



## Journal Issue

# Competition or coordination? The Eurasian Economic Union and China's one belt, one road initiative

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## COMPETITION OR COORDINATION? THE EURASIAN ECONOMIC UNION AND CHINA'S ONE BELT, ONE ROAD INITIATIVE

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## Has “Coordination” Started?

By Zhang Xin, Shanghai

### Abstract

This article critically reviews the response of the Russian and Chinese expert communities to the May 2015 declaration by Presidents Xi and Putin on “coordinating the development of the Eurasian Economic Union and the Silk Road Economic Belt”. It highlights a broad consensus on the most immediate goals, but also disagreement on a range of issues which will have to be overcome if a common Eurasian economic space is to be realized.

During Chinese President Xi Jinping’s visit to Moscow for the May 9<sup>th</sup> Victory Day celebrations in 2015, he and Russian President Putin signed a joint declaration “on cooperation in coordinating the development of the Eurasian Economic Union and the Silk Road Economic Belt” (hereinafter referred to as the “coordination declaration”). The “coordination declaration” is regarded by many in the two countries as the most historically significant declaration between China and Russia since the signing of the “The Treaty of Good-Neighbourliness, Friendship, and Cooperation” in 2001. Almost a year after the declaration was signed, how is the announced coordination being implemented in reality? What does the progress (or lack of progress) in coordinating these two grandiose regional integration projects tell us? In this article, I provide a critical summary of the consensus and disagreement among the expert communities in both China and Russia about the progress towards such coordination.<sup>1</sup>

Vladimir Putin and Xi Jinping started their current terms in office around the same time. Soon after, both announced the initiation of large-scale international projects to reconfigure economic space on a new geographic dimension.<sup>2</sup> These projects also quickly became among the highest priorities for both. The Eurasian Economic Union (EAEU) is constantly referred to as Putin’s “pet project”<sup>3</sup>. While the Silk Road Economic Belt (SREB) along with the 21<sup>st</sup> Century Maritime Silk Road (known together as the “One Belt, One Road” (OBOR) initiative) has become THE “umbrella project” for China’s new economic statecraft, under which almost all other major international policies are supposed to be framed.

Initially the announcement of the SREB by President Xi in September 2013 at Nazarbayev University in Astana caught Russian policy circles 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. So, the announcement was also a surprise to a lot of experts in both China’s think tanks and the research units within the state bureaucratic apparatus. Therefore, it is not surprising that no prior consultation or coordination with foreign, including Russian, partners was attempted.

Following the announcement, the Russian side showed a very cautionary attitude towards the SREB. A lot of Russian elites even seemed upset or irritated, due to what they considered as the lack of respect for Russia’s traditional interests in the areas that lie along China’s proposed SREB, particularly Central Asia. It took “extensive explanation and negotiation” by Chinese officials through diplomatic channels, before the Russian side finally changed its attitude.

President Xi’s visit to Moscow in May 2015 to attend the Victory Day celebrations holds important symbolic meaning for Russia. In protest against Russia’s actions in Ukraine, most western leaders gave Moscow the cold shoulder by not attending the ceremony. There was a clear contrast between 2015 and the same ceremony in 2005, when a large number of western leaders attended the event in Moscow. In that context, Xi became one of the few leaders from major countries present at the ceremony in 2015, and during the ceremony was positioned side-by-side with Putin in Red Square, supposedly reinforcing Russia’s alliances with non-western states, and especially China.<sup>4</sup> Changing geopolitical realities and Xi and Putin’s assessment of the geopolitical situation made possible the creation of the coordination declaration.

1 The information was collected through multiple sources, including a lot of informal conversations and correspondence between the author and various experts from China and Russia. Thus, not all information or opinions are cited with specific sources.

2 Rigorously speaking, the word “project” does not apply to the Silk Road Economic Belt, as the latter is still a very vague initiative.

3 Ghia Nodia, “Spineless EU Is Losing Credibility in the East”, *Moscow Times*, June 1, 2015.

4 For more details on this point, please see Mikhail Korostikov, “Uroki kitaiskogo: Pochemu za proshedsheii god Rossii ne vpolne udalsya ‘povorot na Vostok’”, *Kommersant’ Vlast’*, 8 February, 2016.

The joint coordination declaration formally outlines the common interests of Beijing and Moscow in jointly building a “common economic space” in Eurasia, including a possible Free Trade Agreement between the EAEU and China in the future. Among Russian elites, the economic team had to win Putin’s support against the concerns of the security community, through a process “painful internal discussions” before he endorsed the coordination declaration.<sup>5</sup>

In general, the expert communities in both China and Russia agree that the coordination declaration further embodies the spirits of the established “comprehensive strategic cooperative partnership” between the two countries, and essentially uplifts this partnership to a new level. A key political declaration, it demonstrates and substantiates the political will of the two countries’ top leaders for realizing its goals, clearing political barriers for cooperation between these two major regional integration projects. In essence, the declaration makes it clear that the two projects are not competitive or exclusive, but rather complementary. Thus, experts from both countries hold a fairly strong consensus about the primary “political” nature of the coordination declaration.

