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Executive editor — Anna Zaichenko
Pre-Press — Yulia Petrinenka
Designer — Andrey Pavlov

Address
National Research University Higher School of Economics
17, Malaya Ordynka street, Moscow, Russia 119017
Tel: +7 (495) 772-95-90 *23147 and *23149
E-mail: iorj@hse.ru
Web: http://iorj.hse.ru/

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Foreword

Guest Editor’s Foreword.
Joint Agenda for Greater Eurasia

The preliminary launch of the “Pivot to the East” project, which almost two decades later led to the concept of a Greater Eurasia partnership or community, took place in 1999–2000. At that time, the Council on Foreign and Defense Policy, a public organization, which I had the honour to head, concluded that there was a need for accelerated development of Siberia and the Russian Far East through their integration into markets of the rapidly rising Pacific region. The Council issued a report titled “New Development of Siberia and the Russian Far East”\(^1\) which aroused interest. However, this interest did not last long. The Russian governing class was preoccupied with survival, internal problems and the development and redistribution of resources. It still viewed Asia as something distant, dirty and backward and had no doubts yet that Russia could integrate into Europe – into which part of this class actively pumped its capital. This was despite the enlargement of the North Atlantic Treaty Organization (NATO), which undermined the possibility of such integration by Russia, and despite the 78-day bombardment of the remnants of Yugoslavia by the Alliance which made a future confrontation between Russia with the West almost inevitable.

The second attempt to provide grounds for a pivot to the East, made by the Council jointly with the School of World Economy and International Affairs of the Higher School of Economics in 2008–2009, was more successful. Our analysis, distributed to Russian government agencies and the media, was based on the fact that the rise of Asia gave Russia competitive advantages. As a result, Siberia and the Russian Far East could be transformed from Russia’s rear in its confrontation with the West or from Russia’s imperial burden into an engine that would drive their own development and the development of the whole country.\(^2\) We also proceeded from a forecasted slowdown in the development of Europe and possible complications in political relations with the West. It seemed obvious that Russia should diversify its foreign economic relations and external sources of development. We promoted the reasons for the pivot, a new policy in Asia and the Greater Eurasia concept not only through memoranda and reports but also through a series of reports prepared under the auspices of the Valdai Club. The reports, which won acclaim, were united by a com-

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mon name, “Towards the Pacific Ocean”, which was the slogan of engineers, the military and workers who built the Trans-Siberian Railway.

Thanks to the efforts of many scholars, business people and politicians, in 2012 the pivot began, and the process soon gained momentum. The factor that played the key role in accelerating the development of the Far Eastern Federal District (not the whole of Siberia yet) was the establishment of the Ministry for the Development of the Russian Far East in 2012. In late 2013 – early 2014, the ministry started to work full-scale. Simultaneously, Russia intensified its diplomatic efforts in Asia and the Asia-Pacific region. By 2017, the pivot was largely completed. The Russian Far East began to develop fast. The Eurasian Economic Union’s trade with Asia equaled its trade with the European Union. Russia began to reformat its foreign political ties, formed in the years of the revolutionary collapse of the 1990s and the chaotic recovery of the 2000s. They were based on the exchange of Russian oil and gas for expensive and often economically less effective European goods. The growth of trade with Asia makes it possible to replace these imports with cost-effective goods.

Asia no longer views Russia as an alien force, although it is still considered — and this is probably right — a great European country.

A major factor in Russia’s pivot was its unprecedented rapprochement with China, relations with which have de facto reached the level of allied relations. At the same time, Russia quickly built up its relations with countries that are on the periphery of what will likely be a main superpower of the future world — Japan, Rep. of Korea, Vietnam, the countries of the Association of Southeast Asian Nations (ASEAN), India and Pakistan.

But perhaps most importantly, the geostrategic identity of the larger part of Russia’s policy-forming class changed.

Russia was no longer viewed as a provincial European country but as a central Eurasian or, perhaps, northern Eurasian power. In modern Russian geopolitical thinking, Eurasia includes the west of the continent and is not anti-European, as it was in constructs of former Soviet and Russian Eurasianists.

Russia’s new geopolitical and geoeconomic identity helps it overcome moral and political dependence on the West and strengthens the country’s positions in the dialogue and interaction with it. At the same time, Russia naturally is not going to give up advantageous cooperation with European countries. Such a move would be disadvantageous, simply impossible economically and dangerous ideologically. It would threaten the identity of most Russians who consider themselves Europeans, even if they do not like many things in modern Europe, which itself is in many ways becoming a post-Europe, giving up, at least for now, many of the values that shaped it and that many Russians share.

Based on the assessment and forecasts of geoeconomic and geopolitical trends in world development and the first results of its economic, political and mental pivot to the East, Russia proposed the idea of forming a new community — a “Greater Eurasia” (here-

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1 All reports are available at: http://ru.valdaiclub.com/a/reports/ (accessed 16 July 2018).
inafter, GE) partnership. This idea was officially supported by the leaders of Russia and China and became a bilateral initiative, naturally open to other countries, as well.

Russia’s new Asia policy will be closely integrated with Russia’s European, southern, northern (Arctic) and, of course, U.S. policies, wherever possible.

In two to three years, it may be useful to renew active cooperation between Russia and other European countries, and between Russians and other Europeans, on a new basis and from new positions. Europe is a traditional partner of Russia and a convenient supplier of many technologies and goods. Due to its new position in the world, Europe is highly interested in turning to the East, not so much to Russia, as before, as to Asia and Eurasia.

The Greater Eurasia concept is based not only on its desirability for Russia and, we believe, all countries on the continent in terms of creating a new space for cooperation, development and security. GE will also develop as the “Asia for the world” trend, when Asian countries developed mainly as exporters to the outside world, is being replaced by the “Asia for Asia” trend, as Asian and Eurasian markets are becoming the main sources and drivers of growth. Ten years ago, it seemed that the Pacific Ocean or even “Chimerica” – a duumvirate of China and the United States proposed by some scholars, primarily Zbigniew Brzezinski – would become the centre of a new world. However, China opposed the idea, while the U.S. elite, void of rationality, almost unanimously opted for a policy of containing China. This factor caused China to make a resolute turn towards European markets through the One Belt, One Road (OBOR) plan. This turn gave a strong boost to the creation of GE. It came as a stroke of luck for Russia, which is at the centre of the new development area. In addition, Moscow and Beijing in 2015 agreed to conjoin the Eurasian Economic Union (EAEU) and OBOR, which prevents their rivalry in Central Asia, predicted by many analysts.

The Greater Eurasia partnership or community is, first of all, a conceptual framework setting a vector for cooperation among countries on the continent. It should be aimed at working for joint economic, political and cultural revival and development of dozens of once-underdeveloped or subdued Eurasian countries and turning Eurasia into the centre of the world economy and politics.

It will include countries of East, Southeast and South Asia, countries located in the centre of Eurasia, Russia and, apparently, those countries of the European subcontinent and their organizations that are able and willing to engage in constructive cooperation.

Second, GE is an emerging geoeconomic community brought to life by the “Asia for Asia” trend, China’s pivot to the West, the EAEU-OBOR conjunction and Russia’s pivot to the East. Third, it is a space of civilizational cooperation, reemerging after centuries of divide. This cooperation was once personified by the cultural aspect of the Silk Road, which involved and linked the great civilizations of China, India, Persia, the Arab Middle East and Europe through the Eastern Roman Empire, Venice and Spain.

Fourth, GE is a movement towards a new geostrategic community – a common Eurasian space of development, cooperation, peace and security, intended to overcome Cold War divisions, prevent the emergence of new ones, and settle conflicts and tensions between parties to the partnership. Its most important potential function is to involve China in a network of ties, cooperation, balances and agreements in order to prevent its becoming a potential leader against which other Eurasian countries would inevitably unite, or the en-
try of external balancers which are not interested in maintaining stability and peace on the continent. At the same time, GE must be open to the rest of the world and its other major centre, which is emerging around the U.S., through the Asia-Pacific Economic Cooperation (APEC) forum and similar fora, through Atlantic organizations and, in the longer term, through a possible and desirable trilogue on global issues and international strategic stability between Russia, China and the United States.

GE should be formed on the basis of traditional values of international law and the international community, and on the denial of any kind of universalism, superiority in values, unilateral “righteousness” or hegemony.

Principles on which GE (and, ideally, international relations in general) should be built include:

− unconditional respect for sovereignty and territorial value, renunciation of the policy of hegemony, diktat and threats, and mutual efforts to maintain peace and stability under the aegis of the United Nations;
− unconditional respect for political pluralism, freedom of political choice by peoples of the continent and renunciation of interference in each other’s internal affairs;
− economic openness, reduction of barriers to international trade and investment, depoliticization of economic ties that undermine interdependence, and win-win economic cooperation;
− refraining from creating new military alliances and expanding existing ones, full support for the principle of neutrality and nonalignment, and security guarantees for countries that have made this choice;
− focus on the creation of a pancontinental system of development, cooperation and security that would stretch from Jakarta (or Tokyo) to Lisbon, that would cover and compensate for the failed European security project, and that would provide a new format for settling conflicts in Europe, in countries around China, on the Korean peninsula and in the Middle East;
− focus on efforts to maintain military and political stability, prevent conflicts as an absolutely necessary condition for social development and welfare growth, and ultimately ensure basic human rights;
− focus on efforts to maintain and develop the diversity of cultures, restore historical cultural ties and create new ones;
− efforts towards peace, cooperation and mutual enrichment through dialogue among Eurasian civilizations; and
− protection of human rights in their inseparable relationship with the rights of societies and states.

GE is also a conceptual framework for the future-orientated geostrategic and geoeconomic identity of Russia as the centre and the north of the rising continent, as its major transport and economic link and security supplier. Thanks to its centuries-old experience of interacting with both the West and the East, the peaceful interaction of many religions in the country and the openness of Russian culture, Russia can play a central role in establishing and restoring cultural interaction in Eurasia. At the same time, Russia is not going to give up its European cultural roots, which are very important to Russia, and will continue to be developed.
The conceptual framework allows using tendencies and directing the efforts of states, organizations and dialogue formats into a single channel with a view to forming a new geo-economic, geopolitical and geocultural community — a Greater Eurasia partnership and later community. The Shanghai Cooperation Organisation (SCO) can serve as a natural negotiating platform for creating such a partnership, provided it steps up its efforts, becomes more open and turns from a purely regional organization into an “organization of organizations” and a forum for discussing problems. Also, it might be useful to establish SCO-EU and EAEU-EU dialogues. One could also start with an expert (and later expert-political) forum on Eurasian development, cooperation and security. But using an existing organization (provided it is developed) is more convenient than creating a new one which may not have an institutional basis.

Naturally, the creation of a new organization on the basis of the SCO (if it is developed and preserved) requires effective joint efforts of its members, above all Russia and China, whose actions in the SCO were previously hamstrung by their desire to contain each other’s influence in the economic sphere (Russia apparently feared China’s domination) and in the sphere of security (China apparently did not want leadership for Russia). Now development is held back by conflicts between India and China. We need a new format that would help resolve old conflicts. This can be achieved through joint movement towards a GE partnership, which requires pooling efforts and competitive advantages to everyone’s benefit.

GE provides conceptual frameworks for a joint projects, or rather many projects, by its members and their organizations, ready to work for the common goal of creating a continent of development, peace and close cooperation. Initially, Russia and China could play the leading role in these efforts. The leaders of the two countries have already expressed their support for the Greater Eurasia partnership concept. However, this concept needs to be concretized in a multilateral dialogue.

Here follows a list of possible specific projects, which I have previously proposed.5

In addition to the development of latitudinal transport infrastructure, of paramount importance is the development of North-South transport routes to link the Russian Far East, Central and Western Siberia, and the Cis-Urals region with fast-growing markets of western China, Iran, India and Pakistan.

Despite the current slowdown in integration processes in the EAEU caused by the economic crisis, the Union needs a new long-term agenda. This may be common transport and trade policies, integration into a single Greater Eurasian space on optimal terms, and participation in the formation of its standards and rules.

It is necessary to establish multilateral technological alliances with countries of the continent, both in the west and east. Most high-tech industries cannot be developed with a focus on one’s own market or even the market of a union. Technological alliances are needed to prevent possible politicization of the world economy by the West or other actors.

Russia’s achievements in its pivot to the East also require working out a request policy with regard to Asian partners. There are some things in the growing cooperation that Rus-

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sia cannot accept. There are still bureaucratic and political barriers to many Russian goods and investments.

Finally, Russia should not delay choosing forms for its participation in integration associations in Asia and the Pacific. The Trans-Pacific Partnership has failed, but there is the Regional Comprehensive Economic Partnership (RCEP), led by ASEAN and China, which unites the majority of countries in the region. So far, Russia and the EAEU have refrained from participating in the negotiations due to difficulties working out a common position and the lack of an expert potential; instead, they have emphasized a network of bilateral free trade areas. It is not clear, however, whether this tactic will be advantageous in the long term.

A separate group of tasks pertains to Russia’s foreign policy and military-political participation in the affairs of Asia and the Pacific region. The surfacing of many long-standing conflicts in it, the almost inevitable strengthening of the American policy of containing China, Washington’s desire to play on conflicts between regional players and their fears, and most importantly, the objective fear of China’s growing might on the part of its neighbours, which has no relation to Beijing’s policy and intentions, creates a demand for Russia’s constructive participation as an experienced and diplomatically strong player, friendly to the majority of countries. This demand is also due to the lack of a developed and stable security system in the region.

Objectively, Russia is potentially the largest security supplier in the region and the world, including through strategic deterrence and dialogue with the U.S. (the latter is almost nonexistent now) and, in the future, through a Russia-China-U.S. tripartite dialogue, if the parties come to realize the need for it.

The Russian-Chinese “comprehensive, equitable and trusting partnership and strategic interaction” needs to be deepened, too. Its nature is close to an alliance, yet medium- and low-level ties between the two countries, in particular in business, are not sufficiently developed. Also, it lacks “strategic depth” — a common long-term goal of codevelopment. This goal, which may be common to all Eurasian countries, should apparently be interaction between the leaders to build a Greater Eurasia partnership or community. The roadmap for building it may include the creation of a coordinated GE transport strategy, a system of rating agencies, support for the development of the Asian Infrastructure Investment Bank and other regional banks, and a system parallel to the SWIFT system of exchanging financial messages in order to rule out its use as an economic war weapon and to strengthen stability of the world financial system. It may also include the expansion of trade in national currencies and the creation of independent payment systems, the creation of an economic information centre parallel to, and interacting with, the Organisation for Economic Co-operation and Development (OECD), and the creation of a Eurasian network or even organization for mutual assistance in case of (increasing) emergency situations, climatic and technological disasters and post-crisis recovery. A possible pilot project for the latter type of activity may be implemented in Syria.

Also possible is the creation of a complex independent information and analytical mega-agency that would distribute, gather and analyze information — a kind of symbiosis between Al-Jazeera or BBC and Stratfor. This agency, which might be called Eurasia News, would allow countries on the continent to gain greater intellectual and political in-
dependence and resist the politicization of information flows. One of the goals behind the creation of such an information and analytical agency is to develop a theory of international relations that would focus more on the new realities and the future and would reflect the interests of Eurasian countries. For example, this may be interaction and interpenetration of civilizations instead conflicts between them, the infinity and recurrence of mankind’s development instead of its finiteness, and so on.

Cooperation could restore the historical and cultural narrative common to all Eurasian countries — ranging from the history of the Genghis Khan empire, to the economic and cultural phenomenon of the Silk Road, and the history of the Byzantine (Eastern Roman) Empire where cultural flows from Asia and Europe merged, and where European culture was preserved in the years of its decline in Europe. The narrative may also include the role of Venice as the gateway between Asia and Europe, and a new assessment of the Crusades. The goal is to restore and create a single historical and cultural identity of Eurasia and the world, and supplement the primarily European-oriented narrative of world history, which is still dominant.

In the field of security, it may be advisable to create a continental security system in addition to existing formats, with a partial and gradual replacement of obsolete organizations (for example, the OSCE). The prevailing way of ensuring security in GE would be nonalignment or neutrality, guaranteed by the leading players of the international community (primarily Russia, China and the United States).

Perhaps, the creation of a security system should begin with the convocation of an expert, and later expert-political, forum on the development of cooperation and security in Greater Eurasia.

Simultaneously with the movement towards “Greater Eurasia” and the deepening of Russia’s pivot to Asia, in the next few years it may be advisable to think of interaction with the traditional partner, Europe, on a new political, economic and conceptual basis. This is especially relevant as the continuing crisis of the EU project objectively causes many countries on the old subcontinent to revise their Russia policies which have turned out to be counterproductive. European countries, too, are trying to turn to the East, and many are already ahead of Russia in these efforts.

The most important task in developing the GE concept is its linkage with China’s One Belt, One Road initiative. China has officially supported GE, and Russia has supported OBOR. More than that, it has supported its latest and more developed interpretation, set out by Chinese leader Xi Jinping.

Speaking at an OBOR forum, held on 14–15 May 2017, Xi set forth the concept, which is not so much a plan for China’s movement to the West as a vision of Eurasia’s development. This vision is very close to the idea of a Greater Eurasian partnership. Russia and China will have to avoid competition over credit for being the first to propose this idea. Hopefully, given the quality of their political leadership, they will cope with it.

But the most important thing, I repeat, is not only joint efforts to draw plans for the development of the Eurasian megacountry but also the involvement of other leading countries — India, Japan, Korea, ASEAN countries and, in the nearest future, European partners — in this major Eurasian project. In Europe, this process has already begun. Whereas two or three years ago this concept was mocked and rejected, 2017 saw a turning
European countries have begun to discuss modalities for their participation in the project and their own pivot to Asia.\(^6\)

We on the faculty of World Economy and International Affairs of the Higher School of Economics and on the Council on Foreign and Defense Policy continue our modest efforts to concretize the Greater Eurasia partnership concept and the related concept of Russia’s pivot to the East. Some of the studies are our own initiative, and many are requested by the administration of the Russian president, the Ministry for the Development of the Russian Far East, and the Eurasian Economic Commission among other agencies. In our work we also use the intellectual potential of these institutions, the Eurasian Development Bank and the SCO Bank. We cooperate closely and on a permanent basis with Chinese, Korean and Japanese experts. For several years, under the auspices of our faculty and the Lee Kuan Yew faculty of Singapore University, a consortium of institutes in Russia, China, Japan, Korea, Singapore and Norway worked to help Russia with its turn to Asian markets and with the development of the “last frontier” in Asia – Siberia and the Russian Far East.

In a special issue of the *International Organisations Research Journal*, we offer abridged versions of our recent studies, adapted for open publication, which promote the “Greater Eurasia” project and which fill some of its aspects with concrete content. For this special issue we invited authors from China and Kazakhstan to share their views on Greater Eurasia: its institutions, key tracks for cooperation and current constraints.

We plan to continue this work and involve a growing number of Russian and foreign experts in it. We will closely monitor and take into account the results of growing discussions on progress in the “pivot to the East” and new goals. Soon it may be supplemented with a new rapprochement with Europe, but on different terms and in different frameworks. We will also develop discussions on the contours and trends in the development of a future Greater Eurasia partnership or community.

Anything may happen in our rapidly developing world, and the best hopes may not come true. But we are full of intellectual optimism. Eight to nine years ago, almost no one believed in the possibility of a Russian turn to the East, but it has begun. Three years ago, no one even heard the term “Greater Eurasia,” and now this concept is an important part of discussions on the future of international relations. And this is only the beginning.

*S. Karaganov,*

Dean of the Faculty of World Economy and International Affairs NRU HSE

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Guest Expert’s Foreword.
Creating Greater Eurasia’s Economic Space: Challenges for the Eurasian Economic Union

Establishing a comfortable and cooperative environment in Greater Eurasia will benefit the member-states of the Eurasian Economic Union and, equally importantly, the business communities of these countries. The time is ripe to set this goal for the whole of Eurasia. Accordingly, fundamental joint efforts must be taken to achieve it.

Dissociation, which is characteristic of today’s relationships in the Eurasian space, is the number one hurdle to be cleared in order to achieve this goal. At the same time, dissociation is the source of one of the main distinguishing features of Eurasia: vast and untapped opportunities for trade and investment that cannot be found anywhere else in the world. Traditional North-South and East-West trade routes crossing the continent failed to become the core arteries for the development of trade at a time when economic progress required mass transportation of cargo. The main reasons for this were poor logistics, ineffective public administration and unresolved security issues – conditions which are still present. Central Asia’s fundamental development problems, and lingering conflicts in the south of the continent and the Middle East, are the underlying factors for this state of affairs.

Great changes in the vectors of trade policy of the major extra-regional powers pose more challenges to Eurasia. Rising protectionism hinders access to vast markets and redirects trade flows. Growing uncertainty interferes with long-term planning and implementation of investment projects.

Among such factors one should mention the probes by the U.S. Department of Commerce imposed by the US after a long investigation into imports of aluminum and steel – strategic export items for many trade powers. The investigations launched under Section 232 of the Trade Law envisage, among other things, close scrutiny of domestic production for sufficiency and the impact of imports on jobs. So far, this section of the law adopted in 1962 has been used only twice, in relation to crude oil from Iran and Libya. However, these probes are fraught with a real risk of more restrictions or overall bans on trade in the name of national security considerations.

The introduction of these sorts of restrictions will not only harm the interests of continental powers, but will also serve as a precedent. Reasonable exceptions to ordinary trade rules, if introduced for national security reasons, are not illegitimate from the standpoint of regulations within the multilateral trade system established by the World Trade Organization (WTO). At the same time, in the 70 years following the emergence of the WTO’s forerunner – the General Agreement on Tariffs and Trade – such restrictions were nevertheless painstakingly avoided. The signatories were well aware that any arguments they offered in a bid to explain such measures might spark controversy, while the overuse of restrictions could have far-reaching consequences.

Technological sanctions may entail still worse effects. Refusal to cooperate and share key technologies will create great risks to the stable development of countries that still
lack them. The costs of creating domestic technological solutions will be high, while their quality will hardly be better. The international competitiveness of states subjected to such measures will dwindle and they will have to support their national industries by imposing trade restrictions.

In all likelihood unilateral restrictions will invite retaliation. In Eurasia, protectionism and sanctions are particularly harmful, because they are capable of upsetting any movement towards the continent’s greater unity.

There are many examples of this. The European Union (EU) and the United States have been expanding anti-dumping probes, probes into subsidizing imports from the members of the Eurasian Economic Union (EAEU) and these are not the only examples.

Going down the path of further restrictions on trade may cause disruption of business ties between different regions of the world, first and foremost between the West and East of Eurasia. The rule of law will give way to the successful manipulation of the law.

On the other hand, from the East there has come a fundamental proposal to seek rapprochement rather than confrontation. China addressed Eurasia and all extra-regional partners within the One Belt One Road initiative. While this initiative does not contain a specific action plan, terms of reference or ready-made financial solutions, it establishes a framework for moving towards a compromise that would be acceptable to all. The effort to identify such solutions and the preparedness to implement them are mandatory prerequisites for mutually beneficial rapprochement and cooperation.

The Eurasian Economic Union fits in well with Eurasia’s integration strategy. It is common knowledge that the EAEU was created first and foremost to develop the markets and industries of its members. At the same time, it heralded for the first time in recent history the emergence of a homogenous space with standard rules at the junction of key trade corridors, open to joint development in concert with other parts of the continent. The EAEU market is open to goods from third countries, with the average import tax being no higher than 5% and with zero tax on many items. Tangible taxes have been preserved on goods from the booming agrarian sector and some industrial items, especially the products of industries that enjoyed priority for the past decade or two — the automobile industry, metallurgy, aircraft-building and some others.

Market openness and readiness for further integration with the expanding economic space creates the prerequisites for the development of industries in the EAEU and for the greater involvement of members in international production and marketing chains at the average and high added-value levels. Investment (domestic and foreign) will help tap this potential. To encourage investment the EAEU is ready to make itself still more open to partners by establishing full-scale zero-tax zones for free trade, where sensitive market sectors would be opened on the basis of reciprocity. Participants in free trade zones will enjoy preferential treatment in contrast to third countries. Alongside easier access terms for goods, privileged conditions will be established for investment in long-term cooperation projects.

The EAEU’s strategy proceeds from the principle of pooling efforts and the need to create a platform to advance trade and investment on the basis of common principles of openness and multilateral trade law rules.

In the context of implementing China’s One Belt One Road initiative, joint work has been underway since May 2015 to link integration efforts within the EAEU to the Silk Road
Economic Belt project – one of the initiative’s cornerstones. For the EAEU this synergy will drive, above all, economic progress in territories involved in economic cooperation. Transit areas are to become territories of sustainable development. This joint work will build upon the trade and economic cooperation agreement between the Eurasian Economic Union and China, which has been concluded and is now pending ratification. The agreement’s content fully conforms with the stance of the world leaders outlined at the Belt and Road Forum for International Cooperation in Beijing in the middle of May 2017. The agreement’s implementation envisages, among other things, support for the innovative development of electronic commerce and digital economy, cooperation in building motor roads and railways, seaports and power supply grids, simpler trade formalities and better copyright protection.

This is not enough, of course, to create a mutually beneficial space in Greater Eurasia. Participation and active involvement of all players in the continent is needed, which will be impossible without enforcement of the priority of economic interests even where political priorities may not coincide.

This is precisely the way the EAEU, as an exclusively economic organization, prefers to act. The EAEU has concluded a free trade agreement with Vietnam and talks are underway over a no less ambitious agreement with Singapore. This work is aimed at establishing closer relations between the EAEU and the Association of Southeast Asian Nations (ASEAN) in general. Free trade agreements are being readied for signature with Egypt, Israel and India, and an interim agreement to create a free trade area was recently signed with the Islamic Republic of Iran. A common free trade agreement between the EAEU and Serbia will replace Serbia’s current bilateral agreements with each of the EAEU members. Up to 2014 efforts had been underway to draft a free trade agreement with the European Free Trade Association (Switzerland, Norway, Iceland and Lichtenstein), but the EFTA suspended this work for non-economic reasons.

The EAEU’s effort to deepen interaction with countries of Southeast Asia, the Middle East and North Africa in order to implement the Greater Eurasia project is incomplete without well-established cooperation with the European Union. Remarkably, in the early 2000s, talks on the establishment of a vast free trade zone from Lisbon to Vladivostok were planned for the present period, and members’ efforts to implement the EAEU were made with this prospect in mind. The EAEU structure can be easily reconfigured to match the mechanisms of European integration structures in order to establish mutually beneficial cooperation, provided that the corresponding decisions are made and the required agreements are achieved. Kazakhstan’s agreements with the European Union and Armenia pursue the same goal.

Whatever the current political restrictions, the European Union remains the EAEU’s main trading partner. The share of EU members in the foreign trade of the EAEU is 46%. In 2017, EU — EAEU trade reached $293.2 billion, showing an impressive 23% growth in contrast with the same period in 2016. It is noteworthy that both the EAEU’s imports from the EU and the trade flow in the opposite direction contributed to this increase.

However, direct dialogue between the two organizations remains minimal. Interaction between the European and Eurasian economic commissions is carried out only by experts and involves certain technical issues subject to supranational regulation within both organi-
zations (trade protection measures and technical regulations). On the WTO and Organisation for Economic Co-operation and Development platforms, the Eurasian Economic Commission and the European Commission concluded a memorandum of understanding on standardization and technical regulation. This memorandum concerns information and experience exchanges, technical interaction with the Commission and further cooperation in introducing international quality standards, among other issues.

In order to address common challenges, the currently fragmented dialogue should be complemented with a discussion of long-term prospects. Political obstructions have yet not been eliminated. It might be possible to start by creating an informal group of experts tasked with compiling a white book on integration in Eurasia. Any of the current discussion platforms can provide the basis for such a group. It is essential, though, that European and Eurasian economic commissions agree on the tasks to be set for such a group and delegate experts for participation in its activities.

V. Nikishina,
Member of the Board (Minister for Trade) of the Eurasian Economic Commission
The Future of Greater Eurasian Institutions

The Shanghai Cooperation Organisation and Greater Eurasia¹

R. Alimov

Rashid Alimov – PhD, Secretary General, Shanghai Cooperation Organisation; People’s Republic of China, 100600, Beijing, Chaoyang District, Ritan Road, 7; E-mail: sco@sectsco.org

Abstract

This article analyses the current role of the Shanghai Cooperation Organisation (SCO) in the development of international cooperation in the Eurasian space and explores the prospects for multifaceted cooperation within the framework of the Organisation. The analysis shows that steady dialog between neighbouring states, aimed at the search for common interests in addressing common regional challenges, is vital for sustainable growth under current conditions. The maintenance of security throughout the cooperative effort plays a key role. The presence of these elements promotes the gradual integration of different approaches to the development of regional economic collaboration as well as a co-evolutionary transformation of economic interests.

The article also examines the characteristics of the partnership system within the framework of the SCO with respect to international cooperation. This system is able to provide an institutional platform for broad regional economic cooperation in the context of Eurasian development, the implementation of new national strategies by SCO members, joint efforts for the further integration and development of the Eurasian Economic Union (EAEU) and the realization of the Chinese One Belt One Road initiative with its potential to form a greater partnership in Eurasia and the Asia-Pacific region.

Key words: Shanghai Cooperation Organisation; security; partnership; Eurasian Economic Union; ASEAN; greater Eurasian partnership; transportation corridors; infrastructure projects; financial support mechanisms for project activities; The Silk Road Economic Belt; One Belt and One Road Initiative


¹ The editorial board received the article in October 2017.
of every state, and which is based on norms of international law, principles of mutual respect, mutually beneficial cooperation, rejection of confrontation and conflict, equal and indivisible security, and the creation of a human community of common destiny [SCO, 2017].

Globalization has emerged in recent decades as the main trend in international relations and it continues to deepen the intertwining of relations between the countries and regions of the world. The rapid development of modern technologies in areas of transport, communications, and information delivery and transmission is contributing to the creation of a cohesive global community of states united by, among other things, common development challenges.

Along with the obvious benefits these processes bring, their negative features are also becoming more pronounced. Hotbeds of tension are no longer only local in nature, but carry influence far beyond their particular region. The deepening of trade and economic ties and the interdependence of capital markets exert reciprocal influence on the dynamics of economic processes in various regions of the world. Given the systemic nature of interdependence, shifts in development modalities in one part of the world inevitably cause repercussions in the others.

Regionalization — the steady process of building qualitatively new forms of interaction between the states comprising the world’s macroregions — has emerged as another fundamental trend in the development of global order. Ever more countries are striving to form a system of stable ties with their neighbours, thereby enhancing their own potential while also facilitating the solution of pressing regional problems. Such regionalization has taken increasingly diverse forms, including classic examples of regional integration that include the establishment of supranational regulatory systems, more flexible models of cooperation in a range of areas that proceed at different speeds and at different levels, and new hybrid or mixed models of partnership whose goals and objectives are determined primarily by the need to address pressing regional problems and also by participants’ common desire for dialogue and a search for approaches to achieving mutually beneficial, sustainable development of the entire region. Such regional partnerships form on the basis of geographic proximity and a shared economic and infrastructural order that has evolved over time, more complex considerations such as similar political cultures and institutions, sociocultural similarity, shared understandings of national identity and civilizational approaches, as well as external factors such as similar foreign policy approaches and strategies for interacting with the world and its players and for addressing macroregional security and other problems [Leonova, 2013].

