

Russia and China in Central Asia

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Summary

Over the last three years, Russia and China have increased their engagement in Central Asia in response to NATO's withdrawal from Afghanistan. Moscow has deepened its security cooperation with the Central Asian states with a new strategic purpose—guarding against instability spilling over from northern Afghanistan—and has promoted the expansion of the Eurasian Economic Union. China also has dramatically accelerated its economic activities in the region by announcing the One Belt One Route (OBOR) initiative, an ambitious project to upgrade regional infrastructure and connect China to Europe and the Middle East. Although both Beijing and Moscow claim to be regional partners and not rivals, since the Ukraine crisis Russia has been forced to accept China's terms of cooperation in order to signal that it has non-Western partners and opportunities.

Introduction

Over the last two years, both Russia and China have increased their engagement with Central Asia, with both developing new policy instruments to exert regional influence.¹ This shift comes in reaction to perceptions that the United States and NATO are leaving a security and governance vacuum by drawing down from Afghanistan. Russia claims Central Asia as a sphere of privileged interest and security hegemony, while Beijing has unveiled plans to massively invest in transportation infrastructure and energy sectors. This memo overviews these recent strategic shifts and then assesses their impact on Russian-Chinese relations in Central Asia.

Russian in Central Asia Post-2014: Performing Hegemony

Since 2012, we have witnessed a distinct shift in Russian strategy in Central Asia. Russia has aggressively re-asserted itself as

a regional hegemon, and has sought to turn the smaller and weaker regional states (Kyrgyzstan and Tajikistan, as well as Armenia in the Caucasus) into “client states,” loyal to Moscow. The impetus for this strategic shift is both a more assertive regional policy by president Vladimir Putin and anticipation of US withdrawal from Afghanistan and Central Asia. This more assertive stance has been further fueled by the Ukraine crisis, with Moscow actively seeking to counter what it perceives to be Western encroachment on former Soviet territory.

The distinctive features of this Russian reassertion include:

1. *Using new regional organizations to assert its regional hegemony.* The most important of these are the Collective Security Treaty Organization (CSTO) in security and the Eurasian Economic Union (EEU) in economics. These organizations are not the reincarnation of the Soviet Union. Rather, they are new-style regional organizations, with supranational agencies and decision-making bodies that mirror the form of Western counterparts (EU and NATO). However, they are *de facto* controlled by Moscow and are intended to lock member states into exclusive zones of economic and security cooperation with Russia. Moscow used the promise of subsidized energy in bilateral negotiations with Armenia (2014) and Kyrgyzstan (2015) as the carrot/stick to push these states to join the EEU as the body's fourth and fifth members (the others are Russia, Belarus and Kazakhstan). Tellingly, during EEU Treaty final negotiations in May 2015, Kazakh officials objected to all non-economic forms of cooperation, including the establishment of a proposed EEU Parliament.

2. *Re-establishing a Security Presence:* On the security front, Russia has aggressively re-asserted itself in Kyrgyzstan and Tajikistan. Moscow already maintained an overseas military presence in these countries (Kant air base in Kyrgyzstan, and the 201st in Tajikistan). However, US departure, fears of Afghan “spillover” and the rise of ISIS have given Moscow a strategic rationale for increasing its regional military engagement.

As a result, some instability in northern Afghanistan plays quite well into Russia's broader regional objectives. It allows Russian officials to:

¹ This policy memo draws upon field research and interviews conducted by the author in Beijing (August 2014), Kyrgyzstan (May 2015) and Kazakhstan (June 2015). Findings from this research also informed the author's testimony for the US-China Economic and Security Review Commission's “Hearing on looking West: China and Central Asia.” This was the first official US government hearing on the policy implications of China's engagement with Central Asia. Public testimony is available here: <http://www.uscc.gov/Hearings/hearing-looking-west-china-and-central-asia>

- a. Justify their security cooperation and military installations in CSTO countries (Kyrgyzstan and Tajikistan) in terms of containing instability from Afghanistan.
- b. Justify renewed efforts at military engagement (especially joint border patrolling) with the non-CSTO countries that share a border with Afghanistan (Uzbekistan and Turkmenistan).
- c. Provides Russia the card of blaming the United States and NATO for leaving yet another regional “mess” following a Western military intervention.

