



BRI AND SINO-RUSSIAN RELATIONS IN CENTRAL ASIA

Nowadays the Russian-Chinese relations have become strategic, which is due to a number of developments: the deep crisis in the Russian-U.S. and Russian-EU relations and, against that backdrop, a pivot to the East announced by Moscow. This format of relations between the People's Republic of China (PRC) and the Russian Federation, two key regional players in Central Asia, creates new circumstances for the regional countries, and this may particularly affect the implementation of the Chinese Belt and Road Initiative (BRI) that opens up a window of opportunity for the Central Asian nations to successfully implement infrastructure projects.

While Russia and China are the major external actors in Central Asia, Beijing understands that Moscow still has an upper hand in the region. At the same time, both players realize that the political elites of the Central Asian countries have high hopes for the BRI. Therefore, in general, Russia and China are ready to show flexibility and understanding in their mutual relations to avoid jeopardizing the implementation of the BRI infrastructure projects. This means, for example, that Beijing cannot just roll up some projects to satisfy Moscow's interests as there is a risk to significantly spoil their images in the region.

Meanwhile, Russia and China pursue a cautious policy in Central Asia, which is a "strategic hinterland" for both countries. They have a common goal of ensuring security in the region: this allows China to rely on sustainable energy supplies and stability at Xinjiang's borders, while for Russia this means tranquility on its southern borders. In addition, the two countries need each other to overcome their present and future contradictions with the West, but to a varying degree. For the PRC, maintaining good relations with Russia is and will be indispensable during ongoing and potential tensions with the United States and other key regional players along the perimeter of its borders. For Moscow, Beijing remains the only strong ally and necessary economic partner, while it is under sanctions and in opposition to the collective West. Back in 2014, Gazprom and the CNPC signed a \$400 billion contract on the supply of 38 billion cubic meters of Russian gas per year to China via the Power of Siberia pipeline. There are also agreements to build a high-speed Moscow-Kazan highway worth about \$15 billion and to jointly develop the Yamal LNG project. More importantly, it is noteworthy that the Kremlin's pivot to the East has not yet resulted in breakthroughs in its relations with other key Asian countries.

It is widely believed that there is a status-quo established between Russia and China in Central Asia, in which the PRC

is responsible for the region's economic development, while Russia provides security, having such a useful tool as the CSTO for this purpose. However, there is an opinion that this "division of labor" has undergone a major change after the initial announcement of the BRI in 2013. However, it seems that the above-mentioned status-quo still exists today because it continues to benefit both countries. For Beijing, this division of responsibility reduces costs of implementing infrastructure projects, unlike in the Asia-Pacific region, where the PRC has to defend its investments all alone as it faces significant resistance on the part of Japan and India supported by the United States. For Moscow, its traditional focus on security cooperation is a preferred option as it is unable to compete economically with Beijing in Central Asia. That was one of the reasons why Russia did not create substantial obstacles for China when Beijing opened up the Central Asian energy market in the late 2000s.

Nevertheless, there are certain risks that can lead to disagreements between the two states in the region. One of these could be Moscow's unilateral policy within the Eurasian Economic Union (EEU). In 2015, in an attempt to reduce concerns about the BRI threatening the Eurasian integration, Russia signed an agreement with China on coordination between the EEU and the BRI without consulting other EEU members. This move did not lead to much disagreement within the EEU, but in response Kazakhstan, a founding member of the union, signed a separate agreement on coordination between its Nuryly Zhol program and the BRI. It was a clear signal to the Kremlin that it should coordinate actions with other EEU members.

At the same time, China's experience of doing business in other regions makes visible another risk, namely a "debt trap" for a country participating in the BRI. The scenario of the Hambantota seaport in Sri Lanka, which came under the Chinese control as a debt repayment, could be implemented in Central Asia. For example, Chinese loans constitute 70% of Tajikistan's external debt, and the country's total debt burden, according to the World Bank, is almost 60% of its GDP. Thus, in theory, it is possible that Tajikistan might transfer some infrastructure facility, such as the recently launched Rogun hydro-power plant, to the Chinese side to reduce its debt, especially as Dushanbe is now searching investments to bring the plant to its planned capacity. However, even if this possibility remains theoretical, the trend under which the Central Asian economies begin to be dependent on Chinese loans is a source of concern for Moscow.

