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# **Eurasian Economic Union and Silk Road Economic Belt: is it really a “win-win” cooperation? The case of Central Asia**

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# ***Eurasian Economic Union (EAEU)***

- The treaty came into force on January 1, 2015;
- Members: Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia;
- The EAEU introduces the free movement of goods, capital, services and people;
- Common policies in macroeconomic sphere, transport, industry and agriculture, energy, foreign trade and investment, customs, technical regulation, competition and antitrust regulation.

# ***Silk Road Economic Belt (SREB)***

- First reference to Silk Route through Central Asia was done by Xi Jinping during his visit to Kazakhstan in September 2013;
- He proposed the idea of a Silk Road Economic Belt. The proposal was aimed at connectivity with Europe via Central Asia to increase trade between the Asia Pacific Region and Europe;
- Later, in October of 2013 on a visit to Indonesia, President Jinping put forward the idea of a 'Maritime Silk Road of the Twenty first Century' (MSR). Taken together, the 'Belt' and the 'Road' initiatives reflect China's core strategy and policy orientation;
- Incidentally, in Chinese lexicon the two initiatives are referred to as the **Belt and the Road (BRI)** or the **One Belt One Road (OBOR)**;
- China aims at promotion of such cross-continental partnership in five areas: policy communication, road connectivity, unimpeded trade, money circulation, and cultural understanding;
- Most of the big projects still have not been carried out.

# *Six Potential Corridors*



The six economic corridors designed to link China with developing countries

# New Silk Roads | China is assembling new trade routes, binding other regions closer to it



Sources: Xinhua (Silk Road routes); U.S. Department of Defense, Gazprom, Transneft (pipelines); United Nations (rail entry points)

# ***Financial Assistance***

<b>Name</b>	<b>Size</b>	<b>Intended recipients</b>	<b>Focus</b>	<b>Funding source</b>
Asian Infrastructure Investment Bank (AIIB)	Capital base is \$100 billion	All regional member countries	Infrastructure	Member countries
Silk Road Fund	Total capital is \$54.5 billion	Countries along BRI routes	Infrastructure, resource development, industrial cooperation	Mostly Chinese capital



# ***EAEU and SREB Conjunction***

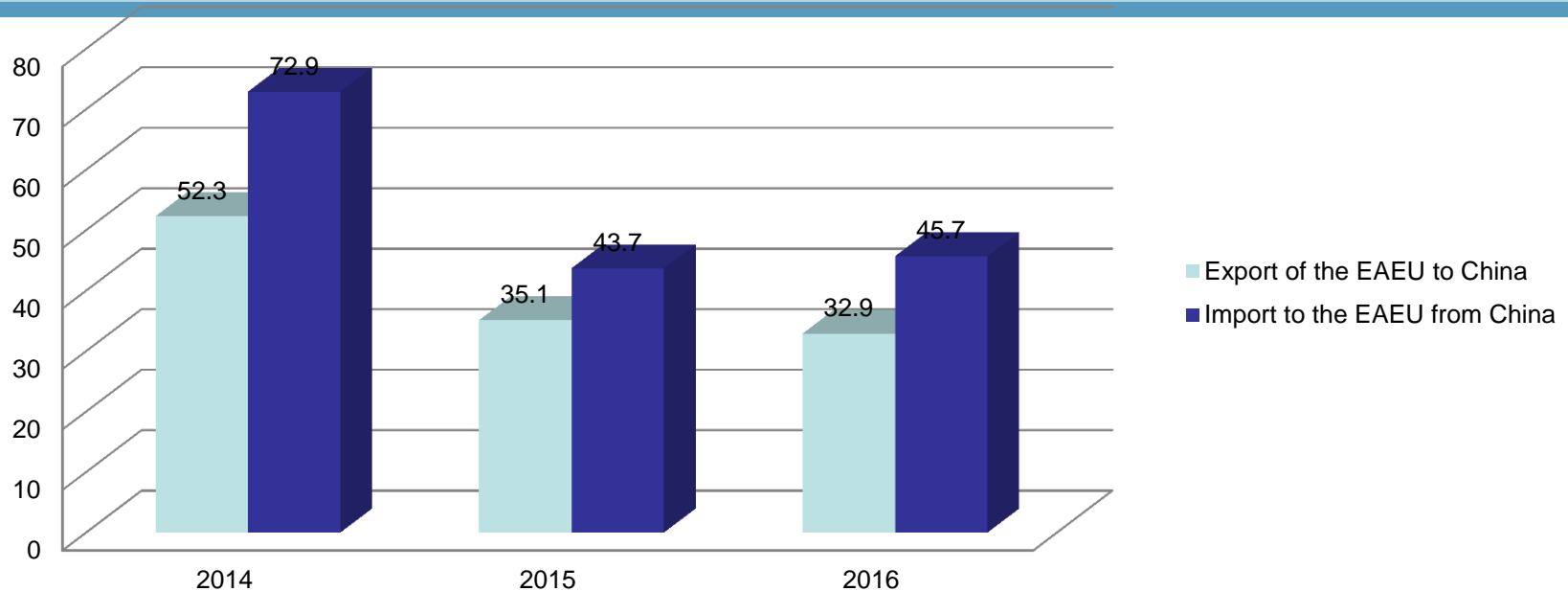
- Russia and China joined an agreement for greater cooperation between EAEU and SREB in May 2015;
- On October 1, 2017 in Hangzhou China's Commerce Minister and Eurasian Economic Commission (EEC) signed a **joint statement on finalizing the negotiations process on the trade-economic agreement** between the Eurasian Economic Union and China.



