Title	The EU and China ' s Strategies in Central Asia: Focus on Energy and Transport
Author(s)	Nurgaliyeva, Lyailya
Citation	多文化社会研究, 6, pp.199-208; 2020
Issue Date	2020-03-23
URL	http://hdl.handle.net/10069/39851
Right	

The EU and China's Strategies in Central Asia: Focus on Energy and Transport

Nagasaki University Lyailya Nurgaliyeva

Abstract

In 1991, there was a turning point in world history – the collapse of the Soviet Union and the emergence of newly independent states. Soon after the establishment of diplomatic relations between Central Asian states and the European Union, the EU has been the most active actor in Central Asia, especially in Kazakhstan. The EU is a main trading partner of Kazakhstan and a major source of investments. Nevertheless, the EU's strategy has been barely visible in Central Asia that is unknown to the general public and has much greater ambitions that it actually can deliver. In contrast, China's Central Asia strategy is more focused based on regular interactions between China's and Central Asian representatives, the state authorities, and experts and analysts. Moreover, China's strategy has a bilateral approach towards the region rather than a general dialogue with the whole region. By examining both countries' strategies in Central Asia, this research note aims to identify and analyze what actions will the EU and China take in order to gain access to the region's energy resources and to strengthen their influence in the region.

Key words: Central Asia, the European Union, China, Silk Road Economic Belt, energy, transport, Eurasia.

研究資料

1. Introduction

Since the collapse of the Soviet Union in 1991, external actors attempted to play a key role in Central Asia. In recent years the influence of China has been increased. In 2013, Chinese President Xi Jinping delivered a speech at Nazarbayev University in Astana, where he proposed that China and Central Asia work together to build a Silk Road Economic Belt (SREB). The main goal of this initiative is to foster energy cooperation between China and Central Asian countries. The largest country in Central Asia, Kazakhstan supplies oil, gas and uranium to China. In 2015, CGN Uranium Resources CoLtd,a subsidiary of China General Nuclear Power Corp (CGN), and Kazakhstan's Kazatomprom, agreed to jointly build a nuclear fuel assembly plant in Kazakhstan. Furthermore, the 2017 statistics show that trade in energy accounts for 30 percent of bilateral trade between the two countries. The output of crude oil which Chinese companies have developed in Kazakhstan accounts for

25 percent of the country's total output. Kazakhstan has exported more than 100 million tons of crude oil and 183 billion cubic meters of natural gas to China.

In the light of such events, the European Union cannot remain on the sidelines. To date, the EU is seeking to upgrade its role in Central Asia and strengthen its engagement in the region. Specifically, the European Council is currently working on a revised EU strategy for Central Asia, which should be launched by mid-2019. The revised EU strategy will act in a reshaped regional scenario, extremely different from 2007 strategy, which has been too wide focusing on a broad range of areas such as protection of human rights and environment, promotion of economic development, development of transport and energy links. While most of the issues described in 2007 are likely to remain in the new strategy, the emphasis given to each area will probably change in line with recent developments. Responding to China's Silk Road Economic Belt Initiative, it has become essential for the EU to develop its own approach, especially in the energy field. The EU might have the opportunity to increase its influence in Central Asia relying on the need of Caspian hydrocarbon producers to find alternative routes of exports, currently oriented towards China. In December 2017 all five Caspian littoral countries had agreed to sign a draft document on the Caspian's legal status. Consequently, the possibility of building the Trans Caspian pipeline (the corridor delivering natural gas from Turkmenistan, and perhaps Kazakhstan, to Azerbaijan and then to EU markets) would appear a concrete route that will help the EU enhance its energy security. Will the revised EU strategy and China's Silk Road Economic Belt compete or collaborate for energy resources in Central Asia? Both countries' strategies in Central Asia will be discussed in more details in the following section.

2. EU's strategy in Central Asia

Soon after the 1991 break-up of the Soviet Union, the EU's engagement with Central Asia has started. The EU began negotiating partnership and cooperation agreements (PCAs) with the newly independent countries. These have since come into force with all Central Asian countries but Turkmenistan. These various agreements have led to an intensification of diplomatic contacts between the EU and each of the Central Asian countries; these now include annual cooperation councils as well as regular meetings on topics such as human rights, justice and home affairs, and trade (Russel 2019).

There has been more engagement with Kazakhstan than with the other four countries. The first European Commission Delegation office in Central Asia was opened in 1994 in Almaty, at that time the capital of Kazakhstan. The EU is a main trading partner of Kazakhstan and a major source of investments (Kassenova 2011: 49). Half of foreign investments in Kazakhstan's economy is of European origin. Kazakhstan has utilized its strategic geographic location as a corridor between West and East and plays a key role in the supply of oil to Europe, second only to Russia. During his visit to the UK on November 6, 2015 Nazarbayev said that "Kazakhstan has worked hard to provide a bridge between east and west" (Putz 2015). He continued by saying that "The result is that, while we have very good relations with our neighbors Russia and China, Europe is our biggest trading partner" (Putz 2015). China currently may be the single largest export market for Kazakhstan, but inaggregate Europe is larger still (Putz 2015).