In the greater Eurasian macroregion, the Shanghai Cooperation Organisation (SCO) is one of the outstanding examples of this new hybrid or mixed model of interstate regional partnership. Young by historical standards and established in 2001 to meet the objective of ensuring regional security and stability, the SCO has since continued along its own evolutionary path, gradually developing multifaceted multilateral cooperation. The dynamics of the SCO’s development are driven primarily by vital necessity, multilateral agreements and the shared national interests of SCO members. The SCO does not aspire to attain a specific target level of interaction, but rather moves
systematically along the path of finding a common denominator in solving pressing regional problems. One thing is obvious — the SCO holds enormous potential in each of a number of unique parameters, and the ongoing search for new opportunities determines the direction of its further development. Still, the SCO is relatively young and, as the history of other international associations suggests, it exhibits the characteristic signs and problems of any young and growing organism.

The expert community often expresses skepticism regarding the level of cooperation among SCO members, most frequently claiming that the Organisation is nothing but a club for its various heads of state, or a conference that hosts annual meetings while not pursuing any specific objectives [Aris, 2008]. Second, experts also deprecate the SCO’s model of decision-making through consensus, claiming that it is sluggish and ineffectual. Third, some believe that the countries comprising the SCO are too different, that their political systems, economies, belief systems and civilizational approaches are too dissimilar [Imanaliev, 2017]. This, they argue, greatly complicates dialogue, the search for common ground and the ability to achieve mutually beneficial solutions to problems based on a shared vision — moreover, they argue that the level of internal disagreement is only increasing and leading to an accumulation of unresolved issues.

Nevertheless, while continuing to address shared political and security objectives, searching for optimal mechanisms for expanding economic ties and deepening cultural and humanitarian contacts, the SCO continues to develop gradually — primarily as a partner-type organization based on similar approaches taken by its members to the development of such a partnership. Overall, the experience of the SCO is arguably the first in history of building an equal partnership between states of different sizes and with varying degrees of influence, different economic and political potentials and diverse cultural and civilizational features.

**SCO and the Idea of Greater Eurasia**

Because the SCO member states comprise the core of the Eurasian continent, their mutual relations and interactions will define the nature of the development of this vast territory for years to come. Given the format of communication established within the SCO, its joint experience and existing agreements, the Organisation is the largest (in both territory and population) and therefore a key Eurasian platform for international cooperation. The SCO is at the centre of large-scale economic initiatives that experts believe will be crucial to determining the path of Eurasia’s future development. In this context, the academic community increasingly uses the term “Eurasian design” to mean the building of a new system of regional interaction based primarily on the goals, principles and conceptual guidelines of the integration process within the framework of the Eurasian Economic Union (EAEU), the implementation of the Chinese One Belt, One Road initiative and the creation of a greater Eurasian partnership involving the countries of the Association of Southeast Nations (ASEAN).

The idea of linking or coupling efforts to implement these large-scale undertakings is widely discussed. The main difficulty is that they are very different conceptually, and
this greatly complicates efforts by the expert community to find optimal mechanisms for adapting and merging them. In addition, specialized research institutes would have to calculate and project the impact that specific steps to deepen regional economic interaction and integration would have on all involved.

Given the multilateral nature of cooperation in implementing these initiatives, the most important elements are political coordination, the harmonizing of national interests based on multilateral discussions on a whole range of areas aimed at finding mutually acceptable solutions, and determining the strategy and concrete steps of joint activities.

The academic community has held a wide-ranging discussion since 2013 concerning prospects for building a new Eurasia. Active discussion of the proposed initiatives includes the question of ways to link and couple them. Various aspects of Eurasian cooperation are analyzed, taking into account direct and indirect disagreements between countries of the region, the geopolitical plans of the region’s major players and challenges to development. Many articles by experts examine how the divergent political and economic interests of SCO members create challenges to developing cooperation within the Organisation. Experts have identified the following main challenges that the SCO will face in building new forms of economic cooperation.

First is the competition between Russia and China in Central Asia and their competing initiatives within the EAEU for promoting strategic national interests on the one hand and the One Belt, One Road (OBOR) initiative on the other. Because the implementation of the OBOR strategy and the EAEU integration process are essentially designed to strengthen the regional influence of Beijing and Moscow respectively, some argue that the two countries’ economic interests are at odds and that any linking or coupling of the projects is therefore impossible [Marantidou, Cossa, 2014].

Second is the possible loss of efficiency resulting from the expansion of the SCO, as developing common approaches to regional economic objectives would become significantly more complicated. The addition of new members could deepen differences and disagreements on regional issues of security and economic cooperation, including the forms or methods of providing support.

Third, bringing India and Pakistan, along with the deep tensions between them, into the SCO could significantly hamper its functioning.

Fourth, the competition between India and China could have a negative impact on interactions within the SCO and lead to the blocking of initiatives and the halting of negotiation on agreements.

Fifth, it is necessary to consider the interests of the smaller SCO countries in order to maintain a balance within the Organisation.

Sixth, the Afghan factor continues to exert a destabilizing influence on the region, preventing the creation of stable conditions for economic development [Kulintsev, 2016].

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1 “The building of a new Eurasia” refers to the creation of a broad partnership space for interstate cooperation, primarily in the context of and taking into account the unfolding processes of integration and the implementation of large-scale economic initiatives, with the ultimate goal of building a common system of interrelations and interaction of regional states and interstate associations.
In this regard, the debate continues on the role and place of the SCO in the design of a greater Eurasia. Key questions include the following: Considering the challenges listed above, is it possible in practice to incorporate into the SCO agenda concrete work on promoting integration within the framework of the EAEU and combine it with measures for implementing the OBOR initiative? Can current SCO structures really be used for these purposes? In this context, it seems advisable to identify areas of true common interest or opportunities for linking the efforts of the SCO members to develop regional economic cooperation.

The Compatibility of SCO Members’ Initiatives and Development Strategies

Economic integration in the EAEU is aimed at comprehensive modernization and cooperation, increasing the competitiveness of national economies and creating conditions for stable development with the goal of improving living standards for the populations of member states. However, the EAEU is foremost an international organization with international legal standing, established by the Treaty on the Eurasian Economic Union to promote regional economic integration. The EAEU ensures freedom for the movement of goods, services, capital and labour, and pursues a coordinated or unified policy in individual economic sectors. The EAEU members are Armenia, Belarus, Kazakhstan, Kyrgyzstan and the Russian Federation [EAEU, 2017] and all are part of the so-called “SCO family,” enabling them to use SCO mechanisms in the common interest. This obviously makes it necessary to start discussion within the SCO on the subject of launching integration processes in one form or another, as it is the determining factor in the work of the EAEU. The dialogue could be based on the provision of the SCO charter stating the intention to create favourable conditions for the gradual realization of the free movement of goods, capital, services and technologies. This intention was reaffirmed in the declaration of the SCO heads of state in Astana on 9 June 2017.

The Chinese One Belt, One Road initiative to create a global transport and investment infrastructure actually combines two projects – the Silk Road Economic Belt and the 21st-century Maritime Silk Road.

The Silk Road Economic Belt (SREB) is a project to create a single Eurasian economic and trade space and a transcontinental transport corridor. The SREB sets out to achieve five main tasks: strengthening regional economic integration, building a single trans-Asian transport infrastructure, eliminating investment and trade barriers, increasing the role of national currencies and deepening cooperation in the humanitarian sphere. According to Chinese representatives, 67 states representing 63% of the world’s population could participate in the SREB over the planned 30 years of its implementation [TASS, 2017a].

It is noteworthy that the implementation of the SREB programme actually specifies three levels of work in the area of regional security (paragraphs 1 and 2), the development of trade and economic relations (paragraphs 3 and 4), and the deepening of cultural and humanitarian ties between the project’s participants. Thus, the levels at
which the SREB will be implemented clearly coincide with the three levels of multifaceted cooperation within the framework of the SCO.

The response to criticism from experts regarding the apparent rivalry between the EAEU and the OBOR was the signing in May 2014 of an agreement between the Russian and Chinese heads of state formally linking the EAEU and OBOR. That agreement also designates the Shanghai Cooperation Organisation as the platform for all discussions of that linkage.

In an interview with TASS, Chinese president Xi Jinping reiterated that Russia and China are not competitors in forming a new system of regional economic relations. In particular, he noted: “the two countries are cooperating intensively on linking One Belt, One Road and the EAEU, negotiations are underway to conclude an agreement on trade and economic cooperation between China and the EAEU, and a list is being drawn up of joint projects that will open up broad horizons for developing bilateral trade and economic cooperation, greatly facilitate mutual trade and investment, present unique opportunities for the two countries’ business communities to interact to achieve an efficient movement of production, technology, capital, and markets, and bring the benefits of economic globalization and regional integration to all the countries of Eurasia” [TASS, 2017b].

The Chinese leadership has also reached an agreement on linking the EAEU with the infrastructure projects of other countries. In particular, these include the Mongolian Steppe Road project for modernizing the trans-Mongolian section of the Chinese-Russian railway, the South Korean Eurasian Initiative for unifying the railways of North and South Korea and connecting them to the Trans-Siberian Railway and the Kazakh Bright Path programme [TASS, 2017a].

Prospects for Integration within the SCO

As mentioned above, the SCO is not a classic example of integration. At the same time, the Organisation’s statutory documents contain provisions by which the SCO could follow this path.

The classic integration scenario suggests a gradual movement from the simplest form – a free trade area (FTA) – to the highest form of economic integration – a common market. World Trade Organization experts have pointed to a modern trend toward an increase in regional trade agreements, with the number growing by 60% over the last five to eight years. These agreements include both provisions for standard FTAs and the so-called “FTA+” format – that is, supplementary economic integration agreements. The number of such FTA+ agreements increased fivefold during the first decade of the 21st century [Likhachev, Spartak, 2013].

A free trade area is a form of economic integration by which countries agree to remove restrictions on mutual trade. Those states freely exchange goods and services, but independently establish customs tariffs on trade with third countries.

According to President N. Nazarbayev of Kazakhstan, “the growth of mutual trade could contribute in the future to the creation of an SCO free trade area.” “Here,
our countries can move forward step by step,” he said, “starting with the study of projects of interest to them in areas of economic cooperation” [TASS, 2017c].

At the SCO summit in Astana, Chinese president Xi Jinping called for moving “step by step to form institutions for regional economic cooperation” and proposed signing an agreement on facilitating trade within the SCO [TASS, 2017c].

The creation of a network of free trade agreements with third countries is a key trade policy priority of the EAEU. Such agreements are effective tools for obtaining preferential conditions for access to foreign markets, expanding exports and attracting investments – which is necessary for integrating enterprises of the EAEU states into the global production chain and thereby increasing their competitiveness. In addition, this network of preferential agreements reduces the risks to international trade associated with political factors [EEC, 2015].

Such agreements involve the harmonization of customs administration, technical regulation and sanitary norms, as well as reaching agreement on the liberalization of trade in services, procedures for establishing companies and protecting investments, and regulating the movement of labour. Approximately 40 states and international organizations have already expressed an interest in cooperating with the EAEU [RIA, 2016].

China is also pursuing an active policy of liberalizing trade relations with countries in the region. The Central Asia Regional Economic Cooperation Program (CAREC) is being implemented and involves, in addition to China and the Central Asian countries, Mongolia, Afghanistan, Pakistan and Azerbaijan (all of which are part of the “SCO family”). Plans call for accelerating the implementation of CAREC strategy in such areas of cooperation as trade policy, energy and the formation of an “economic corridor” in Central Asia based on the project for a China-Kyrgyzstan-Uzbekistan railway. All of this is part of the SREB format.

Ultimately, from such interregional initiatives emerge the prerequisites for the formation of international regions as a new nexus in the global system of trade, one based not only on competition, but also on cooperation with other centres of international economic relations.

It is important to bear in mind that all SCO countries – that is, members, observers and SCO dialogue partners – are involved in these projects at different levels and in different formats.

At the same time, given the varying degrees to which production is developed in the various SCO countries, concerns about the creation of an FTA are justified. A number of countries openly fear that the appearance of an FTA could lead to an uncontrolled influx of inexpensive Chinese goods, and that is fraught with the potential to undermine national economies. For example, the entire combined market of the EAEU contains approximately 180 million people – fewer than an average Chinese province or administrative region and roughly comparable to the population of Pakistan.

As Eurasian Economic Commission trade minister V. Nikishina points out, the economies of the EAEU countries are clearly not yet ready for a free trade regime with China – at least in the short-term. At this stage, therefore, the plan under consideration
involves establishing a comprehensive trade and economic partnership with China, an agreement having a broad agenda and providing for the option of concluding more in-depth agreements on nontariff and simplified mutual trade activities in the future. A long-term plan calls for additional discussion of duties and tariffs [EEC, 2016].

Moreover, the SCO has not reached a consensus on when to start cooperating and negotiating with the EAEU, and countries such as Uzbekistan and Tajikistan have thus far refrained from participating in integration processes. On the other hand, seven of the eight SCO members are either members of the EAEU, have free trade agreements with EAEU countries or are negotiating such agreements.

Thus, it is clear that a steady process of building new types of trade relations has taken shape in the region. Obviously, as this process progresses, a system of trade agreements will link all SCO countries in one way or another, requiring a harmonization of those arrangements and inevitably compelling the Organisation to create an integration structure of some form or another.

The situation might develop in any one of a number of different ways. In the short term, as negotiations with China on linkage shift to the supranational level under the auspices of the Eurasian Economic Commission (EEC), EAEU members have an opportunity to formulate a unified position on participation in the SREB, as well as a common framework for trade relations with China. That will make the EAEU attractive to other Central Asian states such as Tajikistan and Uzbekistan who have admittedly weak positions in their bilateral dialogue with China.

It is also important to bear in mind that the EEC currently has authority concerning only the trade and technical regulations aspects of the SREB. Thus, that dialogue does not address two important elements of the project: investment and transport. The parties also plan to create “institutions for comprehensive interaction.” “Common formats for projects of common interest” should appear in the fields of agriculture, industry, energy, infrastructure, transport and communications [Edovina, Korostikov, 2016].

The SCO framework already includes mechanisms for cooperation on transport and investment that could be used to develop common approaches, as well as to involve Tajikistan, Uzbekistan, India and Pakistan in the collaborative effort.

Another option is to formulate a “mixed” agreement between “SCO family” countries with the participation of the EAEU (the EEC voicing the united position of its members) and China on the linkage of broad issues of regional economic cooperation. In this case, the EAEU would retain the status of the main negotiator with China and other non-EAEU member states of Central Asia on issues of trade and technical regulations, while the SCO could address other cooperative efforts on investment, transport and security.

Certain questions remain undecided: the limits of integration, the extent of the authority of national and supranational regulatory bodies, strategies for expanding EAEU membership, interaction between the EAEU and the SCO and other state and integration blocs. All of this necessitates the development of a sound model for Eurasian economic integration and the systematization of its key principles and priorities.
The SCO and Prospects for Forming a Greater Eurasian Partnership

Given the steady transformation of its economic landscape, the Eurasian continent is becoming the flagship of processes through which subregional integration efforts combine to form a regional “integration of integrations” — in this case, focused primarily on the interests of the countries of greater Eurasia themselves. These processes are now becoming intertwined: often, they either run in parallel or else individual elements coincide. However, forming a single, harmonious and interconnected system remains a goal for the future. The first priority is achieving broad-based political agreement, which requires participants in these processes to exercise political will.

At the same time, the EAEU and the system of economic cooperation within the framework of the One Belt, One Road concept continue to develop, ASEAN countries are putting forward proposals in Southeast Asia and India is promoting its own programme for cooperation in South Asia.

The principle development challenge is achieving not competition, but synergy between the various Eurasian projects as this best serves the interests of all powers on the continent. Russian president Vladimir Putin’s proposal for a greater Eurasian partnership calls for developing cooperation within the framework of flexible integration structures [TASS, 2016]. At the same time, such cooperation can be built effectively within the framework of flexible and open integration structures that encourage competition in scientific pursuits and a variety of technical approaches, and allows participating countries to fully realize their competencies and potential [TASS, 2016].

Eurasian partnership is envisioned as not merely establishing new ties between states and economies. It calls for changing the political and economic landscape of the continent and bringing peace, stability, prosperity and a fundamentally new quality of life to Eurasia [President of Russia, 2017].

Thus, the greater Eurasian partnership calls primarily for building a macroregional system of stable political and economic cooperation, and for cultural and civilizational interaction based on the deepening of ties between different parts of the Eurasian continent. At the same time, it apparently does not insist on the signing of a single collective agreement. Rather, at the initial stage, the partnership should be based on building a system of cooperation between states and partner regional organizations and associations, a search for areas of shared interests, and the development of substantive areas of mutually beneficial joint undertakings.

The presidents of the EAEU member countries decided to support the proposal to hold talks with China on partnership and cooperation. That could eventually serve as the basis for a new, large-scale trade and economic partnership with the participation of the EAEU, China, the SCO countries and ASEAN. At the same time, the project to link the EAEU and the SREB could become a unifying factor for trade and economic integration throughout the Eurasian continent, including South and Southeast Asia.
At present, the task of linking the integration processes within the framework of the EAEU and SREB is the most important and substantive component of the effort to form a greater Eurasian partnership — a process that has essentially already begun. The first step is the conclusion of a comprehensive agreement on trade and economic cooperation between the EAEU and China. In October 2017 the EEC trade minister Veronika Nikishina and China’s minister of commerce Zhong Shan announced in Beijing that the text of the agreement was ready for signing [EEC, 2017].

In this context, it seems worthwhile to begin consultations between the EAEU, SCO and ASEAN on forming new approaches to the network of cooperation between regional organizations which take the interests of all of the region’s states into account on an equal basis and make it possible to avoid counterproductive competition between different integration initiatives in Eurasia.

In addition, it is of fundamental importance that the conceptual paradigm of the greater Eurasian partnership be further developed and improved. Obviously, it should be based on cooperation in the political and security realms as well as on economic and humanitarian aspects. Both ASEAN and the SCO have established political coordination; the documents of the two organizations invariably reflect consolidated positions on important regional and global themes, and the approaches and vision for solving political problems are spelled out. At the same time, both ASEAN and the SCO employ a consensus model of decision-making, creating a certain ideological similarity in the functioning of both organizations and suggesting a favourable outlook for the development of political dialogue.

The problem of security, though more complex, remains open for discussion. Maintaining regional stability is made more complex by the smoldering conflicts in Eurasia and the Asia-Pacific region. The situation demands, if not the resolution of long-standing conflicts, at least a continuation of the status quo. This primarily concerns problem zones and disputed territories, the presence of which impede the full-scale implementation of the region’s economic potential, the emergence of new agreements for joint development and the general promotion of megaprojects. Such zones could become areas of joint development, not only by the two countries immediately involved, but by all the states in the vast region that show an interest.

It is also important to coordinate efforts in the fight against the terrorist threat. The countries of the SCO and ASEAN have an interest in solving this vital challenge because they experience the grave consequences of terrorist activity firsthand. This area, with the involvement of the Collective Security Treaty Organization (CSTO), could become one of the pillars of the greater Eurasian partnership and contribute to the formation of a broad international antiterrorism coalition.

Joining efforts to create a transit corridor linking South and Southeast Asia with Central Asia — with branches to EU and Middle Eastern borders — is the economic undertaking holding the most promise for reaching agreement. All states have an interest in this and concrete work along these lines has already begun within the framework of the SCO and in the context of the implementation of the One Belt, One Road initiative. The
SCO Agreement on the Creation of Favorable Conditions for International Road Transport is open to third countries and a number of them have already expressed interest.

Increased cooperation on the basis of the memorandum of understanding between the SCO and ASEAN secretariats will also contribute to rapprochement between the two organizations. That document gives priority to, among other things, interaction in the areas of counterterrorism, drugs and narcotics control, arms smuggling, money laundering and trafficking in persons [ASEAN, 2005]. It also provides for cooperation in the areas of economics and finance, tourism, environment and natural resources management, social development and energy.

Conclusions

Deep transformative processes are obviously unfolding in this historic Eurasian region. Asia’s strengthening position as a driver of the global economy will only reinforce the trend toward the building of a regional system of economic interrelations aimed primarily at increasing the competitiveness of industries in the region and reducing the costs of delivering their final products to markets.

Countries’ intertwining participation in trade agreements, the further crystallization of integration efforts and the involvement of yet more countries in integration processes will strengthen current centripetal trends and the formation of a common Eurasian space. The necessary institutional basis for this will gradually mature as the form and mechanisms of cooperation develop and improve within the frameworks of both the SCO and EAEU, ultimately contributing to a further deepening of interaction among the countries of Southeast Asia.

Of course, this process will require time and effort, but the overall trend in this direction has clearly begun.

References


Шанхайская организация сотрудничества и Большая Евразия

Р.К. Алимов

Алимов Рашид Кутбиддинович – д.полит.н., генеральный секретарь ШОС; China, Beijing, Chaoyang District, Ritan road, 7; E-mail: sco@sectsco.org.

В статье анализируются роль и место ШОС в развитии межгосударственного взаимодействия на евразийском пространстве, состояние и перспективы основных направлений многофункционального сотрудничества в рамках Организации. Обосновывается предположение, что для обеспечения устойчивого развития в современных условиях жизненно важным элементом является постоянный устойчивый диалог соседних государств, нацеленный на поиск зон совпадения национальных интересов для решения общих региональных задач. Принципиальное значение имеет поддержание высокого уровня обеспечения совместными усилиями региональной безопасности. Наличие этих составляющих способствует постепенной интеграции подходов к развитию регионального экономического сотрудничества, к эволюционному преобразованию экономических интересов.

Анализируются характеристики системы партнерства в рамках ШОС, прежде всего с точки зрения модели межгосударственного взаимодействия, способной обеспечить институциональную платформу для модели широкого регионального экономического взаимодействия в контексте новых реалий евразийского проектирования, реализации национальных стратегий развития государств-членов, сотрудничества усилий по выстраиванию интеграционных процессов в рамках ЕАЭС, реализации инициативы КНР по формированию «Одного пояса, одного пути» с потенциальным оформлением большого партнерства стран Евразии и Азиатско-Тихоокеанского региона.

Ключевые слова: Шанхайская организация сотрудничества; безопасность; партнерство; Евразийский экономический союз; АСЕАН; Большое евразийское партнерство; транспортные коридоры; инфраструктурные проекты; механизмы финансового сопровождения проектной деятельности; концепция «Экономического пояса Шелкового пути»; «Один пояс, один путь»


Источники


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The Eurasian Cooperation Agenda

The Concept of Greater Eurasia in the Turn of Russia to the East

T. Bordachev, A. Pyatachkova

Timofey Bordachev — Director, Centre for Comprehensive European and International Studies, National Research University Higher School of Economics; 20 Myasnitskaya Str., 101000, Moscow, Russian Federation; E-mail: tbordachev@hse.ru

Anastasia Pyatachkova — Junior Research Fellow, Centre for Comprehensive European and International Studies, National Research University Higher School of Economics, post-graduate student NRU HSE; 20 Myasnitskaya Str., 101000, Moscow, Russian Federation; E-mail: apyatachkova@hse.ru

Abstract

The last two or three years have become a time of an unprecedented rise of interest to Eurasia. The Russian initiative to create Greater Eurasia, which is seen as the main conceptual framework for promoting various cooperation projects in the region, is often criticized for the lack of concrete content. Given the growing number of regional initiatives including from China and India Russia needs not only to formulate an attractive idea, but also to show its relevance and efficiency.

Despite the absence of objective historical conditions for its implementation the concept of ‘Greater Eurasia’ can become a rational practical embodiment of a wide range of development and security priorities for many countries in the region. The problem of the study is the absence of objective prerequisites for the creation of Greater Eurasia while there is a wide range of subjective reasons.

The article examines the preconditions for the emergence of Greater Eurasia as well as various ways of this concept’s perception and political interpretation. For historical reasons projects for the consolidation of Eurasia have largely remained on paper, but the current regional and global trends create relevant conditions for their implementation.

The study analyzes the content of Eurasian integration and possible formats of cooperation within it. Particular emphasis is made on security issues, economic interaction, and the development of institutions in the Eurasian space. The authors stress the need for reform of the OSCE in order to bring its activities closer to the current geopolitical conditions. The prospects for the development of the SCO and its role in Greater Eurasia are also under consideration.

Special attention is paid to relations with potential participants of Greater Eurasia project (including European countries) and non-regional actors. Eurasian integration is also analyzed from the European integration perspective. According to authors’ estimations, in EAUE there is a need for greater attention to the issue of state sovereignty (similar to the European experience of country representatives and expert groups) and strengthening the institutional capacity of organization.

Key words: Greater Eurasia; Turn to East; Eurasian Economic Union; European integration; Russian foreign policy; SCO; OSCE; international community; Russian-Chinese relations


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Introduction

In addition to offering strategic foreign policy benefits, Russia’s turn to the East in response to the rise of Asia in the second half of the 2000s makes it possible to transform the Trans-Ural region, the Far East from a predominantly imperial burden — or rear in opposition to the West, sometimes in a rivalry with Japan or China — into a potential development area for the whole country [Karaganov, 2017]. It received additional impetus from the conflict with the West and successfully coincided with the new geo-economic initiatives of China [Lukin, 2016], which involved a large-scale cooperation plan in 2013 under the flag of a revived Great Silk Road. The very idea of connecting Europe and Asia by land routes, drawing on the historical connotation of the Silk Road [Wu, 2013], positions China as a proactive player whose initiatives are aimed at positive changes in the region, and as having a desire to join participation in the initiative with national development priorities.

While the specific content of the Chinese initiative to unite the Silk Road Economic Belt and the Maritime Silk Road has been a subject of wide discussion — not only within China but also abroad — since 2013, it has gradually begun to be more clearly defined. An institutional framework was established in December 2014 with the launch of the $40 billion Silk Road Fund, and the Asian Bank for Infrastructure Investments with a capital of $100 billion in December 2015. In May 2017, the first One Belt, One Road forum was attended by the heads of 29 states from Asia, Europe and Latin America (with nearly 100 countries represented in total) [Inosmi, 2017]. It is expected that this event will be held on an annual basis. In this sense, the positive perception of the Greater Eurasia initiative in China facilitates further joint work in the region [Zhao, 2017; Li, 2017].

Russia’s turn to the East is unfolding within the framework of the Eurasian orientation of its foreign policy. The Eurasian theme is present in all international forums and is an obligatory part of public speeches. It is noteworthy that the growing interest in this topic can be observed not only among Russian authors; see, for example, the reflections on the possibility of forming a Eurasian supercontinent by Portuguese political scientist Bruno Maçães [2018].

Politically, the evolution of the Eurasian concept has, primarily for Russia, transformed from a modest idea to interlink the Eurasian Economic Union (EAEU) and China’s One Belt One Road initiative (2015) into a much larger strategy known as the Eurasian Comprehensive Economic Partnership [President of Russia, 2015]. Other countries in the region, including the originator of the modern Eurasian concept — Kazakhstan — are trying to emphasize the pragmatic aspects of regional cooperation.

At the same time, “Russia” is the key word in the phrase “Russia’s turn to the East” [Bordachev, 2017B]. Russia’s increased attention to the eastern dimension of its foreign policy is a logical consequence of the shifting balance of power in the Asia-
Pacific region (APR) and its increased economic and political significance on a global scale.

![GDP Growth Rates in Key APR Countries Compared to World Rates](image)

**Fig. 1. GDP Growth Rates in Key APR Countries Compared to World Rates**

*Source: [Euromonitor International].*

Russia has already begun to take advantage of the rise of Asia as a counterbalance to the long-prevalent western vector in its foreign policy. As Galushka noted, 26% of all foreign investments in Russia in 2017 went to the Far East: “The Far East as a whole showed an increase in investment by more than 17% in 2017, which amounted to 117.1%, when this indicator was 104.4% on the average for Russia. In the Far East it is the best indicator in the country. At the same time more than half of the investments out of 17% of the growth were made by residents of the territories of advanced development and the free port, including foreign ones” [Ministry for the Development of the Russian Far East, 2018].

Increasing attention is paid to building constructive relations with partners in Eurasia. The EAEU is the most important part of Russia’s Eurasian strategy. Recently, the Eurasian Economic Commission (EEC) has developed a system of indicators showing the level of integration taking the United Nations’ sustainable development goals into account. According to the research, the level of integration in the EAEU is second only to the European Union (EU), ahead of the Mercado Común del Sur (MERCOSUR) and the Association of Southeast Asian Nations (ASEAN), whose histories are 30 and 50 years longer, respectively. At the same time, the EAEU does not close itself off; on
the contrary, it seeks to build cooperation with foreign countries — Singapore, Iran, India, Korea, Egypt, Israel and Serbia are among its potential partners). [EEC, 2018] In this sense, the conclusion of a free trade agreement (FTA) between the EAEU and Vietnam reflects the desire of the Russian Federation to diversify cooperation with its Asian partners. Despite the shortcomings, we note positive dynamics of this trading agreement: the trade turnover between the EAEU countries and Vietnam since the entry into force of the agreement in October 2016 to June 2017 increased by 11.8% compared to the same period in 2015–2016 [Tynnikova, 2017]. Under the agreement, states committed to an 88% reduction on customs duties for goods, 59% of which was applied immediately [TASS, 2015]. The remaining duties will be cut over the next five to 10 years.

Despite certain achievements, Russia’s turn to the East is still perceived ambiguously by the international community. As Spanger notes, “with a delay of three years, Moscow has followed the example of Washington and now ‘moves’ towards Asia, and, in essence, towards China” [Spanger, 2016]. China at this time turns to the West [Spanger, 2016] or, as noted by Shambaugh, enters the global level [Shambaugh, 2013]. The Russian initiative to create a “Greater Eurasia,” which is seen as the main conceptual framework for promoting various cooperation projects in the region, is often criticized for the absence of specific content or a roadmap for its implementation. As Tsvetov notes, “almost two years after the first reports there was no programme document or public speaking about it at any high level in public space, which would describe the specific content or at least a clear format of this new great idea” [Tsvetov, 2017].

Despite the absence of objective historical conditions for its implementation, the concept of “Greater Eurasia” could become the rational, practical embodiment of multiple development and security priorities for many countries in the region. The problem is the absence of objective prerequisites for the creation of a “Greater Eurasia” despite a wide range of subjective reasons.

The present research hypothesis is that the concept of “Greater Eurasia” can be viewed as a consolidation of Russia’s new global strategy which may form the basis for its most important foreign policy priorities. In this regard, this article undertakes a comprehensive analysis of the initiative to create a “Greater Eurasia” as well as possible formats for its further development, including an analysis of the EU experience as a case study.

Background to the Formation of the Concept of “Greater Eurasia” and Features of the Perception of the Eurasian Space

In the context of the crisis of the western model of the world, a number of non-western centres of power offer different visions of regional and international order. China’s Belt and Road Initiative is valuable not only for its potential to implement concrete projects, but also for its conceptual design (a historical link and a single framework for the implementation of regional initiatives). India, in turn, began actively promoting the con-
cept of the development of the Indo-Pacific region [Kuo, 2018]. Other examples include ASEAN Connectivity, Mongolia’s “Steppe Road,” Kazakhstan’s “Bright Path,” Turkey’s “Central Corridor,” Poland’s “Amber Route,” and Great Britain’s Northern Powerhouse [Leksyutina, 2017].

This variety of regional development programmes fills the global idea gap regarding the crisis of the western development model. At the same time, this aggravates the competition between different regional actors and complicates the issue of the future model of the world, the formats of interaction and the coexistence of various approaches to maintaining international stability. The development of the idea of “Greater Eurasia” is closely related to this process.

Russia’s political exaltation over the Eurasian issue is natural and easy to understand. Many analysts see it as an attempt to break away from the historically determined choice between Europe and not-Europe, and in this context the idea of “Greater Eurasia” is perceived as a kind of reincarnation of a “Greater Europe” [Luzyanin, Zhao, 2017 pp. 61–63]. This choice is particularly tragic because it is obviously impossible to ever make Russia part of Europe. However, the political events of the past few years give hope that Russia has shed its ambivalence and now sees itself as an independent centre of development rather than as the periphery of either Europe or Asia. But it is necessary to harness Russia’s nascent self-identification in collective institutions for regional cooperation and to integrate Russia’s national interest with those of Eurasia as a macroregion.

