



# WORKING PAPER

## PROSPECTS FOR RUSSIAN-CHINESE COOPERATION IN CENTRAL ASIA

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The Working Paper is prepared by the Russian International Affairs Council (RIAC) as part of the “Russia’s Interests in Central Asia” project. The goal of the publication is to outline the possibilities of cooperation between Russia and China in Central Asia by analyzing the interests of the two countries in relation to the interests of the Central Asian states themselves. The Paper also discusses risks and security challenges which are on the rise in the region and may impede the implementation of economic development projects such as the Eurasian Economic Union (EEU) and the Chinese Silk Road Economic Belt (SREB) initiative.

The Working Paper covers the economic interests and presence of Russia and China in the region, and compares their resources for ensuring security. Special attention is paid to the possible cooperation between the two powers in tying together the EEU and the SREB. The authors suggest several promising formats and areas which are in the best interests of both Russia and China, and, first and foremost, in the best interests of the Central Asian states themselves.

The opinions stated in the Working Paper reflect personal views and research stance of the authors and do not necessarily state or reflect those of RIAC.

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# Introduction

Due to its central position on the Eurasian continent between the most developed European region and dynamically developing Southeast Asia, Central Asia has a number of opportunities to offer. These opportunities are linked first and foremost with developing the region's transit potential. Realizing this potential may give a significant impetus to the economic development of Central Asian states, which currently suffer from the economic crisis, weak diversification, outdated engineering capabilities, and drastically decreasing "human capital".

The regional states' interest in developing transportation routes is spurred by China's initiatives. China is interested in securing additional options for transporting goods to Europe and is ready to offer a large volume of investment to export its goods, production, workforce, and capacities for constructing large infrastructural facilities. In 2013, a number of Chinese projects in the region were incorporated into the initiative of creating a "Silk Road Economic Belt", which aims to creating better transportation links in the region in order to facilitate China's access to the European market.

At the same time, because of their geographic proximity to the Middle East and Afghanistan, Central Asian countries face several serious threats to their security. These threats include the spread of radical Islam, terrorism, drug trafficking, organized crime, difficulties in controlling and securing their borders, etc. Since most of these threats are transborder in nature, the efforts the regional states undertake at the national level are clearly not enough. Fighting these threats is among the key national interests of all the Central Asian countries.

Aside from external threats to their stability, there are several internal challenges faced by all the Central Asian countries in varying degrees, and none of the countries have so far succeeded in overcoming these challenges. They include instability of political institutions, problems with ensuring political continuity, the threat of escalating ethnic conflicts, low economic growth rates, and, consequently, inability to ensure employment, which gives rise to high rates of labor migration. Among intraregional challenges one should also note the inability of Central Asian states to solve the existing hydropower conflicts, to handle the problems with electric power, to ensure complete control over, and security of, their borders with Afghanistan, to cut off the routes for drug trafficking, weapons smuggling, etc. The worst-case scenario for the region involves the emergence of "failed states" unable to control their own territory.

The regional countries are interested in outside help for overcoming the above-stated challenges and security threats, but not to the detriment of their sovereignty. Therefore, they strive for a multi-vector foreign policy aimed at searching for the optimal balance in their relations with great powers, a balance that is well-suited to these countries' national interests.

Central Asian countries have chosen widely varying strategies in shaping their relations with various integration projects (EEU), international organizations (SCO, CSTO) and initiatives aimed at advancing international cooperation (the Chinese Silk Road Economic Belt initiative).

Kazakhstan and Kyrgyzstan opted for maximum openness for international cooperation with great powers, in particular, with Russia and China, which are officially named among the countries' most important foreign partners. These states are members of the EEU, CSTO, and SCO. At the same time, as part of their multi-vector foreign policy, they maintain cooperation with several other important players, such as the EU, Japan, the US, and India.

Uzbekistan and particularly Turkmenistan opted for a diametrically different stance. They prefer bilateral cooperation to integrational international structures and to multilateral cooperation within international organizations in general. Uzbekistan is not a member of the EEU or the CSTO, but it is a member of the SCO. For Turkmenistan, this policy is further buttressed by its official neutral status which prohibits participation in military blocs. Turkmenistan is not a member of the CSTO, the EEU, or the SCO. Its involvement in various international cooperation formats in the region is essentially nonexistent. There were periods of time when even its involvement in the CIS was limited to associated membership.

Tajikistan holds an intermediary position between these two groups. It is not a member of the EEU, but it is a member of the CSTO and the SCO.

Thus, the complexity of interregional problems is reflected in the multilevel and fragmented structure of interaction between the Central Asian states themselves on the one hand and between them and their external partners on the other.

Russia's particular attention to the region is due both to the historically existing interconnections in the post-Soviet space and to Russia's immediate interest in ensuring security and stability in the countries on its borders. Recently, and particularly in the case of Syria, Russian leaders have time and again demonstrated their fidelity to the principle of preservation of statehood. It applies to Central Asia as well, where Russia's principal interest lies in assisting the continuing viability of Central Asian states, and, consequently, Russia's principal interest lies in assisting their development as much as possible.

It is this goal that sustains Russia in its desire to coordinate its Central Asian effort with China.

Currently, Russia and China's cooperation in Central Asia is particularly relevant due to the growth of the above-stated threats and security challenges (first of all, from international terrorism and religious extremism), and also due to the grave economic crisis linked with dropping oil prices, which has impacted trade volume and income from labor migration into Russia.

Destabilization risks in the region may be decreased by ensuring a more dynamic economic development. China's leaders initiated the Silk Road Economic Belt (SREB) project; Vladimir Putin, President of the Russian Federation, and Xi Jinping, Chairman of the PRC, reached an agreement to tie the SREB to the EEU. Thus the key to solving growing security problems may concurrently further the interests of the Central Asian countries by enabling them to fully realize their transit potential.

Russia and China demonstrate remarkably similar approaches to the situation in Central Asia; both Russia and China view the existing opportunities in a purely pragmatic vein, and they do not touch upon the domestic policies of the Central

Asian countries and the specifics of their political regimes. This pragmatism and the “non-interference” policy when it comes to the countries’ domestic affairs were once again emphasized in the “Joint Declaration on Deepening Comprehensive Partnership and Strategic Interaction and Promoting Mutually Advantageous ties,” signed by the leaders of Russia and China in May 2015.

What are Russia’s and China’s interests in developing cooperation in the region? What can they offer to Central Asian states to realize their existing potential, to defuse threats and to decrease security risks? How could the two countries coordinate their efforts? These are the primary issues considered in this Working Paper.

# 1. Russia's and China's Common Interests and Cooperation Principles in Central Asia

**Russia's and China's interests in the region.** Central Asia is a rather complicated region with a complex system of tightly intertwined socioeconomic problems and security challenges. Most of them are transborder in nature, which is of crucial importance from the Russian and the Chinese points of view, as both states share borders with Central Asia. Central Asia itself has borders and historical and cultural ties with a number of states and regions characterized by extremely high security risks: Afghanistan and the Middle East.

Central Asia's strategic position in the center of Eurasia and its abundance of natural resources, including fossil fuels, led many regional and world powers to become involved in the region. Competition for influence over Central Asian countries could have a negative impact on the region's development and exacerbate existing problems, including security risks.

It is of primary importance for Russia's and China's cooperation in Central Asia that both countries have largely similar and perfectly compatible strategic and geopolitical interests.

First of all, both countries are interested in fighting the rise of non-traditional security threats. This is of particular importance for Russia, as these threats are transborder in nature and have the potential to negatively influence the situation in the Russian North Caucasus, as well as exacerbate the problem of poor control of migration flows. For China, the problems in the adjacent Central Asian countries could escalate the challenges posed by terrorism, religious extremism, and separatism, particularly in Xinjiang. Therefore, Russia and China are equally interested in political stability and in the socioeconomic development of the Central Asian states to ensure said stability.

It is of primary importance for Russia's and China's cooperation in Central Asia that both countries have largely similar and perfectly compatible strategic and geopolitical interests.

Secondly, Russia and China are not interested in a potentially hostile third party increasing its influence in the region. Strategically, Beijing considers Central Asia and the entire post-Soviet space to be a reliable support for implementing its Asia-Pacific policies. Moscow views the countries of the region as its CSTO allies or as neutral states in the balance of power with NATO in the European theater.

Russia's and China's economic relations in Central Asia are traditionally more competitive than their political and strategic relations. Russia is interested in re-integrating the post-Soviet space on a new economic foundation. Russia is also interested in maintaining its key role in the existing structure of transportation routes and pipelines in the post-Soviet space. Within this territory, Russia has traditionally held the key position, giving a competitive edge to Russian companies.

Since the collapse of the USSR, China has demonstrated its interest in gaining access to Central Asian resources, in establishing efficient trading and investment



interaction with Central Asian countries, and in creating a powerful transportation and pipeline infrastructure which would work as a transit route and also link the region with China. At first, Beijing attempted to realize its interests via the Shanghai Cooperation Organization (SCO), and the projects to create a “free trade zone” undertaken by this organization pursued that particular goal. Subsequently, Beijing integrated these interests in the comprehensive SREB project.

**Overcoming the competitive elements in the relations between Russia and China in Central Asia.** Common strategic and military interests and close bilateral relations prompt Moscow and Beijing to search for ways to efficiently co-adapt their interests and projects and to conduct an active political dialogue.

Russia has a significant military presence in the region, a network of military bases and facilities in Kazakhstan, Kyrgyzstan, and Tajikistan, thus traditionally playing an important role in ensuring stability. Russia has institutionalized this network within the CSTO. Russia has established bilateral military relations with other Central Asian states, including Uzbekistan. Russian language, culture, and educational system traditionally play an important role in modernizing Central Asia, and this role has so far ensured a significant soft power potential, even if it is decreasing with time. China, in turn, possesses rapidly growing economic and “soft” powers. In this connection, there arises the need to coordinate approaches and instruments to be compliant with the interests of both Russia and China, as well as with the needs of the Central Asian states.

Beijing declares its intention to take into account the interests of Russia and of the region’s countries, emphasizing all along that the Chinese initiative is not aimed at undermining those projects which Russia views as the key ones, including, in particular, the EEU created on January 1, 2015.

On September 7, 2013, during his visit to Kazakhstan, Xi Jinping, Chairman of the PRC, presented the Silk Road Economic Belt (SREB) initiative. This initiative clearly demonstrates long-term goals aimed at increasing China’s influence within the Eurasian space, including Central Asia. Nonetheless, Beijing declares its intention to take into account the interests of Russia and of the region’s countries, emphasizing that the Chinese initiative is not aimed at undermining those projects which Russia views as key ones, including, in particular, the Eurasian Economic Union (EEU) created on January 1, 2015. It is not aimed against the SCO, where China and Russia are the key players, or against the collective security system within the CSTO.

In the case of the Central Asian track, one should take into account not only the interests of Russia and China, but, first and foremost, the interests of the Central Asian countries in ensuring economic development and political stability.

The joint declaration by Vladimir Putin, President of the Russian Federation, and Xi Jinping, Chairman of the PRC of May 8, 2015, “On Cooperation Aimed at Tying the Building of the Eurasian Economic Union and the Silk Road Economic Belt”, speaks about searching for ways to establish efficient interaction between three projects: the EEU, the SCO, and the SREB. It is obvious that in the case of Central Asian track, one should take into account not only the interests of Russia

and China, but, first and foremost, the interests of the Central Asian countries in ensuring economic development and political stability. What is required besides are efficient formats of multilateral and bilateral cooperation, including cooperation with players outside Central Asia proper.

**Russia and China's common partnership principles in Central Asia.** What could be Russia's and China's common partnership principles in their Central Asia policies? Some of them are formulated in "Vision and Actions on Jointly Building the Silk Road Economic Belt and 21st-Century Maritime Silk Road," which was published by the Chinese leaders on March 28, 2015. It says that the project is "harmonious and inclusive", that it "advocates tolerance among civilizations"; the "Vision" includes respecting each country's choice of its way and model of development, supporting dialogue between civilizations, searching for common ground while shelving the existing differences, about aligning and accumulating, about peaceful co-existence, joint creation and flourishing.<sup>1</sup>

A comprehensive understanding of the interdependence between security issues and political stability on the one hand and the problems of sociopolitical and cultural development on the other must be an important principle of cooperation.

A comprehensive understanding of the interdependence between security issues and political stability on the one hand and the problems of sociopolitical and cultural development on the other must be an important principle of cooperation. It is obvious that "failed" or "fragile" states are the source of the greatest transborder security threats, which are of particular significance for Russia and China. Ultimately, only aiding the Central Asian countries in ensuring their economic development and sociopolitical stability can be the principal criterion of cooperation efficiency between Moscow and Beijing in Central Asia.

Only aid to the Central Asian countries in ensuring their economic development and sociopolitical stability can be the principal criterion of cooperation efficiency between Moscow and Beijing in Central Asia.

The involvement of non-regional players in the Central Asian processes and the multi-vector nature of the policies conducted by the Central Asian states demonstrate yet another principle of the Russian-Chinese partnership, namely, that it be not directed against third-party countries, that there be striving for as broad and productive interaction as possible with all the powers interested in the steady progressive development of Central Asia. This is fully in keeping with the Shanghai process and the SCO principles.

<sup>1</sup> "Vision and Actions on Jointly Building the Silk Road Economic Belt and the 21st Century Maritime Silk Road" / National Development and Reform Commission, Ministry for Foreign Affairs, Ministry of Commerce of the PRC (publication ordered by the PRC State Council). Beijing, 2015 (unofficial translation from Chinese).

## 2. Russia's and China's Interests in Fighting Security Threats

Terrorist threats make it clear that Russia's and China's interests coincide in maintaining stability in Central Asia.

### The Threat of Returning Fighters

There is the threat of returning fighters who currently fight for the Islamic State (IS) in Syria and Iraq. Official Russian data put the number of IS fighters from the post-Soviet states, including Central Asian states, at 5,000–7,000 people. It is they, together with the natives of the Russian North Caucasus, who make up the principal base of fighters from the post-Soviet space.<sup>2</sup>

There are also ethnic groups of fighters in Syria, which are dominated by people from Central Asia. Some of them fight on the side of IS, others do not. The largest Uzbek group in Syria is Imam Bukhari Jamaat, fighting mostly in Aleppo. A smaller group, Jama'at al-Tawhid wal-Jihad, composed primarily of ethnic Uzbeks, operate in the Idlib province. The Jamaat Sayfullah Shishani group is composed mainly of Dagestanis and Chechens, and it is led by Abu Ubaidah al-Madani, an ethnic Uzbek.<sup>3</sup> The Jaish al-Muhajireenwal-Ansar group is composed of fighters from Russia and other CIS countries.

It should be noted that citizens of Russia and other Central Asian countries fight together with religious extremists not only in Syria and Iraq, but also in other countries, for instance, in Afghanistan, Pakistan, and Libya.

A report by the Soufan Group<sup>4</sup> (December 2015) contains official data on the number of fighters who came to Syria and Iraq from the Central Asian countries (see Table 1).

At the same time, the official Russian estimates given above make us doubt the data presented by the Soufan Group; these numbers should probably be higher.

