China and Russia’s Eurasian Plans. Part 2

We should add one more important dimension to the character of Chinese expansion in Central Asia. It began with and still continues the export of labour-intensive products, which often hinders the development of the region’s manufacturing industry and its integrated agricultural complex. That being said, the problem of employment within Central Asia is presently very severe and cannot be solved simply by increasing labour migration to Russia.

On the day’s agenda – the temperate system of protecting vital domestic markets in the region and, possibly, transferring labour-intensive industries here from China, which has already officially declared a restriction on the export of its most efficient and high-tech goods.

It is apparently impossible to avoid some self-restraint on the part of China in its implementation of contract work in Central Asia, as it is primarily filling facilities with personnel from China while training qualified personnel on-site.

It is not necessary to prove that socio-economic stability in the region based on reindustrialization (which, presently, is difficult to imagine without the China’s participation) will, ultimately, be the only guarantee of restoring statehood and democratization within the current political regimes there, whose destabilization Beijing and Moscow will not contribute to. Indeed, Russia and China are not less interested, but more interested than non-regional players – both Western and Asian – in the course of the rebuilding process within Central Asia.

Formed in 2001, the Shanghai Cooperation Organization (SCO), as the first international regional grouping initiated by Beijing, had, apart from specific tasks of maintaining security in the region, considerable political significance and prestige for China. This is why the issue of reindustrializing Central Asian through its moderate economic cooperation with China deserves the close attention of this organization.

The question for the future is whether Central Asia would be able to establish its own successful integrated inter-regional grouping, after strengthening the economic sovereignty of the countries involved, which will subsequently provide them with the ability to solve problems related to their neighbours? To what degree will the establishment of structures such as the Eurasian Economic Community and SCO facilitate this grouping? How will they resolve issues of transit and entering into distant markets?

It appears that without Russia and China’s patronage, these plans cannot be implemented in any viable form.

It should be noted that in concentrating on the extreme importance of relations with its neighbours (including within international treaties and SCO documents), Beijing should, theoretically speaking, sympathize with the regional economic integration of its neighbouring countries – be it through ASEAN or a Customs Union. The ASEAN-Chinese free trade zone has already proven its effectiveness. In speaking of the latter, as imagined, a similar agreement could be reached with Central Asia in the long run, once again, with possible small exceptions, as China’s commodity expansion raises considerable concern in Central Asia while inter-regional integration is extremely weak, in contrast to ASEAN.
Although the main structural component of the SCO is the cooperation between Russia and China, we are currently noticing “soft” competition between Moscow and Beijing. The leading countries of the SCO are sympathetic to the inevitable disagreements and complex issues that arise, including those regarding integration projects. In particular, China has proposed 3 initiatives to its partners. The first is the creation of the SCO Development Bank, which involves founding a bank from scratch, headquartering it in Beijing, filling it with Chinese money and putting the current president of the China Development Bank as the director. The second project is the creation of a special SCO account. The third initiative is the organization of an SCO free trade zone, which was already proposed in 2012. Russia has taken on a wait-and-see attitude in relation to all of these projects.

There is still the possibility that the idea of creating the Eurasian Union on the basis of three states was calmly accepted by Beijing only outwardly, while in fact causing much concern within China, especially with regards to the prospect of establishing a free trade zone through the SCO. It is well known that, since 2004, the Chinese version of this zone has not been accepted by the Central Asian states, members of the SCO. China’s new project design met with the same fate. Putin’s plans for Eurasian integration, according to some analysts, are not consistent with the Chinese strategies for regional integration within Central Asia.

At the moment, Russian diplomats have managed to convince their colleagues that it is still premature to make decisions about these projects. China, while realizing that Russia lags behind in economic development within Central Asia, still continues to recognize its position as the unofficial political leader in the region, while increasing the economic revitalization in Central Asia. In this sense, the relationship between Moscow and Beijing is competitive economically while at the same time being mutually understanding politically, not excluding, of course, some disagreements.

On the other hand, Beijing could view the implementation of the concept of the “Eurasian Union” and the creation of the Customs Union as pro-Chinese Russian efforts during Russia’s renewed move eastward. Russia’s Eastern Project inevitably lends additional weight to Chinese foreign policy. The most important part of this project is increasing the density of the area connecting the Pacific coast with central Eurasia - the Urals, Western Siberia and Kazakhstan.

Making this space more dense represents for us the diversification of its economic specialization. The more promising prospects include the production of food products, the shortage of which is rapidly growing in China, and, possibly, forming the basis for a Customs Union – a kind of “Asian breadbasket”.