However, there are a number of important regional factors and political problems that may constrain the translation of Eurasian ideas into practice. First, it is necessary to eliminate the mental walls that prevent the convergence of Eurasian peoples on a pragmatic basis [Kuznetsova, 2017]. While bright intellectuals over the last two centuries have suggested building a common Eurasia based on an internal unity of values or an objective opposition to other macroregions [Entin, Entina, 2016], these ideas have not yet been put into practice.

In addition, the states of Eurasia (and Russia is no exception) remain extremely receptive to external narratives [Starr, 2014, pp. 191–199] which are often based on pragmatic considerations and the search for the national good. However, they may overlook the fact that due to the objective laws of international politics for any extra-regional player, the fate of distant peoples is only a way of achieving their own national interests. Therefore, the Eurasian narrative is now, perhaps, one of the most “littered” geopolitical constructions brought from outside.

Greater Eurasia remains a conceptual and metaphysical notion rather than a political or economic reality. The blurring of physical borders has been invariably accompanied by the erosion of conceptual borders and an inability to delineate Eurasia as a unit on the political and mental map. This is a major component of the “Eurasian curse” — because of the region’s inability to conceive itself in terms of common values, cooperation and shared benefit, it is also unable to identify as an integral element of the global arrangement.
Challenges for “Greater Eurasia”

Historically all Eurasian states, including Russia, have used Eurasia as a tool, a space for strategic maneuver and a means of achieving narrow foreign policy goals. They never managed to rise above their national interests as the Europeans did when they built a new Europe on the ruins of the old order in the second half of the 20th century. This new Europe was based on cooperation for the sake of shared benefit and on clearly defined opposition to other regions and civilizations [Hix, 2007, p. 574].

However, even while Eurasia is the homeland of many nations, it has never been home to any of them. In most cases, nations that emerged in parts of Eurasia later left. This was the case with the majority of Finno-Ugric peoples and, to a lesser extent, Turkic peoples. Eurasia’s most powerful states saw themselves as belonging to other – European and Asian – civilizations. They considered themselves empires that did not need an identity beyond their national one [Zhang, 2013]. Medium and small Eurasian nations do not have enough resources to develop their space without reliance on external players. As a result, Eurasia has always been an abstract idea, a dream, and could not become an object of geopolitics.

It is both possible and necessary to resolve this problem as the relative fragmentation of the global space into regions and macroregions is gaining momentum and, under certain conditions, could even be the only salvation for globalization and openness. It is thus important to understand the extent to which Eurasia engages in regional cooperation to derive common benefits and resolve the national development tasks of individual Eurasian states.

Today this goal is fairly difficult to achieve in practice. The major trends in modern development point toward states becoming less prepared to consider cooperation as a way to achieve national goals, both internally and externally. As Diesen noted, “economic nationalism becomes a strategy for the development of rising states, allowing them to change the unfavourable asymmetry of interdependence to their own advantage” [Diesen, 2017]. National egotism, whipped up by the psychosis of media, particularly social media, is growing stronger. Politicians are becoming more dependent on public opinion, less focused on common benefit, and increasingly interested in seeking solutions with unilateral advantages [Tomz, Weeks, Yarhi-Milo, 2017].

In mid-summer of 2017, several Chinese warships entered the Baltic Sea for joint exercises with the Russian fleet [Grigoryev, 2017]. Most western observers interpreted both events as a mere demonstration by Moscow and Beijing of their mutual support in the most conflict-ridden areas [Higgins, 2017]. Diplomatic actions with no serious systemic significance vividly illustrate that it is no longer practical to limit discussion of security problems to only the local or global level [Savic, 2016].

The conflict between Russia and the West does not significantly affect the interests of China or any other major Eurasian power directly. However, in a broader sense and taking a long-term perspective, this conflict is extremely serious in that it influences the potential for China to implement its most important initiatives, which require
the participation of both Russia and the countries of the West. For example, representatives of some Eastern European countries insist on the development of corridors bypassing Russia through Kazakhstan, the Caspian and Black Seas, despite the fact that such projects are practically meaningless in economic terms [Platonova, 2015].

Meanwhile, from 2014 to 2016 the volume of China’s trade with countries along the “Way” exceeded $3 trillion, and the investment of China exceeded $50 billion. At the opening of the One Belt, One Road forum China announced that it would send an additional $14.5 billion to the Silk Road Fund. The Chinese enterprises created 180,000 jobs in more than 20 countries and built 56 economic cooperation zones [Inosmi, 2017]. As the initiative develops, it is becoming more noticeable on the geopolitical landscape.

In addition, the conflict between Russia and the West creates tension in the international environment in general. China is not interested in such tension, as the longer that a direct collision with the U.S. can be avoided, the more likely it is that China will achieve its strategic goals. However, Russia is the only significant power whose relations with China can be characterized as frankly friendly. This cannot be said, for example, about relations with India, China’s large and nuclear-armed neighbour [Lidarev, 2018].

This, as well as the unique nature of the relationship between the leaders of China and Russia, complicated China’s provision of assistance to Moscow in 2014–2016. China can be considered a winner in the conflict between Russia and the West, but it should be noted that China was nevertheless extremely interested in its resolution. The same can be said about other important countries such as Japan and Korea. Neither state wants the continuation or escalation of the Ukraine conflict because it directly threatens their investment plans in Russia. So, why do these countries not participate in the discussion of European security issues?

Equally, the conflicts around the Korean Peninsula or the South China Sea could directly affect Russian security interests. Russia is also a significant participant in the international diplomatic process on the North Korean nuclear missile problem, making joint proposals with China in July 2017. This begs the question of why China is in no way involved in the discussion of the Donbass problem and Kiev’s failure to implement the Minsk Agreements of 2015.

However, there are deeper reasons that make the existing regional security systems obsolete. To some extent, the precursor of the processes observed in Asia and Eurasia was, oddly enough, the “neighbourhood policy” proposed by the EU to countries to its south and east after the expansion of 2004–2007. However, there is a fundamental difference between this initiative and the current concepts and formats of joint development in Eurasia. At the heart of the neighbourhood policy was the idea of the so-called “Europe of concentric circles” [Lavenex, 2011, p. 373]. However, the project turned out to be entirely ineffective as a tool to avoid confrontation or direct efforts to achieve development goals in the space from Marrakesh to Vladivostok.
If we apply the logic of concentric circles in Eurasia, it can be divided geographically into a core and three peripheries. The core is Central Asia, Russia, China and Mongolia. Turkey, India, Pakistan, Afghanistan, Iran and Korea constitute a second Eurasian ring. Europe, Southeast Asia and the Middle East make up the peripheries. Maintenance of stability in the core, the involvement of the second ring and the absence of threats from the periphery is the task for international cooperation in the field of security.

New partnerships in Asia and Eurasia are formed on completely different principles, the most important of which should be democracy. Among other things, the reason for this is the absence of an obvious dominant leader willing and able to offer a model of unified and centred development for others. Occasionally, China attempts to pursue such a strategy [Brown, 2016], however, this approach is not entirely correct.

First, the People’s Republic of China (PRC) has no historical experience constructing formalized unipolar structures of interstate interaction. Second, apart from China, there are at least three players in Eurasia that are crucial for the implementation Chinese initiatives, but which cannot be junior partners (Russia, India and Iran). Finally, China has no interest in further antagonizing the small- and medium-sized countries in Asia and Eurasia, as this could be exploited by extra-regional players and paralyze Chinese initiatives in the field of cooperation and development.

Of course, how far China’s power in a Greater Eurasia could be immersed will remain an important issue. The experience of reunified Germany and the impact of European integration on its power under the leadership of Chancellor Helmut Kohl is ambiguous. At first, the consequences of this decision were positive. However, Germany became the main recipient of the benefits of European integration, affecting the confidence of other EU countries and the stability of the entire structure. Apparently, in the long-term, if German leadership in its present form continues, it will lead to partial shedding of the EU. This experience indicates the need to be extremely careful about the role of the objectively most powerful player when creating a macroregional partnership.

Russia’s Greater Eurasia community is aimed specifically at removing the reasons for these fears. Russia’s goal is to create an international environment in which China’s energy will be directed toward meeting development challenges — both for itself and for other states [Karaganov, 2017]. The most important of these is the creation of conditions for the equal and democratic participation of all interested countries and unconditional respect for sovereignty. In addition, such a community should not be formally limited to a certain geographical space. There should be no discussion about what Eurasia is in the space from the Atlantic to the South China Sea, and what it is not.

It is already quite obvious that Greater Eurasia and the Asia-Pacific region share features of interrelated macroregions. Moreover, Greater Eurasia is a geographically more localized space. There is no direct physical presence of the territories of states separated from the mainland by the world’s oceans. It is limited in the east, west, north and south by the four oceans — the Arctic, Atlantic, Pacific and Indian. Eurasia is in-
ternally connected with developing East-West and North-South transport and logistics corridors among the most important of which is the Russian Trans-Siberian Railway [Bordachev, 2017A]. On the periphery, Eurasia is connected to a network of sea trade routes, which, as calculations show, will be the most profitable for transportation of the main goods produced in Asia in the foreseeable future.

But there is one significant problem. In Eurasia, there is no platform even for discussing issues of macroregional security. The existing Organization for Security and Co-operation in Europe (OSCE) includes Western and Eastern Europe and the space of the former USSR, but bypasses Iran, Mongolia, Afghanistan, Pakistan, India and Korea. It includes, for example, the UK but not Japan, and the U.S. and Canada, but not China. There is an obvious vacuum of international institutions in the sphere of security. The reform of the OSCE can contribute to the elimination of this vacuum.

Having studied the positive and especially negative experience of the OSCE, it makes sense to create a new international security institution in Greater Eurasia with the participation of the maximum number of states in this macroregion. For Russia, taking part in regional security institutions with China, Iran, India and others can become an important asset of foreign policy.

One of the greatest challenges is to avoid going down the same path chosen by Europe after the Cold War — to establish a formally integrated core and determine the place of others by their geographical and institutional proximity to that core. That strategy created new dividing lines and ultimatums. But is it avoidable? A major task of conceptualizing the Eurasian future is determining how cooperation can be compatible with openness and universality.

Regrettably, the relevant experience is negative on balance. A vivid example is the fate of the Shanghai Cooperation Organisation (SCO) where openness led to a crisis of cooperation in relations between participants. The military and diplomatic conflict between India and China over control of small common neighbours threatens to paralyze the SCO for a long time. One of the most productive formats in the SCO is cooperation in countering terrorism, but there is no clear understanding of how it will develop after expansion (for example, how effective intelligence exchange between India and Pakistan will be) [Denisov, Safranchuk, 2016].

The main factor that will influence the further development of the SCO and its potential for the Russian Federation will be the process of adapting the organization to function with new members. On the one hand, the expansion gives the SCO a new diplomatic status: although no one expects a quick solution to the Indo-Pakistani problem, within the SCO India and Pakistan will have the opportunity to build a constructive joint dialogue that in the long-term can positively affect the situation in the region. It will also open new opportunities for discussing the Afghan and Syrian problems [Gabuev, Mohan et al., 2017]. India’s presence in the SCO is seen by Russia as an opportunity to contain China’s ambitions in the region and encourage India to more actively cooperate. In addition, India’s accession to the SCO allows for a new assessment of the interaction of China, Russia and India within the BRICS grouping (which also
includes Brazil and South Africa) and other fora for cooperation that could be useful to Russia in a confrontation with the West.

Analysis of the European Experience of Integration

The state of Eurasian economic integration is troubling. At the same time, the reserves of internal stability of the EAEU is much less than in the EU, where after decades of cooperation enormous bureaucratic and institutional inertia has set in.

The experience of European integration, which is now experiencing significant challenges, is interesting from this point of view. The powerful construct of the European Union has lately been subjected to one political barrage after another. These include the failure of the Constitution for Europe in 2005, the financial and economic crisis of 2009–2013, the refugee crisis of 2015, the referendum in the UK and the beginning of negotiations on its withdrawal from the EU in 2016–2017 and, finally, the unfolding crisis around Catalonia in the fall of 2017. These events in turn have questioned the basic values on which European integration was founded. Inside the EU, there is a problem of leadership: France has significantly weakened in recent years and its ability to balance the power of Germany is no longer the same.

In the middle of the 19th century the Swiss philosopher Henri-Frederic Amiel wrote: “Everyone starts the road in the world anew. Only institutions are becoming wiser. They store our collective experience” [Bordachev, 2017B]. Here, Europe was able to do the main thing — to create institutions that work under any political climate. In other words, whatever we say or write about the complexities of the European Union, these difficulties are problems of a much higher order than those that threaten the development or even the existence of the EAEU.

Strong institutions, primarily intergovernmental ones, are exactly what other integration associations lack most of all and the vivid example here is the EAEU. The Union periodically suffers from a fever; in 2017, the fact that the countries of the Union were ready to risk its ability to function in connection with bilateral political and diplomatic problems was fully revealed. But most alarming is that the countries of the EAEU are systemic, and Russia is not an exception — they are unable to fulfill their obligations fully in accordance with the Treaty on the EAEU and secondary legislation. In a number of cases, such as the relations between the countries of the Union and the EU, external players are guided by the undermining of Eurasian integration as such.

Attempts to include Russia in the western international community ended in 2007 with the presentation of a well-known report by the Russian head of state at a conference on international security in Munich [President of Russia, 2007]. However, European attempts to galvanize the relationship were still being made until 2014 (for example, the Partnership for Modernization).

China is integrated into this system to a significant extent [Friedberg, 2005, p. 14]. Chinese companies have long been confident in the U.S. market; they play by
the existing rules. But at the same time, China is not included in the main institutions that determine the development of the community led by the United States. China is not and cannot be a market democracy and is unlikely to be recognized as an equal participant in the West under any circumstances. That said, China does not aspire to either of these things. Its conflict with the West is of an existential nature because the rise of China will require a redistribution of consumption on a global scale. Are the U.S. and Europe ready to limit themselves in order to incorporate China as an equal distributor and recipient of global goods?

In the 1990s and early-2000s, the western and international communities became practically synonymous. The United States and its closest partners controlled the agenda of leading international institutions with confidence. At that point, the unity of the western community and its institutionalized regimes was not questioned. But then, everything changed [Mead, 2009]. New U.S. sanctions initiatives created (under certain circumstances) a threat to the energy security of the European Union, and also to the long-term plans to organize the supply of natural gas to Japan. The deployment of the U.S. antimissile defense system in Korea has already created extremely serious problems for Seoul and South Korean companies in the Chinese market. What is being done and said now, puts before them a choice that cannot be made.

The most prepared for the new dynamics are the individual Baltic and Eastern European countries which are ready to deny themselves real benefits in order to meet the requirements of allies of the United States. But they, of course, do not have a significant impact on the evolution of the community of western countries, regimes and institutions. Therefore, now it is especially important that the signs of a split are not outlined on the periphery, but in the core of this community. It is very likely that the transatlantic allies are poised to cross a line beyond which their relationship will never be the same. Thus, the actual question is how the U.S. will control Europe. This means that the influence of international security regimes and communities under the leadership of the United States will also undergo transformation.

It may sound trivial, but lessons must be learned in order to avoid the repetition of mistakes. The uniqueness of the situation in the Eurasian space is that its emerging international environment excludes the both possibility and the necessity of an undisputed hegemon. A space that includes at least three great powers — India, China and Russia — as well as a large group of significant medium-sized countries — Iran, Pakistan, Vietnam and Korea — may be a region of fierce competition, but it may also promote the emergence of a unique international regime. And, consequently, the megaregional international community and the regimes that arise and operate within it, could be ideal from the point of view of democracy and stability.

A separate practical issue related to broader Eurasian cooperation is the potential for economic integration its core. This needs to be understood theoretically.

In 2018, Russia chairs the Supreme Eurasian Economic Council. Judging by all signs, the Russian government takes the tasks related to the chairmanship very seriously [EEC]. It is possible that the Russian presidency of the EAEU may offer a reasonably
convenient opportunity to set up a working group of government representatives from Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia in order to create an inventory of all outstanding obligations and mutual claims, and to determine ways to address and reduce them. This is not, and cannot be, the task of the supranational institute of the EAEU or the Eurasian Economic Commission. Only governments appointed by popularly elected heads of state can take responsibility for solving such a serious task. It has become a commonplace understanding that the powers of the EEC, the main executive body of the EAEU, are extremely limited and do not allow it to properly address integration (the problem of cooperation on customs barriers has been repeatedly discussed [Vinokurov, 2016, p. 58].

The experience of integration in Western Europe was far less ambiguous. Participating countries, despite decades of cooperation, accept only legislative acts made by the Council of the EU, which includes the plenipotentiary ministers of the EU states. Without their decision, the European Commission, the executive body of the EU, cannot adopt any act of secondary legislation. Therefore, complaints about the fact that in the EAEU more issues are being resolved at the level of the Intergovernmental Council rather than the Eurasian Economic Commission, show insufficient knowledge of the European experience.

However, the difference is that in the European Union the council of ministers functions as a permanent institution with the apparatus, history and mechanisms necessary for coordinating positions before decisions are put to a vote. There is an institution for permanent representatives of members in Brussels and permanent expert committees. This avoids the gap between supranational bodies and states and enables the constant involvement of the governments of participating countries in coordinating positions on each issue. In this respect, Eurasian integration, unlike Europe’s, stands on one leg — it has a relatively strong Eurasian Economic Commission and powerful higher decision-making bodies — the Supreme Eurasian Council and the Intergovernmental Council. But there is absolutely nothing between them that would allow governments directly accountable to heads of state and parliaments to work together on a more or less permanent basis.

Conclusion and Recommendations

At the moment, the objective preconditions for the promotion and development of the initiative for the creation of Greater Eurasia have been formed. In order to understand the rational bases on which it can be built, it is necessary to study its past, to find in it ideas and narratives that do not divide, but rather unite the peoples of our macroregion. It is vital to assess the development goals of Eurasian peoples in order to understand where they intersect, where they need to be harmonized, where they are complementary, and to highlight those goals that can be achieved jointly through the coordination of efforts at the interstate level.
It is essential to study modern collective security systems and to understand what experience is most applicable to present-day Eurasia. It is important to define a set of basic values of internal structure and international communication shared by all the peoples of the region. Among them, it is especially important to identify those spiritual and unifying values that can play a role in the future creation of their collective identification.

A general assessment is needed of the applicability of the most established concepts and rules of international communication to the Eurasian political and cultural environment in order to understand how these concepts and rules are refracted under Eurasian conditions. The most effective mechanisms and methods of cooperation arose on the western periphery of Greater Eurasia — in Europe, where they are based on a different political tradition. The tradition of cooperation as a result of rational choice can and should be applied in Eurasian conditions and re-interpreted to suit local contexts.

This requires looking at the strategic perspectives and motivations of each of the most important Eurasian players. China is the largest Eurasian state. It is practically self-sufficient due to a unique demography, and at first glance it does not need a broader community. But even China cannot return to the policy of closure which brought great shocks to the Chinese people. Russia, also due to its demography, cannot be self-sufficient and therefore should create international communities within which rules of communication will be more advanced and participants will be able to share a set of common values. The states of Central Asia, like Mongolia, try to formulate their development goals consistent with the need to preserve themselves as independent units of international relations. They have a stake in interaction with large regional and extra-regional players to balance their powerful neighbours. That said, of course, the degree of practical interdependence between the countries of Central Asia, China and Russia is great.

As for the functioning of institutions in Greater Eurasia (in particular, the EAEU), it is necessary to create optimal conditions for effective intergovernmental interaction in the present day rather than the 1950s when European integration began. It is obvious that the state is the supreme carrier of sovereign power and cannot renounce its sovereignty because of responsibility to the population. And it is this experience that should be carefully studied in order to preserve Eurasian integration. It is necessary, therefore, to concentrate efforts on comparing the approaches and representations of the main regional players and translate these approaches into already existing regimes and institutions — including the SCO, the OSCE and the BRICS.

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Концепция Большой Евразии в повороте России на Восток

Т.В. Бордачев, А.С. Пятачкова

Бордачев Тимофей Вячеславович — к.полит.н., директор Международного научно-образовательного Центра комплексных европейских и международных исследований Национального исследовательского университета «Высшая школа экономики»; Российская Федерация, 101000, Москва, ул. Мясницкая, д. 20; E-mail: tbordachev@hse.ru

Пятачкова Анастасия Сергеевна — мл.науч.сотр. Международного научно-образовательного Центра комплексных европейских и международных исследований Национального исследовательского университета «Высшая школа экономики»; Российская Федерация, 101000, Москва, ул. Мясницкая, д. 20; E-mail: apyatachkova@hse.ru

Последние два-три года стали временем небывалого по масштабам всплеска интереса к евразийской тематике. Российская инициатива создания Большой Евразии, которая видится как основная концептуальная рамка для продвижения различных проектов сотрудничества в регионе, часто критикуется за отсутствие конкретного наполнения по ее реализации. Учитывая растущее число региональных инициатив, в том числе со стороны Китая и Индии, России необходимо не только сформулировать привлекательную идею, но и показать ее востребованность и эффективность.

Концепция Большой Евразии, несмотря на отсутствие для ее реализации объективных исторически сложившихся условий, может стать рациональным практически воплощением широкого спектра приоритетов развития и обеспечения безопасности для широкой группы стран региона. Проблема исследования заключается в отсутствии объективных исторических предпосылок создания Большой Евразии при наличии широкого спектра субъективных причин.

В начале статьи анализируются предпосылки возникновения Большой Евразии, а также различные способы восприятия и политической интерпретации евразийского пространства. В силу исторических причин проекты по консолидации Евразии в основном оставались на бумаге, однако текущие региональные и глобальные тренды создают подходящие условия для их воплощения на практике.

В исследовании проводится анализ содержательного наполнения евразийской интеграции и возможных форматов сотрудничества. Особый акцент сделан на вопросах безопасности, экономическом взаимодействии, а также развитии институтов на евразийском пространстве. Подчеркивается необходимость реформы ОБСЕ с целью приближения ее деятельности к текущим геополитическим условиям. Также рассматриваются перспективы развития ШОС в ее руке в Большой Евразии.

Отдельное внимание уделяется отношениям с потенциальными участниками Большой Евразии (включая европейские страны) и внерегиональными акторами, а также использованию опыта европейской интеграции для развития евразийского пространства. Подчеркивается необходимость большого внимания к вопросу государственного суверенитета при взаимодействии в рамках ЕАЭС (по аналогии с европейским опытом представителей и экспертных групп), а также укрепления институционального потенциала ЕАЭС.

Ключевые слова: Большая Евразия; поворот на Восток; ЕАЭС; европейская интеграция; международное сообщество; внешняя политика РФ; ШОС; ОБСЕ; российско-китайские отношения


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Risk Assessment of Trade Liberalization with Asian Countries in the Context of Russia’s Policy of Pivot to Asia

A. Likhacheva, H. Kalachyhin

Anastasia Likhacheva — PhD, Deputy Director, Centre for Comprehensive European and International Studies of National Research University Higher School of Economics; Russian Federation, 101000 Moscow, 20 Myasnitskaya Str.; E-mail: alikhacheva@hse.ru

Hryhorii Kalachyhin — Research Assistant, Centre for Comprehensive European and International Studies of National Research University Higher School of Economics; Russian Federation, 101000 Moscow, 20 Myasnitskaya Str.; E-mail: gkalachigin@hse.ru

Abstract

Trade liberalization with Asian countries is a key issue on the agenda of Russia and the Eurasian Economic Union’s (EAEU) economic and trade connectivity with the Asia-Pacific region (APR). However, the signing of free trade agreements (FTAs) has traditionally been negatively perceived in both Russia and EAEU partner countries because of the extremely conservative prevailing trade policy. This study simulated the situation of full liberalization of Russian trade in goods with Rep. of Korea (here and after: Korea), Singapore, India, Japan and China to assess the risks of such agreements. The countries were selected on the basis of the current negotiating tracks of the EAEU and the analysis of Russian foreign trade with the APR countries. The simulation was performed using a partial equilibrium model built with the SMART software provided by the World Integrated Trade Solution.

The article highlights key product groups, increases in imports of which can be expected with a complete abolition of import duties by Russia (taking into account sensitive tariff lines). In addition, the authors conclude that in this case, imports of Indian and Korean products will increase by approximately 7.5%, and imports from Japan and Singapore, respectively, by 7% and 6.5% of the cost of imports from these countries in 2016. The simulation showed an 8% increase in imports from China, which in absolute terms exceeds the current level of trade with India and Singapore combined. This confirms the low probability of starting the FTA negotiations with China in short and medium term.

Key words: Russia; EAEU; Asia-Pacific Region; free trade agreements; imports; partial equilibrium model


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Introduction

The 21st century saw the centre of the world’s economic activity shift to the Asia-Pacific region (APR). This caused Russia to strive to become part of this new global economic hub. Analysts call the trend “Russia’s turn to the East”, set in motion by the establishment of the Ministry for the Development of Siberia and the Far East (later renamed to the Ministry for the Development of the Russian Far East), Russia’s preparations for hosting the Asia-Pacific Economic Cooperation (APEC) summit in Vladivostok in 2012, and by worsening relations with western countries and the ensuing Russia-West mutual sanctions.

At present, the Asia-Pacific region’s development model is changing from “Asia for the world” to “Asia for Asia” as shown by an increase in regional trade, investments and new value-added chains [Bordachev et al., 2015; Makarov, 2016]. Asia is currently a leader by regional and global trade volume. Regional trade exceeded 50% of the 2004 overall trade turnover [WTO, 2005] and continued to increase, reaching 57.3% in 2016 [ADB, 2017], except for the crisis years which is a trend characteristic of regionalization. The world trade slump in 2015 was worse than the decrease in regional trade; consequently, the latter’s share continued to grow [ITC, 2017].

Ongoing Asian integration notably does not require partial delegation of sovereignty and is aimed at liberalizing processes, for example within the scope of free trade agreements [Makarov, 2016]. The Association of Southeast Asian Nations (ASEAN) and its ASEAN+ cooperation plans can serve as an example. The next step is megaregional agreements such as the Regional Comprehensive Economic Partnership (RCEP) which do not envision supranational bodies and are aimed at closer and broader cooperation in different sectors. However, the arrangements to conclude such agreements take a rather long time, while the signing of finalized documents can be repeatedly postponed. For example, the conclusion of negotiations for the RCEP has been postponed to November 2018 due to a lack of consensus on all agenda issues [theSundaily, 2017].

Russia’s integration in the region will take considerable time; furthermore, the EAEU is committed to designing an integration agenda that should account for the positions of all members. As of today, there is a free trade agreement with Vietnam (effective since 5 October 2016) [EEC, 2016], a statement linking the EAEU and the Silk Road Economic Belt [President of Russia, 2015] and an emerging conceptual framework for a Greater Eurasia; these steps are made towards promoting Russia’s integration in the Asia-Pacific region as an EAEU member.

Though preferential trade agreements can deliver advantages, they can also aggravate certain risks. In this connection, a partial equilibrium model was used to assess the effect of trade liberalization with five Asian countries. Recommendations on Russia’s negotiating position were developed using the data obtained.

The present study is divided into four sections: the first is an overview of current negotiations over free trade agreements between the EAEU and APR countries; the
second reviews research papers and the method used to simulate full trade liberalization with the designated partners; the third section presents the results and the fourth offers conclusions and questions for discussion.

Overview of Research Papers

Dent’s study [2005] of free trade agreements in East Asia found that since the 1990s when economic agreements were largely concluded to remove existing trade barriers, the range of aspects they addressed expanded considerably by the beginning of the 21st century to include the regulation of online trade, intellectual property, labour force and other areas. This contributes to more comprehensive and effective integration between regional players which Russia needs as well.

Analysts across the world have assessed possible implications of signing free trade agreements. Izotov extrapolated the effects of free trade deals with New Zealand [2013a] and Vietnam [2013b]. He concluded that mutual cuts in tariffs would contribute to an increase in Russian imports, whereas exports would grow at the expense of other factors such as a larger investment presence in these countries. Izotov notes that the conclusion of FTAs is necessary for Russia’s successful integration in the Asia-Pacific region.

Mastel [2013] refers to U.S. practice to argue that the establishment of free trade zones can be used as a serious political mechanism to create solid groundwork for political and possibly military alliances (such as FTAs with Israel and Jordan).

Koo and Hong’s [2014] paper addressing Korea and Thailand trade policies concluded that Korea, despite its relative protectionism, is an active player in the FTA arena seeking to sign free trade agreements with the key world economic actors such as the U.S., ASEAN, China, the European Union, India and others.

Cheong [2007], in his assessment of the implications of the Korea-U.S. FTA cites five major advantages of this agreement as highlighted by Korea’s largest private research institute. These include improved competitiveness, better business regulation, development of policy guidelines for further integration in East Asia, increasing investment and support of the peace treaty implementation on the Korean peninsula. The author also points out that the countries which heavily rely on foreign trade should either join globalization processes through FTAs or be prepared for considerable alternative expenses.

It should be mentioned in this connection that the Eurasian Economic Commission (EEC) currently has a limited range of issues to discuss at trade talks, such as different barriers to goods [Ministry of Economic Development of the Russian Federation, 2014]. For effective integration, the EEC needs a broader mandate since the discussion of other agenda items between national government representatives at trade talks might delay the process.

Gosper [2017], who reviewed possible advantages of an FTA with the European Union for Australia, concluded that such an agreement brought a wealth of benefits not only on the bilateral track but also domestically and internationally, while noting that the signatories had to be prepared to neutralize certain risks.
Fukase and Martin [2016], in analysing the economic potential of an India-U.S. FTA pointed out that the deal might launch deeper liberalization of the countries’ trade regimes. They also concluded that the FTA would contribute to poverty reduction and an increase in the minimum wage in India.

The current objective is to assess the possible implications of trade liberalization, using partial equilibrium model. Izotov [2015] underscores that the general equilibrium model aims to study macroeconomic implications, whereas partial equilibrium helps identify the commodity groups showing major changes in imports or exports as a result of tariff policy adjustment. Furthermore, because experts note that the discrepancies in the partial and general equilibrium models are negligible, this study makes use only of the former.

Izotov notes in his paper that analysts often use partial equilibrium simulation to assess the implications for countries joining the World Trade Organization (WTO) or concluding agreements between themselves. To evaluate the risks for the Russian Federation related to the signing of FTAs between the EAEU and Asia-Pacific region countries, SMART software with a integrated partial equilibrium model provided by World Integrated Trade Solution [WITS] was applied. The analysis of research papers showed that the programme had been used to assess the implications of liberalization between the European Union and the Economic Community of West African States [Lang, 2008] and between the United States and Morocco [Jallab, Abdelmalki, Sandretto, 2007], as well as to evaluate the impact of the East African Community Customs Union on Uganda [Othieno, Shinyekwa, 2011].

Modelling Methodology

Using the SMART programme, the implications of full liberalization of trade in commodities (except for the designated sensitive EAEU positions based on the FTA with Vietnam) between the Russian Federation and five APR countries were analysed: Korea, Singapore, India, Japan and China. The analysis relies on 2016 data on tariff protection and two-way trade. As the objective is to assess the vulnerability of the Russian Federation, only the implications of tariff cuts by Russia and the risks of increase in imports are considered.

Ad valorem equivalents of nontariff measures (NTMs)\(^2\) have not been included because the prevailing share of NTMs does not belong to direct protection of the domestic market or because their conversion into percentage figures is not possible. As a rule, analysts use ad valorem equivalents of anti-dumping measures and quotas. The analysis of such measures, if implemented by Russia, shows that they are only applicable to certain chemical industry goods and meat products mostly listed as “sensitive” in the EAEU-Vietnam Free Trade Agreement, i.e. the protection of these positions is not provided for.