# ***EAEU and SREB Conjunction***

- There are 39 priority infrastructure projects:
  - Armenia - 2 projects;
  - Belarus - 3;
  - Kyrgyzstan and Russia - 12 each;
  - Kazakhstan - 10.
- 20 projects from the list belong to the railway transport sector;
- The projects are in different degrees of development and implementation, therefore, estimates of the possible amount of financing are conditional.

# Trade Turnover, \$ bln.



- Trade turnover between the **EAEU** and **China** has been quite unstable due to the economic stagnation in the EAEU member countries, particularly Russia and Kazakhstan.
- At the same time, there is an asymmetry both in the relative weight of mutual trade and in the structure of mutual exports and imports. For instance, mineral raw materials, primarily fuel and energy, make up 73.3% of the EAEU exports.
- The main commodity groups of EAEU imports from China are machinery and equipment (29.1%), textiles (17.5%) and non-precious metals (10.2%).

# ***ARMENIA and BELARUS***

- Level of investment cooperation between **China** and **Armenia** is almost equal to zero;
- Chance for Armenia to connect with the world – land border with Iran;
- Project on linkage the existing railroad system in Armenia with Iran (will be discussed in December 2017);
  
- Level of investment cooperation between **China** and **Belarus** is very small;
- The China-Belarus industrial park Great Stone;

# ***KAZAKHSTAN***

- **Kazakhstan** has a specific state infrastructure development program called “Nurly Zhol”;
- Creation of Kazakh-China Direct Investments Fund with initial capitalization \$500 mln. in 2014;
- Sectors: infrastructure, logistics, manufacturing industry, energy, agriculture etc.;
- The top priorities are **rail and road transit corridors**, because the share of both types in transit is 90–95%;

# KAZAKHSTAN

- The main project for Kazakhstan is the participation in the trans-continental corridor „**Western Europe – Western China**“.
- The total length of the corridor is 8,445 km. In Kazakhstan it passes through five regions – Aktobe, Kyzylorda, South-Kazakhstan, Zhambyl and Almaty.
- Most of the Kazakhstani section has already been reconstructed and opened in the end of 2016;
- The highway „**Western Europe – Western China**“ will significantly reduce the time of cargo transportation in comparison with the existing alternative corridors;
- The route from the Chinese port of Lianyungang to the EU will take about 10 days. According to experts this optimization will increase cargo transportation 2.5 times by 2020 and the average annual total economic effect will amount to 33.9 bln tenge;
- According to experts' estimates, by 2020 the cargo turnover on the Khorgos Gate which connects China and Kazakhstan through railway, road and oil pipeline will have reached 20 million tons per year, and by 2030 – up to 35 million tons;

# ***KYRGYZSTAN***

- **Kyrgyzstan** under the Silk Road Economic Belt Initiative tries to utilize its transit potential and attract China's investment into its own transport infrastructure projects;
- In terms of Kyrgyz-Chinese cooperation lots of debates are related to the **China-Kyrgyzstan-Uzbekistan railway line** which is being discussed since the beginning of the 2000s. Kyrgyzstan believes that the line could lead to direct revenues from transit activities and open access to new markets, including to Iran. According to a feasibility study the new railway will connect with the existing railroad crossing in Naryn and Jalal-Abad oblasts and leave Kyrgyzstan for Uzbekistan;

# ***KYRGYZSTAN***

- The total length of the railway is estimated at 433 kilometers. The project requires US\$ 5 bln. and the construction is planned to be 8 years. It is expected that 12 million tons of cargo will be transported through the territory of Kyrgyzstan per year;
- On the other hand, some experts question the potential benefits of building and operating the railroad. They emphasize that real income from transit, previously estimated at US\$ 200 mln., can actually be lower and the project will not even pay;
- This is especially important considering that the Chinese share in Kyrgyzstan's foreign debt amounts to 38.4%. The total debt of the country equals 56.3% of the country's GDP;



# ***RUSSIA***

- Devaluation of ruble makes many Russian goods more competitive on Chinese market particularly – the question is in the development of central and eastern regions (production, logistics etc.);
- Russia as well increases the capacity of its own corridors, including the Trans-Siberian railway, to attract a bigger amount of Chinese goods going west;
- Two investments funded from Silk Road Fund: **acquisition of 9.9% of shares in the NOVATEK project** for the production of liquefied natural gas "Yamal LNG" and the **purchase of 10% of the petrochemical holding "Sibur"**.

