



# Central Asia's Silk Road Rivalries

Europe and Central Asia Report N°245 | 27 July 2017

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## *Executive Summary*

Two new regional initiatives potentially could transform Central Asia's political landscape. China's Silk Road Economic Belt (SREB), launched by President Xi Jinping in 2013, offers multi-billion dollar investments in transport and industry and a vision of free trade across the region. The Russian-led Eurasian Economic Union (EEU), established in 2015, creates a customs union among former Soviet states orienting their economies toward Moscow. They have divergent goals, but Russia and China have committed to cooperate politically and economically. Their initiatives offer investments and enhanced cooperation in a region beset by economic and political challenges. Poorly handled, however, these initiatives could encourage and entrench local behaviour that risks generating instability and conflict.

The SREB aims to open trade routes for China across its vast continental hinterland while creating a zone of security around its troubled western region of Xinjiang. It is an umbrella concept rather than a clear set of projects. The first stage involves multi-billion dollar investments building rail and road links to Central Asia and across it to Iran, Russia, the Caucasus, Turkey, and Europe. China aims to reduce physical, technical and political barriers to trade, in pursuit of its longer-term goal of a free-trade agreement across the region. Poorer countries, such as Tajikistan and Kyrgyzstan, hope for investments in agriculture and industry to boost their economies. The plan also has a strategic and ideological dimension, extending Chinese political clout and promoting a state-led development model. If successful, it could form the first step in a new kind of international order in which China plays a leading role.

Chinese plans face serious challenges. Political sensitivities are high. While Central Asian elites welcome an influx of funding, Chinese investors often encounter popular suspicion and xenophobia. Rumours of land being leased to Chinese investors sparked protests in Kazakhstan in May 2016. A suicide bomb attack on the Chinese embassy in Bishkek in August 2016 raised fears in Beijing about security vulnerabilities. Many investment deals do not benefit the wider population and are accompanied by accusations of high-level corruption. There also are environmental concerns as China exports polluting industries into the region. This combination of nationalism, anger over corruption and environmental impacts could fuel anti-Chinese – and anti-government – sentiment in Central Asia.

The SREB also challenges Russia, which separately has been bolstering its regional role by building its own institutions. In May 2014, Russia, Belarus and Kazakhstan, joined in 2015 by Kyrgyzstan and Armenia, set up the EEU, loosely modelled on the EU. The EEU aims to promote free movement of goods, labour, services and capital within its borders while imposing tariffs on external imports. However, the EEU is slow to deliver on its promise of greater economic integration. Trade among members has fallen since 2015 in terms of both volume and value, due to the devaluation of the rouble, though it has picked-up slightly in 2017. There are political limitations, too. Uzbekistan and Turkmenistan make clear they will not join and likewise reject membership in the Collective Security Treaty Organization (CSTO), a Russian-led security bloc. Russia, though, remains a key partner for the Central Asian countries.

Its deep and multi-layered political, social and cultural influence in Central Asia currently surpasses that of China.

Russia and China have committed to cooperation between the EEU and the SREB. Moscow has promoted the notion of “Greater Eurasia”, a nebulous project that would link China, Russia and Central Asia in a new economic and political bloc, and sees cooperation with China as intrinsic to this. But fundamental contradictions loom between the EEU’s inward-looking customs union and China’s push for free trade across the region and into Europe. Moreover, Central Asian states each have agendas of their own and overcoming obstacles to regional trade will prove difficult. Thus, Kazakhstan is keen to maintain strong links with the West to balance Russian and Chinese involvement while Uzbekistan, despite showing signs of seeking better relations with its neighbours, still restricts free trade across its borders.

One of the more concerning aspects is that these duelling projects focus little on issues such as rule of law, welfare, health, education or environmental protection. They also are unlikely to foster necessary political and institutional reform, without which Central Asia’s governments will remain brittle, struggling to manage social change and external challenges. For Western countries, the initiatives are emblematic of their increasing marginalisation in the region. The European Union (EU), the U.S. and international financial institutions also may wish to explore ways to engage with both initiatives and use this to push for good governance, as well as environmental and labour standards.

**Bishkek/Hong Kong/Brussels, 27 July 2017**

# Central Asia's Silk Road Rivalries

## I. Introduction

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This report analyses the significance of the SREB and EEU in terms of their impact on economic development, political stability and security across the region, and their possible influence on Central Asia's complex geopolitics. It is the second of three reports analysing Central Asia at the crossroads between powerful economic and political actors and the consequences for regional peace, security and development as well as the domestic trajectories of each independent republic. Research was conducted in Moscow, Bishkek, Astana, Uralsk, Atyrau, Beijing, Shanghai, Hong Kong and London.

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## II. China's Belt and Road Initiative and Silk Road Economic Belt

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The Silk Road Economic Belt (SREB) is the largest terrestrial component of China's Belt and Road Initiative (BRI), a hugely ambitious program to invest as much as \$1 trillion in new transport and trade infrastructure between China and the rest of the world.<sup>1</sup> The late Wu Jianmin – then a member of the Foreign Policy Advisory Committee of the Foreign Ministry and Crisis Group board member – claimed that the Belt and Road Initiative was “the most significant and far-reaching initiative that China ever put forward”.<sup>2</sup> The Belt and Road Initiative involves over 60 countries in two broad arcs: a Maritime Silk Road along China's sea routes,<sup>3</sup> and the SREB, which aims to improve connectivity on Eurasian land routes to Europe. Central Asia is vital for its successful development.<sup>4</sup>

The Belt and Road Initiative was labelled an “initiative” as it has few concrete goals or strategies and lacks institutional structure. Chinese ministries, state-owned enterprises and regional and local authorities seemingly develop their own linked proposals in response to broad, overarching concepts. As a result, the Belt and Road

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<sup>1</sup> The initiative previously was referred to as One Belt, One Road (OBOR), but political sensitivities encouraged a change in name. It was formally incorporated into China's national economic development strategy through the “Decision of the Central Committee of the Communist Party of China on Some Major Issues Concerning Comprehensively Deepening the Reform”, adopted at the Third Plenary Session of the 18th Central Committee, 12 November 2013. It stated: “We will set up development-oriented financial institutions, accelerate the construction of infrastructure connecting China with neighbouring countries and regions, and work hard to build a Silk Road Economic Belt and a Maritime Silk Road, so as to form a new pattern of all-round opening”. More than a year later, the initiative was outlined in greater detail through a white paper on “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road”, issued by the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce, 28 March 2015. For figures, see “Commentary: From B&R forum to BRICS summit, China rises to global challenges with win-win solutions”, Xinhua, 22 May 2015 and “国开行建立900余‘一带一路’项目库涉资金近万亿美元” [“China Development Bank establishes library of 900 ‘Belt and Road’ projects, total value approaches \$1 Trillion”], *Caijing*, 28 May 2015. For background to Sino-Central Asian relations see Crisis Group Asia Report N°244, *China's Central Asia Problem*, 27 February 2013.

<sup>2</sup> Wu Jianmin, “One Belt and One Road, Far-reaching Initiative”, *China-US Focus*, 26 March 2015.

<sup>3</sup> “Vision for Maritime Cooperation under the Belt and Road Initiative”, National Development and Reform Commission and State Oceanic Administration, 20 June 2017.

<sup>4</sup> For background to Sino-Central Asian relations see Crisis Group Asia Report N°244, *China's Central Asia Problem*, 27 February 2013. For a Chinese perspective, see *China's New Neighbourhood Diplomacy: Seeking Stability Through Management and Planning*, CIIS Report No. 9, 14 February 2016. For official views and policy proposals, see “推进沿边重点地区开发开放步伐构筑推进‘一带一路’建设重要支撑” [“Advancing Development and Opening-up of Key Border Regions, Providing Important Support to the ‘Belt and Road’”], an interview with representatives of the National Development and Reform Commission and the Ministry of Commerce, [www.ndrc.gov.cn](http://www.ndrc.gov.cn), 11 Jan. 2016; and “习近平在推进‘一带一路’建设工作座谈会上发表重要讲话 张高丽主持, 新华社” [“Xi Jinping's speech at the Belt and Road Work Conference, chaired by Zhang Gaoli”], Xinhua, 17 August 2016.

Initiative, and the SREB as one of its components, essentially serves as a new umbrella for separate, existing projects and investments as well as new initiatives.<sup>5</sup>

In economic terms, the Belt and Road Initiative aims to boost China's slowing economy by developing new markets and generating demand for the country's over-capacity in aluminium, steel, construction and other industries.<sup>6</sup> China wants to be the key trading and investment partner for states across the Eurasian continent and open up new routes for trade with Europe. Chinese policymakers hope this will ameliorate widening economic disparity between the country's poorer, landlocked western and interior regions and its more prosperous east coast, thus helping to maintain social stability.

Geopolitically, as part of the Belt and Road Initiative, the SREB is key to Xi's "neighbourhood diplomacy" geared at improving relations with countries on China's periphery by creating public goods such as transport links and power infrastructure. In this respect, it is a framework for economic statecraft, leveraging China's strengths – vast reserves of capital and cheap loans, engineering know-how and production and construction capacity – to generate political influence and set a new agenda for globalisation on Chinese terms. As the May 2017 Belt and Road Forum illustrated, it also is a means of promoting China, both at home and abroad, as a rejuvenated, agenda-setting power.<sup>7</sup>

The Belt and Road Initiative also has an implicit ideological component. It represents a de facto challenge to the economic development model promoted by Western states which emphasises structural and policy reforms and technical assistance in sectors such as education and health, but largely avoids public infrastructure. The Chinese government hopes that a state-led, credit-fuelled program of major investments in infrastructure projects will stimulate regional economic growth. If the Belt and Road Initiative is successful, some analysts speculate that it could form the basis for a new kind of international order, in which China plays a leading role.<sup>8</sup> In this sense, Central Asia is a testing ground for new ideas in China's foreign policy.<sup>9</sup>

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<sup>5</sup> Crisis Group Report, *China's Central Asia Problem*, op. cit. Many projects and proposals now subsumed under the Belt and Road Initiative long pre-date the initiative's launch. These include China's internal strategy to develop its western regions (西部大开发), the China-Pakistan Economic Corridor and similar Bangladesh-China-India-Myanmar, China-Mongolia-Russia and China-Indochina "corridors". This report focuses on the SREB and does not discuss these other initiatives.

<sup>6</sup> That said, the Belt and Road Initiative might not have a major impact on China's economic slowdown. David Dollar and others argue that the "contributions that these initiatives together make to China's demand are likely to be too small to be macro economically meaningful". David Dollar, "China's rise as a regional and global power: The AIIB and the 'one belt, one road'", Brookings Institution, 15 July 2015.

<sup>7</sup> China held its first "Belt and Road Forum for International Cooperation" in Beijing 14-15 May 2017, where President Xi showcased the initiative to 29 world leaders and senior delegates from over 100 countries, the UN, IMF and other international agencies, and pledged further funding for Belt and Road Initiative projects.

