

# Decision time for Central Asia: Russia or China?

If one turns enough of a blind eye, it is easy to be optimistic about Central Asia. Wily diplomats from Kyrgyzstan and Tajikistan are masterfully playing off the great powers. Kazakhstan and Turkmenistan are turning into hubs in their own right - and nobody can tell plucky Uzbekistan what to do. This is nobody's backyard, and attempts by neo-imperialists in Moscow, Washington and Beijing to play games in the region are only strengthening the hands of the Central Asian states themselves. This is a comforting picture - which is why Western policymakers love it - but it looks increasingly false as President Putin tightens the screws.

## Why a Eurasian Union matters

Russia's desire to strengthen its sphere of influence in Central Asia seems to be intensifying. The first sign came in October 2011 when Russia's 'national leader' published his vision for a Eurasian Union in the Gazprom-Media owned daily Izvestia. Here Putin stated that the Customs Union with Belarus and Kazakhstan that would come into force on 1st January 2012 was just the beginning - and that it would expand 'by involving Kyrgyzstan and Tajikistan. Then, we plan to go beyond that, and set ourselves the ambitious goal of a higher level of integration - a Eurasian Union.'

The Russian president is said to dream of his third term being his 'geopolitical presidency,' where he will make up for the lost ground and lack of achievement in foreign affairs that he views as his main failing. The transformation of the fledgling Customs Union into the Eurasian Union of his dreams is the centrepiece of this strategy. Whilst Kazakhstan seems to have already decided that it wants to be a part of the Union (and its president, Nursultan Nazarbayev is credited for first raising the idea of a Customs Union back in 1995), for the Central Asian states of Kyrgyzstan and Tajikistan this is a potential turning point, forcing a decision on which partner they want to prioritize: China or Russia?

Deciding whether to follow Putin into the Eurasian Union will be a decisive choice for both states in the year ahead, as it will force them to choose which they want to risk: the GDP they get from trade with China or the GDP generated from remittances from their nationals working in Russia. Putin has thrown down the gauntlet - they will now have to make up their minds whether their economic future is going to be closer to Moscow or Beijing. Their dichotomy is not quite as black and white as this, but this is nevertheless a power test. The choices they make will decide whether Russia or China has a stronger say in Central Asia.

## Kyrgyzstan's dilemma

There is a simple reason why Putin's union matters so much to Kyrgyzstan and Tajikistan: trade with China. Unlike energy rich Kazakhstan, already in the Customs Union, Bishkek and Dushanbe's economies are dependent on business with Beijing. Kyrgyzstan's 'shuttle trade' business with China, where small traders cross borders as 'tourists' with their goods in suitcases in order to avoid Customs duties, accounts for roughly a third of its GDP.

On the other hand there is fear in Bishkek that if they do not deepen integration with Moscow then the millions of migrant workers it exports to Russia - whose remittances are also equivalent to a third of GDP - will be forced to carry international passports, or suffer far reduced quotas. The nightmare is that they will eventually end up barred from Moscow's labour market by a full visa regime - something nationalist elements in Russia, including charismatic opposition leader Alexey Navalny, have been calling for.

These fears are well grounded: in December 2012 Putin warned that within three years he wanted to end the post-Soviet practice of migrants from the CIS being able to come to Russia on their internal passports, effectively ID

cards – but Customs Union members will be exempted from the new requirement for international passports. Polls conducted by the independent Levada Centreshow over 60% of Russians supporting tighter immigration controls.

That free access to Russia can no longer be taken for granted is not lost on Kyrgyzstan. But at the same time the Kyrgyz elite fears that joining a Eurasian Union would mean effectively losing control over its border tariffs and regulations, and would destroy the rich network of new trade routes that are tying them into China, bringing them cheap goods and enabling a substantial re-export economy. These trade routes are economic lifelines for this fragile state – and for this network the Customs Union has all the potential to be a total disaster. As a former Kyrgyz cabinet minister put it to one of us in Bishkek last year, it would ‘decimate’ the country’s key markets in the south at Kara Suu and Osh. In his words, ‘almost every’ small business in Kyrgyzstan is reliant on trade with China and any new tariffs or rules would entirely change the local economy.

## **China: vulnerability and official indifference**

Chinese officials insist that the expansion of the Customs Union matters little to them. Ambassador to Bishkek Wang Kaiwen put it succinctly to reporters in late November when he said: ‘Kyrgyzstan’s entry into this Customs Union will not affect trade relations with China.’ Kyrgyz-Chinese trade, he pointed out, oscillated somewhere between \$5-\$10 billion per annum, a figure that was ‘a small problem’ dwarfed by China’s overall foreign trade of \$3 trillion. The question of whether ‘to join or not...should be your decision.’

This blunt response hides a complex reality. It is true that in the grand scheme of things, China’s trade with Kyrgyzstan is a drop in the ocean. The problem for China is that it is a drop that comes from one of the most troubled parts of one of its most restive provinces. China is not investing massively in its trade infrastructure with Central Asian countries for reasons of charity – but to stabilize its own restive Xinjiang Uygur province by turning it into a trade hub for this region.

The Eurasian Union would have a potentially damaging effect on the substantial investment China has made on both sides of its border. The erection of a Russia controlled tariff barrier between China and Kyrgyzstan is likely to have a chilling effect on trade coming out of Kashgar, at a time when the Chinese government has invested a great deal into trying to develop the southern city. Capital of a part of Xinjiang that has faced heightened ethnic tensions for decades, the government has spent a lot of money re-developing the old city and establishing a Special Economic Zone with the aim of turning it into a hub for Central Asian trade.

According to recent figures China invested some \$91.91 billion into infrastructure in its ‘western provinces’ – an area that covers Tibet, Guizhou and Xinjiang. This is a focused strategy and Xinjiang sits in the middle of it. All of this will be threatened if suddenly traders no longer find it profitable to send their goods along the roads winding into the CIS from Kashgar. At the same time these traders’ choice of markets is surprisingly limited: without a route through Kyrgyzstan or Tajikistan they would have to travel through the Khunjerab Pass to Pakistan. The problem there is the roads on the Pakistani side remain woefully under-built. Their only other possible border crossing would be with Afghanistan, which remains firmly closed at time of writing.

Seen from China, these are unanswered questions. When one of us asked a group of academics in Urumqi, the capital of Xinjiang, what they thought of the Customs Union’s impact to China, they shrugged and in vague terms said they were ‘waiting to see’ if the Customs Union would actually come to pass across the whole region. In Shanghai and Beijing, everyone has stories of friends who have conducted surveys in the region that highlight its unpopularity. But this is largely behind closed doors. The official line is that espoused by Ambassador Wang, that ‘Kyrgyzstan’s entry into Customs Union will not affect trade relations with China.’ Nothing to see here, keep moving on...

## **A losing game for small states?**

This used to be the sort of situation where Central Asians were in their element, masters of the game of playing one partner off against another. Kyrgyzstan in particular has cannily used access to its Manas airbase to extract large chunks of money from both America and Russia. This time it seems as though Moscow is playing a much harder game, forcing Bishkek into a decision that could ruin one aspect of its economy or another. How this plays out may end up determining the shape of the Kyrgyz economy. For all the talk about China in Central Asia, Putin is still able to compete with Beijing – and the choices made in Bishkek and Dushanbe will make it clearer whether Moscow is still the world power it dreams of being.