Hidden Dragon: The Chinese Era in Central Asia

By Georgiy Voloshin

Following the global financial crisis of 2008-2009, the economies of Central Asia still face many structural impediments: a debt-ridden banking sector, inefficient agriculture, stagnating industrial output and, since mid-2014, a depressed oil market. Meanwhile, the region faces two overlapping economic strategies promoted by its powerful neighbors, Russia and China, which are now linked in a complicated alliance of divergent interests and converging goals. Despite the potential for conflict, China will ultimately prevail in the region, argues analyst and consultant Georgiy Voloshin.

2014 WILL likely be remembered as a year of momentous shifts in international politics: from the rise of the Islamic State in the Middle East and its terrible consequences for regional security to the shale oil boom in North America and its lasting impact on the world’s energy landscape. In the former Soviet Union, Russia’s involvement in the Ukraine crisis and its half-acknowledged support for the rebels fighting Ukrainian government forces in the east of the country have made Moscow the target of Western political and economic sanctions. While it has already taken a significant toll on its macroeconomic stability and international prestige, Russia is not the only country to suffer from the ever-deepening standoff with the West. Central Asia — a region to the south of Russia that was once a part of the Russian empire under the Romanov dynasty before its incorporation into the Soviet Union — just happens to be an indirect casualty of the diplomatic spat.

Russia remains today the largest trading partner of four Central Asian republics: Kazakhstan, Kyrgyzstan, Uzbekistan and Tajikistan, while its economic leverage in Turkmenistan is second only to China’s. Although its overall regional leadership has been on the wane since the mid-1990s, when the local regimes began to diversify their foreign policy partnerships, Russia still plays a major if not a defining role in the regional economy. Its oil and gas supplies cover most of Kyrgyzstan’s and Tajikistan’s energy import needs, with Russia’s Gazprom having this April taken over the former’s state gas distribution company, KyrgyzGas, thus maintaining a full monopoly over the Kyrgyz gas sector. Moreover, domestic stability in Kyrgyzstan, Uzbekistan and Tajikistan is largely predicated upon a stable flow of remittances from labor migrants working in Russia. Yet remittances shrank in the first quarter of 2014 for the first time since 2009, according to the European Bank for Reconstruction and Development (EBRD).1

As for Kazakhstan, it has until recently rather successfully played Russia off against China, in pursuit of a multi-vector foreign policy that seeks good relations with these two key neighbors alongside extra-regional powers, including the United States and the European Union. However, despite its strenuous efforts to preserve a relative balance between the leading regional players in Central Asia, it is obvious that Kazakhstan still needs Russia more than any other foreign partner in order to keep its coffers full of petrodollars. In fact, most Kazakh oil is delivered from the Caspian shore to the world market via the Caspian Pipeline Consortium (CPC). This 1,500-kilometer pipeline, which ends at the Russian port of Novorossiysk on the Black Sea, is 24 percent owned by the Russian government, the single largest shareholder. While Central Asia accounts for a very modest share of Russia’s and China’s external trade — close to 4 percent and less than 1 percent, respectively — it is seen by many as a highly coveted prize in the latest version of the proverbial New Great Game. On the one hand, the western portion of the region sits on vast energy resources and borders the Caspian Sea, a truly strategic landlocked body of water that serves as a gateway to the South Caucasus and Eastern Europe to the west and Iran and the wider Middle East to the south. On the other hand, its southern rim abuts Afghanistan, whose territory gives direct access to South Asia and the Indian Ocean. All in all, Central Asia’s geographic location at the very heart of Eurasia highlights its tremendous transit potential, thanks to direct land and air connections between Europe and Asia. This makes it a
small but indispensable piece of the trans-Eurasian trade jigsaw puzzle, and its relevance will only grow in the years to come.

This is what makes Central Asia a particularly precious trophy for the Russians and the Chinese, both of whom are increasingly vying for regional economic preeminence at a time when Russia’s macroeconomic stability is being challenged by US and European sanctions and the slowdown in China casts a long shadow over the future of the global economy.

‘EURASIAN UNION’ AS RUSSIA’S PATH TO GREATNESS

In January 2015, Russia, Kazakhstan, Belarus, Armenia and Kyrgyzstan will jointly launch the Eurasian Economic Union (EEU), whose immediate predecessor, a trilateral customs union between the former three states, was formally established in mid-2010. The EEU’s founding treaty was signed in May 2014 in Astana by Russian President Vladimir Putin and his Kazakh and Belarusian counterparts, Nursultan Nazarbayev and Alyaksandr Lukashenka. In October, the trio was joined by Armenian President Serzh Sargsyan, while the president of Kyrgyzstan, Almahzet Atambayev, has said he expects to see his country’s accession to the EEU endorsed in December. Back in 2001, both Kazakhstan and Kyrgyzstan were among the founding members of another integration bloc, the Eurasian Economic Community (EurAsEC), which also included Russia, Belarus and Tajikistan prior to its dissolution on Oct. 10, 2014.

Although many external observers, especially in the West, consider Russia to be the original spearhead of the Eurasian movement, largely because it was initially discussed by Russian émigré intellectuals in Europe in the 1920s and 1930s, the initiative first came from Kazakhstan. Twenty years ago, Nursultan Nazarbayev gave a lecture at Moscow State University in which he called on Russia and other post-Soviet states to set up a new co-operation framework. The timing for this was nearly perfect: the Soviet Union had just collapsed, bringing down with it the system of centralized economic planning, as well as trade ties between the now-independent republics. Despite the soundness of the proposal and the reality of a power vacuum in Central Asia that increasingly undermined Russia’s strategic influence there, Nazarbayev’s idea fell on deaf ears in Moscow. At the time, the Kremlin was preoccupied with other business: from Russia’s dire financial straits and socioeconomic woes to the planned expansion of NATO across Central and Eastern Europe.