Five years after the start of the BRI, another narrative has become evident between Russia and China. Moscow creates implicit barriers in the implementation of certain projects in Central Asia, and the Russian political elite supports any contradictions that arise when planning the transport infrastructure. This slows down Chinese projects that are unprofitable for Moscow and / or require its intervention to resolve differences, thus strengthening the Kremlin's position in the region. The reason for such behavior is that Russia wants to keep its monopoly on the transit of goods from Central Asia to the West and vice-versa. Moscow clearly understands that it is impossible to restrain Central Asian aspirations of accessing the world market through alternative routes, but tries to minimize available options making the most unfavorable route look the most realistic. The China-Kyrgyzstan-Uzbekistan railway can serve as an example, where Russia seemingly supports it, but occasionally pushes Tajikistan and Kyrgyzstan to exclude the Uzbek side and move forward with the alternative China-Kyrgyzstan-Tajikistan-Turkmenistan railway. Another example is the construction of the Western Europe-Western China highway, the Kazakh section of which has recently become operational, while in Russia there is no even an approved project documentation.

At the same time, Russia actively promotes the International North-South Transport Corridor (INSTC), which is supposed to use the Iran-Turkmenistan-Kazakhstan railway for access to the Russian and European markets. In this case, Moscow supports the joint Iran-India project to develop the Iranian Chabahar seaport, a rival to the Pakistani Gwadar seaport, which is one of the BRI's flagship projects. Under the current circumstances, Beijing has not shown its position on the INSTC as it, perhaps, still contemplates possible counter moves.

To summarize, the relations between Russia and China have great strategic importance for both sides, which makes it possible to hope for their pragmatic and predictable policies in Central Asia. Today both Moscow and Beijing are involved in the global confrontation, and this may serve as a deterrent factor in their relations with the Central Asian countries. Therefore, for the time being, the status quo in the region will remain in place, and the overall situation will be relatively stable. However, if Russia or China, or maybe both, decide to change the rules of the game, consequences will be hard to predict. In near future it is not expected and there is no reason for major players to make a swift major move.

Politics, Foreign Affairs, and Security

- Salome Zurbashvili, the first woman president of Georgia, was sworn into office during the inauguration ceremony held at the palace of Kakhetian King Erekle II in Telavi amid opposition protests against alleged electoral violations. Speaking at the ceremony that marked the start of Georgia's new constitution, Zurbashvili pledged to work towards "promoting our country's integration process into NATO and the EU".
- The U.S. Department of State announced that it would increase, subject to the Congressional approval, security assistance to Ukraine by additional \$10 million under the Foreign Military Financing program. Funds will be used to strengthen capabilities of Ukraine's Navy after the Kerch Strait incident. Washington also called on Russia to immediately return the seized vessels and detained crews to Ukraine.
- Georgia, Moldova and Ukraine signed a memorandum on the creation of an interagency platform for counteracting Russia and exchanging experience in the integration of their uncontrolled territories. The trilateral platform is expected to facilitate maintaining links with people living in the temporarily occupied territories and taking countermeasures to mitigate Moscow's information attacks.
- The 11th meeting of the Azerbaijan-Turkey High-Level Military Dialogue was held in Ankara. During the talks, the parties discussed prospects of military cooperation, including technical, medical, educational and other aspects, and agreed the main directions of future bilateral activities, as well as the action plan for 2019.
- The working groups of the governmental delegations of Uzbekistan and Kyrgyzstan on the border delimitation issues held their regular meeting in Tashkent. The parties considered the results of their activities following the signing of the agreement on the Uzbek-Kyrgyz state border in September 2017 and signed a relevant protocol.
- Russia and Belarus created a joint working group consisting of government representatives and parliament members to discuss various aspects of their relations, as well as contentious issues. The intergovernmental group will draft proposals on deepening integration between the two countries, including the unification of monetary and tax policies, which some observers regard as Russia's attempt to turn the nominal Union State of Russia and Belarus into reality.
- Five out of six CSTO member states approved the nomination of Stanislav Zas, the head of the Security Council of Belarus, for the post of the organization's Secretary General. Only Armenia whose representative Yuri Khachaturov had left this post prematurely due to a criminal case opened against him by the country's new authorities is yet to endorse the candidacy of Zas.