\(^2\) Interest duty rate.
The analysis of access to commodity markets employing a simulation is based on the following assumptions which are standard for SMART models:

- the Russian Federation immediately cancels its tariffs on all goods (except for the above-noted sensitive EAEU positions). Tariff cuts for each country are reviewed separately, not collectively;
- sensitive tariff lines include all those listed in the finalized EAEU-Vietnam FTA, i.e. the present analysis does not consider the simulated results for these tariff lines;
- cancellation of tariffs by Russia is only applicable to the selected countries, not to other states;
- price elasticity of the demand for imports is calculated by the SMART programme; and
- elasticity of exports and elasticity of substitution are assumed to amount to 99% and 1.5%, respectively.

An increase in the volume of imports is understood as a sum of trade diversion effect, trade creation effect and price effect. The outcome tables summarize the designated effects.

- **Trade Diversion Effect**: A decrease in the tariff on goods of Country A causes a decrease in their relative prices compared with Country B goods. The consumption of composite good has not changed, but imports from Country A increase causing a corresponding decrease in imports from Country B.
- **Trade Creation Effect**: A decrease in the import tariff on goods of Country A reduces their domestic price. Consequently, consumers with the same level of spending can purchase more goods imported from Country A. From the market point of view, trade diversion is neutral. It has no impact on overall volume of imports but provides for market share redistribution among export partners based on new relative prices. An increase in imports from the countries benefiting from tariff reduction is balanced by a decrease in imports from all other countries.
- **Price Effect**: This effect is only present on the assumption of export supply elasticity. It reflects an increase in the world price of a product as the demand for it grows in the wake of tariff reductions. While the trade diversion and creation effects reflect the impact on quantity, the price effect represents an added cost of imports due to world price increases.

**FTAs: Current Situation**

As of now, bilateral interaction is the basic track of the Eurasian Economic Commission’s activity in trade and economic cooperation with Asia-Pacific region countries.

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1 Composite good is a part of a consumer’s income spent on the purchase of all goods except the one under review.
2 In our simulation, the price effect always amounts to zero.
There are reasons to assume the EEC, at future FTA talks with APR countries having a similar balance of trade with EAEU members, will defend the same positions. This is because building consensus within the EEC is a demanding process which might inhibit new negotiations (based on the FTA with Vietnam).

At present, EAEU negotiations with Russia’s key APR countries are at various stages.

On 1 October 2017, the EAEU and China signed a joint statement on finishing the consultations on the Agreement on Trade and Economic Cooperation (TEC). Legal and technical editing of the text of the agreement and the required government processes to sign the document have to be carried out for the agreement to come into force [Gromsky, 2017]. It should be noted that the TEC agreement is not preferential as it will not cause a decrease in, or cancellation of, any tariff or nontariff measures, nor will it impact the solution of disputed issues or investment cooperation aspects. Despite the fact that it is viewed as a political rather than economic treaty, Russia is interested in it for the following reasons:

- release of domestic market operation data by China;
- elaboration of investment and cross-border cooperation mechanisms; and
- inclusion of Russian transport and logistics projects in a broader context of linking the EAEU and the Silk Road Economic Belt.

At the present time, consultations are ongoing with Korea over the possibility and expediency of concluding an FTA [EEC, 2016]. The agenda hinges on how far the parties can compromise on tariff reductions for sensitive products. In general, a decision to compromise is crucial in order to launch FTA negotiations.

As for possible negotiations with Japan, Russian President Vladimir Putin stated at the session of the Russian-Japanese business forum on 16 December 2016 that plans were in place “to discuss, at the expert level, the setting up of a free trade zone between the EAEU and Japan” [President of Russia, 2016]. However, the Eurasian Economic Commission has not yet announced the negotiations, which might be explained by the heavy workload of the seven ongoing FTA tracks with other countries.

The announcement of FTA talks with India was made at the Petersburg Economic Forum on 3 June 2017 [EEC, 2017]. Supposedly, trade regulation aspects, including customs administering, intellectual property rights protection, reduction of tariff and nontariff barriers in mutual trade, will top the agenda. The functioning joint group of experts will have new opportunities and the necessary authority to conduct further work to facilitate the launch of FTA negotiations. However, India is viewed as a difficult, inherently slow-paced negotiating partner, so significant headway on this track is unlikely in the near future.

The negotiations on signing a free trade agreement with Singapore are in the active phase and might be finished later this year [TASS, 2017]. The next meeting of the joint working group is due in the first half of 2018. The parties also plan to hold a business forum within the same period, to be arranged by the EEC jointly with the Russian-Singapore Business Council.
As of today, the EAEU only has an FTA agreement with Vietnam concluded in 2015; its full implementation will take another seven years [WTO, 2015]. In the medium term, the EAEU will be able to start trade liberalization talks with ASEAN if certain conditions are met.

The main objective of the EAEU-Vietnam FTA is to consolidate the parties’ mutual commitments on easier access of goods to their markets. By 2025, the average level of Vietnamese import duties on EAEU goods will decrease from 10% to 1%, while EAEU duties on Vietnamese products will drop to 2%. In certain cases, the duties will remain unchanged. It follows from the analysis that duties on more than 500 positions of Harmonized System (HS) 10-digit code will remain at the previous level.

Consequently, no major economic gains on a preferential basis can be expected from the EAEU trade and economic cooperation with APR countries over the short term. There are nevertheless reasons to expect more vigorous interaction between the EEC and Asian states and associations (such as ASEAN) on the trade liberalization track. A preliminary analysis will help assess the expediency of conducting such negotiations.

Analysis of Russian Imports and Simulation Results

This section briefly reviews the structure of Russia’s imports from each country and presents two conclusions based on the partial equilibrium model; namely it identifies the groups of products having the largest projected increase in imports and the subpositions which might be treated as sensitive in the course of negotiations (except for those selected in the EAEU-Vietnam FTA). Despite the fact that the simulation showed a significant increase in such subpositions as gear boxes, engines, bulldozers, tow trucks and tug boats and push boats, it depends not only on the national tariff protection level, but also on regional and transport policies and the companies using these goods in value-added production. In this connection, it might be expedient to raise the issues of APR countries’ investments in companies operating in the Russian territory, including the production of the designated goods or their use as spares. This might be effective in the Far East which is expanding the regime of the Free Port of Vladivostok for possible new opportunities to boost production capacity and car exports to third countries.

EAEU – People’s Republic of China Free Trade Agreement

In 2016, the Russian Federation imported products from China worth $38.1 billion. Machinery and equipment accounted for more than half of imports (approximately 53%) while the shares of other groups of imported goods were relatively the same (see Appendix 1).

Simulation results: The simulation showed that full trade liberalization between the EAEU and China will cause an increase in supplies of 89 HS 2-digit-level groups to the tune of $2.8 billion.
A considerable increase is also observed in value terms. An increase of over $100 million is expected for the following groups:

![Pie chart showing import increases](image)

**Fig. 1.** HS 2-Digit-Level Groups Having the Largest Increase in Imports From China ($ Millions)

**Source:** Compiled by authors based on simulation results

The increase for other 82 HS 2-digit-level groups ranges from $2,000 to more than $80 million.

The largest increase is projected for the following 6-digit HS groups (Table 1).

**Table 1.** Top Three Chinese Products by Increase in Imports if Russia Cancels All Duties

<table>
<thead>
<tr>
<th>HS</th>
<th>Name</th>
<th>Increase in Imports ($ Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>860900</td>
<td>Containers, including containers for the transport of fluids, specially designed and equipped for carriage by one or more modes of transport</td>
<td>109,652</td>
</tr>
<tr>
<td>871200</td>
<td>Bicycles and other cycles, including delivery tricycles, not motorized</td>
<td>79,201</td>
</tr>
<tr>
<td>950300</td>
<td>Tricycles, scooters, pedal cars and similar wheeled toys; doll carriages; dolls; other toys; reduced-size scale recreational models, working or not; puzzles of all kinds</td>
<td>77,629</td>
</tr>
</tbody>
</table>

**Source:** Compiled by authors using partial equilibrium model.

Conclusion: full trade liberalization between the EAEU and China will increase imports to the Russian Federation by $2.8 billion, which amounts to approximately 8% of 2016 imports. In value terms, the increase exceeds imports from India and Singapore.

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3 HS 2-digit-level groups: 85 — electric machinery and equipment and parts thereof; audio recording and playback equipment, video recording and playback equipment, parts and accessories, 84 — nuclear reactors, boilers, equipment, mechanical devices and parts thereof; 87 — ground transport except railway transport and trams, their parts and accessories; 39 — plastics and products thereof; 73 — ferrous metal products; 95 — toys, games and sport equipment; their parts and accessories; 86 — locomotives or tram engine cars, railway cars and parts thereof; equipment and fixtures for railways or tram tracks and their parts; mechanical (electromechanical) signalling equipment of all types.
put together and nearly equals the level of imports from Japan. Consequently, this effect at the present stage can be viewed as highly risky. Nevertheless, Russia is interested in export growth, and China is the most preferable trade partner, so there must be objective pros and cons assessment of EAEU-PRC FTA. In fact, EAEU doesn’t have enough experience in FTA negotiations. Moreover, it will be quite hard to start new negotiations until current ones are finished. This fact confirms the inexpediency of FTA talks with China in short and medium terms.

EAEU – Korea Free Trade Agreement

In 2016, the Russian Federation imported products worth approximately $5.11 billion from Korea. Advanced processing products account for more than half of imports, which is to be expected given the level of Korean industry (see Appendix 1).

Simulation results: The simulation showed that full liberalization of trade between the EAEU and Korea will cause an increase in imports of 85 HS 2-digit-level groups of products totalling some $381.4 million.

The largest increase in Russian Federation imports from Korea is expected for the following groups in value terms:

![Fig. 2. HS 2-Digit-Level Groups by Largest Increase in South Korean Imports ($ Millions)](image)

Source: Compiled by authors based on simulation results.\(^6\)

The increase for other 77 HS 2-digit-level groups ranges between less than several thousand dollars and more than $16 million.

For 6-digit HS groups, the largest increase is expected for the groups “other distillates and petroleum products” and “tankers” ($45 million and $20 million, respectively).

\(^6\) HS 2-digit-level groups: 84 – nuclear reactors, boilers, mechanical devices and parts thereof; 27 – mineral fuel, oil and petroleum products; bituminous substances, mineral wax; 85 – electric machinery, equipment and parts thereof; audio recording and playback equipment, video recording and playback equipment, parts and accessories; 39 – plastics and products thereof, 87 – ground transport except railway cars or trams, parts and accessories; 72 – ferrous metals, 89 – vessels, boats and floating structures.
Conclusion: in case of full trade liberalization (accounting for the designated sensitive positions) between the Russian Federation and Korea under the EAEU-Korea FTA, imports will increase by nearly 7.5%. The largest increase in imports is projected for the products that already have a prevailing share in the present-day structure of Russian imports. When building its negotiating position, it is recommended that the EEC raise the issue of adding petroleum products, mechanical devices and internal combustion engines, electric equipment and products of metallurgy to the list of sensitive goods.

EAEU – Japan Free Trade Agreement

In 2016, the Russian Federation imported from Japan products worth $6.68 billion. Transport equipment accounted for more than half of imports (51%) and machinery and equipment accounted for 25% (See Appendix 1).

Simulation results: The simulation showed that full trade liberalization between the EAEU and Japan will boost the deliveries of 84 HS 2-digit-level groups totalling some $381 million.

In value terms, the largest increase is expected for the following groups:

![Fig. 3. HS 2-Digit-Level Groups Having the Largest Increase in Japanese Imports ($ Millions)](image)

Source: Compiled by authors based on simulation results.

The increase ranges from less than several thousand dollars to more than $15 million for other 78 2-digit HS groups.

The largest increase at the 6-digit HS level was for women’s and children’s hygiene products (+$59 million) and petroleum products (+$35 million).

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7 HS 2-digit-level groups: 96 – miscellaneous finished goods; 84 – nuclear reactors, boilers, equipment, mechanical devices and parts thereof; 87 – ground transport except railway cars or trams, their parts and accessories; 27 – mineral fuel, oil and petroleum products; bituminous substances, mineral wax; 85 – electric machinery, equipment and parts thereof; audio recording and playback equipment, video recording and playback equipment, parts and accessories; 40 – resin, rubber and products thereof.
Conclusion: full liberalization of trade between the Russian Federation and Japan in the EAEU-Japan free trade agreement will cause an increase of approximately 7% in imports. The products that already dominate the present-day structure of imports will post the largest increase in imports. When building its negotiating position, it is recommended that the EEC raise the issue of adding petroleum products, internal combustion engines, ground transport and electric equipment to the list of sensitive goods.

EAEU – India Free Trade Agreement

In 2016, the Russian Federation imported products worth some $2.4 billion from India. Imports from that country (see Appendix 1), unlike imports from other countries in question, are noted for the large share of foodstuffs (more than 25%) but the leading position is taken by chemical industry products (some 33%).

Simulation results: The simulation showed that full trade liberalization between the EAEU and India will boost the deliveries of 79 HS 2-digit-level groups worth $182.7 million.

Of the 79 2-digit HS groups, the largest increase in Russian imports in percentage terms is expected for the following groups:

![Fig. 4. HS 2-Digit-Level Groups Having the Largest Increase in Imports From India ($ Millions)](source)

Source: Compiled by authors based on simulation results.

The increase ranges from less than several thousand dollars to more than $6 million for other 73 2-digit HS commodity groups.

Cattle hides and tobacco posted the largest increase in value terms at the 6-digit HS level ($17.5 and $10 million, respectively).

Conclusion: full liberalization of trade (accounting for the designated sensitive positions) between the Russian Federation and India under a free trade agreement will in-
crease imports by more than 7.5%. Chemical products that account for a considerable share in the present-day structure of imports will post the largest increase. When building its negotiating position, it is recommended that the EEC raise the issue of adding pharmaceuticals, meat subproducts and other foodstuffs to the list of sensitive goods.

EAEU – Singapore Free Trade Agreement

In 2016, the Russian Federation imported from Singapore products worth $495.9 million. Machinery and equipment accounted for about 44% of imports and chemical industry products for about 22%.

Simulation results: The simulation showed that full trade liberalization between the EAEU and Singapore will boost the supplies of 61 HS 2-digit-level groups totalling $32.7 million.

In value terms, the largest increase is expected for the following groups:

Fig. 5. HS 2-Digit-Level Groups Having the Largest Increase in Imports From Singapore ($ Millions)

Source: Compiled by authors based on simulation results.

The increase for other 55 HS 2-digit-level groups ranges from less than $1,000 to more than $2 million.

The largest increase at the 6-digit HS level is projected for the following items (Table 2).

Conclusions: Full trade liberalization (accounting for the designated sensitive positions) between the Russian Federation and Singapore in the EAEU-Singapore free trade agreement will increase imports by approximately 6.5%. The largest increase in imports is projected for the products having a significant share in the present-day structure of Russian imports. When building its negotiating position, it is recommended that

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9 HS 2-digit-level groups: 85 – electric machinery, equipment and parts thereof; audio recording and playback equipment, video recording and playback equipment, parts and accessories; 27 – mineral fuel, oil and petroleum products; bituminous substances, mineral wax; 39 – plastics and products thereof; 73 – ferrous metal products; 90 – instruments and optical devices, picture cameras, cinematographic equipment, measuring, control, precision, medical or surgical instruments, parts and accessories; cocoa and products thereof.
the EEC insist on adding petroleum, metallurgy and chemical industry products to the list of sensitive goods.

Table 2. Top Five Singapore Products by Increase in Imports if Russia Cancels all Duties

<table>
<thead>
<tr>
<th>HS</th>
<th>Name</th>
<th>Increase in Imports ($ Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>271019</td>
<td>Other distillates and petroleum products</td>
<td>4,881</td>
</tr>
<tr>
<td>390230</td>
<td>Polypropylene copolymers</td>
<td>3,133</td>
</tr>
<tr>
<td>852691</td>
<td>Radio navigational aid apparatus</td>
<td>2,925</td>
</tr>
<tr>
<td>180400</td>
<td>Cocoa butter, cocoa fat</td>
<td>2,197</td>
</tr>
<tr>
<td>730799</td>
<td>Tube or pipe fittings, of iron or steel (excluding cast iron or stainless steel products; flanges; threaded elbows, bends and sleeves; butt welding fittings)</td>
<td>2,161</td>
</tr>
</tbody>
</table>

Source: Compiled by authors using partial equilibrium model.

Conclusions and Recommendations

In the short term, there is a possibility that Russia can only conclude an FTA with Singapore; the start of negotiations with India would be a benchmark, but given India’s negotiating style one cannot expect much progress in the near future. Efforts should be made toward starting negotiations with Korea and beginning the assessment of the possibility to conclude an FTA with Japan. Though China is Russia’s key partner in the Asia-Pacific region, concluding a FTA with it is not real in short and medium terms due to number of reasons; however, a nonpreferential trade agreement is due to be signed in the near future to benefit bilateral interaction.

The simulation showed a less than 10% increase in bilateral trade from the current import figures; however, this increase mostly appears in certain commodity groups. The results help to identify the tariff lines on which the customs rate should either remain at the level of most favoured nation or decrease gradually to secure support of the domestic market. These commodities usually comprise petroleum products, machinery and equipment.

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Appendix 1. Product Structure of Russian Imports from People Republic of China, Korea, Japan, India, Singapore in 2016

<table>
<thead>
<tr>
<th>HS Code</th>
<th>Product Label</th>
<th>Import from PRC,</th>
<th>Import from Korea,</th>
<th>Import from Japan,</th>
<th>Import from India,</th>
<th>Import from Singapore,</th>
</tr>
</thead>
<tbody>
<tr>
<td>01–24</td>
<td>Food and agricultural raw materials (except for textile)</td>
<td>4.30</td>
<td>2.00</td>
<td>0.40</td>
<td>25.80</td>
<td>4.40</td>
</tr>
<tr>
<td>25–26</td>
<td>Mineral products</td>
<td>0.10</td>
<td>0.10</td>
<td>&lt;0.1</td>
<td>0.60</td>
<td>&lt;0.1</td>
</tr>
<tr>
<td>27</td>
<td>Fuel and energy goods</td>
<td>0.10</td>
<td>1.30</td>
<td>0.80</td>
<td>0.30</td>
<td>3.00</td>
</tr>
<tr>
<td>28–40</td>
<td>Products of the chemical industry, rubber</td>
<td>9.40</td>
<td>15.60</td>
<td>11.30</td>
<td>32.60</td>
<td>21.50</td>
</tr>
<tr>
<td>41–43</td>
<td>Tanning raw materials, furs and articles thereof</td>
<td>1.00</td>
<td>0.10</td>
<td>&lt;0.1</td>
<td>1.70</td>
<td>&lt;0.1</td>
</tr>
<tr>
<td>44–49</td>
<td>Wood and pulp and paper products</td>
<td>1.00</td>
<td>0.80</td>
<td>0.20</td>
<td>0.20</td>
<td>0.10</td>
</tr>
<tr>
<td>50–67</td>
<td>Textiles and footwear</td>
<td>11.40</td>
<td>1.90</td>
<td>1.20</td>
<td>13.70</td>
<td>&lt;0.1</td>
</tr>
<tr>
<td>71</td>
<td>Precious stones, metals and articles thereof</td>
<td>0.20</td>
<td>&lt;0.1</td>
<td>&lt;0.1</td>
<td>0.20</td>
<td>&lt;0.1</td>
</tr>
<tr>
<td>72–83</td>
<td>Metals and articles thereof</td>
<td>6.70</td>
<td>8.30</td>
<td>2.70</td>
<td>5.30</td>
<td>5.60</td>
</tr>
<tr>
<td>84–85</td>
<td>Machinery and equipment</td>
<td>52.90</td>
<td>34.40</td>
<td>24.60</td>
<td>12.40</td>
<td>43.50</td>
</tr>
<tr>
<td>86–89</td>
<td>Vehicles</td>
<td>3.80</td>
<td>29.40</td>
<td>51.40</td>
<td>3.60</td>
<td>10.20</td>
</tr>
<tr>
<td>90–92</td>
<td>Technical instruments and equipment</td>
<td>2.20</td>
<td>2.80%</td>
<td>4.20</td>
<td>1.00</td>
<td>11.60</td>
</tr>
<tr>
<td>68–70, 93–97, 99</td>
<td>Other products</td>
<td>6.80</td>
<td>3.40</td>
<td>3.30</td>
<td>2.70</td>
<td>0.10</td>
</tr>
</tbody>
</table>
Оценка рисков либерализации торговли товарами со странами Азии в рамках российской политики поворота на Восток

А.Б. Лихачева, Г.М. Калачигин

Вопрос либерализации торговли со странами АТР – один из ключевых в повестке интеграции России и ЕАЭС в торгово-экономические связи в АТР. Однако заключение соглашений о зоне свободной торговли традиционно не воспринималось как в России, так и в странах – партнерах ЕАЭС в силу превалирующей крайне консервативной торговой политики. Для оценки рисков таких соглашений было проведено исследование, моделирующее ситуацию полной либерализации торговли товарами России с Республикой Корея, Сингапуром, Индией, Японией и Китаем. Страны были выбраны на основе текущих переговорных треков ЕАЭС и анализа российской внешней торговли со странами АТР. Моделирование производилось с помощью модели частичного равновесия, встроенной в программу SMART, которая предоставляет World Integrated Trade Solution. В работе выделяются ключевые товарные группы, увеличение импорта которых можно ожидать при полной отмене тарифных пошлин с российской стороны (с учетом чувствительных тарифных линий).

Кроме того, авторы приходят к выводу, что в таком случае импорт индийской и корейской продукции увеличится примерно на 7,5%, японской – на 7%, сингапурской – на 6,5% от стоимости импорта из данных стран в 2016 г. Моделирование показало увеличение импорта китайской продукции на 8%, однако в абсолютном выражении данный прирост превышает текущий уровень торговли с Индией и Сингапуром вместе взятыми, что подтверждает низкую вероятность запуска переговоров о зоне свободной торговли (ЗСТ) с Китаем в краткосрочном перикоде.

Ключевые слова: Россия; АТР; либерализация; зоны свободной торговли; импорт; модель частичного равновесия


Источники


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ЕВРАЗИЙСКАЯ ПОВЕСТКА СОТРУДНИЧЕСТВА


Security Institutions in Greater Eurasia: Implications for Russia

A. Korolev, V. Shumkova

Abstract

In this article, the authors analyze the current state and prospects for the development of key institutions in the field of regional security in Eurasia. ASEAN-led mechanisms and the Eurasian “continental” formats, represented by the Shanghai Cooperation Organization (SCO) and the Collective Security Treaty Organization (CSTO) have been chosen as a case-study.

Special focus is put on the possibility of connecting Russia with multilateral security initiatives in Eurasia in terms of promoting Russian strategic interests, as well as realizing the potential of the SCO as a structural pillar of the emerging geostrategic space — Greater Eurasia.

The authors conclude that the current state of regional institutions in the field of security does not fully correspond to Russia’s interests due to the institutional limitations of multilateral formats.

According to the authors, the main reason why the ASEAN-led dialogue platforms on security issues are not able to realize its potential in addressing main challenges is the nature of the principles of ASEAN cooperation that hamper the process of making a collective decision.

Regarding the SCO, the authors believe that the key problem in the foreseeable future may be the achievement of consensus among the participating states after the enlargement (the accession of India and Pakistan) and, as a consequence, the need to transform the institutional format to new realities.

In conclusion, the authors argue that in the long-term perspective the development of the institutional environment of Greater Eurasia for the purpose of ensuring regional security should be carried out through close coordination between the SCO and other security formats — the CSTO and the ASEAN-led dialogue structures.

Key words: Greater Eurasia; Russia; SCO; CSTO; ASEAN; EAS; ARF

Greater Eurasia is a place where the interests of not only great, but also medium and minor powers clash. South Asia faces a number of lingering political and ethno-confessional conflicts and disputes among major countries in the region, coupled with the growing threat to all regional powers from nonstate actors, specifically radical Islamic structures. Deepening contradictions between India and China are taking centre stage as they are critical for the development of India’s military capabilities. In addition to the territorial conflict in Tibet, the two countries are creating additional pockets of tension by getting involved in conflicts in the Maldives and Sri Lanka.

India, which is seeking recognition of its great power status, is actively advancing the concept of an Indo-Pacific region which is essentially anti-Chinese in nature.

Apart from purely intraregional rifts, there is another problem, namely the rapid internationalization of the South China Sea as the United States and Japan – which are not directly involved in the territorial conflict – have become engaged in its resolution. With Donald Trump in the White House, the standoff at sea between China and the U.S. has reached a new level. While a direct armed conflict between the two countries was considered practically impossible several years ago, a local armed clash between them has become more probable, giving experts new food for thought.

Finally, another serious challenge in Greater Eurasia is the spread of nontraditional security threats such as cyberattacks, piracy in the Strait of Malacca, and illegal drug, nuclear arms and technology trafficking. All these factors may prod countries into building up their military-technical potential and gradually modernizing their navies. This in turn may further increase regional tension.

Coupled with nontraditional security challenges, the growing competition between the U.S. and China in Greater Eurasia (which has become more explicit and systemic after Donald Trump’s election) is spurring demand for multilateral institutions and an active and less dependent arbiter and security supplier. This creates an additional “window of opportunity” for Russia to expand its influence in multilateral institutions in Eurasia.

Key Security Institutions and Formats in Greater Eurasia

While there is an abundance of economic regulatory institutions and formats, a developed and inclusive institutional environment is clearly lacking in the field of security. There are two main types of security in Greater Eurasia. The first group includes formats developing around the Association of Southeast Nations (ASEAN), the East Asia Summit (EAS), the ASEAN Regional Forum (ARF) and others. The second group consists of Eurasian formats that we can tentatively call “continental,” represented by the Shanghai Cooperation Organisation (SCO) and the Collective Security Treaty Organization (CSTO).

It is assumed that the institutional environment for a comprehensive partnership should also incorporate ASEAN-based formats [President of Russia, 2017]. However, at present most of the ASEAN+ security formats are focused on the Asia-Pacific Region (APR), while some include the U.S. and other Pacific states. It is necessary to find
out whether these formats can be effectively fitted into the integration process evolving within the comprehensive Eurasian partnership. Multilateral dialogues actively promoted by ASEAN — the EAS, ARF and the expanded ASEAN Defense Ministers’ Meeting (ADMM-Plus) platform for ASEAN and its eight dialogue partners — are of great importance. New regional security trends have had a major impact on the ability of ASEAN-centric security dialogues to achieve their goals and objectives. A big part of their agenda has been implemented only partially or not at all. The ARF, the EAS and the ADMM-Plus have been successful in specific areas but have made little progress on strategic issues.

For example, the territorial conflict in the South China Sea has been addressed within ASEAN-centric dialogues many times but no significant results have been achieved. Little has been done in practical terms to resolve the issue since the Declaration on the Conduct of Parties in the South China Sea was signed in 2002. In the fall of 2011, ASEAN countries decided to start drafting a code that could subsequently provide the basis for negotiations with China [Lokshin, 2013, p. 29]. However, this work was suspended in 2012 after the protest of Cambodia, president of ASEAN at the time. Since then the parties have repeatedly reaffirmed their desire to work out and sign a legally binding code as soon as possible (for example, at the 18th ASEAN-China Summit in November 2015), but no firm steps have been taken over the past 15 years to resolve the issue. Since China objects to discussion of the sensitive South China Sea issue in ASEAN-centric dialogue formats, one can assume that ASEAN structures simply do not have enough resources to settle the issue.

The main conclusion arising out of the aforementioned discussion is that ASEAN’s key cooperation and conflict resolution principles cannot effectively settle some of the major disagreements in the region. This suggests that there is only a limited ability for ASEAN-centric formats which operate on the basis of these principles to reduce the level of conflict in the region.

In our opinion, the main reason ASEAN-centric security formats cannot fully use their potential to achieve their goals is the nature of the principles of cooperation within ASEAN. The principle of consensus appears to be the biggest problem. Some researchers insist that it limits possibilities for cooperation [Mikhnevich, 2016, p. 114]. Abortive attempts by the ASEAN foreign ministers to adopt a joint communiqué at their meeting in 2012 clearly show how the principle of consensus can thwart the adoption of constructive decisions. The ministers failed to come to an agreement because Cambodia insisted on revising the preliminary text of the Declaration on the Conduct of Parties in the South China Sea to delete references to China’s activities off Vietnam’s exclusive economic zone and the Scarborough Shoal, thus predictably raising objections from the Philippines and Vietnam [Thayer, 2013, p. 78]. Cambodia, acting under strong pressure from China (in 2012 China was its main importer), used the principle of consensus to block the adoption of the final document. This was an unprecedented event in the history of ASEAN.

On the whole, this shows how easily one can use this principle to manipulate the agenda and the decision-making process. It is the principle of consensus that allows
China to prevent discussion of issues related to territorial disputes in the South China Sea in ASEAN-centric formats.

The principle of consensus is also a major obstacle in the work of multilateral ASEAN-centric security formats because it requires all parties participating in the discussion, even those that are not directly involved in the matters being discussed, to be in agreement. This creates a situation in which countries with no direct interest in a conflict can influence the process by invoking the principle of consensus.

Although ASEAN-centric multilateral formats are presented as the main mechanisms for resolving security issues in the Asia-Pacific region, there is much doubt about their effectiveness because of the ASEAN consensus-building method. On the one hand, the proposed ASEAN principles of cooperation as fundamental guidelines for the operation of ASEAN-centric platforms mean comfortable participation of states, free from pressure from other parties. On the other hand, these principles can significantly impede work and make it less effective.

There are many indications that the development of security cooperation in Greater Eurasia can give a new strong impetus to the ARF, the EAS and the ADMM-Plus. First, it is obvious that the rapidly increasing economic cooperation in such a large area should be backed up by structures that can ensure safe implementation of economic projects. ASEAN-centric multilateral formats appear to be the best fit for this role as they incorporate many countries already engaged in European projects, and have well-functioning mechanisms for communication, summitry and joint seminars, as well as channels for exchanging information, expertise and specialists. On the other hand, protection of economic initiatives can make these formats more cohesive as most of their participants pursue a common goal of promoting regional development. This will make members more interested in the effective work of the ARF, the EAS and the ADMM-Plus and allow them to carry out necessary reforms.

Second, engagement in Eurasia will enable ASEAN-centric multilateral formats to expand and develop their cooperation agenda so that, by dealing with common security threats, states will be able to reach a new level of trust, notwithstanding subregional disagreements. International terrorism, which affects all Eurasian states in one way or another, is one such common threat. Since the terrorist threat is global and no one country can deal with it alone, one can assume that all states should be more than interested in coordinating their counterterrorist activities. Russia’s Foreign Policy Concept says that the fight against terrorism requires effective and systemic joint work between countries and the international community [Ministry of Foreign Affairs of Russia, 2016]. The ASEAN Political Security Community Blueprint covering a period of up to 2025 also puts emphasis on stronger cooperation between states and regions in order to fight terrorism [ASEAN, 2015, p. 35]. The agenda of ASEAN-centric formats includes counterterrorist cooperation, but this cooperation can be effective only if it is extended to the whole of Eurasia. In our opinion, ASEAN-centric multilateral formats should conduct the fight against terrorism in Eurasia through active cooperation with the SCO and the CSTO.
On the whole, objective processes accompanying the development of ASEAN dialogue formats suggest that effective work to ensure security in Greater Eurasia will require the engagement of ASEAN-centric structures in the comprehensive economic partnership, at a minimum. ASEAN can be very helpful in strengthening the institutional environment in the region if it engages with the Eurasian Economic Union and the SCO. Naturally, its work in these organizations will not be very effective at the initial stage due to the specific nature of their negotiating processes, but its engagement will be the first step towards developing a concrete security agenda for the region.