3. *International order dynamics*: The Ukraine crisis also has offered Russia a platform to forge a regional consensus to decrease Western influence in the region. Russia has used the Shanghai Cooperation organization (SCO) to issue counter-hegemonic public statements against Western intervention in Syria and denounce Western “double standards,” while it has pressured the Central Asian states to back its annexation of Crimea. Tellingly, Kyrgyzstan, Tajikistan and Turkmenistan were all absent (did not vote) for the UN General Assembly’s vote on March 27, 2014 to recognize Ukraine’s sovereignty over Crimea.

Turning Weak States into Clients: Example of Kyrgyzstan

The new Russian strategy has been most evident in Kyrgyzstan. Over the last 3 years, the small Central Asian state has been turned from a government skilled in the practice of multivector diplomacy (serving as host the Manas air base for US forces and as an entrepot for Chinese re-exports to the CIS), to a Russian client state that is exclusively aligned with Moscow on major security and economic issues. Moscow has:

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- a. Extended its lease governing the presence of Russian military forces to the year 2027. It also consolidated the governance of all five facilities in Kyrgyzstan under the rubric of a single agreement and opened an FSB regional station in the southern city of Osh, near the Uzbek border.
- b. Pressured the Kyrgyz government to close the Manas Transit Center in July 2014, even though the US government had requested a final one-year extension to facilitate draw-down.
- c. Purchased in April 2014 the debt-ridden domestic energy distributor KyrgyzGas for the symbolic amount of \$1.
- d. Announced plans to provide \$1 billion worth of military aid to Kyrgyzstan, about four times the current budget of the Kyrgyz Ministry of Defense.
- e. Opened new media channels and introduced new Russian and Kyrgyz-language programming under Sputnik in December 2014.

Most Kyrgyz elites have eagerly flaunted these closer ties with Moscow. Although there is some opposition to Kyrgyzstan to joining the EEU, most public opinion surveys show high levels of approval for Russia and Russian regional leadership.

Also, the presence of at least 500,000 Kyrgyz migrants in Russia, whose remittances account for about 30% of Kyrgyz GDP, gives Moscow yet another lever over the Kyrgyz government.

Russia and the Guardian of Stability and Order?

The Russian reassertion also leaves us with an important paradox: Russia is responsible for much of the instability in the region, especially the economic crisis unleashed by its countersanctions against the EU and the fall of the ruble, yet Central Asian support for Putin’s leadership remains very high.² Russian media and propaganda continues to promote the idea that the West is intent on promoting disruptive Maidan-style revolutions and street protests.

China in Central Asia Post-2014: OBOR and Public Goods Provision

Over the last three years, China has also intensified its engagement with Central Asia and the AfPak region. Like Russia, China is concerned about the security vacuum being left by US withdrawal from Afghanistan, but it mainly fears the potential for the Taliban and/or ISIS to support Uighur separatists from its restive Xinjiang region. China has indicated a willingness to moderate some internal negotiations and peace talks in Afghanistan, support for police training, and use its close ties with Pakistan’s security services as a back channel. It has also taken the lead in invigorating the “Heart of Asia” dialogue designed to encourage economic cooperation among Afghanistan’s neighbors.

Most dramatically, in November 2013 in Astana, Kazakhstan, Chinese premier Xi Jinping announced China’s plans to pour hundreds of billions of dollars in infrastructure investment in the region under the One Belt One Road (OBOR) initiative. The ambitious plan aims to upgrade the region’s rail networks, ports, pipelines, telecommunications networks and highways, an attempt to improve and foster connectivity between East Asia and Europe and the Middle East. One Chinese newspaper referred to the project as “The most significant and far-reaching project the nation has ever put forward.” The funding sources for OBOR include:

1. *New Silk Road Fund*: about \$40 billion to build infrastructure in the Central Asia and AfPak areas. This fund is operated by the Chinese Central Bank (People’s Bank).
2. *The Asian Infrastructure Investment Bank*: about \$50 billion (possibly expanding to \$100 billion) to fund infrastructure construction projects across Asia. The bank has been joined by Kazakhstan, Tajikistan and Uzbekistan, in addition to Russia. Kyrgyzstan did not join the AIIB, reportedly under pressure from Moscow.
3. *BRICS New Development Fund*: it is yet unclear, whether the Central Asian states will be eligible for these funds.