Complementarity in the sphere of providing energy resources to China, on the one hand, and Russia and Central Asian countries, on the other hand, is an obvious base and an important factor in multilateral cooperation and competition within the SCO.

Elite countries within Central Asia are considering the Chinese vector, seeing the growing potential of China as one of the most important factors to its development, which offers the possibility of receiving foreign investment, loans, building infrastructure, developing trade and implementing energy projects. The ruling circles in Central Asia are often oriented toward China, which can be seen through many different facts. In particular, the VII Eurasian forum held in October 2012 in Astana provided an opportunity to make predictions about the future development of the oil and gas industry in Kazakhstan.

The Minister of Oil and Gas in Kazakhstan Sauat Mynbayev stated that the country plans to increase oil exports to China and the European Union. “Kazakhstan is in the centre between two key oil consumption markets - the EU and China. We can export to other distant markets by way of the Black Sea, via the BTC (Baku-Tbilisi-Ceyhan) pipeline, not to mention the markets of Afghanistan and Uzbekistan. However, in terms of the volume of exports, the main markets for us are the EU and China.” Experts believe that Kazakhstan can compete with Russia over the export of “black gold” to China, as Kazakhstan has a significant advantage – a shorter distance for pipeline deliveries.

Certain disagreements also exist between Russia and Turkmenistan regarding the delivery of natural gas to the Chinese market.

Meanwhile, China has not lost its interest in obtaining and paying for fixed amounts of gas under long-term contracts and is willing to make advance payments. The market is growing and will continue to grow here, in contrast to the European market.

The external expansion and the emergence of China as a new energy producer means further fragmentation and regionalization of the world energy resource market, which includes fragmentation on a political (geopolitical) basis. Experts in Kazakhstan have recently suggested that China has reached a critical share of ownership in the republics’
fuel and energy complex, and, there is a possibility that there will be no new sales of assets to China. Nevertheless, in 2013, sale of such assets to China continued.

The current level of energy sales to China may not seem the most beneficial, but, we repeat, one should not underestimate the quantitative potential of this market, as well as its depth, which includes distribution, storage, processing, etc. One of the ways to move the negotiations along is to shift to the background the issue of price at the border, a mixed pricing formula and various kinds of package deals. Also important for China’s partners is the issue of the future relationship of gas delivered by pipeline and LNG within Chinese imports, which are roughly equal so far.

The Chinese expansion is legally sound, not limited to the energy sector and has not yet led to significant losses for Russia. Moreover, the increased global price has maintained Russia’s presence in Central Asia. In a sense, the scale of the Chinese market somewhat overshadows the issue of competition between Russia and the Central Asian countries for China, and there are already examples of cooperation here that is beneficial to all parties.

Moreover, common interests between Moscow and Beijing have increased. Thus, for Russia, the delivery of gas and oil via pipelines from Turkmenistan and Kazakhstan to China, although resulting in a certain loss, was in the end advantageous because it weakened the pressure of these hydrocarbon producers on the European markets. Now, China is not particularly interested in the sale of Central Asian energy resources to the West.

The disagreements between Russia and China are softened by another circumstance as well. According to Russian experts, Central Asia has been and still remains a strategic “backdoor” for China in many ways - security, energy and the complex interaction with the West and its neighbours in East Asia. It is now given the role of providing new markets and sources of raw materials while being a transit “corridor”. Even though the role of Central Asia is growing in importance for China, this “backdoor area” is still secondary for China in comparison to its international policy in general. It is important mainly for the development of the backward areas of China, especially Xinjiang.

The emerging picture of international relations seems to us to be rather favourable for Russia’s projects within Eurasia, including its multilateral cooperation with China, which presently has clear interests in stabilizing Central Asia and successfully developing its economy: among other things, the region has become a strategically important energy supplier for China.

Next in line are new projects that would be able to, in increasing the degree of collective self-reliance within the SCO for strategic goods (energy, food, water), promote the development of infrastructure, agriculture and the manufacturing industry in the region, while easing the position of countries without access to the sea.

Only time will tell whether a polycentric structure will lead to the socio-economic recovery of Central Asia. Not everything depends on Moscow and Beijing here, whose interests in most areas, including energy, are sufficiently close. However, the favourable external possibilities for a “breakthrough in development” in the region, we repeat, have developed and look better than they did at the beginning of the century, largely thanks to Russia and China.

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