<sup>8</sup> Tom Miller, *China's Asian Dream: Empire Building along the New Silk Road* (London, 2017); Nadège Rolland, *China's Eurasian Century? Political and Strategic Implications of the Belt and Road Initiative*, National Bureau of Asian Research, 2017; Chris Devonshire-Ellis, *China's New Economic Silk Road: The Great Eurasian Game & The String of Pearls*, Asia Briefing, 2015; William A. Callahan, "China's 'Asia Dream': The Belt Road Initiative and the new regional order", *Asian*

For this to succeed, funding is essential. China's National Reform and Development Commission said in March 2017 that China had invested over \$50 billion in countries along the Belt and Road since 2013 and signed contracts for new construction projects worth \$304.9 billion between 2014 and 2016.<sup>10</sup> Specific figures are more difficult to calculate. In November 2014, President Xi announced a \$40 billion Silk Road Fund to be used "to provide investment and financing support for infrastructure, resources, industrial cooperation, financial cooperation and other projects in countries along the Belt and Road".<sup>11</sup> At the May 2017 Belt and Road Forum he announced a further 540 billion yuan (\$79.4 billion), including 100 billion yuan (\$14.7 billion) more for the Fund.<sup>12</sup> By late 2016, the Silk Road Fund had committed to deals amounting to at least \$3.25 billion, although its initial investments were in Russia, Pakistan and Europe rather than Central Asia.<sup>13</sup>

The Asian Infrastructure Investment Bank (AIIB), with \$100 billion in capital, also is expected to be a source of finance for the BRI, albeit beginning with loans up to \$2 billion in its first year, mostly in conjunction with other multilateral lenders.<sup>14</sup> The Export-Import Bank of China and the China Development Bank will continue to play the most important roles in funding BRI projects, particularly for the SREB in Central Asia, using their established practise of soft loans to governments conditioned on the use of Chinese contractors.<sup>15</sup>

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*Journal of Comparative Politics*, 2016, pp. 1-18; Lan Shen, "Xi Jinping's 'One Belt, One Road' strategy is showing the way to a new world order", *South China Morning Post*, 13 December 2016.

<sup>9</sup> Raffaello Pantucci, Sarah Lain, "China's Eurasian Pivot: The Silk Road Economic Belt", *Whitehall Papers*, 88:1, 16 May 2017; Marcin Kaczmarek, "'Silk Globalization': China's Vision of International Order", OSW, October 2016.

<sup>10</sup> "China's investment to Belt and Road countries exceeds \$50 bln: official", Xinhua, 6 March 2017. Vice Minister of Commerce Qian Keming cited the figure on construction contracts: "SCIO briefing on trade and economic cooperation under B&R Initiative", China.org.cn, 11 May 2017.

<sup>11</sup> "Chronology of China's Belt and Road Initiative", Xinhua, 28 March 2015. The Silk Road Fund was established as a limited liability company in December 2014. Its shareholders include the China Investment Corp, the Export-Import Bank of China and the China Development Bank. Its first projects have not specifically targeted the Silk Road.

<sup>12</sup> "Full text: List of deliverables of Belt and Road forum", Xinhua, 15 May 2017.

<sup>13</sup> Raffaello Pantucci, "China's development lenders embrace multilateral co-operation", China in Central Asia (chinaincentralasia.com), 4 November 2016.

<sup>14</sup> "China's AIIB seeks to pave new Silk Road with first projects", *Financial Times*, 19 April 2016. By late 2016, AIIB had committed to some \$829 million of deals, of which about \$400 million were in Pakistan, and only \$27.5 million in Central Asia.

<sup>15</sup> Crisis Group Report, *China's Central Asia Problem*, op. cit. Crisis Group interviews, Beijing and Hong Kong, March-April 2017. In his book *China's Asian Dream*, Tom Miller reckons that at most China could finance \$50 billion to \$100 billion in Belt and Road Initiative projects each year. The economist Yukon Huang assesses that China's ability to finance its stated ambitions will depend on its future GDP growth rate. See also James Kyngge, "How the Silk Road plans will be financed", *Financial Times*, 9 May 2016; Alicia Garcia Herrero, "The Belt and Road: Great project as long as one can finance it!", Natixis, 12 May 2017; "Behind China's Silk Road vision: cheap funds, heavy debt, growing risk", Reuters, 15 May 2017; and Christopher Balding, "Can China afford its Belt and Road?", Bloomberg, 17 May 2017.

### A. *The Silk Road Economic Belt Plan*

Official documents highlight the Silk Road Economic Belt's major goals, including transport connectivity, unimpeded trade, financial integration and cultural, educational and touristic exchanges. Beyond its ancient origins, the idea has a long history in modern Chinese planning. When President Xi launched the SREB in September 2013 in Astana, he was following in the footsteps of the then Premier Li Peng, who had called for the construction of a new Silk Road on a 1994 visit to Kazakhstan.<sup>16</sup> Chinese strategists more recently revived the concept in response to America's "rebalance" to Asia, as a Eurasian pivot or "march west" for China, extending the domestic Western Development Program into a Central Asian sphere where there would be less competition with the U.S.<sup>17</sup>

There are two major strategic goals for the SREB. First, to provide China with alternative import/export and energy supply routes and lessen its dependence on strategic shipping lanes in South East Asia. Second, to produce a zone of stability on both sides of China's western border.<sup>18</sup>

China's primary security and stability focus in the region – and one which it hopes the SREB can help address – has been its Xinjiang Uighur Autonomous Region, which borders eight countries, has fifteen dry ports and is rich in natural resources, making it a strategically crucial gateway to other markets and cultures. About 46 per cent of Xinjiang's 22 million people are Uighurs, a Muslim people with historical and cultural ties to Central Asia and Turkey.<sup>19</sup> Long-running tensions between the Uighurs and Han Chinese have deep and complex roots. They draw on conflicting historical narratives and are exacerbated by relative remoteness, poverty, low levels of education, linguistic and cultural differences and ethnic and religious discrimination. Massive state-financed investment and migration from other provinces have fostered rapid

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<sup>16</sup> "Promote Friendship Between Our People and Work Together to Build a Bright Future – Speech by H. E. Xi Jinping, President of the People's Republic of China, at Nazarbayev University", Ministry of Foreign Affairs of the PRC, 7 September 2013; "Chinese premier wraps up Central Asian tour", UPI, 27 April 1994.

<sup>17</sup> Evoking the "heartland" geopolitical theory of Halford Mackinder, PLA General Liu Yazhou first called for China to "march west". Liu Yazhou, "大国策" ["The Grand National Strategy"], 爱思想 [Aisixiang.com], 15 April 2004. Chinese international relations professor and Crisis Group board member Wang Jisi later elaborated the idea in a much-cited essay: Wang Jisi, "'西进', 中国地缘战略的再平衡" ("Marching Westwards', the Rebalancing of China's Geostrategy"), *Global Times*, 17 October 2012. See also Yun Sun, "March West: China's Response to the U.S. Rebalancing", Brookings Institution, 31 January 2013; Theresa Fallon, "The New Silk Road: Xi Jinping's Grand Strategy for Eurasia", *American Foreign Policy Interests*, vol. 37, no. 3 (2015), pp. 140-147. The Communist Party began the Western Development Program (西部大开发) in 2000, targeting six provinces, five regions and the city of Chongqing with policies and investments to stimulate economic growth. See "China's Campaign to 'Open up the West' National, Provincial and Local Perspectives", *The China Quarterly Special Issues* (No. 5), David S. G. Goodman (ed.) (Cambridge, 2004).

<sup>18</sup> Crisis Group interviews, Beijing and Shanghai, March-July 2017; Rolland, *China's Eurasian Century?*, op. cit.; Pantucci, Lain, "China's Eurasian Pivot", op. cit.

<sup>19</sup> Xinjiang's other main ethnic groups are Han Chinese (39 per cent) and Kazakhs (7 per cent). "China to pursue ethnic fusion", *Global Times*, 7 March 2016.

GDP growth in Xinjiang, but also widened economic disparities along ethnic lines and stoked Uighur anxiety about cultural assimilation and calls for greater autonomy.<sup>20</sup>

Many smaller-scale instances of violence and unrest in Xinjiang appear to be the result of criminality, corruption, prejudice and other local disputes. More serious ones, such as the 2009 riots in the regional capital Urumqi, in which at least 197 people died, draw on wider socio-political grievances.<sup>21</sup> Some significant attacks involving Uighurs in Xinjiang, Beijing (2013) and Kunming (2014) have featured terrorist tactics and appear to have been organised by politically-motivated groups and individuals, at least some inspired by radical Islamic ideology or separatism. Chinese counter-terrorism experts worry about the inflow of terrorist tactics and fundamentalist Islam from the Middle East and Central Asia, and point to claims of responsibility from the Turkestan Islamic Party, calls to action from foreign terrorist groups and evidence of Uighurs fighting with the Islamic State in Iraq and Syria.

The response from the central and regional governments has included stepped-up investment in the local economy, social programs, affirmative action ethnic policies, restrictions on religious practices and attire as well as a sweeping “strike-hard” counter-terrorism program with pervasive surveillance and extensive police and paramilitary deployments. Results have been mixed and some analysts worry that short-term stability only masks festering tensions.<sup>22</sup> China uses drones, barbed wire and surveillance cameras to protect Xinjiang’s borders and is calling for greater border security cooperation with the province’s neighbours.<sup>23</sup>

The SREB’s main domestic impact on Xinjiang so far has been to pump GDP growth to high levels through state-driven fixed asset investment, most of which was already in the pipeline. To date, it has led neither to an increase in trade volumes between Xinjiang and Central Asia nor to an increase in Xinjiang’s share of trade.<sup>24</sup> Over time, to the extent the transportation infrastructure, logistics hubs and special zones comprising this “Belt” prove to be economically viable, they may increase

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<sup>20</sup> Crisis Group interviews, February–June 2017, Beijing and Hong Kong. Discussion of inter-ethnic unrest in Xinjiang is politically sensitive in China and opinions on causes and cures vary. See for example, Anthony Howell and C. Cindy Fan, “Migration and Inequality in Xinjiang: A Survey of Han and Uyghur Migrants in Urumqi”, *Eurasian Geography and Economics*, vol. 52, no. 1 (2011), pp. 119–139; Sean Roberts, “Imaginary Terrorism? The Global War on Terror and the Narrative of the Uyghur Terrorist Threat”, PONARS Eurasia Working Paper, March 2012; James Leibold, “Carrot and stick tactics fail to calm China’s ethnic antagonism”, East Asia Forum ([www.eastasiaforum.org](http://www.eastasiaforum.org)), 28 April 2015; “China’s Great Game: New frontier, old foes”, *Financial Times*, 13 October 2015.

<sup>21</sup> Colin Mackerras, “Causes and Ramifications of the Xinjiang July 2009 Disturbances”, *Sociology Study*, July 2012, vol. 2, no. 7, pp. 496–510.

<sup>22</sup> Crisis Group interviews, 2016 and 2017, Beijing and Hong Kong. “China moves to calm restive Xinjiang region”, *The New York Times*, 30 May 2014; Gabe Collins, “Beijing’s Xinjiang policy: Striking too hard?”, *The Diplomat*, 23 January 2015; “Crackdown breeds Uighur resentment of China’s deserving Han heroes”, *Financial Times*, 16 October 2015; Michael Clarke, “Does China have itself to blame for the trans-nationalisation of Uyghur terrorism?”, East Asia Forum ([www.eastasiaforum.org](http://www.eastasiaforum.org)), 30 March 2017.

<sup>23</sup> Cui Jia, “Drones will help Xinjiang fight terror”, *China Daily*, 2 May 2017. See also “China Ratifies SCO Border Agreement” Xinhua, 27 April 2017.