These new regional funds have been created in addition to existing funding mechanisms, including the SCO and the

² According to Gallup, approval ratings for Putin’s leadership in Central Asia are the highest, along with Armenia and Belarus, in the post-Soviet space ranging from 62% in Uzbekistan to 79% in Kyrgyzstan, to 93% in Tajikistan. See: <http://www.rferl.mobi/a/27144725.html>

Chinese Development Bank (CDB). Indeed, it was through the CDB that China in 2009 provided loans to Kazakhstan (\$10 bn) and Turkmenistan (\$8bn) in exchange for energy stakes. In the Turkmenistan case, the loan allowed the Turkmen government to forgo asking the IMF or private international banks for funds to alleviate its budget crisis. But it has also made Turkmenistan highly dependent on exporting to China.

Objectives of the OBOR

The OBOR has the following international and domestic objectives:

OBOR: Foreign Objectives

1. Bind neighboring states to China and create a friendly community that will join new Chinese-led regional organizations (SCO, AIIB, CICA).
2. Open up new transit corridors that will connect three regions that are central to China's trade: East Asia, Middle East and Europe.
3. Accelerate the internationalization of the renminbi as an international currency.
4. Put accumulated foreign reserves to better use than in "safe harbor" investments such as US Treasury bonds.
5. Signal China's arrival as a leading power in global governance.

OBOR: Domestic Objectives

1. Upgrade infrastructure and development prospects for Xinjiang's border areas.
2. Provide new markets for Chinese construction companies and industries (steel, cement) that are already at overcapacity given the slowdown in the Chinese economy.
3. Foster competition among Chinese inner regions (as happened with eastern coastal cities in the 1980s and 1990s) to play roles as transit hubs.

However, the OBOR also raises important concerns.

1. *Private (Mis)Use of Public Funds:* The first is that Central Asian governmental and local elites may embezzle funds or otherwise misuse these Chinese-sponsored projects for their own private benefit. Corruption is always a concern in Central Asia, but the particular mix of regional governance problems and lax oversight of Chinese projects might create severe governance risks.

2. *Displacement of Western Projects:* Second, following the logic of "public goods substitution," the availability of these substantial Chinese funds now undercuts the activities and erodes influence of Western donors. It also makes it more difficult for Western donors to demand governance or environmental conditions.

3. *Exacerbate regional rivalries and ethnic conflicts:* A third unintended consequence is that an inflow of external developmental funds may fuel, not ameliorate, local conflicts and ethnic rivalries. One particularly controversial project in the region is the proposed Chinese financing of an Andijan (Uzbekistan)-Osh (Kyrgyzstan)-Xinjiang railway that would

connect Uzbekistan and Kyrgyzstan via the south. However, many Kyrgyz officials fear that this will economically isolate southern Kyrgyzstan from the north and may fuel ethnic Uzbek separatism.

4. *Increased Governance Problems for Other Investors:* A final concern is that an influx of Chinese funds will displace and deter other states and/or private actors from investing in the region. The anticipation of Chinese funds will raise expectations about obtaining graft and bribes from other sources.

An Example from Tajikistan: We have already observed a Central Asian case of the "public goods substitution effect." China's funding of the Dushanbe-Chanak Highway in Tajikistan (opened 2010) displaced a proposed World Bank project to construct the same road. Also, after the highway opened, an opaque offshore company registered in the British Virgin Islands with reported ties to the Presidential family began to operate tollbooths on the road. So even though China intended the road to be used for developmental purposes, in practice it generated a private rent-stream for the Tajik elite and substituted for a Western-backed IFI.

China as an Energy Player

China also continues its relentless construction activities in the energy sector. During 2009, it provided substantial loans for energy deals to Turkmenistan (\$8bn) and Kazakhstan (\$10bn). In 2013 it provided another \$3 bn energy-backed concessionary loan to Kazakhstan for modernizing its energy infrastructure, while weeks later the Chinese energy company CNPC was awarded a stake in the important Kashagan consortium (from which it had been previously excluded by Western companies). Kashagan is expected to resume production in 2016 following a string of mishaps and technical delays.

But it is in the area of natural gas where China has made its most dramatic regional forays. Since the opening of the China-Central Asia gas pipeline in 2009, China's CNPC has effectively replaced Gazprom as the region's dominant gas player. The China-Central Asia pipeline (Lines A, B and C) originates in Turkmenistan, crosses Uzbekistan and Kazakhstan before connecting to a Chinese pipeline that extends all the way to China's east coast.

