

Central Asia for China and Russia: the zone of competition, cooperation or coopetition?

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Outline

1. China's and Russia's policy motivation in Central Asia.
2. Regional integration models and the difference of Chinese and Russian trade policy.
3. Institutional base of Coordination of activity in Central Asia
4. Trends of trade and investments
5. Existing problems
6. Conclusions

Russia - China competition for influence in Central Asia: competitive advantages

- **Russia:**
 - Russian language widely used even 28 years after USSR break-up.
 - Personal ties, common education standards.
 - Membership in Eurasian Economic Union.
- **China:**
 - Financial resources
 - Soft-power approach

Interests and policy motivation in Central Asia:

Russia

1. Expansion of the EAEU to strengthen Russia's geopolitical role.
2. *EAEU gives competitive advantage to Russian industrial exporters in the region.*
2. Economic development of Central Asia may limit the inflow of labor migrants and decrease the threat of Islamism expansion and drug trafficking.
3. Control over military facilities.

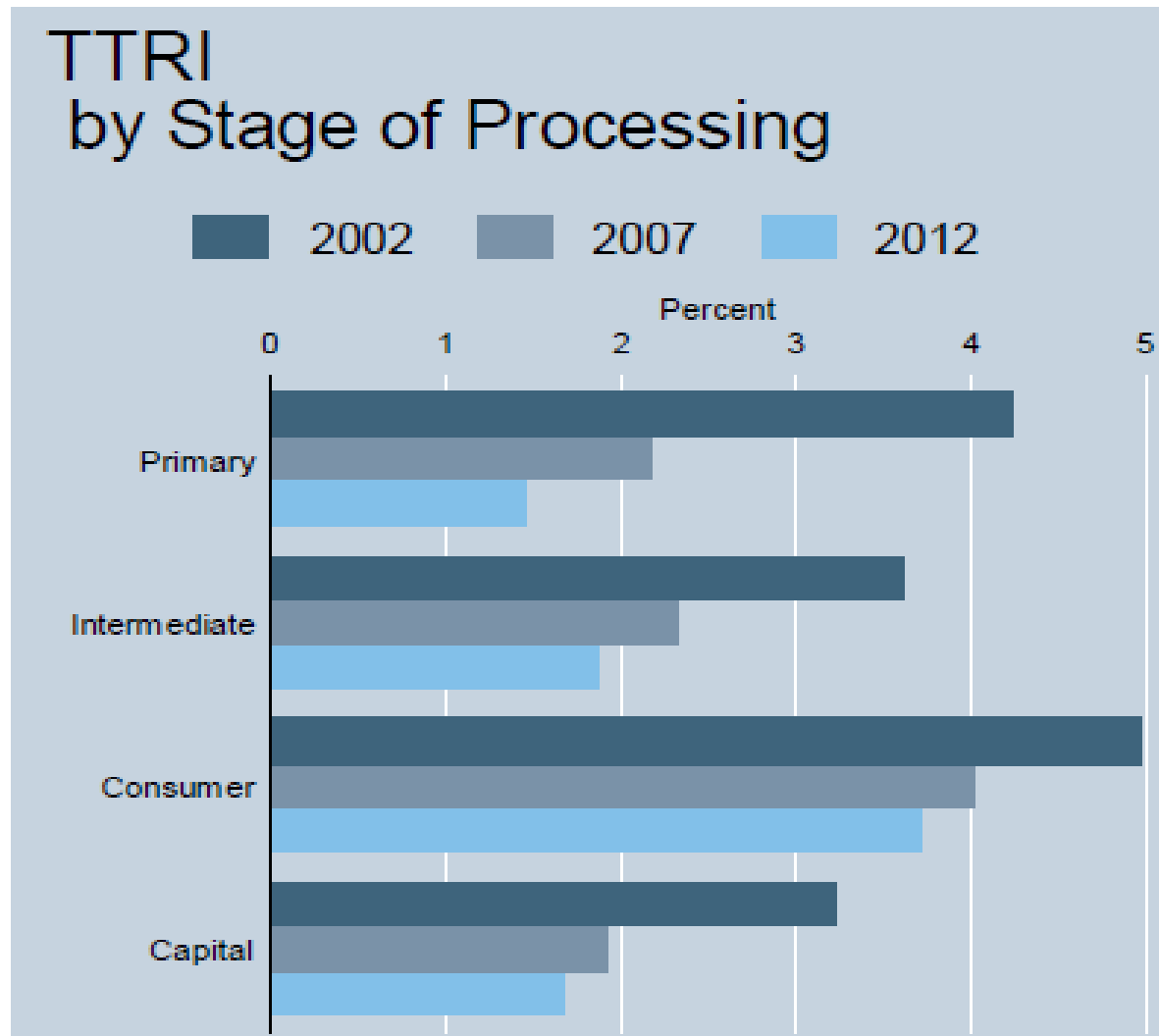
China

1. Access to energy resources.
2. Transit routes to Middle East and Europe.
3. *Access to the local markets, export of goods.*
4. Economic development of Central Asia may decrease the threat of Islamism expansion and drug trafficking.

Two models of regional integration

- Model 1. **Customs union (CU)**
- Each country can join only one comprehensive customs union.
- Trade policy towards third countries must be coordinated with other members of the customs union.
- Model 2.. **Free trade agreements (FTA) and FTA+.. Open regionalism.**
- Each country can sign FTA with many countries.