China also faces the problem of the fighters' probable return against the backdrop of increasing religious extremism in Xinjiang. 300 fighters, mostly

**Table 1.** Number of fighters from Central Asia in Syria and Iraq

Country	Number of fighters
Uzbekistan	500
Kyrgyzstan	500
Tajikistan	386
Turkmenistan	360
Kazakhstan	300
Total	2,046

*Source:* Foreign Fighters. An Updated Assessment of the Flow of Foreign Fighters into Syria and Iraq. The Soufan Group. December 2015 ([http://soufangroup.com/wp-content/uploads/2015/12/TSG\\_ForeignFightersUpdate\\_FINAL.pdf](http://soufangroup.com/wp-content/uploads/2015/12/TSG_ForeignFightersUpdate_FINAL.pdf))

<sup>2</sup> Syria Calling: Radicalization in Central Asia // Europe and Central Asia Briefing No. 72. Bishkek/Brussels, 20 January 2015. International Crisis Group. P. 1.

<sup>3</sup> People from Central Asia Listen to ISIS' Draft Call. June 3, 2015. URL: <http://www.golosislama.com/news.php?id=26861>

<sup>4</sup> Foreign Fighters. An Updated Assessment of the Flow of Foreign Fighters into Syria and Iraq. The Soufan Group. December 2015.

URL: [http://www.soufangroup.com/wp-content/uploads/2015/12/TSG\\_ForeignFightersUpdate\\_FINAL.pdf](http://www.soufangroup.com/wp-content/uploads/2015/12/TSG_ForeignFightersUpdate_FINAL.pdf)

Uighurs,<sup>5</sup> left China to fight in Syria and Iraq. There are many Uighur fighters not only in these two countries, but also in Afghanistan and Pakistan. UN experts claim that currently, there are 150 fighters in Afghanistan from the Eastern Turkistan Islamic Movement (ETIM).<sup>6</sup>

## The Increase in Terrorist Activity in Russia, China, and Central Asia

We should not rule out the possibility of IS and other terrorist organization sleeper cells existing in Russia, the Central Asian states, and China; these cells might be recruiting fighters and preparing terrorist attacks.

For China, a particular threat stems from the connections between the situation in Central Asia and neighboring Afghanistan and the situation in the Xinjiang Uighur Autonomous Region (XUAR). K. Syroyezhkin, an expert from the Kazakhstan Institute for Strategic Research under the President of the Republic of Kazakhstan, believes that Uighur separatists' terrorist activity has significantly increased since 2008 not only in Xinjiang, but also all over China (there have been terrorist attacks in Beijing, Guangzhou, Kunming). As the number of fighters participating in terrorist attacks grows, their tactics and weapons develop and improve. More and more actively, they promote their radical ideas through the Internet. The religious factor gains increasing influence in the region, which non-traditional Islamic movements penetrate with increasing activity. These trends are particularly typical for the lower-class Uighur population of Southern Xinjiang.<sup>7</sup> K. Syroyezhkin believes that "the frequency and uniformity of the terrorist attacks is another piece of evidence confirming that they have been planned, coordinated, and financed from the same center, and that center is most likely located outside Xinjiang."<sup>8</sup> ETIM has established close ties with Al-Qaeda, the Taliban, and IS. Recently, new camps of Uighur separatists appeared in Northern Afghanistan, close to the Chinese border.

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## International Terrorism Coming In from Afghanistan

Today, Islamists threaten Central Asian states from two directions at once: from Afghanistan and from the Middle East. This is a radically new development in the region. Having Afghanistan as their neighbor is a traditional security challenge in Central Asia. However, if the familiar threat of the Taliban is concentrated mostly

<sup>5</sup> Lister Ch. Returning Foreign Fighters: Criminalization or Integration? Brookings Institution. Policy Briefing, August 2015.

URL: <http://www.brookings.edu/~media/research/files/papers/2015/08/13-foreign-fighterslist/en-fighters-web.pdf>

<sup>6</sup> Letter dated 19 May 2015 from the Chair of the Security Council Committee pursuant to resolutions 1267 (1999) and 1989 (2011) concerning Al-Qaida and associated individuals and entities addressed to the President of the Security Council. S/2015/358. P. 9.

URL: [http://www.un.org/ga/search/view\\_doc.asp?symbol=S/2015/358&referer=/english/&Lang=E](http://www.un.org/ga/search/view_doc.asp?symbol=S/2015/358&referer=/english/&Lang=E)

<sup>7</sup> Syroyezhkin K.L. Xinjiang: A Sore Issue for China and Kazakhstan. Alma-Ata: Asian Research Institute, 2015 (in Russian)

<sup>8</sup> Izimov R. KonstatinSyroyezhkin: The Sore Issue of Xinjiang. URL: <http://caa-network.org/archives/5915> (in Russian)

on solving Afghanistan's domestic issues, the appearance of IS in Afghanistan may alter the familiar balance of power.

Today, Islamists threaten Central Asian states from two directions at once: from Afghanistan and from the Middle East. This is a radically new development in the region.

In reality, both the Syrian and the Afghan fronts are coming closer and closer together. The fighters concentrating in the regions neighboring three Central Asia states (Tajikistan, Turkmenistan, and Uzbekistan) are dangerous not only for the post-Soviet countries of the region. From Badakhshan in Afghanistan, the fighters can maintain connections with Pakistan and influence even the situation in China. Of particular concern in this situation is the re-deployment of large numbers of international fighters from Northern Pakistan where civil war raged to Northern Afghanistan.<sup>9</sup>

Today, IS units are replenished by mostly bribing the Taliban warlords, the Islamic Movement of Uzbekistan (IMU), and other radical religious organizations currently active in Afghanistan.<sup>10</sup> Large financial infusions come into Afghanistan from the Middle Eastern countries. According to Al-Jazeera, the Taliban's "local" fighters and ISIS recruits are paid 70 and 700 dollars respectively.<sup>11</sup>

In order to recruit fighters in Afghanistan, IS has taken advantage of a favorable situation after the split in the Taliban following the death of its leader Mullah Omar. Yet the overall situation is quite complicated. Sometimes IS and the Taliban fight each other, and sometimes (especially in the north of the country) they are on the same side. Some experts believe the latter was the case when Kunduz was taken by both the Taliban and IS-affiliated groups of fighters.

The leaders of fighters in Afghanistan and Central Asia pledge their loyalty to IS. There are reports that the IMU made such a pledge.<sup>12</sup> In essence, IS is a franchise: operating from the Middle East, it subsumes individual groups, tribes, and organizations on the periphery of the Islamic world and declares them its integral part.

Valery Gerasimov, the Chief of the General Staff, puts the number of IS-affiliated fighters in Afghanistan at 2,000–3,000 (both "locals" and arrivals from other countries), and that number is constantly growing.<sup>13</sup>

Besides IS fighters, Afghanistan has large numbers of other international terrorists with ties to Al-Qaeda, among others. The UN Security Council notes that "Afghan security forces estimated in March 2015 that some 6,500 foreign terrorist fighters

<sup>9</sup> Kazantsev A. CentralAsia: Secular Statehood Challenged by Radical Islam // Valdai Paper No. 2(42), 19.01.2016. URL: <http://www.valdaiclub.com/publications/valdai-papers/central-asia-secular-statehoodchallenged-by-radical-islam>

<sup>10</sup> Rotar' I. Either the Taliban, or Even Worse. URL: <http://www.rosbalt.ru/exussr/2015/10/15/1451559.html> (in Russian)

<sup>11</sup> ISIL and the Taliban. URL: <http://www.aljazeera.com/programmes/specialseries/2015/11/islamic-state-isiltaliban-afghanistan-151101074041755.html>

<sup>12</sup> The Islamic Movement of Uzbekistan Pledged its Loyalty to ISIS. URL: <http://www.palm.newsru.com/world/07aug2015/uzbekistan.html> (in Russian)

<sup>13</sup> Russian Military and Special Services Warn That ISIS Fighters Have Central Asia and Russia in Their Cross-Hairs. URL: <http://www.kommersant.ru/doc/2827486> (in Russian)

were active in Afghanistan.”<sup>14</sup> If we count the Afghanis themselves, and the Taliban fighters first and foremost, the overall number of fighters has reached 50,000 in the Russian General Staff’s estimates. They are grouped into over 4,000 various units and groups.<sup>15</sup>

Besides IS fighters, Afghanistan has large numbers of other international terrorists with ties to Al-Qaeda, among others. Afghan security forces estimated in March 2015 that some 6,500 foreign fighters were active in Afghanistan.

The escalation at the Tajikistan–Afghanistan and the Turkmenistan–Afghanistan borders is probably linked not only to IS’ actions, but also to other terrorist groups including those affiliated with Al-Qaeda. The threat to the post-Soviet countries grew in part because fighters have been pushed from Northern Pakistan to Northern Afghanistan. This resulted in North Pakistani extremist groups, including those of Uighur and the North Caucasus, relocating closer to the borders of the post-Soviet Central Asia, Russia, and China, thus creating the threat of invasion by small units.

Russia’s and the US’ strikes against IS in Syria and Iraq may result not only in pushing fighters into Libya and other Arab states, but even in their partial redeployment to Afghanistan.

## **New Ideological Threat from The Middle East**

The Afghanistan challenge, on the one hand, may be viewed as military and political; it mostly takes the form of exercising pressure on the borders<sup>16</sup> (tensions on the borders may be caused not only by Afghan terrorists, but also by the local criminal gangs fighting for control over the flow of smuggled goods and over drug trafficking). The Middle Eastern challenge, on the other hand, is mostly ideological, which largely hinders the selection of an appropriate response. The emergence of such a new and influential player as IS, which possesses unique financial resources, controls large territories, and is armed with the Caliphate Project, makes the Islamic call to jihad particularly attractive.

The Middle Eastern challenge is mostly ideological, which largely hinders the selection of an appropriate response.

Unlike Al-Qaeda, IS openly entered today’s world not only as a terrorist organization, but also as a quasi-state.

IS gained a significant following in Central Asian countries where large chunks of the population face severe value orientation problems. New adepts join IS not only because they want to make money, although financial considerations

<sup>14</sup> Letter dated 19 May 2015 from the Chair of the Security Council Committee pursuant to resolutions 1267 (1999) and 1989 (2011) concerning Al-Qaida and associated individuals and entities addressed to the President of the Security Council. S/2015/358. P. 9.  
URL: [http://www.un.org/ga/search/view\\_doc.asp?symbol=S/2015/358&referer=/english/&Lang=E](http://www.un.org/ga/search/view_doc.asp?symbol=S/2015/358&referer=/english/&Lang=E)

<sup>15</sup> IS Fighters Have Central Asia and Russia in Their Cross-Hairs. URL: <http://www.kommersant.ru/doc/2827486> (in Russian)

<sup>16</sup> Kazantsev A.A. Situational Evolution Scenarios and Trends in the Central Asian Region of the CSTO collective security after 2014 // *Analiticheskie doklady IMI MGIMO*. 2(37). July 2013. (in Russian)

play an important role in recruiting. There are quite a few known cases in which individuals from relatively wealthy society strata went to the war, driven by value-oriented ideological considerations. There are also known cases of individuals, medium-sized business owners, who went to Syria and Iraq to give financial aid to extremist groups.<sup>17</sup>

From the point of view of Russia's security, the problem of labor migration is of particular relevance. Migrant workers who come to Russia in the millions are a risk group. Experts believe that "in Russia's bazaars, Islam becomes an important means of organizing life, as well as securing hygiene and moral behavior. It is also through Islam that young Tajik men<sup>18</sup> turn humiliating working experiences into positive values by becoming religious practitioners. Mosques are increasingly used and understood as central places for social, educational, and political activities."<sup>19</sup> Closed communities of working migrants which maintain zero or virtually zero ties with Russian society often become targets for Jihadist propaganda. The increased rate of returning working migrants to their homelands, due to the economic crisis in Russia, serves as an additional source of societal radicalization.

### **Internal Challenges to the Stability of Central Asian States**

The extremist activities pose a threat within the Central Asian states themselves: the population is indoctrinated in mosques, underground religious circles, and illegal madrasahs via a system of Internet sites and social networks. IS is particularly active in this respect. Kyrgyz and Tajik experts have information that IS earmarked 70 million dollars to conduct subversive activities in Central Asia.<sup>20</sup>

The economic crisis, weak state institutions (which is typical of all the Central Asian countries, although manifested differently from country to country), and lack of social mobility are problems that plague Central Asian countries and play into the hands of the extremists

The economic crisis, weak state institutions (which is typical of all the Central Asian countries, although manifested differently from country to country), and lack of social mobility are problems that plague Central Asian countries and play into the hands of the extremists.

Religious extremist propaganda is particularly effective in the "fragile" states, which are on the brink of losing control over their own territories.<sup>21</sup>

Many experts pay particular attention to the Fergana Valley. Due to the geographic, economic, social, demographic, and cultural conditions, the threat of emergence and consolidation of extremist Islamist groups has traditionally existed here and

<sup>17</sup> Malikov K. URL: <http://www.islamsng.com/authors/Malikov/9334>(in Russian)

<sup>18</sup> Or it can be other ethnic groups.

<sup>19</sup> Roshe S. The Role of Islam in the Lives of Central Asian Migrants in Moscow // CERIA Brief. October 2014. No. 2.

<sup>20</sup> Tajikistan Claims ISIS Earmarked 70 million USD to Create Its Cells In Afghanistan. URL: <http://www.rosbalt.ru/exussr/2015/10/06/1448092.html>(in Russian); ISIS Earmarks 70 Million USD For Central Asia. What is Kazakhstan's Share? URL: <http://www.youtube.com/watch?v=uxZSifWe8Do> (in Russian). The latter material presents an opinion of A. Knyazev, an eminent expert on Central Asia and Afghanistan, saying that the bulk of that money came from Qatar. At the same time, in his estimate, the entire foreign budget for "the tulip revolution" in Kyrgyzstan could be as little as 5 million dollars.

<sup>21</sup> The Fragile States Index 2014. URL: <http://www.fsi.fundforpeace.org/rankings-2014>

is from time to time revitalized. Population density in the Fergana Valley, divided between Kyrgyzstan, Tajikistan, and Uzbekistan (1,150 persons per square kilometer) is one of the highest in the world. Observers remark that “over the last 10 years, it showed demographic growth of 32%”, “the teachings of Salafism and Wahhabism are popular” in the valley, and “foreign preachers and recruiters are very active here.”<sup>22</sup> They may also include recruiters from IS who master the modern tactics of “moving centers” and floating hotbeds of tensions. The activity of such groups and cells has every chance to gain wide support in a traditional society closely bound together by family ties and loyalty groups.

It is almost impossible to overcome the above-stated problems in the foreseeable future. It should also be taken into account that IS could find its audience and its sympathizers even in European countries which have long-standing and long-operative democratic norms and which do not have many of the problems listed above.

Central Asian states offer virtually no opportunities for legal Islamic parties and organizations. In 2015, Tajikistan, for instance, abolished the parliamentary Islamic Renaissance Party of Tajikistan (IRPT) amid serious accusations. Going underground is the only means of existence for the followers of political Islam, and it is conducive to its radicalization.

It is obvious that the ruling elites of Central Asia countries will have to search for a formula which would allow them to co-exist with political Islam. The main constituent parts of such a formula should be cutting off the influence of external extremist structures, “nationalizing” the local Islam, creating conditions for legal (and controllable) political activity of Islamic parties and organizations.