The Shanghai Cooperation Organisation, unlike ASEAN+ formats, is not overburdened with external participants (primarily the U.S.) and can most likely provide the main institutional framework for the security system in Greater Eurasia. SCO enlargement can both create new challenges and open up opportunities to strengthen its role as a key security institution in Greater Eurasia.

After admitting India and Pakistan at its 17th summit in Astana on 8–9 June 2017, the SCO has transformed itself into an organization that includes four nuclear states, two major economies and almost half of the world’s population. This allows some experts to speak of a “Shanghai Group of Eight” as a Eurasian alternative to the West’s Group of Seven [Cherian, 2017]. A broader membership strengthens the SCO’s authority, making it the only organization that has sufficient potential to become the backbone of the security architecture in Greater Eurasia.

The development of the SCO’s potential is very important for building a stable institutional space in Greater Eurasia. Considering growing security threats in the region, primarily nontraditional ones such as international terrorism, cyberattacks and information warfare, continuing and effective cooperation in this area is crucial for maintaining stability in the region. This is borne out by the statement on joint counteraction to international terrorism [SCO Secretariat, 2017] and the Convention on Countering Extremism [SCO Secretariat, 2017] signed at the latest SCO summit, both of which aim to strengthen the Organisation’s counterterrorism agenda.

But the SCO is experiencing a number of structural problems which restrict its further development.

First, reaching a consensus among members after enlargement may be a potential problem. On the one hand, the admission of India and Pakistan has boosted its potential significantly as a key security institution in Eurasia. In fact, a broader membership gives the Organisation more opportunities to act in such areas as counterterrorism, cooperation on Afghanistan or the fight against organized crime and drug trafficking. It can also prompt an agenda for “hard” security or at least its substantive discussion, especially in light of the conflicts between some of the members.

The approval of the new SCO admission rules in 2015 and the accession of India and Pakistan create new opportunities for further enlargement and admission of new regional players. In their discussions on the summit’s sidelines, SCO leaders talked about a possible admission of Iran [Reuters, 2017], which would make the SCO an important player in the conflict-ridden Middle East. While earlier this was impossible due
to the formal admission criteria (a candidate country could not be under UN Security Council sanctions), the international community started to lift sanctions on Iran as of early 2016 and all obstacles may be removed in the foreseeable future.

On the other hand, a broader SCO membership has increased disagreements within the Organisation (including old ones between India and China and between India and Pakistan). India and China are locked in territorial disputes with each other and continue their fierce competition for influence in South Asia. India supports China’s opponents in its dispute over the South China Sea. There are other lingering territorial disputes between Uzbekistan and Kyrgyzstan (almost a quarter of their shared border has not been delimited) and between Uzbekistan and Tajikistan (about 20% of the border between them remains undelimited), which provoke incidents on their borders.

There is no consensus among the “old members” — key SCO countries — on which areas of cooperation need to be developed. Unlike Russia, China believes that priority should be given not only to military and political aspects but also to economic considerations. In 2010, China pushed for the creation of an SCO development bank, raising unambiguous doubts in Russia. Moscow then suggested reorganizing the Eurasian Development Bank into a SCO development bank, a proposal that received little support, particularly from China [Denisov, Safranchuk, 2016].

This explains China’s uneven interest towards the Organisation. Officially, China has always spoken of its importance, but expert assessments varied. China’s doubts about the SCO stem from the fact that the country has largely redirected its activities in the region towards the One Belt, One Road initiative. It is not clear whether China will be interested in creating a SCO development bank since similar structures, such as the Asian Infrastructure Investment Bank or the New Development Bank established by the BRICS grouping of Brazil, Russia, India, China and South Africa, have already been created for much the same purposes.

The second fundamental problem in the development of the SCO is its broad agenda stemming from differences among the national agendas of its members including not only security issues but also economic cooperation and some general political issues. This limits the SCO’s potential as a security institution, “diluting” the agenda of responding to regional stability threats. At the same time, some members, primarily China, are trying to strengthen the Organisation’s economic focus, which can further distract its attention from security problems in the future.

In their Astana Declaration signed at the summit on 8–9 June 2017, the SCO leaders reaffirmed their commitment to creating a SCO development bank promoted by China, and enhancing energy, transport and investment cooperation [SCO Secretariat, 2017]. A statement for the press [SCO Secretariat, 2017] issued after a meeting of the Heads of State Council called for further expert consultations on the creation of a SCO development bank and a development fund intended to provide financial support to joint infrastructure projects, improve transport cooperation, create multimodal logistics centres and introduce information technologies. Russia is also using the SCO to advance its economic agenda. During the summit, Russian President Vladimir Pu-
tin stressed the importance of coordinated efforts to interlink integration projects in Eurasia by combining the potential of the EAEU, the SCO, ASEAN and China’s One Belt, One Road initiative [President of Russia, 2017]. But it is the development of the economic agenda within the SCO which is changing the SCO from a security institution into a more universal organization which runs the risk of becoming a “dormant” body without a clear-cut agenda.

Possible Ways to Build a Comprehensive Eurasian Partnership

As far as Russia’s security interests are concerned, it would be advisable to engage in dialogue with foreign partners on three tracks.

First, in the years to come Russia should pool efforts with China and other members in order to work out a consolidating agenda for the SCO. Priority should be given to fighting international terrorism, political and religious extremism, ensuring security in Afghanistan and preventing its complete collapse.

Strengthening the institutional dimension of the SCO is also important for drawing up its practice-oriented agenda. It would be advisable to introduce the practice of monitoring missions (similarly to the OSCE) as a way to expand the Organisation’s scope of activities. Such missions could be authorized to work on the Tajik-Afghan border and possibly in other “hot spots.” The work of such missions could be instrumental in “freezing” local conflicts.

Second, it would be advisable to keep expanding the Organisation, first by admitting Iran. The very logic of the SCO’s central role as the main security institution in Greater Eurasia suggests its further enlargement even though this may impair its efficiency in the short and medium-term [Karaganov, 2017]. The absence of Iran as a full-fledged member of the SCO runs counter to the logic of a pan-Eurasian security system given Iran’s geopolitical importance in fighting terrorism and facilitating a settlement in the Middle East. Its admission all by itself (unlike that of India and Pakistan) will not provoke discontent in the Organisation as Iran has no major disagreements with any of the members. Moreover, its admission as a full member of the SCO will certainly not weaken the Organisation (due to enlargement) but on the contrary could make its work even more effective. In fact, Iran’s accession to the SCO will automatically make the fight against terrorism a central uniting issue on the Organisation’s agenda, helping to consolidate its members’ efforts against ISIS and other terrorist groups.

Third, Russia should work to shift the SCO’s focus to security by ridding the Organisation of economic formats and initiatives. Enhancing its economic dimension, as actively proposed by China, would be unadvisable. This would dilute its agenda and transform it from an institution of political cooperation and security into a universal organization without a clear role in the institutional system of Greater Eurasia.

Further, a stronger emphasis on economic aspects would overburden the Eurasian space with economic formats. It would be sensible to pursue only those economic objectives which are closely related to security issues and can benefit Russia. These may
include facilitating economic development in Afghanistan and engaging it in transportation and logistics projects within Greater Eurasia, as well as coordinating India’s and Pakistan’s efforts in Belt and Road projects.

Fourth, strengthening the SCO’s economic agenda may weaken the EAEU as a central institution in Greater Eurasia’s economic space, the creation of which serves Russia’s interests. Filling the SCO’s agenda with economic issues, let alone strengthening its institutional framework (for example by creating a SCO bank actively promoted by China) may divert at least some of the issues from the EAEU’s dialogue formats with third countries into the SCO format.

Fifth, it would be advisable to develop cooperation between the SCO and another key security structure in Greater Eurasia – the CSTO. Although the latter organization is more local than the SCO in terms of security, it should also be regarded as one of the important security institutions in Greater Eurasia. In fact, it is the only security institution in the region where Russia plays an uncontested leading role.

The main structural weakness of the CSTO as a security institution in Greater Eurasia is its poorly developed external contacts and bilateral and multilateral cooperation formats (primarily with the SCO). It would, therefore, be advisable to create and advance external dialogue formats and partnerships between the CSTO and other countries and the SCO in the field of security.

Another important security factor in Greater Eurasia is the coordination of efforts between Russia and ASEAN-centric multilateral formats. From this point of view, the Eurasian process serves the interests of both sides as it allows the SCO to assert itself as a regional security leader and coordinator and breathe a new life into the ARF, the EAS and the ADMM-Plus. This will provide countries in the region with reliable communication channels to respond to growing international threats, primarily terrorism, which is one of the focal points in Russia’s foreign policy strategy. Second, one could assume that well-functioning mechanisms to support economic partnership in the region will encourage East Asian countries, primarily ASEAN, to step up their economic cooperation with Russia. This will boost investment in projects in Siberia and Russia’s Far East.

In practical terms, it would be advisable to establish cooperation between the ASEAN and SCO antiterrorist agencies, including joint exercises and exchange of information and coordination between the ASEAN-Russia Joint Working Group on Counter-Terrorism and Transnational Crime, the ADMM-Plus Experts’ Working Group on Counter-Terrorism and the SCO Regional Anti-Terrorist Structure, with a focus on fighting terrorism and extremism.

Active cooperation with Russia may also help reduce food security threats in the region. Extensive arable land and huge reserves of fresh water in Siberia and the Far East can potentially augment cooperation between Russia and ASEAN [Bordachev et al., 2017]. According to the analytical report “Towards the Great Ocean–2” prepared by the Valdai International Discussion Club, Siberia and Russia’s Far East account for 16% of the world’s fresh water reserves [Makarov et al., 2014, p. 45]. This is an advantage that can be used to eliminate the shortage of fresh water in the Asia-Pacific region,
which in turn may smooth over disagreements over the use of water from the Mekong River, for example. But cooperation in this area should not be viewed as literal trade in water through the construction of pipelines, for this would be costly both economically and environmentally. A. Likhacheva and I. Makarov suggest developing “virtual water” cooperation instead, meaning production processes that require large amounts of water (for example, food, pulp and paper, chemical fibers, non-ferrous metals) [Makarov et al., 2016, p. 266]. Moreover, Russia has large areas of arable land (about 9% of the world’s reserves according to the World Food and Agriculture Organization) [FAO]. This may provide the basis for creating a joint grain fund to be used in the event of possible natural disasters that could destroy crops in the Asia-Pacific region.

Finally, another important advantage of the Eurasian vector is that a shift of transportation trade routes towards the centre of Eurasia as part of the proposed initiatives may make the South China Sea less strategically important and thus help settle the territorial dispute [Kanaev, 2016, p. 315].

In conclusion, coordination between key regional security formats appears to be a necessary element not only for addressing various security problems in the Asia-Pacific region but also for taking concrete steps to build a political agenda for a comprehensive Eurasian partnership.

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Political processes in Greater Eurasia are creating an objective demand for advancement and institutionalization of multilateral security cooperation. In the medium and long-term, integration of key security formats in the region such as the SCO, the CSTO and ASEAN-centric platforms (the EAS, the ARF and the ADMM-Plus) will have the greatest potential for implementing the comprehensive Eurasian partnership project and pursuing Russia’s strategic interests in the most effective way as part of its pivot to the East.

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Политические институты Большой Евразии: выводы для России

А.С. Королев, В.А. Шумкова

В настоящей статье авторы анализируют сегодняшнее состояние и перспективы развития ключевых институтов в сфере обеспечения региональной безопасности в Евразии. В качестве кейсов в работе выбраны асиеаноцентрические механизмы и евразийские, «континентальные» форматы, представленные Шанхайской организацией сотрудничества (ШОС) и Организацией Договора о коллективной безопасности (ОДКБ).

Особый акцент в работе делается на возможности подключения России к многосторонним инициативам в сфере безопасности в Евразии с точки зрения продвижения стратегических интересов Москвы, а также реализации потенциала ШОС в качестве структурной опоры зарождающегося геостратегического пространства – Большой Евразии.

Авторы приходят к следующему выводу: нынешнее состояние региональных институтов в области безопасности не в полной мере соответствует российским интересам, что вызвано институциональной ограниченностью многосторонних форматов.

В частности, по мнению авторов, основной причиной, не позволяющей асиеаноцентричным диалоговым площадкам по вопросам безопасности реализовать свой потенциал в решении поставленных задач, является характер принципов сотрудничества АСЕАН, затрудняющих процесс принятия коллективного решения.

Применительно к ШОС авторы считают, что ключевой проблемой в обозримом будущем может стать достижение консенсуса между государствами-участниками после расширения формата (присоединения Индии и Пакистана) и, как следствие, необходимость трансформации институционального формата под новые реалии.

Авторы приходят к выводу, что в долгосрочной перспективе развитие институциональной среды Большой Евразии с точки зрения обеспечения региональной безопасности целесообразно осуществлять путем тесной координации между ШОС и другими форматами безопасности – ОДКБ и асиеаноцентричными площадками.

Ключевые слова: Большая Евразия; Россия; ШОС; ОДКБ; АСЕАН; ВАС; АРФ


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Development of Multilateral Economic Institutions in Greater Eurasia: Problems, Prospects and Implications for Russia

D. Novikov

Dmitry Novikov — Deputy Head, International Laboratory for World Order Studies and the New Regionalism, Researcher, Center for Comprehensive European and International Studies, National Research University Higher School of Economics; 17 Malaya Ordynka Str., 119017, Moscow, Russian Federation; E-mail: dp.novikov@hse.ru

Abstract

In this paper, the author analyzes the current state and prospects of integration associations and formats of multilateral cooperation in terms of implementing the initiative of the Comprehensive Eurasian Partnership. The paper examines the role of this initiative as an instrument of Russian policy and assesses its potential for strengthening international cooperation in Eurasia. In particular, the possibilities of harmonizing key projects and initiatives within the framework of the idea of co-development of the continent’s states are analyzed. In particular, the authors study the possibility of harmonizing key projects and initiatives within the framework of the idea of continental states co-development “Greater Eurasia.” The paper also explores the potential of the largest multilateral formats in Eurasia, both in the economic sphere — Regional Comprehensive Economic Partnership (RCEP), “One Belt, One Road” (OBOR), Eurasian Economic Union (EAEU).

A special focus is put on the possibility of connecting Russia to integration projects and security initiatives in Eurasia in terms of advancing its strategic interests, as well as realizing the potential of EAEU as a structural pillar of “Greater Eurasia” institutional environment.

The author comes to the conclusion that the current state of regional institutions, both in the economic and security spheres, does not fully correspond to Russia’s interests. In the economic sphere, “Greater Eurasia” is experiencing institutional congestion, caused by the existence of a number of parallel developing integration initiatives and mechanisms for economic cooperation.

Proceeding from this, it is concluded that the strengthening of the Union as the institutional core of Greater Eurasia is one of the key factors in the formation of a balanced normative mega space.

Key words: Greater Eurasia; Russia; EAEU; OBOR; ASEAN; RCEP; international politics

Problem Setting: 
Geopolitical Meaning of Greater Eurasian Partnership

In recent years, Eurasia witnessed the emergence of large megaregional initiatives by the leading powers of the continent. The Obama administration made the first effort to formulate a strategy for development of transport and logistics networks across Central Asia and Russia to Europe under the Great Silk Road historic brand, putting forward the concept of the “New Silk Road.” However, because this worked mainly to ensure that the needs of the international coalition in Afghanistan were met, it was only a limited success. China is also developing initiatives aiming to unify regional efforts in the sphere of infrastructure construction — the One Belt, One Road Initiative. Japan has similar plans, and in 2015 Shinzo Abe’s cabinet initiated the “Partnership for Quality Infrastructure” [Ministry of Foreign Affairs of Japan, 2015]. In November 2017 another American initiative, the “Free and Secure Indo-Pacific Region” was put forward at the East Asian summit. The idea has already become firmly entrenched in the official vocabulary of American diplomacy and probably will soon be filled with political and economic content.

The announcement of initiatives with a huge geographic coverage but lacking a clear, informative agenda can be considered a phenomenon of contemporary international politics. A distinctive feature of these initiatives is their “umbrella” nature, aimed at providing a conceptual and sometimes institutional basis for a variety of projects, agendas and initiatives, and their further development in accordance with the goals and perceptions of the initiating state. At the moment, almost every leading power in Eurasia has a flagship “umbrella” initiative which acts not only as a tool of foreign policy, but also as a kind of indicator of a state’s status.

Russian President Vladimir Putin’s 2016 proposal, put forward with the aim to form a Comprehensive Eurasian Partnership (CEP, also known as the Greater Eurasian Partnership) has become one of Russia’s largest initiatives on the Asian track of its foreign policy over the past few years.\(^2\) In his speech, the Russian leader proposed the “creation of a broader integration circuit” “with the participation of the Eurasian Economic Union, as well as such close economic partners as China, India, Pakistan, Iran and CIS member-countries and other interested states and associations” [TASS, 2016].

China, the largest Asian economy and one of the leading political players on the continent, threw its weight behind this initiative. During the visit of the Russian president to the People’s Republic of China in June 2016, the two leaders proclaimed in their final statement the desire of Moscow and Beijing to develop initiatives in the field of regional integration. In particular, they pointed out that the parties “emphasize the paramount importance they attach to the implementation of the Russian-Chinese agreement on cooperation in pairing the Eurasian Economic Union (EEA) and the

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\(^2\) In this article the term Greater Eurasia is used in relation to the geopolitical space of a hypothetical Comprehensive Eurasian Partnership. The term is accepted for use in a number of works devoted to international policy problems in Eurasia, including the outlook for a CEP.
Silk Road Economic Belt, put on record in the relevant Joint Statement of May 8, 2015.” At the same time, the statement also stressed a corresponding formula reflecting the Russian initiative proposed a few days earlier: “Russia and China press for creating a Eurasian comprehensive partnership based on the principles of openness, transparency and respect for mutual interests, including the possible involvement of EEA, SCO and ASEAN member-countries” [President of Russia, 2016].

However, despite the fact that this initiative was put forward almost two years ago and met with support from China – the natural centre of attraction for many Asian countries – its practical content is still in the discussion phase and requires concrete content for further implementation. The formula initially chosen was a characteristic reflection of this. At first no proper name was assigned to the newly established “partnership.” A less binding, uncapitalized wording – Eurasian comprehensive partnership – was preferably used. At the end of 2016, the initiative’s name began to be capitalized officially. While summing up the main foreign policy outcomes of 2016 Russian Foreign Minister Sergey Lavrov referred to the project as the Comprehensive Eurasian Partnership [Lavrov, 2016]. However, this lent no specifics to the initiative’s agenda – for many experts and policymakers the CEP still remains a “black box” with an agenda and final goals that remain unclear.

This article offers a theoretical reflection and evaluation of the role and potential of the Comprehensive Eurasian Partnership as Russia’s umbrella megainitiative in Eurasia. Some practical recommendations regarding Greater Eurasia’s likely future will also be proposed below. The author considers these recommendations to be an invitation to further discussion, which will help determine the role, place and significance of the initiative for international politics in Eurasia and Russia’s foreign policy.

Theoretical Framework

In academic literature there has developed a stable opinion — reflected both in liberal theories and concepts, as well as in many works by authors professing the tradition of realism — that the creation and development of institutions helps strengthen the international system by promoting trust between states [Nye, 1971; Gilpin, 1983], or by stabilizing the distribution of forces and statuses within international hierarchies [Waltz, 1979; Ikenberry, 2001]. Particular attention is paid to the role of institutions and norms in developing economic interdependence. It allows scholars to consider the role of almost any institutional construction as generally positive for strengthening political and economic ties between states.

However, in practice, institutions do not always mean that interstate contradictions can be overcome or that (primarily economic) transaction costs are reduced. The rapid development of various multilateral fora and institutions in Eurasia over the past two decades currently serves rather as a source of international tensions. The key powers actively use regional initiatives to stabilize their local environment by actively weakening global institutions. In particular, such a policy is typical for regional players who
claim to be independent centres of power under the conditions of a relative erosion of the U.S. global predominance and the liberal global order [Krickovic, 2016]. However, in the context of growing competition between major regional powers, the institutions and fora they offer are often perceived by their opponents as hostile. Recently, researchers have been debating the phenomenon of “institutional weapons,” whereby states use the promotion of institutions as a tool of geopolitical struggle [Leonard, 2016].

This problem seems extremely urgent taking into account the multiplicity of institutional fora and initiatives developed in the Eurasian space, resulting in the so-called “bowl of noodles.” The emergence of a large number of multilateral fora, often built around certain regions and regional groupings, contributes to the political and institutional separation of Eurasia. In the context of economic cooperation, the existence of many regionalisms gives a rise to “forum shopping” — the tendency of states to select from among various agendas to solve international problems, forms of regulation and normative spaces, while duplicating the various fora of discussion and regulation of the same issues [Drezner, 2008]. By analogy with “forum shopping,” referring predominantly to the competition of normative spaces in Eurasia, one can also speak of “regionalism shopping” — the competition of agendas for the creation of such normative spaces and in a broader sense, competition of concepts and agendas of regional integration.

The emergence of megaregional economic agreements, which have marked policies of the leading regional powers in the last decade, has become a stimulus for “regionalism shopping.” The Obama administration’s efforts to promote the Trans-Pacific Partnership (TPP) and the development of the Regional Comprehensive Economic Partnership (RCEP) have exacerbated competition both around the future direction of integration processes (the Asian or Pacific tracks) and the struggle for the shape of the future norms of trade and investments regulation [Gordon, 2012]. Each of these projects was declared as to be aimed at overcoming “regionalism shopping” and to unify the normative space in Eurasia or the Asia-Pacific region, respectively. However, implementation of this goal depends on signing economic and trade agreements. As a result, these initiatives inevitably created clashes of interest among the participating states, which weakened the potential of these projects as instruments for strengthening international cooperation. Moreover, different standards of trade regulation and the lack of legitimate arbitration in some cases could increase transaction costs of trade between various markets, sometimes entering several agreements at once [Busch, 2007]. At the moment, none of the megaregional partnerships mentioned above has been implemented.

Apparently, less structured “umbrella” projects ease this contradiction, on one hand, by masking the selfish aims of the initiator country, which are otherwise easily revealed if the project’s agenda is clearly defined from the outset, and on the other — which is probably more important — by offering a far more flexible forum of cooperation that enables partners to have a greater say in institution-building efforts. The generation of “umbrella” initiatives — geopolitical and geoeconomic — covering large
A substantive agenda for such initiatives is formed in the process of implementation, often with institutional component. Such is the case with the Belt and Road Forum, where experts, business community representatives, officials and political leaders discuss both general issues and concrete projects. At the same time, the example of the One Belt One Road (OBOR) demonstrates that such “umbrella megainitiatives” retain a high degree of flexibility after several years of existence in order to absorb new initiatives and quickly adapt to political changes. In particular, the Chinese initiative has already been “rebranded” several times and expanded to almost 70 participating states. The initiative became a framework for hundreds of projects implemented by China on a largely bilateral basis.

The main institutional resource of the CEP is the Eurasian Economic Union (EAEU), which is able to act as a supplier of norms, standards and practices. This approach reflects the position of the Russian leadership – in all speeches of Russian officials on this initiative, the emphasis is on using the EAEU and strengthening its cooperation with other countries and multilateral formats.

**Economic Formats in the Space of Greater Eurasia and Russia’s Interests**

The nature and dynamics of multilateral initiatives in the Greater Eurasian space largely reflect objective economic processes, primarily the regionalization of economic relations and the formation of the Asian economic centre, which requires an institutional environment matching the economic needs. As one of the world’s booming regions, Asia is a leader in terms of internal and foreign trade turnover. The share of intraregional trade has long exceeded 50% of the total trade turnover and it grows continuously, except during crisis years, which is a trend that is characteristic of most of the world’s macroregions [Asian Economic Integration Report, 2017]. According to the report the share of intraregional trade increased from 51% in 2010 to 57.3% in 2016. The dynamics of trade in Asian countries is shown in Fig. 1.

The regionalization of world trade could not but lead to the regionalization of its regulation and result in the emergence of a large variety of formats of political and economic cooperation, geared to shaping the institutional superstructure of the ongoing macroeconomic processes. On the one hand, this is seen in the active establishment of bilateral free trade zones. In the Asia-Pacific region alone, there are more than 75 free trade agreements (FTAs), most them intra-Asian. On the other hand, many multilateral initiatives often involving a large number of extraregional actors have cropped up. As a result, Greater Eurasia at present sees the “noodle bowl effect” – a plurality of intertwined economic cooperation fora, quite often having very vague agendas.

Such a motley institutional landscape is a serious obstacle to the building of a joint economic space within the Greater Eurasia framework. In recent years, the leading
countries — Russia, China and the U.S. (which seeks active participation in all regional processes) — have offered their own agendas for transforming the institutional environment toward greater unification, and this has determined the three main vectors along which the megaregion’s institutional environment will develop.

Fig. 1. Dynamics of Intra and Extraregional Trade in Asia ($ Billions)

Source: [Trade Statistics for International Business Development].

U.S. initiatives have been and remain aimed at drawing the Asian economic pole into the greater Pacific space, and various institutional initiatives are being formed in the Asia-Pacific region both in the economic and security spheres under U.S. leadership. The main economic initiatives along these lines until just recently were the Free Trade Area of the Asia-Pacific (FTAAP), which includes all Asia-Pacific Economic Cooperation (APEC) members, and the slightly narrower Trans-Pacific Partnership (TPP). Both initiatives were promoted by the Republican administration under George W. Bush and the Democratic administration of Barack Obama.

With Donald Trump’s rise to power both the TPP and the idea of the FTAAP were suspended, possibly only for a while. However, the policy of drawing Asian states into a U.S.-centric geoeconomic space is likely to go on, probably through the promotion of bilateral FTAs. Renewed efforts to promote new (or old) multilateral integration initiatives will also be possible. The desire of the current U.S. administration to resume the policy of actively developing multilateral economic initiatives, especially the FTA, manifested itself well enough in the latest attempt to assert U.S. leadership at the Davos Economic Forum, which is reason enough to say the U.S. may get back to TPP talks [Donnan & Sevastopulo, 2018]. At the same time, the agreement among 11 TPP states on a trade agreement without the U.S. — the Comprehensive and Progressive Agreement for Trans-Pacific Partnership — means that Washington’s return to the project would be fraught with difficulty [Fensom, 2018]. Without the U.S., this initiative has far less geoeconomic muscle and attractiveness.

Given the stagnation on the Pacific track, in the long term one may expect the emergence of two centres of integration attraction within the Greater Eurasian space:
the Russia-led EAEU and the Association of Southeast Asian Nations (ASEAN), with its proposed Regional Comprehensive Economic Partnership (RCEP) for which both ASEAN and China are pressing.

The RCEP initiative is not a full-fledged integration association yet. It remains a project for an extensive free trade zone without a supranational superstructure, open to applicants. Nevertheless, it is precisely the RCEP that is most consistent with the Asian countries’ objective integration requirements, since its focus on “building up links” fits well with the objective trend toward a new model of socioeconomic development in the Asia-Pacific region (Asian Trade Center, 2017). At the same time, the lack of consensus among the main participants over the reduction of tariff duties on various groups of goods remains a key problem at the RCEP talks. India’s reluctance to compromise is noteworthy. It seeks a much smaller reduction in tariffs (80% of the product lines for developing countries and 75% for the developed countries), while other RCEP members suggest tariff reductions for 92% of commodity lines [The Economic Times, 2017]. In addition, India demands access to the investment and services markets. In particular, India insists on special business visas that would facilitate trips within the RCEP countries for business people [Times of India, 2017]. It is noteworthy that after the U.S. withdrawal from the TPP agreement in January 2017, RCEP negotiations were expected to accelerate, but lower competitive pressure on the RCEP had the reverse effect. A number of political, technical and economic disagreements have already resulted in repeated postponement of the agreement’s conclusion. At the moment, the parties concerned intend to complete the negotiations in November 2018, but, according to officials, there is no guarantee that it will happen this year [New Straits Times, 2018].

The Comprehensive Eurasian partnership differs considerably from a number of other partnerships initiated in recent years, such as the Transatlantic trade and investment and Trans-Pacific partnerships actively pursued by the Obama administration, as well as the RCEP emerging around the ASEAN. These projects from the very beginning had specific and clearly declared goals – the conclusion of multilateral trade and economic agreements – and well-defined agendas formed around the negotiations on the terms of the agreement. The goal of the Russian initiative, in the broadest terms, was to act as a conceptual “umbrella” for other initiatives and projects. Relatively abstract agendas as well as the breadth of coverage contribute to the achievement of this goal, and position Greater Eurasia as a Russian megainitiative.

For a long time, Russia’s agenda concentrated primarily on the development of its own integration project – the promotion of Eurasian integration, the Eurasian Economic Union being the main institutional element. In recent years, the EAEU states launched the process of plugging the Union into external integration and economic initiatives, in particular through the pairing of the EAEU-Silk Road Economic Belt (SREB) and the signing of an agreement on trade and economic cooperation between the parties on 1 October 2017, the intensification of cooperation with ASEAN within the ASEAN-Shanghai Cooperation Organisation (SCO)-EAEU format, and negotiations on the establishment of a free trade zone with foreign partners.
Even though efforts to deepen cooperation with external partners have been stepped up, the EAEU is still in the catch-up phase of research into the opportunities for concluding bilateral FTAs (EAEU + partner country). At the same time, while the portfolio of applications for creating FTAs is significant (about 40) and a number of negotiations are underway, it should be noted that the EAEU does not have a clear strategy for implementing external integration initiatives. The Commission rather reacts to the existing opportunities rather than developing its own proactive policy. Moreover, the Union still lacks tools for involving external players in various partnerships (association agreements, other partnership formats) [Bordachev, Skriba, Kazakova, 2016, p. 35]. At this moment, the external integration formats for cooperation are confined to FTAs. This largely stems from the following economic and technical circumstances [Karaganov, 2017, pp. 37–38]:

− ultraconservative trade policies by EAEU countries;
− a greater emphasis on internal integration and development “in depth,” rather than “in breadth;”
− disagreement among EAEU countries, which complicates both the formation of a consolidated stance at trade negotiations with foreign partners and the shaping of a long-term development strategy for the whole Union; and
− underdevelopment of the EAEU’s system of external relations and the generally limited resources the Eurasian Economic Commission (EEC) has available to expand the negotiation agenda.

Russia’s involvement in integration processes in Eurasia is still insufficient, despite the fact that in recent years the level and depth of Russia’s participation in key multilateral institutions in Greater Eurasia has increased. The relatively small involvement of the EAEU in regulatory and institutional activities in Asia is a brake on the enhancement of the role of the Union as one of the institutional pillars of Greater Eurasia. For the time being, the EAEU is focused mainly on its own development — on improving internal technical standards and working out arrangements for the EEC and other institutions, while paying insufficient attention to systematically promoting partnerships in the EAEU+ format.

It has to be stated that despite the successes of Russia’s turn eastward Russia and the EAEU still lack effective instruments to influence trade and investment rules in Asia and do not fully know and understand them. At the moment, the key negotiating platform for the development of such rules is the RCEP, which involves 16 Asian countries, including China, India, Japan and ASEAN countries. Russia is not involved in the process of establishing economic regulatory institutions, while the Asian development centre, in view of the unfavourable relations with the West, should be considered the greatest external incentive for the EAEU and Russia in their development [Karaganov, 2017].