Tariff restrictiveness - depends on stage of processing. Tariff escalation is visible

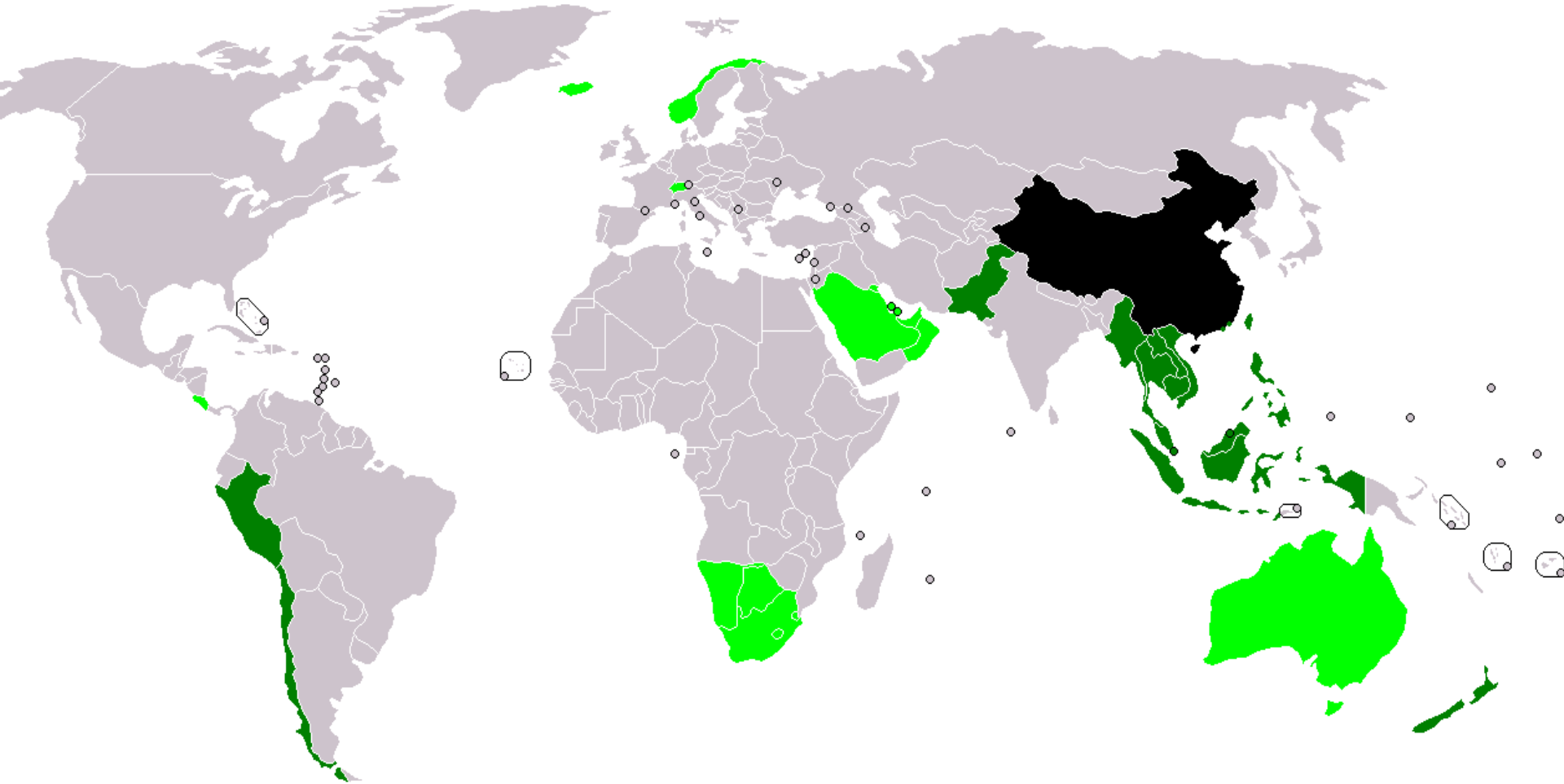


Source: UNCTAD.

FTA better for the exporters of manufactured products

- Exporters of manufactured products (like China) meet stronger competition and higher import tariff and non-tariff barriers in foreign markets (*recall tariff escalation*).
- Hence, such countries are interested in liberal conditions of market access – also by signing the high number of FTA.
- Customs union members can't sign separate FTA.

China's FTA – signed or negotiated



CU better for the resource / commodity exporters

- Exporters of primary resources do not meet strong competition and import tariff barriers in foreign markets.
- Hence, they are not so interested in signing the high number of free trade agreements.
- On the contrary: those of them, where some manufacturing exists as well (like Russia), may be interested in a more protective, defensive approach to the foreign trade.

The Eurasian Economic Union
the Republic Armenia, the Republic of Belarus, the Republic of Kazakhstan,
the Kyrgyz Republic and the Russian Federation



