to give a massive boost to the country's future high-tech industries and exports. NTI spokespeople and documents put a particular emphasis on the role of "economic-trade blocs" and how they act to protect value-added production chains and make it difficult for producers from non-bloc countries to enter into these chains. They say that it is necessary for Russia to form "alliance networks in the interests of securing technological sovereignty".[165]

Karaganov et al. have a view about the greater Eurasian region that would be unlikely to sit well with any Chinese view.[166] As noted earlier when considering Russia-China relations, the Karaganov mooted "geopolitical macro-bloc" would be called the "Community of Greater Eurasia" and would include "China, Russia, India, Kazakhstan, Iran, and many other states". This "economic and political grouping" would be based on the SCO, with Russia "leading in diplomacy and security building".[167]

Karaganov suggests that "in the future, a duumvirate, advantageous to all, may emerge in Central Asia, in which China will provide investment and resources, and Russia will contribute security and geopolitical stability".[168] In the view of this author, it is very hard to see why China would agree to this.

Linking trade and security issues is not new, nor confined to Russia (or, indeed China). In April 2016, US Secretary of State John Kerry, said that "foreign policy is economic policy and economic policy is foreign policy". In putting the case for the Transpacific Partnership (TPP)[169] and the Transatlantic Investment Partnership (TTIP)[170]:

"Without a doubt, these trade agreements are at the center of defending our strategic interests, deepening our diplomatic relationships, strengthening our national security, and reinforcing our leadership across the globe". Kerry went on to talk in more detail about the TPP, which he said "unites nations comprising nearly 40 percent of the global economy". "And around the world, TPP will not only reinforce our economic preeminence, but…will solidify our alliances… We need to reassure our partners in the Asia-Pacific as a means also of cementing our leadership with respect to other issues ranging from the DPRK and nuclear weaponry to the South China Sea to the fight against violent extremism."[171]

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[164] Sergei Karaganov, School of World Economics and International Relations, Higher School of Economics, "A Time of Trouble and a Time of Opportunity", February, 2016, Available at http://eng.globalaffairs.ru/number/2015-Global-Tendencies-and-Russian-Policies-17976

[165] Jeff Schubert, "Waiting for the High-tech Tooth-fairy", Russian Economic Reform, 28 September 2016 http://russianeconomicreform.ru/category/expert-group-5-moving-from-stimulation-of-innovation-to-growth-on-its-basis/

[166] As indicated earlier in this text, Fu Ying has said that China has "no interest" in "forming an anti-US or anti-Western bloc of any kind".

[167] Sergei A. Karaganov, Ktistina I. Cherniavskaia, Dmitry P. Novikov, "Russian Foreign Policy. Risky Successes.", Perspectives. Spring, 2016. https://we.hse.ru/data/2016/08/12/1118068145/Harvard_Interlational_Review.pdf

[168] Sergei Karaganov, "A Time of Trouble and a Time of Opportunity", February, 2016, Available at http://eng.globalaffairs.ru/number/2015-Global-Tendencies-and-Russian-Policies-17976

[169] The TPP is fundamentally a very advanced trade and investment liberalization agreement which includes emphasis on labor issues, intellectual property (IP), the environment, and controls on state owned enterprises (SOEs) See: http://dfat.gov.au/trade/agreements/tpp/pages/trans-pacific-partnership-agreement-tpp.aspx

[170] The TIIP is a comprehensive trade and investment agreement still being negotiated by the US and the European Union. See: https://ustr.gov/ttip

[171] John Kerry, "Remarks at the Pacific Council on International Policy", 14 April 2016. Available at http://www.state.gov/secretary/remarks/2016/04/255766.htm

Max Baucus, a former US ambassador to China, has reportedly said that TPP was an "economic complement to military planning in the South China Sea".[172]

Gregor Irwin also gave his views on the TTIP, writing that "if the US and the EU are able to agree on the regulations and standards affecting international trade, they will be able to define these globally for years to come. The overall aim is to maintain the central position of the US and the West in shaping international standards and regulations, while leaving the countries that are intentionally excluded – such as China – with the choice of either following the lead of the US and like-minded trade policy makers, or of creating their own costly alternatives."[173]

Whatever Putin's exact view on the ideas of Karaganov, he certainly shares the basic idea. At the St Petersburg International Economic Forum on 17 June 2016, Putin laid out the external program of the EAEU: "Over 40 states and international organizations have expressed the desire to establish a free trade zone with the EAEU. Our partners and we think that the EAEU can become one of the centers of a greater emergent integration area."[174]

2. Eurasian Economic Union (EAEU)

In 2010, Russia, Belarus, and Kazakhstan formed a "Customs Union"[175] and in 2011 signed a Declaration on Eurasian Economic Integration and a treaty establishing the Eurasian Economic Commission (EEC). The Declaration called for transitioning to the next stage of integration in 2012 – to a Common Economic Space (CES).

In 2011, Vladimir Putin had published an article in Izvestia, entitled: "A New Integration Plan for the Eurasian Continent: The Future is Born Today". He wrote about the 1 January 2012 commencement of the CES and about what could follow this. He foreshadowed the creation of a "powerful supranational association capable of becoming one of the poles of the modern world and serving as an efficient bridge between Europe and the dynamic Asia-Pacific region", and even a "harmonious community of economies from Lisbon to Vladivostok, about a zone of free trade and even more advanced forms of integration".[176]

In Astana in May 2014, the Presidents of Russia, Belarus, and Kazakhstan signed an agreement establishing the EAEU which entered into force on 1 January 2015. Kyrgyzstan formalized its membership in August 2015. According to its internet site, the Eurasian Economic Union[177] is an international organization for regional economic integration. It "provides for free movement of goods, services, capital and labor, pursues coordinated, harmonized and single policy in the sectors determined by the Treaty and international agreements within the Union."

The EAEU that finally emerged in 2015 is far removed from the ambitions set out in Putin's 2011 Izvestia article (although Putin's earlier mentioned speech at the St. Petersburg International Economic Forum in June 2016 suggests that he still harbors many of the same goals).

Nevertheless, according to Rilka Dragneva and Kataryna Wolczuk, the May 2014 Astana agreement "provides a clear legal foundation for the union and aims to codify the hitherto fragmented and messy

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[172] James Griffiths, "China's new world order: Xi, Putin and others meet for Belt and Road Forum", CNN, 14 May 2017 http://edition.cnn.com/2017/05/13/asia/china-belt-and-road-forum-xi-putin-erdogan/index.html

[173] Gregor Irwin, Chatam House, "Realizing TTIPs Strategic Potential", July 2106 https://www.chathamhouse.org/sites/files/chathamhouse/publications/research/2016-07-14-realizing-ttip-strategic-potential-irwin.pdf

[174] President Putin's speech at St Petersburg International Economic Forum on 17 June. http://en.kremlin.ru/events/president/news/52178

[175] According to the OECD, customs unions are arrangements among countries in which the parties agree to allow free trade on products within the customs union, and also agree to a common external tariff (CET) with respect to imports from the rest of the world. https://stats.oecd.org/glossary/detail.asp?ID=3130

[176] https://izvestia.ru/news/502761

[177] http://www.eaeunion.org/?lang=en

legal basis" of integration efforts. The say the treaty is ambitious to the extent that it introduces the concept of "the law of the union" which is "premised on the principle of formal (institutionalized) equality of all member states." The EAEU is thus "an international organization endowed with its own legal personality, a radical improvement on earlier initiatives."[178]

In the view of Dragneva and Wolczuk, the EAEU is "nominally an international organization with a considerable pooling of sovereignty. Yet a close examination of the institutional design reveals that the common institutions are made deliberately weak in order to minimize disruption to domestic institutions and policies of the member states".

According to Kirill Nourzhanov of the Australian National University, "at present, the EAEU appears to be a regional trading arrangement (RTA) that is rather common in world practice."[179] The World Trade Organization (WTO) includes "free trade agreements" (FTAs) and "customs unions" within its definition RTAs. In doing so, the WTO is making a distinction between "reciprocal trade arrangements between two or more partners" (ie FTAs and RTAs) and comprehensive agreements covering most of the world.[180] The exact circumstances of each RTA are inevitably different.

Nourzhanov uses Richard Pomfret's methodology on defining RTAs[181] to say that "on a scale of six levels of integration, ascending from preferential trading regime to 'deep integration' where an RTA becomes indistinguishable from a nation state as a single unit in global economy" the EAEU 'has just begun transition from a common market (level 4, "customs union plus free movement of factors of production) to an economic union (level 5, "common market plus common economic policies").[182]

Evgeny Vinokurov, Center for Integration Studies at the Eurasian Development Bank, says in a March 2017 article that the EAEU is "best viewed" as a "functioning customs union with its own successes and stumbling blocks, enriched by several additional quite developed areas of economic integration."[183]

So, both Nourzhanov and Vinokurov essentially agree that the EAEU is presently a "customs union" plus a number of bells and whistles.

Nourzhanov notes that the EAEU's "statutory documents and institutions do not provide for the movement towards common foreign and security policy, citizenship, currency, and health, culture and legal systems" and a "supranational parliamentary body is not contemplated in the foreseeable future".[184] While some early EAEU proposals included such features, they have been resisted by non-Russian EAEU members such as Kazakhstan.

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[178] Rilka Dragneva and Kataryna Wolczuk, "The Eurasian Economic Union: Deals, Rules and the Exercise of Power", May 2017 https://www.chathamhouse.org/sites/files/chathamhouse/publications/research/2017-05-02-eurasian-economic-union-dragneva-wolczuk.pdf

[179] Kirill Nourzhanov, "Kazakhstan and the Eurasian Economic Union: The Dilemmas of Alliance-Making in the Post-Soviet Period", Chapter 12 in "A Quarter Century of Post-Communism Assesses", Edited by M.Steven Fish, Graeme Gill and Milenko Petrovic, 2017. https://link.springer.com/chapter/10.1007/978-3-319-43437-7_13

[180] Available at https://www.wto.org/english/tratop_e/region_e/rta_pta_e.htm

[181] Richard Pomfret, "Regional Trade Agreemenst", Chapter 3 in "Regional Economic Integration", Emerald Group Publishing Limited, pp.39 – 54 http://www.emeraldinsight.com/doi/abs/10.1016/S1064-4857%2806%2912003-3

[182] Kirill Nourzhanov, "Kazakhstan and the Eurasian Economic Union: The Dilemmas of Alliance-Making in the Post-Soviet Period", Chapter 12 in "A Quarter Century of Post-Communism Assesses", Edited by M.Steven Fish, Graeme Gill and Milenko Petrovic, 2017. https://link.springer.com/chapter/10.1007/978-3-319-43437-7_13

[183] Evgeny Vinokurov, "Eurasian Economic Union: Current state and preliminary results", Russian Journal of Economics, Volume 3 Issue 1, March 2017 http://www.sciencedirect.com/science/article/pii/S2405473917300041

[184] Kirill Nourzhanov, "Kazakhstan and the Eurasian Economic Union: The Dilemmas of Alliance-Making in the Post-Soviet Period", Chapter 12 in "A Quarter Century of Post-Communism Assesses", Edited by M.Steven Fish, Graeme Gill and Milenko Petrovic, 2017. https://link.springer.com/chapter/10.1007/978-3-319-43437-7_13

Li Ziguo of the China Institute of International Studies (the think-tank of the Chinese Ministry of Foreign Affairs)[185] would seem to agree that the EAEU does have some significant achievements. He says that "from the CIS to the Eurasian Economic Community, to the Customs Union, the Eurasian Economic Space, and then the EAEU, Russia, through the tactics of 'downsizing', integration of main bodies, and re-enlargement, has successfully promoted Eurasian economic integration, bringing it to a new stage of development."[186]

Despite all these qualified views, Tatyana Valovaya, member of the Executive Committee of the EAEU, may be correct when she claims that the EAEU is second only to the European Union in its degree of integration.[187]

At the top of the EAEU is the Supreme Eurasian Economic Council consisting of the various heads of state (usually presidents), and then the Eurasian Intergovernmental Council comprised of the heads of government (usually prime ministers). According to its internet site[188], the Eurasian Economic Commission is "a permanent regulatory body of the Eurasian Economic Union"; in others words, its executive body. Voting power is evenly distributed amongst the five member countries despite the varying size of their economies; and, the size of the economies varies significantly, as the following table – produced by Vinokurov – shows.

"EAEU socioeconomic development indicators, 2015".

Indicator	Armenia	Belarus	Kazakhstan	Kyrgyzstan	Russia
Nominal GDP $bn	10.5	55.0	184.4	6.5	1331.1
PPP $bn	23.1	164.3	399.6	18.5	3402.9
Nominal per capita GDP $bn	3515.0	5754.5	10508.3	1112.8	9054.9
Population million	3.0	9.5	17.7	6.0	146.5
Foreign trade $bn	4.7	57.0	75.9	5.7	526.3

Some of the data in this table is slightly different from the data presented earlier, but the most import point remains the wide variations in GDP and GDP per capita. This suggests great differences in levels of present economic development and likely future economic capabilities unless some natural resource discovery was to happen in one of the poorer countries. This diversity makes it very hard to set and manage common economic policies.[189]

Despite the formal equal distribution of "voting power", Russia and Kazakhstan absolutely dominate the EAEU by dint of GDP per capita and population size. Indeed, it is clear that if Kazakhstan left the EAEU, then the EAEU would cease to exist as any form as a serious entity.

The foreign trade data in the table seems to be a simple aggregation of import and export numbers, being very close to what can be obtained by this method from "Trade Map" data.[190] Some of the problems with this data have already been discussed several times in this text. Generally poor

[185] The "China Institute of International Studies" is "the think tank of China's Ministry of Foreign Affairs". http://www.ciis.org.cn/english/node_521155.htm

[186] Li Ziguo, "Eurasian Economic Union: Achievements, Problems and Prospects", China Institute of International Studies" 19 August 2016 http://www.ciis.org.cn/english/2016-08/19/content_8975486.htm

[187] Li Ziguo, "Eurasian Economic Union: Achievements, Problems and Prospects", China Institute of International Studies" 19 August 2016 http://www.ciis.org.cn/english/2016-08/19/content_8975486.htm

[188] http://eec.eaeunion.org/

[189] The difficulties of Greece in the European Union and Eurozone are good examples of this.

[190] International Trade Centre's "Trade Map", http://www.trademap.org/countrymap/Bilateral_TS.aspx

economic conditions, and particularly lower hydrocarbon prices, have adversely affected the value of EAEU member country exports. EAEU data show that "mutual trade between EAEU member states as a percentage of their total foreign trade" was 13.5% in 2015.

Vinokurov says that "the structure of mutual trade between EAEU member states is qualitatively different from the structure of their foreign trade due to the predominance of products other than raw materials". "For example, mineral product exports as a percentage of total exports to third countries at the end of 2015 exceeded 65%, while in mutual trade within the EAEU that indicator was merely 33.4%. At the same time, food and machinery exports as a percentage of total exports to third countries in 2015 was only 7.5%, while as a percentage of mutual trade within the EAEU, these exports accounted for a hefty 32%."

Vinokurov does not explain why this difference exists, but it will mainly be due to the fact that that Russia and Kazakhstan are major energy exporters.

Vinokurov says that "in addition to its geopolitical objectives" – although he does not say it, these objectives are almost solely held by Russia – the EAEU has a "specific long-term economic agenda" of a common market for goods, services, capital, and labor. But, "progress has slowed after initial rapid progress." Vinokurov says that "in order to make the decision politically acceptable to all member states, the fundamental move to the truly common market has been postponed to 2020 and in some parts even to 2025".[191]

There has been an uneven step by step process converting the EAEU "customs union"[192] from one "relying on "national laws and existing treaties and agreements"[193] to one that has a truly unified EAEU customs code. There have been a number of causes for this, but the accession of Kyrgyzstan to the EAEU in 2015 moved EAEU-related customs controls from the Kyrgyzstan-Kazakhstan border to the Kyrgyzstan-China border. According to Ivan Zuenko of the Carnegie Moscow Center, in a 11 November 2016 article, much of the problems is due to the fact that "local bureaucratic elites seek to restore control over import regulation and access to revenues."[194] The lack of data and inconsistencies in data that does exist for the Central Asian countries was discussed earlier. Some significant part of this problem will be related to "customs duty payable" issues and corruption.

Vinokurov says that many customs code disagreements were resolved by an Intergovernmental Council meeting on 16 November 2016 (soon after Zuenko's article was published).[195] The code, with some limitations, is now officially expected to come into force on 1 January 2018.[196]

According to Vinokurov, the EAEU has "attained its most tangible results" in the labor market with few remaining internal barriers to free movement of labor.

A single electrical power market is scheduled to be launched in 2019, while a single market for oil, gas and petroleum products is "expected to emerge by 2025".[197] In the view of this author, these are very

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[191] Evgeny Vinokurov, "Eurasian Economic Union: Current state and preliminary results", Russian Journal of Economics, Volume 3 Issue 1, March 2017 http://www.sciencedirect.com/science/article/pii/S2405473917300041

[192] According to the OECD, customs unions are arrangements among countries in which the parties agree to allow free trade on products within the customs union, and also agree to a common external tariff (CET) with respect to imports from the rest of the world. https://stats.oecd.org/glossary/detail.asp?ID=3130 However, this is a general definition, and the exact details – including what is and is not included in such a union – will vary between agreements.

[193] Evgeny Vinokurov, "Eurasian Economic Union: Current state and preliminary results", Russian Journal of Economics, Volume 3 Issue 1, March 2017 http://www.sciencedirect.com/science/article/pii/S2405473917300041

[194] Ivan Zuenko, Carnegie Moscow Center, "The Eurasian Gap: Winners and Losers of the Economic Union", 11 November 2016 http://carnegie.ru/commentary/?fa=65114

[195] Evgeny Vinokurov, "Eurasian Economic Union: Current state and preliminary results", Russian Journal of Economics, Volume 3 Issue 1, March 2017 http://www.sciencedirect.com/science/article/pii/S2405473917300041

[196] http://www.eurasiancommission.org/en/nae/news/Pages/28-04-2017-3.aspx

ambitious targets. Single electricity markets, in particular, are very difficult to establish as the experience of the European Union attests.[198] The earlier discussion in the text about the integrated water and electricity systems of Central Asia – and the fact that Kyrgyzstan is a member of the EAEU and Tajikistan is not – would appear to cause additional problems.

The Eurasian Development Bank (EDB) is, according to its internet site[199]an "international financial organisation established to promote economic growth in its member states, extend trade and economic ties between them and to support integration in Eurasia". "Any country or international organisation that shares EDB's goals is eligible to join it." Thus, Tajikistan is a member of the EDB but not a member of the EAEU.

The EDB's head office is in Almaty, which in the view of this author can only be considered a political decision in order to attempt to downplay the importance of Russia in the bank. Presumably, a move to Astana – as capital of Kazakhstan and the location of the new International Financial Center – will be on the agenda once the Astana IFC begins operating in 2018.

According to its internet site, the "bank's mission is to promote the development of market economics in EDB member states, their sustainable economic growth and the expansion of trade and other economic ties through investment." It "invests in large, effective mid- and long-term projects" of up to 15 years. Priority areas are "infrastructure development projects; development of high value-added production; energy efficiency programs."

The EDB is not large in the overall scheme of things, with charter capital of only $US7 billion, including $US1.5 billion of paid-in capital and $US5.5 billion of callable capital. However, it borrows in financial markets and according to the internet site "total borrowings since its establishment exceed $US3.4 billion." Still, such amounts are very significant when compared to the GDP and investment requirements of its smaller members.

As at 1 March 2017, the Bank's current investment portfolio totaled $US2.387 billion and comprised 66 projects in six member countries.[200] Total investments in the member states reached $US5.5 billion.

The EDB manages the Eurasian Fund for Stabilization and Development (EFSD)[201], a regional financial arrangement in the amount of $US8.5 billion. In addition to the EAEU countries, Tajikistan is also involved in this.

The EFSD "mission is to help member countries ensure their long-run economic stability and foster economic integration between them". EFSD financial instruments include financial credits "extended only to central governments to support stabilization programs aimed at making their economies more resilient to external and domestic shocks" by supporting "national budgets and/or the balance of payments". There are also "investment loans" which are "available to governments and/or to companies implementing large investment projects that contribute long-term economic and financial stability and spur integration between member states".

EFSD credits and loans are repayable, have finite maturity, carry interest and – surprisingly – are extended in $US or Euros. Moreover, "while lending to low income countries, EFSD is guided by International Monetary Fund (IMF) recommendations on loan concessionality. The prospective borrower should have no debt arrears to the Fund itself, to any of its member countries, or to other international financial institutions".

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[197] Evgeny Vinokurov, "Eurasian Economic Union: Current state and preliminary results", Russian Journal of Economics, Volume 3 Issue 1, March 2017 http://www.sciencedirect.com/science/article/pii/S2405473917300041

[198] See "Friends of Europe" 2013 discussion paper, "EU's Internal Energy Market: Tough Decisions and a Daunting Agenda" http://fsr.eui.eu/Documents/JournalArticle/Energy/2013/2013GlachantThreeAges.pdf and a later report in Platts "Energy Economist" http://blogs.platts.com/2014/02/27/single-eu/

[199] http://eabr.org/e/

[200] http://eabr.org/e/projects/edb/

[201] http://efsd.eabr.org/e/

The use of $US and the Euro, plus reference to "IMF recommendations", suggest a determination to be seen as a responsible and credible organization, which should be taken seriously in both economic and political terms.

Indeed, this is the same impression that one gets from the activities and presentation of the EDB's "Centre for Integration Studies". According its internet site, it analyses issues concerning "Eurasian integration" at both the official level and corporate sector level. It "specializes in quantitative research but also engages in qualitative analysis" and one of its "priorities is to create its own comprehensive quantitative database".[202]

The Centre is very prolific in terms of reports and publications, but one has to question whether in the current context (the EAEU countries vary enormously in size and stage of development) priority should be given to quantitative analysis rather than more useful – in the view of this author – qualitative analysis.

There is clearly a public relations aspect, and many of the glossy reports are published in English.

According to its internet site[203], the Court of the Eurasian Economic Union started operating on January 1, 2015 with a "mission is to ensure uniform application by the Member States and the bodies of the Union of the Treaty, international treaties within the Union, international treaties of the Union with a third party and decisions of the bodies of the Union". The Court consists of two judges from each member state of the EAEU.

According to its internet site "a Member State may apply to the Court with an application concerning the compliance of an international treaty within the Union or its particular provisions with the Treaty; contesting the observance by another Member State of the Treaty, international treaties within the Union and/or decisions of the bodies of the Union; concerning the compliance of a decision of the Eurasian Economic Commission with the Treaty, international treaties within the Union and/or decisions of the bodies of the Union; challenging actions (failure to act) of the Eurasian Economic Commission."

"An economic entity is entitled to contest the compliance of decisions and actions (failure to act) of the Eurasian Economic Commission with the Treaty and/or international treaties within the Union. However, not any decision can be contested before the Court, but only those of them directly affecting the rights and legitimate interests of the economic entity in the area of business and other economic activities." "The Court also has the jurisdiction to provide clarification of provisions of the Union law at the request of a Member State or a body of the Union or at the request of employees and officials of the bodies of the Union in case of provisions regarding labor relations."

The overall impression of this author is that the EAEU is that despite it weak economic foundations, the Commission and its associated bodies are determined to present a professional and competent face to the outside world.[204]

3. Russia and Individual Countries of Central Asia

The data shown in the earlier table of "EAEU socioeconomic development indicators" which highlighted the dominant positions of Russia and Kazakhstan suggests that Akimbekov is right. Neither Russia nor Kazakhstan need the EAEU for a close and substantial economic relationship.

A mid-2016 RIAC Council report contains two sets of data on "Russia's "accumulated investments" in Central Asian countries.[205] It is difficult to know what to make of such data which will inevitably be

[202] http://eabr.org/e/research/centreCIS/aboutCIS/index.php

[203] http://courteurasian.org/

[204] The same can be said of the staff of the National Technology Initiative, which has an intelligent and motivated staff. Unfortunately, the NTI idea is as misconceived as the EAEU and the prospects of positive results are just as unlikely. See: http://russianeconomicreform.ru/2016/06/russian-national-technology-initiative-failure-or-success/

influenced by the long history of Soviet relations. One set of data originates with the Central Bank of Russia while the other set is from the EDB. The absolute size of the numbers in the two sets of data varies greatly, but it is very clear from both that in relative terms Kazakhstan is by far the most important country in Central Asia for Russian investment activity.

In the middle of 2016, this author was speaking with a senior official of the Eurasia Economic Commission in Moscow and realized that he came from Kazakhstan. So, he was asked, why Kazakhstan wanted to be part of the EAEU. His answer had nothing to do with economics. Instead, he mentioned the long border with Russia and the lack of Kazakh military forces to defend it. Among Central Asian countries, Kazakhstan appears the more vulnerable to Russian pressure because it shares a long border with Russia, with large ethnic Russian minorities (22 per cent of the population).[206]

In 2014, Russian President Vladimir Putin told a meeting of young Russians that President Nursultan Nazarbayev had created "a state in a territory that had never had a state before." He also suggested it was to the Kazakh people's advantage to "remain in the greater Russian world".[207] Putin's comments were meant to be complimentary to Nazarbayev, but caused considerable consternation in Kazakhstan.

According Meruert Makhmutova, a Almaty based analyst who has conducted surveys on the issue, "the EAEU is unpopular among the population, and the annexation of Crimea has Kazakhs worried that their country might be the next victim of Russia's imperial ambitions."[208] She says that there was "no consensus" on joining the EAEU. Vinokurov, however, points to EDB surveys showing a "positive" attitude to the EAEU each year from 2012 until 2016, with 74% being "positive" in the May-June 2016 survey.[209] The complete survey data is available in the "EDB Integration Barometer" publication.[210]

Nourzhanov argues that Kazakhstan's membership of the EAEU "should not be regarded as an act of submission, voluntary or otherwise, to the Kermlin's putative drive to establish an empire". Instead, it should be seen as part of Kazakhstan's "multi-vector policy" and an evidence of its "ability to maximise security and economic benefits without jeopardising the traditional balancing act."[211]

Even if we accept that Kazakhstan has, at least for the time-being, boosted its security by agreeing to join the EAEU, it is much more difficult to have a firm view on the economic benefits.

Makhmutova says that the main argument for joining the EAEU was access to a large common market.[212] There was also the issue of facilitating the export of goods that passed through Russia to other countries. However, she says that so far the economic benefits have been "minimal" – although this situation is undoubtedly influenced by adverse conditions in the Russian economy which over the last few years have been related to low oil prices and economic sanctions.

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[205] Russian International Affairs Council, Working Paper, "Prospects for Russian-Chinese Cooperation in Central Asia", 28/2016 http://russiancouncil.ru/en/inner/?id_4=7724#top-content

[206] Fabio Indeo, "The Eurasian Economic Union and the Silk Road Economic Belt: the impact of the Sino-Russian geopolitical strategies in the Eurasia region", "Maastricht School of Management", Working Paper No. 2016/5 https://www.msm.nl/resources/uploads/2016/09/MSM-WP2016-5.pdf

[207] Farangis Najibullah, "Putin Downplays Kazakh Independence, Sparks Angry Reaction", Radio Free Europe/Radio Liberty, 3 September 2014 http://www.rferl.org/a/kazakhstan-putin-history-reaction-nation/26565141.html

[208] Meruert Makhmutova, "Kazakhstan: Perspectives on Eurasian Integration", European Council on Foreign Relations, 8 June 2016 http://www.ecfr.eu/article/essay_eurasian_integration_kazakhstan

[209] Evgeny Vinokurov, "Eurasian Economic Union: Current state and preliminary results", Russian Journal of Economics, Volume 3 Issue 1, March 2017 http://www.sciencedirect.com/science/article/pii/S2405473917300041

[210] EDB Integration Barometer, 2016 http://www.eabr.org/general/upload/EDB_Centre_2016_Report_40_EDB_Integration_Barometer_ENG.PDF

[211] Kirill Nourzhanov, "Kazakhstan and the Eurasian Economic Union: The Dilemmas of Alliance-Making in the Post-Soviet Period", Chapter 12 in "A Quarter Century of Post-Communism Assesses", Edited by M.Steven Fish, Graeme Gill and Milenko Petrovic, 2017. https://link.springer.com/chapter/10.1007/978-3-319-43437-7_13

[212] Meruert Makhmutova, "Kazakhstan: Perspectives on Eurasian Integration", European Council on Foreign Relations, 8 June 2016 http://www.ecfr.eu/article/essay_eurasian_integration_kazakhstan

The powerful role of Russia's "geopolitical objectives" in the formation of the EAEU means that these can often get the better of economic objectives. Trade disputes periodically break-out within the EAEU for non-economic reasons. For example, both Russia and Kazakhstan have at various times banned various food imports from the other country citing "safety concerns" which few people actually believe to be the real problem.

Whenever Russia suggests the possibility of a common currency, Kazakhstan makes it very clear that there is no possibility of this. "There will not be a supranational currency in the EAEU" has been repeated more than once by Kazakh officials.[213]

Kazakhstan actually has its own ambitions. According to Nourzhanov, "Kazakh experts speak quite openly about building a Central Asian 'economic system under the aegis of Kazakhstan' as a subset of the Russian-led EAEU, whereby the water and other natural, production and labor resources of Kyrgyzstan and eventually Tajikistan will be locked into Kazakhstan's quest for development and prosperity".[214] The financial center of this envisaged "economic system" would presumably be Astana.

Kyrgyzstan's reasons for joining the EAEU are more basic. It essentially came down to cash transfers from Russia. Kyrgyzstan has a population of about 6 million, but according to Russian Federal Migration Service data for December 2015 about 0.5 million were in Russia.[215] World Bank data for 2016 estimate that migrant remittances contributed over 34% of Kyrgyzstan's GDP.[216]

Kyrgyzstan also got Russia to contribute to its EAEU accession costs (various sources put this at several hundred million dollars) plus extra for a Russian-Kyrgyz Development Fund. Estimates of the total cost of all this vary, but would seem to have exceeded $1 billion, which is a large amount considering the small size of Kyrgyzstan's economy, which as noted earlier, is estimated to have a GDP of about $US6 billion.[217] It presumably went someway to financing the large (according to available data) Kyrgyz balance of payments deficit.

In mid-2017, Russia has forgave a $US240 million Kyrgyzstan debt in order to "strengthen the strategic partnership".[218]

The "EDB Integration Barometer" shows a very "positive" Kyrgyz attitude to the EAEU, reaching a high of 81% in mid-2016,[219] which no doubt largely reflects the worker remittances issue. However, the earlier mentioned mid-2016 RIAC report data on "Russia's accumulated investments in Central Asian countries" indicates that investment in Kyrgyzstan is small.

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[213] Дамир Байманов (Damir Bajmanov), "Единой валюты в ЕАЭС не будет - МНЭ РК" ("The single currency in the EAPS will not be - MNE RK"), Kazinform, 22 April 2015 at http://www.inform.kz/rus/article/2768268

[214] Kirill Nourzhanov, "Kazakhstan and the Eurasian Economic Union: The Dilemmas of Alliance-Making in the Post-Soviet Period", Chapter 12 in "A Quarter Century of Post-Communism Assesses", Edited by M.Steven Fish, Graeme Gill and Milenko Petrovic, 2017. https://link.springer.com/chapter/10.1007/978-3-319-43437-7_13

[215] Russian International Affairs Council, Working Paper, "Prospects for Russian-Chinese Cooperation in Central Asia", 28/2016 http://russiancouncil.ru/en/inner/?id_4=7724#top-content

[216] World Bank, "Migration and Development Brief 27", April 2017
http://pubdocs.worldbank.org/en/992371492706371662/MigrationandDevelopmentBrief27.pdf

[217] Evgeny Vinokurov, "Eurasian Economic Union: Current state and preliminary results", Russian Journal of Economics, Volume 3 Issue 1, March 2017 http://www.sciencedirect.com/science/article/pii/S2405473917300041

[218] Arkady Dubnov, "Suspense in Kyrgyzstan: Who Will Be the Next President?", Carnegie Moscow Center, 13 July 2017
http://carnegie.ru/commentary/71487?mkt_tok=eyJpIjoiWVRrME9EbGxNRFprTldJMSIsInQiOiJTQlwvdTdvVWFBajhRT2VhTThvTzd0ZlM3alJVNU9UT0JTOEtSU3BCQUw0WTYrRHE3Rm9MZkQ0dmRNMUJGQk9wUU1jU3psYVVuOFVMTEFhYVBuYlh1ZXpcL0JWd1V4NmtJaEtwQ3NJK0xrVFdDaUk1RHkrdENNcG5nSDJcL1Q1S0VGaCJ9

[219] EDB Integration Barometer, 2016
http://www.eabr.org/general/upload/EDB_Centre_2016_Report_40_EDB_Integration_Barometer_ENG.PDF

Russian Federal Migration Service data for December 2015 show 0.9 million of Tajikistan's total population of about 8 million were in Russia,[220] while the number may actually be considerably higher if account is taken of those in Russia without proper authorization. Because Tajikistan is not a member of the EAEU it is more difficult for its migrant workers to be legally in Russia.