<sup>24</sup> Raffaello Pantucci and Anna Sophia Young, “Xinjiang trade raises doubts over China’s ‘Belt and Road’ plan”, *Financial Times Beyond BRICS blog* ([blogs.ft.com](http://blogs.ft.com)), 10 August 2016; “Security clamp-down in China’s west exacts toll on businesses”, Reuters, 28 June 2017.

trade and investment and create opportunities, particularly for larger companies and state-run entities such as the Xinjiang Production and Construction Corps.

However, the initiative's influence on some of the roots of discontent – eg inequality and political tensions – is likely to be limited unless its “hard” infrastructure projects are combined with greater “soft” efforts such as addressing grievances and ethno-religious differences with greater sensitivity, more nuanced security policies and more programs to foster local community participation in trade, for example through training in business skills and seed funding for small enterprises.<sup>25</sup>

In support of Beijing's objectives for Xinjiang, the SREB bolsters China's role in the Shanghai Cooperation Organisation (SCO), which includes four of the five Central Asian republics along with Russia, China and, since June 2017, India and Pakistan, and focuses on security and counter-terrorism. With its headquarters in Beijing, the SCO also serves to burnish China's image and extend its regional reach, but its utility has limits.<sup>26</sup> While Beijing has hoped to develop the SCO into an economic actor with a free trade agreement, Russia has objected; the SREB offers an alternative framework for China to expand its economic influence.<sup>27</sup>

In Central Asia, the main focus is to improve transport and energy infrastructure along two broad transport corridors that would drive economic cooperation through connectivity.<sup>28</sup> The New Eurasia Land Bridge Economic Corridor, linking China with Europe via Kazakhstan and Russia, builds on existing rail and road infrastructure, but Russia has been slow to develop new transport capacity. New initiatives include a high-speed rail link in Russia that cuts journey times between Moscow and Kazan from twelve to three and a half hours. Funded and built by China, the plan is to expand it to form a high-speed route from Moscow to Beijing.<sup>29</sup>

China places more emphasis on developing a second route, the China-Central Asia-West Asia Economic Corridor, which links Xinjiang with Kyrgyzstan, Tajikistan, Kazakhstan, Uzbekistan and Turkmenistan, bypassing Russia. Within this route, a northern spur is most developed, building railways from a new trade terminal at Khorgos on the Chinese-Kazakh frontier across to the Kazakh port of Aktau on the Caspian.<sup>30</sup> From Aktau, shipping offers transport across the Caspian to Azerbaijan and Georgia, and a link to the new Baku-Tbilisi-Kars railway. Heading south from Aktau, a new railway has opened between Kazakhstan, Turkmenistan and Iran. The first trains between China and Iran began operations in February 2016.<sup>31</sup> In September

<sup>25</sup> Crisis Group interviews with Chinese and Western analysts, Beijing and Hong Kong, 2016 and 2017.

<sup>26</sup> Andrew Scobell, Ely Ratner and Michael Beckley, “China's Strategy Toward South and Central Asia: An Empty Fortress”, (RAND Corporation, 2014).

<sup>27</sup> Crisis Group Report, *China's Central Asia Problem*, op. cit., p. 10.

<sup>28</sup> Gao Bai, “The Railroad and Land-Power Strategy: Historical Lessons Learned for the ‘Silk Road Economic Belt’ Strategy”, *China International Strategy Review 2015*, Peking University, 2016, pp. 202-231. China's National Development and Reform Commission estimates that by 2020 there will be 5,000 cargo trains running annually between China and Europe. “5,000 China-Europe cargo trains expected by 2020”, Xinhua, 18 October 2016.

<sup>29</sup> Shen Qing, “News Analysis: China high-speed rail makes tracks overseas”, Xinhua, 19 June 2015.

<sup>30</sup> John C.K. Daly, “China and Kazakhstan to Construct a Trans-Kazakhstan Railway Line from Khorgos to Aktau”, *Eurasia Daily Monitor*, vol. 12, no. 94, 20 May 2015; Summer Zhen, “China's Silk Road strategy takes shape in Khorgos”, *South China Morning Post*, 18 October 2015.

<sup>31</sup> Najmeh Bozorgmehr, “First freight trains from China arrive in Tehran”, *Financial Times*, 9 May 2016.

2016 the first ever train from China to Afghanistan arrived in Hairaton, having travelled twelve days from Nantong.<sup>32</sup>

Not all these new routes will be commercially viable. They save significant time over sea routes for high-value, low volume goods, but are much more expensive for trade with Europe.<sup>33</sup> Kazakhstan is seeking to link transit routes to new special economic zones to maximise local impact. The Khorgos-East Gate Special Economic Zone and dry port, announced with much fanfare on 2 July 2014 by President Nursultan Nazarbayev, is supposed “to spur economic growth across the whole of Eurasia”.<sup>34</sup>

Progress has been slow, with development hampered by limited consumer demand from Kazakhstan, but some observers said the dry port may be “turning a corner”: in May 2017, deep-pocketed China COSCO Shipping Corporation and Jiangsu Lianyungang Port Co purchased a combined 49 per cent stake in the dry port on the Kazakh side of the border from the national railway company, and during a June visit by President Xi to Astana, \$8 billion in business deals were signed and the governments pledged to work on aligning the Belt with Kazakhstan’s “Bright Path” economic policy.<sup>35</sup> As the number of train services and usage both rise, costs per container are falling, while customs procedures at the Kazakh border have become much faster, said one Kazakh Railways executive. The different rail gauges between countries still necessitate changes of bogies, but block trains avoid this delay by transferring cargo in standard containers, which is less time-consuming.<sup>36</sup>

Other routes are transforming internal travel. In June 2016, President Xi Jinping and then Uzbek President Islam Karimov inaugurated a new \$1.6 billion rail link between the Ferghana valley and Tashkent, including the 19.2km Qamchiq Tunnel, the longest in the region, constructed by the China Railway Tunnel Group. This route forms part of a planned rail route through southern Kyrgyzstan to western China, which remains in negotiation.<sup>37</sup> The old railway involved travel through Tajikistan’s territory, which created constant problems for passengers at borders, owing to difficult relations between the two countries.<sup>38</sup> The project is an example of collaboration

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<sup>32</sup> “First cargo train from China arrives in N. Afghan port”, Xinhua, 7 September 2016.

<sup>33</sup> Typical trucking and shipping routes from Chinese industrial centres can take up to 35 days to Europe, whereas rail links reduce that to eighteen-twenty days, or less. A container sent by rail can cost \$3,500-\$5,000 against \$2,000 by sea. Raghu Dayal, “Building an Interconnected Belt”, *Railway Gazette International*, vol. 172, N°5, 2016, pp. 40-43; Tom Holland, “Puffing across the ‘One Belt, One Road’ rail route to nowhere”, *South China Morning Post*, 1 May 2017.

<sup>34</sup> “Kazakhstan, China: Close neighbours that build mutually beneficial ties”, *The Astana Times*, 5 May 2015.

<sup>35</sup> Wade Shepard, “Khorgos: The New Silk Road’s Central Station Comes To Life”, *Forbes*, 20 February 2017; “Why Kazakhstan is building a “New Dubai” on the Chinese border”, *Forbes*, 28 February 2016; “Chinese companies buy stake in dry port in Kazakhstan”, Xinhua, 15 May 2017; “China, Kazakhstan sign cooperation deals worth over 8 bln USD”, Xinhua, 10 June 2017.

<sup>36</sup> Crisis Group interview, Kazakhstan Railways executive, Singapore, July 2017. China uses a 1,435 mm track gauge, while Kazakhstan’s is 1,520 mm. Without Chinese subsidies, block train costs would be much higher. “Case Studies on Railway Border Crossing Points: I. Kazakhstan / People’s Republic of China (PRC)”, CAREC Program, 2016.

<sup>37</sup> “Chinese, Uzbek leaders hail inauguration of Central Asia’s longest railway tunnel”, Xinhua, 22 June 2016.

<sup>38</sup> “Two presidents open Angren-Pap railway”, *Railway Gazette*, 2 July 2016.

between development banks with World Bank (\$195 million) and Eximbank funding (\$350 million).<sup>39</sup>

These internal transport routes may eventually form the basis of a new cross-regional network. Tajikistan is also developing internal rail and road routes with Chinese support. However, cross-border routes, essential to the success of the SREB, are much more difficult to accomplish. A route from Kashgar through Osh in Kyrgyzstan and on to Uzbekistan ran into difficulties in Kyrgyzstan, which lobbied China to build a north-south route instead. The Kyrgyz-Uzbek and Tajik-Uzbek borders remain cumbersome for private trade and travel, though improvements on the Kyrgyz-Uzbek border have been made.<sup>40</sup> China refurbished road links between western China and southern Kyrgyzstan, which are now used by trucks bound for Tajikistan and Afghanistan. Routes involving Afghanistan are the most challenging: a Tajikistan-Afghanistan-Turkmenistan (TAT) railway project faces numerous security and political challenges.

Alongside new railways, China is focused on pipeline construction to lessen its reliance on Middle Eastern energy. According to Kazakh expert Konstantin Syroezhkin, in 2012 China controlled some 25 per cent of Kazakhstan's oil production.<sup>41</sup> The Kazakh-China oil pipeline, completed in 2005, is designed to carry oil from Kazakhstan's offshore Kashagan project. The China-Central Asia pipeline is the main export route for Turkmen gas, leaving it heavily dependent on its partners in Beijing. A further "D" branch of this pipeline is delayed.

Chinese economic activity is not only about connectivity and trade but also about investment in industry. In Kyrgyzstan a Chinese-run cement plant is operating in Aravan, with others announced for Issyk-Kul and Osh.<sup>42</sup> In Tajikistan, Chinese investors established several new cement plants and production increased fivefold between 2013 and 2015.<sup>43</sup> The power sector is another significant area of investment. A Chinese company, Tebian Electricity Apparatus (TBEA), completed the \$350 million reconstruction of the Dushanbe power plant in December 2016 and is refurbishing the Bishkek power and heating plant. In 2015, TBEA also completed a \$390 million

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<sup>39</sup> "7.6 Million People in Uzbekistan Will Benefit from Better Inter-regional Accessibility by Railway Link", press release, The World Bank, 14 February 2015.

<sup>40</sup> Crisis Group Europe and Central Asia Report N°242, *Uzbekistan: The Hundred Days*, 15 March 2017.

<sup>41</sup> Konstantin Syroezhkin, "China's Presence in the Energy Sector of Central Asia", *Central Asia and the Caucasus*, vol.13, no.1, 2012, pp. 20-43.

<sup>42</sup> Construction of the largest Chinese cement plant in Kyrgyzstan was suspended in July 2015 due to its close location to the Datka-Kemin power line. A plant in Aravan is operating and one more is planned there. Tatyana Kudryavtseva, "Премьер-министр КР распорядился остановить работу цементного завода вблизи подстанции «Кемин»" ["Prime minister of the Kyrgyz Republic ordered to suspend the work of the cement plant close to the 'Kemin' substation"], 24.kg, 20 July 2015; Erlan Turgunbayev, "В Ошской области строится цементный завод стоимостью в 10 млн долларов" ["Cement plant worth \$10 million is being built in Osh province"], *Kabar*, 7 December 2015. "В Араванском районе цементный завод в сутки выпускает 800-1000 тонн цемента" ["Cement plant in Aravan district produces around 800-1000 tons of cement a day"], *Turmush – AKI press*, 31 August 2015. For more on recent China-Kyrgyz proposals, see "中华人民共和国政府和吉尔吉斯共和国政府联合公报" ["Joint Communiqué of the Government of the People's Republic of China and the Government of the Kyrgyz Republic"], 3 November 2016.