182,7 million people
over 20 million sq. km.
14% of the world's firm land

Common economic interest

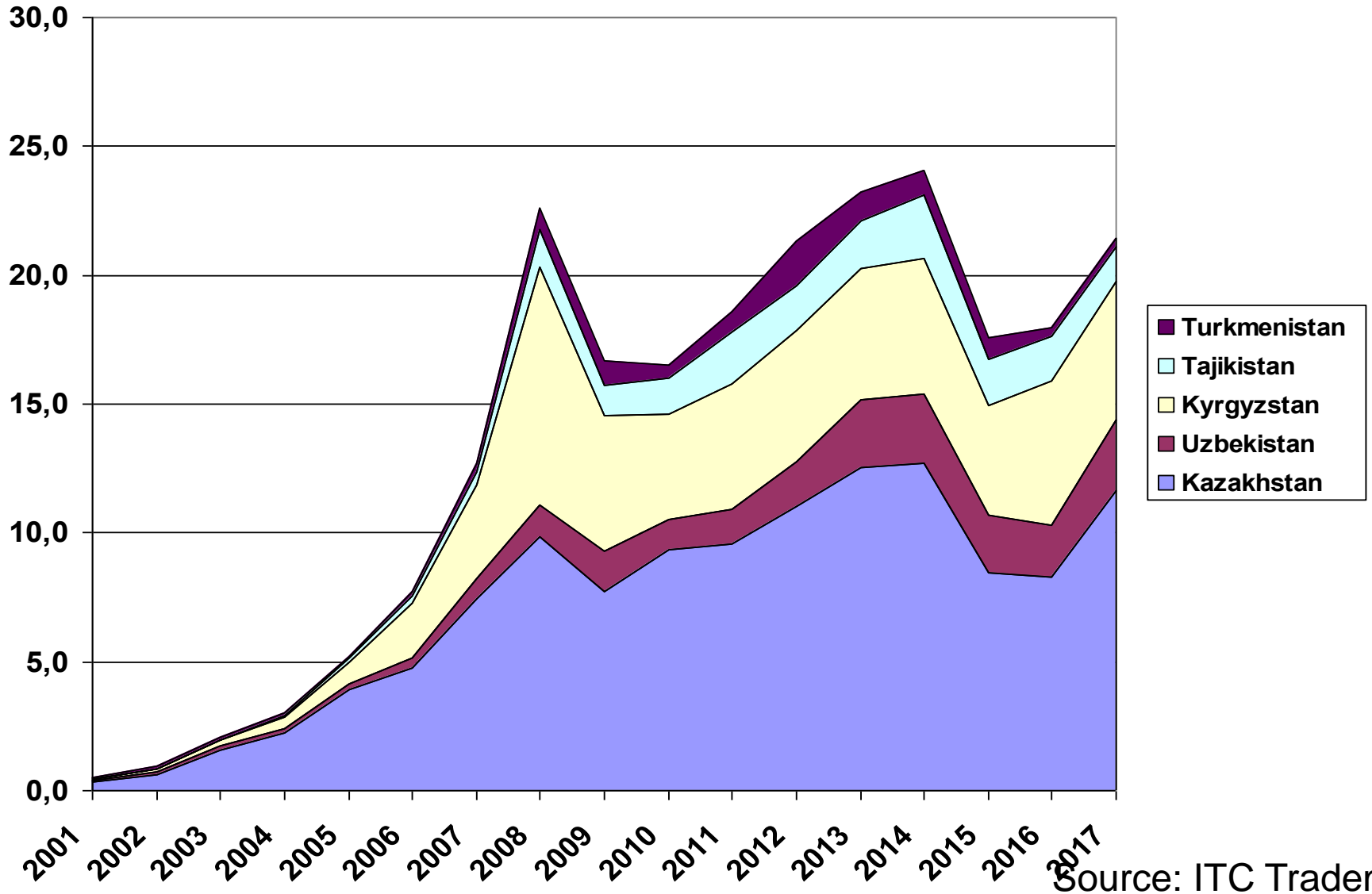
- Development of infrastructure in Kazakhstan and Kyrgyzstan (and other CA countries) improves living standards and business environment – not only for local, but for foreign businesses. It strengthens the basis of Eurasian integration.
- Implications: new jobs creation instead of emigration.

Contradictions because of EAEU

EAEU gave competitive advantage to Russian industrial exporters in the region thanks to customs-free access.

Kyrgyzstan' accession to the EAEU negatively affected it's transit role for Chinese goods.

Chinese export to Central Asia in 2001-2017



Source: ITC Trademap.

Kyrgyz Rep. was the main re-exporter of Chinese products in the region

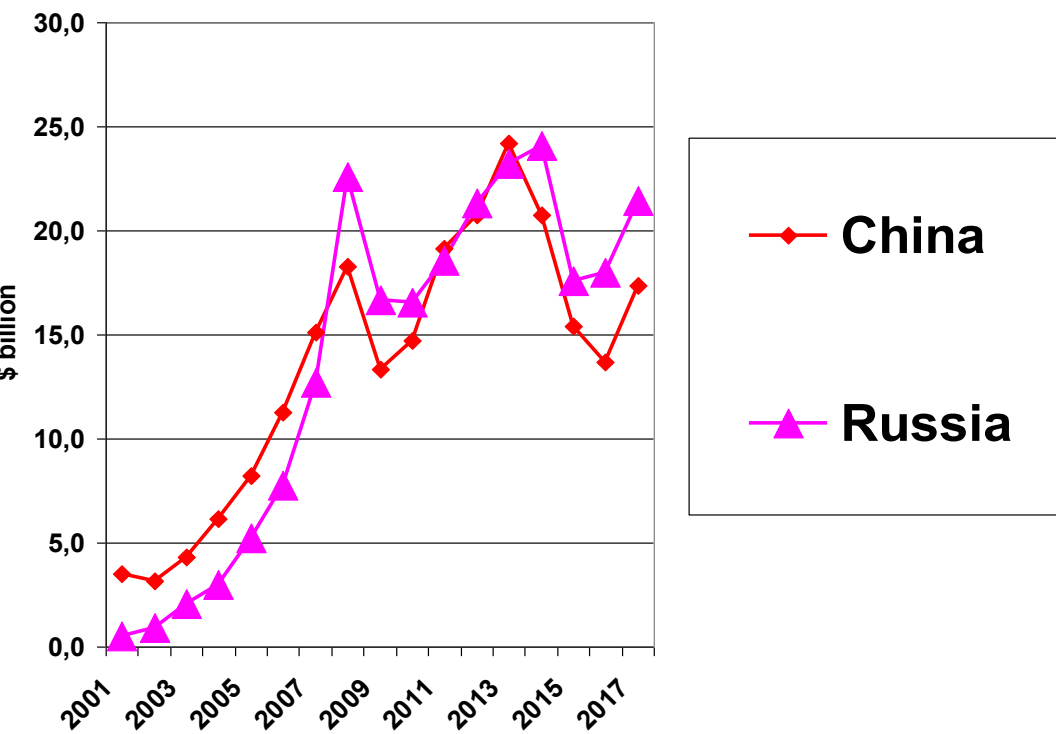


Bishkek. Dordoy market – the largest in Central Asia, Now smaller than before EAEU accession