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<sup>22</sup> Sharifov B., Skorobogaty P. Playing One's Own Game in Central Asia.  
URL: <http://www.expert.ru/expert/2015/46/svoja-igra-v-srednej-azii> (in Russian)



### 3. Russia’s and China’s Economic Interests in Central Asia: Co–Adaptation Prospects

The economies of Central Asian countries must be strengthened to keep the regional states “viable”. Progressive socioeconomic development is the recipe for ensuring political stability and one of the best ways to prevent the growth of extremist and terrorist activities. The task of Russia and China as large neighboring states is to promote economic growth in Central Asia. To solve these tasks, these two countries should ideally coordinate their efforts to move from economic competition to economic partnership. It is against this background that we should analyze current economic interests and opportunities of China and Russia in Central Asia.

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#### China’s Economic Cooperation with the Central Asian Countries

China’s economic relations with the Central Asian states are on the rise and are being shaped as strategic partnership. Beijing perceives economic contacts with the region as an instrument of its influence, to spread technology, culture, and increase its soft power.

For China, Central Asia is also important from the point of view of accelerating development of the XUAR, which is lagging behind coastal regions. It is with this purpose that the second stage (2011–2030) of the Great Western Development Strategy is being implemented. The Strategy itself is slated for completion by 2050. By that time, transit corridors for importing energy supplies from the Central Asian countries and a new platform for a westward economic intervention should be established, so that the Chinese economy can be steadily supplied with raw materials and metals, and goods can be exported from China to the neighboring countries’ markets. In 2014, China invested heavily in Xinjiang: 36.7 billion dollars for infrastructure projects; 2.4 billion dollars for irrigational projects; 6 billion dollars for high-speed roads. Particular attention is being paid to infrastructural projects in special economic zones, for instance, in Khorghos (on Kazakhstan’s border).<sup>23</sup> Developing the XUAR is of great importance for fighting terrorism, religious extremism, and separatism.<sup>24</sup>

For China, Central Asia is also important from the point of view of accelerating development of the XUAR, which is lagging behind coastal regions.

**Bilateral trade.** In 1991, direct trading relations between China and Central Asia countries were virtually non-existent; in 2014, trade volume exceeded

<sup>23</sup> Izimov R. Socioeconomic Situation in Xinjiang. URL: <http://www.polit-asia.kz/index.php/latest-news/408> (in Russian)

<sup>24</sup> Syroyezhkin K.L. Xinjiang: A Sore Issue for China and Kazakhstan. Alma-Ata: Asian Research Institute, 2015 (in Russian)

45 billion dollars. However, due to dropping global prices on principal Central Asian exported goods (fossil fuels and metals), decreasing consumption by China and growing prices of Chinese goods, trade volume dropped to 32.6 billion dollars (see Table 2).

Chinese exports are dominated by finished goods, and its imports are dominated by fuels, metals, and agricultural raw materials. For Kazakhstan, Kyrgyzstan, and Tajikistan, the first five export goods are represented by footwear and clothes industry goods;<sup>25</sup> for Turkmenistan and Uzbekistan, by equipment and finished metal goods. Over 2008–2014, the shares of Turkmenistan and Uzbekistan in trading with China grew significantly due to the commencement of Central Asia–China gas pipeline operations. Since 2010, when the Customs Union was formed, the flow of textile and footwear goods was largely re-oriented from Kyrgyzstan to Kazakhstan, and by 2015, its share in Kazakhstan's imports grew four-fold.

Beijing actively promotes the idea of using yuan in bilateral trade. Since 2011, China's Central Bank authorized 15 banks in the XUAR to service trade and investment transactions with Central Asia in the Chinese currency in order to decrease exchange rate risks, support regional trade, and then turn the XUAR into an industrial and financial center for Central Asia. Between June 2011 and December 2014, the yuan/tenge currency swap between Central Banks of China and Kazakhstan grew to 7 billion yuan.<sup>26</sup> Since late 2014, the currency pair has been traded at Kazakhstan's stock exchange and at the regional market of China's Interbank Foreign Exchange Center (the city of Ürümqi). Currency swap agreements have been concluded with Uzbekistan<sup>27</sup> and Tajikistan<sup>28</sup>.

**Investment cooperation.** It is difficult to give exact figures for Chinese investments into Central Asia due to the lack of complete and well-correlated statistics. The problem lies in that the Chinese statistics take into account direct investments, loans, preferential loans, bilateral grants, and grants from the Asian Development Bank (ADB) and the SCO. The sectoral distribution of investments determined by China's economic priorities.

**Fuel and Energy Complex** is China's priority cooperation sector, since its economy needs large volumes of energy. Cooperation in this area helps prevent disruptions of supplies coming from the Middle East, as instability in that region is increasing, and in the

Table 2. China's Foreign Trade with Central Asian Countries, millions of dollars

Countries	2008			2010			2012			2015		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
Kazakhstan	9,825	7,728	2,097	9,320	11,109	-1,789	11,001	14,676	-3,675	8,427	5,840	2,587
Kyrgyzstan	9,212	121	9,091	4,128	72	4,056	5,074	89	4,986	4,285	57	4,228
Tajikistan	1,479	20	1,459	1,377	56	1,321	1,748	109	1,639	1,797	50	1,747
Turkmenistan	802	28	774	524	1,005	-481	1,699	8,673	-6,974	817	7,828	-7,011
Uzbekistan	1,278	329	949	1,181	1,301	-120	1,783	1,092	691	2,236	1,266	970
Region's total	22,596	8,226	14,370	16,530	13,543	2,987	21,305	24,639	-3,334	17,562	15,041	2,521

Source: Calculated by E.M.Kuzmina based on "Bilateral Trade between Russian Federation and China."

URL: [http://www.trademap.org/countrymap/Bilateral\\_TS.aspx](http://www.trademap.org/countrymap/Bilateral_TS.aspx)

<sup>25</sup> Kazakhstan has 3 out of 5 goods groups, Kyrgyzstan 4, and Tajikistan 3.

<sup>26</sup> On signing Agreements on establishing settlements and payments and on the yuan / tenge currency swap. Press release from the National Bank of the Republic of Kazakhstan of December 15, 2014, no 94.  
URL: <http://www.zakon.kz/4678302-o-podpisanii-soglashenijj-ob.html> (in Russian)

<sup>27</sup> China and Uzbekistan Signed a Currency Agreement Worth 700 million yuan.  
URL: <http://www.russian.dbw.cn/system/2011/04/20/000347641.shtml> (in Russian)

<sup>28</sup> China and Tajikistan signed a currency swap agreement.  
URL: <http://www.russian.cri.cn/841/2015/09/07/1s559326.htm> (in Russian)

case of a political escalation, Chinese maritime routes could be blocked by the rival navies of the US and India.

KazMunayGaz's experts estimate that in Kazakhstan, the share of Chinese companies in the overall oil production exceeds 40%.<sup>29</sup> Large projects with Chinese participation include developing oil fields in Aktyubinsk, Atyrau, Mangistau, Kyzylorda, and Karaganda regions and preparation for prospecting surveys and developing the Darkhan field on the Caspian Sea shelf. As of early 2015, Chinese investment in these projects was estimated at 43–45 billion dollars.<sup>30</sup>

Active cooperation with Turkmenistan began in 2006 when an agreement was signed to purchase 30 billion cubic meters of gas annually for up to 2038. To secure the raw materials base for these purchases, the China National Petroleum Corporation (CNPC) explored the Bagtyarlyk and Galkynyş fields. China invested 13–15 billion dollars<sup>31</sup> into Turkmenistan's FEC, controls over one quarter of gas produced in the country, and holds leading positions both in production and in processing.

China participates in the exploration of Uzbekistan's oil and gas fields in Ustyurt, around Bukhara, Khiva, and the Fergana Valley. Investments into Uzbekistan's FEC are put at about 2 billion dollars.<sup>32</sup> So far, Chinese companies concentrate on geological exploration.

China has assets in Kyrgyzstan: Zhungneng Co. Ltd is exploring the oil field in the Batken Region. China invested about 390 million dollars into the Kyrgyz oil and gas industry.<sup>33</sup>

China has pushed aside Russia's Gazprom, which had been the principal purchaser of gas in Turkmenistan and Uzbekistan. Moreover, gas from Turkmenistan became somewhat of a competitor against Russian gas in the Chinese market. Nevertheless, when it comes to the energy sector, the relations between Russia and China in Central Asia are not antagonistic, since Russia mostly exports its fossil fuels into Europe.

**Pipelines.** To produce and transport large volumes of oil and gas to China, the Central Asia–China pipeline was built. It connects the city of Gedaym in Turkmenistan with Khorgos on the Chinese–Kazakhstani border and it branches out into every Central Asia country. Since late 2015, the pipeline's overall capacity reached 55 billion cubic meters, which covers over one-fifth of China's consumer demand for natural gas. When the pipeline branch via Tajikistan and Kyrgyzstan (currently under construction) becomes operational, pipeline's capacity will reach 85 billion cubic meters per year.<sup>34</sup>

China and Kazakhstan are linked by two oil pipelines: Atasu–Alashankou and Kenkiyak–Kumkol. Their joint capacity is 20 million tons a year.<sup>35</sup> Reaching the

<sup>29</sup> In 2013, the Share of Chinese Companies in Kazakhstan's Oil Industry exceeds 40%. URL: <http://www.tengrinews.kz/money/dolya-kitayskih-kompaniy-neftyanoy-otrasli-kazahstana-2013-goduprevyisit-40-226309> (in Russian)

<sup>30</sup> Paramonov V., Stokov A. Chinese Presence in the Oil and Gas Industries of Central Asian Countries. URL: <http://www.caa-network.org/archives/5706> (in Russian)

<sup>31</sup> Ibid.

<sup>32</sup> Ibid.

<sup>33</sup> Ibid.

<sup>34</sup> Cooperation in the Gas Industry in Central Asia. URL: [http://www.cnpc.com.cn/ru/zytrqgdzt/zytrqgdzt\\_2.shtml](http://www.cnpc.com.cn/ru/zytrqgdzt/zytrqgdzt_2.shtml) (in Russian)

<sup>35</sup> Kazakhstan's and China's Strategic Partnership in the Energy Industry. URL: <http://www.easttime.ru/analitic/1/3/557p.html> (in Russian)

planned 30 million tons a year requires building oil-pumping stations. Since 2010, China receives railway shipments of LNG from Kazakhstan.

**Petrochemistry.** The CNPC launched three natural gas processing plants in Aktobe,<sup>36</sup> and China's Export-Import Bank (EximBank) invested 1 billion dollars in constructing an oil processing plant in Atyrau (Kazakhstan).<sup>37</sup> In Turkmenistan, the CNPC built two gas-processing plants at the Bagtyýarlyk field. A gas-processing complex is being constructed at the Galkynyş field.

**Mining.** China invests large amounts into natural resources mining: in Kazakhstan, gold deposits<sup>38</sup> and Aktogay copper deposits;<sup>39</sup> in Uzbekistan, geological surveys of uranium ore deposits in the Navoiy Region; and in Kyrgyzstan, development of the Ishtamberdy gold deposit, mining of copper and gold at Kuru-Tegerek, and development of tin deposits.<sup>40</sup>

**Hydropower.** Chinese investors participate in the construction of Saryjaz and Kambarat hydropower plants in Kyrgyzstan, in building power lines in Kashgar, in constructing coal power plants, and in renovating Uch-Kurgan hydro- and coal power plants in Bishkek. In Tajikistan, Beijing confines itself to projects on national rivers and to constructing power lines: Nurabad-1 hydropower plant on the river Hingob (650 million dollars), coal power plant in Dushanbe (400 million dollars), and modernizing North-South and Lolazor-Hatlon power lines (61 million dollars).<sup>41</sup>

**Transportation.** China needs to develop the Central Asian transportation infrastructure for an easier access to the European, Iranian, and South Asian markets. Currently, construction is underway on railway lines as parts of the Western China-Western Europe corridor, and there is also a corresponding highway construction project. One line (from China to the Kazakhstan port of Aktau on the Caspian coast, and then via Azerbaijan and Turkey into Europe) is already undergoing pre-launch trials. The other line, going to Russia via Kazakhstan and then to Europe, is under construction. Beijing participated in constructing a railway line via Kazakhstan and Turkmenistan to Iran. Since 2011, Kyrgyzstan has been modernizing the automobile road to China; it is building 12 new roads linking it with Xinjiang. Beijing is not giving up on the China-Kyrgyzstan-Uzbekistan railway project. In Tajikistan, Chinese investors implemented 13 transportation projects worth a total of 680 million dollars. In 2013, China loaned Kyrgyzstan about 3 billion dollars for infrastructural projects.<sup>42</sup> Bilateral transportation and other important investment projects are being now developed politically within the SREB, but they would have materialized in any case due to their economic and strategic expediency.

<sup>36</sup> International Cooperation. Exploration and Development Projects.  
URL: <http://www.kmg.kz/manufacturing/reports/international> (in Russian)

<sup>37</sup> Cutler R. Kazakhstan Deepens China Link. URL: [http://www.atimes.com/atimes/Central\\_Asia/MC04Ag01.html](http://www.atimes.com/atimes/Central_Asia/MC04Ag01.html)

<sup>38</sup> URL: [http://www.site.securities.com/doc.html?pc=CB&doc\\_id=351246384](http://www.site.securities.com/doc.html?pc=CB&doc_id=351246384)

<sup>39</sup> China's Bank of Development Invests 1.5 Billion Dollars Into the Aktogay Copper Deposit.  
URL: <http://www.metallopt.ru/about/news/523175> (in Russian)

<sup>40</sup> Migranyan A.A. Review of the economic life of Central Asian Republics and Kazakhstan for May 15–22.  
URL: <http://www.materik.ru/rubric/detail.php?ID=12646&print=Y> (in Russian)

<sup>41</sup> EnergoBelarus: Energy and Energy Saving in Belarus, sectoral news.  
URL: [http://www.energobelarus.by/index.php?section=blog&blog\\_id=&article\\_id=496](http://www.energobelarus.by/index.php?section=blog&blog_id=&article_id=496) (in Russian)

<sup>42</sup> Lillis J. Central Asia: China Flexes Political and Economic Muscle. URL: <http://www.eurasianet.org/node/67498>

The question that remains open is how the slowing growth of Chinese economy will impact China's economic cooperation with the countries of Central Asia. The SREB, which is a politically backed priority, largely decreases the risk of China's interest in the region diminishing.

### **Russia's Economic Cooperation with the Central Asian Countries**

**Trade.** Given its overall tendency to decrease after the dissolution of the Soviet Union, Russia's trade with Central Asia was characterized by wild fluctuations during the 2009–2015 crisis. In 2014, Russia's overall trade turnover with the Central Asian countries totaled about 29 billion dollars, and in 2015, 21 billion dollars.

Since 2012, Russia's positive trade balance for the region has increased steadily due to the dropping Central Asian imports (Kazakhstan is the exception).