Chart-1. Central Asia main trade partner (share of country's total foreign trade, 2017)

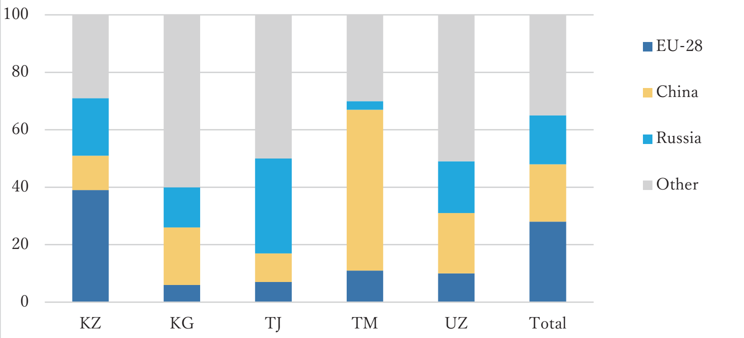
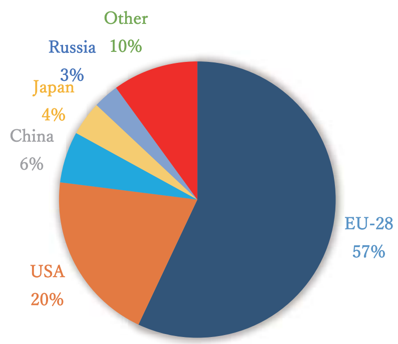


Chart-2. Sources of foreign direct investment in Kazakhstan (as of October 2018)



An example of this growing partnership is how the European Commission and Kazakhstan have signed a Memorandum of Understanding (MoU) on 4 December 2006 that laid the foundation for deeper energy cooperation, where Caspian oil, gas and uranium were among the EU's chief objectives. This MoU established two road maps – on energy security and industrial cooperation, which includes regular meetings aimed at bringing Kazakhstan's energy regulations closer to that of the EU. Kazakhstan, rich in oil resources estimated at 9 billion barrels and natural gas reserves estimated at around 2 trillion cubic meters can contribute significantly to the energy security of the EU (EU, Kazakhstan 2006).

EU relations with Kazakhstan have developed further since the European Council adopted"The EU and Central Asia: Strategy for a New Partnership" in June 2007 (The European External Action Service EEAS). This strategy has stressed an enhanced and more effective partnership with each Central Asian state. This document is very significant not only because of the diversity of areas in cooperation, but also in the transformation from a multilateral approach to a bilateral one. If previously, the EU dealt with the Central Asian region as a whole, it has changed the approach into individual relationships. Furthermore, this document emphasized that both sides have "a common interest in diversifying export routes, demand and supply structures and energy sources. Thus, the EU will support the exploration of new oil, gas and hydro-power resources and the upgrading of the existing energy infrastructure. To enhance EU security of energy supply, the EU will also support the development of additional pipeline routes and energy transportation networks. It will also contribute to regional energy security and cooperation, and widen export markets for Central Asian producers. The EU will lend political support and assistance to Central Asian countries in developing a new Caspian Sea - Black Sea – EU energy transport corridor" (The European Union and Central Asia 2009: 23), especially taking into consideration the current risks, challenges and limitations linked to Russia's return to an assertive policy of power, conflicts with its neighbors (Ukraine), trade wars and so on.

However, this policy lacked clear ways to achieve goals and has often been criticized for spreading limited resources across an overly broad range of priorities. Thus, a new strategy is needed and it has to take into account the recent major geopolitical changes that are taking place in the region. The most important of these changes is China's growing influence in Central Asia, and the need to respond to its Belt and Road initiative.

The process of creating a new strategy was launched in 2017, when the Council of the EU asked the EU High Representative and the Commission to present a proposal for a new strategy by the end of 2019.

3. A New strategy for 2019

In the new EU strategy, considerable attention is paid to the development of infrastructure, which is designed to establish communication between Europe and Central Asia. Cooperation in this area is supposed to focus mainly on transport, energy and digital communications, as well as on contacts between people. The strategy says, "The development of Euro-Asian connections can bring significant benefits to Central Asia through improved infrastructure, diversification of the economy, and integration into regional and global value chains. The EU is extremely interested in developing existing trade corridors between Europe and Asia". Here the question poses is: what resources is Brussels going to allocate for its implementation? As far as I know, no drastic improvement in funding is expected.