Meanwhile, most experts also believe that the declaration is just “the first step of a Long March” towards further China-Russia joint efforts in creating a Eurasian common economic space. Indeed, there is a general consensus that real progress on the ground since the coordination declaration has fallen short of the expectations. Progress can be seen in a few large-scale state-level projects in oil, gas, nuclear energy, etc. However, the other smaller, but supposedly more active projects remain evident more in words than action. Experts all agree that the two countries are in urgent need of concrete plans to implement the “coordination” and make visible progress to substantiate their leaders’ expression of strong political will.

Such slow progress demonstrates the suspicion harbored on both sides about the economic rationale and political feasibility of the coordination project. The majority of Chinese experts hold the view that China’s position in reality is rather simple: facilitation of trade and investment, mutual connectivity, and free trade zone as the highest form of integration. The first two are supposed to be more of technical nature and should be relatively easier to resolve. While the last one is much more difficult and shall be left as a distant goal. It is logical that the coordination declaration only men-

tions experts “discussing cooperation in developing the common economic space”.<sup>6</sup>

However, there are extremely optimistic views among some Chinese experts. One version predicts that the six major platforms and corridors planned under the rubric of OBOR will fundamentally change the landscape of Eurasia, facilitating the creation of a very clearly defined timetable for Eurasian-Silk Road integration.<sup>7</sup> Similarly, some Russian experts already envisage a “greater Eurasia” with a “common economic zone stretching from Lisbon to Shanghai or Singapore”, proclaimed to replace what in the past was perceived as a “greater Europe” from Lisbon to Vladivostok, supposedly better reflecting the new geopolitical and geo-economic reality.<sup>8</sup> However, on both sides, opinion is very divided about the economic efficiency and political feasibility of creating such a common economic space or free trade area, even in the distant future.

The main idea is to create high-level connectivity, reduce barriers to mutual communication, and harmonize rules and regulation across the Eurasian space and modern Silk Roads. This is widely accepted by experts on both sides. It is the question of who and how to implement these integration processes that divides them.

One major practical challenge that both sides acknowledge is how to coordinate an already institutionalized multi-country economic mechanism (EAEU) and an initiative with no organizational structure at all (SREB). The EAEU has already developed its own identifiable organizational features and set of regulatory and legal frameworks, membership criteria and defined rules between its member states. While the SREB is still a proposal and initiative, and thus far from a fixed organization. It is even hard to define SREB as a single “project”, as it is aimed at integrating many smaller ventures, programs, and initiatives across an extremely large geographic expanse, possibly by joint efforts with many other players.

5 Alexander Gabuev, “Eurasian Silk Road Union: Towards a Russia-China Consensus?”, *The Diplomat*, 05 June, 2015, <<http://thediplomat.com/2015/06/eurasian-silk-road-union-towards-a-russia-china-consensus/>>.

6 The official text of the declaration in Chinese is available at <[http://paper.people.com.cn/rmrb/html/2015-05/09/nw.D110000renmrb\\_20150509\\_4-02.htm](http://paper.people.com.cn/rmrb/html/2015-05/09/nw.D110000renmrb_20150509_4-02.htm)>.

7 The six international economic co-operation corridors are: New Eurasia Land Bridge, China-Mongolia-Russia, China-Central Asia-West Asia, China-Indochina Peninsula, China-Pakistan, and Bangladesh-China-India-Myanmar. In an internal report prepared by a team of scholars from the Shanghai Institutes of International Studies, it is suggested that by 2025 a Eurasian continental economic partnership will be developed based on Shanghai Cooperation Organization, and by 2030 the Eurasian Common Economic Space will be formally created.

8 Sergey Karaganov, *Eurasian Way Out of the European Crisis, Russia in Global Affairs*, 8 June 2015. <<http://eng.globalaffairs.ru/pubcol/Eurasian-Way-Out-of-the-European-Crisis-17505>>; Valdai Club, *Toward The Great Ocean-3: Creating Central Eurasia: The Silk Road Economic Belt and the priorities of the Eurasian states’ joint development* (Abridged Version), Moscow, June 2015: 11.

For the same reason, the representation issue has also been raised on both sides. While some Chinese experts are questioning whether Russia can solely represent EAEU in its work on coordination with China. Some Russian experts raise the issue of “membership” of the SREB, and are particularly against the possibility of China working through the SREB with the other involved countries on a bilateral basis.<sup>9</sup> The asymmetric nature of representation implies that any bilateral actions taken by Russia and China as part of the coordination program will likely induce changes among the other members of the EAEU. For example, China has initiated cross-Eurasia transportation corridors, which will very likely cause internal competition among some EEU countries. In any event, all experts agree that the current “1+5 countries” reality between the SREB and the EAEU desperately requires new mechanisms for further negotiation.