<sup>43</sup> Dirk van der Kley, "China shifts polluting cement to Tajikistan", *chinadialogue.net*, 8 August 2016.

electricity transmission line between north and south Kyrgyzstan, which avoids the need to transit Uzbek territory.<sup>44</sup>

## B. *Challenges on the Silk Road*

These infrastructure projects and business investments have the potential to transform Central Asia and revive links to Iran, the Middle East, the Caucasus and Eastern Europe. They offer improved regional ties and promise major economic boosts. However, they also face serious problems and risks.<sup>45</sup>

### 1. Anti-Chinese sentiment

An official Chinese White Paper on the SREB emphasises its collaborative nature, designed to coordinate with existing “multilateral cooperation mechanisms”, arguing it should be “jointly built through consultation to meet the interests of all”.<sup>46</sup> In so doing, China seeks to allay local suspicion of its increasing influence and hopes the SREB will improve attitudes toward China among Central Asian states; in particular, it proposes cooperation with existing national plans where possible. While the EEU involves a complex path to membership, an intrusive regulatory regime and a supranational body in Moscow, the SREB imposes no supranational governance structures nor rules on participants. Tellingly, a goal of the SREB and China’s new “periphery diplomacy” is to promote pro-Chinese attitudes in its immediate neighbourhood.<sup>47</sup>

But this will be an uphill task. Anti-Chinese sentiment is widespread at all levels of society in each Central Asian state and racist stereotypes often are aired publicly.<sup>48</sup> Privately, some local politicians frame it as part of broader xenophobic tendencies but posit increased cooperation with China as particularly fraught for historical reasons.<sup>49</sup> While elites are more comfortable about forging closer relations with China,

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<sup>44</sup> “Construction of Datka-Kemin 500 kV transmission line completes in Kyrgyzstan”, *Kabar*, 21 August 2015.

<sup>45</sup> Chinese analysts are beginning to assess such risks, notably in the “一带一路”能源资源投资政治风险评估报告” [“Belt and Road Energy Resource Investment Political Risk Analysis Report”], Centre for Energy and Resource Strategic Research, Renmin University, 11th ed., January 2017.

<sup>46</sup> “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road”, National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce, 28 March 2015.

<sup>47</sup> At a Work Forum on periphery diplomacy in 2013, Xi called for diplomacy that would “warm the hearts of others so that neighbouring countries will become even friendlier”. Timothy R. Heath, “Diplomacy Work Forum: Xi Steps up Efforts to Shape a China-Centered Regional Order”, *China Brief*, the Jamestown Foundation, vol.13, no. 22 (2013), p. 6. A meeting of Chinese Foreign Minister Wang Yi with Kazakh Foreign Minister Erlan Idrissov in Kazakhstan in June 2016 gave equal billing to Kazakhstan’s national Nurlı Zhol development plan and the SREB proposal. “Chinese, Kazakh FMs vow to strengthen ties”, *Xinhua*, 22 May 2016. See Aziz Burkhanov and Yu-Wen Chen, “Kazakh Perspective on China, the Chinese, and Chinese Migration”, *Ethnic and Racial Studies Review*, vol. 39, no. 12 (2016) p. 2,139.

<sup>48</sup> “В Астане прошел митинг против браков казахстанских девушек и китайских женихов” [“A protest against marriages of Kazakh girls and Chinese grooms took place in Astana”], *Zakon.kz*, 11 January 2017.

<sup>49</sup> Crisis Group interview, Kyrgyz politician, Bishkek, September 2014.

and while they find the prospect of major investment with few political conditions attached extremely attractive, nationalism and economic resentments create a combustible environment which neither Central Asia's governments nor Beijing should ignore. "The rise of Sinophilia and Sinophobia will impact the political, geostrategic, and cultural situation in the region, working either to speed up or to slow down Chinese expansion in it".<sup>50</sup>

These negative attitudes are particularly pronounced in Kazakhstan and Kyrgyzstan. According to opinion polls, more Kyrgyz citizens see China as an economic threat than a partner; they also view Russia, Kazakhstan, Turkey and the EU as more important economic partners.<sup>51</sup> Such perceptions are especially pronounced among Kazakh nationalist activists for whom preoccupation with China often merges with economic resentment.<sup>52</sup> Initiatives such as relaxing the visa regime for Chinese visitors were sharply criticised by nationalist voices.<sup>53</sup>

In Kyrgyzstan, anti-Chinese sentiment often fuels protests or is used by political leaders to mobilise support against Chinese companies. In August 2011, three Chinese miners were attacked at the Solton-Sary gold mine, in Naryn province. Locals claimed that the Chinese ignored environmental safeguards and treated Kyrgyz workers poorly. In September 2012, locals in Jalalabad attacked a camp for Chinese road builders near the Charaat gold mine, complaining about the impact of truck traffic on local roads.<sup>54</sup> In October 2012, protestors shut down operations at the Chinese-run Taldy-Bulak Levoberezhny gold field after reports of a brawl between Chinese and Kyrgyz workers.<sup>55</sup> In 2015, a fight broke out between local and Chinese workers at a Chinese-owned copper mine in Kazakhstan.<sup>56</sup>

These conflicts also occur with other foreign companies, but Chinese businesses appear to be specially targeted. In particular, the tendency among Chinese companies to hire Chinese rather than local workers causes tensions. Chinese workers often are

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<sup>50</sup> Sebastien Peyrouse, "Discussing China: Sinophilia and Sinophobia in Central Asia", *Journal of Eurasian Studies*, vol. 7, no. 1 (2016), pp. 14-23; see also Raffaello Pantucci, "Sinophobia: A potential knot in the Silk Road", China in Central Asia ([chinaincentralasia.com](http://chinaincentralasia.com)), 14 June 2015.

<sup>51</sup> "IRI's Center for Insights Poll: Despite Corruption and Slow Economy, Citizens Feel that Kyrgyzstan is Moving in the Right Direction", International Republican Institute (IRI), 9 May 2016. A report concluded that "negative stereotypes of China and the Chinese, as well as Sinophobia, are pervasive in private Kazakh language newspapers". Aziz Burkhanov and Yu-Wen Chen, "Kazakh Perspective", op. cit.

<sup>52</sup> "Досым Сатпаев: Проглотит ли китайский удав евразийского кролика" ["Dosym Satpayev: Will the Chinese boa constrictor swallow the Eurasian rabbit?"], *Ratel.kz*, 30 May 2016.

<sup>53</sup> *Zhas Alash*, a nationalist paper, wrote in 2014 that "China's proposal to adopt visa-free travels for tourists is hence unacceptable for us. It is a way for them to conquer us without a war". "What if the Chinese Came", *Zhas Alash*, 9 September 2014, cited in Aziz Burkhanov and Yu-Wen Chen, "Kazakh Perspective", op. cit.

<sup>54</sup> Crisis Group Report, *China's Central Asia Problem*, op. cit.; Arstan Aalyev, "Когда президенту становится стыдно" ["When the president is embarrassed"], *24.kg*, 14 September 2012.

<sup>55</sup> Crisis Group Report, *China's Central Asia Problem*, op. cit.; Dmitry Denisenko, "Китайцев обвиняют в избиении рабочих-кыргызстанцев на Талды-Булаке Левобережном" ["Chinese are accused for beating up the Kyrgyz workers at Taldy-Bulak Levoberezhny"], *Vecherniy Bishkek*, 22 October 2012.

<sup>56</sup> Assel Satubaldina, Tatyana Kuzmina and Assemgul Kassenova, "145-men fight between Chinese and Kazakh miners in Kazakhstan, 65 injured", *TengriNews*, 10 July 2015.

subject to harassment and many Chinese companies advise their employees to remain isolated from the communities in which they work.<sup>57</sup> This deepens the sense of mistrust on both sides and reinforces the idea that China's practises and motives in Central Asia are opaque and self-serving. As a result, there is a slow shift toward using more local labour.<sup>58</sup> These positions are not always in skilled or highly paid roles, but as more Central Asian citizens train in China and learn Chinese, more managerial positions are also opening to non-Chinese staff.

Agricultural land is in short supply in much of Central Asia and so land distribution also can spark conflicts. Specifically, nationalists fear that land will be sold to Chinese investors. In 2010, opposition activists held a protest in Almaty over plans to lease land to Chinese investors.<sup>59</sup> In April 2016, major protests broke out in the Kazakh cities of Atyrau, Aktobe and Semey after the law was amended to allow the lease of land for 25 years.<sup>60</sup> Though ostensibly about land reform, the protests became a vehicle for airing other grievances including fears of an influx of Chinese migrants and distrust of Chinese companies, particularly their labour and environmental practices.<sup>61</sup> They led to the resignation of the agriculture minister and President Nazarbayev delayed implementation of the new law. Nevertheless, Kazakh officials announced proposed agricultural deals with Chinese investors worth nearly \$2 billion in May 2016.<sup>62</sup>

Chinese policymakers are accustomed to dealing with small groups of ruling elites and tend to discount the importance of public opinion. As one scholar put it, "most of the people in Central Asia who have strong negative sentiments against China are not powerful, while those who have power want to work with China".<sup>63</sup> But as the experience of some Chinese enterprises in Sri Lanka and Myanmar has illustrated, such thinking can be a recipe for further discontent and cancelled or delayed projects.<sup>64</sup>

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<sup>57</sup> Raffaello Pantucci, "Sinophobia: A potential knot in the Silk Road", op. cit.

<sup>58</sup> Dirk van der Kley, "Chinese Companies Increasingly Employ Central Asians", China in Central Asia ([chinaincentralasia.com](http://chinaincentralasia.com)), 27 December 2016. For example, the Dzhunda plant in Kara-Balta claimed to be working toward 90 per cent local employment. As of March 2016, 586 out of 873 staff were Kyrgyz citizens; management complained that finding trained local staff was difficult. "Завод «Джунда» – три года успешной работы!" ["Dzhunda' factory – three years of successful work!"], Knews, 7 July 2016.

<sup>59</sup> Rayhan Demytrie, "Kazakhs protest against China farmland lease", BBC, 30 January 2010.

<sup>60</sup> "Kazakhstan's Protests Postponed – But for How Long?", Crisis Group blog, 12 May 2016.

<sup>61</sup> Richard Ghiasy and Jiayi Zhou, "The Silk Road Economic Belt: Considering security implications and EU–China cooperation prospects", SIPRI, 2017; Alexander Cooley, "The Emerging Political Economy of OBOR", Center for Strategic and International Studies, October 2016. Chinese scholar Li Lifan cites one poll indicating 40 per cent of Central Asians believe that there are negative economic and ecological consequences to Chinese investment. "The Challenges Facing Russian-Chinese Efforts to 'Dock' the Eurasian Economic Union (EEU) and One Belt, One Road (OBOR)", *Russian Analytical Digest*, no. 183, 3 May 2016.

<sup>62</sup> "China plans to invest \$1.9 bln in Kazakh agriculture", *Financial Times*, 16 May 2016.

<sup>63</sup> Crisis Group interview with Chinese scholar, Beijing, March 2017.