Three aspects of this gas pipeline are worth emphasizing:

1. *Legal Structure:* Unlike most multinational energy pipelines, the China-Central Asia pipeline is not a consortium, but rather a series of bilateral joint ventures between China and each Central Asian state (JV 50-50 China-Turkmenistan; JV 50-50 China-Uzbekistan; and JV 50-50 China-Kazakhstan). This means, in practice, the China is the pipeline's de facto mediator.

2. *Distributor and Importer:* The network CNPC is constructing also is making the Chinese company a major regional distributor of gas. For example in Kazakhstan, CNPC is quietly gasifying a string of Kazakh cities including Shymkent. Currently CNPC is constructing a Line D (30 bcm), whose route will differ from that of Lines A, B and C (55 bcm capacity). Line D will traverse Uzbekistan and distribute to Kyrgyzstan before linking to Tajikistan where CNPC is currently developing new gas field finds. Taken together, Lines A-D represent a comprehensive and high volume export and distribution complex in Central Asia.

3. *Gas and Energy Loans*: Third, regional cooperation on gas development and pipeline construction has been linked to broader developmental loans and emergency relief. As in Latin America, China's offers a mix energy investment and development assistance. As a result, Western energy companies admit in frustration that they simply cannot match the mix of public goods and private incentives that Chinese energy companies currently offer regional governments.

Implications for the Russia-China Relationship

The intensification of Russian and Chinese engagement with Central Asia raises new questions about the nature of the Sino-Russian relationship. On the face of it, Russian and Chinese officials claim that they harbor no regional rivalry and that they maintain a clear division of labour: Russia provides security and China provides the investment and trade opportunities.

However, below the surface, the Chinese-Russia relationship remains tense as China's economic footprint inevitably touches upon political issues and places it in de facto regional governance roles. There are also the following points of friction:

1. Beijing will continue to use the very cheap gas that it purchases from Turkmenistan as leverage in its ongoing negotiations with Russia over the possible construction of a second Russia-China gas pipeline in the Altai area (it already did so in the publicized May 2014 "power of Siberia" gas deal). The recent collapse in energy prices gives it additional leverage over Moscow.

2. Russia has reluctantly agreeing to participate in Chinese-led fora that it previously blocked. Russia refused in 2009, 2012 in 2014 to support Chinese-led economic projects within the SCO, including the establishment of an anti-crisis fund a regional development bank. Instead, Russia pushed for its own regional initiatives such as the EEU.

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Over the last year, we see an increasing willingness by Russian officials to cooperate with Chinese proposals. In May 2015 the two sides agreed to coordinate and harmonize OBOR and EEU projects, while China noted that Russia would be eligible

to receive some regional funds. But, over the course of 2014, trade within the EEU has actually slowed down and Chinese-Russian trade in 2015 is down 30% from 2014.

3. Russia-Chinese economic cooperation will continue to grow, but will increasingly be conducted on China's terms. From my interviews and research, it is clear that Chinese officials realize that they are in the driver's seat vis-a-vis Russia, though they will never publicly admit this. Signposts to watch include more access to Chinese firms to Russian strategic sectors like upstream energy development and renewed Russian arms exports to China that had been previously halted due to concerns about intellectual property rights and reverse engineering. Russian attempts to secure debt refinancing from Chinese sources, in response to their exclusion from Western financial markets as a result of the international sanctions, have so far proven unsuccessful.

Conclusions

Since 2013, Russia and China have pursued new strategies in Central Asia. In anticipation of US withdrawal from Afghanistan, Russia has deepened its security cooperation and moved to establish client state relationships with Kyrgyzstan and Tajikistan. China has increased its economic footprint by announcing the OBOR and placing Central Asia at the heart of a new set of planned transportation and logistics upgrades. Whether Central Asia has the capacity to productively absorb these Chinese funds remains an important open question. Following the Ukraine crisis, Russia has increased its cooperation with China, but on Beijing's terms. In its desire to signal that it has non-Western alternatives and partnerships, Moscow risks becoming China's junior partner in a variety of strategically important areas.

Overall, the Central Asian states will find it more difficult to practice "multivector" foreign policy given that as Moscow and Beijing's influence and assertiveness will continue to grow, and Western influence, perceived and real, will continue to decline.

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