Since 2012, Russia's positive trade balance for the region has increased steadily due to the dropping number of Central Asian imports (Kazakhstan is the exception) (see table 3). The principal reason is the imports structure of the Central Asian countries. Russia buys natural and agricultural raw materials from them, and also chemical products. Certain types of products and equipment are sold to Russia only by Kazakhstan and Uzbekistan. Since 2010, Gazprom drastically reduced gas acquisition in the region: in 2008, the total volume was<sup>43</sup> 66.1 billion cubic meters, and in 2014 it was only 29.52 billion cubic meters, 10.98 billion cubic meters of them purchased in Turkmenistan, 7.38 billion cubic meters in Uzbekistan, and 10.95 billion cubic meters in Kazakhstan.<sup>44</sup> Since 2016, Russia has stopped buying gas from Ashgabat completely. These purchases were the largest in that particular price segment. They will most likely continue to drop, since volumes contracted to China increased to 65 billion cubic meters, and no new large fields became operational in the region.<sup>45</sup>

Energy resource trade with Kazakhstan is growing, and it is bilateral, since Kazakhstan re-exports Russian oil to China (this is one of the ways of overcoming competition between Russia and China in the oil and gas industry in the region). Moreover, both countries have mutual shares in processing their neighbor's fossil fuels in their own territory. At the same time, Russia sells oil products and fuel, oil, and lubricants (FOL) at preferential prices, which is equivalent to economic aid, and this is Russia's largest export item to those countries.

Russia exports mostly finished products to this region: foods, and various types of equipment, including transportation equipment. In the early 2000s, Central Asia used up to 27% of equipment, including transportation and high-tech, imported from Russia. However, in 2005–2015, this share dropped significantly due to some Russian goods being non-competitive because of poorly developed exports support mechanisms in Russia.

<sup>43</sup> Calculated by E.M. Kuzmina based on Gazprom site: About Gazprom. Production. Gas purchases. Strategy. URL: <http://www.gazprom.ru/about/production/central-asia> (in Russian)

<sup>44</sup> Gazprom in Questions and Answers. International projects. URL: <http://www.gazpromquestions.ru/en/international> (in Russian)

<sup>45</sup> Agadzhanyan M. Xi Jinping's visit to Central Asia. URL: <http://www.politcom.ru/16351.html> (in Russian)

Since 2009, the Russian government has been improving the rules for providing state guarantees for exports of Russian industrial products.<sup>46</sup> The Russian Agency for Export Credit and Investment Insurance has already provided support for exporting tractors, mining equipment, and other machinery, paper, oil products and FOL products to Central Asia.<sup>47</sup> In 2014, JSC Ros-eximbank was transferred to the Agency in order to expand its activities.<sup>48</sup> At the same year, the Russian–Kyrgyz Development Fund was established to promote the modernization of Kyrgyzstan’s economy. Therefore, Russia makes significant efforts to overcome some fundamental reasons underlying the decreasing exports of its industrial products into the region. However, in the very near future, the economic crisis in Russia and in the post–Soviet space will make it very difficult to overcome the negative trends.

**Investments.** Between 2009 and 2014, Russian investments into the region were gradually growing. Table 4 gives the data of Central Bank of Russia and the data of the Monitoring of Mutual Investments in the CIS (MMI in the CIS) of the Eurasian Development Bank for 2015. The monitoring also takes into account the data from Russian companies investing into the Central Asian economies.

One could presume that under the economic crisis, certain investment projects will be frozen. This is borne out by the folding down of Russian–Kyrgyz hydropower projects.

**Fuel and Energy Complex (FEC).** The largest volume of Russian investments went into producing energy resources in Central Asia. In 1995–2014, LUKOIL invested over 7 billion dollars into 7 production projects in Kazakhstan, which is 10% of the country’s overall production.<sup>49</sup> Since 2005, RN–Exploration, a subsidiary of Rosneft, jointly with KazMunayGaz, develops Kurmangazy, a border oil field on the Caspian shelf. So far, surveys turned up no

<sup>46</sup> The Decree of the Government of the Russian Federation no 953 of December 12, 2008 “On introducing changes into the Regulations for providing state guarantees of the Russian Federation in foreign currency for providing state support for exporting industrial products (goods, work, services).” URL: <http://www.base.consultant.ru/cons/cgi/online.cgi?req=doc;base=LAW;n=82626;fld=134;dst=1000000001,0;rnd=0.3943128692858727> (in Russian); The Decree of the Government of the Russian Federation no 919 of November 15, 2010 “On introducing changes into the Regulations for providing state guarantees...” URL: <http://www.base.consultant.ru/cons/cgi/online.cgi?req=doc;base=LAW;n=160940;fld=134;dst=1000000001,0;rnd=0.42101353111545436> (in Russian); The Decree of the Government of the Russian Federation No. 141 of February 18, 2013 “On introducing changes into the Regulations for providing state guarantees of the Russian Federation...” URL: <http://www.base.consultant.ru/cons/cgi/online.cgi?req=doc;base=LAW;n=142362;fld=134;dst=1000000001,0;rnd=0.8278178321202451> (in Russian)

<sup>47</sup> See more details on each type of contracts at: The Russian Agency for Export Credit and Investment Insurance (EXIAR). URL: <http://www.exiar.ru/en/press/news/5635> (in Russian)

<sup>48</sup> The Decision No. 1128–r of the Government of the Russian Federation of June 29, 2012 in the variant of the Decision no 2148–r of the Government of the Russian Federation of October 28, 2014; The Decree No. 1491–pr of President of the Russian Federation of June 06, 2014

<sup>49</sup> LUKOIL. Where we work. Kazakhstan. URL: <http://www.lukoil-overseas.ru/projects/kazakhstan> (in Russian)

**Table 3. Russia’s Foreign Trade with Central Asian Countries, millions of dollars**

Countries	2008			2010			2012			2015		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
Kazakhstan	13,301	6,371	6,930	10,690	4,449	6,241	14,892	9,409	5,483	10,451	4,657	5,794
Kyrgyzstan	1,311	492	819	975	393	582	1,634	196	1,438	1,269	71	1,198
Tajikistan	794	210	584	673	214	459	679	68	611	747	51	696
Turkmenistan	809	100	709	718	148	570	1,211	184	1,027	902	73	829
Uzbekistan	2,067	1,298	769	1,664	1,514	150	2,325	1,391	934	2,161	587	1,573
Region’s total	18,282	8,471	9,811	14,720	6,718	8,002	20,741	11,248	9,493	15,530	5,439	10,090

Source: Calculated by E.M. Kuzmina based on “Bilateral Trade between Russian Federation and China.” URL: [http://www.trademap.org/countrymap/Bilateral\\_TS.aspx](http://www.trademap.org/countrymap/Bilateral_TS.aspx)



**Table 4.** Russia’s accumulated investments in the Central Asian countries in 2009–2014, billions of dollars

Country	Central Bank of Russia’s data			Data from MMLin theCIS		
	2009	2013	2014	2009	2013	2014
Kazakhstan	1.7	2.8	2.6	9.7	8.7	9.1
Kyrgyzstan	0.1	0.2	0.2	0.6	0.7	0.6
Tajikistan	0.2	0.6	0.4	0.9	1.0	1.0
Turkmenistan	0.3	0.0	0.001	0.0	0.0	0.0
Uzbekistan	0.8	0.3	0.4	2.9	4.0	3.8

*Source:* Mutual Investment Monitoring in the CIS countries. 2015. EDB. Report no 32. P. 21; Central Bank of Russia. Foreign Sector Statistics. URL: <http://www.cbr.ru/statistics/?PrtId=svs>

signs of hydrocarbons.<sup>50</sup> Gazprom invested over 1 billion dollars into Kazakhstan’s FEC.<sup>51</sup> Since 2004, LUKOIL’s amount of accumulated investments into Uzbekistan’s economy totaled about 2.5 billion dollars.<sup>52</sup> Since 2006, Gazprom invested over 400 million dollars into Uzbekistan’s FEC.<sup>53</sup> The company owns JSC Kyrgyzgaz and is engaged in prospective surveys and modernization of the country’s gas distribution system. In 2015–2017, Gazprom intends to invest 758 million dollars.<sup>54</sup> Given the very low profitability of investments into the Kyrgyz gas sector, these investments may be viewed as a type of economic aid. Since May 2003, Gazprom spent 170 million dollars on prospective surveys of the oil fields of Sarykamysch and Western Shaambary in Tajikistan.<sup>55</sup>

**Pipelines.** Kazakhstan’s oil is transported across Russia via the Atyrau–Samara pipeline (no less than 15 million tons a year), the Makhachkala–Tikhoretsk–Novorossiysk pipeline (no less than 2.5 million tons a year),<sup>56</sup> and the Tengiz–Novorossiysk Caspian Pipeline Consortium<sup>57</sup> with the capacity of 35 million tons.<sup>58</sup> In 2014, the pipelines pumped 225 million tons of oil and gas.

Soviet–built pipelines Central Asia–Center (from Turkmenistan) and Bukhara–Ural (from Uzbekistan) needed to be drastically modernized. Gazprom, jointly with Uzbek and Kazakh pipeline companies, expanded the capacity and improved reliability of these pipelines. Given Russia’s decreased purchases of gas in the region, these partially modernized pipelines are sufficient to cover Gazprom’s needs.

<sup>50</sup> Dreaming about a certain Eldorado. Rosneft plans to pull out of Kazakhstan’s Kurmangazy Oil Superproject. 26.05.2009. URL: <http://www.centrasia.ru/newsA.php?st=1243311840> (in Russian)

<sup>51</sup> Russia and Kazakhstan: Strategic Partners, or, The Figures Talk. URL: <http://www.365-tv.ru/index.php/analitika/kazakhstan/372-rossiya-i-kazakhstan-strategicheskie-partnery-ili-tsifry-govoryat> (in Russian)

<sup>52</sup> Commitments are Feasible. URL: <http://www.lukoil-overseas.uz/content/obyazatelstva-vypolnimy> (in Russian)

<sup>53</sup> Gazprom invested 400 million dollars in exploration in Uzbekistan. URL: <http://www.pronedra.ru/gas/2012/02/06/gazprom/#axzz2bH2uV8U2> (in Russian)

<sup>54</sup> Gazprom will increase its investments in Kyrgyzstan to 758 million USD. URL: <http://www.vedomosti.ru/business/news/2015/01/30/gazprom-uvlechit-investicii-v-kirgizii-do> (in Russian)

<sup>55</sup> Investment cooperation between Russia and Tajikistan: the Principal Results. URL: [http://www.ved.gov.ru/exportcountries/tj/tj\\_ru\\_relations/tj\\_rus\\_projects](http://www.ved.gov.ru/exportcountries/tj/tj_ru_relations/tj_rus_projects) (in Russian)

<sup>56</sup> Russia’s Projects and Investments in Central Asian States // Tsentral’naya Aziya i Kavkaz. (6) 2008. P. 104. (in Russian)

<sup>57</sup> Project participants: Russia: 24%, Kazakhstan: 19%, Oman: 7%, oil companies: Chevron: 15%, LUKOIL: 12.5%, ExxonMobil: 7.5%, Rosneft–Shell: 7.5%, ENI: 2%, BG: 2%, KazMunayGaz–Amoco: 1.75%, Oryx: 1.75%.

<sup>58</sup> LUKOIL. Where we work. Kazakhstan. URL: <http://www.lukoil-overseas.ru/projects/kazakhstan> (in Russian)

**Mining.** In 2014, the largest accumulated investments in Kazakhstan's non-ferrous industry belonged to Atomenergoprom (1.7 billion dollars) and Polymetall (0.76 billion dollars).<sup>59</sup> In 2013, JSC Atomredmetzoloto acquired the control stock in the joint Russian–Canadian company Uranium One, the largest developer of Kazakhstan's uranium deposits.<sup>60</sup>

Russian Platinum Company paid 100 million dollars to acquire the right to develop the Dzherui gold deposit and to conduct a prospective survey of the Dzher–Uisite in Kyrgyzstan.<sup>61</sup>

**Oil- and gas processing.** Russia and Kazakhstan have long-standing ties in this area going back to Soviet times. The power supply of Omsk Oblast is largely tied to coal from Kazakhstan's Ekibastuz, and Omsk Oblast imports 2 million tons of oil alone. Some oil-processing products then go to the Gazpromneft–Kazakhstan joint venture, which has a network of oil depots and gas stations in the country. Its share of Kazakhstan's market is about 3% of the overall volume of oil product consumption.<sup>62</sup> The oil supplied by Rosneft (about 5 million tons) powers the Pavlodar petrochemical plant and the Shymkent oil refinery (2 million tons).<sup>63</sup> LUKOIL supplies oil to Pavlodar oil refinery, Gazprom Neft supplies oil to Pavlodar and Shymkentoil refineries, and Surgutneftegaz supplies oil to Pavlodar oil refinery. Combined, these four companies account for 77% of Russian supplies.<sup>64</sup> Given that there are no customs duties imposed on Russian oil and oil products coming into Kazakhstan, we can talk about cooperation of mutual economic profitability.

The same system applies to the gas sector. Russian Orenburg gas refinery processes gas from Kazakhstan's field of Karachaganak. KazRosGaz, a joint venture created specifically for this purpose, sends the gas that has been processed in Orenburg to Kazakhstan's domestic market.

In 2015, an oil refinery financed by Russian investors was built and put into operation in the Kyrgyz city of Tashkömür.<sup>65</sup>

**Machinery manufacturing.** Russia's cooperation in this sector is particularly active with Kazakhstan and Uzbekistan.

Russia contributes to Kazakhstan's space sector by building the Baiterek rocket and space complex<sup>66</sup> and maintaining Baikonur Cosmodrome, which costs 5 billion rubles a year on average.<sup>67</sup>

<sup>59</sup> Monitoring of Mutual Investments in the CIS 2015. Eurasian Development Bank. EDB. Report no 32. P. 9.

<sup>60</sup> Russia and China in Kazakhstan: The Balance of Power.  
URL: <http://www.ru.journal-neo.org/2016/04/02/rossiya-i-kitaj-v-kazahstane-balans-sil> (in Russian)

<sup>61</sup> Kyrgyzstan, the North Caucasus Federal District. Metallurgy, Mining.  
URL: [http://www.polpred.com/?ns=1&ns\\_id=1420306](http://www.polpred.com/?ns=1&ns_id=1420306) (in Russian)

<sup>62</sup> Smirnov S. Two Palms. URL: <http://www.expertonline.kz/a5341> (in Russian)

<sup>63</sup> Russia Will Clear Kazakhstans' Oil Schemes Through Customs.  
URL: [http://www.zakon.kz/page,1\\_2\\_4517434-rossija-rastamozhit-neftjanye-skhemy.html](http://www.zakon.kz/page,1_2_4517434-rossija-rastamozhit-neftjanye-skhemy.html) (in Russian)

<sup>64</sup> Rosneft Wants to Control Oil Exports to Kazakhstan. URL: <http://www.izvestia.ru/news/547926> (in Russian)

<sup>65</sup> Trade and Economic Cooperation between Russia and Kyrgyzstan. URL: <http://www.tass.ru/info/2712641> (in Russian)

<sup>66</sup> The construction of Baiterek space complex is planned to be completed by 2021.  
URL: <https://www.tengrinews.kz/sng/kosmicheskiy-kompleks-bayterek-planiruetsya-postrroit-2021-284873> (in Russian)

<sup>67</sup> Samofalova O. The Owner's Right. Kazakhstan Impedes Russia's Launches from Baikonur.  
URL: <http://www.vz.ru/economy/2012/5/26/580679.html> (in Russian)



In addition, Russia annually contributes 1.16 billion rubles to the municipal budget of the city of Baikonur. This step may be viewed both as an investment into supporting Kazakhstan's space infrastructure, and as economic aid.<sup>68</sup> Khrunichev State Research and Production Space Center developed and created the KazSat space communication system to help develop Kazakhstan's television broadcasting system and fixed satellite service.<sup>69</sup> Three KazSat satellites have already been placed into orbit. By 2012, 30 stations of the GLONASS project had been built in Kazakhstan, covering the entire country.<sup>70</sup>

In the second half of the 2010s, JSC Yak Alakon, a joint Kazakhstani–Russian venture, plans to offer on the global aviation market two models of a light, multi-purpose Yak–58 aircraft.<sup>71</sup> The aircraft is to be manufactured in Kazakhstan.