In these conditions, the promotion of the Comprehensive Eurasian Partnership should be interpreted as an attempt to overcome the plurality of institutions and formats of cooperation and to take advantage of the hitch in creating the RCEP by con-
ducting a dialogue on broader rules governing the megaregion’s economic affairs. The purpose of this initiative is to beef up Russia’s relatively weak influence on the institutional and regulatory environment in Greater Eurasia. A successful combination of these two goals is theoretically possible only through cooperation between the EAEU and the other centre that governs the development of the institutional environment, as represented by the ASEAN and ASEAN+ formats, primarily the RCEP. However, the format of relations between the EAEU and the RCEP largely depends on the likely role and place of the ASEAN+ security formats.

Possible Ways of Implementing the Comprehensive Eurasian Partnership

The current configuration of institutional formats and links, and the degree of Russia’s involvement in their development, are not yet fully in line with Russia’s interests. Russia is interested in a Greater Eurasian space where Russia and the EAEU would take centre stage. The current state of integration formats and interstate organizations limits the chances of achieving this goal for a number of reasons. The key one is the existence of two (even three, if the EU is to be counted) institutionally separated integration centres in Greater Eurasia, which in itself contradicts the logic of creating a single space for sustainable development “from St. Petersburg to Singapore,” and in the longer term “from Lisbon to Singapore” [Karaganov, 2016, p. 6]. In order to realize this goal, the EAEU and the RCEP (should the latter be established) will have to enter into a dialogue to overcome institutional barriers and establish more or less uniform rules of trade and economic activity.

At the same time, the EAEU’s direct involvement into RCEP’s development is expedient but premature. First, the very process of involving the EAEU in negotiations as a participant in its own right has a number of technical and political limitations. The negotiating format, which includes 16 states, is already considered by many participants to be rather cumbersome. The accession the EAEU, an alliance of six states, to the negotiations will likely be considered undesirable by the RCEP participants. Another almost insurmountable formal and technical restriction is that participation in the RCEP implies the existence of a free trade zone with ASEAN. For now, the EAEU has an FTA with Vietnam only.

Second, even the hypothetical possibility of the EAEU joining the RCEP would mean that the integration processes in Greater Eurasia will turn RCEP-centric, and in fact, Sino-centric. The EAEU as a new participant will have to deal with the already established negotiation base and the framework of rules and conditions by which the yet-to-be established association will abide. At the same time, China and the other states of the association will get the advantage in determining the rules of economic affairs in the Asia-Pacific region and Eurasia, including the dialogue with Russia and the EAEU.

In this regard, the format of the EAEU-RCEP interface, as a more flexible form of cooperation, appears to be optimal for strengthening Russia’s influence on integra-
tion processes in Asia. The pairing of initiatives should be aimed at creating formats for long-term cooperation to coordinate the rules of trade and investment activities within the regulatory spaces of the EAEU and the RCEP. First, this cooperation should focus on lowering the institutional barriers to tapping the potential of the EAEU as a transport, logistic and (to an ever-greater degree) production link between the RCEP and European Union (EU). It should also aim to create conditions for exporting certain EAEU norms and practices and spreading them within the RCEP space.

The basis for pairing the EAEU and the RCEP can be drawn from the already-accumulated experience of political and economic relations with the key state of the Asian integration centre — China — and the potential of trade and economic cooperation agreements with Beijing. This format can be used as one of the platforms for promoting the initiative.

It is important that within the framework of cooperation in Greater Eurasia the ties between Russia and ASEAN become stronger. Previously, the Association did not view Russia as an influential player on its ASEAN-centric security-related platforms, gauging influence from the standpoint of economic development. Now, the situation has begun to change. The 2016 Russia-ASEAN summit in Sochi offers strong evidence in favour of this view. That meeting was unprecedented in the history of ASEAN’s relations with its dialogue partners, as it was the first summit that the Association agreed to hold on the territory of a dialogue partner. Formally, ASEAN’S first “away” summit with a dialogue partner was in the U.S. in February 2016, but an agreement on a similar meeting in Russia had been concluded earlier [Kosyrev, 2016].

In this regard, it makes sense to raise the question of creating a high-level EAEU-RCEP dialogue format, thus enhancing political cooperation between the two multilateral economic centres of Greater Eurasia. For the time being, truly integrational mega-associations are hardly possible or even desirable. But even the predominantly political dialogue with RCEP partners will increase the role of the EAEU in Eurasia and help acquire experience and expertise.

In parallel, it is feasible to develop direct and wide EAEU-ASEAN cooperation (in addition to the initiative of pairing the RCEP and the EAEU), especially in view of ASEAN’s soaring interest in such a partnership in recent years [Russia Today, 2017]. At a minimum, this cooperation can occur in a dialogue format, at the level of regular meetings of EAEU trade ministers and ministers of the EEC and ASEAN states and by forming expert groups to develop strategies for interaction between the two integration formats. Probably, to propel political cooperation to a higher level it makes sense to transform the Russia-ASEAN format to EAEU-ASEAN and hold meetings more often (at least every two years). At the same time, the emergence of the EAEU-ASEAN track does not mean the Russia-ASEAN dialogue formats will be abandoned. These should be developed further. The content of these formats should be determined by the distribution of competencies within the EAEU and ASEAN.

More ambitiously, it is advisable to work for a dialogue on the “integration of integrations” between the EAEU and ASEAN with a view to achieving an FTA between
the two in the foreseeable future. The more so, since according to official statements, the Association is ready to seriously consider the issue of concluding a full-scale FTA with the EAEU [Russia Today, 2016]. At the same time, it is important to bear in mind that the EAEU already has experience concluding similar agreements with ASEAN members. In 2015, an FTA with Vietnam was signed which entered into force in 2016. Currently the EEC is engaged in active negotiations with Singapore. According to Russian officials, an agreement between the EAEU and Singapore will be concluded in 2018, a symbolic gesture because this year marks the 50th anniversary of diplomatic relations between Singapore and Russia, and further because 2018 is the year of Singapore’s presidency of ASEAN [TASS, 2017]. In addition, the EEC is actively working on the possibility of entering into negotiations on bilateral FTAs with other RCEP partners: Korea and India. Further expansion of the network of FTAs with RCEP members should become part of the overall EAEU-RCEP pairing strategy. Possibly, the long-term prospect of achieving a single Eurasian economic space will to a large extent allow the EAEU to play the role of a connecting element.

Achieving this goal will require strengthening the role of the EEC and increasing the Commission’s level of expertise and administrative resources. One of the tools to enhance the EEC’s effectiveness as an agent for the promotion of Russian interests in Greater Eurasia is the elaboration of an EAEU external economic policy concept, which would include a clear strategy for external integration initiatives.

It will be expedient to form the strategy for the implementation of Comprehensive Eurasian Partnership initiative as a whole around the task of strengthening the EAEU as one of the major institutional cornerstones of Greater Eurasia. Whether the further development of Greater Eurasia’s institutional environment proceeds in a way that is favourable for Russia depends on the implementation of the EAEU’s potential as an instrument to advance the interests of Russia and its allies. In this format, the implementation of the Comprehensive Eurasian Partnership initiative will be positive for the other participants in the international system of continental Eurasia.

References


Большое евразийское партнерство: возможное региональное влияние и интересы России

Д.П. Новиков

Новиков Дмитрий Павлович — к.полит.н., заместитель заведующего Международной лаборатории исследований мирового порядка и нового регионализма, научный сотрудник Центра комплексных европейских и международных исследований (ЦКЕМИ) Национального исследовательского университета «Высшая школа экономики»; Российская Федерация, 119017, Москва, ул. Малая Ордынка, д. 17; E-mail: dp.novikov@hse.ru

В данной статье анализируется текущее состояние и перспективы интеграционных объединений и форматов многостороннего экономического сотрудничества с точки зрения реализации инициативы Всеобъемлющего евразийского партнерства. Рассматривается роль этой инициативы как инструмента российской политики и дается оценка ее потенциалу для укрепления международного сотрудничества в Евразии.

В частности, анализируются возможности гармонизации ключевых проектов и инициатив в рамках идеи соразвития государств континента. В работе изучается потенциал крупнейших многосторонних форматов в Евразии как в экономической сфере — Всеобъемлющего регионального экономического партнерства (ВРЭП), инициативы «Один пояс, один путь» (ОПОП), Евразийского экономического союза (ЕАЭС) и др.

Особый акцент в работе делается на возможности подключения России к многосторонним экономическим проектам в Евразии с точки зрения продвижения стратегических интересов, а также реализации потенциала ЕАЭС.

Делается вывод, что нынешнее состояние региональных экономических институтов не в полной мере соответствует российским интересам. В экономической сфере Большой Евразии наблюдается институциональная перегруженность, вызванная существованием ряда параллельно развивающихся интеграционных инициатив и механизмов экономического сотрудничества. Усиление ЕАЭС как институционального ядра Большой Евразии может стать основой для формирования сбалансированного нормативного мегапространства. Однако относительно небольшой совокупный экономический потенциал государств — участников Союза не позволяет ЕАЭС быть крупнейшим экономическим полюсом и ведущим центром развития многосторонних институтов в Большой Евразии. Автор предполагает, что выходом из этого противоречия могло бы стать развитие Всеобъемлющего евразийского партнерства в сторону сопряжения ЕАЭС и ВРЭП — крупнейшего формата выработки правил международной экономической жизни в Азии как с целью обеспечения российских интересов, так и для укрепления международного сотрудничества.

Ключевые слова: Большая Евразия; Россия; ЕАЭС; АСЕАН; ВРЭП, международные институты


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ЕВРАЗИЙСКАЯ ПОВЕСТКА СОТРУДНИЧЕСТВА


Building a Common Eurasian Infrastructure:
Agenda for the Eurasian Economic Union

A. Likhacheva, I. Makarov, A. Pestich

Anastasia Likhacheva — PhD, Deputy Director, Center for Comprehensive European and International Studies, National Research University Higher School of Economics; 20 Myasnitskaya Str., Moscow, 101000, Russian Federation; E-mail: alikhacheva@hse.ru

Igor Makarov — PhD, Associate Professor, National Research University Higher School of Economics; 20 Myasnitskaya Str., Moscow, 101000, Russian Federation; E-mail: imakarov@hse.ru

Aleksandr Pestich — engineer, regional analysis and political geography research laboratory, Faculty of Geography, Lomonosov Moscow State University; 1 Leninskie Gory, Moscow, 119991, Russian Federation; E-mail: apestich@hse.ru

Abstract

The paper focuses on the development trends of the transport infrastructure of Eurasia in the context of the economic and political integration of the countries on the continent. Leading states of the Asia-Pacific region (APR) made proposals on large-scale infrastructure projects in the Eurasian space after financial crisis 2008–2009. Russia is extremely interested in integrating into these initiatives, but faces a number of difficulties. Some of them are connected with the peculiarities of regulation of transport issues within the framework of the Eurasian Economic Union.

The article analyzes Russia’s current infrastructure development dialogue with the APR states, including the initiative of coordination of the Eurasian Economic Union and the Silk Road Economic Belt. The authors examine main Eurasian infrastructure projects interesting for complex EEU infrastructure development as well as the main challenges and opportunities for Russia arising in the framework of the interaction of the EEU and the APR countries in the field of infrastructure.

The authors conclude that integration of Russia into Eurasian transport and logistics initiatives requires the coordination of the transport agenda with trade and investment regulation. This coordination suggests close cooperation with the Eurasian Economic Commission, and in the long term — even the transfer of competencies related to the development of the EAEU infrastructure agenda to the supranational level.

Key words: Russia; Eurasia; infrastructure; conjugation; EEU; transport


Introduction

After the global financial crisis of 2008–2009, all major Asian countries initiated or supported large-scale infrastructure projects in Eurasia. For example, the Association of

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Southeast Asian Nations (ASEAN) made great efforts to promote a concept of "building up mutual ties" within the Association and as part of a Regional Comprehensive Economic Partnership (RCEP) project [Kimura, 2010; Lewis, 2013]. In October 2013, Korea officially presented its Eurasia initiative [KIEP, 2013]. India began to position itself as a continental power and promote the idea of a trans-Eurasian North-South International Transport Corridor [KIEP, 2013]. Finally, in 2013, China inaugurated its ambitious initiatives – the Silk Road Economic Belt and the Maritime Silk Road, which were later united into one mega-initiative – the Belt and Road [Wang, 2016].

Russia is also interested in participating in the Eurasian international transport agenda through various institutions and agencies. First, several initiatives are now discussed at the bilateral level, primarily projects for the development of cross-border transport corridors between Russia and China [Zuyenko, 2017], between Kazakhstan and China [Abdullayev et al., 2016] and at the trilateral level between Russia, North Korea and Korea [Lee, 2017]. Second, the transport agenda is partly the responsibility of the Eurasian Economic Commission (EEC), since it is the body that is responsible for implementing the EAEU-SREB integration [Skribka, 2016; Makarov, Sokolova, 2016]. Third, the Eurasian Development Bank (EDB), which is both an investor and coordinator of investments from other development institutions for infrastructure projects in the EAEU, is very proactive [TASS, 2016]. Finally, some projects are implemented within the framework of direct cooperation between EAEU countries and international development institutions such as the World Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, and others.

Today, the transport agenda in relations between the EAEU and Asia-Pacific countries is present only in negotiations with China. In the future, it will develop the framework of negotiations for free trade agreements (FTAs) with Singapore regarding the regulation of transport services. From a strategic point of view, it is the interaction between the EAEU and countries of the region that is a key track for implementing the Eurasian transport agenda. The main reason is that the EEC is the only player that can in the future represent a consolidated position of the EAEU countries on three principal issues – trade, investment and infrastructure.

The key obstacle to the development of such a dialogue is the EAEU’s lack of the necessary level of authority to form an all-Union transport agenda with third countries. Moreover, even the implementation of elements of the common transport policy within the Union sometimes leads to strong disagreement between its members, primarily Russia and Kazakhstan. To date, the EAEU transport agenda is not linked to the trade and investment agendas, and they are not even discussed as interrelated. The EAEU has still not discussed how the liberalization of trade can help ensure the profitability of infrastructure projects, although this issue has a direct bearing on ensuring stable regional integration.

This article analyzes existing Eurasian infrastructure projects and suggests mechanisms that can help the EAEU increase its participation in these projects. The following paragraphs discuss the main transport initiatives implemented in Central and East Asia which are of potential interest for forming an integrated infrastructure agenda for

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the EAEU. This is followed by an analysis of prospects for the development of air transport in Eurasia. The article concludes with the discussion of the main challenges in the transport and logistics sphere that Russia faces in the framework of dialogue between the Eurasian Economic Commission and its partners, as well as recommendations on how to improve the work of Eurasian institutions in this field.

Transport Initiatives in Central Eurasia

The Silk Road Economic Belt is the main component of the development of infrastructure in Central Eurasia. The SREB is a common name for several infrastructure, energy and other projects planned or already implemented in the central part of the Eurasian continent with the participation of China. Since Xi Jinping first mentioned the Silk Road Economic Belt initiative in his speech in Astana in 2013, China’s views on a common Eurasian infrastructure have been revised several times. At first, the SREB and the 21st Century Maritime Silk Route were united into the One Belt One Road initiative, and later it was changed to the Belt and Road initiative. However, the SREB still does not have any practical content. Many commentators, following a natural analogy with the ancient Silk Road, interpret the SREB’s goal as creating new routes for the supply of Asian goods to Europe. In 2014 when Xi Jinping announced China’s readiness to invest $40 billion in the Silk Road Fund for the SREB, he also proclaimed the goal of building and modernizing transport infrastructure to increase trade with Europe [Hong, 2017].

Not surprisingly, most of the discussions about the SREB compare various routes from Asia to Europe. Most experts say that the most realistic option is the supply of goods from Western China via Kazakhstan and then across Russia and via Moscow to the border with the European Union. This route has been already functioning: since 2011, container trains have been regularly delivering Hewlett-Packard monitors and laptops from Chongqing (China) to Duisburg (Germany). Beginning in 2012, trains go about once a week between Chengdu (China) and Lodz (Poland) along the Trans-Siberian Railway. In 2013, the Jinghe-Khorgos-Zhetygen railway was finally opened, which reduced the time of cargo delivery from Chongqing to Duisburg to 15 days. However, using this route on a broader scale will require significant investment in infrastructure modernization [Makarov, Sokolova, 2016].

One of the options for the development of this route is the construction of a high-speed line along it. In October 2014, Chinese investors said they were ready to invest in the construction of a Moscow-Kazan high-speed railway under the condition it was extended to Beijing. Russian Railways has been actively promoting this corridor under the brand “Eurasia High-Speed Railway,” which is planned to link Berlin, Moscow and Beijing. However, many experts doubt the profitability of transporting cargo and passengers such large distances along a high-speed railway. Even conventional rail freight services are more expensive than delivery by sea, and passenger rail services are hardly competitive in comparison with air services [Karaganov et al., 2015].
The construction of the Moscow-Kazan leg of the railway is still at the approval stage. In June 2016, China reiterated its readiness to invest at least $8 billion in it, and shortly thereafter, a consortium of German companies expressed the desire to participate in the financing. The Russian authorities, too, view the Moscow-Kazan high-speed railway as a priority project. In 2015 Vladimir Putin said that it would “become a benchmark project for Russian-Chinese cooperation in the transport and infrastructure” [JSC “High-Speed Rail Lines”, 2015]. However, the construction of the railway has not begun: it is impeded by numerous factors, ranging from funding procedures and the track gauge to who will do the contract work.

Another option which features extensively in discussions about the SREB is a route bypassing Russia. The cheapest variant is a route via Kazakhstan and Iran, where freight delivery to Europe will cost about $1,700 per TEU. This route will require about 2 billion dollars in investment. Another route is via the Kazakhstani port of Aktau, from which cargo will be shipped across the Caspian Sea to Baku, then to Poti and across the Black Sea to Constanta. This route will be the most expensive for carriers: up to $5,000 per TEU. Only if large-scale investment ($8 billion) is made in the expansion of seaports, reconstruction of roads and construction of tunnels and container-logistics centers will the cost of transportation decrease to $1,500 per TEU [Karaganov et al., 2015]. From Baku, the route can go to Kars (via Nakhichevan or Tbilisi), and then by rail via Istanbul to Europe. Turkey is already developing its transport infrastructure, using Chinese investments, among others.

In addition to railways, highways need to be developed, too. In August 2004, the first trans-Chinese highway was opened. It runs from the port of Lianyungan to the Khorgos checkpoint on the border with Kazakhstan [Karaganov et al., 2015]. In 2016, China acceded to the Convention on International Transport of Goods, which has relieved it of the need to transfer the goods from Chinese trucks to Kazakh or Kyrgyz ones on the border and which has thus reduced the cost of logistics. The only major obstacle to the development of international road transportation in the region is the insufficient development of road infrastructure.

Major international projects in the field of road construction include the Western Europe-Western China transport corridor, intended to strengthen economic ties between Europe and Asia. The corridor will run from Russia’s St. Petersburg to Lianyungang in China. In June 2016, Russia announced plans to build the Meridian highway. The $8 billion project will be a southern relief route for the corridor. It will be a straight 2,000-kilometer road stretching from the border of Kazakhstan to the border of Belarus and passing 350 km south of Moscow.

The idea of railway and road transit is actively promoted by Russian transport companies and leaders of Central Asian and some trans-Caucasian countries (some of these countries have even expressed readiness to change their track gauge, which is a very difficult process from both technical and foreign policy points of view) [Luzyanin et al., 2015]. At the same time, prospects for a significant increase in the transit of goods from China to Europe seem to be ambiguous. Trade in this direction has been growing more slowly than a decade ago. Chinese exports have been on a decline since 2014. Given the
still weak prospects for growth in the EU and the gradual transformation of the Chinese economy, these trends can be long term. At the same time, the last decade has seen the implementation of large-scale plans to build up sea transport capacities: the Suez Canal has been expanded, and the merchant fleet has significantly increased. In these conditions, the cost of sea shipping is likely to continue to fall, putting land transportation at a great disadvantage. The importance of non-economic factors (including military-political risks) will grow. These factors cause China to diversify its export routes, yet this is not a sufficient reason to redraw the entire logistics map of the continent. Probably, transit as such is not the only goal of the SREB. Much more important are other reasons: the transfer of excess construction facilities, which emerged in China during the period of an infrastructure boom, to other countries; access to natural resources of Central Eurasia; a potential transfer of polluting and labour-intensive industries to this region, as these industries become less attractive in China with the growth of incomes and exacerbation of environmental problems; access to new sales markets (including the markets of countries such as Iran and Pakistan) which are not very large yet but will certainly expand over time; and relative stability in Central Asia and the Xinjiang Uygur Autonomous Region [Bordachev, Likhacheva, Xin, 2015; Makarov, Sokolova, 2016; Hong, 2017].

The China-Pakistan Economic Corridor is the fastest-developing part of the Eurasian infrastructure network. In 2015, China signed an agreement with Pakistan on a 40-year lease of the deep-sea port of Gwadar (near the border with Iran). A railway is already being built to link Kashgar (Xinjiang-Uygur Autonomous Region, Western China) and Gwadar. The railway will reduce cargo transit time from China to Pakistan from 12 days to 36 hours [“Silk Road Economic Belt” Project. Prospects for the CIS, 2016]. For the sake of the project, China was even ready for a conflict with India, as the railway passes through the disputed region of Kashmir. In April 2015, China sent the first investments ($1.65 billion) from the Silk Road Fund to Pakistan which, contrary to Xi Jinping’s initial assurances about the fund’s focus on transport projects, were allocated for the construction of a hydroelectric power station. The investments in Pakistan have nothing to do with the transit of goods to Europe; yet they are in tune with the main goals of the SREB: receiving access to new sources of natural resources and markets, increasing influence in Central Eurasia and diversifying export routes as a safeguard against the risk that the Strait of Malacca may be blocked and the rise military and political tensions in the Indian Ocean.

Transport Initiatives in East Asia

From the point of view of the development of transport infrastructure, East Asia is highly heterogeneous. Its largest economies — China, Korea and Japan — have dense internal transport networks which are isolated from each other. The Russian Far East, and especially Primorsky Krai which is located in the middle of the China-Korea-Japan triangle, can help link them into a regional infrastructure network. Factors that can facilitate this development include, first, the gradual regionalization of international trade
and the transition of Asian countries from the “Asia for the world” model to the “Asia for Asia” model [Bordachev, Likhacheva, Xin, 2015] and second, the gradual shift of the economic growth center in China from east coast provinces to the periphery [Makarov, 2017] which includes north-east provinces – Jilin, Heilongjiang and Inner Mongolia.

These provinces can be integrated into the world economy through international transport corridors (ITCs) Primorye-1 and Primorye-2, which run from Harbin to Vladivostok and from Hunchun to Zarubino. During Xi’s visit to Russia in July 2017, the two countries signed an intergovernmental agreement to develop the corridors. According to optimistic estimates, freight turnover in the two corridors may reach 45 million tons by 2030, of which half will be grain (for example, soybeans supplied to northeast China) and half container cargo. According to estimates of the Ministry for the Development of the Russian Far East, the corridors may bring Russia an additional annual increase the gross domestic product of 29 billion roubles. The Primorsky Krai economy may grow by four to five percent and create about 3,000 new jobs. The corridors may help Chinese companies save $700 million [Dmitrikova, Drobysheva, 2017].

According to reports from regional administrations, cargoes are already supplied via the corridors, but these are trial deliveries as their volume does not exceed several hundred containers. Reaching the planned freight turnover target requires markedly increasing the carrying capacity of all types of transport infrastructure. Major highways are already being built or modernized. However, there are problems with the construction of the port of Zarubino, the key element of the Primorye-2 corridor. The project, proposed by Summa Group, provides for the construction of container, grain, alumina and universal terminals with a total capacity of 60 million tons. Initially, the company expected the government to participate in the funding, but the money was not allocated and the construction was actually frozen. Chinese partners, namely China Merchants Group with which an agreement of intent was signed, have not also hurried to finance the project [Zuyenko, 2017].

The wait-and-see strategy of all potential parties to the project is understandable. At present, there are too many uncertainties about the development of the Primorye-1 and Primorye-2 corridors.

First, although the distance of cargo transportation from Heilongjiang via Vladivostok is three times shorter than the route going via Dalian, it costs five to 15 percent more, according to McKinsey’s estimates and, most importantly, it takes 220 hours instead of 85 due to long cross-border procedures [Zuyenko, 2017]. To reduce the transit time for certain categories of goods shipped via the ITCs, the Ministry for the Development of the Russian Far East has proposed that customs clearance for cargo delivered to ITC ports be carried out on the land border. This will help reduce the time of cargo delivery from 24 to 13 hours in the Primorye-1 corridor and to four to five hours in the Primorye-2 corridor [Vasilyeva, Nazipova, 2017].

Second, any potential investor wants to be sure that the corridors will really be used for cargo transportation after the modernization of the port and infrastructure. The Chinese cannot guarantee this, as the bulk of the cargo will be shipped by private companies, many of which are medium-sized and small [Zuyenko, 2017]. Their deci-
sions on transportation routes depend on a benefit-cost ratio. Unless shipment formalities in the Primorye corridors are eased essentially, they will hardly be competitive.

The Free Port of Vladivostok is one of the main instruments for facilitating the movement of goods. The porto franco regime, already extended to two dozen municipalities in the Russian Far East, is intended to attract investments in new production facilities, thereby expanding the export base, and to simultaneously simplify the servicing of potential freight flows. Too little time has passed to fulfill these goals. Yet there are still no signs that the free port status stimulates in any way the export of finished products. Russian Far Eastern ports show positive dynamics in terms of shipment of raw materials, but in container transshipment the Pacific basin in 2016 was the only one in Russia with negative growth rates. At the same time, the shipment of containers by rail is gradually growing, albeit from a very low starting position [Avelana, 2017].

The land transport infrastructure is no less important in trade with China. For example, a road bridge across the Amur river between Blagoveshchensk and Heihe will enable year-round and all-weather transport communication with this country. The two countries signed a concession agreement on the construction of the bridge in June 2016. The first stage of the construction is planned for completion in 2019. At the second stage, a railway bridge will be added to it. Within the framework of the development of Bolshoy Ussuriyskiy Island, Russia and China continue negotiations on the construction of a permanent two-way road checkpoint for passengers and cargo — Khabarovsk (Bolshoy Ussuriyskiy Island)-Fuyuan (China). In the Jewish Autonomous Region, the Birobidzhan-ungun-Leninskoye road is now being reconstructed. It will open a new cargo transportation corridor from this region and the west of the Khabarovsk Territory to the Heilongjiang province [EAOMedia, 2017].

The construction of a Zabaikalsk-Manchuria grain railway terminal is to play an important role in the development of Russian grain exports to China. The terminal is expected to be put into operation in 2018. Later, it is planned to have a capacity of eight million tons of grain per year [Makarov, 2017].

East Russia can also be integrated into China’s transport initiatives through a Sino-Mongolian-Russian economic corridor. In the spring of 2014, Foreign Minister Wang Yi said that this initiative would mean the integration of China’s One Belt One Road project, Mongolia’s Steppe Road initiative and Russia’s Trans-Eurasian Corridor proposal. The development of a transport corridor to China via Mongolia would be of great importance for Eastern Siberia, as it would be able to supply products to China, bypassing bottlenecks in the eastern part of the Trans-Siberian Railway. In addition, a meridional transport corridor may enable the outsourcing of water and energy-intensive products from China to Eastern Siberia, which was previously held back by transport barriers [Makarov, Sokolova, 2016].

However, the China-Mongolia-Russia economic corridor project has not yet been started. The main reason is a lack of funding sources. Russia does not have available sources for such large-scale projects. Mongolia has never expressed interest in this initiative, as it does not see benefits for itself from it. For example, Russian coal that could be supplied via this corridor would be a competitor to Mongolian coal. As for China,
its demand for coal is uncertain as the country is switching to natural gas, while moving Chinese energy and water-intensive industries to Eastern Siberia does not seem an attractive idea to Chinese partners due to the low investment climate in Russia and high mistrust toward the Russian economy, rather than a lack of infrastructure.

Also, except for individual projects to ease cross-border formalities and build bridges, the agenda for integrating regional transport networks does not include the Amur, although there are good prospects for developing river transport in the region. A program for comprehensive development of the Amur as a transport/logistics waterway can solve several tasks at once: relieve the traffic on the Trans-Siberian Railway, facilitate access to foreign markets for Russian exports, establish elements of effective Russian-Chinese river management and consolidate the status of a dam-free river for the Amur, which would be advantageous to Russia and which is constantly disputed by China. According to preliminary estimates, the project for comprehensive development of the Amur as a transport waterway can be equated to the Baikal-Amur Mainline in terms of transportation capacity.

Given the unique biodiversity of the Amur, the river’s importance for maintaining all ecosystems in the region, its status of the longest river border in the world and the significant imbalance in river management between Russia and China, the development of such a project requires a full-scale intergovernmental and interdepartmental dialogue, involvement of international development institutions and application of the principles of strategic environmental assessment, approved by the UN [Ministry of Natural Resources and Environment of the Russian Federation, 2015].

The experience of China’s neighbors in the Mekong basin (Laos, Cambodia, Thailand, Vietnam and Myanmar), of India with regard to the Brahmaputra, and of Kazakhstan with regard to the Irtysh shows that progress in regulating the Amur basin is impossible without China’s involvement in broader negotiation formats. Taking into account similar problems faced by China, Kazakhstan and Russia regarding the Irtysh, elevating the Amur issue to the Eurasian level seems promising, although it will face resistance from China which prefers discussing such issues at the level of bilateral basin commissions.

New Airline Hubs in Eurasia

Despite the relatively small share of air transport in the total volume of cargo transportation, its role is hard to overestimate for building up ties between countries and developing recreational and business tourism. Currently, the world’s largest airline hubs are located on routes between three major economic centers: North America, Europe and East Asia.

In the near future, the world may see the rise of second-level production and consumer sites, which are now served on a peripheral basis by cargo aircraft from international megahubs. One such site will be in Central Eurasia. In the meantime, the region does not have full-fledged hubs for air carriers, and its air infrastructure is inadequate.
On the map of air routes, there is a large blank space between Frankfurt, the eastern coast of China and the south of the Arabian Peninsula, where there are no large air terminals and where flying rates are low (Fig. 1).

Therefore, it is highly important to develop second-level continental hubs in Central Eurasia. It is unlikely that a new Dubai or a new Hong Kong will appear in the steppes of Kazakhstan or the deserts of Xinjiang in the next decade, but within the next five to seven years new second-level hubs must emerge in the region to serve the interests of industries and new private consumers. Airports in Russia, Kazakhstan, Western China, Turkey and Iran already compete to host such hubs.

Chengdu Airport is already among the 50 largest airports in the world in terms of cargo turnover [The Port Authority of NY & NJ, 2016]. The coming years may see growth in cargo traffic going through Xi’an, Lanzhou and Urumqi. The rate of construction of new infrastructure facilities in China is still unattainable for other Eurasian countries [KPMG, 2009]. Russia’s partners in the Eurasian Economic Union have also announced their ambitious projects. For example, Kazakhstan’s Alma-Ata plans to create a Eurasian airline hub from scratch [Nee, 2015]. Whereas previously such projects did not go further than political rhetoric, the implementation of SREB projects increases Alma-Ata’s chances to attract large investors. Karaganda and Astana, too, have similar plans, although they have not been given as high a profile.

The intensification of economic and political processes in Central Eurasia opens wide opportunities for Russian airports. Yekaterinburg, Novosibirsk and Krasnoyarsk have the required competitive advantages to become full-fledged second-level hubs:
advantageous geographical locations, skilled personnel, technological production facilities of their own and relatively favorable natural conditions (low seismicity and non-proneness to typhoons and strong winds).

The myth of snow as a barrier to creating a successful hub has for years been effectively debunked by Anchorage in the United States, the fifth largest cargo hub in the world with a freight turnover of 2.5 million tons. This is almost twice as much as the freight turnover of all Russian airports. Normal rainfall from November to February in Anchorage (95 mm) is comparable with that in Yekaterinburg (107) and Novosibirsk (113) [Weather and Climate, 2017]. Megahubs were even created in a desert with a small population (Dubai), and in multimillion megacities prone to typhoons (Hong Kong and Shanghai).