A related organizational issue is how to handle the relation between the Shanghai Cooperation Organization (SCO) and the coordination program. The coordination declaration mentions “the two sides will... implement cooperation through bilateral and multilateral mechanisms, including the Shanghai Cooperation Organization”.<sup>10</sup> However, there is significant disagreement about whether the SCO can or should be developed into a platform for further Eurasian integration. Some experts attach great significance to the SCO as a ready-made organizational platform, which logically has the potential to oversee the future development of a common Eurasian economic space in the next 20–30 years. Yet, others question whether the initial organizational mandate of the SCO is compatible with this task of Eurasian integration. Especially when the membership issue and future organizational function of SCO is itself under debate. Thus, to bring the SCO into the coordination program may further complicate the future of all these projects or initiatives. Some former SCO Secretariat officials even denied that there has been any real proposal to make the SCO the platform for developing future greater Eurasian integration. In reality, even the trade facility agreement already passed under the SCO still needs time to be fully implemented. Therefore, Russian and Chinese experts

are far from reaching a consensus on whether and how to “integrate” the SCO with either the SREB or the EEU.

Similar consideration has been raised about Collective Security Treaty Organization (CSTO). Even though some Russian experts argue that the presence of the CSTO as a security and defense mechanism is a unique advantage of the EAEU, there is great concern as to how to ensure security alongside a future common economic space. Those who advocate expanding the role and function of the SCO believe that it can take on the security function for the whole region. If so, integration between the SCO and the CSTO in some form will become a necessity, likely causing new complications of creating a pan-Eurasian regional security apparatus.

All experts agree that the success of the coordination program rests, to a large extent, on the nature and quality of bilateral relations between Russia and China. Experts from both sides acknowledge the necessity to push for new concepts, new theories to make sense of the Sino-Russian relationship (possibly leading to a new type of bilateral relations between major countries) and new mechanisms to realize the potential of such relations.<sup>11</sup> However, the lack of concrete progress on previous initiatives and projects between the two countries obviously concerns most experts. Some of the most frequently mentioned cases of a lack of progress include: the slow and highly asymmetric progress in constructing the *Tongjiang-Nizhneleninskoye* Railway Bridge; and the general failure to realize “The Program of cooperation between the Northeast of the People’s Republic of China and the Far East and Eastern Siberia of the Russian Federation (2009–2018)” passed in September 2008.

Among the proposed major east-west infrastructural corridors, Russia is highly interested in connecting its Trans-Siberian Railway (*Transsib*) and the Baikal-Amur Mainline (BAM) to the SREB, so as to promote the regional development of the Siberian and Far East region of Russia. However, cargo transportation from China and the rest of East Asia only involves a small section of the *Transsib* and the BAM, while some other major routes do not go through Russian territory at all. This is part of the reason why the various types of “bypassing” stories in the Western media carry quite some weight.<sup>12</sup>

9 The Russian side seems to highly emphasize the necessity of multilateral mechanisms, against what one Russian expert calls China’s “old habit of doing business with ‘the Stans’ one-on-one, without informing the Kremlin”, even though all parties acknowledge that this region in general lacks successful multilateral cooperation (Alexander Gabuev, “Eurasian Silk Road Union: Towards a Russia-China Consensus?”, *The Diplomat*, 05 June, 2015, <<http://thediplomat.com/2015/06/eurasian-silk-road-union-towards-a-russia-china-consensus/>>)

10 The official text of the declaration in Chinese is available at <[http://paper.people.com.cn/rmrb/html/2015-05/09/nw.D110000renmrb\\_20150509\\_4-02.htm](http://paper.people.com.cn/rmrb/html/2015-05/09/nw.D110000renmrb_20150509_4-02.htm)>.

11 Even though Xi Jinping proposed the concept of “new type of major power relations” in the context of US-China bilateral relations, quite a few Chinese experts regard China-Russia relations as a better example of this type of relations.

12 “China’s new silk road is designed to cut Russia out of Eurasian trade”, *South China Morning Post*, 16 February, 2016, <<http://www.scmp.com/comment/insight-opinion/article/1913441/chinas-new-silk-road-designed-cut-russia-out-eurasian-trade>>; “Azerbaijan, Turkey, Kazakhstan and Georgia bypass Russia”, 30 November, 2015, <<http://news.az/articles/economy/103127>>.