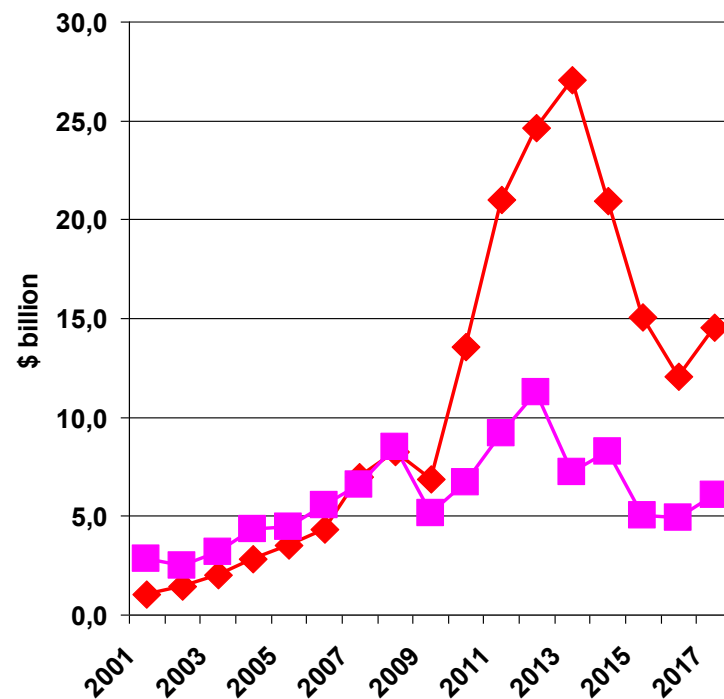


Chinese and Russian trade with Central Asia in 2011-2017, \$ billion

Export to CA

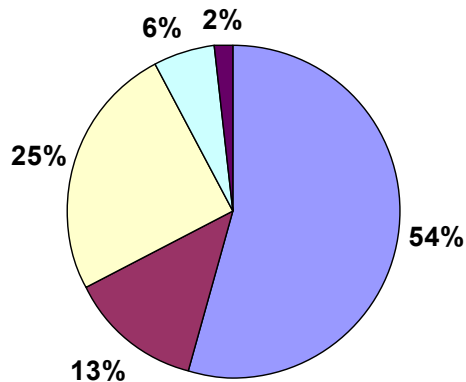


Import from CA

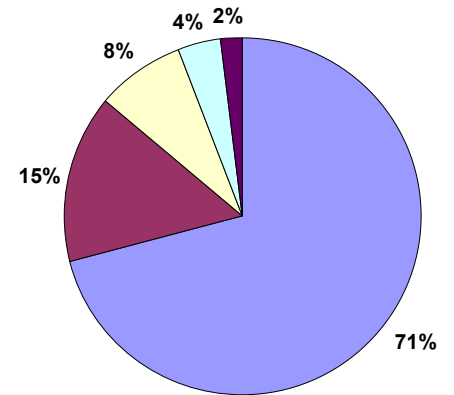


Chinese and Russian export to Central Asia in 2017 by country, %

China

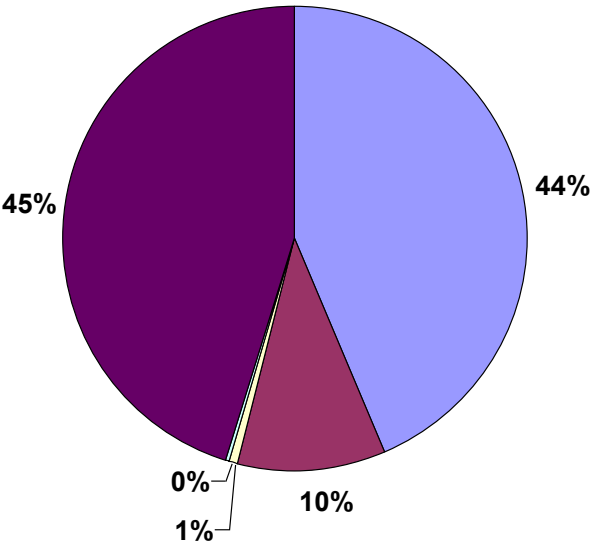


Russia

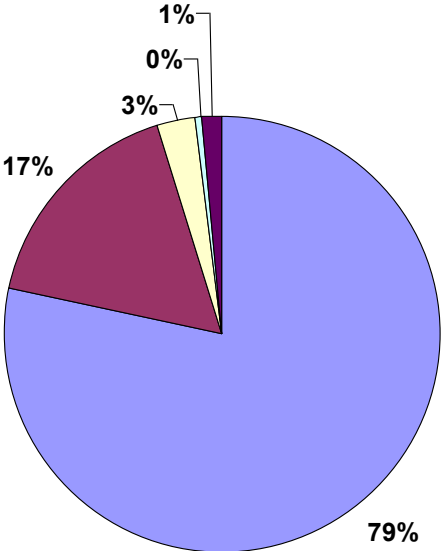


Chinese and Russian import from Central Asia in 2017 by country, %

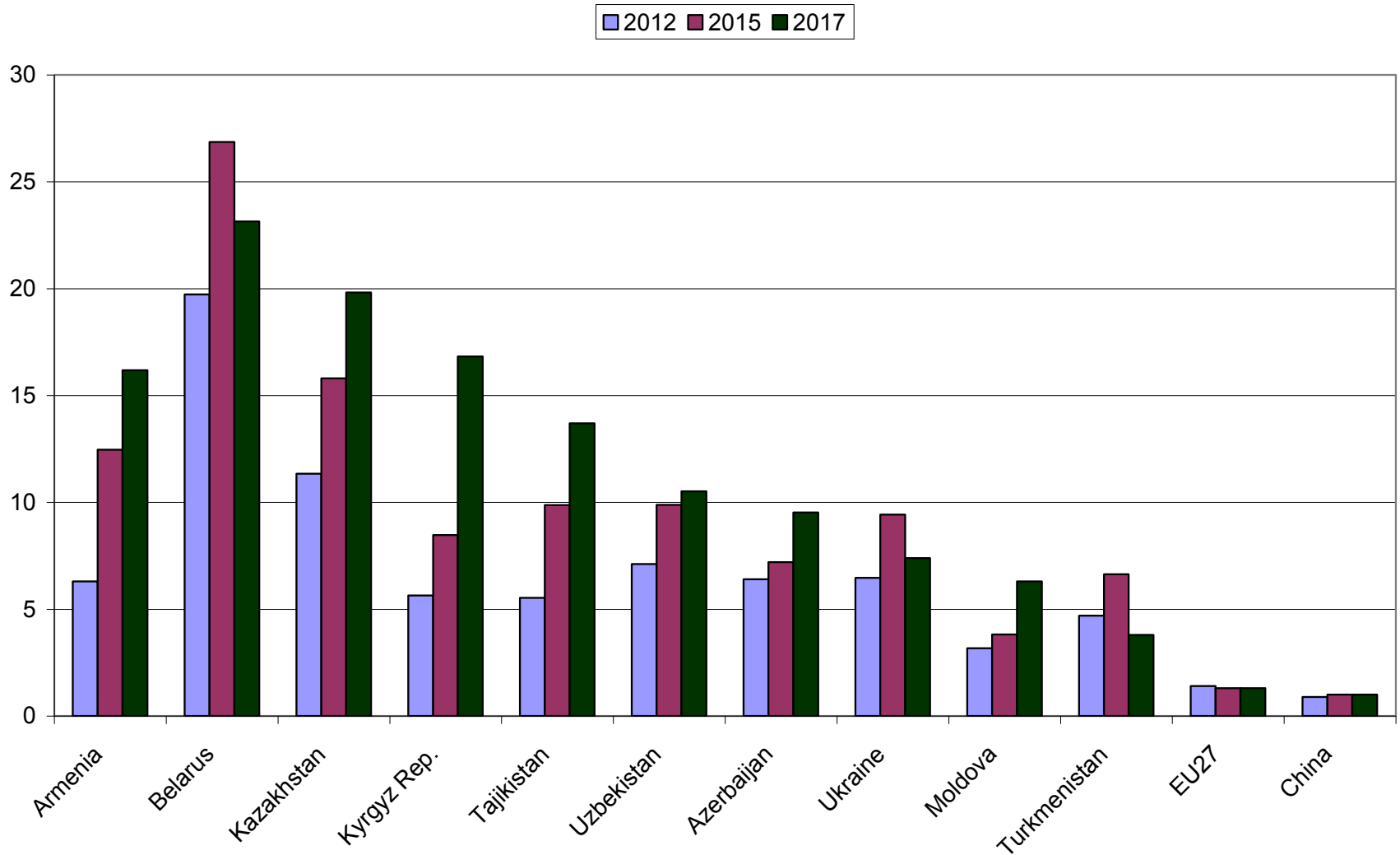
China



Russia



High values of trade intensity index for Russia's trade with EAEU members, 2012-2017