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World Bank data for 2016 estimate that migrant remittances contributed about 27% of Tajikistan's GDP.[221] Russia's Central Bank suggest that the amount of money transferred to Tajikistan fell from $US4.2 billion in 2013, to $US3.8 billion in 2014, and to $US1.28 billion in 2015.[222] This will undoubtedly partly reflect the poor state of the Russian economy, but Vinokurov of the EDB would also attribute it to development of the EAEU's common labor market. In early 2017 he wrote that "the fact that the labor market is up and running is confirmed by the first available statistical data: in 2015, the number of Kyrgyz workers in Russia increased by 1.6%, while the number of Tajik migrant workers decreased by 13.7%".[223]

The "EDB Integration Barometer" shows a very "positive" Tajik attitude to the EAEU, at 68% in mid-2016.[224]

The mid-2016 RIAC report data on "Russia's accumulated investments in Central Asian countries" indicates that investment in Tajikistan is low, and on a similar level to that in Kyrgyzstan.

Federal Migration Service shows that the number of Uzbekistan citizens working in Russia is the largest of all Central Asia countries at 1.9 million in December 2015, despite this country not beinga member of the EAEU. The World Bank data for 2014 shows that migrant remittances contributed only 9% of GDP in 2014[225] because of the relatively large size of the Uzbekistan population.

The RIAC report data on Russia's "accumulated investments" in Central Asian countries indicates that Uzbekistan is the second most important destination for Russian investments in Central Asia. Nevertheless, the absolute amount is much less than half that in Kazakhstan.[226]

Since independence Turkmenistan has adopted a neutrality approach in its foreign policy refusing to join all multilateral regional projects, while Federal Migration Service indicates that the number of its citizens working in Russia is very small.[227] The mid-2016 RIAC report data on Russia's "accumulated investments" in Central Asian countries indicates that investment in Turkmenistan is lower than any other Central Asian country, and in fact barely exists.

4. The Way Forward?

[220] Russian International Affairs Council, Working Paper, "Prospects for Russian-Chinese Cooperation in Central Asia", 28/2016 http://russiancouncil.ru/en/inner/?id_4=7724#top-content

[221] World Bank, "Migration and Development Brief 27", April 2017 http://pubdocs.worldbank.org/en/992371492706371662/MigrationandDevelopmentBrief27.pdf

[222] "Tajikistan, Turkmenistan Submit to Chinese Capture", Eurasianet.org, 24 June 2016 http://www.eurasianet.org/node/79401

[223] Evgeny Vinokurov, "Eurasian Economic Union: Current state and preliminary results", Russian Journal of Economics, Volume 3 Issue 1, March 2017 http://www.sciencedirect.com/science/article/pii/S2405473917300041

[224] EDB Integration Barometer, 2016 http://www.eabr.org/general/upload/EDB_Centre_2016_Report_40_EDB_Integration_Barometer_ENG.PDF

[225] World Bank, "Migration and Development Brief 26", April 2016 http://pubdocs.worldbank.org/en/661301460400427908/MigrationandDevelopmentBrief26.pdf

[226] Russian International Affairs Council, Working Paper, "Prospects for Russian-Chinese Cooperation in Central Asia", 28/2016 http://russiancouncil.ru/en/inner/?id_4=7724#top-content

[227] Russian International Affairs Council, Working Paper, "Prospects for Russian-Chinese Cooperation in Central Asia", 28/2016 http://russiancouncil.ru/en/inner/?id_4=7724#top-content

Vinokurov, in his March 2017 paper, says that while the "EAEU has major achievements, it also has deeply embedded limitations" and "now the integration bloc is entering its first wave of conflicts and challenges". He asks rhetorically: "Will it be able to continue its development? Or will it regress."[228]

There are certainly some positive features emerging from the EAEU. An attempt is being made by its staff (reputedly well over 1,000) to improve the business climate in individual member countries and to coordinate issues. However, despite their enthusiasm and efforts, progress is rather limited and there seems to be more talk than action.[229]

Vinokurov says that "one of the most important matters on the EAEU agenda in the immediate future is the gradual unification and elimination of non-tariff barriers (NTBs) in mutual trade in goods and services".[230] "Non-tariff barriers" are often defined by economists as those such as customs and other bureaucratic procedures that impede trade between countries, including those within an entity which may or may not be a true customs union.[231] But in reality, there are a whole variety of NTBs including technical and safety standards.

The Eurasian Development Bank's 2017 "Eurasian Economic Integration" Report says that "non-tariff barriers have been the key problem of Eurasian integration from the inception of the Customs Union to this day".[232]

According to Vinokurov, a "massive" survey involving enterprises for Belarus, Kazakhstan and Russia found that NTBs account for "15% to 30% of total export value".[233] He says "eliminating and unifying" these may have a positive effect, "far exceeding" that from the elimination of tariffs.

However, the existence of NTBs often has a strong relationship to complex internal policies and the institutions of individual countries, as well as seemingly unrelated international political issues.

Perhaps the biggest issue presently adversely affecting EAEU internal trade relates to Russian economic sanctions against Ukraine and Russia's counter sanctions – including the use of NTBs – against countries imposing sanctions on it, although this mainly concerns the non-Central Asian members of the EAEU (for example, the famous issue of bananas and seafood "produced" in Belarus!).

Dragneva and Wolczuk, argue that "quite simply, when Russia's interests are at stake, it ignores the constraints that a common regime would normally impose". They also note that other EAEU members have been "complaining about exclusion from Moscow's import substitution programs"[234] although there are signs that efforts are being made to address this issue.

According to Vinokurov, "consultations" have begun "on a very complex matter" in the form of "creation of a EAEU financial regulator by 2022-5, a supranational financial institution that would be

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[228] Evgeny Vinokurov, "Eurasian Economic Union: Current state and preliminary results", Russian Journal of Economics, Volume 3 Issue 1, March 2017 http://www.sciencedirect.com/science/article/pii/S2405473917300041

[229] My impressions from talking to and listening to people in Moscow associated with the EAEU project.

[230] Evgeny Vinokurov, "Eurasian Economic Union: Current state and preliminary results", Russian Journal of Economics, Volume 3 Issue 1, March 2017 http://www.sciencedirect.com/science/article/pii/S2405473917300041

[231] Trading across borders, even within the European Union, imposes a cost that has been variously estimated to be quite high – much higher in fact than tariff rates. For more in this issue and the associated "trade facilitation" issue, see:
https://crawford.anu.edu.au/pdf/staff/phillippa_dee/2011/Trade_Facilitation_What_Why_How_and_Where.pdf

[232] "Eurasian Economic Integration, 2017", Report 43, Eurasian Development Bank
https://eabr.org/upload/iblock/470/EDB-Centre_2017_Report-43_EEI_ENG.pdf

[233] Evgeny Vinokurov, "Eurasian Economic Union: Current state and preliminary results", Russian Journal of Economics, Volume 3 Issue 1, March 2017 http://www.sciencedirect.com/science/article/pii/S2405473917300041

[234] Rilka Dragneva and Kataryna Wolczuk, "The Eurasian Economic Union: Deals, Rules and the Exercise of Power", May 2017
https://www.chathamhouse.org/sites/files/chathamhouse/publications/research/2017-05-02-eurasian-economic-union-dragneva-wolczuk.pdf

responsible for enforcing common standards in the EAEU's financial markets and for providing proper regulation and supervision".[235] He adds – not surprisingly given the strongly expressed views of Kazakhstan – that "no issues related to a single central bank or single currency have been officially raised to date." Vinokurov also says that a "key EAEU development task is to secure full-scale co-ordination of macro-economic policies, primarily monetary policy".

The "EAEU is planning to create a network of free trade areas", with the first success being that with Vietnam which came into force in October 2016.[236] According to Vinokurov's paper, "by 2025 the average customs tariff rate in the EAEU will have declined from 9.7% to 2%, in Vietnam – from 10% to 1%. Import duties are slashed to zero for approximately 60% of mutual trade positions. Upon completion of a transition period, the share of zero-duty items will have increased to 88%".[237]

In the view of this author, this free trade agreement seems to be as much about politics as economics. Russia-Vietnam relations are still partly based on the emotions and contacts of the Cold War period, and after some decline following the collapse of the USSR were upgraded to that of a "comprehensive strategic partnership"[238] in 2012. In 2015, trade turnover between Russia and Vietnam was less than 10% of that between the US and Vietnam, and around 6% (and less for other EAEU countries) of that between China and Vietnam.

China-Vietnam tensions over South China Sea issues are likely to have played a part in the Vietnamese attitude. As Helen Clark has noted, "more friends is always the better option" for Vietnam.[239] The EAEU can use it as a signal that it is ready to be "more flexible"[240] in such arrangements in order to build legitimacy as a supranational organization. For Russia, is seems to give some credibility to is Greater Eurasia ambitions.

In the view of this author, the future of the EAEU is not bright. As Li Ziguo of the China Institute of International Studies notes, there are "strong geopolitical differences".[241] It is worth relating at this point Li's specific views, which – importantly – may affect the way Chinese officials view the EAEU and the way that China deals with it.

Firstly, he says, the EAEU is seen as "overly politicized" with Russian ambitions for something greater, and Kazakhstan joining the EAEU to "make itself safe" from becoming an "Oriental Crimea".

Secondly, Russian has stitched together the EAEU by offering costly "benefit lures" such as the Kyrgyzstan-Russia Development Fund, energy price subsidies, and many "preferential" tariff and import rule exceptions. He summarizes the issue in the following way: "While the European Union puts forward various requests to applicant countries if they want to join the union, the situation in the

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[235] Evgeny Vinokurov, "Eurasian Economic Union: Current state and preliminary results", Russian Journal of Economics, Volume 3 Issue 1, March 2017 http://www.sciencedirect.com/science/article/pii/S2405473917300041

[236] "Vietnam-EAEU free trade agreement to take effect on October 5", http://wtocenter.vn/other-agreement/vietnam-eaeu-free-trade-agreement-take-effect-october-5

[237] Evgeny Vinokurov, "Eurasian Economic Union: Current state and preliminary results", Russian Journal of Economics, Volume 3 Issue 1, March 2017 http://www.sciencedirect.com/science/article/pii/S2405473917300041

[238] Nikolai Fedorov, "The free trade agreement between the Eurasian Economic Union and Vietnam in the context of Russian-Vietnamese relations", Saint Petersburg State Universityhttp://web.isanet.org/Web/Conferences/AP%20Hong%20Kong%202016/Archive/07294803-8c93-4929-9d9d-6e843873e8ce.pdf

[239] Helen Clark, "Vietnam and India's shared interests in the South China Sea", Lowy Institute, 11 July 2017 https://www.lowyinstitute.org/the-interpreter/vietnam-and-india-s-shared-interests-south-china-sea

[240] Nikolai Fedorov, "The free trade agreement between the Eurasian Economic Union and Vietnam in the context of Russian-Vietnamese relations", Saint Petersburg State Universityhttp://web.isanet.org/Web/Conferences/AP%20Hong%20Kong%202016/Archive/07294803-8c93-4929-9d9d-6e843873e8ce.pdf

[241] Li Ziguo, "Eurasian Economic Union: Achievements, Problems and Prospects", China Institute of International Studies" 19 August 2016 http://www.ciis.org.cn/english/2016-08/19/content_8975486.htm

EAEU is totally opposite: applicant countries put forward various requests before they agree to join the union. The difference is obvious."[242]

Thirdly, there are few basic economic reasons for the EAEU to exist. In particular, Russia and Kazakhstan are both resource producers and technology importers, and they mainly trade with non-EAEU countries because of this.

Li Ziguo has an answer to the earlier noted rhetorical question of Vinokurov about the future of the EAEU: will it "continue its development" or "regress"? Li Ziguo says that "as Russia strategically relies on the EAEU to achieve its national rejuvenation, it will not give up despite all the difficulties". "Therefore", he concludes, "the EAEU will live on".

Part D: China and Central Asia

The relationship between China and Central Asia is, in modern times, quite new with both sides treading warily despite the likely economic benefits. At the present time, China is the main driving force in developing this relationship because of its need for energy and security and its SREB initiative, while the Central Asian governments and societies are a little fearful about where things could end up going.

1. Introduction and Security Issues

Georgy Toloraya has put the view that **"**the concept of Eurasia, is still exotic for Far Eastern countries, and for the Chinese it sounds the same way the Wild West did for American pioneers—as a territory to be developed and included in the area of Chinese interests."[243] However, Zhang Dongdong and Michael Clarke, both of the ANU, are less sure as they suggest that thoughts are "evolving"[244] as the complexities of new realities rapidly assert themselves.

With the collapse of the Soviet Union and the formation of Kazakhstan, Turkmenistan, Uzbekistan, Tajikistan and Kyrgyzstan as independent republics, China was one of the first countries to recognize their sovereignty. In the first week of January 1992, China established diplomatic relations with all of them. All official China documents affirmed the friendly, equal treatment of all newly formed republics. However, in reality there are differences and some priority has been given to those countries -- Kazakhstan, Tajikistan and Kyrgyzstan – with which China has a common border. Of these, Kazakhstan is the most important because of its relative size, economic capacity and potential as a transport route. But this does not mean that the other Central Asian countries – particularly Turkmenistan – are ignored.

China views Central Asia through two prisms; one is security, and the other economics. While China has a great interest in both areas, it has tried to avoid becoming deeply involved in internal Central Asian affairs,[245] and has generally been happy to let Russia exert whatever influence it can in this area.

Nevertheless, Beijing is aware that the solution to two significant national security problems largely depends on the stability of the neighboring Central Asian countries, and believes that its SREB project can contribute to this.

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[242] Li Ziguo, "Eurasian Economic Union: Achievements, Problems and Prospects", China Institute of International Studies" 19 August 2016 http://www.ciis.org.cn/english/2016-08/19/content_8975486.htm

[243] Georgy Toloraya, "Two Heads of the Russian Eagle", Russia in Global Affairs, 13 February 2017 http://eng.globalaffairs.ru/number/Two-Heads-of-the-Russian-Eagle-18592

[244] Based on conversation with individual conversations with each in Canberra in March 2017.

[245] Raffaello Pantucci, "China's Place in Central Asia", Eurasianet.org, 20 June 2016 http://www.eurasianet.org/node/79306

The first is that instability in Central Asia directly affects China security in its own western provinces. China's Xinjiang Uygur Autonomous Region (XUAR) has a large Uyghur separatist movement, whose members and sympathizers readily relate to their Turkic and Islamic brothers in the Central Asian states.

Secondly, while at the present time China is at pains to show deference to Russia on security issues, China (like Russia) does not want any outside powers to have a very significant influence in the region. According to Vitaly Vorobyov of MGIMO, China considers Central Asia as a "deep rear".[246] An RIAC report says that "strategically, Beijing considers Central Asia and the entire post-Soviet space to be a reliable support for implementing its Asia-Pacific policies".[247] This consideration can only have intensified in the face of the much vaunted US military "pivot" to Asia.

Despite many in Central Asia being suspicious and even afraid of China, there are some suggestions that its leaders would welcome a more active Chinese presence in some security issues.[248] This will largely reflect a fear that Russia, via an eventual expansion of the role of the EAEU, "is trying to restore the Soviet Union".[249]

2. Economic Issues

At the time of the dissolution of the USSR, there was hardly any direct trade between China and Central Asian countries. Michael Clarke from the ANU has opinioned that now "Beijing is clearly focused on facilitating freer economic interaction throughout Central Asia".[250]

The initial economic factor driving intensified Chinese interest in Central Asia was oil and gas, with a focus on Kazakhstan (oil) in the mid-1990s followed by Turkmenistan (gas).[251] And, of course this means a need for pipelines or railway tankers. Kazakhstan oil began flowing to China from fields on Caspian Sea through the "Kazakhstan–China oil" pipeline in 2006.[252]

The "Central Asia – China" gas pipeline which runs from Turkmenistan to China, commenced operation in 2009 with two parallel lines ("A", "B") going through both Uzbekistan and Kazakhstan to the Chinese border at Khorgos. A third parallel line ("C") has subsequently been added. A planned fourth branche ("D") to run through Uzbekistan, Tajikistan and Kyrgyzstan has been delayed due to weaker than expected Chinese gas demand.[253]

Railway lines go from Ürümqi, the capital of the Xinjiang, and enter Kazakhstan at Khorgos and Dostyk (and eventually reach the Caspian Sea). In early 2016, documents were signed for a

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[246] Vitaly Vorobyov, "Сумма сходящихся интересов", Россия в глобальной политике, No 6 2012 http://www.globalaffairs.ru/number/Summa-skhodyaschikhsya-interesov-15795

[247] Russian International Affairs Council, Working Paper, "Prospects for Russian-Chinese Cooperation in Central Asia", 28/2016 http://russiancouncil.ru/en/inner/?id_4=7724#top-content

[248] Raffaello Pantucci, "China's Place in Central Asia", Eurasianet.org, 20 June 2016 http://www.eurasianet.org/node/79306

[249] Meruert Makhmutova, "Kazakhstan: Perspectives on Eurasian Integration"; Introduction. European Council on Foreign Relations, 8 June 2016. Available at http://www.ecfr.eu/article/essay_eurasian_integration_kazakhstan

[250] Michael Clark, "Beijing's March West: Opportunities and Challenges for China's Eurasian Pivot", Foreign Policy Research Institute, 6 January 2016 http://www.sciencedirect.com/science/article/pii/S0030438716000028

[251] Владимир Парамонов и Алексей Строков (Vladimir Paramonov and Alexey Strokov), "Китайское присутствие в нефтегазовых отраслях стран Центральной Азии: состояние и перспективы" ("China's presence in the oil and gas sectors of the Central Asian countries: the state and prospects"), Central Asian Analytical Newtwork, 19 October 2015 http://caa-network.org/archives/5706

[252] Kazakhstan-China Oil Pipeline http://www.kmg.kz/en/manufacturing/oil/kazakhstan_china/

[253] Michael Lelyveld, "China Shelves Central Asia Gas Plan", Radio Free Asia, 20 March 2017 http://www.rfa.org/english/commentaries/energy_watch/china-shelves-central-asia-gas-plan-03202017103720.htm

"China-Kyrgyzstan-Uzbekistan" railway line from Kashgar in Xinjiang, through Kyrgyzstan, and then to Uzbekistan.[254]

According to a mid-2016 paper prepared for the RIAC, "it is difficult to give exact figures for Chinese investments into Central Asia due to the lack of complete and well-correlated statistics".[255] However, the same paper says that "China's cooperation with the regional countries in manufacturing is thus far not significant."

The "China Global Investment Tracker", compiled by "The American Enterprise Institute" and "The Heritage Foundation"[256] puts total Chinese "investment and construction" in Central Asian countries at about $US20 billion in period from 2005 to 2016, with nearly all of this in Kazakhstan and in the energy sector.[257] As noted earlier in this text, this data only includes transactions worth $US100 million or more.

However, there has clearly been enough investment of some kind to make much of the Central Asian elite wary of China's intentions. Fears that China sees Central Asia as only a source of raw materials (the same fear held by many in Russia) and transit a route to wealthier countries seem to have found explicit expression in concerns about Chinese agricultural land grabs. In part this is probably related to a relative lack of transparency of much Chinese activity, which will itself partly reflect the significant language and cultural barriers (particularly when compared to the more familiar Russia and Russian).

Moreover, "China investment agreements with Central Asian states often mandate obligatory participation of Chinese companies, using Chinese equipment and labor force."[258]

Commentators such as Raffaello Pantucci say that China is aware of the "perception issue", and that its officials do speak about adding to the few Chinese owned factories in Central Asian countries. But the Chinese also have a few concerns of their own, says Pantucci. "It is clear that China feels like it has a voice that it wants to express sometimes — most recently in the form of an angry outburst from the Chinese Ambassador to Kazakhstan about the difficulty his co-nationals have had in obtaining visas."[259]

The reality is that China is continually making gains in Central Asia at the expense of Russia. This is partly because, in the words of Yu Bin, "China's business-is-business approach" with others "differs" from "Russia's heavy doses of geopolitics".[260]

China would like to see its national currency, the RMB, receive greater acceptance as an international payments and reserve currency. In Central Asia it "conducts a purposeful policy of shifting to RMB payments in their trade relations".[261]

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[254] "Ещё не определён точный маршрут железной дороги Китай-Кыргызстан-Узбекистан" ("The exact route of the China-Kyrgyzstan-Uzbekistan railway has not yet been determined") http://www.railways.by/74969-eshhjo-ne-opredeljon-tochnyjj-marshrut-zheleznojj.html and "Железная дорога Узбекистан—Киргизия—Китай. Противоречия сторон" (The railway Uzbekistan-Kyrgyzstan-China. Contradictions of the parties.) http://www.railways.by/74254-zheleznaja-doroga-uzbekistankirgizijakitajj..html

[255] Russian International Affairs Council, Working Paper, "Prospects for Russian-Chinese Cooperation in Central Asia", 28/2016 http://russiancouncil.ru/en/inner/?id_4=7724#top-content

[256] "China Global Investment Tracker", compiled by "The American Enterprise Institute" and "The Heritage Foundation" https://www.aei.org/china-global-investment-tracker/

[257] As noted earlier in this text, the Tracker shows the equivalent number for Russia to be $US28 billion. Some of the problems with such data were discussed earlier in the text when dealing with Russia-China economic relations.

[258] Russian International Affairs Council, Working Paper, "Prospects for Russian-Chinese Cooperation in Central Asia", 28/2016 http://russiancouncil.ru/en/inner/?id_4=7724#top-content

[259] Raffaello Pantucci, "China's Place in Central Asia", Eurasianet.org, 20 June 2016 http://www.eurasianet.org/node/79306

[260] Yu Bin, "China-Russia Relations: Putin's Glory and Xi's Dream", Comparative Connection, January 2016 https://csis-prod.s3.amazonaws.com/s3fs-public/legacy_files/files/publication/1303qchina_russia.pdf

[261] Russian International Affairs Council, Working Paper, "Prospects for Russian-Chinese Cooperation in Central Asia", 28/2016 http://russiancouncil.ru/en/inner/?id_4=7724#top-content

The inclusion of the RMB in the IMF's Special Drawing Rights (SDR) basket of currencies in September 2016[262] was a notable public relations success, but one with limited real practical implications. More importantly for RMB acceptance as an international currency is actual usage. SWIFT "RBM tracker" monthly data shows that in December 2016 only 1.7% of the value of messages exchanges on SWIFT was in RMB compared to 42% for the $US.[263] Separate data is not available for Central Asia.

China continues to use, and often adjust, a variety of exchange controls and this makes possible RMB users wary of risks associated with this. Nevertheless, China will certainly continue to press the issue. According to a mid-2016 RIAC report, "since 2011, China's Central Bank has authorized 15 banks in Xinjiang to service trade and investment transactions with Central Asia in the Chinese currency in order to decrease exchange rate risks, support regional trade, and then turn the Xinjiang into an industrial and financial center for Central Asia".

Such Xinjiang financial center ambitions may impact on Kazakhstan's financial center ambitions for Astana. However, Astana's financial sector ambitions include the word "international" for an "international financial sector". While this author has already expressed great skepticism about "international" becoming a reality except on a very limited scale, Astana could present itself as a very effective regional financial center competitor to Xinjiang.

Around the world, China has been put in place "currency swap"[264]arrangements in order to help increase the ultimate ability to use RMB and increase its acceptability as an international payments currency. Such arrangements have been concluded with the central banks of Kazakhstan, Uzbekistan and Tajikistan."[265] This is not something that would be welcomed by Russia because it would much prefer Kazakhstan (and other EAEU) countries to join it in a currency union, and for such swap facilities with the RMB to be put in place with an EAEU currency.

3. Individual Countries

Kazakhstan is the most resource-rich Central Asian country and was the first to interest China in economic terms. China considers oil transported from Kazakhstan to be "reliable" oil, since it does not pass through any third country or open sea. As noted earlier, the first pipeline joining Kazakhstan and China was put into operation in 2006.

According to BP, Kazakhstan has proven oil reserves of 30 billion barrels (by way of comparison, Russia's are 110 billion), and produces 1.7 million barrels per day (Russia produces about 11 million).[266] The lack of good statistics on Chinese investment in Central Asia has already been noted.

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262 http://www.imf.org/en/News/Articles/2016/09/29/AM16-NA093016IMF-Adds-Chinese-Renminbi-to-Special-Drawing-Rights-Basket

263 https://www.swift.com/our-solutions/compliance-and-shared-services/business-intelligence/renminbi/rmb-tracker

264 According to the European Central bank, such a "currency swap" is "an agreement between two central banks to exchange currencies. They allow a central bank to obtain foreign currency liquidity from the central bank that issues it – usually because they need to provide this to domestic commercial banks." https://www.ecb.europa.eu/explainers/tell-me-more/html/currency_swap_lines.en.html

265 Russian International Affairs Council, Working Paper, "Prospects for Russian-Chinese Cooperation in Central Asia", 28/2016 http://russiancouncil.ru/en/inner/?id_4=7724#top-content

266 BP Statistical Review of World Energy June 2017 http://www.bp.com/content/dam/bp/en/corporate/pdf/energy-economics/statistical-review-2017/bp-statistical-review-of-world-energy-2017-full-report.pdf

In regards to Kazakhstan, mid-2016 RIAC paper, "Prospects for Russian-Chinese Cooperation in Central Asia" quoted a 2013 report by KazMunayGas on "estimates" that "in Kazakhstan the share of Chinese companies in overall oil production exceeds 40%".[267] However, in mid-2016 a senior KazMunayGas official said that "China controls 30% of oil production" in Kazakhstan.[268] While these two definitions of "share" and "control" may not be the same and the time frames are different, the Chinese are clearly playing a very significant role.

The joint report by Chongyang Institute for Financial Studies, the Valdai Discussion Club, and The Kazakhstan Council of International Relations, published in early July 2017 by Valdai[269] says: "In 1992–2013 total investments from China came to $US20 billion. Out of this sum, $US12 billion was invested in the oil sector and $US6 billion – in construction of oil and gas pipelines. In 2010–2016 alone the gross inflow of foreign investments in Kazakhstan from China exceeded $US11 billion."

The "China Global Investment Tracker",[270] puts total Chinese "investment and construction" in Kazakhstan in the 2005-16 period at $US18 billion, and almost totally in the oil and gas sector.[271] It lists transactions totaling $US8 billion in the 2010-16 period (although none were identified for 2016).

The presentation of the data in the Tracker is such that it is not always clear what if foreign direct investment (FDI) and what is indirect (ie portfolio) investment. The Eurasian Development Bank's 2017 "Eurasian Economic Integration" report put Chinese FDI in Kazakhstan at $US21 billion at the beginning of 2016.[272]

Attempting to reconcile all these numbers is possibly a futile exercise because of differing time periods, data classification issues and unrecorded flows[273], but a broad picture emerges of a China that has substantial investments in Kazakhstan, and – at least up until 2016 – those investments have been heavily concentrated in the energy sector.

Some very recent reports suggest that Chinese investment has continued to grow rapidly.[274] The joint Chongyang Institute for Financial Studies, Valdai Discussion Club, Kazakhstan Council of International Relations report says that "twelve investment projects from the pool of joint Kazakhstani-Chinese projects have been launched in Kazakhstan this (2017) year, the biggest ones being the construction of a copper smelting plant in Eastern Kazakhstan, a polypropylene plant of KPI in the Atyrau region as well as modernization of Shymkent Oil Refinery."[275]

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[267] Russian International Affairs Council, Working Paper, "Prospects for Russian-Chinese Cooperation in Central Asia", 28/2016 http://russiancouncil.ru/en/inner/?id_4=7724#top-content

[268] Айгерим Толеуханова, "Казахстан и Китай: страх, ненависть и деньги", INOSMI.RU, 13 July 2016 http://inosmi.ru/politic/20160713/237171403.html

[269] "Reshaping Eurasian Economic Space: Common Perspectives from China, Russia and Kazakhstan Think Tanks", Valdai Discussion Club, July 2017 http://valdaiclub.com/files/14845/

[270] "China Global Investment Tracker", compiled by "The American Enterprise Institute" and "The Heritage Foundation" https://www.aei.org/china-global-investment-tracker/

[271] As noted earlier in this text, the Tracker show the equivalent number for Russia to be $US28 billion – although the sector invested in are much more diverse than Kazakhstan.

[272] "Eurasian Economic Integration, 2017", Report 43, Eurasian Development Bank https://eabr.org/upload/iblock/470/EDB-Centre_2017_Report-43_EEI_ENG.pdf As noted earlier in this text, the equivalent number for Russia was only $US3.4 billion.

[273] For example, the Tracker data does not allow the separate identification of expenditure on pipelines.

[274] Dana Omirgazy, "Kazakh Economy Saw Sharp Increase in Chinese Investment in 2016", The Astana Times, 31 Jan 2017 http://astanatimes.com/2017/01/kazakh-economy-saw-sharp-increase-in-chinese-investment-in-2016

[275] "Reshaping Eurasian Economic Space: Common Perspectives from China, Russia and Kazakhstan Think Tanks", Valdai Discussion Club, July 2017 http://valdaiclub.com/files/14845/

In December 2015 the Chinese Silk Road Fund (SRF)[276] and Kazakhstan National Export and Investment Agency signed a "framework agreement" on China-Kazakhstan Production Capacity Cooperation Fund.[277] According to its internet site, "the SRF will actively contact financial institutions and companies in Kazakhstan to seek cooperation" with the SRF allocating $US2 billion to the joint fund.[278]

China clearly officially sees Kazakhstan as an extremely important participant in the SREB part of the Belt and Road, as a May 2017 official press-release[279] attests. As well as the Capacity Cooperation Fund, the deputy head of the Chinese National Development and Reform Commission said "China and Kazakhstan have signed major cooperation projects worth $27 billion".[280] Moreover, "currently, 34 projects, including copper mining, electrolytic aluminum and cement plants, have been completed and put into production in Kazakhstan.[281] Another 43 projects are under construction". "The two countries will deepen cooperation in industrial capacity and investment by jointly planning and completing major projects", he said.

In contrast to this statement, official Chinese comments on cooperation with Russia tend to be quite general in nature.[282]

As noted earlier, there is much sensitivity in Central Asia about the intent of China in these countries, and this is particularly the case with agricultural land. Mid-2016 changes to Kazakhstan rules to permit "foreigners" to have longer leases led to anti-Chinese protests, and were subsequently withdrawn.[283] Such issues may at time impact on the quality of the growing China-Kazakhstan relationship, but they are very unlikely to derail it.

It is worth noting that of the nearly 378,000 foreign students who studied in China in 2014, nearly 12,000 were from Kazakhstan (compared with over 17,000 from Russia)[284].

Although **Kyrgyzstan** borders the unstable Xinjiang of China, economic relations with China developed very slowly due to the absence of oil or gas deposits, the small size of the Kyrgyz economy, and the often unstable socio-economic and political situation in Kyrgyzstan. As in Kazakhstan, there are sensitivities about China regarding Kyrgyzstan as merely a transit route to better markets to the west. In mid-2016 the Chinese Foreign Minister visited Bishkek and officials suggested that Beijing "consider relocating 40 or so manufacturing operations from China to Kyrgyzstan". "Economy Ministry officials cast the proposal as a win-win, reasoning that China would gain an important

[276] The Chinese Silk Road Fund and is activities will be considered later in this text. Here it is sufficient to note that it is a financial institution ostensibly set-up to finance aspects of the Belt and Road Initiative. To date, most of its activities seem to have had a political rather than economic rational.

[277] http://www.silkroadfund.com.cn/enweb/23809/23812/31709/index.html

[278] "Building the Belt and Road: Concept, Practice and China's Contribution", Office of the Leading Group for Belt and Road Initiative, China, May 2017
http://www.brfmc.org/en/#zlzx
https://eng.yidaiyilu.gov.cn/zchj/qwfb/12731.htm
https://eng.yidaiyilu.gov.cn/wcm.files/upload/CMSydylyw/201705/201705110537027.pdf

[279] "China-Kazakhstan capacity cooperation on fast track", The State Council, The People's Republic of China, 12 May 2017 http://english.gov.cn/news/international_exchanges/2017/05/12/content_281475653349148.htm

[280] As already noted several times in this text, "signing" does not necessarily mean actual implementation.

[281] The great majority of these non-energy projects are clearly not included in the "China Global Investment Tracker" data.

[282] Later in this text it will be suggested that, in some respects, Kazakhstan is more important than Russia.