These stories all try to highlight that China together with other countries along the SREB want to develop transportation routes either along the Sea Route or the South Route, essentially bypassing Russia.<sup>13</sup> Overall, Russian and Chinese experts are still debating whether it is more economical to send cargo along each specific route, with the calculation of costs and benefits much more than a technical issues left only for the economists. In this regard, Chinese experts are concerned that if Europe-Russian relations do not normalize, several routes among all the technically possible choices will be too politically cumbersome. The question of whether major countries along the Eurasian transit corridors, such as Ukraine and Belarus, will be able to remain as neutral economic partners in connecting Asia, Eurasia and Europe is also of great concern to Chinese experts.

Of course, the coordination declaration is just the first step on a bumpy road, as the two powers try to

navigate a possible reconfiguration of a new Eurasian or Silk Road space. To expect tremendous changes on the ground within one year is too demanding. At least, increasing connectivity, reducing barriers, enhancing economic and cultural exchange, harmonizing rules and regulations are common policy goals welcomed by all. If China and Russia manage to find pragmatic solutions to some of the major challenges, downplaying the strong political nature of the coordination declaration, and acknowledging the role of participation for all stakeholders in the Eurasian and Silk Road space, the changes in the future Eurasian landscape can be significant. The key is probably not to overstretch either country's political will or economic resources, and for them to be as inclusive of all possible stakeholders that will become involved in such a grandiose regional reconfiguration.

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13 Valdai Club's influential report *Toward The Great Ocean-3* offers a very different calculation about the relative costs and benefits of each of these three major routes. See Valdai Club, *Toward The Great Ocean-3: Creating Central Eurasia: The Silk Road Economic Belt and the priorities of the Eurasian states' joint development* (Abridged Version), Moscow, June 2015: 15–19.

## ANALYSIS

# The Challenges Facing Russian-Chinese Efforts to “Dock” the Eurasian Economic Union (EEU) and One Belt, One Road (OBOR)

By Li Lifan, Shanghai

### Abstract

China and Russia have declared their common aim of coordinating their respective regional projects in Eurasia: One Belt, One Road (OBOR) and the Eurasian Economic Union (EEU). This article examines the challenges facing attempts to “dock” the two projects. These include the problems that each project has to address for their own development, as well as the differences in their aims and geopolitical orientations.

In mid-May 2015, the Chinese and Russian Presidents issued a joint declaration about their desire to coordinate China's One Belt, One Road (OBOR) initiative and the Russian-led Eurasian Economic Union. Since then, the two strongest powers in Eurasia have shown political willingness to use their respective advantages to promote integration and connectivity across the entire Eurasian continent. But, questions about how they can concretely implement such connectivity projects remain.

The Eurasian Economic Union (EEU) was established in 2014. Its member states have abolished tariffs within the Union, with the aim to promote the free flow of goods, capital and labour among them. They have formed a large internal-market of 170 million people, which should be conducive to the development of SMEs within the member states. The EEU members have raised tariffs on outside investment, but the union should be beneficial for the production of goods within its internal market and thus favourable for exporters, who may

then appear more attractive to foreign investors. As its shares a border with its western regions, China hopes to engage with the EEU as a way to promote “leapfrog” development in Xinjiang Province and enhance connectivity between inland China and the EEU members as part of its OBOR initiative.

This aim of developing connectivity between OBOR and the EEU is theoretically possible. However, its operationalization will be very difficult. Both sides currently lack the base with which to “dock” such large connectivity projects. After the crisis in Ukraine, the EEU has essentially come to be seen as the pivoting engine for Asian integration by various actors and institutions. However, if there is no progress in developing integration within the EEU, especially between the Central Asian members, then its future development does not look promising. The last 20 years do not offer much hope, as integration among the Central Asia Republics since the collapse of the USSR has been consistently difficult.

### **Current Problems Facing the Eurasian Economic Union**

For effective coordination between the EEU and OBOR to develop, the EEU will first have to establish itself as a functioning integration project. However, it faces a number of challenges.

Firstly, the EEU is strongly dependent on the Russian economy, especially its oil and gas industries. Therefore, the prospects for Eurasian economic integration will largely be determined by economic development in Russia. However, Russia is currently facing huge economic sanctions imposed by the US and Europe. It has also been hit by the decline in international crude oil prices, which do not seem likely to return to higher levels in the next 2–3 years. As a result, the EEU is facing big challenges. The deterioration in the external economy context, alongside its members’ national economic downturns, will affect the EEU’s plan for trade liberalization and other policy goals. In contrast to integration, the current context may lead to calls for trade protectionist policies from opposition parties within the EEU member states.

Secondly, the EEU’s internal contradictions will impact on the cohesion of its development. Many expected that Kyrgyzstan’s entry to the EEU would cause this country a domestic shock, particularly as previously it played the role of the entry point and distribution centre for Chinese imports to Central Asia. For the purpose of maximizing their own interests, the Central Asian Republics seek to pragmatically balance the interests of major powers. Thus, the states inevitably try to improve relations with China or the United States, at the same time as cooperating with Russia. However, it

will be difficult for the current and prospective members of the EEU to obtain the desired economic benefit from their relationships with other major powers while being part the EEU. For EEU members, investment and exports from outside the EEU will slow, being replaced by a large number of Russian companies, who will enter their markets to sell Russian-made goods. For those Central Asian countries not in the EEU, who seek a “de-Russification” in terms of keeping their distance from Russia, it is possible to attract more investments from outside the region, including China, USA, the European Union and Turkey.