Strong regional elites also increase the chance for effective cooperation with anchor investors and the attraction of efficient operator companies. The result is already there: both Yekaterinburg and Novosibirsk have in recent years begun to modernize their airports, Koltsovo and Tolmachevo.

The Russian Far East also has certain opportunities for developing airline hubs. This region is the closest to Asian markets: Vladivostok is within a two- to three-hour flight from key production sites in Asia. At the same time, Vladivostok’s Knevichi Airport cannot compete with successful megahubs – Incheon, Shanghai, Hong Kong, Tokyo and Shenzhen – in serving the most popular routes, including routes to the United States. It would be much more promising for it to attract anchor companies from among the world’s top 11 to 20 cargo carriers on most favorable terms and to serve as an auxiliary regional rather than transcontinental hub. It can follow the example of Liège Airport which opted not to compete with Frankfurt but rather supplement it as much as possible. As a result, it has become a successful example of a second-level hub over the last ten years [Orban, 2017]. Probably, the new owner of the airport, the Russian Direct Investment Fund, Changi Airports International of Singapore and the Basic Element group of companies will follow precisely this strategy.

Challenges to Russia and Recommendations for Integrating the Transport Agenda into the EAEU’s Cooperation with Asian Countries

Even if we disregard the issue of infrastructure development funding, in the long term, Russia will come across several transport-related barriers that will prevent it from increasing exports to APR countries:

• excess load on the Trans-Siberian Railway, which holds back exports from the Russian Far East and especially Siberia in the absence of meridional routes;
• potentially high competition with Kazakhstan in exports, which can have a negative impact on the export potential of Siberia and the Russian Far East amid a fast build-up of Kazakh-Chinese infrastructure; and
• Problems with Russian-Chinese management in the Amur basin and Russian-Kazakh-Chinese management in the Irtysh basin.

These challenges make it difficult to find effective solutions within the framework of regional negotiations: in the first case, the problem should be addressed at the fed-
eral level and dialogue should be held with Kazakhstan in light of the increase in transit flows via the Trans-Siberian Railway and the development of new export routes. In the second case, the issue is competition within the EAEU and harmonization of non-tariff barriers with respect to EAEU members by China. The third case is an example of China’s approach to managing international water basins.

External factors that may have a decisive influence on the quality of the EAEU’s dialogue with Asia-Pacific countries on transport and logistics issues and, accordingly, on Russia’s participation in such projects include the rate and geography of China’s economic growth, prospects for China’s trade and economic cooperation with Asian countries, the EAEU and the United States, and finally, the degree of trade liberalization in Asia and between Asian countries and foreign partners, including Russia. The key internal factor is the level of authority for the EAEU to develop a common transport agenda.

Currently, the EAEU is holding or planning to hold trade liberalization negotiations with Korea, Singapore and India. Regarding China, Moscow and Beijing are finalizing the text of a non-preferential trade and economic agreement. There is a basis for dialogue in the field of infrastructure with all these countries.

Regarding Korea, the situation is the most promising and, at the same time, the least stable due to a crisis in relations between Seoul and Pyongyang. Korea, which launched its own Eurasian initiative in 2013, is not involved in the EAEU transport agenda in any way and the transport agenda was not discussed at the level of preliminary studies on the feasibility of a free trade area.

The existing political conflicts between the two Koreas do not yet allow optimistic forecasts about prospects of a trans-Korean railway (the main project within the framework of the Korean Eurasian initiative), but in the future this project may have a positive impact on the region’s development – through sea ports and transit by rail. Moreover, the visit to Moscow of a special envoy of the new president of Korea, Moon Jae-in, in August 2017 was devoted to a return to the Korean “solar heat” policy which provides for the development of trans-Korean projects.

Singapore may in the long term become a key investor in Russia’s transport infrastructure. Singapore’s Changi Airports International already participates in the development of Knevichi Airport. There are good prospects for attracting Singaporean partners to participate in the extension of Russian sea ports in Primorsky Krai and, especially, the development of the Northern Sea Route infrastructure. Russia is interested in linking these issues to the trade liberalization issue in the framework of an EAEU-Singapore dialogue.

Regarding India, we can expect that free trade area negotiations with it, announced in June 2017, will discuss a North-South international transport corridor among other transport/logistics issues. This proposed corridor would pass across Russia’s European part, the Caucasus or Kazakhstan, Iran and the Arabian Sea to reach Mumbai. It is important that this project, to which Russia, India, Armenia and Kazakhstan pay priority attention, does not disorient Indian businesses regarding prospects for Siberian and Russian Far Eastern exports. There is a risk that the corridor project will reduce partnership between Russia and its regions in the European part. This is why it is important
that the FTA negotiations discuss the corridor agenda in conjunction with trade and investment cooperation between India and Russia’s trans-Ural regions, primarily the Russian Far East which can conduct sea trade with India.

In the short term, it seems expedient, within the framework of the Commission’s existing powers, to closely link the transport agenda in the dialogue with China to other negotiation issues, primarily nontariff barriers and information exchanges. In starting negotiations with India and Korea, this is also a required condition for integrating the Russian transport system into the transport/logistics network of the Eurasian region. Otherwise, there is a high risk that transport projects will be discussed without assessing direct trade effects of their implementation.

The example of a grain terminal project in the port of Zarubino – given the existing ban in China on the import of Russian Far Eastern wheat, unstable phytosanitary standards in India and protective duties and quarantine for imported wheat in Korea – confirms the high dependence of transport cooperation between the EAEU and APR countries on broader frameworks for trade regulation.

In the medium term, the Eurasian Economic Commission will likely seek to increase its authority and transfer the transport agenda to the level of supranational regulation: this is the only way to fully tap the transit and export potential of the EAEU countries. However, this process may take three to five years.

The EAEU does not participate, either, in attracting funds from international development institutions, including the Asian Infrastructure Investment Bank, the BRICS New Development Bank, and the Silk Road Fund. The Eurasian Economic Commission is not represented in these institutions, although the implementation of some infrastructure projects in the region will a priori require supranational regulation and, possibly, management. A closer dialogue between the Commission and regional development institutions is another condition required for effective implementation of the EAEU’s infrastructure agenda.

References


Создание общей инфраструктуры Евразии: повестка для Евразийского экономического союза

А.Б. Лихачева, И.А. Макаров, А.С. Пестич

Лихачева Анастасия Борисовна — к.полит.н., старший преподаватель Национального исследовательского университета «Высшая школа экономики»; Российская Федерация, 101000, Москва, ул. Мясницкая, д. 20; E-mail: alikhacheva@hse.ru

Макаров Игорь Алексеевич — к.э.н., доцент Национального исследовательского университета «Высшая школа экономики»; Российская Федерация, 101000, Москва, ул. Мясницкая, д. 20; E-mail: imakarov@hse.ru

Пестич Александр Сергеевич — инженер Лаборатории регионального анализа и политической географии географического факультета МГУ; Российская Федерация, 119991, Москва, ул. Ленинские горы, д. 1; E-mail: apestich@hse.ru

Статья посвящена анализу тенденций развития транспортной инфраструктуры Евразии в контексте экономической и политической интеграции стран континента. После глобального финансового кризиса 2008–2009 гг. ведущие государства Азиатско-Тихоокеанского региона (АТР) выступили с предложениями о крупномасштабных инфраструктурных проектах на евразийском пространстве. Россия крайне заинтересована в интеграции в эти инициативы, однако сталкивается с рядом сложностей. Некоторые из них связаны с особенностями регулирования транспортных вопросов в рамках Евразийского экономического союза.

В статье анализируется текущий диалог в области развития инфраструктуры с государствами АТР, в том числе в рамках инициативы сопряжения Евразийского экономического союза и Экономического пояса Шелкового пути. Рассмотрены основные инфраструктурные инициативы на евразийском пространстве, представляющие потенциальный интерес для формирования комплексной инфраструктурной повестки ЕАЭС, а также определены основные вызовы и возможности для России, возникающие в рамках взаимодействия ЕАЭС и стран АТР в области инфраструктуры. Автorskи приходят к выводу, что для интеграции России в евразийские транспортно-логистические инициативы необходима увязка транспортной повестки с вопросами регулирования торговли и инвестиций. Для этого требуется тесное взаимодействие с Евразийской экономической комиссией, а в перспективе — и вовсе передача компетенций, связанных с развитием инфраструктурной повестки ЕАЭС, на наднациональный уровень.

Ключевые слова: Россия; Евразия; инфраструктура; сопряжение; ЕАЭС; транспорт


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New Dimensions of the Greater Eurasian Project. National Perspectives

Sino-Russian Cooperation with Central Asian States in “One Belt – One Road Format” as SCO Development Factor¹

N. Lu, S. Lu, M. Huang

Lu Naxi – Senior Colleague of the Spring Bamboo Shoots Educational Programme in Shaanxi Province; China, Xian, Taibai North Road 229, 88302984; E-mail: isrs@nwu.edu.cn

Lu Shanbing – Director of the Silk Road Institute of Northwest University; China, Xian, Taibai North Road 229, 88302984; E-mail: isrs@nwu.edu.cn

Huang Mengfang – Assistant Professor at Northwest University; China, Xian, Taibai North Road 229, 88302984; E-mail: isrs@nwu.edu.cn

Abstract

China and Russia issued a joint statement on 8 May 2015 outlining the main approaches to linking the Silk Road Economic Belt (SREB) and the Eurasian Economic Union (EAEU) projects. The parties believe that to build the One Belt One Road project, it is necessary to: use economic integration laws and actively enhance the role of the Shanghai Cooperation Organisation (SCO) in stimulating regional economic cooperation; to promote construction of the SREB and linkage to and cooperation with the EAEU; to create a free trade area (FTA) in the Asia-Pacific region (APR) and simultaneously begin creating a similar FTA between China, Russia and Central Asia to gradually stimulate interstate trade and promote regional economic development; actively develop — along with an improved model of energy cooperation — infrastructure and related industry; and strengthen business contacts and jointly promote construction of the SREB.

Key words: SCO; functional transformation; development of cooperation


¹ The editorial board received the article in October 2017.
Introduction

In May 2015, Beijing and Moscow issued a Joint Declaration of the Russian Federation and the People’s Republic of China on Cooperation in Linking Construction of the Eurasian Economic Union and the Silk Road Economic Belt (hereafter, Joint Statement). This indicated a clear mutual understanding of the need to deepen cooperation [People’s Daily, 2015a; Lukin, 2016, p. 583], followed by the creation of a platform for cooperation and the drawing up of a road map and tactical plans. Prior to this, the National Development and Reform Commission, the Ministry of Foreign Affairs, and the Ministry of Commerce of China jointly published the Vision and Actions on Jointly Building the Silk Road Economic Belt and 21st Century Maritime Silk Road (hereafter, Vision and Actions), announcing the Chinese government’s plans for building the One Belt One Road (OBOR) [People’s Daily, 2015b]. Thus, the OBOR initiative moved into the realm of concrete action.

Focusing on the practical construction of the Silk Road Economic Belt (SREB), this article studies China’s cooperation with Russia and the countries of Central Asia, taking into account the specific circumstances in those countries. It suggests that, in building the SREB, China should enhance the role of the Shanghai Cooperation Organisation (SCO) and coordinate relations and specific stage-by-stage cooperation with the already established Eurasian Economic Union (EAEU) and other countries of Central Asia to achieve the anticipated results in promoting all areas of active cooperation at every stage.

SCO: Building a Platform for Cooperation

During the joint implementation of the OBOR initiative it became clear that the full-scale development of the SCO plays an important role as a mechanism in advancing business cooperation. With regard to “mechanisms for cooperation,” the Visions and Actions document clearly states the need “to strengthen the role of the mechanism of all-round cooperation and to increase the importance of such multilateral formats as the SCO” [People’s Daily, 2015b].

The use of these mechanisms to strengthen and deepen interstate exchanges stimulates the expansion of cooperation. Among the mechanisms for cooperation that have already helped the “big ten” to develop, the SCO is assuming a leading role and becoming a very important tool in the OBOR strategy. The Joint Declaration also states that China and Russia “will work jointly in bilateral and multilateral formats, primarily on the platform of the Shanghai Cooperation Organisation” [People’s Daily, 2015a].

However, in order to position the SCO as an efficient linking mechanism between the OBOR and the EAEU, it should assume the function of strengthening economic cooperation.

As the SCO was developing, several members had suggested endowing the organization with economic functions, but a consensus was never reached. In 2005, China
proposed creating an SCO development fund, but in 2006 Russia and Kazakhstan created the Eurasian Bank of Development. At the SCO summit in June 2009, the Russian delegate put forward a proposal to create a currency for transactions between SCO members, but this idea has yielded almost no results. The SCO continues to falter at the most basic stage of economic cooperation — the establishment of preferential trade and investment arrangements.

The SCO has yet to adopt the creation of free trade areas — the fundamental form of integration — as a goal in economic cooperation. This deficiency makes it very difficult for SCO members to build cooperation on trade and investment.

The SCO needs to expand its economic function and to seize the opportunity to transform the direction of its development. In the 17 years of its operation, the SCO has accomplished a great deal toward establishing links between members, contributing to regional security and facilitating trade, but it must transform itself to respond to the boom in integration in both the regional and global economies.

Russian international affairs expert Alexander Lukin believes that the SCO has achieved significant success in fostering closer cooperation between Russia and China on security. For example, 20 years ago it would have been difficult to imagine that Russia and China would cooperate on the exchange of security-related information [Lukin, 2012, p. 23]. He underscores that the SCO is also a platform for developing cooperation in economic matters, education and culture. The SCO not only corresponds to Russia’s political interests, but remains the only organization enabling Russia to coordinate its regional policy with China [Lukin, 2009]. If the SCO could also assume an economic function, it would stimulate multilateral economic cooperation between all SCO members. This would enable them to use their strengths comprehensively by consolidating their capital, human and natural resources. This, in turn, would enable China to advance economic cooperation with Russia and the Central Asian countries. According to the executive secretary of the China Center for Shanghai Cooperation Organisation Studies, Chen Yurong, “implementation of the SREB also opens up broad opportunities for the development of the SCO” [Chen, 2014, p. 23].

Alexander Lukin also notes that the transformation of the SCO and the mechanism for the development of economic exchange with the EAEU is “the most strategically cost-effective option.” On 1 January 2015 Russia, Belarus and Kazakhstan officially launched the EAEU, with Armenia and Kyrgyzstan acceding to the organization later. Regional economic integration proceeded rapidly, moving from a Customs Union (2010) to a Single Economic Space (2014) and then to the creation of the EAEU (2015), “steadily advancing from the format of mutual assistance with an emphasis on self-reliance to an expanded format of development” [Feng, 2011] — thus culminating the formation of a Russia-led body for economic cooperation in Central Asia. The SCO, however, clearly plays a less substantial role than the EAEU in stimulating economic cooperation.

Therefore, Sino-Russian-EAEU cooperation might be used for upgrading SCO’s role and strengthening its abilities with the purpose of reaching a new level of eco-
nomic cooperation. In his op-ed published in the People’s Daily in June 2012, President Vladimir Putin stressed the great importance of developing economic cooperation between the SCO and the EAEU, saying it could not only facilitate complementary co-development, but also expand the horizons of cooperation [Putin, 2012].

The expert community also has constantly voiced its support for including economic matters in the SCO agenda by adding OBOR projects and linkages to the EAEU. According to Professor Zhenis Kanbayev at the Kazakhstan Institute of Management, Economics and Strategic Research, all SCO members have shown strong support for the concept of building the SREB, recognizing that it can enable them to raise the level of business cooperation in all areas, deepen their mutual dialogue, reinforce mutual trust and “extend the cooperation agenda — that previously focused primarily on security — on the expansion and deepening of economic cooperation” [Kazinform, 2014]. Including the SCO in the construction of the SREB in order to expand the scope of integration in Central Asia — where the EAEU plays the main role — could do the most towards developing the fullest possible cooperation at a minimum cost. The Kazakhstan International News Agency published a special article on 29 June 2014 entitled “Only the Transformation of the SCO Can Ensure the Success of the SREB” [Kazinform, 2014]. This indicates a high level of interest in SCO reform shown by Central Asian states.

The idea of the SREB being the best tool for stimulating a linkage between the SCO and the EAEU is also supported by SCO leadership as well as the individual members; Secretary-General Rashid Alimov has spoken of this on several occasions. He suggests that the China’s OBOR initiative has contributed significantly to economic cooperation between SCO members, and that construction of the One Belt One Road has lent new impetus to the SCO for “cooperation in the field of transportation and the creation of infrastructure, transportation corridors and logistics centers aimed at fostering trade within the SCO” [Zhang, 2016]. Kazakh President N. Nazarbayev has similarly noted that linking the construction of the SREB and the EAEU favourably influences the development of all Central Asian countries: “The strategy for the joint construction of the SREB with China strengthens the international position of Kazakhstan, making Kazakhstan an important partner and transportation hub of the Eurasian continent” [People’s Daily, 2016].

Analyzing the above, we can single out a definite consensus between China, Central Asian countries and Russia on the importance of developing the economic function of the SCO and similar mechanisms on the broadest scale, which will undoubtedly contribute to the implementation of the OBOR. In addition, the construction of OBOR objectively requires strengthening existing institutions and their economic functions.

At the same time, due to the EAEC’s transition from “cohesion and mutual assistance” to “economic integration planning” as expressed in its official proclamation on 1 January 2015, the SCO needs to build a mechanism of interaction with the EAEC as soon as possible in order to exchange views in a timely manner, transfer information to each other about the change in the functions of organizations on a reciprocal basis as well as to strive for mutual trust.
Thus, the SCO should, in accordance with modern trends, implement the economic transformation in a timely manner in order to strengthen its role in the construction of OBOR and bring relations with the EAEU to a new level as its most important economic partner in Central Eurasia.

Creating a Roadmap for Cooperation

Quite a number of issues are evoked by the prospects for the noncompetitive development of the SCO and the EAEU. However, until now, the leaders of the members have emphasized the prospects for cooperation between the two formats, noting that they can develop in parallel without any contradictions between them [CRI Online, 2016]. The leaders of China and Russia have repeatedly noted that the EEA and the SCO can carry out conjugated cooperation all along the Belt and Road [Ma, Li, 2017].

The “Points of Cooperation” section of the Visions and Actions document published by Beijing, proposes creating a free trade area (FTA) as a means for expanding the common “pie” for all countries bordering China [People’s Daily, 2015b]. Taking into account the actual situation in the EAEU, where Russia plays a leading role, we suggest that it would be possible to start by granting most favoured nation status to those countries. This would strengthen China’s economic ties with Central Asia and Russia, and as conditions become favourable in this or that country, negotiations toward an FTA could begin — thereby facilitating phased economic integration.

The actual filling of the most favoured nation regime can, of course, be different. However, the Chinese side pays special attention to close economic cooperation with neighbouring countries as the basis for future economic integration. As President Xi Jinping pointed out at the SCO summit in Dushanbe in September 2014, “it is necessary to discuss the issues of trade and investment cooperation in broader areas and at higher levels on the basis of common advantage; to grant most favoured nation status on a reciprocal basis, and to promote the process of regional economic integration and the creation of a single trade, investment and logistics space” [Xi, 2014].

China has already granted most favoured status to member of the SCO, thereby stimulating economic integration. Russian President Vladimir Putin stressed at the Dushanbe meeting that Russia also supports the strengthening of closer multilateral cooperation between SCO members. This also applies to the desire of SREB countries for trade barriers be lowered as that initiative is implemented [President of Russia, 2014b].

Even though most favoured nation status is a bilateral mechanism and the EAEU is a multilateral structure, each side can function without contradicting the other because “the integrative processes of the SREB and EAEU are fully compatible” [Zhou, 2014a]. According to Zhou Li, deputy director of the CPC Central Committee Foreign Liaison Department, the SREB is a multifaceted, large, open platform that is capable of developing without conflict and on a mutually beneficial basis along with the EU, the SCO and the free trade areas of the CIS, EAEU and other regional integration organizations” [Zhou, 2014b].
The next important part of SCO’s transformation is negotiating free trade agreements and accumulating experience from relevant agreements for the SREB. To this end, China must make every effort necessary to create an atmosphere of cooperation in this area with the countries concerned and thereby promote economic integration. By June 2017, China had already signed and implemented free trade agreements with 22 countries in the region.

In the process of building the SREB, it will be necessary to coordinate free trade agreement talks with all countries located along the Silk Road — thus making those agreements more effective — and to actively extend the experience of such negotiations and the methods for achieving results to use FTAs to establish mutual market access and economic cooperation along the entire Silk Road. Alexander Lukin believes that the SCO could play an active role in linking the SREB and EAEU. For example, after creating an FTA between the EAEU and China, other SCO members could accede to it through the SCO [Hu, 2016; Lukin, 2016, p. 583].

From the point of long-term strategy and the development of regional economic integration, both Russia and China should look far ahead and work together to safeguard regional stability and economic integration processes. It is important that the two countries work to negotiate free trade agreements. We suggest that in the course of these negotiations trial FTAs could be established in Northwestern China and Russia’s Siberian region, linking them at the same time with the SREB. It would also be possible to create similar areas between the Chinese Northeastern provinces and Russia’s Far Eastern cities. These would gather experience as territories of economic integration and free trade.

In an interview with the editor in chief of the Xinhua News Agency in June 2016, President Vladimir Putin noted: “We are engaged in negotiations on two tracks: China-Russia, bilaterally and China-Eurasian Economic Union.” He also emphasized, “there is a common understanding that the general development path in a global economy, as well as in our cooperation with China, should involve a gradual removal of all barriers to open collaboration. In the initial stages, it could imply the establishment of a free trade zone” [President of Russia, 2016]. This indicates that the establishment of an FTA is not simply the subject of hypothetical discussion but rather is under consideration at the level of bilateral and multilateral talks.

The creation of China-Russia, China-EAEU and China-Central Asian states free trade areas could lend a powerful impetus to China’s regional development with Russia and the states of Central Asia. In light of the proposed routes and the possible results, we hold that cooperation in creating such FTAs could contribute to “new industrialization” programmes in Russia, the “third modernization” in Kazakhstan and other political projects and also provide considerable assistance to the modernization of Central Asian countries.

The Joint Statement clearly states the need to create mechanisms for streamlining trade in those areas where conditions would allow; to develop joint steps for harmonizing rules and regulations and ensuring their mutual compatibility; to introduce trade,
economic and other policies in areas of mutual interest; and to pursue the long-term goal of establishing an FTA between the EAEU and China [People’s Daily, 2015a]. The establishment of an FTA with Russia and the countries of Central Asia should therefore become one of the important tasks and main objectives of trade and economic cooperation within the framework of the SCO.

Another prospective direction for SCO activity is conducting a comprehensive study on potential FTAs in the Asia Pacific as well as strategically coordinating and promoting research on such areas, and striving for the rapid creation of mechanisms for negotiations so that cooperation on FTAs can stimulate construction of the SREB. The statement on the results of the 22nd unofficial meeting of Asia-Pacific Economic Cooperation (APEC) leaders in Beijing on 11 November 2014 states that, to promote the establishment of an FTA in the APR, APEC will, starting with that meeting and over the subsequent two years, officially undertake a strategic study of the FTA, channel collective efforts towards creating it and will develop the relevant roadmap and strategic concept. An analytical report of the results of those steps was to be presented for further discussion and as the main agenda point of a meeting of APEC ministers in late 2016. The initiation of such studies marks the transition of the APR FTA to the stage of long-term planning. That, in turn, indicates that a new historical period is dawning in the economic integration of the Asia-Pacific states.

In the “Mechanisms for Cooperation” section of the Vision and Actions document, emphasis is placed on multilateral mechanisms for cooperation and APEC is mentioned as one of the most important such organizations [People’s Daily, 2015b]. China, together with Russia, the SCO and the EAEU, should participate in global economic integration to determine the place that bilateral cooperation and future development have in that process. Construction of the SREB should be based on the SCO and EAEU; strategic economic cooperation agreements made with other non-Eurasian partners based on the SREB – along with construction of the Eurasian FTA in the SREB – could become one area of future development.

There is no doubt that, for the construction of the SREB – starting with granting most favoured nation status to the relevant countries and actively promoting negotiations on FTA agreements, including between Russia and China as well as with those countries of Central Asia where conditions are favourable – everything will depend on the establishment of ties and the creation of cooperation platforms in order to make the transition to a strategically effective linkage of plans. It is necessary to implement plans actively to create an FTA in the APR in the emergent historical period.

**Industrial Agenda for SCO**

China, together with Russia and the countries of Central Asia, has already created long-term mechanisms for cooperation on energy that have produced positive results. Cooperation in the energy sector will invariably play an important role in the construction of the SREB. However, in addition to strengthening such cooperation and per-
fecting the mechanisms involved, it is necessary to search actively for opportunities to diversify and expand cooperation to non-energy sectors.

Therefore, the basic priorities are the following: implementing plans for energy cooperation in the SCO framework, revitalizing the work of the “energy club,” collaborating to create an “energy community,” and stimulating energy cooperation between members. The SCO includes major energy-exporting countries as well as major energy consumers and transit countries. It is entirely possible to create a sort of special energy cooperation structure within the SCO format. That structure could establish a joint policy once it reaches agreement on common energy-related interests and issues.

Some steps have been already made towards that goal: in September 2011, Russia, Kazakhstan, Tajikistan and Kyrgyzstan published the Xian initiative that proposed creating an SCO “energy club.” In March 2013, Chinese and Russian leaders signed a joint declaration on deepening partner relations for comprehensive strategic cooperation, envisioning deeper cooperation on energy, fossil fuels, electric power and non-traditional energy for the sake of forming a closer and stronger strategic energy partnership. In addition, Chinese and Russian oil companies signed an agreement providing for Russia to increase crude oil shipments to China to 31 million tons in the coming year. The China Development Bank has extended loans of $2 billion to Russian oil companies. At the 13th SCO summit in September 2013, President Xi Jinping put forward a political initiative to “create a stable supply and demand relationship in the energy club and guarantee energy security” [Sina, 2013]. This is clearly a good basis for cooperation that could be deepened in the future. Now is the most opportune moment to expand the activities of the SCO Energy Club significantly.

The strategy for Russian-Chinese economic and energy cooperation proceeds from the premise that “Russia is the world’s largest producer of crude oil, China is a major energy consumer, and both countries are neighbors and natural partners in the energy sector” [Zhao, 2013]. Statistics show that China was dependent on imports for 65.4% of its oil and 40% of its gas in 2017 [Sina, 2017; Lin, 2017]. Although European and U.S. demand for Russian oil and gas has declined, Russia has responded to international political factors by strengthening energy cooperation with China. Russia also participates actively in the “energy club” and, by taking the very reasonable approach of diversifying its energy exports, it reduces its excessive dependence on the European market. Once the SCO members create and finalize the form of their “energy community,” it will contribute to not only cooperation on energy, but also the stabilization of world energy prices and the formation of new mechanisms for dialogue.

Besides solving the issues of energy security, a productive dialogue in the field of energy also helps to extend the production chain and use diverse methods to stimulate closer industrial cooperation in the energy sector. China already has a good foundation with Russia and the countries of Central Asia; the scope of cooperation is constantly expanding, thereby opening a wide range of opportunities for the further deepening of cooperation on energy. Both sides can use the experience and examples of successful energy cooperation to further deepen the integration of energy production at all
levels. The cooperation on energy now developing between China and Russia and the countries of Central Asia is based entirely on mutual benefit and has already become an important result of economic cooperation with those countries. The launch of the joint construction of the SREB should therefore bring even greater fruits from energy cooperation, expand and deepen its scope, extend the sector-based price chain and strengthen the “energy community” as the basis for linking construction of the SREB and EAEU – making it possible to build the “Energy Silk Road” of the new era.

The important tools for such transformations are efficient financial institutions. Developing interconnected construction and stimulating cooperation in associated production now becomes possible — coupled with the need to build up the infrastructure of neighbouring countries — with the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund serving as financial platforms. Because they are based in Asia and are actively promoted by the Chinese government, the AIIB and Silk Road Fund are able to provide funds and resources for the joint development of the SREB.

At the opening of the Olympic Games in Sochi in February 2014, President Vladimir Putin told President Xi Jinping, “the Russian side actively supports the initiative of the Chinese side to build the SREB and Maritime Silk Road, and hopes that in the future Russia can join the ‘Belt and Road’ with the aid of the Eurasian railway. This type of linkage would be of great benefit” [Huang, 2014]. In May of that year, the leaders of the two countries signed a China-Russia Joint Statement on a New Stage of Comprehensive Strategic Partnership of Coordination [President of Russia, 2014a] in which Russia confirmed its full support for the SREB. Both sides continue to search for ways to link the Silk Road Economic Belt with the now-existing Eurasian Economic Union and to develop practical cooperation.

A joint statement signed in August 2014 by the leaders of China and Uzbekistan also stated that “the parties support the implementation of the SREB initiative, define new promising areas for economic cooperation and promote the most important projects” [Xinhua, 2014]. It should be noted that the EAEU had already confirmed a comprehensive construction plan for the members of the Association of Railways and Highways calling for the laying of seven highways and seven railways with 142 logistics centers by 2010. This is what President Vladimir Putin was referring to when he spoke of a “railway passing through Europe and Asia” [Huang, 2014].

In May 2015, President Xi Jinping visited Kazakhstan, Russia and Belarus. The joint construction of the SREB was the main subject of his talks with the leaders of those three countries. China and Kazakhstan have closely linked the construction of the SREB with Kazakhstan’s “Nurly Zhol” state infrastructure development programme and the Kazakhstan 2030 programme, thus developing practical cooperation and opening a new and splendid page in the history of the SREB [Lu, 2015a].

The Chinese-Russian statement issued on 8 May 2015 elevates cooperation on linking the SREB and EAEU to the priority level of the state. On 1 October 2017 in Hangzhou, the Eurasian Economic Commission (EEC) — a permanent body of the EAEU — and the Ministry of Commerce of China signed a joint declaration stating
that negotiations concerning the agreement on trade and economic cooperation had concluded. That agreement set out measures for establishing favourable treatment in trade [EEC, 2017].

The rapid construction of a Chinese-Belarusian industrial park became a “new model of Eurasian economic cooperation” [Lu, 2015b]. An increasing number of SCO members are taking an interest in the OBOR initiative, recognizing that its implementation contributes to stronger regional economic cooperation for the SCO. Thus, according to Chinese experts Xue Li and Zhang Wenwen, “the SCO creates a platform and mechanisms for the further construction of the SREB, contributing to the mutual development of these two structures” [Xue, Zhang, 2017].

If, with the help of the AIIB and Silk Road Fund, we can join forces and achieve a linkage with current EAEU infrastructure projects – especially those such as the Eurasian railway that has already gone through the planning and design phase – practical results of the construction of the SREB could appear in the near future. That means that “interconnected projects of the ‘Belt and Road’ will facilitate the linking and harmonizing of the development strategies of neighbouring states, freeing up the potential of the intraregional market, and stimulating investment and consumption, demand and employment...” [People’s Daily, 2015a]. One unit of investment in infrastructure yields 4.95 units of return at all stages of production. The economic return on investment in building the basic infrastructure of the SREB should therefore be very high. For that reason, construction of the SREB should unquestionably be linked with the strategic development of neighbouring states. We must move forward, hand in hand with their peoples, to inscribe ever more glorious pages in the annals of the SREB, creating still more examples of Eurasian economic cooperation and working together to promote construction of the SREB.