[283] Aigerim Toleukhanova, "Kazakhstan & China: Fear, Loathing and Money", 21 June 2016
http://www.eurasianet.org/node/79336

[284] Садык Акижанов, "Казахстан занимает 9-ое место по числу иностранных студентов в КНР", Kazinform, 16 Feb 2016
http://www.inform.kz/ru/kazahstan-zanimaet-9-oe-mesto-po-chislu-inostrannyh-studentov-v-knr_a2871333

manufacturing base in Kyrgyzstan, while the Central Asian nation would benefit from the revival of idle industrial capacity."[285]

In fact, the Chinese are investing in Kyrgyzstan. While construction of branch "D" of the Central Asia – China pipeline (transporting natural gas from Turkmenistan to China) is on hold, the Chinese are participating in various energy projects and roads[286] linking it to Xinjiang.[287] The "China Global Investment Tracker",[288] lists two oil projects with a combined value of less than $US1 billion in 2014, but there are likely to be quite a few projects that are not recorded.

China initially showed little economic interest in **Tajikistan** because of the small size of the economy and internal instability. While the two countries have a long border, the area is mountainous and lacked decent transport infrastructure. China is helping to establish better transport links, and is developing several industrial zones (to be filled by Chinese companies), as well as cooperating on some electricity projects. The "China Global Investment Tracker",[289] lists two oil projects with a combined value of less than $US1 billion in 2014, but as in other countries there are likely to be quite a few projects that are not recorded.

Indeed, Tajikistan is becoming more dependent on Chinese money for its development, and this has made it somewhat compliant to China. In 2011, Tajikistan ceded a section of disputed territory in exchange for some debt forgiveness. However, this does not mean China has all things its own way. About half of Tajikistan's external debt is to Russia, and the country remains very dependent on remittances from Tajik workers in Russia.[290]

As already noted, **Uzbekistan** has where ever possible refused to participate in regional initiatives, the present exception being the SCO.[291] It lacks a common border with China. In 2013, Uzbekistan started to export its gas to China, in addition to hosting part of the "Central Asia-China" transporting gas from Turkmenistan to China. China has been involved in several large projects. For example, both President Xi and then president Karimov attended the opening of a 19 kilometer railway tunnel that will join Uzbekistan's populous Ferghana Valley with the rest of the country. "The tunnel is the largest of its kind anywhere in Central Asia and is also the biggest Chinese-led project ever completed in the region."[292] The "China Global Investment Tracker",[293] lists two non-energy projects with a combined value of $US300 million, but there are obviously others.

The surge of China's political and economic activity in **Turkmenistan** took place in the second half of the first decade of this century, when China clearly demonstrated its strategic interest in the country's

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[285] Anna Lelik, "Kyrgyzstan: Bishkek Hopes Chinese Investment Can Produce Industrial Breakthrough", Eurasianet.org, 22 June 2016 http://www.eurasianet.org/node/79346

[286] An early July 2017 joint report by Chongyang Institute for Financial Studies, Valdai Discussion Club, and The Kazakhstan Council of International Relations notes that "a significant part of trade with the EEU, especially with Kyrgyzstan and Eastern Kazakhstan, relies on motor transport." "Reshaping Eurasian Economic Space: Common Perspectives from China, Russia and Kazakhstan Think Tanks", Valdai Discussion Club, July 2017 http://valdaiclub.com/files/14845/

[287] Russian International Affairs Council, Working Paper, "Prospects for Russian-Chinese Cooperation in Central Asia", 28/2016 http://russiancouncil.ru/en/inner/?id_4=7724#top-content

[288] "China Global Investment Tracker", compiled by "The American Enterprise Institute" and "The Heritage Foundation" https://www.aei.org/china-global-investment-tracker/

[289] "China Global Investment Tracker", compiled by "The American Enterprise Institute" and "The Heritage Foundation" https://www.aei.org/china-global-investment-tracker/

[290] Various data in on worker remittances has already been given in this text.

[291] See section of book on SCO.

[292] "Uzbekistan & China: Friends in a Time of Need", Eurasianet.org, 23 June 2016 http://www.eurasianet.org/node/79381

[293] "China Global Investment Tracker", compiled by "The American Enterprise Institute" and "The Heritage Foundation" https://www.aei.org/china-global-investment-tracker/

gas resources. This coincided with growing Turkmen desire to diversify its export markets.[294] Turkmenistan is afraid of being too dependent on the China market for it energy exports, and makes attempts to find other markets in Europe and South Asia. But, the importance of China continues to grow. The "China Global Investment Tracker",[295] lists one $US400 million project in 2014. The sheer distance of Turkmenistan from China suggest to this author that Chinese investors would be much less inclined to invest in non-energy projects in that country than they would in other Central Asian countries.

Part E: Shanghai Cooperation Organization (SCO)

The Shanghai Cooperation Organization (SCO) has not advanced much from its beginnings as a security focused organization because of the resistance of Russia. But this may not be a bad thing because if it had ventured more into the economic sphere, as suggested by China, it would have made its expansion to include India and Pakistan (and potentially Iran) more difficult. If the SCO can survive as an organization for promoting peaceful international relations in central Eurasia it should be satisfied with that result. In the view of this author, it is unlikely to achieve much more.

1. What is the SCO?

The SCO was initially formed in 1996 as the "Shanghai Five", which in addition to China included four countries (Russia, Kazakhstan, Tajikistan and Kyrgyzstan) which had a border with it. The main purpose was settling border disputes following the collapse of the USSR.

Uzbekistan joined in 2001 and the group became officially known as the "Shanghai Cooperation Organization" (SCO). The "Shanghai Convention on Combating Terrorism, Separatism and Extremism" was signed which defined the main goals of the SCO as the fight against the "three evil forces", being terrorism, separatism and extremism.

A Regional Anti-Terrorist Structure (RATS)[296] was established within the framework of the SCO and anti-terror exercises were held. A notable drawback of the SCO in combating the "three evil forces", according to a leading Chinese expert, Zhao Huashen, has been insufficient sharpness and speed of response to crisis situations.[297] Alexander Gabuev says that it is "often joked in the SCO, the special services officers who work there spend more time looking after each other than fighting terrorism together".[298] According to Muratbek Imanaliev, Former Minister of Foreign Affairs of Kyrgyzstan and

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[294] Владимир Парамонов и Алексей Строков (Vladimir Paramonov and Alexey Strokov), "Китайское присутствие в нефтегазовых отраслях стран Центральной Азии: состояние и перспективы" ("China's presence in the oil and gas sectors of the Central Asian countries: the state and prospects"), Central Asian Analytical Newtwork, 19 October 2015 http://caa-network.org/archives/5706

[295] "China Global Investment Tracker", compiled by "The American Enterprise Institute" and "The Heritage Foundation" https://www.aei.org/china-global-investment-tracker/

[296] http://eng.sectsco.org/structure/

[297] Fabio Indeo, "The Eurasian Economic Union and the Silk Road Economic Belt: the impact of the Sino-Russian geopolitical strategies in the Eurasia region", "Maastricht School of Management", Working Paper No. 2016/5 https://www.msm.nl/resources/uploads/2016/09/MSM-WP2016-5.pdf

[298] Александр Габуев (Alexander Gabuev), "Больше, да хуже. Как Россия превратила ШОС в клуб без интересов" ("More, yes, worse. How Russia transformed the SCO into a club without interests"), Carnegie Center Moscow, 13 June 2017 http://carnegie.ru/commentary/?fa=71212&mkt_tok=eyJpIjoiTVRVNE5tVmtPVEJtTkRNdyIsInQiOiJqUktCNnBsekRtOFhpTkI4cGhNdWhKZ0lIN05yV1ZQSU9UYWszUjRoUnRBaDdaZ1AwK2RHOGlvQkV0ZlM1a1poc0ZwbzJhSDllT1lUSEVzNjdDYk1wYjRVaVhZcnRIOGJxc3J5MVlHMEJFczBxUnJzV25LNkZrS3lwSzNUZzFsZSJ9

former Secretary General of the SCO, its performance has been insufficient in this regard and the compensation is mostly provided by the Collective Security Treaty Organization.[299]

India and Pakistan formally joined the SCO at its 8-9 June 2017 Heads of State Summit in Astana.

The organizational structure of the SCO is not tight. The Secretariat is in Beijing (despite the organization being named after the city of Shanghai) and is headed by a Secretary-General from one of the member countries alternating on a three-year basis.[300] According to its internet site, the "SCO Secretariat coordinates the activity of the SCO and provides informational, analytical, legal, organizational and technical support".

Decisions are made by consensus. The SCO is by no-means a "China-led mechanism" as suggested by some commentators, [301] nor is China "the key force in the SCO". As will be shown later in this text, China has very often in the past not got what it wanted. Moreover, the recent addition of India and Pakistan as SCO members will tend to weaken the influence of China.[302]

However, it is true that China has generally been keener on the SCO than Russia. It was the first regional organization involving Central Asia in which China had a full-role. It has invoked the term "Shanghai Spirit", which is meant to convey an image as a reliable and peaceful partner, and it has some symbolic importance as "the first regional international organization since the founding of New China, which is named after a Chinese city.[303]

The press release following the 2016 meeting indicated that "conditions have been created by this time for the SCO to advance to a higher level of cooperation marked by more effective interaction in politics, security, economic and cultural and humanitarian ties. Of special significance in this context was the adoption of the Action Plan 2016-2020 for the implementation of the SCO Development Strategy towards 2025."

The first five items in this Action Plan[304] related to general policy co-ordination, while items 6-29 covered cooperation on security issues. The remaining items up to number 50 were about various areas of economic, scientific, cultural and humanitarian cooperation. The economic items have a heavy – and surprisingly detailed – emphasis on issues of transportation, logistics etc. The influence of the SREB is on this document is very clear.

Items 35 and 36 of the Action Plan are about "further development of the Interbank Consortium (established in 2005) activities" of the SOC and "interest in widening financial and investment cooperation". "The main goal of creating the SCO Interbank Consortium was setting up a mechanism of funding and banking services for investment projects supported by the governments of the SCO

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[299] Muratbek Imanaliev, "What Is the Future of the SCO?", Valdai Discussion Club, 16 June 2017 http://valdaiclub.com/a/highlights/what-is-the-future-of-the-sco/

[300] http://eng.sectsco.org/secretariat/ This could become an increasingly complex issue with the inclusion of India and Pakistan in the SCO, as each new Secretary-General will bring a new set of possibly biased attitudes to the Secretariat.

[301] Nick Bisley, "Integrated Asia: Australia's Dangerous New Strategic Geography", ANU Strategic and Defence Studies Centre, May 2017 http://sdsc.bellschool.anu.edu.au/sites/default/files/publications/attachments/2017-05/cog_integrated_asia-may_2017_0.pdf

[302] More will be said on this issue later in the text.

[303] Fabio Indeo, "The Eurasian Economic Union and the Silk Road Economic Belt: the impact of the Sino-Russian geopolitical strategies in the Eurasia region", "Maastricht School of Management", Working Paper No. 2016/5 https://www.msm.nl/resources/uploads/2016/09/MSM-WP2016-5.pdf

[304] Об утверждении Плана действий на 2016-2020 годы по реализазии Стратегии развития Шанхайской организации сотрудничества до 2025 года (On the approval of the Action Plan for 2016-2020 on the implementation of the Development Strategy of the Shanghai Cooperation Organization until 2025) http://kgd.gov.kz/sites/default/files/files_framework/plan.pdf

member states."[305] It is not a lender, but is basically concerned with organizing common banking mechanisms, procedures, and standards between countries to make investments and banking services coordination easier. A SCO Business Council[306] was subsequently established in 2006.

Overall, however, attempts to give the SCO a greater economic focus have largely been unsuccessful.

China has in the past suggested that the SCO became the basis of a free trade area. At the May 2016 RIAC conference in Moscow, former Chinese Ambassador to Russia Li Fenglin, said that "the optimal way to link the EAEU and the SREB would be to create a free trade area within the SCO." He added: "China suggested this idea a long time ago, but Russia didn't want to. Why? I don't know."[307] All indications are that Uzbekistan supported Russia in opposing a free trade area within the SCO, with a senior official ruling it out in comments made in December 2015.[308]

China continued to push the SCO free trade area idea for some time, with Premier Li Keqiang telling the November 2016 Bishkek SCO Heads of Government Council meeting that China is "open to the setting-up of an SCO free trade area, and would like to see a free trade agreement feasibility study among SCO members".[309]

As before, Russia was having none of this. In an April 2017 interview with Kommersant, Russia's "special representative for SCO affairs", Bakhtiyor Khakimov, said that while China and Kazakhstan are "in favor of active progress" on a free trade area within the SCO, Russia is in no hurry and added that "other (SCO) partners are more reserved" on the issue.[310] When pressed on the relationship between the SCO, the EAEU and "Eurasian integration", Khakimov stated that "Russia consistently resolves that the priority task is the construction of the EAEU".

The reality is that if there is to be any sort of free trade area on the Eurasian landmass, Russia does not want the SCO involved because any SCO based free trade agreement would give too much power to China. Moreover, Russia does not want individual Central Asia countries directly involved in a free trade agreement with China. Instead, it wants the EAEU – under Russian domination – to be an equal partner of China and its SREB.

Russia prefers that the SCO continue as a security organization. It wants closer military cooperation with China and is willing to do this within the SCO framework because it knows that it presently has the upper hand. It has military bases in several Central Asian countries, and these countries would still prefer to have Russia rather than China as their "main security provider". China does not have military bases in Central Asia, in part because it will not be popular and in part because of its professed policy of "non-interference in the domestic affairs of other countries."[311]

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[305] http://eng.sectsco.org/structure/

[306] http://www.bcsco.org/en/sco-business-council

[307] Gleb Fedorov, "Target $200 bln: Russia, China explore ways to stimulate trade", "Russia Beyond the Headlines", 2 June 2016, http://rbth.com/international/2016/06/02/target-200-bln-russia-china-explore-ways-to-stimulate-trade_599467

[308] "Узбекистан не готов рассмотреть вопрос о зоне свободной торговли ШОС" ("Uzbekistan is not ready to consider the issue of the SCO free trade zone"), 16 December 2015 https://ria.ru/world/20151216/1342819943.html

[309] Speech by Premier Li Keqiang at the 15th Meeting of the Council of Heads of Government of the Member States of the Shanghai Cooperation Organization, 3 November 2016, Bishkek http://english.gov.cn/premier/news/2016/11/04/content_281475482644898.htm

[310] Михаил Коростиков и Елена Черненко (Mikhail Korostikov and Elena Chernenko), "Членство в ШОС не приглашение на чай" ("Membership in the SCO is not an invitation to tea"), Kommersant, 4 April 2017, http://www.kommersant.ru/doc/3275166

[311] Fabio Indeo, "The Eurasian Economic Union and the Silk Road Economic Belt: the impact of the Sino-Russian geopolitical strategies in the Eurasia region", "Maastricht School, Working Paper No. 2016/5 http://web2.msm.nl/RePEc/msm/wpaper/MSM-WP2016-5.pdf

2. The Way Forward?

At the SCO Summit in Astana on 8-9 June 2017, the "Heads of State Council" issued a press release.[312] It listed the attendees as Republic of Kazakhstan Nursultan Nazarbayev (who was chairman of this particular meeting), Chairman of the People's Republic of China Xi Jinping, President of the Kyrgyz Republic Almazbek Atambayev, President of the Russian Federation Vladimir Putin, President of the Republic of Tajikistan Emomali Rahmon, and President of the Republic of Uzbekistan Shavkat Mirziyoyev attended the meeting.

Prime Minister of the Republic of India Narendra Modi, President of Mongolia Tsakhiagiin Elbegdorj, Prime Minister of the Islamic Republic of Pakistan Nawaz Sharif are listed as having observer status, although India and Pakistan were granted full membership at the meeting.[313]

President of the Islamic Republic of Afghanistan Ashraf Ghani, President of the Republic of Belarus Alexander Lukashenko, Minister of Foreign Affairs of the Islamic Republic of Iran Mohammad Javad Zarif, and President of Mongolia Tsakhiagiin Elbegdorj also attended as observers. While it is not clear why Belarus would attend other than being one of only two EAEU members which are not SCO members (the other being Armenia), the presence of Afghanistan reflects the security concerns of the SCO (plus the geographical position of Afghanistan makes it an obvious potential member), and the presence of Iran and Mongolia reflects their potential membership.

Also in attendance were Secretary-General of the United Nations Antonio Guterres and Secretary-General of the Association of Southeast Asian Nations Le Luong Minh. Both these reflect the desire of the SCO to been seen as an important and responsible player in international affairs.

Turkmenistan did not attend the 2017 meeting as an observer, although it was a surprise attendee the previous year. In his April 2017 interview with Kommersant, Bakhtiyor Khakimov said that Turkmenistan has been sending "signals" that it wanted to work with the SCO "in one way or another" while taking into account its status as a "neutral" country.[314] He also signaled out Mongolia as a possible future member, and said that Russia also supported the membership of Iran.

According to a press briefing given by the SCO Secretary-General,[315] "eleven documents were adopted at the meeting, including the Astana Declaration of the SCO Heads of State, the SCO Convention on Counteracting Extremism, the Statement by the SCO Heads of State on Joint Counteraction to International Terrorism, the Joint Action Plan for Implementing the Program for the SCO Member States Cooperation in Tourism for 2017-2018".

There was also a "Memorandum of Understanding between the SCO Secretariat and the International Committee of the Red Cross", and general non-accusatory declarations about peaceful settlement of conflicts in Afghanistan, Syria and the Ukraine, and the controversy over Iran's nuclear program.

The nomination of "tourism" as a significant result of the 2017 Summit would be surprising except for the fact that the Summit achieved very little apart from the confirmation of the membership of India

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[312] Press release on the results of the Shanghai Cooperation Organisation Heads of State Council Meeting, 9 June 2017 http://eng.sectsco.org/news/20170609/289274.html

[313] Press briefing of the SCO Secretary-General following the SCO Heads of State Council Meeting, 9 June 2017 http://eng.sectsco.org/news/20170609/290249.html

[314] Михаил Коростиков и Елена Черненко (Mikhail Korostikov and Elena Chernenko), "Членство в ШОС не приглашение на чай" ("Membership in the SCO is not an invitation to tea"), Kommersant, 4 April 2017, http://www.kommersant.ru/doc/3275166

[315] Press release on the results of the Shanghai Cooperation Organisation Heads of State Council Meeting, 9 June 2017 http://eng.sectsco.org/news/20170609/289274.html

and Pakistan. Indeed, some observers have suggested that the SCO now lacks a purpose and is an organization in "search for a mission".[316]

As usual, the "heads of state praised the activities of the competent bodies of SCO member states and the SCO Regional Anti-Terrorist Structure in combating terrorism, extremism, separatism ("the three evils"). "The heads of state heard and approved the SCO Secretary-General's report on the activities of the Organisation over the past year and the SCO Regional Anti-Terrorist Structure Council report on the activities of the SCO RATS in 2016."[317]

Transport is another perennial issue for SCO Summits. According to the official press release, the leaders "advocated enhancing multilateral cooperation in the transport sector, including by expanding the transport and communication capacity of the region, developing rail transport, high-speed lines, creating multimodal logistics centres, introducing advanced and innovative technologies, and implementing joint infrastructure projects of common interest".

A joint meeting of the SCO Interbank Consortium and the SCO Business Council was held at the June 2017 Summit. It was described as "the first time that SCO banking, finance and business representatives gathered to discuss the prospects for expanding and activating cooperation on developing trade and export financing by banks in the SCO area". Participants were invited to be co-founders of a new SCO Economic Forum which "could serve as an academic and practical platform for a broad exchange of views on a wide range of multifaceted economic cooperation with the financial, business and analytic communities' involvement".[318]

The communique following the 2015 Summit held in Ufa, Russia, had declared that SCO members would continue trying to come to an agreement on a financial entity or entities that actually engage in lending activities.[319] And the press release from the Tashkent 2016 Summit says that "member states will continue to discuss the establishment of the SCO Development Bank and SCO Development Fund (special account) for the purpose of providing financial support to project activity".

China first publicly proposed the creation of a SCO Development Bank in 2010, although it had been previously discussed within the SCO. China had argued that a SCO Development Bank would become a tool for financing joint projects in addition to the existing multilateral financial institutions: "It is possible to say that this new SCO bank, the Asian Infrastructure Investment Bank and the BRICS New Development Bank complement each other, stimulate development and do not contradict each other."[320]

But Russia, with its desire to keep the SCO out of the economic arena, instead pushed the idea of expansion of the Eurasian Development Bank (shareholders are EAEU countries plus Tajikistan) as an alternative to an SCO Development Bank. It has received support from Kazakhstan which, as always, knows that it is stuck with the Russian connection for the time being (and the location of the Eurasian Development Bank headquarters in Almaty is not inconsequential for the prestige of Kazakhstan).[321] One problem with the Russian proposal in that the Eurasian Development Bank shareholders include countries which are not members of the SCO (ie Belarus, Armenia) and are unlikely to ever be.

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[316] Galiya Ibragimova, "What are the implications of India's and Pakistan's accession to the SCO?", Russia Direct, 13 July 2015 http://www.russia-direct.org/debates/what-are-implications-indias-and-pakistans-accession-sco

[317] Press release on the results of the Shanghai Cooperation Organisation Heads of State Council Meeting, 9 June 2017 http://eng.sectsco.org/news/20170609/289274.html

[318] "The first joint forum of the SCO banking, financial and business communities takes place in Astana", 8 June 2017. http://eng.sectsco.org/news/20170608/289153.html

[319] Russian International Affairs Council, Report, "Russian-Chinese Dialogue: the 2016 Model", 25/2016 http://russiancouncil.ru/en/inner/?id_4=7733#top-content

[320] Russian International Affairs Council, Report, "Russian-Chinese Dialogue: the 2016 Model", 25/2016 http://russiancouncil.ru/en/inner/?id_4=7733#top-content

[321] Russian International Affairs Council, Report, "Russian-Chinese Dialogue: the 2016 Model", 25/2016 http://russiancouncil.ru/en/inner/?id_4=7733#top-content

At this stage, the SCO Development Bank proposal seems to be going nowhere although China continues to officially promote the idea and it was again mentioned in the official press release of the June 2017 meeting: "The heads of state noted the importance of continuing consultations on the establishment of the SCO Development Bank and the SCO Development Fund (Special Account) at the expert level in accordance with the SCO Member States Heads of Government (Prime Ministers) Council decision of 3 November 2016 (Bishkek) with the purpose of financing joint projects within the SCO framework."[322]

Premier Li Keqiang had told the November 2016 Bishkek meeting that the SCO needs "to bring into full play the role of existing investment and financing platforms such as the SCO Inter-Bank Consortium, the Asian Infrastructure Investment Bank, the Silk Road Fund, the China-Eurasia Economic Cooperation Fund and the BRICS New Development Bank, to provide financial support for the development of SCO economies and regional cooperation projects. Let us instruct competent departments to continue negotiations on establishing an SCO Development Bank, with a view to reaching agreement on a detailed cooperation modality. The total volume of effective bilateral currency swap agreements between China and other SCO members has reached RMB160 billion. The RMB's inclusion in the currency basket of the Special Drawing Rights (SDR) of the IMF will be a good opportunity to strengthen currency swap and settlement cooperation."[323]

It seems clear that China see advantages in having a SCO Development Bank as a platform to help promote international usage of the RMB.

The SCO Development bank issues may also offer significant lessons on the way that the SCO operates. I. E Denisov and I. A. Safranchuk, writing in Russian Law and Politics,[324] say that it is an example of an "an issue on which there is no consensus" being placed on the agenda and possibly remaining there "for an indefinite period of time – until general agreement emerges".

Free trade is not mentioned in the 2017 SCO official communications. Instead, both the official press release and the press briefing by the SCO Secretary-General[325] welcome the "One Belt, One Road" initiative and praised the "results" of the 14-15 May "Belt and Road Forum for International Cooperation".[326]

Some observers, such as Chen Chunlai of the ANU, have regarded the Chinese push for a SCO free trade area as essentially a counter-measure to the proposed Trans-Pacific Partnership (TPP).[327] If so, the recent abandonment of the TPP by the Trump Administration in the US may have caused China to put less emphasis on the SCO – at least in terms of a possible free trade agreement – and more on alternative multi-lateral agreements that also involve countries outside of the SCO.

Just as importantly, the absence of a "free trade" reference in the 2017 official commentary reflects the fact that China appears to be feeling increasingly confident about what can be achieved with its Belt and Road – without, if necessary, the formal or informal support of other SCO members.

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[322] Press release on the results of the Shanghai Cooperation Organisation Heads of State Council Meeting, 9 June 2017 http://eng.sectsco.org/news/20170609/289274.html

[323] Speech by Premier Li Keqiang at the 15th Meeting of the Council of Heads of Government of the Member States of the Shanghai Cooperation Organization, 3 November 2016, Bishkek http://english.gov.cn/premier/news/2016/11/04/content_281475482644898.htm

[324] I. E Denisov and I. A. Safranchuk, "Four Problems of the SCO in Connection with Its Enlargement", Russian Politics and Law, vol. 54, nos. 5–6, 2016, pp. 494–515, 2016 http://www.tandfonline.com/doi/abs/10.1080/10611940.2016.1296304?journalCode=mrup20

[325] http://eng.sectsco.org/news/20170609/290249.html

[326] The use of the two terms "One Belt, One Road" Initiative and "Belt and Road" Forum for International Cooperation" is perhaps interesting because it reflects the way the initial Chinese concept has changed over time. However, it is also true that the term "One Belt, One Road" continues to be used in China.

[327] Author interview with Chen Chunlai, Crawford School of Public Policy, Canberra, March 2017.

Muratbek Imanaliev says that "one has the impression that certain member states are slowly but surely losing interest in the SCO and are reluctant to look for new ways to develop it".[328]

3. The Effect of New Members (India and Pakistan)

In his interview with Kommersant, Bakhtiyor Khakimov specifically mentioned that the fact that the official languages of the SCO were Russian and Chinese and that this this situation will not change. While English will be used informally, in the view of this author at some stage India and Pakistan will insist to add English.[329]

From Russia's point of view the addition of India, largely pushed by it on the basis that the "inclusion of such an important continental power will only increase the weight of the SCO",[330] will help keep China in check. China eventually agreed provided that Pakistan was also invited to join.

Dmitri Trenin has written that the inclusion of India and Pakistan "makes sense for Russia as it seeks to position itself in the geopolitical context of Greater Eurasia". "Moscow's strategic goal is to embed China in a web of friendly arrangements and thus to alleviate Beijing's propensity to act unilaterally."[331]

However, there is a danger – and in the view of this author a high probability – that the China-India and Pakistan-India territorial (and power) disputes will tear at the inside of the SCO and make it less relevant than it already is. As Gabuev notes. "no one can imagine how New Delhi and Pakistan will exchange intelligence on terrorist groups"[332] because of their differing views of who is a terrorist.

China has not been keen on the expansion, and some of its analysts have referred to the experience of the European Union which expanded so much that the original founders have lost much of their influence over the grouping.[333]

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[328] Muratbek Imanaliev, "What Is the Future of the SCO?", Valdai Discussion Club, 16 June 2017 http://valdaiclub.com/a/highlights/what-is-the-future-of-the-sco/

[329] Михаил Коростиков и Елена Черненко (Mikhail Korostikov and Elena Chernenko), "Членство в ШОС не приглашение на чай" ("Membership in the SCO is not an invitation to tea"), Kommersant, 4 April 2017, http://www.kommersant.ru/doc/3275166

[330] Александр Габуев (Alexander Gabuev) , "Больше, да хуже. Как Россия превратила ШОС в клуб без интересов" ("More, yes, worse. How Russia transformed the SCO into a club without interests"), Carnegie Center Moscow, 13 June 2017 http://carnegie.ru/commentary/?fa=71212&mkt_tok=eyJpIjoiTVRVNE5tVmtPVEJtTkRNdyIsInQiOiJqUktCNnBsekRtOFhpTkI4cGhNdWhKZ0lIN05yV1ZQSU9UYWszUjRoUnRBaDdaZ1AwK2RHOGlvQkV0ZlM1a1poc0ZwbzJhSDllT1lUSEVzNjdDYk1wYjRVaVhZcnRIOGJxc3J5MVlHMEJFczBxUnJzV25LNkZrS3lwSzNUZzFsZSJ9

[331] "Shanghai Cooperation Organization at Crossroads: Views From Moscow, Beijing and New Delhi', Carnegie Moscow Center, 9 June 2017 http://carnegie.ru/commentary/71205?mkt_tok=eyJpIjoiTVRJell6TmlZV00zWWpBNSIsInQiOiJQZkQ0WWhsQllEbmZhMDNmMU5WVFVPM1ptNE9ZODJyOElDc2ZtT0k2UmowR1JNcXJtdjYrK0pcL0ZNTmwyZitNcE9oQ3N2YkZKcHdpZlhtdEpEWlVoN3M1NTkybUx3YU9MejJPTllFaldRVlg2N1dqbUY3UW9PSjRLWFd6elJjZ3EifQ%3D%3D

[332] Александр Габуев (Alexander Gabuev) , "Больше, да хуже. Как Россия превратила ШОС в клуб без интересов" ("More, yes, worse. How Russia transformed the SCO into a club without interests"), Carnegie Center Moscow, 13 June 2017 http://carnegie.ru/commentary/?fa=71212&mkt_tok=eyJpIjoiTVRVNE5tVmtPVEJtTkRNdyIsInQiOiJqUktCNnBsekRtOFhpTkI4cGhNdWhKZ0lIN05yV1ZQSU9UYWszUjRoUnRBaDdaZ1AwK2RHOGlvQkV0ZlM1a1poc0ZwbzJhSDllT1lUSEVzNjdDYk1wYjRVaVhZcnRIOGJxc3J5MVlHMEJFczBxUnJzV25LNkZrS3lwSzNUZzFsZSJ9

[333] Russian International Affairs Council, Report, "Russian-Chinese Dialogue: the 2016 Model", 25/2016 http://russiancouncil.ru/en/inner/?id_4=7733#top-content

Denisov and Safranchuk argue that China tends to see the SCO as an authoritative "regional organization" aimed at "stability and security in the Central Asian region", whereas Russia is wary of the "Asian format" for Central Asia (ie its historical backyard) and tends to see the SCO as part of a new "international architecture".[334] For Russia, the expanded SCO is "a crucial geopolitical instrument that challenges the global order led by the West"[335] and a part of is Greater Eurasia concept.

Denisov and Safranchuk suggest that the Chinese viewed the possible inclusion of Pakistan and India as an example of an item being placed on the SCO agenda in spite of no-consensus – as was the case with the SCO Development Bank – but not expected to go further than this. They "have the impression that the Chinese side has understood the Ufa declaration of 2015, which envisioned the start of the procedure for the admission of India and Pakistan, not as the beginning of a process with a precisely known result in the form of the admission of these two countries, but as the appearance on the agenda of an issue on which there is no consensus and that cannot be finally settled until consensus is achieved".[336]

However, they argue that both "the majority of SCO member states" as well as India and Pakistan viewed the issue as being settled, subject only to formalities. China was thus left in the difficult position of either accepting the enlargement or undermining the authority of the SCO.[337]

Yan Xuetong says that China had "resisted the expansion for many years, but at some point this resistance in itself began to worsen its relations with Russia and India".[338] He argues that the SCO has now been "murdered". The view of Muratbek Imanaliev is less severe, but he still says that the accession of Pakistan and India will "weaken the already inefficient organizational, logistic and administrative structure and ultimately turn the SCO into a conference of heads of state".[339]

But, in the view of this author, this may ultimately be in China's interests. Realizing that the SCO had nowhere to go with its current membership make-up and wishing to promote the alternative attributes of the SREB in any way possible it made sense for China to ultimately agree to the expansion.

Despite the odds against it, in November 2016 Chinese Premier Li Keqiang again raised the issue of a SCO free trade agreement.[340] However, by this time it may have become little more than lip-service and another way of promoting China's general SREB agenda.