Furthermore, cooperation between the Central Asian countries is problematic. For example, their low level of economic development and the differences between their national economies mean that it would be difficult to form a unified economic space among the five Central Asian countries. Moreover, political disputes also pose a challenge to integration. There are territory disputes among some states (Uzbekistan, Kyrgyzstan and Tajikistan) over control of water from the region’s transborder rivers, and Kazakhstan and Uzbekistan compete over the status of regional leadership.

Fourthly, the EEU still lacks a common market, in particular in the energy sector. Integration of the energy sector will not occur anytime soon. In spite of the strategic character of the oil-gas and power industries, Russia has insisted that the pace of energy sector integration should be slower than in other sectors. The aim is to form a common energy market after July 1, 2019. Belarus and Kazakhstan would have preferred quicker integration, because the energy sector represents a large proportion of their economies. Due to this long and slow period of negotiation over a common energy market, many doubt that integration in the energy sector will ever be realised.

Fifthly, there is no timetable to establish a common currency. Russia has long been publicly stating that the EEU will eventually have a common currency and a common central bank, which in the Kremlin’s eyes will clearly be the Russian Ruble and a Moscow-based central bank. Belarus and Kazakhstan are strongly opposed to this proposition. On the one hand, the structure of the Russian and Kazakhstani economies are fundamentally different, with Russia closely linking its currency exchange rates with oil prices; on the other hand, Belarus believes that it would be very difficult to regulate the exchange rate of a hypothetical single currency.

### **The Major Problems Facing OBOR in Promoting Connectivity in Eurasia**

The proposed Silk Road Economic Belt part of OBOR spans 18 Asian and European countries, and would

make a very significant imprint on the world politico-economic map. From an international perspective, geographically, the two endpoints connect two of the world's most active economic engines: the European Union and the Pacific Rim Economic Belt. Most countries along the OBOR are in the "sink zone" between these two engines, whereby pursuing economic development and a better life are common aspirations for all these countries. This demand as well as the interests of the two economic engines can be seen as mutually inclusive in the OBOR initiative. From its domestic point of view, China needs to address questions about regional balance as part of its current development model, by focusing on finding new economic growth points. However, the implementation of OBOR faces many challenges.

Firstly, the conflicts between neighbouring states, ethnic struggles and "elite fighting" along the route of the OBOR. Along China's western and southern borders, there are pre-existing tensions between some states that make building connectivity across these areas difficult, including India-Pakistan and Uzbekistan-Tajikistan. In addition, ethnic conflicts pose a challenge to building trust among populations along the OBOR. The Kyrgyz Autonomous region in China's Xinjiang Province borders southeastern Kyrgyzstan, and has been a point of connectivity between the two countries in recent years. However, for various historical reasons, there are tensions between the Kyrgyz and Uzbek population in Kyrgyzstan, with discrimination against ethnic Uzbeks, as seen in the 2010 Osh riots. These two communities have their own national schools and mosques, and there is no communication between them. Therefore, building connectivity between them is not an easy task. Furthermore, "elite fighting" is also an obstacle to building connectivity. There are three Yuzes (tribes) in Kazakhstan. With the question of who will succeed Nazarbayev now being asked, there is a struggle between the medium and small Yuz to position one of their own as a future leader, and concern that whichever is successful may then discriminate against the others. This is another challenge to OBOR efforts at connectivity.

Secondly, the unpredictability of participation by the countries along the OBOR. China has put forward the OBOR initiative design, and is now seeking support from the inland countries in order to implement it. However, this is a difficult task. This challenge began to appear during the "China-Kyrgyzstan-Uzbekistan railway construction", when Kyrgyzstan withdrew from the cooperative project. On the one hand, Kyrgyzstan announced that it will actively participate in the construction of OBOR. But, on the other hand, in December 2013 withdrew from this railway construction project. On December 16, 2013, Kyrgyz President

Atambayev even said: "In fact, the China-Kyrgyzstan-Uzbekistan railway does not solve any problems in our country". Although Kyrgyzstan announced its withdrawal from this railway construction project, this does not mean that Kyrgyzstan would refuse to participate in other OBOR construction projects. What is clear, however, is that OBOR needs to win-over these states, so that they actively participate by ensuring that Chinese connectivity projects meet the interests of all the countries that they will cross.