<sup>64</sup> Crisis Group Asia Reports N°231, *Myanmar: The Politics of Economic Reform*, 27 July 2012; N°214, *Myanmar: A New Peace Initiative*, 30 November 2011; and N°272, *Sri Lanka Between Elections*, 12 August 2015. "China asks Sri Lanka to protect interests of investors over suspended

## 2. Corruption and governance

Unsurprisingly, neither the SREB nor the EEU includes safeguards against corruption or emphasises improved rule of law or governance. Although China stresses its commitment to international governance standards in its lending through institutions such as the Asian Infrastructure Investment Bank (AIIB), historically there have been frequent reports of high-level corruption surrounding Chinese investments in Central Asia, including bribe payments to senior officials.<sup>65</sup> Chinese investors often invest in corruption-prone sectors such as mining, where state licences are acquired illicitly only to be resold to other bidders. In September 2016, the head of Kazakhstan's Khorghos International Centre of Cross-Border Cooperation with China was reportedly arrested on suspicion of taking a million-dollar bribe.<sup>66</sup> The head of the Chinese Chamber of Commerce in Kyrgyzstan admitted that "some Chinese investors have also joined in these dirty dealings".<sup>67</sup> Chinese companies, like other investors, also face problems in navigating complex and corrupt bureaucratic systems.<sup>68</sup>

Part of the problem is the lack of transparency surrounding many deals, in which companies are selected without competitive tenders. China Eximbank and China Development Bank often provide soft loans to governments which are used to pay Chinese companies to carry out infrastructure projects. For example, a \$385 million loan to the Kyrgyz government in 2013 financed work by Tebian Electricity Apparatus (TBEA) to refurbish the Bishkek power plant. The process caused controversy among Kyrgyz parliamentarians who were told that China's Eximbank dictated the choice. According to Electric Stations Director General Salaydin Avazov: "If we had money for reconstruction, we would have held a tender. And since there is no money, we have agreed to the terms of Eximbank".<sup>69</sup> While China and Central Asian governments defend no-tender procurement as more efficient and effective given unreliable information about different companies, it also provides scope for mismanagement and corruption.<sup>70</sup>

Poor governance and corruption likewise encourage lack of respect for environmental concerns, which in turn can be seized upon by activists to organise protests.

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port project", Xinhua, 8 March 2015; "Sri Lanka intensifies scrutiny of Chinese projects", Reuters, 3 April 2015.

<sup>65</sup> Crisis Group Report, *China's Central Asia Problem*, op. cit. One of the targets of recent corruption purges in China has been China National Petroleum Corporation (CNPC), including its officials who worked in Kazakhstan. "Special Report: Inside Xi Jinping's purge of China's oil mandarins", Reuters, 25 July 2014. In 2016, Kyrgyzstan's then Prime Minister Temir Sariev resigned amid accusation of corruption with a Chinese road building company. Raffaello Pantucci, "China's place in Central Asia", chinaincentralasia.com, 1 July 2016.

<sup>66</sup> "Kazakhstan: The Head of Free Trade Zone Detained in US\$ 1 Million Bribe Case", Organized Crime and Corruption Reporting Project, 9 September 2016.

<sup>67</sup> Li Deming, "Kyrgyzstan still a mine field for investors", *Global Times*, 28 October 2012.

<sup>68</sup> Crisis Group interview, Western diplomat, Astana, June 2016.

<sup>69</sup> Yulia Kostenko, "Модернизация ТЭЦ Бишкека: ошибка вышла" ["Modernisation of Bishkek heating and power plant: making gross mistake"], 24.kg, 23 January 2014.

<sup>70</sup> Najia Badykova, "The Chinese One Belt One Road Initiative Could be Doomed without Market Reforms," *The Central Asia-Caucasus Analyst*, 27 June 2017; Sarah Lain, "China's Silk Road in Central Asia: transformative or exploitative?", *Financial Times*, 27 April 2016; Alexander Cooley, "Emerging Political Economy", op. cit.; Ryskeldi Satke and Nicolás de Pedro, "China must avoid associating with corrupt nations in Belt and Road plan", *South China Morning Post*, 14 May 2017.

In 2012, protests occurred in Aravan, Kyrgyzstan, after local residents complained about potential environmental damage from the Chinese-run cement plant.<sup>71</sup> A \$300 million Chinese-run refinery in Kara-Balta was forced to suspend operations temporarily after local demonstrations against pollution.<sup>72</sup> Activists in Kara-Balta said residents living close to the refinery were not able to open their windows due to a heavy thick industrial smell and pollution. In 2015, one resident told Crisis Group: “We all now have health problems because of the emissions and pollution that is produced by the refinery. Every month, I have to visit doctors and show them my children. The medical costs grow to thousands of soms every month, and no one helps us”.<sup>73</sup> The plant resumed production in 2016, but there are similar problems across the region. The rapid increase in coal-fired cement production in Tajikistan also raised concerns about pollution.<sup>74</sup>

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<sup>71</sup> “Более 50% рабочей силы Араванского цементного завода составляют местные жители, – ОСОО «Южный комбинат строительных материалов»” [“More than 50 per cent of the workforce in Aravan cement plant are locals – ‘Southern Factory of construction materials’ LLC.”], Turmush – AKIpress, 20 September 2012.

<sup>72</sup> “Приостановка работы НПЗ в Кара-Балте связана с экологическими проблемами – минэкономики” [“Ministry of Economy: Suspension of work of the oil refinery plant in Kara-Balta is related to environmental problems”], КyrTAG, 18 February 2014.

<sup>73</sup> Crisis Group interviews, Kara-Balta, Kyrgyzstan, February 2015.

<sup>74</sup> Dirk van der Kley, “China shifts polluting cement to Tajikistan”, chinadialogue.net, 8 August 2016.

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### III. Russia and the Eurasian Economic Union

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The SREB is ambitious and has significant funding, but China's regional political influence remains secondary to Russia's. Moscow retains important political, economic, personal and institutional links in Central Asia and seeks to reverse its declining economic influence by developing regional institutions. Early post-Soviet attempts to develop regional organisations failed until a 2010 Customs Union among Russia, Belarus and Kazakhstan was formed. This evolved into the Eurasian Economic Union (EEU), whose Central Asian members include Kazakhstan and Kyrgyzstan.<sup>75</sup>

#### A. *The EEU and Cooperation in Central Asia*

The EEU has not had a good start. "The Eurasian Union is good for Russia, but offers nothing for Kazakhstan", said a businessman in north-western Kazakhstan.<sup>76</sup> His view is backed by trade statistics. In the first nine months of 2016, Kazakhstan's trade with EEU member-states was down by 26.4 per cent compared to the same period in 2015.<sup>77</sup> Many problems were caused by the Russian economic crisis and currency volatility; in 2014, the value of the Russian rouble compared to the U.S. dollar more than halved, cheapening the price of Russian goods for Kazakh customers, damaging domestic producers and leading to tit-for-tat restrictions by both sides until the Kazakh tenge also was devalued.

Kyrgyzstan suffered even more as the rouble's collapse undermined remittances from labour migrants and made its own exports too expensive. Kyrgyz farmers struggle to take advantage of major new markets: they have no capacity to sort produce for large Russian supermarket chains or to transport it to market. Most agricultural goods lack clear certification procedures and few laboratories can generate the required certification,<sup>78</sup> leading to unilateral bans on Kyrgyz exports by other countries while cheaper imports from elsewhere in the EEU are unimpeded.<sup>79</sup> A local business leader said: "Our agro-industrial system will die and we will be totally dependent on external suppliers".<sup>80</sup>

The EEU has no equivalent to the EU's Structural Funds which helped ease disparities across EU member states. Indeed, the EEU never was designed as a

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<sup>75</sup> Crisis Group Europe and Central Asia Report N°240, *The Eurasian Economic Union: Power, Politics and Trade*, 20 July 2016.

<sup>76</sup> Crisis Group interview, Uralsk, May 2016.

<sup>77</sup> "Товарооборот Казахстана со странами ЕАЭС за 9 мес. упал на 26,4%" ["Kazakhstan's trade with the EEU states for the first nine months had dropped by 26.4 per cent"], КургТАГ, 15 November 2016.

<sup>78</sup> "Правительство затягивает строительство спецлабораторий и центров сертификации сельхозпродуктов – депутат" ["Deputy: the government is delaying the construction of special laboratories and centres for certification of the agricultural products"], КургТАГ, 29 September 2016; Dilya Yusupova, "Две ветлаборатории в КР оборудуют на российские деньги. Дают 138 млн рублей" ["Two veterinary laboratories will be equipped by the Russian money. They are giving 138 million roubles"], Zanoza, 16 November 2016.

<sup>79</sup> Zamira Kozhobayeva, "ЕАЭС: Партнерство с препирательством" ["EEU: Partnership with bickering"], Radio Free Europe/Radio Liberty (RFE/RL) Kyrgyz Service, 18 November 2016.

<sup>80</sup> Anastasia Bengard, "Рустам Жунушов: В КР бесконтрольно ввозят сельхозпродукцию" ["Rustam Zhunushov: Agricultural products are imported to the Kyrgyz Republic uncontrolled"], 24.kg, 19 October 2016.

development organisation for poorer countries and attempts to develop ad hoc instruments, such as a \$500 million Russian-Kyrgyz Development Fund to support those affected by entry, have not made much difference. It initially struggled to find projects that met its lending criteria, although it subsequently funded some 700 small projects, primarily through local bank credits.<sup>81</sup> Also, some important bilateral Russian commitments to infrastructure projects failed to materialise; in 2012, Russia promised to invest \$2 billion to complete the Kambar-Ata and Upper Naryn hydroelectric plants in Kyrgyzstan but Russia's economic crisis and negotiating difficulties ended its interest in these projects.<sup>82</sup>

The most popular aspect of the EEU is improvement in some cross-border transit. A Kazakh businessman recalls when it took a week to import cargo across the border: "We would wait three days at the border, and then take another three days to get through the customs".<sup>83</sup> Another says that he used to regularly pay \$200 in bribes to cross the border, but now pays nothing.<sup>84</sup> A businesswoman in northern Kazakhstan argues that "the victory of this union [EEU] is that they removed the customs, they took away a whole barrier. All the bribes were there".<sup>85</sup>

Travel can still be difficult, however, particularly on the Kazakh-Kyrgyz border. At the main Kordai border crossing, 10km outside the capital Bishkek, delays and queues are still the norm. According to one regular traveller: "Nothing changed at the border, in fact maybe it got even worse".<sup>86</sup> Some suspect the delays are manufactured by border guards seeking bribes. According to one driver: "If you pay 1,000-2,000 tenge, (\$3-\$6) you're allowed to cross without problem. If not, they'll want to search the car, put your goods through the x-ray, etc. If you don't pay, you can be delayed an hour or more".<sup>87</sup>

The most significant boost for Kyrgyzstan is in labour migration to Russia, although residual anti-immigrant feelings in Russia present a darker side. As citizens of an EEU member country, Kyrgyz migrants to Russia no longer need to pay for a monthly work permit (patent) or take onerous language tests – though the former rules were not always followed in the first place. Kyrgyz officials still point to the failure of Russian employers to provide proper work contracts and papers for migrants.<sup>88</sup> Russian anti-immigrant violence declined in recent years, but there are still frequent attacks and harassment of Central Asian workers.<sup>89</sup> There are concerns among

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<sup>81</sup> Vladimir Nekrasov, Roundtable presentation, Bishkek, 24 May 2016; see Российско-Кыргызский Фонд Развития, [www.rkdf.org](http://www.rkdf.org).