The other SCO members have had various attitudes to the possible membership expansion. According to Adil Kaukenov, a Kazakh political analyst, Kazakhstan hopes for an "injection of Indian capital in the development of infrastructure and energy."[341]

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[334] I. E Denisov and I. A. Safranchuk, "Four Problems of the SCO in Connection with Its Enlargement", Russian Politics and Law, vol. 54, nos. 5–6, 2016, pp. 494–515, 2016
http://www.tandfonline.com/doi/abs/10.1080/10611940.2016.1296304?journalCode=mrup20

[335] Russian-Chinese Dialogue: the 2017 Model", RIAC Report 33/2017
http://russiancouncil.ru/papers/Russia-China-Report33-En-Preprint.pdf

[336] I. E Denisov and I. A. Safranchuk, "Four Problems of the SCO in Connection with Its Enlargement", Russian Politics and Law, vol. 54, nos. 5–6, 2016, pp. 494–515, 2016
http://www.tandfonline.com/doi/abs/10.1080/10611940.2016.1296304?journalCode=mrup20

[337] I. E Denisov and I. A. Safranchuk, "Four Problems of the SCO in Connection with Its Enlargement", Russian Politics and Law, vol. 54, nos. 5–6, 2016, pp. 494–515, 2016
http://www.tandfonline.com/doi/abs/10.1080/10611940.2016.1296304?journalCode=mrup20

[338] Yan Xuetong, "Не понимаю, почему Россия не настаивает на формировании альянса с Китаем" ("I do not understand why Russia does not insist on forming an alliance with China"), Kommersant, 17 March 2017
http://www.kommersant.ru/doc/3243633

[339] Muratbek Imanaliev, "What Is the Future of the SCO?", Valdai Discussion Club, 16 June 2017
http://valdaiclub.com/a/highlights/what-is-the-future-of-the-sco/

[340] "Li promotes SCO development bank and free trade", China Daily, 4 November 2016
http://www.china.org.cn/business/2016-11/04/content_39632574.htm

[341] Galiya Ibragimova, "What are the implications of India's and Pakistan's accession to the SCO?", Russia Direct, 13 July 2015 http://www.russia-direct.org/debates/what-are-implications-indias-and-pakistans-accession-sco

Abdugani Mamadazimov, Chairman of the Association of Political Scientists of the Republic of Tajikistan, says: **"**Tajikistan sees SCO membership of India and Pakistan, and potentially Iran, as a possible means to solve the Afghan problem. Cooperation under the SCO between these three major countries on Afghanistan's borders could expedite the process of an Afghan settlement: Afghanistan will be surrounded by a powerful regional association with common values and approaches to resolving issues. Over the next ten years the SCO will intensify its peacekeeping activity across the whole organization."[342]

The motives of Pakistan and India may differ from each other. The China-Pakistan Economic Corridor aspect of the SREB[343] promises to bring great benefits to Pakistan, and China pushed its SCO membership if India was to become a member.

As for India, Nandan Unnikrishnan, Vice President of the Observer Research Foundation in Delhi, says: "There are two or more views in the Indian strategic community on the question of SCO membership. The most widespread is, firstly, that India should join the SCO because it is a body that could play an important role in stabilizing the security situation in the region given the drawdown of U.S.-led international forces. Also, that SCO membership will help India raise its profile in Central Asia and ease its participation in development projects."

A second view, according to Unnikrishna, is that "SCO membership does not really confer on India any advantages. China and Russia, which lead the SCO, are currently in anti-West mode. India is being allowed to join the SCO to mask this. Also that China will not permit India to get any significant economic benefits from joining the SCO."

Moreover, it is argued, "China has dropped its opposition to India's membership because it has lost interest in the SCO and is pursuing its agenda independently through bilateral contacts and the (SREB aspect of) OBOR project. Therefore, there is no real benefit for India as China is the driving force in the SCO."[344]

Then there is the issue of possible Iranian membership of the SCO. "The Russian position is clear in its support of initiating the SCO admission process (for Iran) without delays, if possible," said Russian envoy to the SCO, Bakhtiyor Khakimov.[345] However, having already been pushed to accept India and Pakistan, China seems weary of the SCO and in no hurry to continue the membership expansion.[346]

There is also the more theoretical issue of just how far the SCO net could be spread. Article 13 of the charter states that "the SCO shall be open to accession by other states of the region, which shall be obliged to comply with the goals and principles of this Charter and also with the provisions of other international treaties and documents adopted within the framework of the SCO".[347] Nowhere, however, does the document define "the region".

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[342] Galiya Ibragimova, "What are the implications of India's and Pakistan's accession to the SCO?", Russia Direct, 13 July 2015 http://www.russia-direct.org/debates/what-are-implications-indias-and-pakistans-accession-sco

[343] In fact, as shall be discussed later, the China-Pakistan Economic Corridor was initially officially identified as "closely related" to "One Belt, One Road", but seems to now – unofficially at least – become a "flagship projectd".

[344] Galiya Ibragimova, "What are the implications of India's and Pakistan's accession to the SCO?", Russia Direct, 13 July 2015 http://www.russia-direct.org/debates/what-are-implications-indias-and-pakistans-accession-sco

[345] Reuters, "China-led bloc keeps Iran at arm's length despite Russian backing", 23 June 2016 http://www.reuters.com/article/us-uzbekistan-sco-idUSKCN0Z9213

[346] Reuters, "China-led bloc keeps Iran at arm's length despite Russian backing", 23 June 2016 http://www.reuters.com/article/us-uzbekistan-sco-idUSKCN0Z9213

[347] I. E Denisov and I. A. Safranchuk, "Four Problems of the SCO in Connection with Its Enlargement", Russian Politics and Law, vol. 54, nos. 5–6, 2016, pp. 494–515, 2016 http://www.tandfonline.com/doi/abs/10.1080/10611940.2016.1296304?journalCode=mrup20

Overall, in the opinion of this author, it is very difficult to agree with Vladimir Putin who claimed at the June 2017 Astana SCO Summit that "the expansion of the SCO membership will make the organization more powerful and influential in the political, economic and humanitarian fields".[348]

Chinese media reported that Xi Jinping, when meeting with Putin, seemed to offer support saying that the SCO should "enhance its influence in global and regional affairs".[349] In the view of this author, it is possible that Xi's enthusiasm may be related to the fact that after the Astana Summit, China assumed the rotating presidency of the SCO. Gabuev is probably right when he writes: "SCO headquarters are located in Beijing, and the organization has Shanghai in its name—it's a big enough symbolic trophy to keep China pleased.[350]

Part F: "Belt and Road" Initiative

1. What is the Silk Road Economic Belt (SREB)?

Here, the focus is actually attempting to understand what the SREB is. The reality is that it is a nebulous concept – or slogan – which would be unimportant if not backed by the economic power of China. This chapter is perhaps unusual in that it examines the reasons for the SREB part of Belt and Road[351] before it looks at the "official" statement of what Belt and Road is. This is because the official statement was only released one and a half years after the idea was first announced; that is, it took 18 months for Chinese bureaucrats to devise a story (or, compile a list of things) regarding the initiative. In the view of this author, the "official" view is of secondary importance to the evolving Chinese view of what can be done to take maximum advantage the Belt and Road concept/slogan.

(a) *Reasons for the "Initiative"*

The term "Silk Roads" seems to have been coined in the late 19th century to describe ancient trade route networks that linked eastern Asia to the Middle East and eventually to Europe. There were both land and maritime routes which intersected with each other, and the name derived from the great importance of silk in that trade. In the late 15th century the usefulness of these networks was reduced because sailors had learnt that is was possible to travel directly by sea between Europe and Asia by sailing way south in the Atlantic Ocean to the bottom Africa and then north again toward the Indian sub-continent and eastern Asia. Thus there was less need for more cumbersome (and lower capacity) land transport.

The idea of the restoration of the ancient "Silk Road" to China was not new, but for the first time at the official level an initiative was launched in September 2013 by President Xi Jinping during a visit to

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[348] "Putin Predicts SCO Gaining More Influence as India, Pakistan Join Bloc", 9 June 2017 https://sputniknews.com/politics/201706091054480341-putin-sco-pakistan-india/

[349] An Baijie, "Xi: China, Russia should enhance ties, boost role of SCO", China Daily, 9 June 2017 http://www.chinadaily.com.cn/world/2017xivisitskazakhstan/2017-06/09/content_29683124.htm

[350] Shanghai Cooperation Organization at Crossroads: Views From Moscow, Beijing and New Delhi', Carnegie Moscow Center, 9 June 2017 http://carnegie.ru/commentary/71205?mkt_tok=eyJpIjoiTVRJell6TmlZV00zWWpBNSIsInQiOiJQZkQ0WWhsQllEbmZhMDNmMU5WVFVPM1ptNE9ZODJyOElDc2ZtT0k2UmowR1JNcXJtdjYrK0pcL0ZNTmwyZitNcE9oQ3N2YkZKcHdpZlhtdEpEWlVoN3M1NTkybUx3YU9MejJPTllFaldRVlg2N1dqbUY3UW9PSjRLWFd6elJjZ3EifQ%3D%3D

[351] The "One Belt, One Road" Initiative, "Belt and Road" Initiative, "BRI", and "B&R" essentially describe the same thing. However, there has been a subtle change in the way China has presented the "initiative" since it was initially raised in 2013 and this may possibly mean that some of the quoted material by various analysts etc would have been different if they had known of later developments. Thus, when quoting I have used the terminology originally included in the quote. Otherwise I use the "Belt and Road" term. In Chinese it is still referred to as "yidai yilu" which literally means "one belt one road".

Kazakhstan. His speech in Astana on "Development of Peoples' Friendship for a wonderful future" proposed the construction of a new "Silk Road Economic Belt" (SREB). Later, in the same year during a visit to Indonesia, he expanded it to include a "Marine Silk Road of the 21st century" (MSR). These two proposals together became known as the "One Belt, One Road" initiative (and now, at least in English, as "Belt and Road").

It was only later, on 28 March 2015 – 18 months after President Xi's September 2013 speech – that China published an official document, "Vision and action aimed at promoting the joint construction project of the Economic zone of the Silk route and Maritime Silk Road of the 21st century",[352] that gave a detailed idea of what it actually was all about.

Xin Zhang has given this extended description of the development process of the Belt and Road:

"The creation and promotion of the initiative was developed in more of a 'muddling-through' mode, in which momentum was injected only step by step, and the official policy only became substantiated gradually. Initially the 2013 announcement of the SREB by President Xi Jinping caught policy circles both inside and outside China off guard. Indeed, the decision to launch the OBOR initiative was made in a highly centralized fashion, without much prior consultation with expert circles in China. One of the consequence of such style of decision-making is that after the original announcement, various think tanks, research institutes within the state apparatus, and government agencies were all scratching their heads to quickly fill in the details of the grandiose but extremely vague initiative full of big concepts. In a very similar fashion, after the implementation of the OBOR began, central economic bureaucrats had to "move" existing projects that are not related to OBOR and regroup them under the umbrella of the Silk Road initiatives. It also took a lot of internal turf-war and heated debate among various bureaucratic organs in the central government to gradually fill in the details of the program, which is still being further substantiated on the implementation level." "The initiative was, at first, presented mostly as a network of regional infrastructure projects. Only after the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce jointly released the 'Action Plan on the Principles, Framework, and Cooperation Priorities and Mechanisms in the Belt and Road Initiative on 28 March 2015' (to be discussed in the next section), it became clear that the scope of this initiative from the perspective of the Chinese state goes beyond just infrastructural build-up."[353]

In the view of his author, the "Vision and action" document reads more like a wish list than an analysis of reasons for the Xi announcements.

Despite this, according to Xin Zhang, "after the OBOR was released, both central official media and regional media together with all kinds of research institutes and universities have within a very short period of time produced a huge number of books, movies, documentaries, and exhibitions that are intended to revitalize the interest of the general public and win endorsement for historical Silk Roads and their modern day relevance."[354]

When this author was in China in early 2016, he found that almost every university or think-tank organization that he had contact with claimed to have expertise on OBOR issues and to be "officially" sanctioned to give advice about it.

Zhang Dongdong, of the Australian National University, agrees with Xin Zhang about the evolving nature of the initiative. It has changed from a mainly regional infrastructure and market access project to a "global" effort, and Chinese officials now insist that it be called "Belt and Road" in English in

[352] "Экономического пояса Шелкового пути" и "Морского Шелкового пути 21-го века" ("Economic belt of the Silk Road" and "Sea Silk Road of the 21st century") http://ru.chineseembassy.org/chn/eyxxs/t1257322.htm

[353] Xin Zhang, "Chinses Capitalism and the New Silk Roads", Aspen Institute, Prague, April 2016 http://www.aspeninstitute.cz/en/article/4-2016-chinese-capitalism-and-the-new-silk-roads/

[354] Xin Zhang, "Chinese Capitalism and the New Silk Roads", Aspen Institute, Prague, April 2016 http://www.aspeninstitute.cz/en/article/4-2016-chinese-capitalism-and-the-new-silk-roads/

order "to avoid any narrow geographical connotation".[355] Thus, the Belt and Road terminology attaches to any countries willing "to sign up with China for strengthening the five types of connectivity": that is, policy communication to help align development strategies, policies and regulations; facilities connectivity via major transport routes across Eurasia; unimpeded trade (and investment); financial integration, including greater use of local currencies in trade; people-to-people bonds".

Officially, Belt and Road is the result of the policy of openness to the outside world, initially proclaimed by Deng Xiaoping 1978 and is described by the Chinese government as the third round of this openness policy implementation after the development of special economic zones (SEZ) and China's accession to the World Trade Organization in 2001. With the OBOR initiative, China expressed a need to increase openness to the outside world and strengthen mutually beneficial cooperation.[356]

According to many observers, Belt and Road is "personal to President Xi" who regards is "as the signature foreign policy theme of his leadership tenure and the practical embodiment of his 'China Dream' for promoting national rejuvenation and cementing the country's place as a leading world power".[357] In Xi's own words published in the officially produced "The Governance of China" book, "realizing the great renewal of the Chinese nation is the greatest dream in modern history".[358] That is, "to build China as a moderately prosperous society by 2021 when the Communist Party of China marks its centenary, and to make China a wealthy nation by 2049 and when the People's Republic of China marks it's centenary."[359]

In practical terms, Zhao Hong says that Belt and Road is "open and flexible",[360] and quotes Shi Yin Hong as saying: "OBOR does not seek to build a unified institutional arrangement, it does not require any sovereign alienation, nor does it produce strategic military presence".[361] Kerry Brown and He Jingjing make the same point, and emphasis the "philosophical aspect of OBOR" and "its lack of an institutional structure". In their view, "China is seeking to work within existing international systems, not outside them".[362] PwC have described Belt and Road as "more a vision expressing China's grand ambitions rather than a practical implementation plan".[363]

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[355] Zhang Dongdong, "The Making and Implementation of the Belt and Road Policy", Crawford School of Public Policy, ANU, Paper No.126
http://www.eaber.org/system/tdf/documents/EABER%20Working%20Paper%20126%20Zhang.pdf?file=1&type=node&id=25995&force=

[356] "Прекрасные перспективы и практические действия по совместному созданию экономического пояса шелкового пути и морского шелкового пути XXI века." ("Excellent prospects and practical actions for the joint creation of the economic belt of the Silk Road and the Silk Road of the XXI century")
http://www.fmprc.gov.cn/rus/zxxx/t1254925.shtml

[357] Christopher K. Johnson, "President Xi Jinping's 'Belt and Road' Initiative", CSIS, March 2016
http://www.thinkchina.ku.dk/documents/160328_Johnson_PresidentXiJinping_Web.pdf

[358] Benjamin Carlson, "The World According to Xi Jinping", The Atlantic, 21 September 2015
https://www.theatlantic.com/international/archive/2015/09/xi-jinping-china-book-chinese-dream/406387/

[359] Zhang Dongdong, "The Making and Implementation of the Belt and Road Policy", Crawford School of Public Policy, ANU, Paper No.126
http://www.eaber.org/system/tdf/documents/EABER%20Working%20Paper%20126%20Zhang.pdf?file=1&type=node&id=25995&force=

[360] Zhao Hong, "China's One Belt One Road: An Overview of the Debate", ISEAS-Yusof Ishak Institute, 2016 No. 6 https://www.iseas.edu.sg/images/pdf/TRS6_16.pdf

[361] Shi Yinhong, "One belt one road: wish for caution", World Economy and Politics, no. 7, 2015

[362] Kerry Brown and He Jingjing, "Making Sense of China's 'One Belt, One Road': Understanding Chinese Views", China Briefing, 21 April 2016.
http://www.china-briefing.com/news/2016/04/21/making-sense-chinas-one-belt-one-road-understanding-chinese-views.html

[363] "China's new silk route: the long and winding road", PwC's Growth Markets, Center, February 2016
https://www.pwc.com/gx/en/growth-markets-center/assets/pdf/china-new-silk-route.pdf

In the view of this author, we can conclude that Belt and Road is a list of projects or things to do which have been almost emotionally connected to an idea about China and its increasingly important place in the world. Whether or not such an approach to national policy formulation brings success when implemented depends on the original quality of the emotion, the presence of underlying rational reasons for it to exist, and the actual (almost daily) work done to make it all happen.

This book is concentrated on the underlying rationality of SREB (and Belt and Road); and, as might be expected, different people have expressed differing views on this.

As indicated earlier in this book, some observers have seen the SREB aspect of Belt and Road as in part a reaction to Russia's refusal to countenance a free trade area within the SCO. According to a RIAC report, "at first Beijing attempted to realize its interests via the SCO, and the projects to create a 'free trade zone' undertaken by this organization pursued that particular goal. Subsequently, Beijing integrated these interests in the comprehensive SREB project".[364] However, Denisov and Safranchuk, writing in 2016, say that "most Chinese experts either reject this argument or only partly agree with it".[365]

Whatever the actual influence of Russian rejection of a SCO free trade area, in the view of this author the trade issue is now bigger than it was with the SCO. Moreover, as noted earlier, free trade does not get a mention in official documents and commentary associated with the June 2017 SCO Summit in Astana.

There are other factors at play. The influence of the Trans-Pacific Partnership (TPP) on Chinese policies toward the SCO has already been discussed. Peter Cai of the Lowy Institute for International Policy, says that "one counselor at the State Council of the Chinese Government, Tang Min, noted that China and many emerging economies had been locked out of the US-led TPP and these countries needed a 'third pole', namely OBOR".[366]

Such views would seem to have some accord with the earlier discussed ideas of Russia's Karaganov and the formation of "geopolitical macro-blocs" in the world, such as the suggested "Community of Greater Eurasia". However, as already noted earlier, China has little interest in the sort of bloc that Karaganov and others advocate, and the "pole" mentioned by Tang Min maybe more of an intellectual rallying point than an organization.

Then there is the much vaunted US military pivot to Asia by the Obama administration, which is seen by some analysts as a reason for the creation of Belt and Road. Peter Cai mentions Justin Yifu Lin, former chief economist of the World Bank, as having this view. In the view of this author, there can be no doubt that this was a factor. However, as already noted, the original OBOR project has evolved so much – and become so "global"[367] in ambition and termed "Belt and Road" – that the influence of the US military pivot reason has become second-ranking in nature.

Other commentators emphasise the importance of internal Chinese issues and thinking rather than reactions to external events.

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[364] Russian International Affairs Council, Working Paper, "Prospects for Russian-Chinese Cooperation in Central Asia", 28/2016 http://russiancouncil.ru/en/inner/?id_4=7724#top-content

[365] I. E Denisov and I. A. Safranchuk , "Four Problems of the SCO in Connection with Its Enlargement", Russian Politics and Law, vol. 54, nos. 5–6, 2016, pp. 494–515, 2016 http://www.tandfonline.com/doi/abs/10.1080/10611940.2016.1296304?journalCode=mrup20

[366] Peter Cai, "Understanding the Belt and Road Initiative", Lowy Institute for International Policy, March 2017 https://www.lowyinstitute.org/publications/understanding-belt-and-road-initiative

[367] The list of the 28 "heads of state and government leaders" attending the 14-15 May 2017 "Belt and Road Forum for International Cooperation" in Beijing is striking both for the presence of European and South American countries (Argentina and Chile) which have no possible direct connect to either the SREB or the Maritime Silk Road of the 21st Century. See: http://news.xinhuanet.com/english/2017-04/18/c_136217663.htm

Christopher K. Johnson and Raffaello Pantucci suggest a very domestic imperative, which the former saying that "at its most basic level", the SREB is being promoted as "the solution" to China's "chronically underperforming (internal and western) regions by integrating them into a holistic, externally oriented development program."[368]

Indeed, Pantucci says that "to understand the SREB in its proper context, it is important to first understand Xinjiang"[369] which is located on China's western border with Central Asia. Occupying about 15% of China, it has significant energy resources. While its population is sparse at about 1.5% of China's total, it is home to the Uighurs, whose Turkic language is combined with a Muslim religion. Xinjiang was incorporated into China in 1949, and the subsequent movement of Han Chinese into the region has led to continual communal tensions. Since 2010, China has tried to use economic development ("leapfrog development"[370]) as well as direct security measures to achieve greater stability in Xinjiang.

There are also Uighurs in various parts of Uzbekistan, Kyrgyzstan and Kazakhstan who have links with those in Xinjiang. This means that the Xinjiang security problem also extends to activities outside of China's borders. Xinjiang is seen as vital for combating the "three evil forces" of "separatism, terrorism and extremism", and to achieve the "China Dream" of "national rejuvenation".

Pantucci suggests that the approach to Xinjiang was rather piecemeal until 2013 when Xi Jinping laid out his SREB vision. He says that the SREB now has "huge implications across the west of the country" as various provinces seek to be part of it, and that "from an initial vision that seemed focused on Xinjiang development through Central Asia it has now become something that spans the Eurasian landmass".

In the view of Xin Zhang of the Aspen Institute, the main driving force is the pressure from "over-accumulation". Since 2012 Chinese officials have been talking about a "New Normal" to indicate to the Chinese public that very high rates of economic growth driven overwhelmingly by manufacturing and construction in the old way are no longer feasible. More recently the Chinese government has, in a similar vein, also been actively advocating "production capacity cooperation" to various international partners (e.g. mainly the Central Asian countries), in the hope to resolve the overproduction problem through intensified international cooperation."[371] Junhua Zhang also attributes Belt and Road to attempts to solve production overcapacity in many Chinese sectors by developing new markets along the SREB.[372]

But David Dollar, of the Brookings Institution and a former World Bank Director for China, has written that "the thinking in China that these initiatives (OBOR and the Asia Infrastructure Investment Bank[373]) can be a major solution to China's excess capacity problems is largely misguided. The contributions of these initiatives together make to China's demand are likely to be too small to be macro-economically meaningful".[374] He says that "the economies of Central Asia are not that large, and the potential for investment is limited".

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[368] Christopher K. Johnson, "President Xi Jinping's 'Belt and Road' Initiative", CSIS, March 2016
http://www.thinkchina.ku.dk/documents/160328_Johnson_PresidentXiJinping_Web.pdf

[369] Raffaello Pantucci, "Looking West: China and Central Asia", Testimony before the US-China Economic and Security Review Commission", 18 March 2015
http://chinaincentralasia.com/2015/04/16/looking-west-china-and-central-asia/

[370] Raffaello Pantucci, "Looking West: China and Central Asia", Testimony before the US-China Economic and Security Review Commission", 18 March 2015
http://chinaincentralasia.com/2015/04/16/looking-west-china-and-central-asia/

[371] Xin Zhang, "Chinses Capitalism and the New Silk Roads", Aspen Institute, Prague, April 2016
http://www.aspeninstitute.cz/en/article/4-2016-chinese-capitalism-and-the-new-silk-roads/

[372] Junhua Zhang, "What's driving China's One Belt, One Road initiative?", East Asia Forum, 2 September 2016
http://www.eastasiaforum.org/2016/09/02/whats-driving-chinas-one-belt-one-road-initiative/

[373] The Asian Infrastructure Investment Bank (AIIB) will be discussed later in this text.

[374] David Dollar, "China's Rise as a Regional and Global Power", Horizons, Summer 2015, No 4
https://www.brookings.edu/wp-content/uploads/2016/06/China-rise-as-regional-and-global-power.pdf

Dollar is certainly correct given the comparatively huge scale of such spending within China compared to the needs of Central Asia. Of course, the Belt and Road is now more than just about Central Asia and Peter Cai points to another possible aspect of the "excess capacity" issue.

Cai accepts that Belt and Road projects are insufficient to absorb China's "vast glut of steel and other products". Instead, he says, China wants to use it to "migrate whole production facilities"[375] to less developed countries in order to "build-up their industrial bases". In this way, "domestic economic liabilities become foreign economic and diplomatic assets". He quotes a variety of Chinese officials making this point, the most recent being the Chairman of the Silk Road Fund (SRF)[376] in a May 2016 speech. Cai says "part of this thinking is informed by China's own experience of industrialization in the 1980s and 1990s" when "China imported second-hand production lines from Germany, Taiwan and Japan".[377]

However, Cai notes that "some Chinese researchers and officials are skeptical of how successful this aspect of OBOR is likely to be".[378]

Realistically, in the view of this author, it is not only a question of absorption capacity but also one of how politically acceptable the idea is likely to be in countries that are supposed to accept such second-hand equipment which is unlikely to be as efficient or environment friendly as more modern forms of production. Very rapid developments in digital based communications and subsequent knowledge about the outside world will have reduced the general willingness of people in other countries to accept such production lines.

However, the acceptability of such transfers will probably vary from country to country and depend on the type of industry. For example, it is worth recalling the earlier discussed visit to Kyrgyzstan of the Chinese foreign minister to Bishkek when relocation of "40 or so manufacturing operations from China to Kyrgyzstan" was suggested by Kyrgyz officials.

Moreover, the early July 2017 report produced jointly by the Chongyang Institute for Financial Studies, Valdai Discussion Club, and The Kazakhstan Council of International Relations says that "within the program of relocating Chinese production facilities to the territory of Kazakhstan, 51 projects worth $US26 billion total are planned mainly in processing industries including agribusiness, mechanical engineering and processing of natural resources".[379]

What is not clear is who is doing the "planning" and how this total number is calculated. In the view of this author, such numbers need to be taken with a grain of salt!

Junhua Zhang of Shanghai Jiao Tong University, says that Belt and Road is also "a product of Chinese neo-mercantilist thinking"[380] which he says "endorses global trade and its institutions while also pursuing a government-led globalisation strategy to accumulate capital and wealth for the nation".[381]

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[375] Peter Cai, "Understanding the Belt and Road Initiative", Lowy Institute for International Policy, March 2017 https://www.lowyinstitute.org/publications/understanding-belt-and-road-initiative

[376] The Silk Road Fund will be discussed later in this text.

[377] Peter Cai, "Understanding the Belt and Road Initiative", Lowy Institute for International Policy, March 2017 https://www.lowyinstitute.org/publications/understanding-belt-and-road-initiative

[378] Peter Cai, "Understanding the Belt and Road Initiative", Lowy Institute for International Policy, March 2017 https://www.lowyinstitute.org/publications/understanding-belt-and-road-initiative

[379] Reshaping Eurasian Economic Space: Common Perspectives from China, Russia and Kazakhstan Think Tanks", Valdai Discussion Club, July 2017 http://valdaiclub.com/files/14845/

[380] Junhua Zhang, "What's driving China's One Belt, One Road initiative?", East Asia Forum, 2 September 2016 http://www.eastasiaforum.org/2016/09/02/whats-driving-chinas-one-belt-one-road-initiative/

[381] According to, Junhua Zhang "today's neo-mercantilism differs from the mercantilism of the 17th to early 20th century, when merchants were often complicit in the imperialism of the great powers in pursuit of increased political power and private wealth. Neo-mercantilism today is much more constrained, thanks to national and international

This is achieved, Zhang says, by a China's strategy that "clearly preferences state-owned enterprises (SOEs) and is focused on establishing free trade areas".

In the view of this author, Zhang makes several relevant points. One is that Belt and Road is a Chinese-state initiative rather than what might be thought of as a more "Western" orientated opening-up of foreign markets for domestic companies acting on the international stage. This is certainly the case when the word "infrastructure" is considered. However, consideration of the issue of "free trade areas" depends on how these are defined. Building a confined free trade space will presumably provide work for Chinese infrastructure development companies and provide a comfortable working environment for its occupants, but wider bi-lateral and multi-lateral free trade agreements involve much more than infrastructure projects that may benefit Chinese SOEs.

The Junhua Zhang point about Belt and Road being designed to provide "new investment options that preserve and increase the value of the capital accumulated in the last few decades"[382] would make sense if the rate of return and the risk were better than the possible alternatives. However, it is not clear that the actual and envisaged Belt and Road projects are prospectively better.

Xin Zhang says in China there is "an ongoing debate about whether it is economically rational to pour such huge amounts of money into low-return projects and high-risk countries, especially in the case of massive infrastructural projects. Similarly, to what extent will China's political investment along the SREB 'purchase' economic resources and political loyalty."[383] Peter Cai says that some Chinese policy makers are fear that the political impetus behind OBOR could drive China into investing in white elephant projects abroad. "They are worried that some countries will take advantage of OBOR and sign up to Chinese projects with no intention of repaying the loans".[384]

A mid-2016 article by James Kynge in the Financial Times, quotes Tom Miller of Gavekal Dragonomics as saying that Chinese officials privately expect to lose 30 percent of their investments in Central Asia.[385] Cai quotes "a chief investment officer from one of China's largest state-owned financial institutions" as telling him: "Where I have been ordered to invest in OBOR countries, I will allocate the minimum amount."[386]

Cai says that "one of the least understood aspects of OBOR is Beijing's desire to export China's technological and engineering standards".[387] In October 2015, China issued an "Action Plan" which aimed to "promote the wider adoption of China's technical standards" in order to simplify trade and investment "along the Road and Belt".[388]

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legal frameworks, reluctance to engage in armed conflicts, as well as a greater widespread appreciation of human rights."

[382] Junhua Zhang, "What's driving China's One Belt, One Road initiative?", East Asia Forum, 2 September 2016 http://www.eastasiaforum.org/2016/09/02/whats-driving-chinas-one-belt-one-road-initiative/

[383] Xin Zhang, "Chinese Capitalism and the New Silk Roads", Aspen Institute, Prague, April 2016 http://www.aspeninstitute.cz/en/article/4-2016-chinese-capitalism-and-the-new-silk-roads/

[384] Peter Cai, "Understanding the Belt and Road Initiative", Lowy Institute for International Policy, March 2017 https://www.lowyinstitute.org/publications/understanding-belt-and-road-initiative

[385] James Kynge, "How the Silk Road Will Be Financed," *Financial Times*, May 9, 2016, https://www.ft.com/content/e83ced94-0bd8-11e6-9456-444ab5211a2f.

[386] Peter Cai, "Understanding the Belt and Road Initiative", Lowy Institute for International Policy, March 2017 https://www.lowyinstitute.org/publications/understanding-belt-and-road-initiative

[387] Peter Cai, "Understanding the Belt and Road Initiative", Lowy Institute for International Policy, March 2017 https://www.lowyinstitute.org/publications/understanding-belt-and-road-initiative

[388] "The Action Plan for the 'Belt and Road' Standard Co-ordination 2015-17" contained guidelines for developing procedures and mechanisms for mutual certification of standards. See: Hong Kong Trade and Development Councils (HKTDC) Research http://china-trade-research.hktdc.com/business-news/article/The-Belt-and-Road-Initiative/Action-Plan-for-Harmonisation-of-Standards-Along-the-Belt-and-Road-2015-2017/obor/en/1/1X000000/1X0A443L.htm

The issue of standards, according to Cai, "must be understood in terms of China's broader ambition to become an innovation based economy and a leader in research and development". Cai quotes Ru Quan Lu, Director of Strategic Development at Petro China on the issue of investment in Central Asia: "Based on the experience of American and European energy majors, controlling standards means having an upper hand in negotiation, more bargaining chips and better profitability. To control standards is more important than anything else."[389]

Yu Bin of Wittenberg University has noted that this issued of standards has even related to railway gauges.[390] For example, the agreement for the earlier mentioned "China-Kyrgyzstan-Uzbekistan" railway line specifies the (European based) Chinese gauge rather than the wider Russian gauge.[391] There are also reports of construction of a possible Chinese gauge railway running from China to Iran which would presumably run through Kazakhstan, Uzbekistan and Turkmenistan – a development that would certainly not be welcomed by Russia!

This Chinese emphasis on standards echoes one of the arguments put forward for Russia's National Technology Initiative (NTI), in which "developing and confirming international technical standards" is seen as a way of securing economic advantage in international value-added production chains.[392] It also accords with some of the earlier discussed arguments put forward by the US for adoption of the TPP and TTIP.[393] So, it is clear that there are a number of claimants for the right to determine technological standards.

When all things are considered, PwC is certainly correct when it says that Belt and Road is "a large 'umbrella' type of initiative" consisting of a "potentially huge collection of current, planned and future infrastructure projects, accompanied by a host of bilateral and regional trade agreements".[394] Xin Zhang also uses similar language, saying that the Belt and Road initiative "soon become the 'umbrella project' for China's new economic statecraft, under which almost all other major international policies are supposed to be framed."[395]

A RIAC report says that the evidence is that China will attempt "to establish a large international economic 'niche' in Eurasia where virtually all the projects China plans in its foreign policy and foreign economic activities, from transportation to humanitarian work to tourism, could be 'nested into'."[396]

In sum, this author agrees with Zhang Dongdong when he describes Belt and Road as a "fully-fledged national strategy shaping China's development and international relations".[397] As Michael Clark of the ANU says, "geopolitics and domestic state-building imperatives" are extensively "interwoven".[398]

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[389] Peter Cai, "Understanding the Belt and Road Initiative", Lowy Institute for International Policy, March 2017 https://www.lowyinstitute.org/publications/understanding-belt-and-road-initiative

[390] Yu Bin, "China-Russia Relations: Putin's Glory and Xi's Dream", Comparative Connection, January 2016 https://csis-prod.s3.amazonaws.com/s3fs-public/legacy_files/files/publication/1303qchina_russia.pdf

[391] Ramtanu Maitra, "The Multiple Dimensions of China's 'One Belt One Road' in Uzbekistan", The Schiller Institute, February 2017 http://schillerinstitute.org/economy/phys_econ/2016/1227-obor-uzbek/ou.html

[392] Jeff Schubert, "Waiting for the High-tech Tooth-fairy", Russian Economic Reform, 28 September 2016. http://russianeconomicreform.ru/category/expert-group-5-moving-from-stimulation-of-innovation-to-growth-on-its-basis/

[393] In particular, see the earlier quoted comments of Gregor Irwin.