# ***RUSSIA***

- Interest from Chinese investors in the construction of a high-speed railway from Moscow to Kazan on the condition that the rail line would be later expanded to Beijing;
- A memorandum of understanding has been signed. The original plan was that the rail line between Moscow and Beijing would pass through Yekaterinburg, Astana, Irkutsk, Ulan-Bator and Khabarovsk. Later, it was announced that from Astana the line would instead go through the Xinjiang Uygur Autonomous Region into Chinese territory, cutting travel time between Moscow and Beijing from six to two days. The approximate cost of this project will be \$245 billion;
- No actions in realizing this project;

# ***UZBEKISTAN***

- **Uzbekistan** and China signed a Protocol on the expansion of mutually beneficial trade and economic cooperation within the framework of the construction of the „Silk Road Economic Belt“ in mid-June 2015;
- China heavily invests in transport projects in **Uzbekistan**;
- Last year the construction of an electrified railway which links the Fergana Valley with the main part of Uzbekistan was completed;
- The total cost of the Angren-Pap railway project was estimated at US\$ 1.68 bln. of which over US\$ 1.08 bln. is invested by Uzbekistan Temir Yollari, the Fund for Reconstruction and Development of Uzbekistan and the state budget;
- About US\$ 450 mln. were provided by the Chinese „Eximbank“ and US\$ 195 mln. by the World Bank;
- The new route may be used to include Uzbekistan into the global logistics network of China, if Beijing builds the China-Kyrgyzstan-Uzbekistan railway;
- If the project is implemented, the route through Uzbekistan will connect the Xinjiang Uyghur Autonomous Region with the countries of the Persian Gulf.

# ***TAJIKISTAN***

- China is now the main investor in **Tajikistan's** economy;
- Dushanbe's debts to Beijing exceeded US\$ 1 bln which is a half of Tajikistan's foreign debts;
- These debts were mainly spent on infrastructure, in particular on the construction of roads and tunnels;
- The priority of Chinese construction projects in the transport sector is the development of the Dushanbe-Kulma-Kashgar automobile corridor which should connect the main Tajik cities with the road system of northwestern China;

# ***TAJIKISTAN***

- **Tajikistan** has only one railway line – through Uzbekistan – which connects the country with the post-Soviet space (which was closed since 2011);
- Dushanbe has repeatedly stated the need to build new railways, but has not yet managed to find investors to implement its plans;
- Concerns on negative affect on Chinese level of economic investments;

# ***TURKMENISTAN***

- **Turkmenistan** does not prioritize in its agenda to become a “key transit point” in the region;
- The China-Kazakhstan-Turkmenistan-Iran corridor is the main project;
- On January 28, 2016, the container train from Yiwu city in China to Tehran successfully crossed Kazakhstan and Turkmenistan;
- The trip took just 16 days which is twice as fast as the sea routes. This became possible with the Uzen-Bereket-Gorgan railway line which was opened in 2014;
- Natural gas from Turkmenistan, Uzbekistan, and Kazakhstan reaches China through the Central Asia-China Gas Pipeline—actually a system of three (and soon four) pipelines. The system starts in the Turkmen-Uzbek border city of Gedaim, runs through Uzbekistan and Kazakhstan, and crosses into China’s Xinjiang province at the Chinese-Kazakh border town of Khorgos;
- The pipeline’s length is 1,830 kilometers and its total capacity will reach 55 bcm per year.

# ***CHALLENGES***

- Contradictory understandings of the SREB's strategic agenda;
- China prefers infrastructure projects to be undertaken by Chinese companies and Chinese workers;
- Track gauges for railway projects. China prefers to use the European standard of **1,435** millimetres, while the track gauge on rail lines in the post-Soviet space is typically **1,520** millimetres;
- EEC's SREB related priorities are trade and technical regulation while investments and transport are not discussed;
- Slowdown of EAEU and SREB conjunction road map development;



# ***CONCLUSION***

It can be a “win-win” cooperation if interests of all participating countries are taken into account

**THANK YOU!**