

Central Asia and Caucasus: Competition arena or common playground for China and Russia?

From the early 2000s, China's role in Central Asia and the South Caucasus has grown remarkably – both as a trading partner and a source of investment. If for Russia this region represents a vital space, for China, this is primarily a source of raw materials – including metals, oil and gas – and a channel for foreign trade.

Thanks to its miraculous economic development, the size of its economy and its proximity to the region, China has rapidly established itself among the leading trade partners of the Central Asian countries. The shift of trade relations in favour of China has been considerable in Turkmenistan and Uzbekistan. In 2018, trade between Kazakhstan and China amounted to \$12 billion. Kazakhstan, Kyrgyzstan, and Uzbekistan are vital components in the Chinese Belt and Road Initiative.

China's rapid expansion as a trade partner was also remarkable in the South Caucasus. Between the early 1990s and 2017, from a marginal trade partner, China became one of the main trade actors of the region's countries. The trade turnover between Azerbaijan and China has grown by a factor of approximately 800. Currently, China is Azerbaijan's seventh and Georgia's third largest trade partner. As for Armenia, China's position in exports is sixth, while in imports it is in second place.

China's growing global role as supplier of foreign direct investment (FDI) has been substantially expressed in Central Asia and the South Caucasus. By 2017, China had invested US\$304.9 billion in Central Asian countries. In addition, Beijing has increased lending to Central Asian countries over the past ten years. For example, Kyrgyzstan owes China 30 per cent of its GDP, while Tajikistan has a debt of 15 per cent of its GDP.

Similar to Central Asian Countries, China has invested, up to now, approximately \$800 million in the Azerbaijani economy, and this figure is growing steadily. Chinese investments in Georgia, although decreasing, are also important, and reached \$218 million in 2014.

Regarding Armenia, Chinese economic aid outweighs its investment in this country.

The Russian economy has weakened in recent years due to the lack of reforms and European and American sanctions imposed since 2014. However, it is still the strongest political actor in the region. Central Asian and Caucasus countries rely on Russia as a source of imports. For example, in Kazakhstan, 35% of imports are from Russia, even though this indicator has declined over the past 15 years. Russia also represents a large – and the closest – export market. These countries are also heavily dependent on the Russian economy in terms of remittances, the role of which is considerable in the GDPs of certain Central Asian countries, such as Kyrgyzstan and Tajikistan.

Meanwhile, Russian investments in the region are smaller and declining. For example, Russia's Foreign Direct Investment in all Central Asia countries was roughly \$12.7 billion in 2017.

Despite the challenges, Russia's economic position is still solid in the South Caucasus. Russia is Armenia's primary trade partner, both for imports and exports. For Georgia, Russia is the principle export destination, and second most import origin. While Russia is the top import origin for Azerbaijan, it is not among the top three countries for exports.

Notwithstanding the above, it would be inaccurate or hasty to talk about a clash of two titans in the region. What has been observable up to now is a multi-dimensional cooperation mechanism involving different actors within the region. The Shanghai Cooperation Organization, which brings together eight member states, including China, India, Kazakhstan, Kyrgyzstan, Pakistan, Russia, Tajikistan, and Uzbekistan, is regarded as the political, economic and security alliance of these states. Moreover, Russia has welcomed China's Belt and Road Initiative with enthusiasm, seeing the modernization of the region's infrastructure as an opportunity to realize its Eurasian Vision. It is worth remembering that regional integration tools with Russian patronage in this area are older, and perhaps more solid. These include the Collective Security Treaty Organization (with Armenia, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan as members), the Eurasian Economic Union (with Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia as members), and the

Commonwealth of Independent States, with Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Armenia, Moldova, Russia, Tajikistan and Uzbekistan as members.

Despite their strong positions, Russia and China do not seem to be the absolute masters of the region. The EU, Iran, and Turkey are increasingly proclaiming the proactive roles they wish to play in the region. The strategic choices of the region's countries are also different from each other. If Georgia is principally oriented towards western structures – despite its strong economic dependency on Russia – Azerbaijan and Kazakhstan demonstrate multi-vector foreign policies. Rich with natural resources and economically independent from Russia, Turkmenistan opted for neutrality in its foreign policy. Russian political and economic influence is more effective in Armenia and the remaining Central Asian countries. The risk that third parties bolster their presence in the region could, therefore, encourage Russia and China to cooperate further.

For further reading:

- ④ Accumulated Chinese investments in Armenia are about \$1 million, 15 December 2017, Armenian Banks, <http://www.armbanks.am/en/2017/12/15/111661/>
- ④ Adil Miankhel, Why Central Asia chooses Chinese investment, East Asia Forum, 29 June 2019, <https://www.eastasiaforum.org/2019/06/29/why-central-asia-chooses-chinese-investment/>
- ④ Batsaikhan U, Dabrowski M, Central Asia — twenty-five years after the breakup of the USSR. Russian Journal of Economics 3(3), 2017: 296-320.
- ④ Giorgi Lomsadze, Undeterred by slow start, Georgia woos Chinese investors, 3 October 2019, Eurasianet, <https://eurasianet.org/undeterred-by-slow-start-georgia-woos-chinese-investors>
- ④ Marcin Kaczmarek, Russia-China Relations in Central Asia: Why Is There a Surprising Absence of Rivalry? The Asian Forum, Online ISSN 2288-5757 September - October 2019 Vol.7, No.5 . <http://www.theasianforum.org/russia-china-relations-in-central-asia-why-is-there-a-surprising-absence-of-rivalry/>.
- ④ Raffi Elliott, Is Armenia Playing a Dangerous Game with China? The Armenian Weekly, 3 January 2019, <https://armenianweekly.com/2019/01/03/is-armenia-playing-a-dangerous-game-with-china/>
- ④ Vasif Huseynov and Ayaz Rzayev, Is China's Economic Expansion in the South Caucasus a Myth? November 29, 2018, The Diplomat, <https://thediplomat.com/2018/11/is-chinas-economic-expansion-in-the-south-caucasus-a-myth/>