Conclusion

The number of SCO members grew to eight as of June 2017, and all aspire to develop economic cooperation. Linking the construction of the SREB with the SCO and EAEU, endowing the SCO with economic functions, creating the associated agencies, establishing platforms for cooperation, mechanisms and routes for interaction in conjunction with the EAEU – all of this should be placed on the agenda in the nearest future. The only way the SCO can carry out its important role in the construction of the SREB is by transforming its functions, establishing regional affiliates for economic cooperation and confirming its programme for strategic economic cooperation. Building on improved models of energy cooperation between China and Russia and the Central Asian countries, it can strengthen and deepen the production chain at all stages of energy production and create diversified mechanisms of industrial cooperation so that energy cooperation in the construction of the SREB stimulates all-round industrial cooperation between China and the relevant states as well as mutual development.
Working in conjunction with the SCO and EAEU, we have every opportunity to confidently promote cooperation in a businesslike and effective manner, to create a community benefiting from the One Belt One Road – a community sharing a common destiny and responsibility. In this way, we can make a fitting contribution towards the revival of the global economy and the peaceful development of the entire planet.

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Сотрудничество Китая с Россией и странами Центральной Азии в формате «Одного пояса, одного пути» как фактор развития ШОС 1

Н. Лу, Ш. Лу, М. Хуан

8 мая 2015 г. Китай и Россия опубликовали совместное заявление, наметив основные подходы к сопряжению проектов «Экономического пояса Шелкового пути» (ЭПШП) и Евразийского экономического союза (ЕАЭС). При этом общей институциональной платформой для реализации планов многомерного сотрудничества по объективным причинам пока может выступать только ШОС. Данная статья, опираясь на практику строительства ЭПШП, фокусирует внимание на исследовании перспектив трансформации ШОС за счет расширения экономической повестки организации. Ключевые факторы такой трансформации, рассматриваемые в статье, — это сотрудничество Китая с Россией и странами Центральной Азии в рамках реализации проектов «Пояса и Пути» и указанного заявления между Россией и КНР. Авторы рассматривают такие перспективные направления работы ШОС, как стимулирование и гармонизация торговых переговоров в Евразии и АТР, создание общего энергетического сообщества, расширение общих цепочек добавленной стоимости, финансирование инфраструктурных проектов и гармонизация подобных проектов со стратегическими планами стран — членов данной организации. В своем исследовании авторы отдают преимущество на анализ публичных выступлений лидеров стран — членов ШОС, анализ национальных доктринальных документов и международных соглашений. Ключевой вывод статьи заключается в необходимости быстрой трансформации ШОС в организацию с проактивной экономической повесткой, только в этом случае удастся эффективно реализовать планы по созданию пространства «Пояса и Пути», сопряжению ЕАЭС и ЭПШП и в долгосрочной перспективе — обеспечению региональной стабильности и экономической интеграции.

Ключевые слова: ШОС; функциональная трансформация; развитие сотрудничества


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The Central Asian Track of the One Belt One Road Initiative: Opportunities and Risks

R. Izimov, Z. Muratalieva

Ruslan Izimov – Head, Eurasian Studies Programme of the Institute of World Economy and Politics under the Foundation of the First President of the Republic of Kazakhstan; Bokeyhan Str. 10, Astana, 010000, The Republic of Kazakhstan; E-mail: iziruslan@mail.ru

Zamira Muratalieva – PhD, Associate Professor, Scientific Secretary, Institute for Strategic Analysis and Forecast of the Kyrgyz-Russian-Slavic University; Chui Str. 42, Bishkek, 720000, The Kyrgyz Republic; E-mail: nargi84@yandex.com

Abstract

With the exception of Turkmenistan, Central Asian countries have consistently viewed foreign policy as a multivector activity since their independence more than 25 years ago. In the past, this strategy has shown its effectiveness and irreplaceability. Striving to maintain a delicate balance between the interests of global and regional empires, Kazakhstan and other countries in the region continue to pursue a multivector policy today. However, this task becomes more complicated year by year as competition between regional actors gathers pace. In that respect, the emergence and implementation of the Chinese One Belt One Road (OBOR) initiative, which objectively increases the dependence of countries in the region on China, plays a special role.

This article reviews the emergence and implementation of China’s OBOR initiative in Central Asia. The authors set forth Beijing’s foreign policy strategy with respect to the initiative in terms of its main components in Central Asia. The cooperation of Kazakhstan and China is separately considered within the framework of the concept of linking the “Nurly Jol” state programme of infrastructural development for 2015–2019 and OBOR. Given the long-term nature of this project, forecasts are provided for the interaction of the Central Asian states with PRC within the framework of the Chinese initiative.

Additional issues relating to the coexistence of several projects in the Eurasian space, in which Kazakhstan and other countries of the region participate, are also considered. In particular, the authors analyze the role and place given by Chinese authorities to Russia within the OBOR strategy. Despite the official statements of the authorities or established plans (Beijing-Moscow high-speed railway, highway, etc.), China generally assigns an insignificant place to Russia in its strategy.

Moreover, by offering road construction projects to Moscow, Beijing apparently expects to divert Russia’s attention from its own plans in Central Asia. Against this background, there is a clear response from Moscow which is most evident in Russia’s desire to actively promote the Greater Eurasian Partnership project.

Key words: One Belt, One Road; Chinese initiative; OBOR; Nurly Jol; Kazakhstan; Central Asian strategy; Central Asian countries; geopolitics


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1 The editorial board received the article in November 2017.
Introduction

With the exception of Turkmenistan, Central Asian countries have consistently viewed foreign policy as a multivector activity since their independence more than 25 years ago. In the past, this strategy has shown its effectiveness and irreplaceability. Striving to maintain a delicate balance between the interests of global and regional empires, Kazakhstan and other countries in the region continue to pursue a multivector policy today. However, this task becomes more complicated year by year as competition between regional actors gathers pace.

The emergence and accelerated implementation of integration initiatives proposed by various centres of power raises more issues and intensifies competition in the Central Asia region. In this regard, the Chinese One Belt One Road (OBOR) initiative has undoubtedly contributed to increased competition. Year by year, its implementation sheds light on additional issues in need of resolution. In this context, Kazakhstan and other Central Asian republics find it increasingly difficult to maintain a fragile balance of power.

At the moment, OBOR clearly outweighs all other integration and multilateral cooperation projects within the Eurasian space. As a consequence, a shift towards China is apparent from the current foreign economic vectors of virtually all Central Asian republics. This is primarily due to the economic attractiveness of the Chinese initiative.

Moreover, there is a clear understanding that OBOR is a colossal geopolitical project proposed by PRC authorities, where the central role is assigned to the countries of Central Asia, and Kazakhstan in particular.

Judging by the statements of the Chairman of the People’s Republic of China, Xi Jinping [2017], the measures being currently implemented and the finances allocated for this project, the initiative can be confidently predicted to provide a long-lasting effect.

Finally, there is every reason to suppose that this initiative can become the core or main driver of the new foreign policy strategy of the PRC in the Eurasian space or, at least, in Central Asia.

It was all of the above that caused the active participation of the Central Asian countries in the Chinese initiative. However, the future prospects of OBOR in the Central Asian region face a number of difficulties.

In this article, the current status of China-Central Asia cooperation is analyzed through the prism of the implementation of the OBOR initiative. At the same time, special attention is paid to the problematic aspects of this interaction, taking into account the factor of competition between various centres of power within the Eurasian space.

On the Origins of OBOR

Since the early-2000s, Chinese authorities have used the format of the Shanghai Cooperation Organisation (SCO) to seamlessly resolve their issues with the countries of the Central Asian region. At the same time, in its interaction with Central Asian countries both within the SCO framework and bilaterally, Beijing almost always had to act with
regard to Russia. But as economic relations with the Central Asian countries deepened further, Beijing could no longer confine itself solely to the SCO format, which allowed solving key issues being border-related disputes. The future prospects of the SCO were based on the task of providing an effective dialogue platform between the countries of Central Asia, Russia and China.

The appearance in 2010 of a new integration association initiated by Moscow – the Customs Union of Kazakhstan, Russia and Belarus – was significant. The development of the Customs Union and the formation of the Eurasian Economic Union (EEU) as a full-fledged organization pushed China to look for more effective mechanisms to expand its influence in the West. It was at this point that the idea of forming the Silk Road Economic Belt (SREB) emerged for the first time in 2013, later forming the basis for the establishment of the OBOR format [Xi, 2014].

It was clear to Beijing that in the context of a steady increase in tension between China and the U.S., especially in the Asia-Pacific region, that it should more seriously consider land corridors as a future alternative to delivering its goods to Europe.

Taking into account the existing circumstances, the Chinese authorities decided to propose their own version of macroregional integration, dominated by China.

Kazakhstan as a Key Partner in the Success Story

In September 2013, as part of his first tour of the Central Asian countries after his election in March of the same year, Xi Jinping visited Kazakhstan. Speaking at the Nazarbayev University, the Chinese leader unexpectedly proposed an entirely new initiative to the attendees. In particular, Xi said: “With the aim of strengthening economic ties, deepening cooperation and expanding the space of development of the Eurasian countries, we can apply a new model of cooperation and jointly establish the Silk Road Economic Belt...” [Xi, 2013]. It was from that moment that a large-scale discussion of the Chinese initiative began.

From the beginning, Kazakhstan stood out as a key link in the Silk Road strategy. The initiative proposed by Chinese authorities was generally expected in Kazakhstan and in the rest of the region, since China had not submitted any specific regional foreign policy or economic strategy documents in 20 years of cooperation with the countries of Central Asia. In this regard, Beijing was to state its goals and objectives in the region in a conceptual form, and OBOR became such an initiative.

Choosing Kazakhstan was by no means accidental. According to Chinese authorities, Kazakhstan is the most stable republic in the region with both political and economic potential to become a full-fledged partner of China in its new initiative.

Singling out the advantages of Kazakhstan, the authorities of China highlighted several factors. First, Kazakhstan has strong transit capabilities because its vast territory allows implementation of various transport projects with access to Russia, the Caspian Sea and the Caucasus, Iran and the Persian Gulf, the Central Asian countries and India. Second, unlike other republics of Central Asia, Kazakhstan has remained politically stable for many years. Third, Kazakhstan offers a favourable investment climate [Lee, 2014].
In addition, Chinese experts believe that in the implementation of infrastructure projects, Beijing can fully rely on Kazakhstan as a country that can become an intermediary in paving the most profitable and beneficial routes through the territory of Kazakhstan, Turkmenistan, Azerbaijan and Turkey to Europe. Having the opportunity of close coordination with these countries within the framework of the Cooperation Council of Turkic-Speaking States, Astana can agree with Ankara and other countries on implementing projects in the transport sector. At the same time, it is Kazakhstan that can assist in obtaining Moscow’s loyalty with respect to the implementation of OBOR projects in Central Asia. But an important condition should be the exclusion of attempts on the part of Beijing to act behind Moscow’s back.

Moreover, in the opinion of Chinese authorities, Kazakhstan also has an important advantage in its wise and experienced policy-makers and the conduct of a far-sighted foreign policy. Given all these factors, the Chinese authorities have chosen Kazakhstan as a key partner and link in all projects being implemented in the western orientation of OBOR.

**A New Impetus for Cooperation**

Kazakhstan and China had been working closely together long before the OBOR initiative was launched. It is recognized that Kazakhstan managed to reverse one of the main negative trends in interaction with China, that is, an orientation toward commodities. Cooperation between Kazakhstan and China had been limited to raw materials since 1997, with the main items of bilateral trade being the export of oil, gas and minerals. But in accordance with the new tasks set under the OBOR initiative, Kazakh-Chinese cooperation has gained a new impetus.

As a result, today their cooperation covers a great number of projects in the real sector of the economy — industrial facilities are planned and built and, importantly, waterworks are being built and modernized with the assistance of China. Currently, the largest economic development programmes in the republic are in some way associated with China. At the end of 2014, Kazakhstan developed the “Nurly Jol” State Programme for Infrastructure Development for 2015–2019 which was specifically intended to fit with the projects allocated by China within the framework of OBOR [Syroyezhkin, 2016]. Since then, a large number of projects have emerged in the real sector of economy.

One of the key programme documents regulating economic relations between Kazakhstan and China at this stage is the Kazakh-Chinese investment cooperation programme, involving the transfer of industrial facilities from the territory of China to the territory of Kazakhstan.

Initially, Kazakhstan and China agreed on projects for a total of $26.2 billion [Zakon, 2016]. Over several years, 51 companies in the chemical industry, mining and metallurgy, engineering, infrastructure, energy, agro-industrial complex, light industry, oil refining, construction materials and information technologies will be established and modernized in Kazakhstan with the assistance of large Chinese companies.
New enterprises will be put into operation in practically all regions of Kazakhstan: in the North Kazakhstan region, East Kazakhstan region, Almaty region and the South Kazakhstan Region. Several projects have already been implemented; for example, a plant for the production of powdered polypropylene has been modernized in the Pavlodar region.

In addition to expanding production, the construction of new transport routes is planned. Construction of new transport arteries in the vast territory of Kazakhstan as well as modernization of old ones fully meet the interests of the republic. In close cooperation with China and under the flag of the implementation of the Maritime Silk Road initiative, Kazakhstan will have an opportunity to significantly expand its transit potential.

It is a widely recognized fact that state of the art technologies have significantly reduced the distance between Pacific ports and European countries through ground corridors. Transportation time through land routes has been almost halved.

As can be seen, Kazakhstan’s participation in OBOR generally provides a number of key advantages, including the development of transport and industrial potential, solution of social problems and so on. At the same time, in addition to opportunities, the implementation of OBOR also involves a number of real risks and challenges.

**Dynamics and Challenges from the Central Asian Perspective**

The increasing importance of Kazakhstan’s relationship with China is evidenced by the frequency of meetings between regional state leaders and the Chinese leadership. Individually, Kazakhstan, Kyrgyzstan and Tajikistan are undoubtedly the closest partners with China. At the same time, in the last six months there have been marked impulses in relations between China and Uzbekistan with the first results already visible.

It is believed among experts that Kyrgyzstan and Tajikistan are more dependent on China than others, and the credit resources are allocated accordingly. Thus, according to the media, China accounts for about half of Kyrgyzstan’s external debt [Khassanova, 2017].

Despite the lack of accurate data, another trend is alarming — a sharp and rapid increase in debt to China. According to the Kyrgyz media, as early as 2011 Kyrgyzstan had to pay a total of $272 million to the PRC. By the end of 2016 this amount had increased fivefold to about $1.444 billion [K-News, 2016].

In addition, the establishment of a Kyrgyz-Chinese development fund is under discussion, with the PRC having a 100% share in the capital [Akchabar Print, 2017]. If it is established, Beijing will allocate $1 billion to Kyrgyzstan [Gezitter, 2017]. The former president of the Kyrgyz Republic, A. Atambayev, during the OBOR summit held in May 2017 stated that Kyrgyzstan was ready to link the national programme “Taza Koom” with the digital Silk Road [Atambayev, 2017]. Due to the fact that this initiative is implemented on the Chinese side, China Telecom may become the potential executor of the project.

The place and role of the Kyrgyz Republic in OBOR is conditioned by the implementation of specific projects in the field of transport, as well as long-term security interests.
The Kyrgyz track within the Silk Road Economic Belt project differs from the rest in that Kyrgyzstan, being a member of the World Trade Organization, is one of the key trade corridors of China’s reach to the countries of the West. And it is the undeveloped transport corridors that largely impede the process of further deepening cooperation in the trade area. In this context, China offers the task of building the “China-Kyrgyzstan-Uzbekistan” railway within the context of the implementation of the OBOR’s global strategy. The foregoing predetermines that the construction of this railway is to move into a practical stage in the coming years.

In Tajikistan, the situation is almost the same as in Kyrgyzstan with China accounting for half of the external debt [Bondarenko, 2016]. In 2016, the PRC ranked first in terms of the amount of funds invested in the economy of Tajikistan, surpassing Russia. The total scope of China’s accumulated direct investment reached $1.6 billion, or 30% of the total amount of accumulated investment, about $3.8 billion. China’s direct investments to Tajikistan totaled about $255 million in 2016, which accounted for 71.8% of total investment for the period. In the first three months of 2017, China accounted for 58.2% of the total scope of all foreign investment, which in monetary terms is $76.6 million [Asia-Plus, 2017].

In fact, it is clear that these two republics, like other countries, are trying to make use of the opportunities provided by China. However, in view of the size of the economies of Kyrgyzstan and Tajikistan, the loans allocated by China made up most of the gross domestic product of these republics. Against this background, one gets the impression of total dependence on the PRC.

It seems that, on the whole, the deepening of ties between Kyrgyzstan and Tajikistan with China is a natural process, especially taking into account their common border. At the same time, there are disturbing issues such as the deepening of ties with China in the military sector, as evident in Tajikistan, and the issue of land leasing.

Quite rapid changes have been observed in Chinese-Uzbek relations. The reforms being implemented today are in contrast to the policy pursued by the former authorities of Uzbekistan.

The policy of “equidistance,” as the Uzbek authorities have characterized it [Furstenberg, 2017], appears to be gradually transforming. It is known that Islam Karimov tried to maintain a balance in foreign policy. In the history of independent Uzbekistan there were periods of deference toward the West until 2005, and toward Russia as well. But Uzbek policy never featured an evident rapprochement with China. In this aspect Tashkent always maintained a clear position of limiting Chinese influence and presence in the republic.

Today, there is every reason to believe that the Chinese vector of Uzbekistan’s foreign economic activity is intensifying and taking place as primarily desired by Tashkent.

In May 2017, the first visit of Uzbekistan’s President Shavkat Mirziyoyev to China took place, following which more than 100 agreements were signed worth a total of $20 billion – this is a significant figure given that in 2016 total trade between the Republic of Uzbekistan and the PRC was $4.2 billion [Mirziyoyev, 2016]. Moreover, Chinese capital is invested in sectors including oil refining, chemical industry, infrastructure projects and
the area of hydraulic power engineering. According to Uzbek media, China will assist in
the construction of nine new hydroelectric power stations and the upgrade of 15. This
will allow Uzbekistan to produce up to 5.25 billion kWh of electricity per year.

On the whole, the policy of greater readiness to cooperate with global and regional
e Empires adopted by the new authorities of Uzbekistan had long been in the making and
is fully in line with current realities. However, Uzbekistan is required to prevent China’s
excessive influence and try to maintain a balance.

It is important to understand that China is to some extent trying to reduce the so­
called “monopoly” of Kazakhstan as the main and only transit hub and key partner of
China in the region. It was with the goal of diluting the influence and role of Kazakh­
stan in Central Asia that Chinese authorities decided to build the fourth branch of the
gas pipeline along a new route, bypassing Kazakhstan.

The initiative was meant to connect Turkmenistan, Uzbekistan, Tajikistan and
Kyrgyzstan within one single project. However, this idea turned out to be quite diffi­
cult. Thus, the deadline for the project has long since expired, and the construction of
sites in Tajikistan, Kyrgyzstan and Uzbekistan is still incomplete. Moreover, in some
areas the work has not even begun [Isimov, 2016].

Currently, China is promoting another ambitious project – the China­Kyrgyzstan­
Uzbekistan railway. Speaking in Beijing, Sh. Mirziyoyev said that Uzbekistan was in­
terested in building this railway with further connections to the roads of Afghanistan,
Turkmenistan and Iran [Wen, 2017]. The authorities of Kyrgyzstan generally support
this project.

Thus, there is a general political will among the key participants to support the
project. But there are still many unresolved issues, those being the width of the track,
the terms of financing and use.

It should be noted that the construction of this railway line is, on the whole, not
very profitable for Kazakhstan because it will divert some of the cargo traffic that is
currently going through the territory. But on the other hand, the implementation of this
project will establish conditions for healthy competition and facilitate improvement of
railway border crossings between Kazakhstan and the PRC.

It should also be noted that there is some concern, not only among ordinary citizens
but also among the expert community, with respect to the expansion of Chinese influ­
ence, in this case in the context of the establishment of 51 enterprises. People in Kazakh­
stan have observed a continuous expansion of the Chinese presence in the economy since
the late-1990s. The increase in the number of Chinese companies operating in Kazakh­
stan, coupled with the transformation of the PRC into a global economic power and the
growth of Beijing’s military strength, have generated a cautious attitude.

The goals and objectives of the Silk Road project are to open borders for the free
movement of goods and people between China and Central Asia. It is with this that
certain risks are most associated, since the prospect of being subsumed within the ex­
pansion of China’s trade, economic and migration is emerging.

In this context, OBOR is strongly linked to another Chinese project, the free trade
area within the SCO. This proposal by Beijing was blocked by Moscow, after which
Chinese authorities may have changed their tactics, based, first of all, on bilateral cooperation with each of the Central Asian republics. At SCO events, Chinese authorities once again announced their interest in establishing the free trade area within the framework of the SCO [Shtukina, 2015].

Despite official statements by Chinese authorities that the PRC does not aspire to world domination, Beijing appears to be seriously intent on forming an alternative to the existing world order. In financial terms, China has already created multilateral financial structures in the form of the Asian Infrastructure Investment Bank (AIIB) with capital totaling $800 billion. At the same time, Beijing has already promoted the idea of free trade area with the Asia-Pacific Economic Cooperation (APEC) countries and established the Silk Road Fund with capital totaling $40 billion. The consolidation of the geopolitical aspect of a China-centred world is to be ensured through a long-term strategy focused on both land and sea. The focus on long-term political benefits will determine the secondary nature of China’s economic benefits for itself.

Proceeding from the above, during the first stage (presumably lasting from five to seven years), projects within the framework of the OBOR strategy will appear to be extremely beneficial for participants in terms of economic dividends and real profits. In particular, the Chinese projects within this strategy are much more attractive than the Trans-Pacific Partnership (TTP) or Regional Comprehensive Economic Partnership (RCEP). But, in the longer run, these projects will contribute to increasing dependence on Chinese investment and goods on the one hand, and increased distance from western political and economic structures on the other.

At the same time, the Chinese strategy is likely to face serious opposition from the U.S. and its allies, especially in the southeast. Noting the risks of the Chinese strategy, Chinese expert Zhou Wenzhong, secretary general of the Boao Forum for Asia, said that it is necessary to prepare for two challenges: the geopolitical issue and the risk in the field of international finance [Wang, 2015]. In other words, Zhou hints that in the medium term, China will face the same challenges that the United States faced in carrying out its policy in other regions of the world. In particular, sooner or later, an issue will emerge with respect to ensuring stability in those countries in which large investments are made. The OBOR will involve making multibillion dollar investments in countries that are not very stable politically and financially (the countries of Southeast, Central and South Asia, Africa and the Middle East); thus, Chinese authorities need to be ready to use force outside the country and, accordingly, to be criticized by the world community.

Among the potential risks of the Chinese project is a sharp increase in the geopolitical influence of Beijing in the countries of the region. This is due to the fact that in the context of the growing geopolitical confrontation between the U.S. and Russia, especially against the background of western sanctions, they risk missing important moments in Central Asia. Taking advantage of this situation, China is acting to implement the OBOR in the near future.

At the same time, it should be expressly noted that when considering the OBOR, it is customary to take into account external conditions only [Economist Intelligence Unit, 2015]. These conditions include the political and economic situation in Central
Asia, the readiness of these states to support the projects, the attitude and position of Russia and other centres of power and so on. But, it seems, one should not forget about the internal readiness and, most importantly, the opportunities for the Chinese economy itself to implement such a grandiose project. Today, China has found the necessary finances specifically for the purposes of the Silk Road Economic Belt project, and the OBOR strategy initiated the establishment of two major financial institutions — the Silk Road Fund and the Asian Infrastructure Investment Bank.

It is important to bear in mind that the Chinese economy is entering a dangerous period in its development and it might be at this very moment that China’s “economic miracle” could end. According to experts, the Chinese economy will show a high level of public debt by the end of 2017, while the situation in the stock market and the real estate market confirm that the Chinese economy is facing fundamental problems [CAA-Net, 2016].

At the same time, it is necessary to take into account such internal factors as intraparty strife in China. And can ambitious Xi Jinping make any drastic changes to the system of generation-to-generation power transfer at all? All these issues will have a direct impact on the success and stability of OBOR.

OBOR in Interaction with Other Projects in the Region

Another point intensifies concerns related to the Chinese project. In particular, the role and place assigned by Chinese authorities to Russia in the OBOR strategy is still uncertain. Despite official statements of authorities, as well as plans for a Beijing-Moscow high-speed railway, highway and other projects, China generally assigns an insignificant place to Russia in its strategy. Moreover, by offering road construction projects to Moscow, Beijing apparently expects to divert Russia’s attention from its own plans in Central Asia.

China had initially assigned Moscow a special place in the implementation of OBOR. In 2013, Xi stated: “Together with Russia and the countries of Central Asia, we are ready to make joint efforts to build a harmonious region strengthening cooperation and coordination” [Xi, 2013]. Moscow responded by stating its support for the Chinese initiative. Moreover, in May 2015 a joint statement was made specifically to announce the intention to combine the EEU and SREB [President of Russia, 2015].

However, today it appears that the official position of Moscow and especially the Russian expert community has become transformed with respect to the OBOR. In particular, Russia shows interest in the new format while furthering discussions of the prospects for participation in OBOR. Speaking at the forum in Beijing in May 2017, President V. Putin continued promoting the idea of a greater Eurasian partnership, while the idea of combining the EEU and SREB was never mentioned [President of Russia, 2017].

The emphasis placed by the Russian leader shows that Moscow is ready to participate in the Chinese initiative, but within the framework of a more ambitious formula for the Eurasian partnership than within the framework of the combination that had been previously announced. Speaking in Beijing in May 2017, Putin stated: “I think
that combining the potentials of such integration formats as the EEU, “One Belt, One Road,” the Shanghai Cooperation Organisation, the Association of Southeast Asian Nations can form the basis for the establishment of the large Eurasian partnership. It is with this approach that we consider it possible to regard the agenda proposed by the PRC today [President of Russia, 2017].

It is quite clear that the current relationship between Russia and China is characterized by mutual concessions. Each of the parties is interested in the other and in solving its own problems; thus, their competing views are somewhat reduced. But in the long-term geopolitical plan, China and Russia remain rivals, and given the ambitious plans of the PRC to form a China-centred world order, their rivalry is likely to once again become irreconcilable.

However, as recent agreements show, China continues to exercise a combination approach, and China and the EEU announced the completion of negotiations on the Agreement for Trade and Economic Cooperation [Eurasian Economic Commission, 2017].

Conclusion

The emergence and implementation of the One Belt One Road initiative unequivocally provided a noticeable impetus to cooperation among the countries of Central Asia and China. Many new projects have materialized, including in the real sector of economy and the transport sector.

Since 2013, major changes have taken place as programmes and projects have been implemented under this strategy. In China more than 50 research centres have been established, specializing in Central Asia and Silk Road studies [Belt and Road Database].

Quite a few public and private programmes have emerged in Central Asia riding the wave of the projects implemented within the OBOR framework.

However, the countries of the Central Asian region differ in their vision of and approaches to cooperation with China. It is clear that each country, when developing a strategy of engagement with the PRC, proceeds from its own national interests. Beijing benefits from such disunity by negotiating with each of them separately.

Meanwhile, China itself, as well as its foreign policy and economic activity, is in the process of constant updating or supplementation. In this regard, China’s rapid growth and changes in the mechanisms for carrying out foreign economic strategy creates certain risks for its partners.

Being in the same neighbourhood as the PRC, Kazakhstan is one of the first to feel changes in Chinese policy. The process of interaction with China involves a number of real risks. That is why Kazakhstan’s foreign policy strategy is based on the principle of multivector activity. That is, while actively participating in the Chinese OBOR initiative, Astana also participates in the processes of Eurasian integration, supports the C5+1 mechanism and closely interacts with European partners as well.

In general, all the countries of Central Asia face the challenge of parity-based cooperation with such a giant as China. China’s advantage is obvious in not only the
scope and scale of its economy, but also in the preparedness of its human resources specializing in the Central Asian region.

At the same time, despite certain contradictions on the part of global and regional powers, the implementation of projects under the auspices of OBOR is in full swing. This is largely due to China’s strong financial support.

However, what will happen to the Chinese initiative after China refuses to finance all projects in a row? In fact, we are already observing this. Indeed, despite the need for an image component of OBOR, the Chinese economy cannot afford to finance all existing projects.

Moreover, recent studies show that large infrastructure projects financed by China within the framework of OBOR share a major drawback in the low efficiency of subsequent management [Golunov, 2017; Shepard, 2017]. This leads to a cost overrun. At the same time, western experts point to the growing political influence of China in those countries where it finances projects and programmes [Pop, 2016]. With that in mind, OBOR leads to an increased dependence on China, which is in no one’s interest.

In general, there are many questions on the subsequent fate of OBOR from the Central Asian perspective still to be answered. And in this context, many things will depend on a combination of factors that include the position and policies of the Central Asian countries themselves, further vision and approaches practiced by China, the position and actions of Russia as a key player in the region and the activity of other centres of power as well.

References


NEW DIMENSIONS OF THE GREATER EURASIAN PROJECT. NATIONAL PERSPECTIVES


Централизоазиатский трек инициативы «Пояс и путь»: возможности и риски

Р.Ю. Изимов, З.Т. Мураталиева

Изимов Руслан Юсупжанович — руководитель Программы евразийских исследований Института мировой экономики и политики при Фонде Первого Президента РК — Елбасы; Республика Казахстан, 010000, Астана, ул. Бокейхана, д. 10; E-mail: iziruslan@mail.ru

Мураталиева Замира Тулкуновна — к.полит.н., доцент, ученый секретарь Института стратегического анализа и прогноза Кыргызско-Российско-Славянского университета; Кыргызская Республика, 720000, Бишкек, просп. Чуй 42; E-mail: nargi84@yandex.com

Более четверти века, с момента обретения независимости, большинство стран Центральной Азии, за исключением Туркменистана, последовательно реализуют главный принцип внешней политики — многовекторность. За прошедший период данная стратегия показала свою эффективность и незаменимость.

Стремясь удерживать хрупкий баланс между интересами глобальных и региональных держав, Казахстан и другие страны региона и сегодня продолжают политику многовекторности. Однако нужно признать, что данная задача с каждым годом усложняется ввиду ужесточения конкуренции между региональными акторами. В этом плане особую роль играет появление и реализация китайской инициативы «Пояс и путь», которая объективно увеличивает зависимость стран региона от Китая.

В статье анализируется процесс появления и реализации китайской инициативы «Пояс и путь» в Центральной Азии. Авторы подробно описывают внешнеполитическую стратегию Пекина с появлением инициативы ОПОП с точки зрения ее основных компонентов в Центральной Азии.

Отдельно рассматривается сотрудничество Казахстана и Китая в рамках идеи стыковки Государственной программы инфраструктурного развития «Нұрлы жол» на 2015–2019 гг. и ОПОП. С учетом долгосрочности указанного проекта даются прогнозы взаимодействия государств Центральной Азии с Поднебесной в рамках китайской инициативы.

Также затрагиваются вопросы дальнейшего осуществления нескольких проектов на евразийском пространстве, в которых участвуют Казахстан и другие страны региона. В частности, авторы анализируют роль и место, отведенное китайскими властями России в стратегии ОПОП. Несмотря на официальные заявления властей, а также намечаемые планы, по большому счету Китай отводит России несущественное место в своей стратегии. Более того, предложив Москве указанные проекты строительства дорог, Пекин, судя по всему, рассчитывает отвлечь внимание России от собственных планов в Центральной Азии. На этом фоне наблюдается определенная ответная реакция Москвы, что наиболее ярко проявляется в стремлении России вновь продвигать проект «Большого евразийского партнерства».

Ключевые слова: китайская инициатива «Пояс и путь»; ОПОП; «Нұрлы жол»; Казахстан; центральноазиатская стратегия; страны Центральной Азии; геополитика


Источники


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