Thirdly, the US reaction to China's OBOR initiative. Afghanistan is an important hub of the OBOR.<sup>1</sup> Historically, Afghanistan has played an important role in the development of various civilisations on the Eurasian continent. Notably, Afghanistan was a key part of the Silk road connecting Asia and Europe and promoting economic and trade between China and Europe. Through Afghanistan, OBOR could also reach out to Iran, Turkey and even to Europe. However, there are security and political obstacles. A few years ago, Western coalition troops announced that they would be leaving Afghanistan, but no final decision to leave was taken by the US, who has retained troops in Afghanistan. The status of US troops in Afghanistan will influence the progress that can be made in implementing OBOR, with the possibility that the US will seek to hedge against Chinese interests. Also, in 2014, Islamic State (IS) appeared. Like the Taliban in Afghanistan, the reason that IS rose to prominence was a local reaction against the presence of US troops. Today, the efforts to create a Caliphate in the Middle East, Caucasus, Central Asia and Xinjiang pose the main challenge to security in the region. Addressing the current security situation in Afghanistan will be a core strategy for Central Asia and the development of OBOR.

Fourthly, the different levels of socio-economic development among the five Central Asian countries increase the difficulty for China's attempt to increase coordination in the region. After twenty years of independence, the development paths of the Central Asian Republics are becoming more and more obvious divergent, reflecting their competing interests. A good example is their engagement with China on the construction of transport connections. Kyrgyzstan wants China to build a national railway connecting the North and the South, while Uzbekistan expects China to build a "Sino-Kyrgyz-Uzbek" railway. At the same time, Tajikistan is continuously seeking Chinese assistance to improve its infrastructure. Moreover, these contrasting ideas are exacerbated by the tensions between the Central Asian

1 Xu Tao, "Afghanistan: the important hub of Silk Road", *China's Investment*, March 4, 2015



Republics. These includes disputes over access to and control of water, and still unresolved border demarcations. In addition, they tend to follow very different orientations in their foreign policy, including in their relations with China. These issues make China's efforts to promote policy coordination between them very challenging.

Fifthly, the impact of foreign investment on the local social and cultural contexts along the route of OBOR. Improvements in economic opportunities, infrastructure and services are possible positive effects of overseas investment from OBOR activities in Central Asia. However, recent polls show that 40% of people in Central Asia believe that there are negative economic and ecological consequences to Chinese investment. Most significantly, it is suggested the Chinese investment is leading to environmental degradation and an increased level of competition at local markets, which locals are losing. Assessing the environmental and social risks of investment is very different from normal commercial risk calculations. Unlike business risks, environmental and social risks are hard to control. Nonetheless, such risks influence international relations, and cause unsustainable conditions for investment. Currently, Chinese companies often use "bribery" as a means to win contracts for foreign investment projects. However, they do not put much effort into ensuring positive relations and good communication with local communities, NGOs and media. This means that long-term investment is very risky.

### Challenges of "Docking" the EEU and OBOR

There are also a number of challenges to the efforts to connect the EEU and OBOR projects. Firstly, the geographic scope and geopolitical composition of the EEU and OBOR are different, which means they cannot be docked as unified entities. Geographically, the EEU is located in the heart of the Eurasian continent, while OBOR aims to spread itself across Eurasia, including Europe, East Asia, Central Asia and its periphery. The EEU is based on CIS countries, although it is gradually seeking to engage associated countries on its periphery, while OBOR is an open-orientated project, aiming for "65+" partner countries across several different regions of the world. In addition, their aims are distinct. The EEU seeks to develop regional integration amongst its members, while OBOR has a more flexible intention of expanding regional trade and investment. Geopolitically, the EU has opposed the EEU, but has had no objections to the OBOR. The EU's perspectives are related to the perception that the EEU is mainly a Russian political project, while the OBOR is mainly concerned with eco-

nomics. Hence, in geopolitical terms there is not a lot of commonality between the EEU and OBOR.

Secondly, there is the possibility of future tensions between China and Russia. This would impact on efforts to "dock" the EEU with the OBOR. The EEU was suggested by the leaders of Russia, Belarus and Kazakhstan, but is mostly driven by Russia. China is the sole leader of the OBOR initiative. Therefore, disputes between Moscow and Beijing will be a challenge for the coordination of the EEU and OBOR.

Thirdly, the different aims of the EEU and OBOR mean that there is a lack of institutional common ground on which they can engage one another. The EEU has rather political overtones and takes a "defensive" posture as it is orientated inwardly, rather than on outward coordination. By contrast, OBOR aims to connect Europe and Asia, with an ultimate goal of establishing a free trade zone. The EEU built its platform on the agreements of the CIS, and has made a customs union its core concern. In contrast to the EEU's focus on establishing legal and organizational mechanisms, the OBOR is concerned with reaching flexible agreements to the end of coordination.