[394] "China's new silk route: the long and winding road", PwC's Growth Markets, Center, February 2016 https://www.pwc.com/gx/en/growth-markets-center/assets/pdf/china-new-silk-route.pdf

[395] Xin Zhang, "Chinese Capitalism and the New Silk Roads", Aspen Institute, Prague, April 2016 http://www.aspeninstitute.cz/en/article/4-2016-chinese-capitalism-and-the-new-silk-roads/

[396] Russian International Affairs Council, Working Paper, "Prospects for Russian-Chinese Cooperation in Central Asia", 28/2016 http://russiancouncil.ru/en/inner/?id_4=7724#top-content

[397] Zhang Dongdong, "The Making and Implementation of the Belt and Road Policy", Crawford School of Public Policy, ANU, Paper No.126 http://www.eaber.org/system/tdf/documents/EABER%20Working%20Paper%20126%20Zhang.pdf?file=1&type=node&id=25995&force=

(b) *Official Chinese view of the "Initiative"*

According to the internet site of the Chinese Embassy in Moscow, the "One Belt and One Road" Initiative is managed by a small group under the chairmanship of Deputy Chairman of the State Council of China. On behalf of the Chinese Government, the National Commission for Development and Reform Commission, Ministry of Commerce and Ministry of Foreign Affairs jointly modify and develop the strategy of "One Belt and One Road".

As already noted, the 28 March 2015 document, "Vision and action aimed at promoting the joint construction project of the Economic zone of the Silk route and Maritime Silk Road of the 21st century"[399] appeared one and a half years after President Xi's September 2013 speech in Astana.

The "Visions and Actions"[400] document is a long and detailed list; and in reality not much more than this! Extracts covering the main issues for this book are reproduced below, along with some commentary by this author.

"The Belt and Road Initiative aims to promote the connectivity of Asian, European and African continents and their adjacent seas, establish and strengthen partnerships among the countries along the Belt and Road, set up all-dimensional, multi-tiered and composite connectivity networks, and realize diversified, independent, balanced and sustainable development in these countries."

In the view of this author, the inclusion of Africa is this statement may reflect both the very practical issue that part of the Maritime Silk Road relates to countries and ports on this continent which border on the Indian Ocean as well as the considerable activities of Chinese companies in many parts of Africa.

The document continues:

"Facilities connectivity is a priority area for implementing the (Belt and Road) Initiative" and involves "infrastructure construction plans and technical standard systems" that "form an infrastructure network connecting all sub-regions". It "should build a unified coordination mechanism for whole-course transportation, increase connectivity of customs clearance, reloading and multimodal transport between countries, and gradually formulate of compatible and standard transport rules, so as to realize international transport facilitation" and "connectivity of energy infrastructure".

The "Visions and Action" talks about the SREB "linking China" with the Persian Gulf and the Mediterranean Sea, Southeast Asia, South Asia and the Indian Ocean. On land, the Initiative will focus on jointly building a new Eurasian Land Bridge and developing China-Mongolia-Russia, China-Central Asia-West Asia and China-Indochina Peninsula[401] economic corridors by taking advantage of international transport routes, relying on core cities along the Belt and Road and using key economic industrial parks as cooperation platforms."

The "Visions and Action" document says that the China-Pakistan Economic Corridor (CPEC) is "closely related"[402] to Belt and Road and requires "closer cooperation and greater progress." Since this

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[398] Michael Clark, "Beijing's March West: Opportunities and Challenges for China's Eurasian Pivot", Foreign Policy Research Institute, 6 January 2016 http://www.sciencedirect.com/science/article/pii/S0030438716000028

[399] "Экономического пояса Шелкового пути" и " Морского Шелкового пути 21-го века" ("Economic belt of the Silk Road "and" Sea Silk Road of the 21st century") http://ru.chineseembassy.org/chn/eyxxs/t1257322.htm

[400] Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road", Issued by the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China, with State Council authorization 28 March 2015 http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html

[401] The China-Indochina Peninsula economic corridor is not covered in this book because it is outside the "central Eurasia" space identified at the beginning.

[402] See later section in book on China-Pakistan Economic Corridor (CPEC).

document was published, however, the CPEC has been fully brought under the Belt and Road "umbrella".

The document says that countries along the Belt and Road "should promote policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds as their five major goals, and strengthen cooperation in the following key areas":

(1) Policy co-ordination;
(2) Facilities connectivity, including all kinds of infrastructure;
(3) Unimpeded trade, including work to ensure that the "WTO Trade Facilitation Agreement[403] takes effect and is implemented";
(4) Financial integration, including more efforts in building a currency stability system, investment and financing system and credit information system in Asia. We should expand the scope and scale of bilateral currency swap and settlement with other countries along the Belt and Road, open and develop the bond market in Asia, make joint efforts to establish the Asian Infrastructure Investment Bank (AIIB)[404] and BRICS New Development Bank[405], conduct negotiation among related parties on establishing Shanghai Cooperation Organization (SCO) financing institution, and set up and put into operation the Silk Road Fund (SRF)[406] as early as possible. We should strengthen practical cooperation of China-ASEAN Interbank Association[407] and SCO Interbank Association, and carry out multilateral financial cooperation in the form of syndicated loans and bank credit. We will support the efforts of governments of the countries along the Belt and Road and their companies and financial institutions with good credit-rating to issue RMB bonds. We should strengthen financial regulation cooperation, encourage the signing of MOUs on cooperation in bilateral financial regulation, and establish an efficient regulation coordination mechanism in the region. We should improve the system of risk response and crisis management, build a regional financial risk early-warning system, and create an exchange and cooperation mechanism of addressing cross-border risks and crisis. We should increase cross-border exchange and cooperation between credit investigation regulators, credit investigation institutions and credit rating institutions. We should give full play to the role of the Silk Road Fund and that of sovereign wealth funds of countries along the Belt and Road, and encourage commercial equity investment funds and private funds to participate in the construction of key projects of the Initiative.
(5) People-to-people bonds.

The "financial integration" goal lists many specific items with, it seems, almost any reasonable sounding idea included to garner international support. It is also possible to detect China's ambitions for international usage of its own currency, the RMB.

The "Visions and Action" document says, the Belt and Road initiative "should lower non-tariff barriers" and "should speed up investment facilitation, eliminate investment barriers, and push forward negotiations on bilateral investment protection agreements and double taxation avoidance agreements to protect the lawful rights and interests of investors". It "should improve the division of labor and distribution of industrial chains by encouraging the entire industrial chain and related industries to develop in concert; establish R&D, production and marketing systems". It "should increase cooperation in conserving eco-environment, protecting biodiversity, and tackling climate change".

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[403] The WTO Trade Facilitation Agreement (TFA) contains provisions for expediting the movement, release and clearance of goods, including goods in transit. It also sets out measures for effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues. It further contains provisions for technical assistance and capacity building in this area. See: https://www.wto.org/english/tratop_e/tradfa_e/tradfa_e.htm

[404] See later section in book on Asian Infrastructure Investment Bank (AIIB)

[405] See later section in this text.

[406] See later section in book on the Silk Road Fund (SRF)

[407] Not covered in this book.

In the view of this author, it is hard to find any sort of economic policy that is not included in these lists.

The "Visions and Action" document continues: "We should make good use of Xinjiang's geographic advantages and its role as a window of westward opening-up" and "should give full play to Inner Mongolia's proximity to Mongolia and Russia, improve the railway links connecting Heilongjiang Province with Russia and the regional railway network, strengthen cooperation between China's Heilongjiang, Jilin and Liaoning provinces and Russia's Far East region on sea-land multi-modal transport, and advance the construction of an Eurasian high-speed transport corridor linking Beijing and Moscow with the goal of building key windows opening to the north."

These words will be of some comfort to Moscow because, as will be noted later in this text, it is possible to envisage that the SREB could totally avoid Russia if the Chinese authorities choose to do so. However, as also noted earlier, China (and President Xi) has been at great pains to assure Russia that the SREB will not be to its disadvantage.

The "Visions and Actions" says that "the Chinese government will integrate its domestic resources to provide stronger policy support for the Initiative. It will facilitate the establishment of the AIIB. China has proposed the Silk Road Fund, and the investment function of the China-Eurasia Economic Cooperation Fund[408] will be reinforced. We will encourage bank card clearing institutions to conduct cross-border clearing operations, and payment institutions to conduct cross-border payment business. We will actively promote investment and trade facilitation, and accelerate the reform of integrated regional customs clearance."

It is noteworthy that in the above paragraph the Asian Infrastructure Investment Bank (AIIB) – to be discussed later in this text – is explicitly linked to Belt and Road.

As can be seen, the "Visions and Actions" document is extremely wide in its scope. However, it also lacks depth. Despite the "Visions and Actions" document's very broad wish list, Zhao Hong of the ISEAS Yusof Ishak Institute notes that Belt and Road "details are still scarce" regarding actual implementation and a "concrete top-level design is still lacking". "This", he says, "has led scholars and the mass media to inject more information than can be found in officially published sources."[409]

The official Chinese view was further elaborated on in a document prepared for the 14-15 May 2017 Belt and Road Summit in Beijing. Entitled "Building the Belt and Road: Concept, Practice and China's Contribution", it was released by the "Office of the Leading Group for the Belt and Road Initiative".[410] The document is said to contain the Chinese proposed "top-level design" and set out "a grand blueprint for building the Belt and Road".

However, in the view of this author, the May 2017 document does not greatly add to the public knowledge that was contained in the above discussed March 2015 document, except to explicitly name a greater number of countries and – as will be discussed later – give further indications about which countries are most important for China and its Belt and Road.

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[408] Set-up in 2014, the China-Eurasian Economic Cooperation Fund (CEF) is described as an "important equity investment vehicle for further realizing the strategic vision of the Belt and Road Initiative. With an "initial" size of $US1 billion, the "CEF's mission is to deepen economic cooperation in the Shanghai Cooperation Organization (SCO) region, advance development along the Silk Road Economic Belt and raise the level of economic cooperation between China and Eurasian countries" "CEF targets projects and companies by applying specialized financial instruments as common stock, preferred stock, convertible bond, mezzanine financing, bridge financing and senior bond, etc." Apart from this, little information seems to be available. See: http://en.ceecf.com.cn/

[409] Zhao Hong, "China's One Belt, One Road: An Overview of the Debate", ISEAS – Yusof Ishak Institute, 2016 No.6 https://www.iseas.edu.sg/images/pdf/TRS6_16.pdf

[410] "Building the Belt and Road: Concept, Practice and China's Contribution", Office of the Leading Group for Belt and Road Initiative, China, May 2017
http://www.brfmc.org/en/#zlzx
https://eng.yidaiyilu.gov.cn/zchj/qwfb/12731.htm
https://eng.yidaiyilu.gov.cn/wcm.files/upload/CMSydylyw/201705/201705110537027.pdf

This widening of geographical scope, and change in terminology has been done without resolving some very basic issues about what Belt and Road actually is. Igor Denisov points out that there are no clear "official maps".[411]

According to the May 2017 document, "as of the end of 2016, more than 100 countries have expressed their support and willingness to participate in the initiative. China has signed 46 cooperation agreements with 39 countries and international organizations."

It says that China has "has established a leading group on the initiative, whose office has been set up under the National Development and Reform Commission" to "implement" cooperation agreements. "Following the principle of reaching consensus through consultation, China works with the countries with which it has signed MOUs in preparing bilateral cooperation plans. It has formulated and signed the outline of the plan on establishing the China-Mongolia-Russia Economic Corridor, and cooperation documents with Kazakhstan, Belarus, and Czech Republic. China is also working to dovetail the initiative with the plans of Laos, Cambodia, Bangladesh, Tajikistan, Saudi Arabia, Poland, Hungary and other countries."

"China has determined five routes for the Belt and Road. The Silk Road Economic Belt has three routes: one from Northwest China and Northeast China to Europe and the Baltic Sea via Central Asia and Russia; one from Northwest China to the Persian Gulf and the Mediterranean Sea, passing through Central Asia and West Asia; and one from Southwest China through the Indochina Peninsula to the Indian Ocean."

"Based on the above five routes, and the focus of cooperation and spatial distribution for building the Belt and Road, China has proposed a framework including six corridors, six means of communication, multiple countries, and multiple ports. The "six corridors" are: the New Eurasian Land Bridge Economic Corridor, the China-Mongolia-Russia Economic Corridor, the China-Central Asia-West Asia Economic Corridor, the China-Indochina Peninsula Economic Corridor, the China-Pakistan Economic Corridor, and the Bangladesh-China-India-Myanmar Economic Corridor. The "six means of communication" are rail, highways, seagoing transport, aviation, pipelines, and aerospace integrated information network, which comprise the main targets of infrastructure connectivity."

(c) *Role of Russia, EAEU, CA countries and SCO in Official view*

While the general scope of the May 2017 Belt and Road document adds little to overall knowledge, it does contain some interesting – and telling – inclusions and omissions.

The EAEU is mentioned only once, even though there are many mentions of other multilateral organizations, and this one mention is in regards to the China-Mongolia-Russia Economic Corridor which proposes to "dovetail" the SREB with the EAEU and Mongolia's "Prairie Road" program.[412] The EAEU does not even get a mention when the document talks about "building the Belt and Road free trade zone network".

Apart from this, "Russia" mainly figures in the May 2017 document in regard to the New Eurasian Land Bridge Economic Corridor which **"**extends westward from the eastern coast of China to Central and Eastern Europe, passing through the northwestern part of China, Central Asia and Russia".

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[411] Igor Denisov, "China's Belt and Road Project: What's at Stake for Xi Jinping", Carnegie Moscow Center, 29 May 2017 http://carnegie.ru/commentary/?fa=70096

[412] "Building the Belt and Road: Concept, Practice and China's Contribution", Office of the Leading Group for Belt and Road Initiative, China, May 2017
http://www.brfmc.org/en/#zlzx
https://eng.yidaiyilu.gov.cn/zchj/qwfb/12731.htm
https://eng.yidaiyilu.gov.cn/wcm.files/upload/CMSydylyw/201705/201705110537027.pdf

Other mentions of Russia relate to the "China-Russia Investment Cooperation Committee was set up under a mechanism of regular meeting of premiers to co-ordinate investment in non-energy industries" and electricity markets.

In contrast, there are many mentions of individual Central Asian countries – particularly Kazakhstan – and about China's trade and investment relations with them. In addition to being part of the part of the New Eurasian Land Bridge Economic Corridor, Kazakhstan is part of the China-Central Asia-West Asia Economic Corridor which "extends from northwestern China via Central Asia to the Persian Gulf, the Arabian Peninsula and the Mediterranean coast".

There is reference to "dovetailing" the SREB to Kazakhstan's Nurly Zhol (Bright Road) and to cooperation agreements with Tajikistan, Kyrgyzstan and Uzbekistan.

The SCO gets several mentions in the book, but there is nothing to suggest any sort of linking of the SREB, the EAEU, and the SCO.

Perhaps the only saving grace for Russia is that in his speech at the Opening Ceremony on 14 May[413], Xi Jinping said that "we have enhanced coordination with the policy initiatives of relevant countries, such as the Eurasian Economic Union of Russia, the Master Plan on ASEAN Connectivity, the Bright Road initiative of Kazakhstan". So, even here, Kazakhstan gets a special mention!

(d) *The special case of the China-Pakistan Economic Corridor (CPEC)*

Various ideas for a transport corridor running through Pakistan to connect western China to the Arabian Sea has been around for several decades, pre-dating the Belt and Road.

As indicated earlier, the March 2015 "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road" document says that China-Pakistan Economic Corridor (CPEC) is "closely related to the Belt and Road Initiative".[414] But, it was soon brought under the Belt and Road "umbrella" in practical terms and become a "flagship project".[415]

Indeed, when announcing its participation in the Karot Hydropower Station project in April 2015, the Silk Road Fund (SRF) described it as "one of the priority projects" of the CPEC and said that the Corridor itself was a "crucial part of the Belt and Road Initiative".[416]

By the time of the May 2017 Belt and Road summit in Beijing, there was absolutely no doubt about the importance of the CPEC. It was described in the main official briefing document for the Summit as "a flagship program of the Belt and Road Initiative".[417]

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[413] Xi Jinping, "Work Together to Build the Silk Road Economic Belt and The 21st Century Maritime Silk Road", 14 May http://news.xinhuanet.com/english/2017-05/14/c_136282982.htm

[414] "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road", Issued by the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China, with State Council authorization, 28 March 2015 http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html

[415] Chen Yingqun, "Rebuilt port heralds success", China Daily "China Watch supplement" in Australian Financial Review, 21 April 2017.

[416] Q&A about the Silk Road Fund's First Project Investment. http://www.silkroadfund.com.cn/enweb/23809/23812/23942/index.html

[417] "Building the Belt and Road: Concept, Practice and China's Contribution", Office of the Leading Group for Belt and Road Initiative, China, May 2017 http://www.brfmc.org/en/#zlzx https://eng.yidaiyilu.gov.cn/zchj/qwfb/12731.htm https://eng.yidaiyilu.gov.cn/wcm.files/upload/CMSydylyw/201705/201705110537027.pdf

The inclusion of the CPEC within the Belt and Road is a good example of how the initial presentation of the idea by Xi Jinping has progressively been expanded. While Pakistan is of little direct importance to Russia or the EAEU, now that it has become a member of the SCO makes it relevant for this text.

According to the China-Pakistan Economic Corridor Council, the Corridor runs over 3.000 kilometres from Kashgar in Xinjiang to the Pakistan port of Gwadar.[418] In April 2017, Pakistan announced that it had given the state-owned China Overseas Port Holding Company a 40-year lease on the Port of Gwadar. Although it does not go through any Central Asian country, the Corridor is of considerable significance for Pakistan and India – although in different ways – and may impact on the SCO now they are members.

The CPEC can be thought of as connecting the SREB in its north to the "21st Century Maritime Silk Road" in its south. In addition to being a "trade corridor" of "roads, railways, oil and gas, and cable channels", it is also about "the construction of major pilot projects and model projects". It gives "impetus to China and Pakistan to cooperate in many fields of infrastructure, energy resources, agriculture and irrigation, information and communications."[419]

Reports suggest that a Gwadar-Kashgar oil pipeline will carry one million barrel per day of Middle Eastern oil to China. China presently imports about 8 million barrels per day, of which six million barrels per day is via sea routes.[420]

According to Shi Zhiqin and Lu Yang of the Carnegie-Tsinghua Centre for Global Policy, "China believes economic development can strengthen Pakistan's internal stability" and "in turn stabilize China's western periphery, particularly the province of Xinjiang."[421] So, China is attempting to apply aspects the Xinjiang approach to Pakistan.

The "Corridor" has not been free of controversy as various parts of Pakistan's political and economic elite argue over the "route" within Pakistan in order to secure maximum advantages for themselves. Sarah Lain and Raffaello Pantucci say that "China was "not quite prepared for Pakistan's internal disputes" and "is not clear on how to mediate".[422] They says that the "Chinese Embassy in Islamabad was forced to issue a statement, essentially saying that the Corridor is a project that should benefit the whole country" and not particular regions or parts of the population.

There are also issues of how Pakistan's financial stability will be affected by the SREB projects, as China will expect repayment in some fashion. While the strategic importance of the CPEC to China may be such that it is prepared to take significant losses, the issue cannot be ignored. The financing issue is also relevant to other Belt and Road countries because, as noted earlier, there is concern that many projects will be loss making and that some countries will put up projects with no intention to attempt repayment of funds received.

In October 2016, the International Monetary Fund (IMF) released a report which included particular discussion of the CPEC.[423] It says that "medium-to-long term risks could arise from CPEC-related repayment obligations and profit repatriation".

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[418] The Nation, 20 April 2017
http://nation.com.pk/business/20-Apr-2017/gwadar-port-leased-to-chinese-company-for-40-years-senate-told

[419] http://www.c-pecc.com/

[420] "China to build mega oil pipeline from Gwadar to Kashgar", The Nation, 13 June 2016
http://nation.com.pk/national/13-Jun-2016/china-to-build-mega-oil-pipeline-from-gwadar-to-kashgar

[421] Shi Zhiqin, Lu Yang, "The Benefits and Risks of the China-Pakistan Economic Corridor", Carnegie-Tsinghua Centre for Global Policy", 21 December 2016
http://carnegietsinghua.org/2016/12/21/benefits-and-risks-of-china-pakistan-economic-corridor-pub-66507

[422] Sarah Lain and Raffaello Pantucci, "China and Russia in Central Asia: Cooperation and Conflict", April 2016
http://chinaincentralasia.com/2016/05/02/china_and_russia_in_central_asia/

[423] IMF Country Report No. 16/325, Pakistan, October 2016
https://www.imf.org/external/pubs/ft/scr/2016/cr16325.pdf

This IMF examination of some of the main issues involved in the CPEC is described here in detail because, in the opinion of this author, such analysis could – and should be – carried out for any country that might significantly be affected by Belt and Road. It also adds to our understanding of what the Belt and Road actually is in practice.

The IMF said that "the total size of CPEC is estimated at around $US44.5 billion (about 16% of Pakistan's GDP), of which more than half is allocated to "early harvest" projects over the next few years, with the remainder of the investments expected to materialize up to 2030 and beyond". "In the energy sector, power plant projects will be funded through FDI (foreign direct investment) by Chinese firms with commercial loans borrowed from Chinese banks." "In the transport sector, financing will be provided by the Chinese government and state banks mostly as concessional loans. Other, smaller CPEC infrastructure projects are expected to be financed through a mix of concessional loans and grants."

The IMF said that "the direct impacts on the external balance are expected to be substantial". As the "early harvest" projects proceed, Pakistan will experience a surge in FDI and other external funding inflows. A concomitant increase in imports of machinery, industrial raw materials, and services will likely offset a significant share of these inflows, such that the current account deficit would widen, with manageable net inflows into the balance of payments. While precise quantification of these impacts is difficult due to uncertainty and lack of available information, the IMF staff projects CPEC-related capital inflows (FDI and external borrowing) to reach about 2.2 % of the projected GDP in the 2019-20 financial year, and CPEC-related imports to about 11% of the total projected imports in the same year."

It added that "the broader positive impacts on the economy would be considerable. If implemented as envisaged, CPEC could go a long way towards alleviating Pakistan's long-standing supply-side bottlenecks and lifting its long-term potential output. Priority energy sector projects are expected to add significant power-generation capacity within the next few years, and subsequent energy projects could further expand the capacity over the long term. This would help mitigate Pakistan's chronic electricity load-shedding problem and provide a reliable support for domestic economic activities and exports."

"CPEC transport infrastructure projects (e.g. roads, railways, port facility upgrade) would allow easier and lower-cost access to domestic and overseas markets, promoting inter-regional and international merchandise trade. Service exports would also benefit from the increased trade traffic from China. Furthermore, these CPEC projects could catalyse private business investment and boost productivity—e.g., by facilitating more efficient allocation of productive inputs across regions."

"Over the longer term, Pakistan will need to manage increasing CPEC-related outflows. As Chinese power producer start their operations, profit repatriation by these companies would begin to rise in the subsequent years. While the path and the size of the repatriation would depend on factors such as the timing of project completion and the terms of power purchase agreements with the Pakistani government, it could add up to a significant level given the magnitude of the FDI. Repayment obligations to CPEC-related government borrowing, including amortization and interest payments, are expected to rise after the 2020-21 financial year due to the concessional terms of most of these loans. Combined, these CPEC-related outflows could reach about 0.4 percent of GDP per year over the longer run."

"Supported by increased energy supply and transportation capacity, CPEC has the potential to catalyse higher private investment and exports, which would help cover the CPEC-related outflows that are expected over the longer term. Reaping the full potential benefits of CPEC will require forceful pro-growth and export-supporting reforms. These include improvements in the business climate, and strengthening governance and security. Real effective exchange rate appreciation should be contained by allowing greater downward exchange rate flexibility and keeping inflation well anchored. Finally,

fiscal policy should remain prudent and debt management should be strengthened to keep the long-term public debt path sustainable."

"The authorities noted that additional Chinese investment over the longer term, building on CPEC as a platform, could also help cover the projected CPEC-related outflows. Sound project management and monitoring system should be in place to ensure timely implementation and mitigate risks. There is a need to ensure sound project evaluation and prioritization mechanisms based on effective cost-benefit analysis and realistic forecasts of macroeconomic and financing conditions. The procurement process should be transparent and competitive, and there is a need to ensure transparency and accountability in project management and monitoring. Power purchase agreements with Chinese IPPs should be negotiated with terms that would adequately incentivize investment while ensuring that the cost of generated power remains favorable for the distribution system and consumers. Moreover, capacity improvements in the power transmission network will be needed to keep up with the increasing supply."

While this type of IMF analysis should be applied to all countries hosting Belt and Road projects this does not mean that this author particularly accepts the precise numbers proffered, but rather accepts the approach to set out the pros and cons of issues.

Shi Zhiqin and Lu Yang add that, "more broadly", the CPEC "has to be understood in the context of China's strategic interests in East Asia and the way the United States has challenged them. Faced with such difficulties, China hopes it can expand its strategic space by heading west"[424] and gain direct access to a deep-sea port – Gwadar – on the Indian Ocean. As well as providing a sea-port for trade, Gwadar could provide support facilities for Chinese war ships.

Junhua Zhang says that China regards Pakistan as "one of its most longstanding and committed allies",[425] while Shi Zhiqin and Lu Yang say that Pakistan has understands "that no other country places such high strategic importance in its economic relationship with Pakistan as China does."[426]

The Belt and Road is of particular concern to India which regards itself as the "regional power"[427] in the Indian Ocean, and fears "the encirclement of India"[428] by the combined land and maritime parts of Belt and Road.

Not only has India fought several wars with Pakistan since the partition of "British India" in 1947 which led to the creation of the two countries, but the broad CPEC (although not individual roads, railways or pipeline routes) runs through parts of Pakistan controlled Kashmir which are subject to territorial claims by both India and Pakistan.

India also has some territorial disputes with China which have led to past military conflict, and many Indian analysts believe that, both generally and in relation to Belt and Road, China "has no inhibitions in making things very difficult for India in dealing with matters of security and economy".[429]

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[424] Shi Zhiqin, Lu Yang, "The Benefits and Risks of the China-Pakistan Economic Corridor", Carnegie-Tsinghua Centre for Global Policy", 21 December 2016
http://carnegietsinghua.org/2016/12/21/benefits-and-risks-of-china-pakistan-economic-corridor-pub-66507

[425] Junhua Zhang, "Whats' driving China's One Belt, One Road initiative?", East Asia Forum, 2 September 2016
http://www.eastasiaforum.org/2016/09/02/whats-driving-chinas-one-belt-one-road-initiative/

[426] Shi Zhiqin, Lu Yang, "The Benefits and Risks of the China-Pakistan Economic Corridor", Carnegie-Tsinghua Centre for Global Policy", 21 December 2016
http://carnegietsinghua.org/2016/12/21/benefits-and-risks-of-china-pakistan-economic-corridor-pub-66507

[427] RS Vasan, "Why OBOR of China is not at all a good idea for India?", South Asia Analysis Group, 25 May 2016 http://www.southasiaanalysis.org/node/1996

[428] C. Raja Mohan, "Raja Mandala: Neighborhood Defence", Indian Express, 28 March 2017
http://indianexpress.com/article/opinion/columns/india-china-india-china-relations-indo-china-sino-india-india-china-diplomatic-relations-india-news-indian-express-news/

[429] RS Vasan, "Why OBOR of China is not at all a good idea for India?", South Asia Analysis Group, 25 May 2016 http://www.southasiaanalysis.org/node/1996

C. Raja Mohan of Carnegie India, in a 28 March 2017 article, wrote that the Indian government "is now waking up to the proposition that the expansion of Chinese commercial and infrastructure cooperation with India's neighbors will have strategic consequences, including stronger defence and security partnerships". He says that the government has now "discarded" the previous "low-key endorsement" of Belt and Road and "become more critical" of the CREC.[430]

The CPEC is likely to continue to be a very controversial – and perhaps the most controversial – aspect of Belt and Road. It has also make discussion within the SCO about both economic and security issues more difficult. It will probably ensure that the SCO will not be able to come to any solid agreement on economic development, whether it be on some sort of free trade area or development financing.

2. Implementation of the SREB

(a) Practical implementation of SREB

Little of the almost daily-grind of SREB implementation can be done by Xi Jinping so, as Zhang Dongdong explains, "the whole Chinese system has been mobilized to support OBOR"[431] with each Chinese province required to develop plans for participation. Inland provinces such as Xinjiang produced a list of projects to take advantage of the SREB, while coastal provinces did much the same for the 21st Century Maritime part.[432]

A September 2016 report by "The Belt and Road Progress Research Team" at Renmin University,[433] said that Belt and Road "entails all-dimensional cooperation to build up a new international economic and trade relationship" that differs from the "traditional international economic and trade relationships" which tend to be "horizontally based" on tariffs.

"In contrast", it says, "in the wake of the release of the Visions and Actions" document, "all China's provinces and regions as well as government ministries have accomplished Belt and Road related policy planning and implementation. The Belt and Road has opened up an all-dimensional cooperation mode integrating both governments and enterprises at home and abroad."

According to Zhang Dongdong, "a pattern emerged" for the Belt and Road plans to be based on "infrastructure connectivity" with industrial parks to be built along trade routes. Zhao Hong adds that the Belt and road "does not prioritize trade and investment concessions, which makes it essentially different from traditional regional economic cooperation models such as free trade agreements (FTAs). Instead, it emphasizes regional infrastructure connectivity."

There is a great difference between "industrial parks" and bi-lateral and multi-lateral free trade agreements involving a number of countries. Thus, the emphasis of the SREB part of Belt and Road

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[430] C. Raja Mohan, "Raja Mandala: Neighborhood Defence", Indian Express, 28 March 2017 http://indianexpress.com/article/opinion/columns/india-china-india-china-relations-indo-china-sino-india-india-china-diplomatic-relations-india-news-indian-express-news/

[431] Zhang Dongdong, "The Making and Implementation of the Belt and Road Policy", Crawford School of Public Policy, ANU, Paper No.126 http://www.eaber.org/system/tdf/documents/EABER%20Working%20Paper%20126%20Zhang.pdf?file=1&type=node&id=25995&force=

[432] For example, China's Henan province has teamed up with Tajikistan to develop an agriculture related industrial park. See: http://www.chinagoabroad.com/en/article/china-s-henan-province-teams-up-with-tajikistan-to-build-agricultural-industrial-park-to-endorse-the-one-belt-one-road-initiative

[433] "Adhering to the Planning, Orderly and Pragmatically Build the 'Belt and Road', The Belt and Road Progress Report", The Belt and Road Progress Research Team, Renmin University of China. http://rdcy-sf.ruc.edu.cn/upfile/file/20161009164511_41761.pdf

which emerged was essentially different from the Chinese suggestion of a SCO free trade area. Moreover, as indicated in the earlier section of this book on the SCO, there are signs that China has lost its enthusiasm for a SCO free trade agreement. If, as some have suggested, the SREB is in part a response to the Russian refusal to countenance a SCO free trade area, this refusal has led to a very a very different idea.

It is thus somewhat ironic that China has now been essentially pushed into – at least nominal – consideration of a SREB-related free trade agreement with the EAEU. On 8 May 2015 President Xi agreed with President Putin to a declaration of the two presidents that Russia and China will "continue to search for points connecting regional economic integration processes within the framework of the EAEU and 'Economic Belt of the Silk Road'" and "look forward to the start of negotiations between the EAEU and China about concluding an agreement on trade-economic cooperation."[434] An associated document specifies "consideration of the long-term goal of moving towards a free trade zone between China and the EAEU and indicates that working groups would be formed to progress issues."[435]

More will be said about this declaration latter in this text, and the view will be put that a free trade agreement along the lines suggested in the Putin-Xi declaration is unlikely to happen.[436] Rather, it is probably the case that China agreed to the declaration because it did not want to give Russia the feeling that it was being sidelined by the SREB. As noted earlier, Chinese policy makers have been particularly careful in this regard.