Russian ruble prevails in mutual payments for exported and imported goods and services between **EAEU** member states (shares, %)

Mutual Payments by EAEU Member States	2013	2014	2015	2016
in Armenian Drams (AMD)	0.1	0.1	0.1	0.1
in Belarusian Roubles (BYN)	0.4	0.3	0.5	0.4
in Kazakh Tenges (KZT)	0.4	0.5	1.1	0.7
in Kyrgyz Soms (KGS)	0.0	0.0	0.0	0.0
in Russian Roubles (RUB)	61.8	67.4	68.0	74.1
in US Dollars (USD)	30.3	26.3	25.0	19.3
in Euros (EUR)	6.8	5.2	5.1	5.2
in Other Currencies	0.2	0.2	0.2	0.2

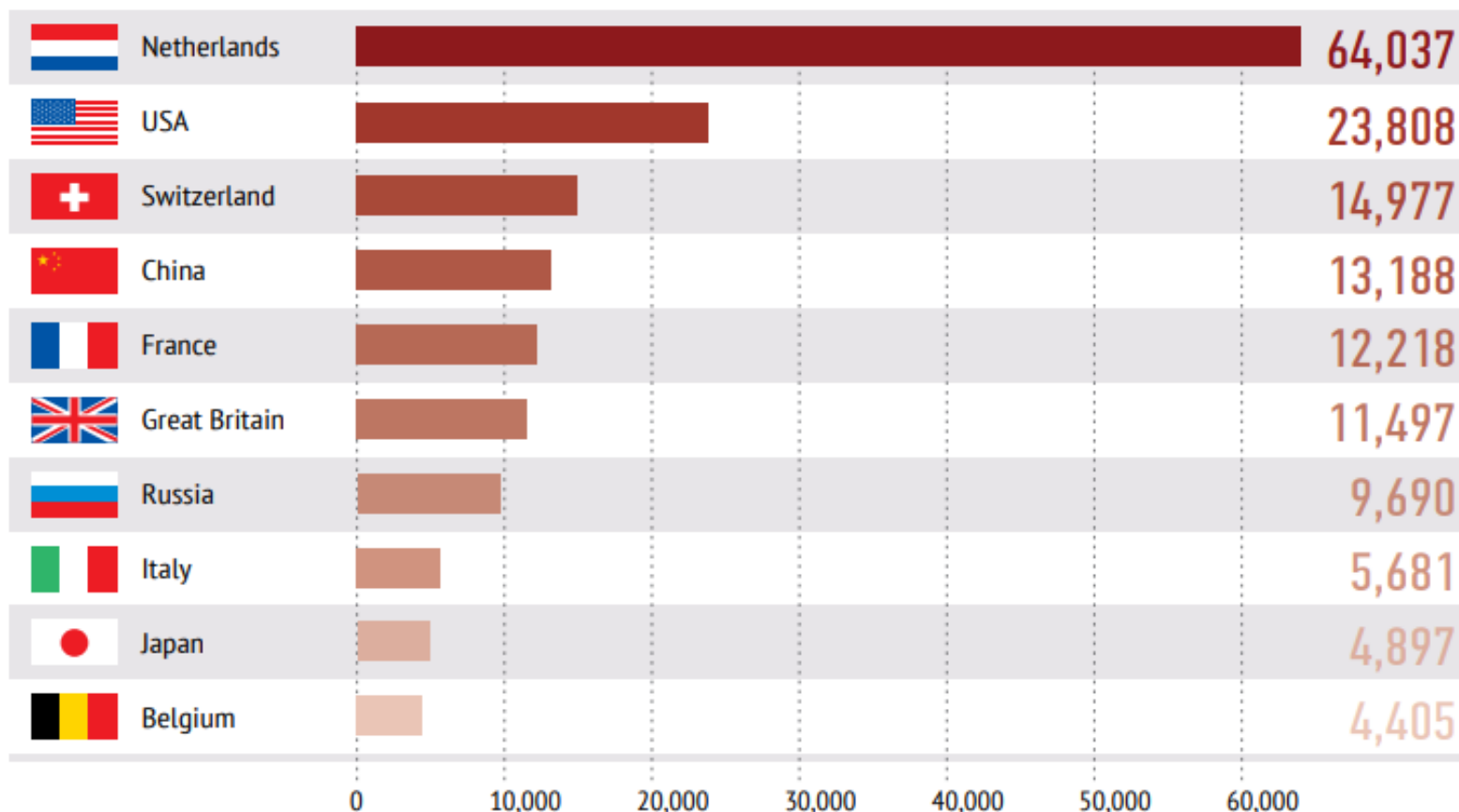
Source: Eurasian Economic Commission.