Fourthly, the possibilities of cooperation between the EEU and OBOR are limited by their different emphasis on rule-making. The EEU is focused on very detailed economic cooperation and integration between the strategic sectors of its member's economies, such as full customs liberalization, common tariffs and abolishing quotas and other restrictions. OBOR emphasizes mutually beneficial and pragmatic coordination in energy, commodities and transportation, without calling for harmonization in state economic policy tools.

Fifthly, there are differences in the international status of the EEU and OBOR projects. Although the OBOR initiative was announced a little bit later than the EEU, it has come to attract more international attention. After it was suggested, OBOR won support from Eastern Europe and some Asian countries, but has not found backing from major political powers, importantly the United States and Japan. Recently, the European Union has shown interest in cooperation with the EEU in the energy sector, and the possibility of long-term engagement between the EU and EEU seems more pragmatic than with OBOR.

### Conclusion

The EEU has unified an economic space, establishing common economic policies between its members towards external countries. This development is beneficial for China's engagement with EEU countries. The OBOR initiative proposed by China integrates various strands of domestic strategies, which point to inclu-

sive, feasible and sustainable cooperation with countries along the belt and road. At the same time, a competitive game between the EEU and OBOR has become a reality. This is, however, a multi-levelled, overlapping and even perhaps a positive-sum game. Russia has changed its attitude toward OBOR, from its initial lack of understanding, suspicion, fear and doubt to accepting, supporting, and even wishing to join OBOR. Currently, the process of cooperation is scheduled to begin with projects for developing Russia's Far Eastern and Siberian regions.

The EEU and OBOR represent the two main regional development models at the heart of Eurasia. In recent years, there have been many negative trends for coordination between the two. For example, the total level of trade among China, Russia and Central Asian countries has declined, the construction of the

“western route” natural gas pipeline between China and Russia has been held-up indefinitely, and the Eurasian Economic Commission has recommended anti-dumping duties be imposed on China. In spite of this competition and these contradictions, the negative factors should not be exaggerated. Recently, there have been various devaluations of the Russian Ruble, Kazakh Tenge and Chinese RMB. Counter intuitively, these developments provide opportunities for greater coordination in the financial sector between these states. However, even if the EEU and OBOR can successfully coordinate their economic strategies, this would not solve all the problems at once. The harmonization of legal arrangements, adjustment of political interests and connectivity takes time to come to fruition.

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#### ANALYSIS

## Post-Soviet States Jostle For Role in One Belt One Road Initiative

By Alexander Gabuev, Moscow

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### Abstract

Following an initially cool reception, many former USSR republics have been lured by the sheer size of China's investment in the OBOR project, with a number of them now keen to capitalise on the wider initiative in line with their own domestic interests.

When Xi Jinping, the Chinese President, made his now famous speech in Astana [the capital of Kazakhstan] in September 2013, announcing the launch of the Silk Road Economic Belt, few post-Soviet leaders took notice. The language of the speech was too vague and the content of Xi's proposals too imprecise to create any meaningful response. As the project matured, however, more attention was paid in all 15 capitals of the former USSR republics.

Questions were raised, though, both about China's internal motivation and about the future routes. Chinese officials' general responses to direct requests and the frequently changing maps of the future routes (published by Xinhua, China's state-owned news agency)

didn't offer much in the way of transparency with regard to the initiative.

At the March 2015 Boao Forum, the Chinese National Development and Reform Commission finally presented a blueprint of the One Belt One Road (OBOR) initiative, together with a declaration of its guiding principles. This, coupled with the establishment of the US\$40 billion Silk Road Fund, saw the initiative taken much more seriously by officials and business communities across the post-Soviet space.

The reaction of each individual state, though, was largely determined by three factors—the size and structure of their economy, their membership of supranational communities, such as the EU or the EEU (Eur-

asian Economic Union—Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia), and the level of expertise inside their respective governments and business communities.

### The EEU Link

When it was first mooted, Russia's reaction to the OBOR was mixed. Following the initial 2013 announcement, the Kremlin was reluctant to engage in any meaningful negotiation as to how Xi's initiative would coexist with the EEU, the pet project of Vladimir Putin, Russia's President. A number of people in Moscow, concerned over Russia's fading status as a regional superpower in Central Asia, regarded OBOR as an intrusion into Russia's sphere of influence. They, therefore, argued that the Kremlin should pressure the Central Asian states into not participating in the Chinese project. This kind of reaction was one of the major concerns among Beijing's Russia-watching community.

Chinese officials were clearly relieved when Igor Shuvalov, Russia's First Deputy Prime Minister, announced at the Boao Forum that the EEU was ready to cooperate with the OBOR project. He then personally undertook to negotiate a framework document with Chinese leaders on Putin's behalf.