Nevertheless, it also points to Chinese flexibility when pushing its Belt and Road project. While most of Belt and Road is presently about "infrastructure connectivity" – and not about "traditional regional models such as free trade agreements (FTAs) – China may at any time give it a much wider ambit and bring FTAs under the Belt and Road "umbrella".

The May 2017 Belt and Road Forum[437] held in Beijing maybe evidence of this. It would certainly accord with the flexibility when negotiating individual FTAs.

In contrast to Russia, China has concluded quite a few free trade agreements which have involved little coercion of the type that some EAEU countries have felt, and now has very experienced negotiators. Even though the early emphasis in these Chinese agreements was on trade in goods and tariff reductions, China has demonstrated considerable flexibility in its approach to them. For example, the China-ASEAN free trade agreement, which was initially signed in 2002, contained an "early harvest" program in which China agreed to unilaterally reduce tariffs in key areas (including agriculture) five years before being required to do so.[438]

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[434] "Совместное заявление Российской Федерации и Китайской Народной Республики об углублении всеобъемлющего партнерства и стратегического взаимодействия и о продвижении взаимовыгодного сотрудничества" ("Joint Statement of the Russian Federation and the People's Republic of China on Deepening the Comprehensive Partnership and Strategic Cooperation and on Promoting Mutually Beneficial Cooperation"), Kremlin.ru, 8 May 2015,
http://kremlin.ru/supplement/4969

[435] "Совместное заявление Российской Федерации и Китайской Народной Республики об углублении всеобъемлющего партнерства и стратегического взаимодействия и о продвижении взаимовыгодного сотрудничества" ("Joint Statement of the Russian Federation and the People's Republic of China on Deepening the Comprehensive Partnership and Strategic Cooperation and on Promoting Mutually Beneficial Cooperation"), Kremlin.ru, 8 May 2015,
http://kremlin.ru/supplement/4969

[436] Jeffrey Schubert and Dmitry Savkin, "Dubious Economic Partnership: Why a China-Russia Free Trade Agreement Is Hard to Reach", "China Quarterly of International Strategic Studies", Volume 02, Issue 04, Winter 2016 http://www.worldscientific.com/doi/abs/10.1142/S2377740016500287?src=recsys

[437] While the 14-15 May 2017 "Belt and Road Forum for International Cooperation" in Beijing includes many countries with obvious infrastructure needs, it also includes others which are likely to be more interested in trade. See: http://news.xinhuanet.com/english/2017-04/18/c_136217663.htm

[438] Christopher K. Johnson, "President Xi Jinping's 'Belt and Road' Initiative", CSIS, March 2016,

This initial rather narrow focus on goods and tariff reduction gradually changed as China realized that the structure of its economy was changing and – indeed – needed to be changed. For example, agreements with Iceland and Switzerland had wider coverage. But, China has still been quite "selective"[439] in its approach to trade deals. The scope, strength, and details of its agreements vary widely. Some appear exceedingly generous to the trade partner, while others aggressively promote and protect domestic industries."[440] It is clear that China subscribes to the idea that economics and security are intertwined.

Like Russia, Central Asian countries naturally have their own interests and do not want to be hostage to the "interests and complex disputes of the great powers".[441]

As already noted, clearly the most important country in Central Asia for China is Kazakhstan. Meruert Makhmutova has done much work on identifying the conflicting emotions and ideas in this country, and this includes much internal survey work on business and community attitudes. The main issues of concern have related to lack of specific information about the SREB, the possible conflict with EAEU, Chinese pushiness in using its own labor force in projects, and the practical benefits.[442]

On the information front, according to Kazakhstan's National Chamber of Entrepreneurs, "the business community wants the country to be part of the SREB project", but "many are not aware" of the opportunities that it offers.

Moreover, according to Makhmutova, China has been promoting SREB at the official level, while "ignoring the grassroots level." There are no SREB "contact people" in Kazakhstan, and all SREB matters are discussed directly at the highest levels of government. This "top-down approach" – similar to the earlier discussed "curator" or "strongman" approach to doing business in Russia – means that "public perceptions of China have not changed in Kazakhstan since the announcement of the project". Indeed, she says, the topic has not gained any "significance in public discourse" and "discussion is confined to the expert community".[443]

Chinese entities working in Central Asia often have to struggle with differing views of various elites (often ethnic based) about where SREB projects should be placed. Ramtanu Maitra, writing for the Schiller Institute, gives an example in the form of disagreements with Kyrgyzstan of the precise route for the "China-Kyrgyzstan-Uzbekistan" railway.[444] As noted earlier, similar issues have arisen in Pakistan.

The Renmin University report[445] gave "five suggestions" for the future growth of Belt and Road: (1) "Building an overall planning and coordination mechanism for efficient and integrated progress"; (2) "Adhering to principle of long-term consistent progress and encouraging innovative mechanisms and

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https://csis-prod.s3.amazonaws.com/s3fs-public/publication/160328_Johnson_PresidentXiJinping_Web.pdf

[439] Xiaoming Pan, "China's FTA Strategy", 1 June 2014, http://thediplomat.com/2014/06/chinas-fta-strategy/

[440] Nargiza Salidjanova, "China's Trade Ambitions: Strategy and Objectives behind China's Pursuit of Free Trade Agreements", US-China Economic and Security Review Commission, Staff Research Report, 28 May 2015. http://origin.www.uscc.gov/sites/default/files/Research/China's%20Trade%20Ambitions%20-%2005.28%2015.pdf

[441] Xiao An, "10 вызовов, стоящих перед китайской внешней стратегией в 2015" ("10 challenges facing the Chinese foreign strategy in 2015"), Официальный сайт академии общественных наук КНР (Official site of the Academy of Social Sciences of China), 5 November 2015. http://www.cssn.cn/zzx/201511/t20151105_2559442_5.shtml

[442] Meruert Makhmutova, "Kazakhstan: Perspectives on Eurasian Integration", European Council on Foreign Relations, 8 June 2016 http://www.ecfr.eu/article/essay_eurasian_integration_kazakhstan

[443] Meruert Makhmutova, "Kazakhstan: Perspectives on Eurasian Integration", European Council on Foreign Relations, 8 June 2016 http://www.ecfr.eu/article/essay_eurasian_integration_kazakhstan

[444] Ramtanu Maitra, "The Multiple Dimensions of China's 'One Belt One Road' in Uzbekistan", The Schiller Institute, February 2017 http://schillerinstitute.org/economy/phys_econ/2016/1227-obor-uzbek/ou.html

[445] "Adhering to the Planning, Orderly and Pragmatically Build the 'Belt and Road', The Belt and Road Progress Report", The Belt and Road Progress Research Team, Renmin University of China. http://rdcy-sf.ruc.edu.cn/upfile/file/20161009164511_41761.pdf

platforms"; (3) "Telling Belt and Road stories to boost cohesion among countries for the construction of the 'Belt and Road'"; (4) "Utilizing the global Chinese network to tap into international talent reserves"; (5) "Improving business support systems to provide all-round and effective assistance".

The first suggestion (and it should be kept in mind that these suggestions were made in September 2016) refers to the "negative effects" of relying on a "market-orientated operation" for "coordinating Chinese enterprises' overseas investment". It suggests a need for an "efficient and powerful nationwide coordination mechanism, so as to offer overall planning and coordination". It suggest that a "positive list" and a "negative list" to "guide all sides to identify the trends" in building the Belt and Road and "promote more reasonable policy expectations to be formed at different levels of governments.

This first suggestion is – in the opinion of this author – not unreasonable give the Chinese state resources being devoted to the Belt and Road project. However, it may also reinforce the wariness of people in more market-orientated countries to officially become involved in Belt and Road. Criticisms already exist. For example, in May 2017 Jorg Wuttke, president of the EU Chamber of Commerce in China, wrote that "European business" is concerned that Belt and Road risks becoming "a waste of resources that depends too heavily on lumbering and inefficient state-owned enterprises, when nimble Chinese entrepreneurs and European Union private capital would do a far better job". "When political diktats rather than market forces drive business decisions, the risks of disappointment are always high", he added[446].

The fourth suggestion could be quite contentious as it involves actively recruiting "overseas Chinese" to support and promote the Belt and Road project. In addition to the already discussed tensions in Central Asia, this suggestion could be seen in some other countries as an attempt to recruit their citizens to support China at the possible expense of their own countries interests.

(b) Financing the SREB (including by Silk Road Fund)

At the May 2017 Belt and Road Summit, Xi Jinping announced that the Silk Road Fund (SRF) was to be allocated an additional RMB100 billion ($US14.5 billion).

Established in December 2014, the SRF is an entirely Chinese affair. According to its internet site, the SRF "mainly provides funding and financing support for trade and economic cooperation and connectivity under the framework of the SREB and the 21st Century Maritime Silk Road initiative. In collaboration with domestic and international enterprises and financial institutions, the SRF is designed to promote common development and the prosperity of China and other countries and regions involved in the Belt and Road Initiative".[447]

Its $US40 billion capital has been contributed by China's State Administration of Foreign Exchange (65%), China Investment Corporation (15%), the Export-Import Bank of China (15%), and China Development Bank (5%). The first installment of US$10 billion is composed of US$6.5 billion which has been paid by the shareholders.[448]

The State Administration of Foreign Exchange (SAFE), as its name suggests, is concerned with "supervision and management of the foreign exchange market", including "policy measures for the gradual advancement of the convertibility of the RMB", and to "provide suggestions and a foundation for the People's Bank of China to formulate policy on the RMB exchange rate".[449]

The very large share of SAFE in the SRF suggests that China's foreign exchange reserves will be put to work and the RMB promoted as an international currency. According to the SRF, "a major part" of the

[446] Jorg Wuttke, "Xi Jinping's Silk Road under threat from one-way traffic", Financial Times, 9 May 2017 https://www.ft.com/content/61c08c22-3403-11e7-99bd-13beb0903fa3

[447] http://www.silkroadfund.com.cn/

[448] http://www.silkroadfund.com.cn/enweb/23775/23767/index.html

[449] http://www.safe.gov.cn/wps/portal/english/AboutSAFE/Major

its work is to "make good use of China's foreign reserves".[450] As noted earlier, some Chinese analysts are wary that such accumulated reserves might end-up being invested in Belt and Road projects which are not a "good use" of funds because of the low economic output of the projects and a lack of intent by some countries to repay China in either financial terms (or even political loyalty).

The China Investment Corporation (CIC) is the actual manager of China's foreign exchange reserves, established to "diversify China's foreign exchange holdings and seek maximum returns for its shareholder (the Chinese state) within acceptable risk tolerance".[451]

According to is internet site, the role of the Export-Import Bank (ExImBank) is to" facilitate the export and import of Chinese mechanical and electronic products, complete sets of equipment and new and high-tech products, assist Chinese companies with comparative advantages in their offshore project contracting and outbound investment, and promote international economic cooperation and trade".[452]

The China Development Bank (CDB) "provides medium to long-term financing facilities that serve China's major long-term economic and social development strategies".[453] As note earlier in this text, CDB financing for two entities was announced during Xi Jinping's visit to Moscow in early July 2017.

How exactly should the SRF operate? President Xi told a Chinese Central Financial and Economic Leading Small Group (CFELSG) meeting in November 2014 that the SRF should directly use Chinese capital for investment in Belt and Road countries.[454]

Jin Qi, Chairman of the SRF, said is a June 2017 interview[455] that it "mainly invests in cooperation projects within the framework of the Belt and Road Initiative, and helps high quality manufacturers to 'go global' and carry out technological cooperation".

According to its internet site, the SRF "provides funding and financing support to strengthen economic and trade cooperation, and bilateral and multilateral connectivity between China and relevant countries and regions. It works closely with domestic and foreign enterprises and financial institutions to promote development and prosperity of both China and countries and regions involved in the Initiative".[456] "Like a medium to long term private equity fund, the SRF makes outbound investment in a variety of forms, primarily through equity investment in sectors such as infrastructure, resources and energy development, industrial capacity cooperation and financial cooperation."

The site then goes on to discuss "diverse investment and financing demands" and the need for equity investment. "Private equity (PE) funds usually have an investment horizon of 7–10 years, which is a bit short for infrastructure construction in developing countries. There is a demand for medium and long--term funds with an investment horizon (10-15 years), longer than those of typical PE funds." With Belt and Road, "China can launch medium and long-term equity funds or cooperate with other financing models."

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[450] http://www.silkroadfund.com.cn/enweb/23819/23770/index.html

[451] http://www.china-inv.cn/wps/portal/!ut/p/a1/jZDBCoJAEIafKGZaTe24aemaW4RIthdZInUhVwnp0NNnQkdX5zbwffwzPwjIQWj5VpXsVavl87cLpzihg2s_xRg5PSD1cM_PVsyO3mYAbpMACW1i8Am9_H0_pJHtJohoewRZsIsCd8sRmbPMx4mhuMw3ADP_xyNgyB8CyIv7vALRyb5eKV22kNdt8yjuGq4gjBemlhkYGx4BU4VzN3ZNlmX5JylTpr4Pfy4p/dl5/d5/L2dBISEvZ0FBIS9nQSEh/

[452] http://english.eximbank.gov.cn/en/

[453] http://www.cdb.com.cn/English/

[454] Zhang Dongdong, "The Making and Implementation of the Belt and Road Policy", Crawford School of Public Policy, ANU, Paper No.126 http://www.eaber.org/system/tdf/documents/EABER%20Working%20Paper%20126%20Zhang.pdf?file=1&type=node&id=25995&force=

[455] Interview with Jin Qi, Chairman of SRF, 26 June 2017 http://www.silkroadfund.com.cn/enweb/23809/23812/35485/index.html

[456] http://www.silkroadfund.com.cn/enweb/23819/23770/index.html

The Memorandum of Understanding for the SRF's first overseas investment was signed in April 2015 and was between the SRF, the China Three Gorges Corporation, and Pakistan's Private Power and Infrastructure Board in relation to the Karot Hydropower Station.[457]

In December 2015 the SRF and Kazakhstan National Export and Investment Agency signed a "framework agreement" on a China-Kazakhstan Production Capacity Cooperation Fund[458] and allocated $US2bn to this."[459] It was said that "the SRF will actively contact financial institutions and companies in Kazakhstan to seek cooperation."[460]

Despite the Karot project and the China-Kazakhstan fund, in the view of this author it is difficult to see what the SRF is doing to assist "infrastructure connectivity" which is, as already suggested in this text, the main reason for the SREB. Nor does the SRF seem to focus on "bilateral and multi-lateral connectivity" or the "link-up of development strategies and industrial plans".

In the view of this author, four other major SRF investments seem to have little relationship to professed aims of Belt and Road.

In June 2015 the SRF announced that it was "teaming up" with ChemChina to "invest" in Pirelli, the Italian type maker.[461] According to the announcement, "the partners involved in the transaction will join forces in the long term industrial investment in Pirelli as they are committed to working together to build a market leader in the global tyre industry". According to Jin Qi, this has "not only helped ChemChina successfully introduce from overseas technology and management for high-end manufacturing, but also effectively obtain access to international markets".[462]

According to a 16 November 2016 news release, the "Silk Road Fund, FC Global Group, and China International Capital Corporation Limited, and Amundi Asset Management signed a shares subscription agreement with regard to their cooperation on the FC Value Trail Fund Project." This fund will invest in "French and other European companies with good growth potentials and focused on emerging industries such as technology, medical care and environment protection. The participation of the SRF in the project will help the fund connect good companies in Europe and the Chinese market, facilitate two way trade and investment between China and France, and support the development of emerging industries in China by introducing advanced technology and management experience."[463]

According to a 14 December 2016 media release, the SRF and PJSC SIBUR Holding**,** as well as its shareholders, entered into definite transaction agreements regarding SRF's purchase of a 10% equity stake in Russia's SIBUR, which is a vertically integrated gas processing and petrochemicals company. The media release says that this transaction is "China's largest investment in Russia in 2016" and is "in alignment with Russia's Far East development strategy". "By jointly investing as a financial investor, SRF is dedicated to supporting Chinese companies to improve their processing and manufacturing capabilities on the industry chains, through complementary cooperation with other market players

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[457] Q&A about the Silk Road Fund's First Project Investment.
http://www.silkroadfund.com.cn/enweb/23809/23812/23942/index.html

[458] http://www.silkroadfund.com.cn/enweb/23809/23812/31709/index.html

[459] Building the Belt and Road: Concept, Practice and China's Contribution", Office of the Leading Group for Belt and Road Initiative, China, May 2017
http://www.brfmc.org/en/#zlzx
https://eng.yidaiyilu.gov.cn/zchj/qwfb/12731.htm
https://eng.yidaiyilu.gov.cn/wcm.files/upload/CMSydylyw/201705/201705110537027.pdf

[460] http://www.silkroadfund.com.cn/enweb/23775/23778/index.html

[461] "The Silk Road Fund Teams Up with ChemChina to Invest in Pirelli"
http://www.silkroadfund.com.cn/enweb/23809/23812/26968/index.html

[462] Interview with Jin Qi, Chairman of SRF, 26 June 2017
http://www.silkroadfund.com.cn/enweb/23809/23812/35485/index.html

[463] Silk Road Fund, FC Global Group, and China International Capital Corporation Limited, and Amundi Asset Management Sign Shares Subscription Agreement on FC Value Trail Fund Project Date: 16 November 2016
http://www.silkroadfund.com.cn/enweb/23809/23812/32910/index.html

along the Belt and Road so as to achieve multilateral benefits."[464] According to a 25 January 2017 news release, this transaction has been completed.[465]

There are suggestions that China is doing deals with President Putin's friends, which would not be surprising given the fact that much of the present good Russia-China relationship is – as suggested earlier in this book – built on the personal empathy between Putin and China's Xi. According to Gabuev, in May 2014, Putin introduced Timchenko to Xi as "our man for China".[466] Timchenko co-owns SIBUR. In 2015, SIBUR sold 10% of its shares to Sinopec. In March 2016, Timchenko (and another person) sold a 9.9% stake in Yamal LNG (a natural gas project in the Arctic) to the SRF.[467]

The SRF reportedly, in mid-2017 joined a Russian Direct Investment Fund (RDIF) and Russia-China Investment Fund (established by RDIF and China Investment Corporation) consortium to invest in real estate development of the former airfield Tushino in the North-West of Moscow.[468]

There have been suggestions that the SRF will in the future change its focus away from "industrial products" and real-estate of the above type and invest up to $US2 billion in "agriculture",[469] but so far there has been little public evidence of this.

According to the official May 2017 "Building the Belt and Road: Concept, Practice and China's Contribution" document, by the end of 2016 the SRF had "signed 15 projects with an estimated investment value of $US6bn."

In overall terms, the SRF remains a bit of a mystery. Some of its largest transactions do not seen to have a strong direct relationship to the "infrastructure connectivity" theme of Belt and Road.[470] The relative lack of transparency of the SRF is an advantage for China because it can be given almost any task by Chinese officialdom with little scrutiny. It often seems to be, in the words of Gabuev, a "political purse"[471] which can be used to finance controversial projects.

Chinese financial institutions have also been given a direct role in Belt and Road. China's Banking Regulatory Commission developed guidelines for the two major policy banks (ExImBank and China Development Bank)[472] and for the four the major state owned commercial banks to participate in Belt and Road projects.[473]

According to the official May 2017 "Building the Belt and Road: Concept, Practice and China's Contribution" document: "Since the Initiative was proposed, the China Development Bank (CDB) has signed off more than 100 projects in Belt and Road countries, to a value surpassing $US40bn, with

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[464] Silk Road Fund (SRF) internet site http://www.silkroadfund.com.cn/enweb/23809/23812/32934/index.html

[465] Silk Road Fund (SRF) internet site: http://www.silkroadfund.com.cn/enweb/23809/23812/33134/index.html

[466] Alexander Gabuev, "China's Pivot to Putin's Friends", Foreign Policy, 25 June 2016 http://foreignpolicy.com/2016/06/25/chinas-pivot-to-putin-friends-xi-russia-gazprom-timchenko-sinopec/

[467] Alexander Gabuev, "China's Pivot to Putin's Friends", Foreign Policy, 25 June 2016 http://foreignpolicy.com/2016/06/25/chinas-pivot-to-putin-friends-xi-russia-gazprom-timchenko-sinopec/

[468] Russia Direct Investment Fund, Press Release, 4 July 2017 https://rdif.ru/Eng_fullNews/2498/

[469] Jack Farchy, "China plans to invest $1.9bn in Kazakh agriculture", Financial Times", 9 May 2016 https://www.ft.com/content/9c84a0f4-15d3-11e6-9d98-00386a18e39d

[470] In announcing that China would set up the Silk Road Fund, President XI stressed that would "directly support" OBOR projects. "China to Spend on Construction of New Silk Road", Xinhuanet, 6 November 2014 http://news.xinhuanet.com/english/china/2014-11/06/c_133770684.htm

[471] Alexander Gabuev, "The Silk Road to Nowhere", Carnegie Moscow Center, 24 May 2017 http://carnegie.ru/commentary/?fa=70061

[472] The policy banks have reportedly received additional capital for this purpose. Caixin Online, 21 July 2015 http://en.people.cn/n/2015/0722/c90000-8923893.html

[473] As will be seen later, the two policy banks are shareholders in the Silk Road Fund

$US30bn issued in loans. The Export-Import Bank (ExImBank) of China has signed 1100 projects, valued at $US100bn, in the Belt and Road countries, issuing $US80bn in loans."[474]

At the May 2017 Belt and Road Summit, Xi Jinping announced that the CDB would lend an additional RMB240 billion ($US36.2 billion), and that ExImBank would lend an additional RMB130 billion ($US18.8 billion).[475]

A chart published in the Financial Times in May 2017 and using calculations sourced from "company statements, Oxford Economics and FT estimates"[476] entitled "Funding for BRI by source" indicated that "outstanding loans or equity investment at the end of 2016" for the whole Belt and Road project were $US292 billion. Of this, the four "big state-owned commercial banks" (ie Industrial & Commercial Bank of China, the China Construction Bank, the Bank of China and the Agricultural Bank of China) accounted for $US150 billion.

"China has signed currency swap agreements with 22 Belt and Road countries and regions, with a total value of RMB982.2 billion." "Through China's interbank foreign exchange market, the RMB can be traded directly with 21 currencies other than the US dollar. The Cross-border Interbank Payment System provides RMB services to domestic and foreign financial institution."[477]

After the completion of the 14-15 Summit, the State Council of China released a "List of the Deliverables of the Belt and Road Forum for International Cooperation".[478] On the financial side and not discussed above included:
- China encourages financial institutions to conduct Overseas Fund Business in RMB with the estimated amount of about RMB 300 billion, providing financing support for the Belt and Road Initiative;
- The National Development and Reform Commission of China will set up the China-Russia Regional Cooperation Development Investment Fund, with a total scale of RMB 100 billion and the initial scale of RMB 10 billion to promote cooperation between China's Northeast and Russia's Far East;
- The SRF and the Interbank Association of the SCO agreed on the signing of the Memorandum of Understanding on the Basis of Partnership. The SRF and the National Bank for Foreign Economic Activity of Uzbekistan signed the cooperation agreement;
- The China Development Bank will set up the Belt and Road Multi-currency Special Lending Scheme for Infrastructure Development (RMB 100 billion equivalent), the Belt and Road Multi-currency Special Lending Scheme for Industrial Cooperation (RMB 100 billion equivalent), and the Belt and Road Multi-currency Special Credit Lines for Overseas Financial Institutions (RMB 50 billion equivalent);
- The Export-Import Bank of China will set up the Belt and Road Multi-currency Special Lending Scheme (RMB 100 billion equivalent) and the Belt and Road Multi-currency Special Lending Scheme for Infrastructure Development (RMB 30 billion equivalent).

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[474] "Building the Belt and Road: Concept, Practice and China's Contribution", Office of the Leading Group for Belt and Road Initiative, China, May 2017
http://www.brfmc.org/en/#zlzx
https://eng.yidaiyilu.gov.cn/zchj/qwfb/12731.htm
https://eng.yidaiyilu.gov.cn/wcm.files/upload/CMSydylyw/201705/201705110537027.pdf

[475] Full text of President Xi's speech at opening of Belt and Road forum.
http://news.xinhuanet.com/english/2017-05/14/c_136282982.htm

[476] Gabreil Wildau and Nan Ma, "In Charts: China's Belt and Road Initiative", Financial Times, 11 May 2017
https://www.ft.com/content/18db2e80-3571-11e7-bce4-9023f8c0fd2e

[477] "Building the Belt and Road: Concept, Practice and China's Contribution", Office of the Leading Group for Belt and Road Initiative, China, May 2017
http://www.brfmc.org/en/#zlzx
https://eng.yidaiyilu.gov.cn/zchj/qwfb/12731.htm
https://eng.yidaiyilu.gov.cn/wcm.files/upload/CMSydylyw/201705/201705110537027.pdf

[478] "List of Deliverables of the Belt and Road Forum for International Cooperation", The State Council, The Peoples Republic of China, 16 May 2017
http://english.gov.cn/news/top_news/2017/05/16/content_281475657209052.htm

It is hard to know what to make of all these monetary numbers and claims. As already noted, China is including as many economic (and sometimes security) issues as possible – whether they be past, present or future – under the Belt and Road motif. Then there is the issue of trying to determine which numbers should be attached to the SREB rather than other parts of Belt and Road!

Ryan Manuel of the ANU,[479] argues that "Beijing has form in announcing grand schemes — the Shanghai Free Trade Zone, for example – that quietly fade away". In the view of this author[480], Manuel makes a legitimate point about "announcing grand schemes" and not always following up with concrete actions. However, the Shanghai Free Trade Zone (SFTZ) was always described as a "pilot" zone (ie a test case) and as circumstances changed most – if not all[481] – of the advantages of the SFTZ were extended to other geographical areas.

China seems to have applied a similar approach to the evolving Belt and Road issues. And, to be fair, in the view of this author, both the circumstances and the possibilities of the Belt and Road "initiative" have been continually evolving, and China has adjusted Belt and Road based on its utility.

3. Belt and Road "Associates"

The Asian Infrastructure Investment Bank (AIIB) is also a tool of Chinese foreign policy, but it exhibits greater transparency than the SRF. The AIIB is certainly a superb public relations (PR) initiative. The BRICS New Development Bank has been included in this chapter because it gets an occasional mention in official Chinese statements on Belt and Road and the seemingly continuously expanding Belt and Road ambit.

(a) *Asian Infrastructure Investment Bank (AIIB)*

In terms of transparency, the Asian Infrastructure Investment Bank (AIIB) is very different to the Silk Road Fund (SRF).

President Xi Jinping announced the idea of the AIIB in October 2013 during a visit to Indonesia. Its focus was to be development of infrastructure in Asia. In 2014, representatives from 21 countries signed a Memorandum of Understanding in Beijing, and on 29 June 2015 the AIIB Articles of Agreement were signed, with 57 countries as founding members, and the AIIB began operating on 16 January 2016. Official expectations are that it will have 85 members by the end of 2017.[482]

The AIIB proposal was very controversial from the start.

"Covertly", according to Joseph Stiglitz, "the US put pressure on countries around the world to stay away".[483] This partly worked. A Financial Times article published on 23 October 2014, just before the signing of the Memorandum of Understanding, was headed "Big nations snub Beijing bank after US lobbying".[484] It said that China had "extended a broad invitation and several European states, as well as Australia, Indonesia and South Korea initially showed interest. But thanks to pressure from the US –

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[479] Ryan Manuel, "Belt and road: less than meets the eye", John Menadue – Pearls and Irritations, 10 February 2017 http://johnmenadue.com/?p=9383

[480] I had considerable experience examining this issue when I worked in Shanghai. See http://shanghai-ifc.org/

[481] One of the frustrations attempting to understand Chinese regulations is very often absence of clarity, predictability and continuation in implementation of policies. What applies to one "zone" might not easily be reconciled with what happens in another.

[482] "AIIB expects to sign 85 members by year's end", China Daily, 22 May 2017 http://www.chinadaily.com.cn/business/2017-05/22/content_29438541.htm

[483] Joseph E. Stiglitz, "Why America Doesn't Welcome China's New Infrastructure Bank", The Huffington Post, May 2015 http://www.huffingtonpost.com/joseph-e-stiglitz/america-china-investment-bank_b_7055222.html

[484] Jamil Anderlini, "Big nations snub Beijing bank after US lobbying", Financial Times. 23 October 2014 https://www.ft.com/content/41c3c0a0-59cd-11e4-9787-00144feab7de

conveyed by US diplomats in Beijing, Washington and other capitals – none of these countries will join the bank at this stage, although some are hoping to be involved later."

The Financial Times article quoted Matthew Goodman, Center for Strategic and International Studies in Washington, as saying that the AIIB (and a "BRICS bank" that includes Brazil, Russia, India, China and South Africa) "represent the first serious institutional challenge to the global economic order established at Bretton Woods 70 years ago". Goodman added that it is "less clear how much of a substantive improvement these new institutions will make to global governance – or even to the interests of the countries championing them".[485] "US officials have said they do not want to support an initiative Washington thinks is unlikely to promote good environmental, procurement and human rights standards in the way the World Bank and Asian Development Bank are required to do."

Stiglitz and others have suggested that the real reason for US opposition is that it "simply wanted hegemony"[486] along the lines that have existed since the World Bank (IBRD or International Bank for Reconstruction and Development) and the IMF were established at Bretton Woods in 1944. Both these organizations are headquartered in Washington DC, with a US citizen by convention head of the World Bank and a European citizen by convention always head of the IMF. China and other developing countries have long complained about their lack of voting power in these organizations.

In any event, the UK and a number of US "allies" such as Australia and South Korea did eventually join the AIIB, and a UK citizen now occupies a very senior position in the AIIB. Japan has stayed out of the AIIB.

By the amount of contributions to its authorized capital, the biggest founding members[487] were China, India, Russia, Germany and South Korea.

According to its internet site, the AIIB "is a new multilateral financial institution founded to bring countries together to address the daunting infrastructure needs across Asia. By furthering interconnectivity and economic development in the region through advancements in infrastructure and other productive sectors, we can help stimulate growth and improve access to basic services".[488] It's "core principles" are described as "openness, transparency, independence and accountability and our mode of operating is 'Lean, Clean and Green'".

The "non-resident Board of Directors is responsible for the direction of the Bank's general operations, exercising all powers delegated to it by the Board of Governors. This includes approving the Bank's strategy, annual plan and budget; establishing policies; taking decisions concerning Bank operations; and supervising management and operation of the Bank and establishing an oversight mechanism."[489]

Senior management of the AIIB is led by a President who is elected by its shareholders. There are five , Vice-Presidents responsible for Policy and Strategy, Investments, Finance, Administration and the Corporate Secretariat plus a General Counsel. "An International Advisory Panel comprised of global experts provides management with impartial advice and perspectives. Our management team is comprised of individuals from a diverse group of Bank member countries, contributing years of experience and a wide range of professional expertise in both the international and private sectors."[490]

Because the AIIB has been operating for only a short period of time, it is difficult to assess it actual and likely future performance. However, the Articles of Agreement do give some clues.

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[485] Jamil Anderlini, "Big nations snub Beijing bank after US lobbying", Financial Times. 23 October 2014 https://www.ft.com/content/41c3c0a0-59cd-11e4-9787-00144feab7de

[486] Joseph E. Stiglitz, "Why America Doesn't Welcome China's New Infrastructure Bank", The Huffington Post, May 2015 http://www.huffingtonpost.com/joseph-e-stiglitz/america-china-investment-bank_b_7055222.html

[487] Founding members are those countries which had joined the AIIB by 31 March 2014

[488] https://www.aiib.org/en/about-aiib/index.html

[489] https://www.aiib.org/en/about-aiib/governance/board-directors/index.html

[490] https://www.aiib.org/en/about-aiib/governance/senior-management/index.html

Article I of the AIIB Articles of Agreement gives two important definitions for understanding where and how the AIIB will operate. It says: "Wherever used in this Agreement, references to "Asia" and the "region" shall include the geographical regions and composition classified as Asia and Oceania by the United Nations, except as otherwise decided by the Board of Governors".[491]

According to the United Nations classification, the countries in "Asia", apart from China, India and Japan, are relatively small or less developed countries. Most of those in "Oceania", apart from Australia, are very small of less developed.[492]

Schedule A of the Articles of Agreement contains a list of countries which are "regional members". It includes Russia, Kazakhstan and Kyrgyzstan which are also members of the EAEU. Non-EAEU members Tajikistan and Uzbekistan are included in the list, but Turkmenistan is not. Potential SOC members India, Pakistan and Iran are included.

While the number of AIIB shares can be increased, Article 6 says that "no such subscription shall be authorized which would have the effect of reducing the percentage of capital stock held by regional members below seventy five (75) percent of the total subscribed stock, unless otherwise agreed by the Board of Governors by a Super Majority vote as provided in Article 28". In turn, Article 28 says that "a Super Majority vote of the Board of Governors shall require an affirmative vote of two-thirds the total number of Governors, representing not less than three-fourths of the total voting power of the members".