<sup>82</sup> Cholpon Orozobekova, "Kyrgyzstan's Capacity to Meet its CASA-1000 Obligations Comes under Question", *Eurasia Daily Monitor*, vol.13, no.103 (27 May 2016).

<sup>83</sup> Crisis Group interview, businessman, Uralsk, June 2016.

<sup>84</sup> Crisis Group interview, shop owner, Uralsk, June 2016.

<sup>85</sup> Crisis Group interview, north-west Kazakhstan, June 2016.

<sup>86</sup> Crisis Group interview, Bishkek, May 2016.

<sup>87</sup> Crisis Group interview, Bishkek, May 2016.

<sup>88</sup> Crisis Group interview, Bishkek, May 2016.

<sup>89</sup> According to the Russian NGO Sova, four immigrants from Central Asia were reported killed and six injured in 2015, down from 14 and 29 in 2014. Sova suggests that these certainly underestimate the real figure, as many attacks are not reported. See: "The Ultra-Right Movement under pressure: Xenophobia and radical nationalism in Russia, and efforts to counteract them in 2015", Sova, 8 April 2015.

Central Asians that anti-migrant sentiment could rise again following the involvement of an ethnic Uzbek from Kyrgyzstan in a suicide attack on the St. Petersburg metro 3 April 2017.<sup>90</sup>

Although many officials and businesspeople in Kazakhstan and Kyrgyzstan are disillusioned about EEU membership, opponents do not represent a powerful political force in either country.<sup>91</sup> There is no “Kazexit” in the cards.<sup>92</sup> Political and business elites are resigned to membership, either hoping that the EEU concentrates primarily on its economic mandate, or that it turns into yet another “virtual” organisation that can safely be ignored.<sup>93</sup> Opinion polls still suggest high support among both Kazakhs and Kyrgyz for membership, with more than 80 per cent in favour in both countries.<sup>94</sup>

### B. *Expanding Eurasia?*

The EEU is presented as a purely economic project but in practice Russia also views it as a geopolitical and ideological effort – a platform for Moscow’s own Great Power aspirations.<sup>95</sup> Russian officials and analysts talk of “Greater Eurasia” in which Moscow serves as a key pivot in a region stretching from Eastern Europe to East Asia.<sup>96</sup> Russian deputy foreign minister, Igor Morgulov, claims that “Greater Eurasia” could facilitate integration between the EEU and the SREB, and among the EEU, the Shanghai Cooperation Organisation and ASEAN.<sup>97</sup> In May 2016, Russian first deputy Prime Minister Igor Shuvalov compared the initiative with the U.S.-led Trans-Pacific Partnership, and said: “The whole Eurasian space is set to see an all-encompassing trade and economic partnership emerging. This partnership, which is primarily emerging between the EAEU [Russia’s acronym for the EEU] and China, will be open for other countries to join”.<sup>98</sup>

For Kazakhstan and Kyrgyzstan, this involves a complex balancing act. On the one hand, officials in both capitals do not wish to get caught up in Russia’s complex geopolitics. Both countries refused to join Russia in imposing sanctions on agricultural imports from North America and the EU or on imports from Turkey in 2015. They maintain relations with Ukraine despite Russia’s conflict with Kyiv. On the other hand, they see benefits in a project that can promote Eurasian integration.

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<sup>90</sup> “НАК назвал основой террористических групп в России трудовых мигрантов из СНГ” [“NAC identified labour migrants from the CIS as the backbone of terrorist groups in Russia”], Interfax, 11 April 2017.

<sup>91</sup> The main anti-EEU group is primarily a Facebook group: “Kyrgyzstan against the Customs Union”. Its members suggest that they have ceased any active attempts to oppose the EEU. Crisis Group interview, Bishkek, 25 May 2016. “В Кыргызстане бросили клич о выводе страны из ЕАЭС” [“A cry about withdrawal from the EEU is thrown in Kyrgyzstan”], Delovaya Evraziya, 16 May 2016.

<sup>92</sup> Crisis Group interviews, parliamentary deputies, Jogorku Kenesh, Bishkek, 25 May 2016; businesspeople and officials, Bishkek, May 2016.

<sup>93</sup> Crisis Group interviews, Astana, Moscow, May 2016.

<sup>94</sup> These results are from the Eurasian Development Bank, which is a strong supporter of Eurasian integration. In general, survey figures can be quite volatile. See Eurasian Development Bank, “Интеграционный барометр ЕАБР” [“Integration barometer, EABR”], 2015, p. 97.

<sup>95</sup> Crisis Group Briefing, *The Eurasian Economic Union: Power, Politics and Trade*, op. cit.

<sup>96</sup> Sergei Karaganov, “From East to West, or Greater Eurasia”, *Russia in Global Affairs*, 25 October 2016.

<sup>97</sup> “Eurasian integration processes to be open for Western partners – diplomat”, TASS, 31 May 2016.

<sup>98</sup> Ibid.

In 1994, Kazakh President Nazarbayev called for Eurasian integration and published a plan to form a “Eurasian Union of States”,<sup>99</sup> likely a way of cementing Russian-Kazakh relations without undermining Kazakh national identity. After land-related protests and terrorist attacks in north-west Kazakhstan in May-June 2016 which the Kazakh government blamed on Islamic extremists, Russian nationalists talked about a potential Russian military intervention in northern Kazakhstan, which is home to a sizeable ethnic-Russian minority.<sup>100</sup> But the appeal of separatist tendencies is lessened by Kazakhstan’s membership in the EEU since it mitigates fears of ethnic Russian minorities. In other words, the concept of Eurasia is useful for Kazakhstan, both in managing relations with Russia and in bridging its own internal ethnic divides.<sup>101</sup>

In reality, the concept of Greater Eurasia for now is mostly rhetorical. The EEU struggles to find potential members. Leaders in Uzbekistan and Turkmenistan are implacably opposed and seem to privilege ties with China. In 2015, China became Uzbekistan’s main trade partner taking the top spot from Russia.<sup>102</sup> When Xi Jinping visited Uzbekistan in June 2016, he became the first foreign head of state to address the Uzbek parliament.<sup>103</sup> That said, in some ways, Uzbekistan already is economically integrated with the EEU zone: at least two million Uzbeks work in Russia, although their numbers have declined as they face increased hurdles to migration and lower wages.

Turkmenistan takes an even stronger stance against regional integration, informed by its official ideology of “neutrality”, which in practice is a policy of self-isolation. Turkmenistan attended the initial meeting of the Shanghai Cooperation Organisation in 2007 but refused to join and has rejected any possibility of EEU membership.<sup>104</sup> Unlike other Central Asian countries, Turkmenistan has few labour migrants working in Russia and limited trade with EEU states. Its main exports, oil and gas, flow primarily to China. Russia’s Gazprom was a major buyer of Turkmen gas but suspended purchases in early 2016. Turkmenistan also suspended exports to Iran in 2016. As a result, it now heavily relies on China.

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<sup>99</sup> “Евразийский союз: новые рубежи, проблемы, перспективы” [“Eurasian Union: new frontiers, problems, prospects”], speech by Nursultan Nazarbayev to session of the Academy of Social Sciences of the Russian Federation, Moscow, 16 February 1996.

<sup>100</sup> “Лимонову не терпится ввести войска в Казахстан” [“Limonov can’t wait to send troops to Kazakhstan”], Rosbalt, 8 June 2016; other Russian observers also predict a “Ukrainian scenario” in Kazakhstan, see, for example, Arman Kudaibergenov, “Казахстану угрожает «судьба Украины» – российский эксперт” [“Russian expert: Kazakhstan is threatened by ‘the Ukrainian scenario’”], 365info.kz, 23 May 2016. “Александр Разуваев: Каких рисков нам ждать от наступающего августа?” [“Alexander Razuvayev: what risks to expect from this coming August?”], Vzglyad, 20 July 2016.

<sup>101</sup> Golam Mostafa, “The Concept of ‘Eurasia’: Kazakhstan’s Eurasian Policy and its Implications”, *Journal of Eurasian Studies*, vol. 4, no.2 (2013), pp. 160-170.

<sup>102</sup> “Uzbekistan: Russia loses top trader status to China”, EurasiaNet.org, 27 April 2016.

<sup>103</sup> “Си Цзиньпин выступил перед парламентом Узбекистана” [“Xi Jinping addressed to the Parliament of Uzbekistan”], Uz24.uz, 22 June 2016. Suspicion among Uzbekistan’s elite toward the EEU is not necessarily shared among ordinary Uzbeks – according to one 2014 poll, 68 per cent of Uzbeks supported the idea of the EEU. EDB Integration Barometer, 2015, Analytical Summary”, Eurasian Development Bank, Centre for Integration Studies, St. Petersburg, p. 7.

<sup>104</sup> Annette Bohr, “Turkmenistan: Power, Politics and Petro-Authoritarianism”, Chatham House Research Paper, March 2016, p. 65.

Tajikistan is more likely to join the EEU but, among other factors, China's allure may encourage it to resist. Remittances from Russia declined sharply in 2015-2016 but still remain the main source of income for a majority of the population.<sup>105</sup> Membership has public support because it could improve the legal status of hundreds of thousands of Tajik labour migrants already in Russia. Pro-integration economists present an optimistic scenario, predicting up to 3.5 per cent additional economic growth per year in the medium term after accession.<sup>106</sup> However, given Russia's deep recession and the high costs associated with funding Tajikistan's integration in the economic bloc, Tajikistan's early accession is growing less attractive to Russian officials.<sup>107</sup>

Waning Russian interest in early accession is matched by ambivalence in Dushanbe. There is unlikely to be significant investment in Tajikistan from other EEU members, whereas China, Iran and Gulf states are all involved in investment projects.<sup>108</sup> Although these infrastructure investments do not always benefit ordinary people they often offer lucrative deals for local partners. Companies close to the government reportedly have developed close ties with China, suggesting a potentially stronger interest among some constituents in that relationship.<sup>109</sup>

Still, Russian diplomats are confident of Russia's privileged position in Central Asia. They are keenly aware of anti-Chinese sentiment in the region and trust that over the long term it could work to Moscow's advantage. The scale of Chinese investment cannot be matched, but Russia views its linguistic, cultural and military links as insurance against Chinese overreach.<sup>110</sup> Vital to Moscow's connection with the region are the millions of Central Asian migrants working in Russia and the remittances they send home annually. Though the value of remittances may fluctuate they are a lifeline to Central Asia's poorer economies such as Kyrgyzstan and Tajikistan.<sup>111</sup>

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<sup>105</sup> "Slowing Growth, Rising Uncertainties", Tajikistan Economic Update No. 1, World Bank Group, spring 2015.

<sup>106</sup> "Economic Impact of Tajikistan's Accession to the Customs Union and Single Economic Space", Eurasian Development Bank, April 2015.

<sup>107</sup> Crisis Group interview, Moscow, May 2016.

<sup>108</sup> Alexander Shustov, "Таджикистан ориентируется на Азию" ["Tajikistan is focusing on Asia"], *Nezavisimaya gazeta*, 16 May 2016.

<sup>109</sup> Crisis Group interview, Moscow, May 2016; Viktoria Panfilova, "Таджикистан не спешит вступать в Евразийский экономический союз" ["Tajikistan is not rushing to join the Eurasian Economic Union"], *Nezavisimaya gazeta*, 26 August 2016.

<sup>110</sup> Crisis Group interview, Russian diplomat, February, 2016.