It is good that, according to the new strategy, the EU tries to become a more active in Central Asia, but the financial support is very important factor in the implementation of the strategy. In comparison, China has established a special fund for the Silk Road Economic Belt in the amount of 40 billion US dollars, which will focus directly on the funding of projects.

4. China's strategy in Central Asia

Sino-Central Asian relations began right after the region's independence in the early 1990s. In April 1994 Premier Li Peng made a twelve-day visit to Central Asia. The trip sought to inaugurate the process of resolving border disputes and initiating an ambitious process of economic cooperation with the region beginning with Kazakhstan, its largest economy (Olimat 2015: 34). In 1997, Kazakhstan and China signed the agreement to build the first oil pipeline. The construction of a pipeline from Atasu (Kazakhstan) to Alashankou (China) started in 2004 and the pipeline was put into operation on December 15 2005.

The implementation of this project by two countries created the foundation for further development of energy cooperation and enabled Kazakhstan to diversify routes and decrease its dependence on Russian-led pipelines. On July 5, 2005 Nazarbayev and Hu Jintao signed in Astana the Joint Declaration on the establishment and development of strategic partnership, which extends the results of the cooperation between the two countries and expressed the desire to further strengthen contacts in various fields (Prezident Nazarbayev i Hu Jintao). A new stage starts in the development of energy cooperation between the two countries, aiming not only to attract investments in the oil and gas industry, but also the creation of multi-country pipelines.

Further cooperation between Kazakhstan and China in the energy sector has evolved beyond oil, moving into the gas industry. Cooperation in this area began with a feasibility study of investments for the construction of a pipeline from Kazakhstan to China, which was held in Beijing on February 20-23, 2006 between the National Company "KazMunai-Gas" and CNPC.

The next step in the development of relations is the introduction of the Silk Road Economic Belt by President Xi Jinping in the fall of 2013 in Astana, Kazakhstan. The reason why Xi Jinping delivered his speech in Kazakhstan was because in comparison to other Central Asian states, Kazakhstan offers key geographical advantages. China will have been well aware of Kazakhstan's capacity to open up new cargo routes, access markets in the Customs Union, and the country's favorable investment climate.

On the other hand, Kazakhstan's goal to access international markets are laid out in the state '100 concrete steps' program, which is in line with China's plans to implement infrastructure projects for the New Silk Road. At the Second Summit for Silk Road Countries, the Institute of World Economy and Politics of the Republic of Kazakhstan Director Sultan Akimbekov stated that China's strategy to build a transport corridor along the New Silk

Map-1. Kazakhstan's position within the New Silk Road

Road will provide Kazakhstani products with access to world markets, bringing huge economic benefits to the country in the process (Miras 2015).

According to Kazakhstan and Chinese analysts, “the key role in the implementation of the ‘Silk Road Economic Belt’ has been given to Kazakhstan, and Kazakhstan is in the best position in terms of attracting investments (Map-1). The accumulated foreign direct investment (FDI) from China to countries of the Eurasian Union in 2009-2013 increased from $11.02 billion to $24.67 billion. An impressive 91.5% of the total figure ($22.57 billion) was directed at Kazakhstan. From September 2013 to December 2015, the two countries signed investment agreements worth $54 billion. China’s participation in the formation of a renewed Kazakh transport infrastructure includes plans for the construction of the Almaty ring road, a road leading towards Alashankou station, and a large-scale project that will help optimizeAstana’spublic transportation system. These plans have gained a great deal of attention in Kazakhstan (Kaukenov 2017: 160). Indeed, the adoption in November 2014 of the new economic policy ‘Nurly Zhol – Path to the Future’, the main focus of which was on infrastructure development is in fact, consistent with the Chinese ‘Silk Road Economic Belt’ initiative and aims at maximizing the benefits of its implementation.

5. Discussion

What are the opportunities for Kazakhstan in the construction of such a transport corridor? First of all, there are economic benefits from transit through its territory, which could increase the gross domestic product (GDP) of Kazakhstan by up to 68% by 2020 compared to 2010.

Secondly, the Trans-Kazakhstan route linking Europe and Asia will account for 5-8% of the potential trade between China-the EU-China every year until 2020. Across the next 10 years, over $30 billion of public and private investment will be pumped into the transport sector.

Thirdly, the agriculture sector could prove profitable for Kazakhstan, with a potential market of more than a billion people. In an interview to a Kazakhstani newspaper, Chinese Ambassador, Zhang Hanhui noted, “Your food (wheat, flour, honey, vegetable oil, and especially meat) is needed in China. There is a deficit and a sense of demand. We are working to resolve all these problems, remove all obstacles and give the Chinese market the best possible access to Kazakhstani products”(Shymshykov 2017).