Article 4 says that the Bank's "authorized capital stock" of $US 100 billion "may be increased by the Board of Governors by a Super Majority vote".

Voting quotas are allocated according to contributed amounts, which in turn are related to calculations of each country's Gross Domestic Product (GDP), a number that can be particularly difficult to measure when making international comparisons. Moreover, for various reasons, voting quotas do not exactly match contributions.[493]

As at 22 September 2016, subscriptions and voting power of the largest "regional" members were China 33.4% and 28.8%; India 9.4% and 8.3%; Russia 7.3% and 6.6%; South Korea 4.2% and 3.9%; Australia 4.1% and 3.8%; Indonesia 3.8% and 3.5%. For the largest "non-regional" members the numbers were Germany 5.0% and 4.6%; France 3.8% and 3.5%; United Kingdom 3.4% and 3.2%[494]

In March 2017, the AIIB announced 13 "prospective new members" to take the total AIIB membership to 70.[495] This will eventually change the previous allocation of subscriptions and voting power.

Japan is the only country of substantial size and wealth in "Asia" or "Oceana" – that is, in the "region" – which is not a member of the AIIB. According to Pengqiao Lu of the Carnegie Endowment for International Peace's Asia Program, Japan "would have an estimated 11% capital share and 9% voting

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491 https://www.aiib.org/en/about-aiib/basic-documents/_download/articles-of-agreement/basic_document_english-bank_articles_of_agreement.pdf

492 See: http://www.un.org/esa/population/publications/worldageing19502050/pdf/96annexii.pdf

493 Article 28 of the AIIB Articles of Agreement says that "the total voting power of each member shall consist of the sum of its basic votes, share votes and, in the case of a Founding Member, its Founding Member votes". In the case of "basic votes" 12% of the total votes are shared equally between members; "share votes" are based on contributions; and each "founding member" was allocated 600 "founding member votes".

494 AIIB "Subscriptions and Voting Power of Member Countries – as of 22 September 2016" https://www.aiib.org/en/about-aiib/who-we-are/membership-status/.content/index/_download/20160930035841674.pd

495 A 23 March AIIB says that "the 13 prospective members will officially join AIIB once they complete the required domestic processes and deposit the first installment of capital with the Bank. The shares allocated to the new prospective members come from the Bank's existing pool of unallocated shares." https://www.aiib.org/en/news-events/news/2017/20170323_001.html

share" if it joined the AIIB.[496] Pengqiao Lu's article refers to an analysis by Masahiro Kawai published in 2015 which takes a detailed look at various possible membership combinations.[497]

Whatever the exact numbers at a time Japan might join the AIIB, the effect would be to deprive China of its theoretical Super Majority veto power.[498] However, in practical terms China would almost certainly be able to find other member countries – particularly "regional" – to support it on crucial issues.

The Banks headquarters must be in Beijing, and Article 6 says that "the Government of the People's Republic of China" is "Trustee for the Bank". Article 29 says that "a president of the Bank" shall be elected by a Super Majority, and that "he shall be a national of a regional member country".

According to Ksenia Muratshina, Boris Yeltsin Urals Federal University, **t**he Articles are "very detailed and cover every aspect of the Bank's operations, and yet they contain some vague language that can be interpreted in different ways".[499]

Muratshina says that "size of Russia's equity contribution to the Bank is a measure of seriousness of its expectations of AIIB".[500] Yet, she notes that Russia, "China's strategic partner, the third largest contributor to and one of the countries with the biggest expectations of AIIB" received none of the senior appointments.

According to its internet site, the AIIB has approved loans of US$1.73 billion to support nine infrastructure projects in seven countries, including Pakistan, Bangladesh, Tajikistan, Indonesia, Myanmar, Azerbaijan and Oman. The Tajikistan loan is not large: $27.5 million for the Dushanbe-Uzbekistan Border Road Improvement Project.[501]

This Tajikistan project is co-financed by the European Bank for Reconstruction and Development, which contributes an amount of $62.5 million, for a total project cost of $105.9 million. Analysts say that all AIIB projects so far, with the exception of the Bangladesh power project, are co-financed with other multilateral institutions – which has allowed the AIIB to take advantage of their experience in evaluating projects.

Moreover, not surprisingly, AIIB loans have been orientated toward Belt and Road -type projects.

The AIIB's 2017 "Business Plan and Budget"[502] says that it will focus on:
• Sustainable Infrastructure – promoting green infrastructure and supporting countries to meet their environmental and development goals.

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[496] Pengqiao Lu, "Japan Should Reconsider Joining the AIIB", The Diplomat, 10 December 2016 http://thediplomat.com/2016/12/japan-should-reconsider-joining-aiib/

[497] Masahiro Kawai, "Asian Infrastructure Investment Bank in the Evolving International Financial Order", published in "Asian Infrastructure Investment Bank: China as a responsible stakeholder", Sasakawa Peace Foundation USA, 2015 https://spfusa.org/wp-content/uploads/2015/07/AIIB-Report_4web.pdf
The exact numbers depends on several assumptions, including whether or not the US also joins the AIIB.

[498] According to Mike Callaghan and Paul Hubbard, "compared to the charters of the Asian Development Bank and the World Bank, China has a larger veto power over decisions in the AIIB than other major shareholders have in these other multilateral banks". Mike Callaghan & Paul Hubbard (2016) The Asian Infrastructure Investment Bank: Multilateralism on the Silk Road, China Economic Journal, 9:2, 116-139, DOI: 10.1080/17538963.2016.1162970
https://crawford.anu.edu.au/sites/default/files/publication/crawford01_cap_anu_edu_au/2016-05/the_asian_infrastructure_investment_bank_multilateralism_on_the_silk_road.pdf

[499] Ksenia Muratshina, "The Asian Infrastructure Investment Bank: What, Where, When, Why and How Much", 24 May 2016. http://russiancouncil.ru/en/inner/?id_4=7704#top-content

[500] Ksenia Muratshina, "The Asian Infrastructure Investment Bank: What, Where, When, Why and How Much", 24 May 2016. http://russiancouncil.ru/en/inner/?id_4=7704#top-content

[501] https://www.aiib.org/en/projects/approved/2016/tajikistan-border-road.html

[502] https://www.aiib.org/en/policies-strategies/_download/business-plan-2017/aiib-2017-business-plan-and-budget.pdf

• Cross-Border Connectivity – prioritizing cross-border infrastructure, ranging from roads and rail, to ports, energy and telecoms across Central Asia, and the maritime routes in South East and South Asia, and the Middle East, and beyond.
• Private Capital Mobilization – devising innovative solutions that catalyze private capital, in partnership with other MDBs, governments and private financiers.

Jin Liqun, President of the AIIB says that a "strong pipeline of projects in 2017" will "prioritize green infrastructure investments, promote energy efficiency, renewables, clean transport and other projects that help address global warming."[503]

As already briefly mentioned, some commentators have viewed AIIB projects (along with those of the SREB) as helping to reduce "excess capacity problem". David Dollar says that this does not make sense. "If the AIIB is very successful, then in five years it might lend $US20 billion per year – that is to say, on a scale with World Bank's IBRD lending. But just in steel alone, China would need $US60 billion per year to absorb excess capacity. This figure excludes excess capacity in cement, construction, and heavy machinery; the point is that the bank is, simply put, much too small to make any dent in China's excess capacity problem – even if it were the sole supplier for these projects, which it won't be".[504]

While it is still early days for the AIIB, several things seem to be clear: the AIIB is "China's Bank"[505] which has been formed with the aim of advancing China's interests – particularly, as President Xi has stressed, OBOR.[506] But, the Chinese have been very keen to present the AIIB in a more positive light by emphasizing the benefits to other countries and even to the environment.

(a) *BRICS bank*

The March 2015 official document, "Visions and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road" makes reference to the "BRICS New Development Bank" or NDB in relation to "financial integration" along the OBOR.[507]

The BRICS countries are Brazil, Russia, India, China and South Africa. The New Development Bank internet site says that the "possibility" of setting up a new Development Bank "to mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging economies, as well as in developing countries" was discussed at a leaders summit in 2012. "During the sixth BRICS Summit in in 2014, the leaders signed the Agreement establishing the New Development Bank."[508]

Its Articles of Agreement indicate an initial authorized capital of US$ 100 billion with initial subscribed capital of US$ 50 billion, equally shared among founding members. Each member has an equal vote. The chair of the board rotates among member countries, although permanent headquarters are in Shanghai.[509]

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[503] https://www.aiib.org/en/news-events/news/2017/20170116_001.html

[504] David Dollar, "China's Rise as a Regional and Global Power", Horizons, Summer 2015, No 4 https://www.brookings.edu/wp-content/uploads/2016/06/China-rise-as-regional-and-global-power.pdf

[505] In 2015 I was a speaker at a Shanghai University of Economics and Finance conference and at lunch time was sitting next to a prominent US economist who was also a speaker. We were joined by two young Chinese who had just returned from study in the US. When discussing the AIIB, they were very proud of "our Bank".

[506] "Xi Stresses Implementing Central Economic Policies", Xinhua, 10 February 2015 http://news.xinhuanet.com/english/china/2015-02/10/c_127481077.htm

[507] Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road", Issued by the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China, with State Council authorization, 28 March 2015 http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html

[508] National Development Bank internet site. http://www.ndb.int/

[509] http://www.ndb.int/wp-content/themes/ndb/pdf/Agreement-on-the-New-Development-Bank.pdf

Unlike the AIIB, the New Development Bank cannot be considered to be ultimately under the influence of China, and thus should not be considered when talking about OBOR other than in a periphery context.

However, often gets mentioned in discussions. For example, Premier Li Keqiang included it in a speech November 2016 SCO Heads of Government meeting in Bishkek, saying that that the SCO needs "to bring into full play the role of existing investment and financing platforms such as the SCO Inter-Bank Consortium, the Asian Infrastructure Investment Bank, the Silk Road Fund, the China-Eurasia Economic Cooperation Fund and the BRICS New Development Bank, to provide financial support for the development of SCO economies and regional cooperation projects".[510]

When asked about the New Development Bank, Yan Xuetong says BRICS was "doomed from the very beginning" because "the countries did not have a common strategic goal except to increase their representation in international financial institutions". BRICS is now "in a coma", he says.[511]

Part G: Pulling Together in the Future?

The chapters included in this part of the book are about bringing together all the previously discussed issues into a theme and a view of the future. The direct Russia-China relationship, the circumstances of the Central Asian countries, the EAEU and its component countries, the expanded SCO, and the emerging role and influence of China are a complicated mix of politics and economics, of reality and illusions. The Russian and Chinese views of the world and how to react with it are subtly different – even if now under the great influence of their respective relations with the "West". Central Eurasia will in all likely-hood find a way of working and living together, although there will be squabbles. The main questions are about how this will be done.

1. Introduction

As noted, the future progress of the SREB part of the Belt and Road initiative will largely be determined by the views of Russia and China, and the relationship between them.

The May 2015 joint declaration of Presidents XI and Putin says that Russia and China will "continue to search for points connecting regional economic integration processes within the framework of the EAEU and SREB in the interest of providing sustainable economic growth in Eurasia on the basis of strengthening cooperation and trust. The sides look forward to the start of negotiations between the Eurasian Economic Union and China about concluding an agreement on trade-economic cooperation."[512]

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[510] Speech by Premier Li Keqiang at the 15th Meeting of the Council of Heads of Government of the Member States of the Shanghai Cooperation Organization, 3 November 2016, Bishkek
http://english.gov.cn/premier/news/2016/11/04/content_281475482644898.htm

[511] Yan Xuetong, "Не понимаю, почему Россия не настаивает на формировании альянса с Китаем" ("I do not understand why Russia does not insist on forming an alliance with China"), Kommersant, 17 March 2017
http://www.kommersant.ru/doc/3243633

[512] "Совместное заявление Российской Федерации и Китайской Народной Республики об углублении всеобъемлющего партнерства и стратегического взаимодействия и о продвижении взаимовыгодного сотрудничества" ("Joint Statement of the Russian Federation and the People's Republic of China on Deepening the Comprehensive Partnership and Strategic Cooperation and on Promoting Mutually Beneficial Cooperation"), Kremlin.ru, 8 May 2015, http://kremlin.ru/supplement/4969

An associated document specified "consideration of the long-term goal of moving towards a free trade zone between China and the EAEU" and indicated that working groups would be formed to progress issues.[513]

In Beijing in December 2015, Chinese Premier Li Keqiang and Russian Prime Minister Dmitry Medvedev took a further step and signed a "Joint Communique on the results of the 20th regular meeting between the heads of the Russian and Chinese governments" that clearly indicated a role for the SCO in implementing the Xi-Putin joint declaration made earlier in the year. The Medvedev-Li communique states that "the parties believe that the SCO is the most effective forum for aligning the construction of the SREB with the building of the EAEU".[514]

Li Xin, Director of the Centre for the Russian and Central Asian Studies at Shanghai Institute for International Studies (SIIS), wrote a November 2016 report for the Valdai Discussion Club, entitled "Chinese Perspective on the Creation of a Eurasian Economic Space".[515] The Foreword to the Li Xin report by Timofey Bordachev, Valdai's "Head of the Eurasian Program", states that it "aims to illuminate fully the Chinese approach to a comprehensive Eurasian partnership" and "present what Chinese scholars view as the goals, objectives, and areas of cooperation for Eurasian states".

The Valdai Discussion Club is well known to foreign researchers concerned with Russian issues and was founded by the Russian Council on Foreign and Defence Policy, the Russian International Affairs Council (RIAC), the Moscow State Institute of International Relations University of the Russian Ministry of Foreign Affairs (MGIMO), and the National Research University Higher School of Economics (HSE). It is thus a product of the Russian intellectual establishment. The internet site also says that "in 2014 the Club moved away from the format of 'telling the world about Russia' to practical work aimed at forming the global agenda and delivering a qualified and objective assessment of global political and economic issues". According to its internet site, Vladimir Putin has attended every annual Valdai meeting since it was founded in 2004.[516]

While the Li Xin report carries a disclaimer that "the views and opinions expressed in this report are those of the author and do not represent the views of the Valdai Discussion Club unless explicitly stated otherwise", he continually mixes the two. For example, he writes that in "our opinion" – here he clearly means the "Valdai Discussion Club experts" – the SCO "could serve as a platform for linking the EAEU and SREB". He later more firmly starts that the SCO "should" have "a central role as a platform for aligning the SREB and EAEU".[517]

Li Xin also writes that "Russia's Valdai Discussion Club experts believe that 'the SCO is the most important institution of international cooperation in Eurasia … and has great potential for becoming the main forum for interaction between China (the SREB) and the EAEU".

So, we might conclude that the stars – the views of officials and independent thinkers on both the Chinese and Russian sides – are aligned for a successful EAEU-SREB-SCO relationship. However, the reality is not so simple.

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[513] Совместное заявление Российской Федерации и Китайской Народной Республики об углублении всеобъемлющего партнерства и стратегического взаимодействия и о продвижении взаимовыгодного сотрудничества" ("Joint Statement of the Russian Federation and the People's Republic of China on Deepening the Comprehensive Partnership and Strategic Cooperation and on Promoting Mutually Beneficial Cooperation"), Kremlin.ru, 8 May 2015, http://kremlin.ru/supplement/4969

[514] Joint Communiqué on the 20th Regular Meeting of Chinese and Russian Prime Ministers http://www.fmprc.gov.cn/ce/cedk/chn/zgwj/t1325537.htm

[515] Li Xin, "Chinese Perspective on the Creation of a Eurasian Economic Space", Valdai Discussion Club Report, November 2016 http://valdaiclub.com/files/12585/

[516] http://valdaiclub.com/

[517] Li Xin, "Chinese Perspective on the Creation of a Eurasian Economic Space", Valdai Discussion Club Report, November 2016 http://valdaiclub.com/files/12585/

The May 2015 agreement between Putin and Xi only came after considerable debate among officials in both countries. While some believe that the EAEU and SREB projects may well coexist, and in fact to cooperate and complement each other, others believe they are competitive and able to pose a threat to the respective economic geopolitical interests of each of China and Russia.[518]

Li Xin correctly notes that the "road map for aligning the SREB and the EAEU" entails creating "a hard infrastructure" in terms of the transportation corridors within the SREB, and a "soft infrastructure" including developing rules for trade, standards and transmission of technologies, and establishing free trade areas.[519]

The reality is that SCO is in no position to participate in the construction of "hard infrastructure", except in some possible coordinating role for spending Chinese money. This means that any SCO role must concentrate on the provision of "soft infrastructure" which, although also about coordination, means contributions by all members and not just China. But, Russia would clearly prefer the rules and standards of the EAEU and the EAEU-aligned Eurasian Development Bank to provide the basis of the "soft infrastructure" rather than the SCO.

However, the real situation will be seen as even more complex after further consideration of the view and actions of Russia, China and other countries such as Kazakhstan. Moreover, the new SCO members India and Pakistan will no doubt have their own views.

2. The Russian View

Speaking before the St. Petersburg International Economic Forum in June 2016, President Putin put forward an initiative to create a "greater Eurasian" partnership "involving the EAEU and countries with which we already have close partnership – China, India, Pakistan and Iran" and "other interested countries and associations".[520]

"To start", Putin said, "we might streamline and unify the regulation of departmental cooperation and investment, nontariff measures of technology and sanitary control, customs administration and protection of intellectual property". He then said that, "further on, we should move gradually to the reduction and eventual abolition of tariff restrictions".

Several months later, in October 2016, Putin spoke to the Valdai International Discussion Club and said: "Russia advocates the harmonisation of regional economic formats based on the principles of transparency and respect for each other's interests. That is how we arrange the work of the EAEU and conduct negotiations with our partners, particularly on coordination with the SREB project, which China is implementing. We expect it to promote an extensive Eurasian partnership, which promises to evolve into one of the formative centres of a vast Eurasian integration area."[521]

What is this "vast Eurasian integration area"?

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[518] Ван Шуцун, Вань Чинсун (Wang Shutsun, Wan Chinsun), "Экономический пояс Шелкового пути и ЕАЭС - конкуренты или партнеры?" ("The economic belt of the Silk Road and the EAGE are competitors or partners?"), Свободная Мысль (Free Thought) - 2014. - № 4 (1646). С. 92

[519] Li Xin, "Chinese Perspective on the Creation of a Eurasian Economic Space", Valdai Discussion Club Report, November 2016 http://valdaiclub.com/files/12585/

[520] http://en.kremlin.ru/events/president/news/52178

[521] Vladimir Putin, speech on subject of "The Future in Progress: Shaping the World of Tomorrow", Valdai International Discussion Club, 27 October 2016 http://valdaiclub.com/events/posts/articles/vladimir-putin-took-part-in-the-valdai-discussion-club-s-plenary-session/

While Putin spoke of the "extensive Eurasian partnership" evolving in a "vast Eurasian integration area", Sergei Karaganov writes about "a partnership or community of Greater Eurasia".[522] However, in the view of this author, as shall be explained later in this text, Putin and Karaganov do have significantly different views on this issue.

Marcin Kaczmarski and Witold Rodki of the OSW Centre for Eastern Studies write that the "intellectual background of the Greater Eurasia project" was developed by analysts working "under the aegis of the Valdai Club". The group's work was overseen by Sergei Karaganov and Timofey Bordachev. In a report prepared in April 2015, entitled "Towards the great Ocean – 3. The creation of Central Eurasia", they called for "the transformation of Central Eurasia into a zone of joint development" by combining the Chinese New Silk Road initiative with the Russian project of Eurasian economic integration."[523]

The "Towards the great Ocean – 3" report proposed that the countries involved in the project create a joint "high-level committee" on cooperation in the development of transport-logistics corridors and the implementation of development projects. It also recommended the launch of a "Central Eurasia Dialogue" between the EAEU, China and the remaining states of the region to serve as a political umbrella protecting the project. Looking further to the future, the report proposed "the creation of a community (or a union) of cooperation, stable growth and security for the whole of Eurasia, which would stretch not only to the East, but also to the western ends of Eurasia"[524]

A later Valdai report, "Toward the Great Ocean 4: Turn to the East – preliminary results and new objectives"[525] released in May 2016, said that "the biggest Eurasian powers – Russia and China – are moving towards each other and seek to co-ordinate their regional projects" which means "in effect that they are "sponsoring the emergence of a new community in Eurasia".

The report suggest that it is "possible, as early as in the mid-term, to come close to establishing in Eurasia a new international political entity based on common interests and many shared values. This will rally Eurasia and make it an independent center of power and influence on a global scale." However, the report does not give a definition of "mid-term".

Up to this point the views of Vladimir Putin and "Valdai experts" would seem to be in accord.

It is on the role of the SCO that Putin parts-company with the "Valdai experts" (including Li Xin) and – it would appear – Medvedev.

Li Xin wrote that Valdai experts believe that "with active development, the SCO could become the central institution of the planned Greater Eurasian Community project'. In addition, 'a developed SCO with strong institutions could serve as an umbrella organization for the development, cooperation, and security of the Greater Eurasian Community'."

In contrast, Putin always emphasizes the role of the EAEU and "partners" and never suggests, as did the Medvedev in his communique with Li Keqiang in December 2015, that the EAEU and SREB

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[522] Sergei A. Karaganov, "From the Pivot to the East to Greater Eurasia", Russian Embassy to UK, 24 April 2017 https://www.rusemb.org.uk/opinion/50

[523] Marcin Kaczmarski and Witold Rodkiewicz, OSW Centre for Eastern Studies, Commentary Number 29, 21 July 2016 https://www.osw.waw.pl/en/publikacje/osw-commentary/2016-07-21/russias-greater-eurasia-and-chinas-new-silk-road-adaptation

[524] Marcin Kaczmarski and Witold Rodkiewicz, OSW Centre for Eastern Studies, Commentary Number 29, 21 July 2016 https://www.osw.waw.pl/en/publikacje/osw-commentary/2016-07-21/russias-greater-eurasia-and-chinas-new-silk-road-adaptation

[525] "Toward the Great Ocean 4: Turn to the East – preliminary results and new objectives", http://valdaiclub.com/files/11431/

should operate under the auspices of the SCO. For Putin, "the ultimate goal is to asset the EAEU as the central uniting structure in the network of Eurasian regional integration".[526]

Karaganov and some others welcomes China's westward push as being "complementary" to Russia new eastward push.[527] The "Toward the Great Ocean 4" report says that "Russia's true turn to the East is just beginning. It focuses on creating new internal (organizational and legal) conditions for the accelerated development of Siberia and the Russian Far East, imparting new qualities to the Russian presence in the Asia Pacific region, building up trade, economic and political ties with countries in Asia, and organizing a new co-development space in Eurasia". They see "Russia's eastern regions" exporting mineral resources, energy "water-intensive products".[528] "For the first time in history, Siberia is becoming a promising frontier of development rather than a geopolitical rear or an imperial burden," they say.

Bringing the under-development regions of Siberia and the Far East into the idea has echoes of the Chinese approach to development of Xinjiang. It is also probably the case that the Russian proponents believe that these Russian regions need to be developed for both economic and security reasons.

In the view of Karaganov and others, Russia should use its "diplomatic and strategic clout and its plentiful resources to create a potentially powerful economic and political grouping around the rejuvenated SCO with China, India, Kazakhstan, Pakistan, other regional powers, and eventually Iran."[529] That is, a "Community of Greater Eurasia" geopolitical bloc which will include "China, Russia, India, Kazakhstan, Iran, and many other states".[530]

In these quoted passages, we have the second indication that the views of Karaganov and Putin differ on the detail of "greater Eurasia". Kazakhstan continually gets a separate mention by Karaganov, whereas Putin envisages Kazakhstan participating as part of the EAEU and not as an individual country. Nevertheless, both Putin and Karaganov are likely to agree that Russia has already formed smallish version of a "geopolitical macro-bloc" in the form of the EAEU.

It is clear that Putin envisages the EAEU being one of the "Community of Greater Eurasia" cornerstones. It is because of these expectations that Putin will be grateful to President Xi for agreeing to a document that specifies "consideration of the long-term goal of moving towards a free trade zone between China and the EAEU" and indicates that "working groups would be formed to progress issues."[531] As Alexander Gabuev notes, "though still equivocal in language, the document signifies major departure from the previous collision course."[532]

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[526] Russian-Chinese Dialogue: the 2017 Model", RIAC Report 33/2017 http://russiancouncil.ru/papers/Russia-China-Report33-En-Preprint.pdf

[527] Thomas F. Remington, "One belt, one road, one Eurasia", China Policy Institute, 6 April 2016 https://cpianalysis.org/2016/04/06/one-belt-one-road-one-eurasia/

[528] Sergei A. Karaganov, Kristina I. Cherniavskaia, Dmitry P. Novikov, "Russian Foreign Policy Risky Successes", Perspectives, Spring 2016 https://we.hse.ru/data/2016/08/15/1117920075/Harvard_Interlational_Review.pdf

[529] Sergei A. Karaganov, Kristina I. Cherniavskaia, Dmitry P. Novikov, "Russian Foreign Policy Risky Successes", Perspectives, Spring 2016 https://we.hse.ru/data/2016/08/15/1117920075/Harvard_Interlational_Review.pdf

[530] Sergei A. Karaganov, Kristina I. Cherniavskaia, Dmitry P. Novikov, "Russian Foreign Policy Risky Successes", Perspectives, Spring 2016 https://we.hse.ru/data/2016/08/15/1117920075/Harvard_Interlational_Review.pdf

[531] "Совместное заявление Российской Федерации и Китайской Народной Республики о сотрудничестве по сопряжению строительства Евразийского экономического союза и Экономического пояса Шелкового пути" (Joint Statement of the Russian Federation and the People's Republic of China on Cooperation in Combining the Construction of the Eurasian Economic Union and the Economic Belt of the Silk Road "), Kremlin.ru, 8 May 2015. http://kremlin.ru/supplement/4971

[532] Alexander Gabuev, "Eurasian Silk Road Union: Towards a Russia-China Consensus?", The Diplomat, 5 June 2015 http://thediplomat.com/2015/06/eurasian-silk-road-union-towards-a-russia-china-consensus/

Although the agreement between Putin and Xi boosts the prestige of the EAEU, Russia would seem to have little intention of letting it engage in genuine free trade negotiations in the immediate future. As already noted, Putin's St Petersburg speech suggested no hurry on the "reduction and eventual abolition of tariff" levels.

Pavel Kadochnikov, President of the Centre for Strategic Research Foundation, says that a free trade agreement with China and complete removal of tariffs would be a "radical step". "What will the EAEU countries gain?, he asks. "We have interests in the food industry, chemical industry, energy, metallurgy, power plant engineering, and in several other areas, but all of that must be balanced, and that requires preparations."[533]

A RIAC report entitled "Russian-Chinese Dialogue: the 2016 Model", says that "Moscow – unlike such trade and economic giants as the United States and China – is currently interested not so much in the increased liberalization of regional trade as in its increased transparency and trade and economic interconnectedness, as well as in the establishment of a fair, sustainable and balanced trade and economic system matching the priorities and the development level of the Russian economy, particularly of its export-oriented manufacturing industries."[534]

There are two issues here mentioned in this long sentence. The first is "liberalization" vis-à-vis "economic interconnectedness". The second is "export-orientated" manufacturing.

In regards to the first issue, Vladimir Petrovsky, Chief Research Fellow at the Institute of Far Eastern Studies of RAS, says that "Russia and China are more interested in trade facilitation[535] than in trade liberalization.[536] It's important to provide for a big platform rather than to be involved in competition. That's why Russia has put forward the so-called Economic Partnership in Eurasia. The idea is to cover the same range of issues as the Transpacific Partnership (TPP) does, but to make it easier for each and every member to join in future."[537]

The authors of the RIAC report and Petrovsky seemingly have differing views on China's attitude to "trade liberalization", with the RIAC implying that China (along with the US) is "interested" in liberalization and Petrovsky implying less "interest" in liberalization than in facilitation. But, in reality it is a matter of degree of "interest" and China – as noted earlier in this text – has in the past demonstrated considerable flexibility in its approach to free trade agreements.

The main point here is that Moscow is in no hurry to significantly liberalize Russian, or EAEU, manufactured goods trade with China. In December 2016, the Eurasian Development Banks's Yevgeny Vinokurov said that the EAEU is "not yet ready to open its market to Chinese manufacturers".[538]

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[533] Yaroslav Lissovolik and Ivan Timofeev, "Aligning the EAEU and SREB: Regional Projects and their Complementarity" in Russian International Affairs Council, Event Report, Second International Conference, "Russia and China: Taking on a New Quality of Bilateral Relation", Moscow, 30-31 May 2016 http://russiancouncil.ru/common/upload/Conference-Report-RUCN2016-En.pdf

[534] Russian International Affairs Council, Report, "Russian-Chinese Dialogue: the 2016 Model", 25/2016 http://russiancouncil.ru/en/inner/?id_4=7733#top-content

[535] According to the WTO, "trade facilitation" is the "simplification and harmonization of international trade procedures, including the activities, practices and formalities involved in collecting, presenting, communicating and processing data and other information required for the movement of goods in international trade". For a detailed discussion see: https://crawford.anu.edu.au/pdf/staff/phillippa_dee/2011/Trade_Facilitation_What_Why_How_and_Where.pdf

[536] Facilitating trade will therefore increase competition in domestic market places irrespective of whether or not tariffs are reduced.

[537] Yaroslav Lissovolik and Ivan Timofeev, "Aligning the EAEU and SREB: Regional Projects and their Complementarity" in Russian International Affairs Council, Event Report, Second International Conference, "Russia and China: Taking on a New Quality of Bilateral Relation", Moscow, 30-31 May 2016 http://russiancouncil.ru/common/upload/Conference-Report-RUCN2016-En.pdf

[538] Yevgeny Vinokurov, Director of the Center for Integration Studies, Eurasian Development Bank http://valdaiclub.com/a/highlights/eaeu-and-asian-countries-plans-prospects/

There is, however, another aspect to all this. Vinokurov noted that, "in today's world, free trade areas are not so much about goods, with trade accounting for less than half of the total volume, as they are about favorable investment regimes."[539]

In the investment area, according to a early 2017 RIAC report, Russia is less interested in "liberalization" than in fortification of the EAEU and identification and work on specific projects – particularly transport corridors that run through Russia.[540]

While it is easy to think about investment in money terms, it is somewhat harder to think about it in terms of standards and procedures. As already indicated earlier in the text when discussing China's reasons for launching the Belt and Road initiative, China wants to "export" its "technological and engineering standards" to improve its international negotiating position in trade and investment.

It should be no surprise that Russia also wants to do this. Gabuev writes that Russia hopes that a free trade agreement will cement "the EAEU's role as a source of norms for the implementation of Chinese investment projects".[541] In other words, Russia is hoping to achieve intellectual domination of a Eurasian geopolitical macro-bloc of the sort that Karaganov and Putin envisage, and which will do the same thing in many ways as the Transpacific Partnership "bloc" would have done in its area.[542]

In regards to the issue of "export-orientated manufacturing", the EAEU is seen as an area for re-industrialization and technological development of the Russian economy. A RIAC report says "there is a need for more active use of coordination mechanisms for the EAEU's internal industrial policy".[543] Also, exporting is much easier of other countries accept the technical standards of the exporter.

And, then there are international financial issues!

According to a RIAC report, "Russia and the EAEU should widely involve their financial institutions in financing joint projects." The report says that it "could open up new grand prospects for the Eurasian Development Bank".[544] According to another RIAC report, "the matter of establishing the SCO Development Fund and the SCO Development Bank should also be considered in the broader context of the development of integration processes in Eurasia and the Asia Pacific."[545]

So, once again we have differing Russian about the roles and future development of EAEU and SCO financial entities. As discussed earlier, Putin and his government do not want to see a SCO Development Bank established.

The issue of security is never far below the surface in all these views and discussions.

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[539] Yevgeny Vinokurov, Director of the Center for Integration Studies, Eurasian Development Bank http://valdaiclub.com/a/highlights/eaeu-and-asian-countries-plans-prospects/

[540] "Russian-Chinese Dialogue: the 2017 Model", RIAC Report 33/2017 http://russiancouncil.ru/papers/Russia-China-Report33-En-Preprint.pdf

[541] Alexander Gabuev, "Friends With Benefits? Russian-Chinese Relations After the Ukraine Crisis", Carnegie Moscow Center, 29 June 2016 http://carnegie.ru/2016/06/29/friends-with-benefits-russian-chinese-relations-after-ukraine-crisis-pub-63953

[542] Gregor Irwin, Chatam House, "Realizing TTIPs Strategic Potential", July 2106 https://www.chathamhouse.org/sites/files/chathamhouse/publications/research/2016-07-14-realizing-ttip-strategic-potential-irwin.pdf

[543] Russian International Affairs Council, Working Paper, "Prospects for Russian-Chinese Cooperation in Central Asia", 28/2016 http://russiancouncil.ru/en/inner/?id_4=7724#top-content

[544] Russian International Affairs Council, Working Paper, "Prospects for Russian-Chinese Cooperation in Central Asia", 28/2016 http://russiancouncil.ru/en/inner/?id_4=7724#top-content

[545] Russian International Affairs Council, Report, "Russian-Chinese Dialogue: the 2016 Model", 25/2016 http://russiancouncil.ru/en/inner/?id_4=7733#top-content

A RIAC report says that "when it comes to maintaining security in Central Asia, Russia's role significantly exceeds that of China. This is due to well-developed bilateral relations with the region's countries in the military and political area, and also due to Russia's leading role in the CSTO."[546]

Karaganov and other like-minded thinkers want to match Russia's military power and influence in Eurasia with China's growing economic power in the region. In its simplest form, the idea is that events in the Ukraine and more recently Syria have demonstrated that Russia has the capacity, knowledge and willingness to take tough military actions when need be.