Trends in trade and investments

- Export is comparable,
- Chinese import is larger than Russian.
- Both depend on oil prices.
- Kazakhstan is the main destination of Russian and Chinese export to CA.
- Import: from Kazakhstan to Uzbekistan – to Russia; from Turkmenistan and Kazakhstan to China.
- Transit role of Kyrgyzstan decreases slowly.

FDI countries of origin in Central Asia

Large foreign investors, 2005–2015, mln \$



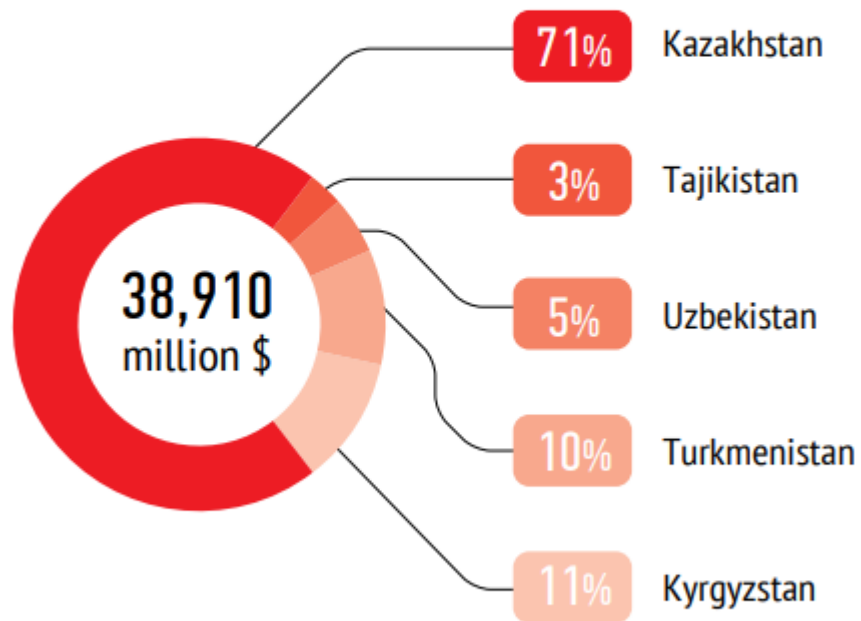
Source: UNCTAD

Royal Dutch Shell (Netherlands), BG Group and Shell (UK), Total (France),
Chevron, Exxon Mobil and ConocoPhillips (USA), CNPC (China) are main investors in Kazakhstan

Source: T.Bordachev, Valdai club

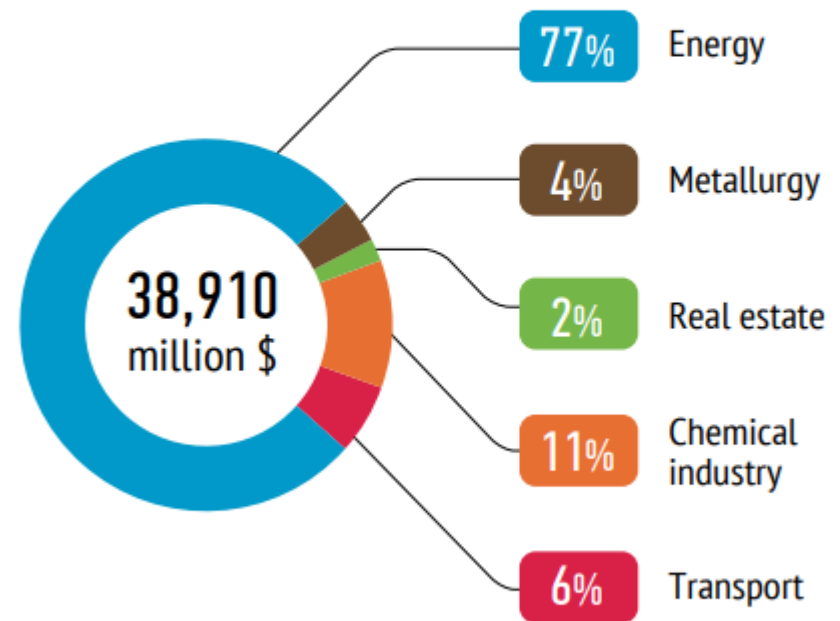
Chinese investments in CA: key destination – Kazakhstan, key sector - energy