<sup>111</sup> In April 2016, the Russian Federal Migration Service said there were 588,811 migrants from Kazakhstan in Russia; 574,194 from Kyrgyzstan; 878,536 from Tajikistan; 1.75 million from Uzbekistan; and 24,363 from Turkmenistan. In 2015 remittances from Kyrgyz migrants amounted to \$1.7 billion and accounted for 25.7 per cent of GDP. Remittances from Tajik migrants amounted to \$1.2 billion or 28.8 per cent of GDP. See "Количество трудовых мигрантов из Центральной Азии в России несколько сократилось" ["Number of labour migrants from Central Asia in Russia decreased by several times"], Ferghana.ru, 7 April 2016; "Remittance Data Inflows April 2017", World Bank, April 2017.

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## IV. Cooperation and Competition

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Chinese and Russian regional projects in Central Asia have different goals. The SREB aims to develop ease of transport and freer trade to facilitate Chinese exports and access to energy supplies. The EEU, a customs union that raised external tariffs on imports from non-EEU members, seeks to ensure and legitimise Russia's influence, including by establishing relations with other blocs like the EU. Nevertheless, geopolitical realities have forced both sides to cooperate. Russia needs good relations with China to counterbalance its problems with the West. China recognises Russia's historical and security role in the region. Both states are opposed to greater Western, particularly U.S., involvement in Eurasia. Their worldviews and ideologies overlap and they share similar goals in counter-terrorism and in maintaining stability. The two states appear close enough to manage tensions between their regional visions for Central Asia.

For now, Russia remains the key security player in the region. It retains significant operational military capacity with bases in Kyrgyzstan and Tajikistan. Russia also leads the Collective Security Treaty Organization (CSTO), which includes Kazakhstan, Kyrgyzstan and Tajikistan, and has expanded its military ties to Uzbekistan and Turkmenistan, although both countries strongly oppose military basing agreements or membership in the CSTO. Russia aims to prevent regime collapse in any Central Asian state, particularly through a Western-friendly "colour revolution"; to stem any spillover of Islamist radicalism from Afghanistan into Central Asia and southern Russia; and to counter narcotics trafficking.

China shares these goals and along with Moscow believes strong regimes are best placed to control potential internal conflict. During government suppression of protests or uprisings, Beijing and Moscow backed hard-line government responses in Andijan (Uzbekistan) in 2005; Janaozen (Kazakhstan) in 2011; and Gorno-Badakhshan (Tajikistan) in 2012. China and Russia – together with all Central Asian states except Turkmenistan – are members of the Shanghai Cooperation Organisation (SCO), a security grouping designed to counter what China terms the "three evils": terrorism, separatism and religious extremism. However, the SCO's operational capacity is limited.

Chinese analysts recognise that the SREB could multiply the number of potential Chinese targets for terrorism and protests as trade, investment and transshipment increase the presence and visibility of their citizens and projects. Chinese companies are likely to make greater use of Chinese and foreign private security companies with unarmed personnel for day-to-day protection of their operations in Central Asia, while counting on local government and Russian security forces to respond to more serious threats. But as Beijing's interests in Central Asia grow, greater involvement in security matters will tend to follow.

### A. *The SREB and the EEU*

In May 2015, President Vladimir Putin and President Xi met in Moscow and signed a joint declaration to coordinate the SREB and EEU with the stated goal of forming a

common space on the Eurasian continent.<sup>112</sup> In December 2015, after talks in Beijing, Prime Minister Dmitry Medvedev announced an initial agreement that “sealed the intention of the sides to continue to search for points of common interest between the Eurasian Economic Union and China’s Silk Road Economic Belt project”.<sup>113</sup>

The following February, a working group between Chinese officials and the EEU agreed to develop a “roadmap” for cooperation.<sup>114</sup> Foreign Minister Wang Yi on a visit to Bishkek said he saw the “SCO as a platform to speed up the docking of the Silk Road Economic Belt with the construction of the Eurasian Economic Union”.<sup>115</sup> On a July 2017 visit to Russia, President Xi said his government was discussing an agreement on economic cooperation and a list of joint projects with the EEU.<sup>116</sup> During that visit, the first signs of concrete agreements emerged as the Russia Direct Investment Fund said it would partner with the China Development Bank to create a new \$10 billion cooperation fund for cross-border projects, while China Development Bank reportedly gave Russian state development bank VEB an \$850 million loan for an innovation fund.<sup>117</sup>

This slow diplomatic pace reflects a process through which Russian strategists have eventually concluded it is more in Russia’s interest to shape China’s initiative than to resist it.<sup>118</sup> However, Russia still has reservations. There has been little follow-up, and for now it seems more likely the two projects will work largely in parallel,

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<sup>112</sup> “РФ и Китай договорились о ‘состыковке’ проектов ЕАЭС и ‘Шелковый путь’ [“Russia and China agreed on ‘docking’ the EEU and the Silk Road projects”], TASS, 8 May 2015. “China, Russia agree to integrate Belt initiative with EAEU construction”, Xinhua, 8 May 2015; Li Xin, “Chinese Perspective on the Creation of a Eurasian Economic Space”, Valdai Discussion Club Report, November 2016.

<sup>113</sup> “Russian foreign ministry notes further ‘negative trends’ in world in 2015”, BBC Monitoring Former Soviet Union, 30 December 2015; Medvedev and Chinese Premier Li Keqiang reaffirmed their commitment for the Belt and Road Initiative and EEU to cooperate on transportation, cross-border infrastructure, logistics and other key areas, “中俄总理第二十一次定期会晤联合公报” [“Joint Communiqué on the 21st Regular Meeting of Chinese and Russian Prime Ministers”], 8 November 2016.

<sup>114</sup> Alexandra Bayazitova, “Дмитрий Панкин: ‘Объем рублевых платежей в ЕАЭС достиг 70%’” [“Dmitry Pankin: the volume of rouble payments in the EEU has reached 70 per cent”], *Izvestia*, 19 February 2016.

<sup>115</sup> “Wang Yi Talks about China’s ‘Four Support’ to Central Asian Countries”, Embassy of the People’s Republic of China in the United Kingdom of Great Britain and Northern Ireland, 22 May 2016. A year later, Foreign Minister Wang said Russia and China were preparing to do a feasibility study on building a Eurasian Economic Partnership. “Chinese FM says China-Russia ties set to grow stronger regardless of changing global dynamics”, Xinhua, 26 May 2017.

<sup>116</sup> “Written interview by H.E. Xi Jinping, president of the People’s Republic of China with Russian media organizations”, Xinhua, 3 July 2017.

<sup>117</sup> “Russia, China form \$10bn investment fund”, *Financial Times*, 4 July 2017.

<sup>118</sup> In March 2015, President Xi sent Politburo member Li Zhanshu, director of the Communist Party’s General Office, to Moscow to prepare the ground for an agreement; see: Christopher K. Johnson, “President Xi Jinping’s ‘Belt and Road’ Initiative”, Center for Strategic and International Studies, 28 March 2016. However, follow-up for Xi’s May 2015 Moscow visit reportedly was handled by the China department of Russia’s foreign ministry, which did not communicate with the EEU department, losing many months until experts alerted the Kremlin. Only later did leaders at the EEU Astana summit direct the Eurasian Economic Commission to coordinate communication with Beijing on the SREB: see Mathieu Duchâtel, François Godement et al., “Eurasian integration: Caught between Russia and China”, European Council on Foreign Relations, 7 June 2016.

with the SREB prioritising bilateral trade, investment and infrastructure while the EEU focuses on internal cooperation among its members. Occasional projects may be badged as joint initiatives.<sup>119</sup>

The SREB provides the EEU with enhanced legitimacy through recognition by a major power. In the wake of the conflict over Ukraine and ensuing Western sanctions, China's initiative also offers Russia an alternative economic and political pole that supports its own efforts to turn eastward, limit American and European influence in its backyard, and promote development, social stability and regime security in Central Asia.<sup>120</sup> "Russia's main goal is to make the SREB a tool for strengthening and improving the [EEU], to prevent the two from competing with each other, and in the future, to make the resources of the SREB the foundation for creating an economic and political Greater Eurasian Community", according to Timofey Bordachev at the National Research University in Moscow.<sup>121</sup>

There are limits to cooperation. Despite the official positive view on relations with China, Russian experts privately frequently warn of challenges faced by Central Asian states in relations with China.<sup>122</sup> China prefers to do bilateral deals rather than deal with the EEU. Efforts by Russian officials to encourage EEU members to coordinate their involvement in the SREB have led nowhere.<sup>123</sup> More significantly, China is committed to reducing barriers to trade along the SREB, while the EEU is constructing a customs union with relatively high tariffs and has launched anti-dumping investigations against Chinese products.

In the long term, China would like to develop a Free Trade Area (FTA) between China and Central Asia whereas Russia has opposed moves by China to promote an FTA among SCO members, fearing that China would economically dominate the bloc while an influx of cheaper Chinese goods would erode hopes of fostering domestic industry through trade-restricting policies such as import-substitution.<sup>124</sup> Uzbekistan is also strongly opposed to any China-led free trade area. Kyrgyz entrepreneurs, however, welcome the idea, arguing that an SCO free trade area would be the ideal complement to the EEU.<sup>125</sup>

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<sup>119</sup> Crisis Group interviews with Chinese scholars, Beijing and Shanghai, March-April 2017. Aside from geopolitical considerations, better routes through Central Asia would reduce Russia's share of the China-Europe transshipment business.

<sup>120</sup> Richard Ghiasy and Jiayi Zhou, "The Silk Road Economic Belt", op. cit; Alexander Cooley, "Emerging Political Economy", op. cit.

<sup>121</sup> Quoted in Li Xin, "Chinese Perspective on the Creation of a Eurasian Economic Space", Valdai Discussion Club Report, November 2016.

<sup>122</sup> Crisis Group interviews, Bishkek, March 2016; Moscow, May 2016.

<sup>123</sup> Alexandra Bayazitova, "Дмитрий Панкин: «Объем рублевых платежей в ЕАЭС достиг 70%»" ["Dmitry Pankin: the volume of rouble payments in the EEU has reached 70 per cent"], *Izvestia*, op. cit.

<sup>124</sup> China exports mostly finished products to Russia and Central Asia and imports primarily energy, metals and raw materials. Sebastien Peyrouse, "Central Asia's tortured Chinese love affair", East Asia Forum, 30 Nov. 2016; "Reshaping Eurasian Space: Common Perspectives from China, Russia and Kazakhstan Think Tanks", Valdai Discussion Club, July 2017; "China Suggests Free Trade Zone for the SCO", *The Diplomat*, 4 November 2016; Jeffrey Schubert and Dmitry Savkin, "Dubious Economic Partnership: Why a China-Russia Free Trade Agreement is Hard to Reach", *China Quarterly of International Strategic Studies*, vol. 2, no. 4, pp. 529-547, winter 2016.

<sup>125</sup> Crisis Group interview, trade expert, Bishkek, Kyrgyzstan, 16 March 2016.

Chinese analysts see the EEU's primary aim as helping Russia recover its great power status and institutionalise its regional sphere of influence. To the extent that it facilitates policy coordination and promotes peace and stability, they reckon it may benefit the SREB. But Chinese scholars also tend to be sceptical of the EEU's long-term prospects, viewing it as a defensive, inward-focused construct that will exacerbate Russia's geopolitical rivalry with the West. They also point to the union's lack of economic rationale or common market, the potential for territorial disputes among members, and the tension between its binding mechanisms and the natural tendency of Central Asian states to balance between Beijing and Moscow. They assess that Russia will have to make further concessions to satisfy the divergent, centrifugal interests of the other members and, in the absence of reforms to its own economy, bear an increasingly heavy burden.