KAMAZ jointly with Kazakh enterprises (JSC Tynys) assembles NefAZ buses. KamAZ Engineering Joint Venture was created in Kazakhstan; it manufactures buses and towed vehicles, and also bus body shells. In 2012, Asia Avto Kazakhstan joint venture was created to start full-cycle automobile manufacturing (up to 120 thousand vehicles a year). The total volume of investments in the project is about 400 million dollars.<sup>72</sup> GAZ Group and SemAZ Kazakhstan automobile manufacturer opened a plant in Semey for contract assembly of Ural vehicles; it is intended to manufacture about 400 vehicles.<sup>73</sup>

Kazakhstan is one of Rostselmash's (Rostov–on–Don) largest foreign partners. The share of harvesters manufactured by Rostselmash accounts for 42% of grain harvesters in Kazakhstan.<sup>74</sup> Kazakhstan has an assembly line manufacturing Vector and Acros harvesters. In 2013, Petropavlovsk started manufacturing agricultural equipment<sup>75</sup> for the countries of the Customs Union and Central Asia. The investments totaled about 30 million dollars.<sup>76</sup>

The engineering and industrial group Tractor Plants Concern built several plants in Petropavlovsk for manufacturing modernized harvesters. They also plan to manufacture wheel-type tractors and specialized public works vehicles.

Ship-builders from Astrakhan Oblast carried out several commissions from Kazakhstan's and international oil companies (Agip) working on Kazakhstan's Caspian Sea shelf. They built the Sunkar drilling rig, ice guards for floating drilling

<sup>68</sup> Baikonur Turns 60: The–Then Conscript Alexei Pimanov's Memories of the Famous Cosmodrome. URL: <http://www.tvzvezda.ru/news/forces/content/201502121150-w2as.htm> (in Russian)

<sup>69</sup> KazSat space communication and broadcasting system. URL: <http://www.khrunichev.ru/main.php?id=71> (in Russian)

<sup>70</sup> Vedeneeva N. Kazakhstan Experiences GLONASS. URL: <http://www.comnews.ru/node/53940> (in Russian)

<sup>71</sup> Yak–58's capacity is 6 people including 5 passengers.

<sup>72</sup> JSC AVTOVAZ will purchase shares in JSC ASIA AUTO Kazakhstan. Igor Komarov, President of JSC AVTOVAZ, and ErzhanMandiev, representative of JSC ASIA AUTO Kazakhstan, signed a Shareholder Agreement.

URL: [http://www.lada-image.ru/about/for\\_press/news/oa0\\_avtovaz\\_stanet\\_aktionerom\\_ao\\_aziya\\_avto\\_kazakhstan](http://www.lada-image.ru/about/for_press/news/oa0_avtovaz_stanet_aktionerom_ao_aziya_avto_kazakhstan) (in Russian)

<sup>73</sup> GAZ Group launched a car-assembling plant in Kazakhstan to produce Ural cars.

URL: <http://www.miassskiy.ru/gruppa-gaz-otkryila-v-kazahstane-predpriyatie-po-sborke-avtomobiley-ural> (in Russian)

<sup>74</sup> Rostselmash and Kazakhstan Strengthen Their Cooperation.

URL: <http://www.novoe-sodrugestvo.ru/ru/301005/2081/23/index.htm> (in Russian)

<sup>75</sup> Producing new models of class 3 and class 4 grain harvesters, wheel-type tractors with 30, 60, and 85 horse powers, and also equipment for utility maintenance.

<sup>76</sup> An Agricultural Equipment Plant Will Be Built in Petropavlovsk.

URL: <http://www.soyuzmash.ru/news/zavod-po-vypusku-selhoztehnik-i-postroyat-v-petropavlovsk> (in Russian)

rigs, accommodation units for oil industry workers, flat top barges, and pipe racks. In 2012, the Marine Shipyard 2 supplied a *Kolonok*-class refrigerator and transportation vessel and floating station for Kazakhstan's shipping.<sup>77</sup> Astrakhan shipbuilding manufacturing union built over 15 vessels for maritime shipping for Kazakhstan's OMS Shipping LLP.<sup>78</sup> Krasnoye Sormovo plant in Nizhny Novgorod built three oil tankers for Kazmortrasflot. The contract was worth a total of 66,45 million dollars.<sup>79</sup> Kazmortrasflot owns three more tankers: *Astana*, *Almaty*, and *Aktau*, built by the Vyborg shipbuilding yard.<sup>80</sup>

Ural Turbine Plant modernized the steam turbines at the Petropavlovsk CHPP-2 and Pavlodar CHPP-3. Approximate cost of the equipment is about 120 million dollars. Four steam turbines built at that plant have already been shipped to Ust Kamenogorsk CHPP.<sup>81</sup>

In Uzbekistan, a group of ZUMK Group companies is implementing a series of projects in chemical, coal, and mining industries; their total cost is about 180 million dollars.<sup>82</sup> The Electroshield Samara Group and Samara Cable Company re-equip and modernize the production facilities at Uzelectroapparat–Electroshield and Andizhan Cable joint ventures and have already contributed 3.5 million dollars of direct foreign investments.<sup>83</sup>

**Electric power.** Inter RAO UES invested 1.26 billion dollars in Tajikistan's economy.<sup>84</sup> JSC Sangtudin Hydropower Plant 1, a joint Russian–Tajik venture, has built and is now using a hydropower plant on the river Vakhsh. The share of Russian companies in the registered capital of the Sangtudin Hydropower Plant 1<sup>85</sup> is 75% minus one share.<sup>86</sup> Inter RAO UES also owns 50% of stock of Ekibastuz Hydropower Plant–2<sup>87</sup> in Kazakhstan's Pavlodar Oblast. In 2009, the company built and put into operation a 500 kW power line Zhitikara–Ulke; it is 486 kilometers in length and it links the Aktyubinsk power system, which has a power deficit, with the power system of North Kazakhstan, which has excess power.<sup>88</sup>

In 2012, Russia and Kyrgyzstan formed a parity venture Upper Naryn Hydropower Plants LLC<sup>89</sup> to build four hydropower plants on the river Naryn. The project's

<sup>77</sup> Kazakhstan, the Southern Federal District. Shipbuilding, machinery manufacturing.  
URL: [http://www.polpred.com/?ns=1&ns\\_id=701687&cnt=69&sector=10](http://www.polpred.com/?ns=1&ns_id=701687&cnt=69&sector=10) (in Russian)

<sup>78</sup> In 2008, EDB signed a contract with Kazakhstan's OMS Shipping company to open a credit line for 35.6 million USD for ten years so that the company could purchase 16 vessels of auxiliary and specialized fleet.

<sup>79</sup> Krasnoye Sormovo and Kazmortrasflot Signed a Contract to Build Tankers.  
URL: [http://www.setcorp.ru/main/pressrelease.phtml?news\\_id=22654](http://www.setcorp.ru/main/pressrelease.phtml?news_id=22654) (in Russian)

<sup>80</sup> Kazakhstan. Shipbuilding, machinery manufacturing.  
URL: <http://www.polpred.com/?ns=1&cnt=69&sector=10&sortby=date&page=2> (in Russian)

<sup>81</sup> Press release. UTP increases its presence in Kazakhstan. URL: <http://www.rusenres.ru/news/736> (in Russian)

<sup>82</sup> A CEO of a Russian Company Detained in Uzbekistan.  
URL: <http://www.trend.az/casia/uzbekistan/2275427.html> (in Russian)

<sup>83</sup> In 2015, Russian companies will modernize two production facilities in Uzbekistan.  
URL: [http://www.stroyka.uz/publish/doc/text111591\\_rossiyskie\\_kompanii\\_v\\_2015\\_godu\\_moderniziruyut\\_dva\\_proizvodstva\\_v\\_uzbekistane](http://www.stroyka.uz/publish/doc/text111591_rossiyskie_kompanii_v_2015_godu_moderniziruyut_dva_proizvodstva_v_uzbekistane) (in Russian)

<sup>84</sup> Monitoring of Mutual Investment in the CIS 2015. EDB. Report no 32. P. 9.

<sup>85</sup> The established capacity is 670 MW, 15.4% of the country's total capacity.

<sup>86</sup> Inter RAO UES. 2009 Annual Report. URL: [http://www.interrao.ru/\\_upload/editor\\_files/file0716.pdf](http://www.interrao.ru/_upload/editor_files/file0716.pdf) (in Russian)

<sup>87</sup> 5.7% of the country's production.

<sup>88</sup> Inter RAO UES. 2009 Annual Report. [http://www.interrao.ru/\\_upload/editor\\_files/file0716.pdf](http://www.interrao.ru/_upload/editor_files/file0716.pdf) (in Russian)

<sup>89</sup> JSC Electric Power Stations represents Kyrgyzstan, and JSC RusHydro represents Russia in the project.

**Table 5.** Labor migrants' remittances from Russia, millions of dollars

Countries	2009	2010	2011	2012	2013	2014	2015
Kazakhstan	n/a	221	290	298	377	577	318
Kyrgyzstan	0.9	1,250	1,386	1,682	2,113	2,062	1,083
Tajikistan	1.7	2,191	2,705	3,125	3,927	3,854	1,278
Turkmenistan	—*	24	22	27	35	31	16
Uzbekistan	2.5	3,834	4,692	6,241	7,878	5,653	2,370

\*No data.

Source: Central Bank of Russia. External sector statistics. Individuals' transfers from Russia to the CIS countries. URL: [http://www.cbr.ru/statistics/?prtid=svs&ch=itm\\_14138#CheckedItem](http://www.cbr.ru/statistics/?prtid=svs&ch=itm_14138#CheckedItem); Transborder wire transfers of individuals (residents and non-residents). URL: <http://www.cbr.ru/statistics/Default.aspx?Prtid=tg>

cost was estimated at 24 billion rubles (727 million dollars at the exchange rate as of November 2013).<sup>90</sup> In 2015, Russia failed to provide complete financing for the construction of the hydropower plant and did not determine the sources for the financing for 2016. As a result, the planned launch of the first unit of Naryn Hydropower Plant 1 in 2016 was derailed,<sup>91</sup> and it forced Kyrgyzstan's parliament to denounce the agreement with RusHydro LLC in January 2016 to build another hydropower plant in Kyrgyzstan, namely, Kambaratin Hydropower Plant 1.<sup>92</sup>

In 2012, the Russian company Power Machines modernized Charvak Hydropower Plant in Uzbekistan's Tashkent Oblast, with the total financing of 56.5 million dollars.<sup>93</sup>

**Labor migration and migrants' remittances.** The key economic factor in developing relations with Central Asia states is its large migration flows into Russia. The Federal Migration Service has the following data: as of December 4, 2015, in Russia there were about 1.9 million citizens of Uzbekistan, about 0.7 million citizens of Kazakhstan, about 0.5 million citizens of Kyrgyzstan, about 0.9 million citizens of Tajikistan, and about 0.03 million citizens of Turkmenistan.<sup>94</sup>

Prior to 2015, labor migrants' remittances Russia grew annually (see Table 5). It should be noted that the data in the table do not take into account the amounts in cash that migrants send to their native countries via non-banking means, for instance, via Islamic banking, or *hawala*.

As Table 5 shows, in 2015, the amount of remittances decreased more than two-fold. However, we should remember that the amounts are calculated in dollars.

<sup>90</sup> How much for HPPs? RusHydro's position in connection with deputy ZhogorkuKenesh's statement. URL: <http://www.narynhydro.kg/127-skolko-stoit-kaskad-poziciya-rusgidro-v-svyazi-s-zayavleniyami-deputata-zhogorku-kene-sha-o-stroitelstve-verhnee-narynskih-ges.html> (in Russian)

<sup>91</sup> Kyrgyzstan refused Russia's participation in the building of a hydropower plant. URL: [http://www.trud.ru/article/22-01-2016/\\_kirgizija\\_otkazalas\\_ot\\_uchastija\\_rossii\\_v\\_stroitelstve\\_ges.html](http://www.trud.ru/article/22-01-2016/_kirgizija_otkazalas_ot_uchastija_rossii_v_stroitelstve_ges.html) (in Russian)

<sup>92</sup> Begalieva N. The Parliament Denounced Agreement with Russia on Construction of Hydropower Plant in the Kyrgyz Republic. URL: [http://www.vb.kg/doc/332786\\_parlament\\_denonsiroval\\_soglashenie\\_s\\_rossiey\\_o\\_stroitelstve\\_ges\\_v\\_kr.html](http://www.vb.kg/doc/332786_parlament_denonsiroval_soglashenie_s_rossiey_o_stroitelstve_ges_v_kr.html) (in Russian)

<sup>93</sup> Russian company Silovye Mashiny Completed Modernization of Charvak Hydropower Plant. URL: <http://www.sdelanounas.ru/blogs/72902> (in Russian)

<sup>94</sup> Migrants' Wire Transfers from Russia to Uzbekistan Dropped 2.5 Times, Wire Transfers to Tajikistan Dropped Nearly Threefold. URL: <http://www.fergananews.com/news.php?id=24253> (in Russian)

All the national currencies in the region, and the Russian ruble, in 2015 dropped significantly compared to the American dollar. Therefore, amounts in national currencies are comparable to the figures from previous years.

Migrants' wire transfers are a significant part of national GDPs; historically, they accounted for up to 50% of Tajikistan's GDP and to 33% of Kyrgyzstan's GDP. At the same time, they are a source of additional investments into economy, they determine the population's level of consumption, decrease poverty and unemployment, and mitigate the problems that lead to the growth of religious extremism in the region. That is why the decreasing labor force exports into Russia and decreasing wire transfers, seen during the 2014–2015 economic crisis, are dangerous in light of the deteriorating socioeconomic situation and the growing number of extremism adepts in Central Asian countries.

Russia and China have competing interests in the region. Yet if the Chinese companies outstrip Russia in the oil and gas industry (about 58–62 billion dollars to 12 billion dollars) and in mining, in hydropower and in oil- and gas processing they are comparable.

### **Comparison of Russia's and China's Economic Role in the Region**

It should be noted that Russia and China have competing interests in the region. Yet if the Chinese companies outstrip Russia in the oil and gas industry (about 58–62 billion dollars to 12 billion dollars) and in mining, in hydropower and in oil- and gas processing they are comparable, which is borne out, in particular, by the above-quoted statistics.

China significantly outstrips Russia in its trade with the region: 32.6 billion dollars to 20.8 billion dollars in 2015.

*Labor migration is one of the areas where the interests of Russia and China do not overlap.* The flow of labor migrants into China is minimal (the estimates give us 40–50 thousand people a year). It covers mostly transborder trading and student migration. At the same time, even when it did diminish in 2015, the migration flow from Central Asia into Russia was about 5 million people. The amount of remittances from labor migrants in Russia into their native countries should also be taken into account. Despite their sharp decline in 2015, they still exceeded 5 billion dollars.