On 8<sup>th</sup> May this year, during an official visit to Moscow, Xi and Putin signed a joint statement formally linking OBOR with EEU. The document pledged to create a "joint economic space" in Eurasia. China has officially recognised the EEU and has indicated its willingness to deal with this body rather than talk directly to individual member-states. Similarly, the Eurasian Economic Commission, the supranational body of the EEU, has now been mandated to start negotiations on a trade and investment agreement with China. The question of a free trade agreement with China—a sensitive problem for both Russia and Central Asian states given their high levels of protectionism—was declared a distant goal and effectively postponed to a later date.

For the Russian leadership, the agreement came as the result of painful internal discussions. In the end, the Kremlin concluded that the benefits of coordinating the EEU alongside the Chinese initiative outweighed the risks. It is now understood that it is inevitable that China will become the major investor in Central Asia and the major market for the region's vast natural resources.

The only way Russia can maintain its influence, then, is to recalibrate its role in the region to accommodate its own ambitions and Beijing's quest for raw materials, as well as the region's appetite for Chinese money. What the Kremlin is hoping for is a division of labour between Moscow and Beijing in Central Asia. In this grand scheme, China will be the major driver for economic development, while Moscow will remain the

dominant hard security provider in the region through its Collective Security Treaty Organization.

The biggest problem now is the actual linking process. Moscow still sees it as a bureaucratic project and has created a team of officials, led by the Ministry of Foreign Affairs (MFA), to write the rules. The reality, though, will be more complicated as China has no masterplan for prioritising land-based routes to Europe and possibly wants to build them all simultaneously—partly in order to secure more projects for its stagnating domestic infrastructure industry. What the terms of the Chinese financial loans will be and how much Russian companies will be involved remains to be seen.

The first project, which both have sought to position as a consequence of linking the EEU and OBOR, is the construction of a high-speed rail between Moscow and Kazan. The Russian Railways initiated the project back in 2012, hoping for government money and a German contractor. In the wake of the Ukrainian crisis, the Railways changed tact and agreed a loan-for-contract scheme with the Chinese.

Another issue for Russia is its concerns that that land-routes through Central Asia and the European part of Russia will undermine the chances of the Trans-Siberian Railway becoming the major land link between the markets of Europe and Asia. As a result, Moscow will be pushing Beijing to include the Trans-Siberian Railway and the northern Baikal–Amur Railway as part of the OBOR project. At the same time it will be looking for pledges to improve the infrastructure and regulatory issues regarding the ports of the Russian Far East. Vladivostok, for instance, was declared a free port this year by President Putin. Moscow hopes that Chinese investment, coupled with efforts to facilitate the required transit procedures, will strengthen Russia's position as a bridge between the East and West.

Belarus is also hoping to secure its own role in the project by emphasising (together with Russia) the strengths of the Customs Union, under which a cargo coming from China will need to cross just two customs borders (China/Kazakhstan and then Belarus/Poland) to get into the EU. Previously, Ukraine had some hopes of participating in OBOR, with former President Victor Yanukovich seeking to include Crimean ports in the scheme. Following Russia's annexation of the peninsula and the military conflict in the east of the country, however, Ukraine is now unlikely to be included.

### The Stans and the Baltic States

Overall, the Central Asian states—the five "Stans"—may be most affected by the OBOR initiative. Kazakhstan will play an important role as three of the planned Silk Road routes are passing through the country. The

Northern Route will be going through northern Kazakhstan, crossing into Russia, then proceeding to the EU either via Belarus or through the Baltic ports.

The Central Route, meanwhile, is intended to cross the Caspian Sea through the ports of Aktau and Baku and then continue to Turkey through Azerbaijan and Georgia. The Southern Route will go through Turkmenistan and then on to Iran. Astana was quick to realize the potential of OBOR and presented its own national infrastructure development plans (“Nur Zhol”) as a part of the initiative that needs to be financed. Kazakh officials and entrepreneurs, however, do have a number of private concerns, particularly that China’s dominance in all contracts will leave no place for local companies, as well as Russia’s likely anxiety about its status and the role of the EEU.

Many of the other Stans have less to offer the OBOR and are, consequently, unable to lobby Beijing for partic-

ipation in their domestic projects. There are two countries, in particular, which are unlikely to benefit from the OBOR initiative—Tajikistan, due to its worsening security situation, and Uzbekistan, due to the growing isolationism favored by its President, Islam Karimov. Among the Baltic States, OBOR has been most welcome in Latvia—a country that is the principal transit destination in the region, largely thanks to its combination of developed seaports and well-managed railways.

Above and beyond that, a number of problems exist outside of Russia’s sphere of influence. A number of big players inside the EU, including both Germany and the Brussels-based European Parliament, haven’t decided on their policy and regulatory standing with regard to OBOR-sponsored projects within the EU. The other concern is the EU’s worsening relationship with Russia, which may lead to Moscow lobbying for the Baltic States to be bypassed by the OBOR initiative.

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## ABOUT THE RUSSIAN ANALYTICAL DIGEST

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