By contrast, the Belt is conceived as an open web of bilateral agreements in which the economic benefits are explicit, while political expectations (such as supporting the One-China Policy and other Chinese interests) are largely implicit. As one Chinese scholar put it, "the EEU can't stop the power of the market. Everything will flow back to the biggest market".<sup>126</sup>

#### B. *A Role for the West?*

The EU and the U.S. are influential actors in Central Asia but increasingly marginalised by the rise of China and a reassertive Russia. The EU's Central Asian Strategy, devised in 2007, tried to address multiple challenges with limited funds: just \$750 million in 2007-2013, projected to rise to \$1 billion in 2014-2020. Failure of the 1990s Transport Corridor Europe-Caucasus-Asia (TRACECA) program brought to an end EU support for major infrastructure or connectivity projects in the region. Most funding in the present cycle is earmarked for education and rural development. However, the Strategy is unfocused and lacks political support, leading to few visible results.<sup>127</sup>

The U.S. has its own version of a "New Silk Road" launched by then Secretary of State Hillary Clinton in Mumbai in 2011; its goal is to link Central Asia through trade and export routes to Afghanistan and South Asia.<sup>128</sup> A new C5+1 format, launched in 2015, involves regular meetings among the five Central Asian states and the U.S. The U.S. continues to offer political support to two major infrastructure projects: the Turkmenistan-Afghanistan-Pakistan-India Pipeline (TAPI), a gas export route from

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<sup>126</sup> Crisis Group interviews with Chinese scholars, Beijing and Shanghai, March-April 2017; Wang Weiran and Wang Jingliang, "The Prospects of the Eurasian Economic Union", *Contemporary International Relations*, vol. 25, no. 5, September-October, 2015, pp. 91-104; Wang Haibin, "The Eurasian Economic Union and Its World Influence", *Contemporary International Relations*, op. cit., pp. 105-121; Li Lifan, "The Challenges Facing Russian-Chinese Efforts to 'Dock' the Eurasian Economic Union (EEU) and One Belt, One Road (OBOR)", op. cit.; Li Ziguo, "Eurasian Economic Union: Achievements, Problems and Prospects", *China International Studies*, May/June 2016; Alexander Cooley, "Emerging Political Economy", op. cit.; Tom Miller, *China's Asian Dream*, op. cit.

<sup>127</sup> "Implementation and Review of the European Union Central Asia Strategy: Recommendations for EU action", European Parliament, Directorate-General for External Policies, 2016.

<sup>128</sup> "US revives two key infrastructure projects in Asia: Five things to know", *The Indian Express*, 24 May 2017.

Turkmenistan to South Asia, and CASA-1000, an electricity generation and export project involving Kyrgyzstan, Tajikistan, Afghanistan and Pakistan. Both projects face political, security and commercial challenges that may prevent implementation.

More significant influence is exerted by the three major international development banks, the World Bank, European Bank for Reconstruction and Development (EBRD) and Asian Development Bank (ADB), all of which are willing to cooperate with China's SREB program. In January 2016, China became a shareholder in the EBRD.<sup>129</sup> In June 2016, the Asian Infrastructure Investment Bank (AIIB) and EBRD agreed on their first joint project, a \$55 million road construction project in Dushanbe, part of a bigger project to improve connections to Uzbekistan, long undermined by poor relations between the two countries.<sup>130</sup> The ADB and AIIB also have committed to cooperation along the Silk Road, with an early joint project agreed in 2016 in Pakistan.<sup>131</sup> The World Bank pursues joint projects with the AIIB, including in Central Asia.<sup>132</sup> A road project in Almaty, Kazakhstan, is jointly funded by the World Bank, the EBRD and AIIB.<sup>133</sup>

The AIIB concentrates on joint projects in the wider Belt and Road Initiative, working with established multilateral lenders to boost its experience of complex projects and to give it greater legitimacy.<sup>134</sup> These joint projects, and cooperation in the region more generally, raise broader questions. Although the EBRD has committed to "engaging in dialogue on such issues as governance and social and environmental standards",<sup>135</sup> multilateral lenders and development agencies could be tempted to dilute environmental and governance commitments in order to ensure their participation in projects. One mechanism to boost oversight and attention to governance issues would be to encourage greater civil society and media involvement in project planning and implementation – something neither China nor Russia is likely to do.

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<sup>129</sup> Anthony Williams, "China becomes EBRD member as Suma Chakrabarti visits Beijing", EBRD, 15 January 2016.

<sup>130</sup> Svitlano Pyrkalo, "Road project in Tajikistan becomes first joint EBRD-AIIB investment", EBRD, 24 June 2016.

<sup>131</sup> "ADB, AIIB Sign MOU to Strengthen Cooperation for Sustainable Growth", news release, ADB, 2 May 2016.

<sup>132</sup> Sam Fleming, "AIIB and World Bank to work on joint projects", *Financial Times*, 13 April 2016.

<sup>133</sup> "China's AIIB seeks to pave new Silk Road with first projects", *Financial Times*, 19 April 2016.

<sup>134</sup> Raffaello Pantucci, "China's Development Lenders", op. cit.

<sup>135</sup> Anthony Williams, "China becomes EBRD member", op. cit.

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## V. Conclusion

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China's Silk Road Economic Belt and Russia's Eurasian Economic Union will have a profound impact on Central Asia's future. Both have significant economic potential but also political downsides. In particular, China and Russia should not mistake the political status quo for a stable investment environment. They ignore potential conflict triggers – ethnic tensions, nationalism or inept and corrupt governance – at their long-term peril.

The two initiatives offer the prospect of trade, investment and enhanced cooperation in a region that is in need of all three. The SREB in particular, although driven by China's national interest, has the potential to alleviate Central Asia's infrastructure deficits, improve connectivity and spur economic growth. Yet, much like the EEU, it has fostered a politically-driven rush to sign deals and memoranda, while the policy and planning bureaucracy has struggled to keep up. Some projects may never materialise, others could face long delays. Additionally, while officials and executives who implement the Belt may seek to keep their focus on trade and investment, they will find it hard to avoid thornier questions of local politics, security and environmental impact as their presence becomes more prominent.

Beijing's and Moscow's basic premise appears to be that economic development coupled with a robust security apparatus will be enough to manage social problems. But if prosperity is unequally shared, local communities are not consulted on projects that affect them, and reforms of institutions and systems of governance fail to keep pace with investment inflows, then both the SREB and EEU could produce economically unviable projects that perpetuate existing market-distorting practices and rent-seeking, while exacerbating ethnic, class and regional divides, with social tensions masked by state repression.

Central Asia's states also risk becoming indebted conduits for Chinese products being shipped to Europe and energy supplies flowing eastward. Their challenge is to extract as much benefit from the EEU and SREB as possible without giving up too much of their sovereignty, and to leverage Chinese trade, investment and transshipments to foster local businesses. That will require an entrepreneurial cultural change for Central Asians long used to resource extraction and Soviet-style central planning.

The EU and the U.S. cannot compete with the scale of Russian and Chinese influence in the region. Rather than develop their own "Silk Road" or analogous plans, they could instead focus on realistic initiatives that fit within existing regional projects or help develop bilateral engagement with key Central Asian republics. They can play an important role as complementary partners for Central Asian states that seek a more varied foreign policy, although this should not be done at the cost of adopting an uncritical approach to authoritarian regimes.

As China and Russia expand their influence, competition in Central Asia optimally should go beyond the establishment of spheres of influence. Instead, it should be about who can do more to foster the economic growth, skills development and innovation that would benefit both Central Asian societies and the rest of Eurasia.

Appendix A: Map of Central Asia



Appendix B: Map of EEU Countries



## Appendix C: About the International Crisis Group

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The International Crisis Group (Crisis Group) is an independent, non-profit, non-governmental organisation, with some 120 staff members on five continents, working through field-based analysis and high-level advocacy to prevent and resolve deadly conflict.

Crisis Group's approach is grounded in field research. Teams of political analysts are located within or close by countries or regions at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, it produces analytical reports containing practical recommendations targeted at key international, regional and national decision-takers. Crisis Group also publishes *CrisisWatch*, a monthly early warning bulletin, providing a succinct regular update on the state of play in up to 70 situations of conflict or potential conflict around the world.

Crisis Group's reports are distributed widely by email and made available simultaneously on its website, [www.crisisgroup.org](http://www.crisisgroup.org). Crisis Group works closely with governments and those who influence them, including the media, to highlight its crisis analyses and to generate support for its policy prescriptions.

The Crisis Group Board of Trustees – which includes prominent figures from the fields of politics, diplomacy, business and the media – is directly involved in helping to bring the reports and recommendations to the attention of senior policymakers around the world. Crisis Group is chaired by former UN Deputy Secretary-General and Administrator of the United Nations Development Programme (UNDP), Lord Mark Malloch-Brown. Its Vice Chair is Ayo Obe, a Legal Practitioner, Columnist and TV Presenter in Nigeria.

Crisis Group's President & CEO, Jean-Marie Guéhenno, served as the UN Under-Secretary-General for Peacekeeping Operations from 2000-2008, and in 2012, as Deputy Joint Special Envoy of the United Nations and the League of Arab States on Syria. He left his post as Deputy Joint Special Envoy to chair the commission that prepared the white paper on French defence and national security in 2013.

Crisis Group's international headquarters is in Brussels, and the organisation has offices in ten other locations: Bishkek, Bogota, Dakar, Kabul, Islamabad, Istanbul, Nairobi, London, New York, and Washington, DC. It has presences in the following locations: Abuja, Algiers, Bangkok, Beirut, Caracas, Gaza City, Guatemala City, Hong Kong, Jerusalem, Johannesburg, Juba, Mexico City, New Delhi, Rabat, Sanaa, Tblisi, Toronto, Tripoli, Tunis, and Yangon.

Crisis Group receives financial support from a wide range of governments, foundations, and private sources. Currently Crisis Group holds relationships with the following governmental departments and agencies: Australian Department of Foreign Affairs and Trade, Austrian Development Agency, Danish Ministry of Foreign Affairs, Dutch Ministry of Foreign Affairs, European Union Instrument contributing to Stability and Peace (IcSP), Finnish Ministry for Foreign Affairs, French Development Agency, French Ministry of Defence, French Ministry of Foreign Affairs, German Federal Foreign Office, Global Affairs Canada, Irish Aid, Principality of Liechtenstein, Luxembourg Ministry of Foreign Affairs, New Zealand Ministry of Foreign Affairs and Trade, Norwegian Ministry of Foreign Affairs, Swedish Ministry of Foreign Affairs, Swiss Federal Department of Foreign Affairs.

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**July 2017**

## Appendix D: Reports and Briefings on Europe and Central Asia since 2014

### Special Reports

*Exploiting Disorder: al-Qaeda and the Islamic State*, Special Report N°1, 14 March 2016 (also available in Arabic and French).

*Seizing the Moment: From Early Warning to Early Action*, Special Report N°2, 22 June 2016.

*Counter-terrorism Pitfalls: What the U.S. Fight against ISIS and al-Qaeda Should Avoid*, Special Report N°3, 22 March 2017.

### Ukraine

*Ukraine: Running out of Time*, Europe Report N°231, 14 May 2014.

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