Share of countries in China's investment in the Central Asia, 2005–2015



Source: China Global Investment Tracker

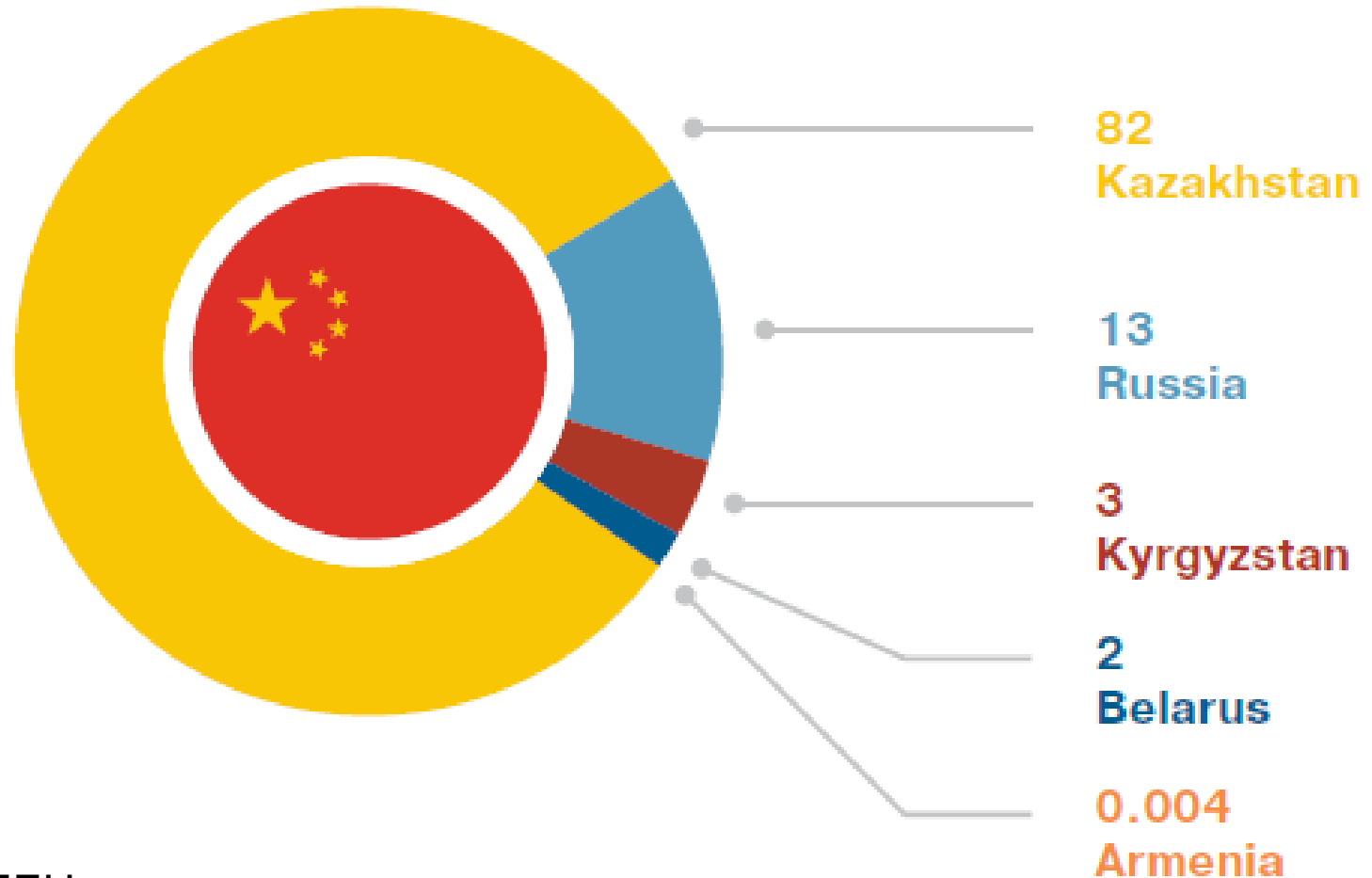
Structure of the China's investment in the Central Asia by sectors, 2005–2015



Source: T.Bordachev, Valdai club

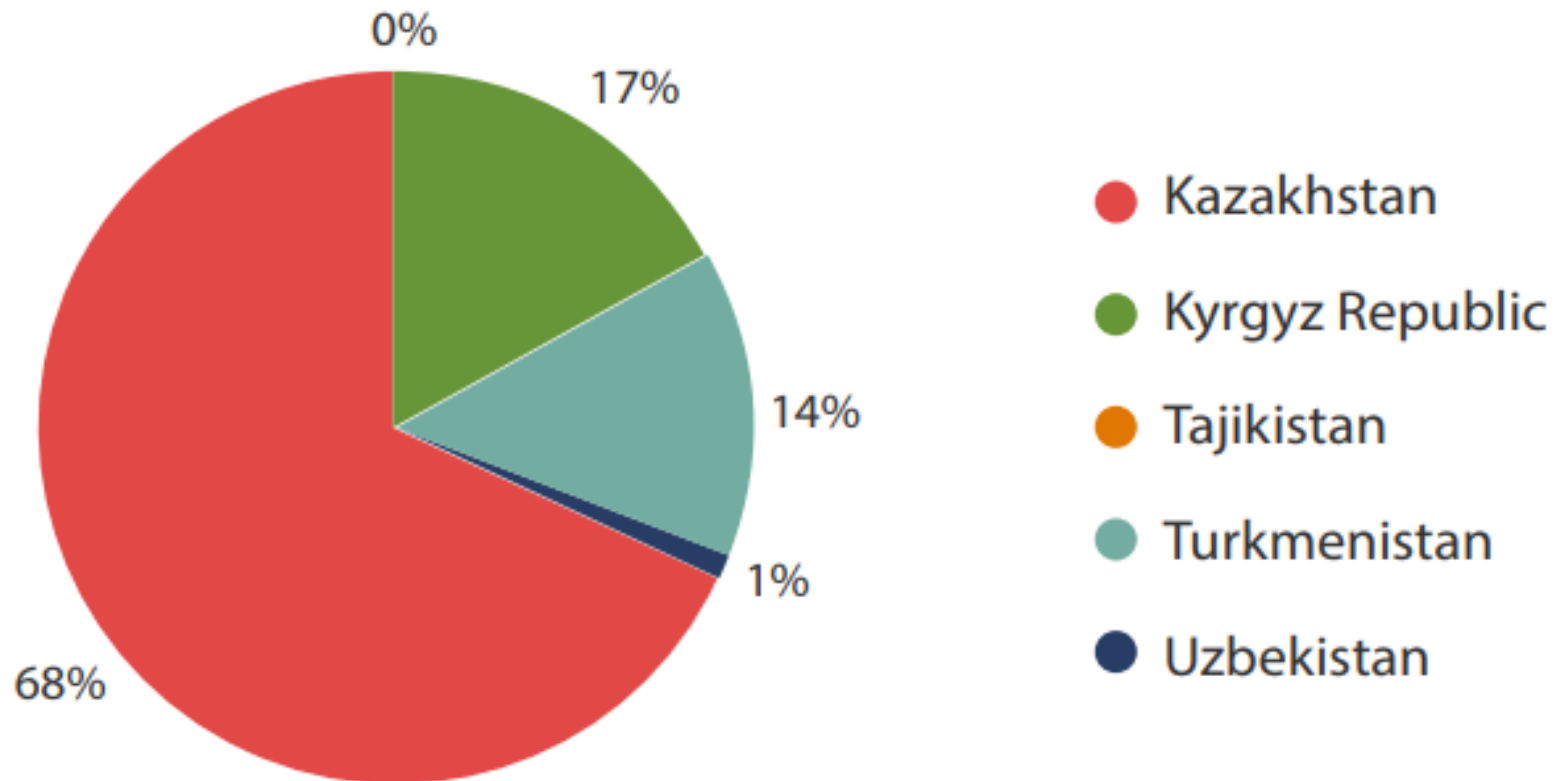
Chinese FDI to EAEU countries: more to Kazakhstan, than to Russia