*Weapons supply is the second area where the two countries' interests do not overlap.* Russia dominates here. It supplies weapons to the countries of the region (at preferential prices), which is of key importance for ensuring stability in Central Asia.

*The third area is the regional transportation infrastructure.* China invests significant amounts into it. Russia prefers to modernize and build roads on its side of the border with Kazakhstan. Nonetheless, Russia took part in modernizing the train carriage fleet in the region's republics.

China has become the region's largest investor. China not only buys the goods and raw materials that used to be traditionally sold to Russia, but it also competes for the markets with Russian manufacturers. China's cooperation with the regional countries in manufacturing is thus far not significant.

*Machinery manufacturing is the fourth area.* Russia is represented in automobile– and shipbuilding, in manufacturing agricultural equipment, helicopter manufacturing, carriage manufacturing, and in several other sectors of Central Asian economy. China is only beginning to cooperate in these areas.

*In its trade* with the region, China significantly outstrips Russia: 32.6 billion dollars to 20.8 billion dollars in 2015. However, there is a difference in the export–import operations. Russian exports exceed Chinese exports in Kazakhstan and Turkmenistan, yet of all Central Asian states, only Kyrgyzstan exports more into Russia than into China.

*China became the region's largest investor.* China not only buys the goods and raw materials that used to be traditionally sold to Russia, but it also competes for the markets with Russian manufacturers. This trend will evidently hold in the foreseeable future, even if China's economic growth will decrease in the medium–term prospect. Beijing gradually involves Central Asian countries into its development orbit, it conducts a purposeful policy of shifting to yuan payments in their trade relations, and it is steadily building a new regional transportation and pipeline infrastructure oriented toward China's own needs. However, China's cooperation with the regional countries in manufacturing is thus far not significant.

The flow of China's financial resources into Central Asia contributes, on the one hand, to developing the infrastructure and to maintaining socioeconomic stability; on the other hand, it poses a series of challenges for the countries of the region, including the conservation of their economies' resource structure, diminishing stimuli for economic modernization, etc.

The flow of China's financial resources into Central Asia contributes, on the one hand, to developing the infrastructure and to maintaining socioeconomic stability; on the other hand, it poses a series of challenges for the countries of the region, including the conservation of their economies' resource structure, diminishing stimuli for economic modernization, etc. China's investment agreements with Central Asian states often mandate obligatory participation of Chinese companies, using Chinese equipment and labor force. This could limit the appearance of new jobs in labor–excessive countries of the region, thus leading to growing tensions and creating favorable conditions for the spread of terrorist activities and religious extremism among the unemployed population.

In order to prevent such a scenario from becoming a reality, it is necessary, first, to step up the interaction between Russian and Chinese companies in implementing investment projects, and, secondly, to put special measures in place to create jobs in the Central Asian countries.

In order to prevent such a scenario from becoming a reality, it is necessary, firstly, to step up the interaction between Russian and Chinese companies in implementing investment projects, and, secondly, to put special measures in

place to create jobs in the Central Asian countries. These issues could be solved within the SCO, and also as part of the co-adaptation of the SREB and the EEU currently under discussion.

Large-scale connections with China's transportation and energy systems with disproportionate development of other vectors are fraught with Central Asia's increased orientation toward China to the detriment of its ties with Russia's economy. The imbalance in this area could be rectified by developing multilateral transportation cooperation between Russia, China, and Central Asia as part of projects carried under the SREB's aegis.

Over the last decade, Russia has weakened its economic positions in Central Asia. This was due to the decrease in trading ties with the region's countries, to the lowered quality of exported industrial goods, and to the increase of natural resources in the mutual trading. Nonetheless, Moscow retained significant economic leverage, such as: largest regional migration flows in its territory and wire transfers from labor migrants, which are important for the countries' budgets; preferential supplies of energy and military equipment; offering the countries of the region Russia's market for their goods; creating single economic space with Kazakhstan and Kyrgyzstan.

Over the last decade, Russia has weakened its economic positions in Central Asia.

Currently, Russia and China hold comparable economic positions in Central Asia. It makes the two powers' responsibility for strengthening the economies and the social sphere of the Central Asian countries all the greater, and it stimulates cooperation in promoting development. The idea of tying the EEU and the SREB affords a range of opportunities for discussing the issues of harmonious interaction through diplomatic, academic, public channels, through business communities' contacts, etc.

Two memoranda on Russian-Chinese trade and economic cooperation serve as the legal foundation for interacting with the Chinese SREB project. Institutions emerge which intend to provide financial support for the proposed projects; so far, these institutions are only Chinese: the Silk Road Fund with about 40 billion dollars in capital, and the Asian Infrastructure Investment Bank (with Russian participation).

Currently, Russia and China hold comparable economic positions in Central Asia. It makes the two powers' responsibility for strengthening the economies and the social sphere of the Central Asian countries all the greater, and it stimulates their cooperation in promoting development.

Let us turn to analyzing the SREB concept and the prospects of tying the Chinese initiative with the Eurasian economic integration project.

## 4. Eurasian Economic Integration and the Silk Road Economic Belt: Strategic Co–adaptation Issues in the Central Asian Direction

**Chinese project’s specifics were given at the Madrid Forum.** On October 28–29, 2015, the State Council of the People’s Republic of China held a forum in Madrid attended by over 50 delegations representing leading expert centers from 27 countries engaged in studying the Silk Road project. The Forum’s principal goal was to attempt to institutionalize the process of studying the Chinese project by forming a large international network of centers under an international research organizing committee led by China’s state bodies.<sup>95</sup> Currently, the Forum’s materials may be considered the most complete expression of China’s political intentions, embodied by the SREB, presented to the international expert community.

China will attempt, as part of the Silk Road initiative, to establish a large international economic “niche” in Eurasia where virtually all the projects China plans in its foreign policy and foreign economic activities, from transportation to humanitarian work to tourism, could be “nested into”.

The Forum set out the following priority subjects: cooperation between the EU and China; cooperation between China and Pakistan; Chinese–Kazakhstani cooperation in the areas of energy and investment; integrating the SREB and the EEU.<sup>96</sup>

Judging by the Forum’s materials, China will attempt, as part of the Silk Road initiative, to establish a large international economic “niche” in Eurasia where virtually all the projects China plans in its foreign policy and foreign economic activities, from transportation to humanitarian work to tourism, could be “nested into”.

As Li Wei, chairman of the Forum’s organizing committee and President of the Development Research Center of the State Council of the PRC, noted, even a weak state may, within the project, achieve its “dream”.<sup>97</sup> The Forum showed that China is attempting to stimulate Russia to work more actively toward implementing the joint part of tying the SREB and the EEU. Beijing proceeds both from the assumption that the cooperation of the two powers in Asia is relevant, and from its own interests in promoting goods, capital, and services on the Russian market.

**The SREB and the EU.** When developing practical measures for the Russian–Chinese cooperation, it should be taken into account that the SREB project is aimed not only at cooperation with Russia and Central Asia, but also at co–adaptation to EU interests.

The EU mostly supports China’s project, viewing it as an opportunity for closer integration and cooperation with China. As Li Wei, chairman of the Forum’s

<sup>95</sup> Silk Road Forum 2015. Madrid, 2015. P. 2–83.

<sup>96</sup> Ibid. P. 24.

<sup>97</sup> Ibid. P. 3–5.



organizing committee, noted, the “One Belt, One Road” initiative affords an opportunity to create a platform for tying together the EU and China, including China’s cooperation with all European countries on a broad range of issues such as infrastructure, investment, high tech, trade, etc.<sup>98</sup> This approach is shared by the leading experts from Germany, Spain, Great Britain, Serbia, Poland, and other European states.

Without the EU–EEU interaction, chances are high that many key Chinese projects of tying together the SREB and the EU, including transportation projects, will be implemented bypassing the Russian Federation, which will suffer significant economic losses and lose its chance at fulfilling its transit potential.

Against this background, it should be noted that in 2013, the trade turnover between China and the EU countries exceeded 580 billion dollars, and by 2020, the parties intend to increase the bilateral trade volume to 1 trillion dollars. In the end of 2013, agreements were signed on China’s participation in constructing railroads in Serbia, Hungary, Romania, and Turkey.<sup>99</sup>

Of principal significance is the fact that China and the Central Asian countries are interested in tying not only the SREB and the EEU, but in tying the SREB, the EEU and the EU. With no coordination in the SREB–EEU–EU triangle, the contacts will be maintained only along the lines of SREB–EEU and SREB–EU, while the economically crucial EEU–EU linkage will be absent. Without the EU–EEU interaction, chances are high that many key Chinese projects of tying together the SREB and the EU, including transportation projects, will be implemented bypassing the Russian Federation, which will suffer significant economic losses and lose its chance at fulfilling its transit potential.

**The SREB’s structural components.** From the geo–economic point of view, these are the first major components at the forefront of the Chinese project.

*The first is the diversification of the project’s implementation directions.* Already today, experts list 8 tracks of “One Belt, One Road”: transportation, banking, investment, trade, tourism, cultural and civilizational, etc. Most likely, the number of “tracks” will soon increase significantly.

*The second is involving a powerful banking sector in the project.* Besides the Asian Infrastructure Investment Bank, of which the Silk Road Fund is a part, China involves the Asian Development Bank, the European Bank for Reconstruction and Development, the World Bank, etc.

*The third is systemic UN support.* Currently, three UN projects are linked to the project. The key one is the UN Development Program (UNDP), whose representatives participate in many of the project’s expert forums and business forums.

*The fourth is constructing new and modernizing old railways in Eurasia and other parts of the world as a starting component of implementing transportation*

<sup>98</sup> Li Wei. Face up Difficulties, Create Opportunities and Accumulate Positive Energy to Achieve the Bright Prospects of the Belt and Road Initiative // Silk Road Forum 2015. Think Thank Network. 28–29 October 2015. Madrid, 2015 (paper). P. 1–3.

<sup>99</sup> China, CEE countries eye co–op with new railway.  
URL: [http://www.china.org.cn/business/2013-11/26/content\\_30713119.htm](http://www.china.org.cn/business/2013-11/26/content_30713119.htm)



(*infrastructural*) projects. Such logistics are profitable for Russia, since developing huge spaces from Vladivostok to Kaliningrad largely depends on the existence of efficient transportation corridors.

It is obvious that the Chinese creators of “One Belt, One Road” viewed transportation projects as the stimuli for the process of direct Chinese investments “going beyond borders”. The investments are intended to increase the volume of exported Chinese innovative products in the transportation sector and in cutting-edge technologies, and to develop the Eurasian market of constructing transportation networks. The transportation network created abroad will allow the acceleration of economic development in China’s central and western provinces. Aside from this, an increase in continental shipping will stimulate the growth of China’s foreign trade volume.

**The Silk Road’s geographic span.** According to China leaders’ plans, the land stretch of the Silk Road begins in China and spans the following states:

- the five Central Asian countries bordering China (Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, and Turkmenistan);
- Iran, Iraq, Jordan, Syria, Saudi Arabia, Turkey, and other countries of Western Asia;
- Azerbaijan, Georgia, and Armenia in the Caucasus, and Ukraine, Belarus, and Moldova in Eastern Europe;
- Russia, which is partially on the Silk Road and forms an element of this transportation route.<sup>100</sup>

There are three routes proposed for the SREB, which the Chinese papers call the Eurasian Transcontinental Railway (ETR).

- *The Northern route* 6,500 kilometers in length: China (Ürümqi) – Kazakhstan (Alashankou–Dostyk) – Russia (Kazan–Moscow–Brest) – the EU countries.
- *The Central route* (5,100 kilometers): Central China – Kyrgyzstan – Uzbekistan – Turkmenistan – Azerbaijan – Georgia – the EU.
- *The Southern route*: Western China (XUAR) – Kyrgyzstan – Uzbekistan – Turkmenistan – Iran – Turkey. This route includes a corridor to Pakistan (the Port of Gwadar).<sup>101</sup>

The Central Asian countries are, to some degree, present in all the SREB routes (excluding the Pakistan branch of the Southern route).

Like the Central Asian states, Russia is in the geographical center of Eurasia, i.e. in the center of the land stretch of the Silk Road (the Economic Belt), which stretches from the Pacific to the Atlantic.

**The SREB’s transportation projects.** Expanding and modernizing the transportation infrastructure is among the top priorities for Russia, China, and the Central Asian countries.

<sup>100</sup> Luzyanin S., Sazonov S. The Silk Road Economic Belt: The 2015 Model // *Obozrevatel* / Observer. 2015 (May). 5(304). P. 35. (in Russian)

<sup>101</sup> *Ibid.* P. 35–37.

Russia in particular needs to overcome spatial imbalances of its economic development. The joint project of constructing a high-speed Moscow–Kazan railway and the planned modernization of the Trans–Siberian railway, including the Kazakhstan and China stretches of the road, forms the foundations of the Russian–Chinese cooperation.

Central Asia’s geographic proximity creates a real opportunity to establish transportation corridors taking into account Central Asian states’ aims to diversify their exports.<sup>102</sup> China has a long border with Kazakhstan (1,700 kilometers), and it also borders with Kyrgyzstan and Tajikistan. A small distance separates China from Uzbekistan and Turkmenistan.

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It is not yet determined what will happen to the project of a motorway from Western Europe to Western China, which is partly supposed to run through Russia and enter Finland. In the meantime, this project could make it much easier to export Chinese goods to Europe via Russia (and Russia would profit from transit fees). The Russian part is scheduled for completion by 2020.<sup>103</sup> This is a very touchy issue both for Kazakhstan, and for the overall nature of cooperation within the EEU and the SREB.

Constructing a system of high-speed railways within “One belt, one road” project will allow the landlocked Central Asian states and Mongolia, and also the sparsely populated and underdeveloped regions of Central and Siberian Russia, to join international trade and industry. It would create an economic development land corridor connecting Europe and Asia.

Let us take a closer look at the three routes of the Eurasian Transcontinental Railway detailed in Chinese papers.

**The Northern Route.** The ETR’s Northern Route begins at Ürümqi and enters Kazakhstan via the Dzhungarian gate (Druzhba station), crosses Semirechye, reaches Shymkent (formerly Chimkent) via Almaty and then splits into several branches.

The first branch goes via Aktyubinsk and Uralsk, circumvents the Caspian sea in the north, links to Russia’s transportation routes on the Ürümqi (China) – Alashnkou – Dostyk (Kazakhstan) – Kazan – Moscow – Brest route, and enters Europe via Russia’s railways. For a long time, the Alashankou–Dostyk checkpoint was the only railway pass at the Chinese–Kazakhstani border. In 2013, when the construction of the 293-kilometer-long Zhetigen–Altynkol–Khorgos railway stretch from Kazakhstan was completed, the Kazakhstan railway was connected with the Jinghe–Yining–Khorgos 286-kilometer-long railway.<sup>104</sup>

<sup>102</sup> Bai Shi. The West Awakens. Long overshadowed by the east, west China is set to take center stage as it blazes an economic trail to Central Asia. URL: [http://www.bjreview.com.cn/business/bxt/2014-06/16/content\\_624303.htm](http://www.bjreview.com.cn/business/bxt/2014-06/16/content_624303.htm)

<sup>103</sup> Shadrina T. A Road Will Be Built From Europe To China. URL: <http://www.rg.ru/2013/03/18/doroga-site.html> (in Russian)

<sup>104</sup> Luzyanin S., Sazonov S. The Silk Road Economic Belt: The 2015 Model // *Obozrevatel /Observer*. 2015 (May). 5 (304). P. 40–41.