Finally, the SREB provides Kazakhstan with other advantages such as diversification in the delivery of oil and gas to foreign markets. The strategy of Kazakhstan is to diversify routes and decrease its dependence on Russian-led pipelines, which can be seen as a Kazakhstani balancing tool that aims to limit Russia's power in the energy sector.

As China is expanding its economic influence, Kazakhstan risks becoming too dependent on China economically and politically. Another risk is the liberalization of access for Chinese companies into national markets, which could lead to the failure of local companies in the competition with Chinese companies because of the lack of access to cheaper credit, and consequently decreasing the capacity of local industry. Integration in the framework of this project is connected to interaction with the huge continent of Asia, and will, along with the flow of goods also bring in waves of people, and migration, particularly from China. Moreover, repayments to Chinese creditors are also a risk because they increase Central Asian states' debt exposure to a single country rather than the multilateral organization as IMF or WB. As such, Kazakhstan must take into consideration all the advantages and disadvantages of this mammoth undertaking in order to maximize the benefits it can obtain from this cooperation.

6. Concluding Remarks

Though the EU is a main trading partner of Kazakhstan and a major source of investments, it could not succeed in the implementation of its strategies in the area of energy and transport links. In case of China, the effectiveness of its focused, pragmatic and well-financed strategy in Central Asia poses a challenge to the EU.

At the same time, there are risks for Kazakhstan. Kazakhstan can become too dependent on China both in economics and politics. Moreover, while Kazakhstan has achieved substantial results in attracting foreign investments into priority sectors, FDI and exports have still been highly concentrated in natural resources.

Against this backdrop the EU initiatives might be beneficial for Kazakhstan because they can help to diversify the FDI into technological development of Kazakhstan as well as help to access the European markets. As such, Kazakhstan can get significant benefits from the cooperation with the EU.

References

EU, Kazakhstan (2006): EU, Kazakhstan strengthen energy links. December 5, 2006. Retrieved from http://www.euractiv.com/energy/eu-kazakhstan-strengthen-energy-links/article-160243

Kassenova, N. (2011). “EU-Central Asian bilateral cooperation” in *The European Union and Central Asia*. Edited by A. Warkotsch, Routledge.
Kaukenov, A. 2017. Novie otnosheniya s Kitaem: Odin poyas - odin put’. *Transformatsiya Ekonomiki Kazakhstana*. Fond imeni Konrada Adenauera, Astana. Accessed May 26, 2019.
http://www.kas.de/wf/doc/kas_49009-1522-39-30.pdf?170703085431
Miras, A. (2015). Strategiya ekonomicheskogo poyasa Shelkovogo puti. 08.12.2015. *BNEWS. KZ*. Accessed March 3, 2019. https://bnews.kz/ru/analysis/reviews/strategiya_ekonomicheskogo_poyasa_shelkovogo_puti_
Olimat, M. (2015). *China and Central Asia in the Post-Soviet Era*. Lexington Books, NY.
Prezident Nazarbayev i Hu Jintao: Prezident Kazakhstana Nursultan Nazarbayev i Predsedatel’ KNR Hu Jintao podpisali v Astane Sovmestnuyu Deklaratsiyu ob ustanovlenii i razvitiyi strategicheskogo partnerstva, v kotoroy obobsheny itogi sotrudnichestva dvukh stran i virazheno stremlenie k dal’neishemu ukrepleniyu kontaktov v razlichnykh sferakh. Retrieved from http://www.akorda.kz/ru/page/page_prezident-kazakhstana-nursultan-nazarbaev-i-predsedatel-knr-khu-tszintao-podpisa_1348723707?print=1
Putz, C. (2015). Energy Dominates Kazakhstan-Europe Relationship. *The Diplomat*. November 6. Retrieved from http://thediplomat.com/2015/11/energy-dominates-kazakhstan-europe-relationship/
Russel, M. (2019). “The EU’s new Central Asia strategy”. European Parliament Briefing. Retrieved from http://www.europarl.europa.eu/RegData/etudes/BRIE/2019/633162/EPRS_BRI(2019)633162_EN.pdf
Shymshykov, Zh. 2017. Perspektivy Ekonomicheskogo poyasa “Shelkoviy Put”. *Kazpost.Wordpress*. 04.05.2017. Accessed May 27, 2019.
https://kazpost.wordpress.com/2017/05/04/perspectiv-econom/
The European External Action Service (EEAS). EU relations with Central Asia. Retrieved from http://eeas.europa.eu/central_asia/index_en.htm
The European Union and Central Asia (2009). Strengthening energy and transport links: The New Partnership in action. European Communities, June, 2009. Retrieved from http://eeas.europa.eu/central_asia/docs/2010_strategy_eu_centralasia_en.pdf