China, on the other hand, is seen as lacking both the knowledge and willingness to exert a military presence in much of the Eurasian land mass – and particularly in Central Asia – to ensure its own vital economic and security interests. To some degree, this Russian view accords with the view expressed by China's Fu Ying when she puts the – already discussed – view that "Russia and China differ in diplomatic style" and said that "Russia is more experienced on the global theater, and it tends to favor strong, active, and often surprising diplomatic maneuvers. Chinese diplomacy, in contrast, is more reactive and cautious."[547]

While this author thinks that Fu Ying has made a legitimate point from the point of view of history, China's promotion of the AIIB and Belt and Road (particularly the May 2017 Belt and Road Summit in Beijing) suggest that things are changing. China is rapidly learning to play in the "global theater".

But Karaganov, and others thinking like him, will find it difficult to move on from the view that "in the future, a duumvirate, advantageous to all, may emerge in Central Asia, in which China will provide investment and resources, and Russia will contribute security and geopolitical stability".[548] "The bloc's leaders will be China, as a leading provider of financial and technological resources, and Russia, leading in diplomacy and security building."[549]

Vladimir Putin also seems to be having trouble accepting the changing realities. At the May 2017 Belt and Road Summit in Beijing, he said: "I believe that by adding together the potential of all the integration formats like the EAEU, the OBOR, the SCO and the ASEAN, we can build the foundation for a larger Eurasian partnership".[550]

Later, at the June 2017 SCO Summit, Putin said that "SCO members should work on combing economic cooperation efforts and national strategies to bring together the capacities of the existing integration projects in Eurasia, including the EAEU and the One Belt, One Road initiative."[551] The aim is to "combine the potentials of the EAEU, SCO, ASEAN[552] and the Chinese initiative OBOR."

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[546] Russian International Affairs Council, Working Paper, "Prospects for Russian-Chinese Cooperation in Central Asia", 28/2016 http://russiancouncil.ru/en/inner/?id_4=7724#top-content

[547] Fu Ying, "How China Sees Russia", Foreign Affairs, January/February 2016 Issue. https://www.foreignaffairs.com/articles/china/2015-12-14/how-china-sees-russia

[548] Sergei Karaganov, "A Time of Trouble and a Time of Opportunity", February, 2016, Available at http://eng.globalaffairs.ru/number/2015-Global-Tendencies-and-Russian-Policies-17976

[549] Sergei A. Karaganov, Kristina I. Cherniavskaia, Dmitry P. Novikov, "Russian Foreign Policy Risky Successes", Perspectives, Spring 2016 https://we.hse.ru/data/2016/08/15/1117920075/Harvard_Interlational_Review.pdf

[550] http://en.kremlin.ru/events/president/news/54491

[551] "Putin Predicts SCO Gaining More Influence as India, Pakistan Join Bloc", 9 June 2017 https://sputniknews.com/politics/201706091054480341-putin-sco-pakistan-india/

[552] ASEAN is theAssociation of Southeast Asian Nations. Russia sometimes seems to have a fetish about the EAEU working very closely with ASEAN, although it is very hard to see what basis there is for such cooperation. At one stage in mid-2017, I was surprised to learn that the Russian Ministry of Economic Development had funds available to carry out a project to assist ASEAN countries gain increased ranking in the World Bank "Doing Business" Index. It was unofficially suggested that the Eurasian research group which I headed might consider participating in this. For the index, see: http://documents.worldbank.org/curated/en/172361477516970361/Doing-business-2017-equal-opportunity-for-all

3. The Chinese View

Timofey Bordachev wrote a Foreword for the already discussed Li Xin report for the Valdai Discussion Club which said: "This report, prepared by a leading Chinese expert on the issue, aims to illuminate fully the Chinese approach to a comprehensive Eurasian partnership. It will also present what Chinese scholars view as the goals, objectives, and areas of cooperation for Eurasian states, as well as the long-term priorities and anticipated results of such co-operation."[553]

As already suggested, this "Chinese view", as articulated by Li Xin, puts a greater emphasis on the SCO than Russian officials would be comfortable with.

Li Xin puts a possible time frame on the development of an ambitious Russia-China partnership: "Developing standards and establishing a free trade area could be done in the following stages: developing dialogue between China and the EAEU; a free trade area within the SCO (2025–2030); Continental Economic Partnership (2030–2035); Eurasian economic space (2040)."[554]

The dates for the Continental Economic Partnership and the Eurasian economic space are so far into the future that few policy makers will take them seriously.

In regards to the China-EAEU dialogue, the Russian view assumes a strong – and probably expanding EAEU with the addition of Tajikistan – as a certainty. Li Xin's exact view on the EAEU – as distinct from the SCO – is less clear, but it appears to be more positive than that of some other influential Chinese thinkers.[555]

As already noted in this text when discussing the future of the EAEU, Li Ziguo of the China Institute of International Studies – which is the think-tank of the Chinese Ministry of Foreign Affairs[556]– has a dim view of the EAEU. He says that "the huge differences between the member states mean the EAEU is short of cohesion, and its prospects are not optimistic".[557]

Nor is not clear that China sees the EAEU as a necessary integral part of SREB. In the view of this author, China seems most concerned to ensure that Russia does not play a spoiling role.

Alexander Gabuev writes that "in private conversations, Chinese officials acknowledge that they had major concerns about Russia's reaction to the unveiling of OBOR, as the Kremlin was initially reluctant to negotiate ground rules for the co-existence of Xi's initiative and Putin's pet project, the EAEU. Beijing's fear was that Moscow, anxious about its own status as the leading yet greatly diminished regional power, would regard OBOR as an intrusion into Russia's sphere of influence and therefore pressure the states of Central Asia not to take part in the Chinese project."[558]

When some Russian concerns about the Silk Road Project were evident in "the spring of 2015", President Xi "responded by sending an emissary to meet directly with President Putin". Christopher Johnson writes that it "spoke volumes" about "the nature of Sino-Russian relations" that this emissary

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[553] http://valdaiclub.com/files/12585/

[554] Li Xin, "Chinese Perspective on the Creation of a Eurasian Economic Space", Valdi Discussion Club Report, November 2016 http://valdaiclub.com/files/12585/

[555] Li Xin's position as Director of the Center for Russian and Central Asian Studies at the Shanghai Institute for International Studies is likely to make him more sympathetic to Russia than some others. When I met him in Shanghai in early 2017 we conversed in Russian because he does not speak English.

[556] http://www.ciis.org.cn/english/node_521155.htm

[557] Li Ziguo, "Eurasian Economic Union: Achievements, Problems and Prospects", China Institute of International Studies" 19 August 2016 http://www.ciis.org.cn/english/2016-08/19/content_8975486.htm

[558] Alexander Gabuev, "Friends With Benefits? Russian-Chinese Relations After the Ukraine Crisis", Carnegie Moscow Center, 29 June 2016 http://carnegie.ru/2016/06/29/friends-with-benefits-russian-chinese-relations-after-ukraine-crisis-pub-63953

was a "member of the Chinese Communist Party Politburo and Xi Jinping's de facto chief of staff – instead of a senior diplomat".[559]

It was probably these sensitivities that led to Xi to sign the (already discussed) joint statement with Putin on 8 May 2015.[560]

As already noted, China pushed the idea of a free trade zone within the SCO for quite a few years. Just what is its present position on this is unclear, but it is easy to get the impression that it has lost some interest in it – although it continues to pay lip-service to the concept. Bi-lateral and regional cooperation with selected countries using its Belt and Road idea are logically more appealing than the SCO for economic issues, and – as this text has already amply demonstrated – China continues to make concrete moves in these areas.

This may also be the case with security.

The Chinese view of SREB has a security aspect, but it does not encompass the Russian Eurasian geopolitical macro-bloc idea. China's thinking about security is more focused on its western provinces and its immediate "rear". While its thinking about economic issues has a security aspect in the form of energy security, its economic thinking is related more to international trade than the Russian "reindustrialization" goal.

Nor does anything suggest that China ultimately will ultimately accept the Russian envisaged "two-power condominium in Eurasia".[561] Gabuev suggests that the Chinese are beginning to think more about their efforts to provide such security, by way of "establishing special Chinese private military companies or developing closer ties with regional armies".[562] In this regard, Bobo Lo refers to a conference discussion which he moderated in September 2016 between Russian and Chinese analysts, including Timofey Bordachev and Yang Cheng. He says that "some experts" on both sides "acknowledge that the 'division of labor' is already breaking down".[563]

This is impacting on what has generally been seen as a SCO function.

It is noteworthy that in March 2016 General Fang Fenghui, Chief of the General Staff of the People's Liberation Army, made a proposal for a "regional anti-terror alliance" that "included Pakistan, Afghanistan, and Tajikistan, but not Russia".[564]A formal entity for this, known as the Quadrilateral Cooperation and Coordination Mechanism (QCCM), was then unveiled in August 2016[565] with the inaugural meeting held in Urumqi.

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[559] Johnson, Christopher K. "President Xi Jinping's 'Belt and Road' Initiative", CSIS, Center for Strategic & International Studies, March 2016
https://csis-prod.s3.amazonaws.com/s3fs-public/publication/160328_Johnson_PresidentXiJinping_Web.pdf

[560] "Совместное заявление Российской Федерации и Китайской Народной Республики об углублении всеобъемлющего партнерства и стратегического взаимодействия и о продвижении взаимовыгодного сотрудничества" ("Joint Statement of the Russian Federation and the People's Republic of China on Deepening the Comprehensive Partnership and Strategic Cooperation and on Promoting Mutually Beneficial Cooperation"), Kremlin.ru, 8 May 2015 http://kremlin.ru/supplement/4969

[561] Thomas F. Remington, "One belt, one road, one Eurasia", China Policy Institute, 6 April 2016 https://cpianalysis.org/2016/04/06/one-belt-one-road-one-eurasia/

[562] Alexander Gabuev, "Friends With Benefits? Russian-Chinese Relations After the Ukraine Crisis", Carnegie Moscow Center, 29 June 2016
http://carnegie.ru/2016/06/29/friends-with-benefits-russian-chinese-relations-after-ukraine-crisis-pub-63953

[563] Bobo Lo, "A Wary Embrace", Lowy Institute, March 2017
https://www.lowyinstitute.org/publications/wary-embrace

[564] Bobo Lo, "A Wary Embrace", Lowy Institute, March 2017
https://www.lowyinstitute.org/publications/wary-embrace

[565] "China-mooted counterterrorism alliance takes shape", Dawn, 4 August 2016
https://www.dawn.com/news/1275303

Bakhtiyor Khakimov, Russia's special representative to the SCO, was asked about this in his April 2017 interview with Kommersant but professed to not know the details. However, he did says that China had "explained" that its activities are "focused on questions of security in Xinjiang"[566] and that Russia does not see any conflict or duplication with the RATS functions of the SCO.

However, an early 2017 RIAC report jointly written by a bevy of Russian and Chinese analysts, suggests that "China may no longer believe in the effectiveness of the SCO and is looking for new high priority instruments of stabilization in the region" or "it seeks to impose its own rules of the game in regional security".[567] In the view or this author, China wants both!

Bobo Lo says that "Beijing's moves are very much at a preliminary stage, and it is unlikely that China will supplant Russia as the principle security actor in Eurasia in the next few years".[568]

As already noted several times in this book, there are not only Russian views to be considered as the Central Asian countries continue to have a certain psychological dependence on Russian and a fear of the relatively unknown China.

4. Central Asian View

As shown on various maps, it would be possible in a geographic sense for China to completely ignore Russia when constructing various parts of the SREB. It would be possible to channel all activities through the Central Asian countries and through Pakistan. However, it is also clear that passage through Russia offers more direct route to Europe than any alternative.

Pakistan, while not initially directly included in the SREB project, potentially provides the most important transport route of the SREB because it passes through only one country and leads directly to the open sea. It is also potentially important for Beijing that Moscow has little economic, cultural or security influence over Pakistan.

All the Central Asian countries, on the other hand, are still susceptible to pressure from Moscow and this is why China has been so careful in its dealings with Russia.

Turkmenistan supplies much of China's natural gas, but Russia could if necessary exert pressure on it by interfering with the pipelines that cross other Central Asian countries and has a "strategically important lever in military terms, in the form of the Caspian Flotilla".[569] Far-away China would be in no position to help Turkmenistan – or secure its own gas supply – in such circumstances.

Although closer to China, Kazakhstan has a very long border with Russia and a large ethnic minority. Ultimately, China cannot protect Kazakhstan from Russia and Russia cannot protect Kazakhstan from China. Kazakhstan's greatest protection from both is its sheer physical size. Uzbekistan's large population and a lack of a common border with both China and Russia means that has considerable room for "multi-vector" manoeuvre if its gets is domestic policies right.

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[566] Михаил Коростиков и Елена Черненко (Mikhail Korostikov and Elena Chernenko), "Членство в ШОС не приглашение на чай" ("Membership in the SCO is not an invitation to tea"), Kommersant, 4 April 2017, http://www.kommersant.ru/doc/3275166

[567] "Russian-Chinese Dialogue: the 2017 Model", RIAC Report 33/2017 http://russiancouncil.ru/papers/Russia-China-Report33-En-Preprint.pdf

[568] Bobo Lo, "A Wary Embrace", Lowy Institute, March 2017 https://www.lowyinstitute.org/publications/wary-embrace

[569] Р.Изимов (R.Izimov), "Китай и Туркменистан: региональное измерение" ("China and Turkmenistan: a regional dimension"), ЦентрАзия (Central Asia), 18 August 2016 http://www.centrasia.ru/newsA.php?st=1471513680

Tajikistan and Kyrgyzstan have the most difficult task in juggling pressures, both economic and military, from both Russia and China. There are issues of migrant workers, military bases and borders with China.

Gabuev says that "Moscow offended its EAEU partners, most notably Kazakhstan" when it signed the 8 May 2015 Putin-Xi agreement with China. Following that, the 31 May 2016 EAEU summit in Astana "did little to clarify the trajectory of EAEU relations with China" because the leaders of the five countries merely authorized the Economic Commission to negotiate an economic partnership with China. Bureaucrats involved suspect that the entire negotiation process will take upwards of ten years."[570] He adds that, "in the face of EAEU inaction (after the signing of the Putin-Xi agreement) China has chosen to pursue bilateral agreements—rather than using the EAEU as a platform for collective negotiation—which the Central Asian states have been eager to sign."[571]

"Thus", according to Gabuev, "Astana and other capitals continue to have good reason to reach out to Beijing directly in order to seek investment, bypassing both the EAEU bureaucracy and the Kremlin. China also stayed true to its old habit of doing business with Central Asian leaders on a purely bilateral basis, without involving Moscow".

The Central Asian states ultimately are, and need to be, opportunistic to survive. Meruert Makhmutova says that Kazakhstan's "multi-vector policy" means that it is trying to find a "consensus" between the EAEU and the SREB. At this stage, "due to the cultural and language differences, the Chinese market is still not considered as a priority for the local business community".[572]

However, she adds, the SREB is seen by many as "an alternative or reserve option in case the EAEU fails".[573] At the same time, Kazakhstan aims to become the "largest business and transit hub" of the Central Asian region, a "bridge" between Europe and Asia. It considers SREB "as means to this end." As noted earlier, some Kazakh analysts envisage an "economic system under the aegis of Kazakhstan" in Central Asia.

The actions of both Russia and China give Kazakhstan, and the other Central Asian states, plenty to think about. While Kazakh policymakers clearly understand the possibilities associated with the SREB,[574] there is for most people mainly "only talks on potential benefits"[575]

There is also the issue of the use of Chinese companies, equipment and workers in projects. Meruert Makhmutova's survey respondents said that **"**Kazakhstan would probably not agree to China using its own materials, companies, or workforce to construct the SREB infrastructure. Kazakhstan protects its market, and its procurement policy for such projects explicitly promotes national suppliers. China might work with neighboring countries to invest in the project, but local companies must be chosen through a transparent bidding process."[576]

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[570] Alexander Gabuev, "Imagined Integration: How Russia Can Maintain Its Influence in Central Asia", Carnegie Moscow Center, 1 July 2016 http://carnegie.ru/commentary/?fa=63993

[571] Alexander Gabuev, "Imagined Integration: How Russia Can Maintain Its Influence in Central Asia", Carnegie Moscow Center, 1 July 2017 http://carnegie.ru/commentary/?fa=63993

[572] Meruert Makhmutova, "Kazakhstan: Perspectives on Eurasian Integration", European Council on Foreign Relations, 8 June 2016 http://www.ecfr.eu/article/essay_eurasian_integration_kazakhstan

[573] Meruert Makhmutova, "Kazakhstan: Perspectives on Eurasian Integration"; Introduction. European Council on Foreign Relations, 8 June 2016.
http://www.ecfr.eu/article/essay_eurasian_integration_kazakhstan

[574] Meruert Makhmutova, "Kazakhstan: Perspectives on Eurasian Integration", European Council on Foreign Relations, 8 June 2016 http://www.ecfr.eu/article/essay_eurasian_integration_kazakhstan

[575] Meruert Makhmutova, "Kazakhstan: Perspectives on Eurasian Integration", European Council on Foreign Relations, 8 June 2016 http://www.ecfr.eu/article/essay_eurasian_integration_kazakhstan

[576] Meruert Makhmutova, "Kazakhstan: Perspectives on Eurasian Integration", European Council on Foreign Relations, 8 June 2016 http://www.ecfr.eu/article/essay_eurasian_integration_kazakhstan

5. Some Other Issues

(a) *The Thucydides Trap*

Some commentators have referred to the so-called "Thucydides Trap" when examining the Russian-Chinese relationship. This "trap" is refers to events about 2,500 years ago when the Peloponnesian War occurred and was written about by a Greek named Thucydides. The basic story is that the growing power of Athens caused great concern to Sparta which had for some time been the most powerful state – and the end result was war!

The essential idea for the purposes of the analysis in this book is that a rising power (in both economic and military terms), such as China, will always want more influence over the world around it (particularly Central Asia), while the existing dominant power (Russia) will resent this and seek to prevent it happening.[577]

Marcin Kaczmarski argues that "Beijing has managed to convince Moscow that China's rise does not pose a threat to Russia's ruling elite. Demonstrating self-restraint and some willingness to take Russia's interests into consideration, Chinese policy makers have successfully avoided falling into the Thucydides trap and prevented a backlash from a former great power over which they have been steadily gaining the upper hand".[578]

There are several points to make about this comment. Firstly, Kaczmarski refers to "a threat to Russia's ruling elite" which is, in the view of this author, ignores the likelihood that Russia's decision makers also might have concerns about a threat to the whole country and not just their own personal interests.

Secondly, while Kaczmarski is correct in saying that Russia and China have so far managed to prevent "great power" competition leading to the "Thucydides trap", it is not clear that the situation would have been so benign in the absence of other pressures on Russia and China coming from the West. Just as importantly, it is early days yet and such great power competitions may take decades to run its course.

(b) *EAEU and AIIB: "hard power" and "soft power"!*

At first glance it might seem odd to be making a comparison between the EAEU and AIIB. Why compare a regional trading agreement with an international financial institution?

There are two reasons.

Firstly, within the context of this book the EAEU and the AIIB are the most complex and centralized entities. Both are multilateral organizations and have permanent executive structures that can make decisions of some consequence. Secondly, both the EAEU and the AIIB have derived from the desire of particular important countries in the Eurasian space to increase their influence and power via an economic orientated entity.

Taking the lead in setting-up an AIIB-type institution was not an option for Russia because it lacked the economic and financial power. Taking the lead in setting up an EAEU-type organization was not an option for China because it lacked the historical and language connections. Thus, both Russia and China have chosen paths best suited to their circumstances.

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[577] The "Thucydides Trap" comparison is often used when examining the developing relationship between China and the US. See Jeff Schubert's power-point presentation, "Influence of South China Sea and Crimea", Beijing International Studies University, 14 March 2016
https://www.slideshare.net/citizenmurdoch/south-china-sea-crimea-similarities

[578] Marcin Kaczmarski, "How China and Russia avoided the Thucydides trap", Lowy Institute, 11 April 2017
https://www.lowyinstitute.org/the-interpreter/how-china-and-russia-avoided-thucydides-trap

Joseph S. Nye has written that power is "the ability to affect others to get the things you want". He identifies "three ways": "you can use coercion, sticks; you can use payments, carrots; or you can use attractions and persuasion, soft power".[579]

The AIIA is built on a combination of "carrots" and "soft power". The attraction to member countries (as borrowers or service providers to the AIIB) is obvious. While, as already argued in this book, the AIIB is really "China's bank" and ultimately under China's control, China has been very successful in persuading other countries that the AIIB is aimed at making large parts of the world a better place.

China has been adroit with the formation and initial functioning of the AIIB. By enticing many European countries to join, adopting English as its "working language",[580] expressing "authorized capital stock" in terms of $US, and playing-up the "green infrastructure"[581] angle, China has made very few if any missteps.

China has kept "hard-power" in reserve. The AIIB Articles of Agreement give it an ultimate stranglehold on the operations and lending policies of the AIIB and the relationship of these to Belt and Road. This "hard" control of the AIIB will be subtly used to advance China's economic objectives and security interests.

The EAEU is built on a combination of "sticks" and "carrots", with historical and language based "soft power" secondary to this. Kazakhstan and Kyrgyzstan both have reason to fear Russia (particularly Kazakhstan with its long border and ethnic Russian minority), but both also hope to or have derived some financial benefit (particularly Kyrgyzstan by way of easier access for migrant workers and government-to-government joining fee). Russia's EAEU "soft power" possibilities have been subsequently badly tainted by the events in Crimea and eastern Ukraine.

In terms of simply distinguishing between "hard power" and "soft power", the EAEU is basically built on "hard power". Yet, there are limits to this. Russia agreed to enshrine institutional flexibility and weak formal commitments in the Astana Treaty in order to get other countries to participate in the EAEU.[582]

But, in terms of "hard-power", Russia has made some advances as – ironically – the events in Crimea and eastern Ukraine have promoted the idea that Russia knows how to use, and will use, military force when it sees it to be in its interests. This has been a lesson not only for Central Asian countries, but also for China.

Conclusion

There have been, and will continue to be, various attempts to link the SREB, the EAEU, and the SCO. The analysis laid out in this book suggests that such attempts will have little success. There are a number of reasons.

The first is that the SREB, the EAEU, and the SCO are very different things in any institutional or organization sense. Moreover, the EAEU and the SCO are each close to the peak of their influence and relevance.

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[579] Joseph S. Nye, "The Future of Power", Bulletin of the American Academy, Spring 2011 https://www.amacad.org/publications/bulletin/spring2011/power.pdf

[580] Article 34 of the "Articles of Agreement"

[581] See Summary of AIIB "2017 Business Plan and Budget"

[582] Rilka Dragneva and Kataryna Wolczuk, "The Eurasian Economic Union: Deals, Rules and the Exercise of Power", May 2017 https://www.chathamhouse.org/sites/files/chathamhouse/publications/research/2017-05-02-eurasian-economic-union-dragneva-wolczuk.pdf

In early July 2017, a joint report[583] by analysts from the Chongyang Institute for Financial Studies, Valdai Discussion Club, and the Kazakhstan Council of International Relations was released. The broad multilateral input into this very recent report might have been expected to result in a clearer understanding of many of the issues that have already been discussed in this text – but it does not!

Paradoxically, this failure to finally bring clarity to SREB issues is the report's strength. It contains this forthright statement: "The current study was accompanied by a heated debate between Russian, Chinese, and Kazakhstani experts, which is reflected in the report."[584]

The report contains this equally forthright assessment: "The 'Belt and Road' initiative in itself remains very abstract and subject to ambiguous interpretation: even Chinese experts often hold to opposite views on its essence."

The report then goes on to say that the Silk Road Fund "is almost the only institutional embodiment of the initiative." However, this statement in itself tells us something about the confused nature of discussion about the SREB because, as already discussed in this text, most of the activities of the Silk Road Fund have little to do with the professed "connectivity" objectives of the Belt and Road.

Despite various "philosophical" aspects in the minds of some people, this author regards the SREB as little more than an all-encompassing slogan to bring together central Eurasian projects in order to increase China's economic and political power and security. Domestic aspects of this include boosting the economic prospects of Xinjiang and other western provinces of China and possibly contributing to reducing over-capacity in various heavy industry sectors. Externally, China wants a secure western rear to its eastern flank which borders on various international contested seas and exposed trade routes. The SREB, whether through Central Asian countries or Pakistan, gives China alternative routes for imports of energy and, to a lesser extent, exports of manufactured goods and industrial capacity.

China now prefers that the original "One Belt, One Road" terminology be replaced with "Belt and Road" because of its widening geographical and political ambitions. The SREB terminology may last longer because of the historical connections that it implies, but at some stage its individual projects will be seen simply as those that any country in China's position would pursue. To put it another way, there is nothing particularly surprising about the SREB for a country in China's geographical, economic and political position.

The EAEU is being held together by Russian will-power and may well survive in its present imperfect form for some time. Even if it can attract one or two new members (such as Tajikistan) during the next few years, it will eventually fade because of its own internal contradictions and because its Central Asian country members will increasingly see their future connected to closer relations with China.

The SCO at one stage could have possibly been the basis of greater economic cooperation in central Eurasia, but Russia has been against this – preferring to try to develop the EAEU as the main Eurasian supranational organization working as a "partner" with China. The succession of India and Pakistan to the SCO will greatly increase its diversity of thinking and interests and this means that it is likely to struggle to avoid becoming little more than a leader's discussion club.

Given all of the above, it is extremely difficult to see a process in which the SREB and the EAEU are linked in any substantial way. Moreover, it would be almost impossible for this to occur with the involvement of the SCO.[585]

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[583] "Reshaping Eurasian Economic Space: Common Perspectives from China, Russia and Kazakhstan Think Tanks", Valdai Discussion Club, July 2017 http://valdaiclub.com/files/14845/

[584] There a several other notable things about this report. Firstly, is the wide variety of organizations involved in preparing the report. Secondly, the timing of release is not long after China's May Belt and Road Summit in Beijing and not long after the release after the admittance of Pakistan and India into the SCO.

[585] Despite this, the authors of the July 2017 joint report, "Reshaping Eurasian Economic Space: Common Perspectives from China, Russia and Kazakhstan Think Tanks" say that "one of the key points of interlocking the

In essence, the SREB and EAEU in the SCO geographical area appear similar to a breaking bowl (the SCO) containing noodles (the strung-out communication routes of the SREB) and a meatball (the flung-together countries of the EAEU which are not a solid mass). All this makes for a very messy meal!

But even a messy meal is a meal, and in the absence of anything else might be consumed if there is sufficient hunger to do so. Which brings us to the second reason why attempts to link the SREB, the EAEU, and the SCO will not be successful. There is simply no agreed appetite among the counties of central Eurasia to change the above trends.

Russia and China are the main players in the context of this book, and will remain so for many years because the other possible main player, India, has neither the Russian historical involvement nor the Chinese financial power to force any significant change in the outlook.

However, the Russia-China relationship is not deep for a variety of reasons, and shows little sign of becoming so. Both countries have a natural inclination – despite a temporary mutual interest in "communism" in the middle of the last century – to look in opposite directions to each other: Russia to the "West" in a westerly direction; China to the "West" in an easterly direction. Over the last two decades or so, the attractions and advantages of the English language and largely "Western" promoted international economic system have benefited both countries, although China has been much more adept than Russia at taking advantage of this.

This author has previously argued that a free trade agreement between China and Russia (or the EAEU) is fundamentally difficult to reach because "Russia views any free trade agreement in quite narrow political and security terms, and its economic agenda is orientated toward new industrial development rather than trade development". China, on the other hand, "at the current stage, is most interested in enhancing economic development and trade across the Central Asian and wider Eurasian regions".[586]

As for Greater Eurasia, the above mentioned joint report by the Chongyang Institute for Financial Studies, Valdai Discussion Club, and The Kazakhstan Council of International Relations, describes it as "nothing else than an attempt to grope for new sources of economic growth. Russia sees them in its potential entry to Asian markets and building up trade with EAEU nations, in luring investments in infrastructure projects in Siberia and Far East. China prefers large-scale investments in external infrastructure and gaining access to new natural resources."[587]

Once again this report is paradoxically useful because it suggests there is a broad limited understanding about the Greater Eurasia idea within Eurasia itself. In reality, Vladimir Putin and many influential Russian analysts mainly regard Greater Eurasia as a geo-political concept to reduce the power of the US and build a multi-polar world. The economic growth aspects are secondary.

Putting these trade, security and geo-political factors together allows us to see that the basic reasons for the EAEU and the Belt and Road are different. The EAEU is based on Russia's conviction that globalization would gradually outlive its usefulness and the perceived opportunity to form a center of economic and political power central Eurasia. China, however, launched its Belt and Road as a way of taking further advantage of globalization and in the process boosting its own security.

The 3-4 July 2017 meeting between Presidents Putin and Xi in Moscow seems to have resulted in little more than motherhood-type statements. Putin said: "We held an in-depth exchange of opinions

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EEU with SREB is creating a common platform. In China's view, this role can be assigned to the Free Trade Area (FTA) between EEU and SCO nations." Valdai Discussion Club, July 2017 http://valdaiclub.com/files/14845/

[586] Jeffrey Schubert and Dmitry Savkin, "Dubious Economic Partnership: Why a China-Russia Free Trade Agreement Is Hard to Reach", "China Quarterly of International Strategic Studies", Volume 02, Issue 04, Winter 2016 http://www.worldscientific.com/doi/abs/10.1142/S2377740016500287?src=recsys

[587] "Reshaping Eurasian Economic Space: Common Perspectives from China, Russia and Kazakhstan Think Tanks", Valdai Discussion Club, July 2017 http://valdaiclub.com/files/14845/

on joining the activity of the EAEU with the Chinese initiative of the SREB. This is a highly promising direction, putting collective effort in line with our idea to form a broad Eurasian partnership." Xi Jinping said: "We are developing our coordination of the One Belt, One Road initiative and the EAEU" and work to "promote development and prosperity on the Eurasian continent."[588]

The Russia-China relationship as it now exists is mainly the creature of the relationship between Presidents Vladimir Putin and Xi Jinping and whatever difficulties both countries are having in their external security environments.

Baring health issues, it would seem that Vladimir Putin and Xi Jinping will remain the most powerful figures in their countries into the early 2020s. Both see themselves as historical figures leading the rejuvenation of their countries. Both want to use international economic relations to boost the power and prestige of their countries, although the way that they go about this is not the same.

For a variety of reasons Xi is likely to be more successful in the international arena than Putin. If nothing else, demographics and the catch-up aspect of economic development that benefits China make this almost inevitable. But, it is also clearly the case that China is showing a much defter hand on the international public relations front and acts to avoid unnecessary conflict, whereas Russia seems to bask in such conflict.

While domestic policies have been little more than touched upon in this book, it is not clear that either Xi or Putin will ultimately put economic effectiveness ahead of domestic political goals, and this will spill-over into international relations and will slow the development of closer economic ties between Russia and China.

While much of the future of the central Eurasian area will be determined by the relationship between Putin and Xi, there is also ultimately a third player, in the form of the child-like Donald Trump and the self-important policies of the USA. If Putin and Xi are attracted to each other, it is the US that has pushed them into their embrace.

While Crimea and the South China Sea remain significant issues for US policy makers, Putin and Xi will find solace in each other. If the US removed such pressure, the present leader-centric Russia-China relationship would quickly show sign of fatigue due to the absence of support from more fundamental deep ties between the two countries and due to their competition in the central Eurasian region. The so-called "Thucydides Trap" might then show prominence.

In the meantime, China seems in no hurry to change present circumstances and trends in central Eurasia because it has the upper hand, and will continue to pay lip-service to ideas of greater cooperation with Russia. While Russia will continue to try to figure out what it can do to hold its position in central Eurasia and – unrealistically – engage in dreams about how it can enhance it!

[588] "Press statements following Russian-Chinese talks", July 4, 2017
http://en.kremlin.ru/events/president/news/54979