Currently, Khorgos has become an international center of cross-border cooperation. Its overall size is 5.28 sq. kilometers (the Chinese part is 3.43 sq. kilometers, the Kazakhstan part is 1.85 sq. kilometers).<sup>105</sup> The Khorgos checkpoint is located 378 kilometers from Almaty and has distinct geographical advantages compared to the Alashankou checkpoint. Khorgos is at the center of the shortest distance between Western China to one of Central Asia's major cities. The Khorgos checkpoint, now the gateway to a new alternate railway transit route to the west via Kazakhstan, allowed to transport 1.6 million tons of cargo by rail in 2013.<sup>106</sup> In 2014, the status of the Khorgos–Altyntkol checkpoint was raised from bilateral to international. Current estimates state that by 2017, it will ensure the increase in transit volume through Kazakhstan to 5 million tons<sup>107</sup> (by 25%), and to 20 million tons by 2020.<sup>108</sup>

The second branch of the ETR's Northern Route runs from Khorgos, bypasses Russia's territory and goes to the Caspian Sea via Kazakhstan (Khorgos–Dostyk–Jezkazgan–Saksaulskaya–Beineu–Aktau), with a ferry connection to Baku. Kazakhstan calls this 3,500-kilometer-long route a Trans-Caspian transportation corridor. The South Caucasus railway and the automobile highway that runs parallel to it connect the port of Baku with the Black Sea ports of Poti and Batumi. Currently, the seaport of Aktau is being expanded; it is the terminus of the North Kazakhstan ETR route going west; Kazakhstan's trading fleet is dynamically developing.<sup>109</sup> The director of the port states that the overall cargo volume transported by sea in the Caspian Sea exceeds 30 million tons, and Aktau accounts for 29% of the overall cargo flow.<sup>110</sup>

Currently, the question of making the second branch of the ETR's Northern Route (an important competitor of the first, i.e. Russian, branch) fully operational is hanging in the balance, since it entails multiple multimodal transshipments of the transit flows. It would inevitably lead to extended delivery times and transportation costs.

**The Central Route.** China's leaders plan that the ETR's Central Route (Central China–Kyrgyzstan–Uzbekistan–Turkmenistan–Azerbaijan–Georgia–the EU) should become the crucial direction of the Europe–Asia continental corridor and an integral part of the SREB. The route aims to ensure transport of exports from China and Asia Pacific to the countries of Europe and the Persian Gulf.<sup>111</sup> When in 2015 the new railway Baku–Tbilisi–Kars becomes operational,<sup>112</sup> the importance of this corridor (TRACECA, a project initially mostly supported by the EU), a possible competitor for the Trans–Siberian railway, may increase.

<sup>105</sup> Wang Yi. China's Development Makes for a Better World.  
URL: [http://www.china.org.cn/opinion/2014-01/14/content\\_31183371\\_2.htm](http://www.china.org.cn/opinion/2014-01/14/content_31183371_2.htm)

<sup>106</sup> Freight Boom. URL: [http://www.bjreview.com.cn/THIS\\_WEEK/2013-12/30/content\\_588032.htm](http://www.bjreview.com.cn/THIS_WEEK/2013-12/30/content_588032.htm)

<sup>107</sup> China–Central Asia Trade Seeing Fast Growth. URL: <http://www.english.people.com.cn/business/8535474.html>

<sup>108</sup> Hou Beibei. All Roads Lead to West China. The Chinese Government is building a bonded logistics network to ensure smooth trade flow between Asia and Europe.  
URL: [http://www.bjreview.com.cn/business/bxt/2014-09/09/content\\_638988\\_2.htm](http://www.bjreview.com.cn/business/bxt/2014-09/09/content_638988_2.htm)

<sup>109</sup> Ionova E. Kazakhstan's Transit Potential// Rossiya I novye gosudarstva Yevrazii. 2014 (1). P. 72.

<sup>110</sup> Butyrina N. The Port of Aktau, A Multimodal Hub.  
URL: <http://www.ogni.kz/rubrika/ekonomika/port-aktau-multimodalnyy-khab.html> (in Russian)

<sup>111</sup> Song Jingli. Logistics Expo to Revive Ancient Silk Road Trade.  
URL: [http://www.chinadaily.com.cn/business/2014-04/22/content\\_17453984.htm](http://www.chinadaily.com.cn/business/2014-04/22/content_17453984.htm)

<sup>112</sup> The Silk Road Economic Belt. The Opinions of Foreign Ambassadors // Kitay. 2014 (May). 5(103). P. 21.

Similar to the second branch of the Northern route, this route has, among its disadvantages, a large number of multimodal transshipments.

**The Southern Route.** Building the Iranian branch of the Southern Route, which also runs through Central Asia, is significantly helped by the existence of the North–South transportation corridor. The corridor was built with Russian Railway company participation and connects the Russian, Kazakhstan, Turkmenistan, and Iranian transportation infrastructure. This corridor can be used advantageously by China for its connection to the East–West corridor. Due to the lifting of Iranian sanctions and Tehran’s interest in joining the SCO, one could speak about potential development of trading with Iran and of the transit routes that run through it.

Thus far, China’s strategy envisions the Pakistan branch as the main direction of the Southern route. This branch does not run through the Central Asian countries directly, but since it runs from the XUAR, which borders on Central Asian countries, ensuring its security is also strategically linked to the region’s stability.

In 2013, the governments of China and Pakistan reached an agreement on constructing a 2,000-kilometer-long railway that will connect the XUAR and the Port of Gwadar in Pakistan via Kashgar. The city of Kashgar (Kashi) is located far closer to Central and South Asian states than Ürümqi.<sup>113</sup> The Port of Gwadar, built with some Chinese investments and operational since 2007, is located in the strategic bottleneck of the Persian Gulf, 72 kilometers away from the Iranian border and 400 kilometers away from the world’s principal oil transportation corridor, the Strait of Hormuz. Up to 80% of oil imports into China<sup>114</sup> come via this strait.

China also plans to construct, parallel to the railway, an automobile highway and the Kashgar–Islamabad–Karachi–Gwadar oil pipeline.<sup>115</sup> Currently, the bulk of the bilateral trading is done by sea due to the poor condition of roadways from Pakistan to China. Only 100,000 tons of cargo are transported by land annually.<sup>116</sup> With a railway from Kashgar to Gwadar, shipping time will be cut down to 10 days (it takes 30 days by sea).

Implementing these transportation projects will allow the deep-water Pakistan Port of Gwadar to transform into an important hub for transporting Middle Eastern crudes to China by land, bypassing the Strait of Malacca, which is strategically vulnerable to the American and Indian navies. At the same time, China will have a chance to export its goods into the Arab countries.<sup>117</sup>

In 2013, Li Keqiang, the Premier of China’s State Council, held negotiations with India’s leaders on the two countries jointly participating in constructing a transit railway route across border crossings in the Tibet Autonomous Region (China)

<sup>113</sup> Luzyanin S., Sazonov S. The Silk Road Economic Belt: The 2015 Model // *Obozrevatel / Observer*. 2015 (May). 5 (304). P. 43–44.

<sup>114</sup> China Plans an Oil “Silk Road” to Solve the “Malaccan Dilemma”.  
URL: [http://www.russian.china.org.cn/exclusive/txt/2013-02/07/content\\_27911256.htm](http://www.russian.china.org.cn/exclusive/txt/2013-02/07/content_27911256.htm) (in Russian)

<sup>115</sup> Zhao Yinan. China and Pakistan Develop Plan for Economic Corridor.  
URL: [http://www.chinadaily.com.cn/business/boao2014/2014-04/10/content\\_17425489.htm](http://www.chinadaily.com.cn/business/boao2014/2014-04/10/content_17425489.htm)

<sup>116</sup> Xinjiang’s Trade Volume With Five Central Asian Countries Amounted to 70% of Its Overall Foreign Trade Turnover.  
URL: [http://www.russian.china.org.cn/business/txt/2014-01/25/content\\_31304664.htm](http://www.russian.china.org.cn/business/txt/2014-01/25/content_31304664.htm) (in Russian)

<sup>117</sup> Pak–China Leaders Focusing on Economic Ties (Embassy of Pakistan).  
URL: [http://www.europe.chinadaily.com.cn/world/2013-03/29/content\\_16357525.htm](http://www.europe.chinadaily.com.cn/world/2013-03/29/content_16357525.htm)

and the state of Sikkim (India).<sup>118</sup> In the end of 2014, the President of Nepal expressed an interest in connecting the Nepalese and Chinese railways in order to intensify the regional trading and to create a trade “gold corridor” between China and the countries of South Asia.<sup>119</sup>

The key element of Russia’s, China’s, and Central Asian states’ mutual interests regarding the improvement of transportation infrastructure lies in developing the northern branch of the Northern route which should connect China and the EU via Russia and Central Asian states.

The key element of Russia’s, China’s, and Central Asian states’ mutual interests regarding the improvement of transportation infrastructure lies in developing the northern branch of the Northern route which should connect China and the EU via Russia and Central Asian states. The Central and Southern routes aligned along the West–East axis may also interact with the North–South transportation corridor (currently under construction with Russia’s participation) via Central Asia and Iran. China may gain access to Iran’s transportation infrastructure, which is connected to the SREB’s Northern route via the North–South corridor.

<sup>118</sup> China, India Stress Cooperation in High–Speed Rail, Energy.  
URL: [http://www.chinadaily.com.cn/business/2014-03/20/content\\_17363924.htm](http://www.chinadaily.com.cn/business/2014-03/20/content_17363924.htm)

<sup>119</sup> Nepali Vice President Hopes for Tibet–Nepal railway.  
URL: [http://www.chinadaily.com.cn/business/2014-09/28/content\\_18676008.htm](http://www.chinadaily.com.cn/business/2014-09/28/content_18676008.htm)

## 5. Prospects for Russian–Chinese Cooperation in Central Asia

The current situation in Central Asia displays growth of security threats, including transborder threats. It could also threaten the stability of certain regions in China (Xinjiang) and Russia (the Northern Caucasus, the Volga region, regions where the majority of labor migrants from Central Asia is concentrated). A deteriorating security situation could also threaten China's strategic plans of implementing the SREB. Opponents of Russian policies in the Middle East and, in particular, in Syria, might attempt to destabilize the situation in the region. This is borne out by an influx of financing from several radical Islamist foundations in the Middle East. These factors are conducive to the strengthening of Russia's and China's common interests in ensuring the political stability and economic development of Central Asia.

A deteriorating security situation could also threaten China's strategic plans of implementing the SREB.

Russia and China should undertake concerted preemptive actions so as not to leave international terrorists even a slightest chance of shifting their principal activities from Syria and Iraq to Afghanistan and Central Asia. Stable socioeconomic development will help to prevent the emergence in the region of "fragile" or failed states, as such states usually provide favorable conditions for the appearance of "terrorist enclaves". It is of utmost importance that, in order to solve these tasks, Russia and China should look for various cooperation forms (including economic cooperation). The appearance of the EEU and the SREB project creates new favorable conditions for developing Russian–Chinese partnership in Central Asia.

In this connection, it seems expedient to undertake certain steps in developing Russian–Chinese cooperation.

### 1. Forging cooperation institutions aimed at overcoming the EEU/SREB asymmetry.

The EEU and SREB projects are asymmetrical. The EEU is an interstate structure which aims to create a full-fledged regional economic intergovernmental organization. The task of the EEU is to ensure stable economic development, to carry out comprehensive modernization and increase the competitiveness of the member states' national economies within the global economy.

The EEU as an international organization could undertake to coordinate the bilateral partnerships between its member states and China via the coordination mechanisms for industrial and transportation policies, labor market regulation policies, etc.

The SREB is an initiative aimed at involving states, institutions, and organizations of multilateral cooperation. To overcome the asymmetry, it is necessary to form cooperation institutions. In particular, the EEU as an international organization could

undertake to coordinate the bilateral partnerships between its member states and China via the coordination mechanisms for industrial and transportation policies, labor market regulation policies, etc. Without efficient coordination of industrial policy, many facilities now under construction with Chinese investments (not only in the Central Asian states, but in Belarus as well) risk finding themselves without sales markets within the EEU's common market, and there is great potential for these contradictions to proliferate. Evidently, there is a need for more active use of coordination mechanisms for the EEU's internal industrial policy, also taking into account the economic interests of the Chinese investors. It seems appropriate to form an EEU–China advisory body on investments. It should be noted that the asymmetry problem is quite solvable in international practice. For instance, the EU develops cooperation with non–member states in various forms, including different kinds of advisory councils.

It seems appropriate to form an EEU–China advisory body on investments.

## **2. Expanding the EEU–China cooperation in science, education, and high tech.**

Currently, the issues of tying the EEU and the SREB are being discussed at the bilateral level and in the Eurasian Economic Commission.<sup>120</sup> Russian and Chinese economic officials list among their cooperation priorities<sup>121</sup> first and foremost infrastructural projects on which some work has already been done (for instance, the China–Kazakhstan's Caspian coast railway, the port infrastructure). We are also talking about removing trade barriers and moving forward along the path of forming economic cooperation institutions. At stage one, interaction could be established between China's customs services and the EEU member states, and the next stage should see the creation of a system for protecting mutual investments, promoting mutual capital investments and setting up mechanisms for settling investment disputes.

It is necessary to expand interaction in education on the basis of Russia's and China's largest higher education institutions with the participation of the EEU and the SCO member states.

We also believe that there are other promising directions for cooperation. It is necessary to expand interaction in education on the basis of Russia's and China's largest higher education institutions with the participation of the EEU and SCO member states. Scientific cooperation is also promising, both in fundamental research in physics, chemistry, biology, mathematics, etc., and in applied fields, for instance, in medicine. Joint development of promising high–tech products is possible in space technologies, bio– and nanotechnologies, in nuclear energy,

Promising high–tech products may be developed jointly. This is particularly relevant to China's economic transformation and the post–Soviet economies search for a development model that is not based on raw materials.

<sup>120</sup> The EEC Will Compile A List of Priority Infrastructural Projects for Tying Together the EEY and the Silk Road Economic Belt. URL: <http://www.eurasiancommission.org/ru/nae/news/Pages/04–02–2016–3.aspx> (in Russian)

<sup>121</sup> The Idea of Trying Together the EEU and the SREB projects. Stanislav Voskresensky: The Silk Road Connects Russia and China. URL: <http://www.economy.gov.ru/minec/press/interview/2015082704> (in Russian)

and in some areas of mechanical engineering. This is particularly relevant to China's economic transformation and the post-Soviet economies search for a development model that is not based on raw materials. In all those directions, work should be done on multilateral basis, with the participation of Russia, China, and the EEU and SCO countries. China has set appropriate tasks within the SREB project, and Russia should propose similar initiatives.

### **3. Russia and the EEU should widely involve their financial institutions in financing joint projects.**

It could open up new grand prospects for the Eurasian Development Bank. Besides, the following institutions should also be involved in implementing joint Russian-Chinese projects in Central Asia: the SCO Interbank Association which brings together national development banks; the Asian Infrastructure Investment Bank which is now being formed by China (where Russia participates as well); BRICS' New Development Bank intended to finance infrastructure projects in developing countries.<sup>122</sup> Involving these institutions should become one of the crucial tasks for Russian diplomacy in the SCO, BRICS, and other important formats of Russian-Chinese economic cooperation.