Russia under Putin, however, has lately been carrying the torch for Eurasian integration at the highest political level. In October 2011, then Prime Minister Putin authored a lengthy article on this topic in the Russian daily Izvestia. While acknowledging that a revival of the Soviet Union was neither possible nor desirable — for “it would be naive to try to revive or emulate something that has been consigned to history” — Putin called for a “powerful supranational association.” He argued that the association in due course should become “one of the poles in the modern world and [serve] as an efficient bridge between Europe and the dynamic Asia-Pacific region.”

There is no doubt that Ukraine has until recently historically been characterized by the prevalence of bilateral ties with a strong personal touch. Chinese presidents Jiang Zemin, Hu Jintao and Xi Jinping have all developed at various times close relationships with their Central Asian counterparts, which was, for instance, instrumental in the successful delimitation of the Kazakh-Chinese border in the 1990s. Back then, as China’s double-digit growth was matched by a rising demand for imported energy resources, the Middle Kingdom set out on a decade-long conquest of neighboring hydrocarbon-producing markets. This strategy has since paid off, with Beijing largely succeeding in securing untrammeled access to Central Asia’s hydrocarbon riches by investing heavily in the exploration of untapped reserves and the associated infrastructure. The lion’s share of Chinese investment, therefore, still goes into the extractive industries, first and foremost oil and gas.

Since late 2009, China has been importing natural gas from Turkmenistan, and since August 2012 from Uzbekistan, respectively Central Asia’s largest and second-largest gas producers, via the Central Asia-China pipeline. According to estimates by the China National Petroleum Corporation (CNPC), total gas imports from the region will exceed 85 billion cubic meters by 2020, thanks to the simultaneous operation of four independent pipeline branches, of which only one is still under construction. In Kazakhstan, CNPC has been active since 1997, when it acquired a majority stake in a local oil firm, AktobeMunayGas. Almost a decade later, in

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2005, it took over an independent oil producer with Canadian origins, PetroKazakhstan, and last September entered into a giant exploration project at Kazakhstan’s biggest oilfield, Kashagan, off the Caspian shore. CNPC’s business interests also stretch as far as Uzbekistan and Tajikistan, where it drills for both oil and gas.

Unlike Moscow, Beijing has always sought to put economics ahead of politics, refraining from statements or actions that may offend the pride of Central Asians, for whom newly found independence is a precious treasure. This is why one can hardly find any examples of China proposing any form of supranational governance in the region, or trying to force Central Asian governments into restrictive politico-military alliances. Yet, contrary to what some may argue, China’s grand strategy in Central Asia is neither a fiction nor wishful thinking.

In September 2013, Xi Jinping delivered a widely commented-on speech at Nazarbayev University in Astana in which he proposed to jointly build the so-called Silk Road Economic Belt. This area of security, political stability and economic prosperity has been conceived by China as a buffer zone on its western flank that will serve Chinese economic objectives, assure China’s presence on the list of benefactors and aid packages and preferential loans to its Central Asian partners. As far as regional security is concerned, Russia will remain the guarantor of peace in Central Asia, especially with regard to neighboring Afghanistan. However, the key reason for China to avoid confrontation with Russia is not its lackluster prospects as a collection of Soviet republics, such as Georgia and Ukraine, that tried to cast their lot with the West, shows the limits of Russia’s willingness to let others live according to their own visions. In contrast, China’s soft power has been greatly boosted by its lack of any territorial disputes with western neighbors, its unquestioning recognition of the legitimacy of their regimes and its reluctance to impose upon them anything that might arouse their suspicions or mistrust.

It further stands to reason that China’s significant financial resources will continue to consolidate its geopolitical standing across Central Asia. At a time when the region is facing a new period of macroeconomic uncertainties and with Russia in the unenviable position of having to fend off US and EU sanctions to avoid another recession, Beijing has enough money to invest where Central Asia needs it most. In the past few years, it has already become a leading lender to Kazakhstan, by far the region’s most important country, and has engaged in similar policies in Kyrgyzstan, Tajikistan and Uzbekistan. Russia’s economic weakness is by most measures the central weakness of the whole EEU, which some analysts have described as a stillborn project, pointing to its lackluster prospects as a collection of diverse, sometimes wrangling and for the most part financially fragile states.

Notwithstanding its many advantages, China will most likely abstain from edging Russia out of Central Asia’s political and economic landscape. The two states will continue to enjoy equal rights and privileges as co-leaders of the Shanghai Cooperation Organization (SCO), which Beijing has already used to hand out generous financial aid packages and preferential loans to its Central Asian partners. As far as regional security is concerned, Russia will remain the guarantor of peace in Central Asia, especially with regard to neighboring Afghanistan. However, the key reason for China to avoid confrontation with Russia is that Russia itself is increasingly viewed by Beijing as an integral part of its New Silk Road project — not as a geopolitical rival, but as an ally and a minor partner who will be allowed to pursue policies of its own in Central Asia, but whose freedom of action will stop just short of determinin its future.

Georgiy Voloshin is an analyst for the Central Asia-Caucasus Institute & Silk Road Studies Program at Johns Hopkins University and the Jamestown Foundation. He may be contacted at: georgekz@mail.ru.