Economy, Finance, and Energy

- The Eurasian Economic Commission and the Southern Common Market (Mercosur) concluded a memorandum on trade and economic cooperation on the sidelines of Mercosur's summit in Montevideo (Uruguay). According to the document, the parties will engage in an extensive dialogue to look for ways of expanding cooperation in a number of areas of mutual interest.
- According to the Kommersant business daily, foreign investors withdrew more than \$1 billion from Russian funds in 2018, which the worst indicator since 2013 when Russia lost a record \$3.1 billion. The capital outflow from the Russian economy appears to be a precautionary reaction in anticipation of new U.S. sanctions.
- Following the second meeting of the Council of Heads of Border Regions of Kyrgyzstan and Uzbekistan held in Osh, the prime ministers of the two countries signed a final protocol and a roadmap on trade, economic and investment cooperation. The roadmap contains specific steps and timelines, including trade issues, partnership in industry, simplification of customs procedures, interbank cooperation, etc.
- Nine trucks carrying the first transit cargo from Afghanistan's city of Herat arrived at Azerbaijan's Baku international sea trade port via the Lapis Lazuli international route. The 175-ton cargo transported through the Turkmenbashi international sea port by ferry will then proceed through Georgia to Turkey. This strategic corridor is aimed at increasing the economic integration of the region and providing access of Afghan goods to world markets.
- Fitch Ratings and S&P Global Ratings assigned long-term foreign and local currency sovereign credit ratings to Uzbekistan for the first time. Both ratings are at BB-, with the "stable" outlook. This will help Uzbekistan increase foreign direct investment, expand cooperation with international partners, and create favorable conditions for banks and enterprises to raise loans at global financial markets at lower interest rates.
- According to Russian President Vladimir Putin's statement made at his annual press conference, Russia is ready to contribute to the peace process in Afghanistan by taking part in various international projects, such as the Turkmenistan-Afghanistan-Pakistan-India gas pipeline. The 1,840-km pipeline is planned to have a capacity of 33 billion cubic meters of gas per year.
- BP and SOCAR Turkey, a subsidiary of the Azerbaijani state oil company SOCAR, signed a preliminary agreement to evaluate prospects of a joint venture that would build and operate a world-scale petrochemicals complex in Turkey. If approved, the facility would annually produce 1.25 million tons of purified terephthalic acid, 840,000 tons of paraxylene and 340,000 tons of benzene.

Society and Culture

- According to the Kyrgyz Ministry of Labor and Social Development, 17 stationary social service facilities operate in Kyrgyzstan. Of 2,412 people living there, 748 are elderly and persons with disabilities and 1,664 have a neuropsychiatric diagnosis. In addition, there are 928 social workers who provide home care to more than 10,000 people requiring assistance. It is also reported that 1.6 million people out of Kyrgyzstan's population of 6.2 million live below poverty line.
- The EU will provide €9.36 million euro to the Tajik government to support human development as part of the second tranche of the Human Development Support Program II in Tajikistan. According to the EU Delegation to Tajikistan, the program will contribute towards improving the quality of health care and social protection in the country, thereby enabling more effective assistance to vulnerable segments of the population.
- The Eurasian Economic Union member states introduced additional labeling requirements for food products containing genetically modified organisms (GMO). According to the new technical regulation, the GMO label should be easily readable and placed in large print next to the Eurasian Conformity mark to help customers to make a more conscious choice.
- During the 36th meeting of the TURKSOY Council of Culture Ministers, the Kyrgyz city of Osh was named the cultural capital of the Turkic world for 2019. This status initiated by TURKSOY in 2010 was previously conferred to Astana, Eskisehir, Kazan, Mary, Sheki, Turkistan, and Kastamonu.
- President of Uzbekistan Shavkat Mirziyoyev was named as the "Asian of the Year" for 2018 by the Asia Journalist Association, along with late former chairman of LG Group Koo Bon-moo, Korean coach of the Vietnam national football team Park Hang-seo, and Egyptian thoracic surgeon Magdi Habib Yacoub. Mirziyoyev was selected in the category of politics for his efforts to reform the economy, improve human rights and encourage regional cooperation.
- Kazakhstan's Turan Express company launched a high-speed tourist train connecting Almaty and Turkistan. The train that will run on Fridays and Sundays will enable its passengers to see local ancient sights and other attractions during two days. It is expected that the new tourist route will contribute to a further increase in the number of tourists in Turkistan.
- The UAE government-owned low cost airline FlyDubai will launch flights to Uzbekistan replacing the Emirates airline at the Dubai-Tashkent route. The company will operate flights to Uzbekistan five times a week, with the possibility of adding two more flights per week in the summer of 2019.