### **4. Supporting Russia's exports into the Central Asian countries.**

Strengthening bilateral economic relations with the Central Asian states is among the tasks for the Russian economic agencies (including as part of the EEU and the SREB cooperation). For that purpose, it is necessary to support Russian exports and expand industrial cooperation with the economies of Kazakhstan and Uzbekistan, the strongest ones in the region. It can be done within the EEU, the SCO, and within Russia's participation in the SREB's projects. For that purpose, it is expedient to develop mechanisms for providing state guarantees for Russian businesses and for insuring their political and economic risks in Central Asia. The system of state guarantees currently in place in Russia should be revised, and the caps on guarantees for Russian exporters should be increased.<sup>123</sup>

It is necessary to support Russian exports and expand industrial cooperation with the economies of Kazakhstan and Uzbekistan, the strongest ones in the region.

It is necessary to improve the rules for providing state guarantees for supporting industrial product exports recently adopted by the Government of the Russian Federation,<sup>124</sup> and also to improve the work of the Russian Agency for Export

It is expedient to develop mechanisms for providing state guarantees for Russian businesses and for insuring their political and economic risks in Central Asia.

<sup>122</sup> Kuznetsov S. BRICS' New Development Bank and Its Direct Competitors.  
URL: <http://www.ftimes.ru/economy/3848-novyj-bank-razvitiya-briks-i-ego-pryamyje-konkurenty> (in Russian)

<sup>123</sup> The Decree of the Government of the Russian Federation no 556-r of April 25, 2008 "On Approving the List of Foreign States Exports Into Which in 2008–2010 Are Supported by State Guarantee Taking into Account Annual Guarantee Caps".  
URL: [https://www.consultant.ru/document/cons\\_doc\\_LAW\\_76570/f62ee45faefd8e2a11d6d88941ac66824f848bc2](https://www.consultant.ru/document/cons_doc_LAW_76570/f62ee45faefd8e2a11d6d88941ac66824f848bc2) (in Russian)

<sup>124</sup> Decrees of the Government of the Russian Federation no 953 of December 15, 2008, No. 919 of November 15, 2010, No. 141 of February 18, 2013.



Credit and Investment Insurance (EXIAR) and the Russian–Kyrgyz Development Foundation.

**5. Accelerating the implementation of joint Russian–Chinese transportation projects.**

Given the strategic importance of the Western Europe–Western China highway project for the co–adaptation of the EEU and the SREB, its implementation must be significantly accelerated. For greater efficiency of the current project, it is desirable to coordinate with the transportation infrastructure of Finland and perhaps, further down the road, with the transportation infrastructure of the Baltic countries.

Given the strategic importance of the Western Europe–Western China highway project for the co–adaptation of the EEU and the SREB, its implementation must be significantly accelerated.

It appears relevant to develop the logistical integration of the latitudinal projects suggested by China as part of the SREB with the longitudinal North–South project which is being implemented by JSC Russian Railways. It will allow improvement of the transportation infrastructure that connects continental Eurasia, in particular, the infrastructure connecting the SCO countries, including the new members such as Pakistan and India.

Against this background, it is necessary to consider the issue of creating not only latitudinal, but also longitudinal transportation communications (railway and river fleet), which would allow for a more efficient use of the Northern Sea Route (NSR). Today, China and some countries of Central and South Asia express their interest in the NSR. Moreover, it will be conducive to the accelerated development of the Ural and Siberia. For all the above–listed countries, it appears expedient to develop transportation infrastructure in the Caspian region with access to Iran and South Asia.

It is necessary to consider the issue of creating not only latitudinal, but also longitudinal transportation communications (railway and river fleet), which would allow for a more efficient use of the Northern Sea Route.

It is necessary to continue efforts to minimize the costs of transit shipping along stated routes, to simplify and unify administrative paperwork and procedures (including customs procedures) pertaining to transit shipping in the territories of member states of the international North–South corridor, to bring them in conformity with the operative international agreements and standards. All the member states are interested in shaping a unified railway infrastructure from the Baltic to the Port of Bandar Abbas in the Persian Gulf. In particular, China will gain access to Iran’s transportation infrastructure, and Russia will gain a more diversified transit infrastructure.

It is necessary to continue efforts to minimize the costs of transit shipping along stated routes, to simplify and unify administrative paperwork and procedures (including customs procedures), to bring them in conformity with the operative international agreements and standards.

## **6. Coordinating labor migration policies and implementation of joint investment projects.**

The creation within the SCO of a multilateral advisory body with the participation of Russia, China, Kazakhstan, Kyrgyzstan, and Tajikistan could produce more comprehensive solutions to the problem of labor migration. The joint declaration of the Russian Federation and the People's Republic of China of May 8, 2015, according to which the SCO should become the platform for the joint efforts in bilateral and multilateral formats, could serve as the political and legal basis for developing this project.<sup>125</sup>

The creation within the SCO of a multilateral advisory body with the participation of Russia, China, Kazakhstan, Kyrgyzstan, and Tajikistan could produce more comprehensive solutions to the problem of labor migration.

This platform could serve the discussion and coordination of the following issues:

- training personnel in Central Asian countries (with Russia's and China's participation) with the aim of increasing labor migration efficiency into Russia and making it easier to transfer several production facilities into Central Asia as planned by China;
- regulating migration flows with the aim of preventing an increase in security threats due to uncontrolled migration;
- forming coordination mechanisms for migration policies adopted both by migrants' host countries and countries of origin (for instance, aiding migrants in creating small businesses in their home countries, offering them microloans, etc.);
- studying the EEU experience in migration legislation and its further improvements;
- coordinating migration flows, establishing the preferential entrance regime for highly qualified specialists with training in engineering and blue collar jobs, creating a system of mutual guarantees and preferences for young specialists and students.

Joint transportation, industrial, and other projects of the EEU and the SREB should be aimed at creating new jobs in the region's countries.

Joint transportation, industrial, and other projects of the EEU and the SREB should be aimed at creating new jobs in the region's countries. These problems could also be solved within the proposed multilateral advisory body. Accordingly, it could consider issues that pertain not only to migration, but also to implementing joint investment projects.

<sup>125</sup> The Joint Declaration of the Russian Federation and the People's Republic of China on Cooperation on Tying the Construction of the Eurasian Economic Union and the Silk Road Economic Belt. May 8, 2015.  
URL: <http://www.kremlin.ru/supplement/4971>

**7. Establishing a pragmatic dialogue within the EU–EEU–China triangle on the issues of shaping a pan-European infrastructure and transportation, as well as freedom of movement for goods, capital, people, and services.**

The interests of China and Central Asia—in coordinating with the EU transportation and infrastructure projects, as well as the issues of the movement of goods, people, and services in the Eurasian space—could be used as an important resource in reestablishing the dialogue between Russia and the EU. China as an intermediary and as an interested party in such a dialogue could soften the EU's stance on interaction with the EEU, which, in essence, could be conducive to a more efficient achievement of Russia's strategic goal within the Eurasian space: the shaping of the economic space "from the Atlantic to the Pacific".<sup>126</sup>

It would be relevant to explore the possibility of signing a trilateral instrument on cooperation between the EU, the EEU, and the SCO.

It would be relevant to explore the possibility of signing a trilateral instrument on cooperation between the EU, the EEU, and the SCO. The objectives of such cooperation would be to fight against new security threats, to promote development, to implement joint investment projects (water, electric power, etc.).

**8. Coordinating Russia's and China's strategies in security in Central Asia.**

When it comes to maintaining security in Central Asia, Russia's role significantly exceeds that of China. It is due to well-developed bilateral relations with the region's countries in the military and political area, and also due to Russia's leading role in the CSTO. In 2009, the Collective Rapid Reaction Force (CRRF) was formed within the CSTO; its task is to repel aggression and conduct special operations against terrorists. The CIS Antiterrorist center and the SCO Regional Anti-Terrorist Structure are also intended to contain terrorism. Russia allocates significant funds for this purpose, and this will not change in the foreseeable future. Coordinating Russia's and China's security strategies in Central Asia could be linked to increasing Beijing's economic aid to ensure security in the region. The agreement achieved in 2015 between Russia and China on expanding cooperation in fighting terrorism and extremism (including on the crucial international platforms)<sup>127</sup> could take the cooperation to a new level.

Agreeing on the list of terrorist organizations and exchanging secret services' information on the recruitment and shipping of fighters to Afghanistan and the Middle East, as well as their financing are among the antiterrorist measures to be taken immediately. The SCO must become the principal format for intensifying this line of cooperation.

**9. Stepping up the joint fight against instability spreading from Afghanistan.**

Russia and China can carry out the task of jointly fighting terrorism in different areas through different means.

<sup>126</sup> Putin V.V. New Integration Process For Eurasia Is The Future Which Is Being Born Today // Izvestiya, 03.10.2011. URL: <http://www.izvestia.ru/news/502761> (in Russian)

<sup>127</sup> These are such international platforms as the UN, BRICS, the SCO, the Asia–Pacific Economic Cooperation (APEC), ASEAN Regional Forum (AFR), the Financial Action Task Force (on Money Laundering) (FATF), Eurasian group on combating money laundering and financing of terrorism (EAG) etc. See: Russia and China agreed on cooperation in fighting terrorism. URL: <http://www.tass.ru/politika/2391244> (in Russian)

Regarding Afghanistan, the military means seem to be the main ones: securing borders, modernizing the Tajik and Uzbek militaries, using the CSTO's CRRF, the SCO's Regional Anti-Terrorist Structure, and bilateral cooperation (with Uzbekistan and maybe Turkmenistan). Bilateral cooperation is already underway: the program for modernizing Tajikistan's military is intended to be completed by 2025 and will cost Russia 200 million dollars.<sup>128</sup>

A significant step towards normalization of the situation in Afghanistan could be presented by SCO as a platform for coordinating the approaches and interests of Russia, China, Pakistan, and India. Currently, Russia and particularly China act as major sponsors of Afghanistan's government in the military and economic areas. Russia supplies weapons to the legal authorities of Afghanistan (such as combat helicopters and spare parts for them),<sup>129</sup> and China implements large-scale economic projects.<sup>130</sup>

It would be expedient to tie cooperation in this area to ensuring security (particularly in the north of Afghanistan where religious extremists and terrorists from Russia, Central Asia, and China relocated to). Russia should put this item on the SCO's agenda.

It is necessary to expand the cooperation between the SCO and the CSTO in counteracting the interlinked security threats such as religious extremism, separatism, terrorism, drug trafficking. The CSTO has operations "Channel" (anti-drug trafficking) and "Proxy" (counteracting extremism in the information sphere, primarily on the Internet). Mechanisms should be developed for tying the SCO countries, including China, to these operations. In particular, the appropriate programs could be made open not only for international observers, but also for active participation of states that are not members of the CSTO (similar to NATO's Partnership for Peace program).

Intensifying coordination between the CSTO (operation "Illegals") and the SCO in counteracting illegal migration will allow more effective prevention of international terrorists from penetrating into Russia and China from Afghanistan via Central Asia.

## 10. Counteracting the spread of radical Islam's ideology.

It is possible to counteract extremism a) through Islamic education, and b) through secular education and enlightening local communities, introducing them to the world's culture.

In the first scenario it is possible to use the experience of the Central Asian states in creating Islamic educational institutions (for instance, the Islamic University in Uzbekistan) and the experience of Russia's republics with large Muslim populations. Of great value could be the experience of the Republic of Tatarstan; in October 2015, they inaugurated the Bulgar Islamic Academy. Tatar imams are traditional conduits of Islamic learning in Central Asia.

<sup>128</sup> Southern Borders Under Threat. Will Central Asia Defend Itself?  
URL: <http://www.topwar.ru/print/page,1,86315-yuzhnye-rubezhi-pod-ugrozoy-zaschitit-li-sebya-srednyaya-aziya.html> (in Russian)

<sup>129</sup> Kabulov: "Russia is already aiding Afghanistan." URL: <http://www.izvestia.ru/news/592813> (in Russian)

<sup>130</sup> Panfilova V. China played the "Afghan Domino". URL: <http://www.afghanistan.ru/doc/77075.html> (in Russian)

Moreover, in the nineteenth century, the Russian empire, particularly the Tatar–populated regions, was the birthplace of and important center for today’s Islamic modernism (in the forms of Jadidism, the Young Bukharans’ and Young Khivans’ movements, etc.).

An increase in the number of Islamic educational institutions, particularly of higher education, in Russia and China, and an increased number of educational grants for natives of Central Asia would create competition for the religious education in the Middle East.

The necessity to develop Islamic intellectual thought in the post–Soviet space and in China’s neighboring regions (Xinjiang) is felt very acutely. One Islamic university or a group of them (like Al–Azhar University) could serve as a common platform here. A huge part could be played by mass media, books and TV programs which consider existential religious questions within today’s modernist Islam opposed to religious extremism. Russia and China could make significant contributions to the process by starting joint initiatives.

An increase in the number of Islamic educational institutions, particularly of higher education, in Russia and China, and an increased number of educational grants for natives of Central Asia would create competition for the religious education in the Middle East. It is the religious education in the Middle East that today “infects” the region with various forms of radical Islamism.

Greater attention should be paid to secular education, which is yet another alternative to religious extremism. China constantly increases the number of students from Central Asia, particularly in the XUAR’s universities, and it offers students attractive conditions. In Russia, the number of educational grants should be increased. Students from Central Asia who study in Russia frequently encounter threats to their personal safety, street violence, nationalism, etc. As the economic crisis deepens, xenophobic moods may also increase. Sponsoring branches of Russian universities in Central Asia itself could serve as an alternative, as well as the expansion of the activities of Slavic universities: the Russian–Tajik University in Dushanbe and the Kyrgyz–Russian University in Bishkek.

### **11. Coordinating work with the civil society of Central Asia.**

The goals of such cooperation are to overcome the risks of social destabilization and the security challenges posited by international terrorism, to prevent interethnic conflicts, to shape a new holistic view of the Central Asian region and of the opportunities offered by regional cooperation. These goals can be achieved by developing academic ties, contacts between civic organizations, tourism, providing internships, holding cultural and sports events, implementing joint projects in mass media, etc.

It should be emphasized that these recommendations are in keeping with the provisions of the “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st–Century Maritime Silk Road” where an important place is given to the elements of soft power.<sup>131</sup>

<sup>131</sup> “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st–Century Maritime Silk Road”. Beijing, 2015 (unofficial translation from Chinese).

## **12. Intensifying expert cooperation between Russia, China, and the Central Asian states.**

It appears expedient for Russia and China to form a permanent expert platform to conduct dialogue on various issues of tying together the EEU and the SREB; experts could discuss the current tasks in various areas from infrastructure projects to humanitarian cooperation. At the next stage, it would be logical to involve Kazakhstan, which plays a central role both in the Eurasian integration and in developing the SREB initiative, and to form a trilateral platform for the dialogue of experts. In the future, this dialogue can and should be expanded to include experts from the Central Asian states.

On the whole, tying together the EEU and the SREB opens up new cooperation opportunities in Central Asia for Russia and China. If the parties succeed in making proper use of them, they will have an opportunity to neutralize the growth of transborder security threats in the region, which is a necessary condition for ensuring progressive economic development of all the participants involved in the co-adaptation of the Eurasian integration and the Silk Road Economic Belt.

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