Distribution of Chinese FDI by EAEU Member States at the End of 2015, %

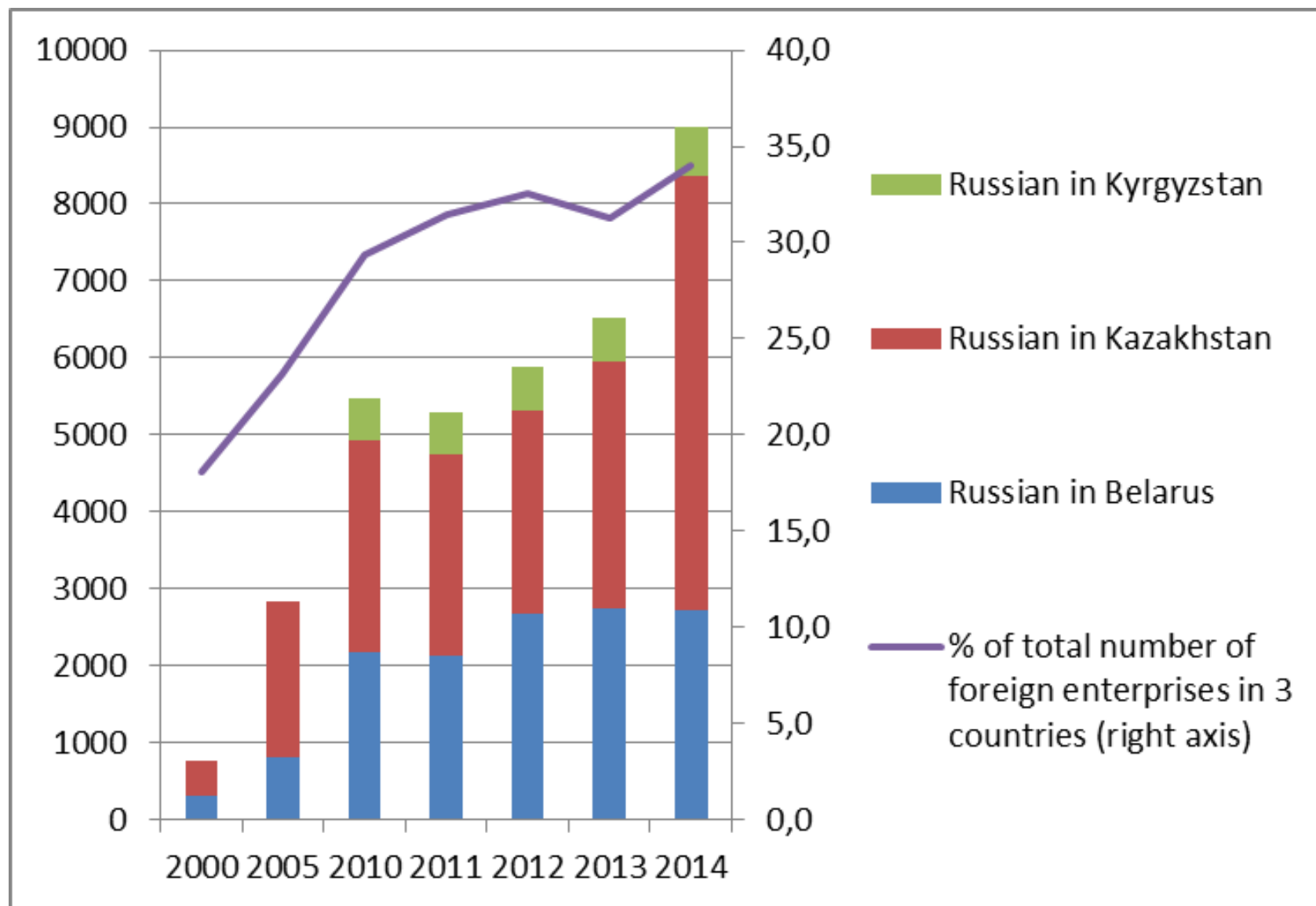


Source: EEU

Russian FDI in Central Asia by country in 2015, %: Kazakhstan as the main desination



Growing number of Russian-owned firms in Kazakhstan after 2013



Institutional base of Russia – China coordination in Central Asia: evolution

- Shanghai Cooperation Organization
- One Belt, One Road
- EAEU - China Agreement on Trade and Economic Cooperation

Shanghai Cooperation Organization

- Was created in 2001 as a reaction to the problem of Afghanistan: islamism, drug trafficking, US invasion...
- Can be regarded as a forum to coordinate Chinese and Russian activity in Central Asia, to prevent conflicts.
- China expected SCO to become a road to free trade. Disappointed, shifted to unilateral steps: Asian Infrastructure Investment Bank (AIIB)

One Belt, One Road

- One Belt, One Road became an alternative (expanded version) of the SCO project.
- It is more ambitious and does not concentrate on the trade liberalization.
- Long-term investments in infrastructure development projects, loans guarantee the long-term relations and favorable conditions for the Chinese business in the target countries.
- Infrastructure development lays a basis for success in other spheres and alleviates the transportation of Chinese products westwards and mineral resources – eastwards.

EAEU - China Agreement on Trade and Economic Cooperation (2018)

- Agreement on trade and economic cooperation with China (2018)
- Goals: trade and business facilitation.
- Trade liberalization not presumed.

Conclusions

- Contradictions are inevitable, and competition is based on natural reasons.
- But there is common ground for cooperation: both China and Russia are interested in successful economic development and job creation in Central Asia.

Thank you for your attention!

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