

ABSORB AND CONQUER:

AN EU APPROACH TO RUSSIAN AND
CHINESE INTEGRATION IN EURASIA



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Acronyms

ADB – Asian Development Bank

AIIB – Asian Infrastructure Investment Bank

CIS – Commonwealth of Independent States

CSTO – Collective Security Treaty Organization

DCFTA – Deep and Comprehensive Free Trade Area

EDF – European Development Fund

EEU – Eurasian Economic Union

EIDHR – European Instrument for Democracy and Human Rights

ENP – European Neighbourhood Partnership

EIB – European Investment Bank

IMF – International Monetary Fund

IPA – Instrument for Pre-Accession Assistance

NDB – The BRICS's New Development Bank

OBOR – China's "One Belt, One Road" initiative

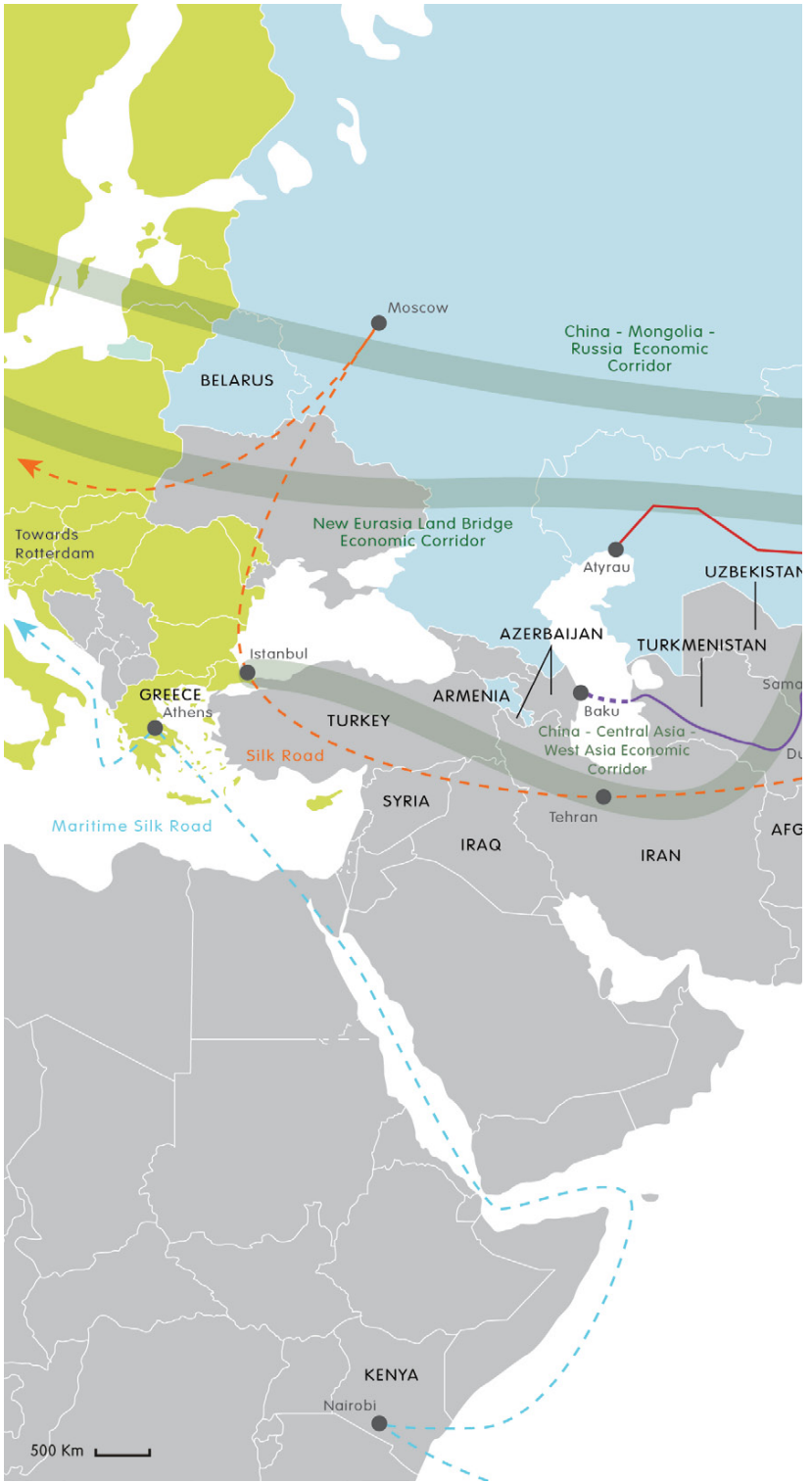
SCO – Shanghai Cooperation Organization regional group

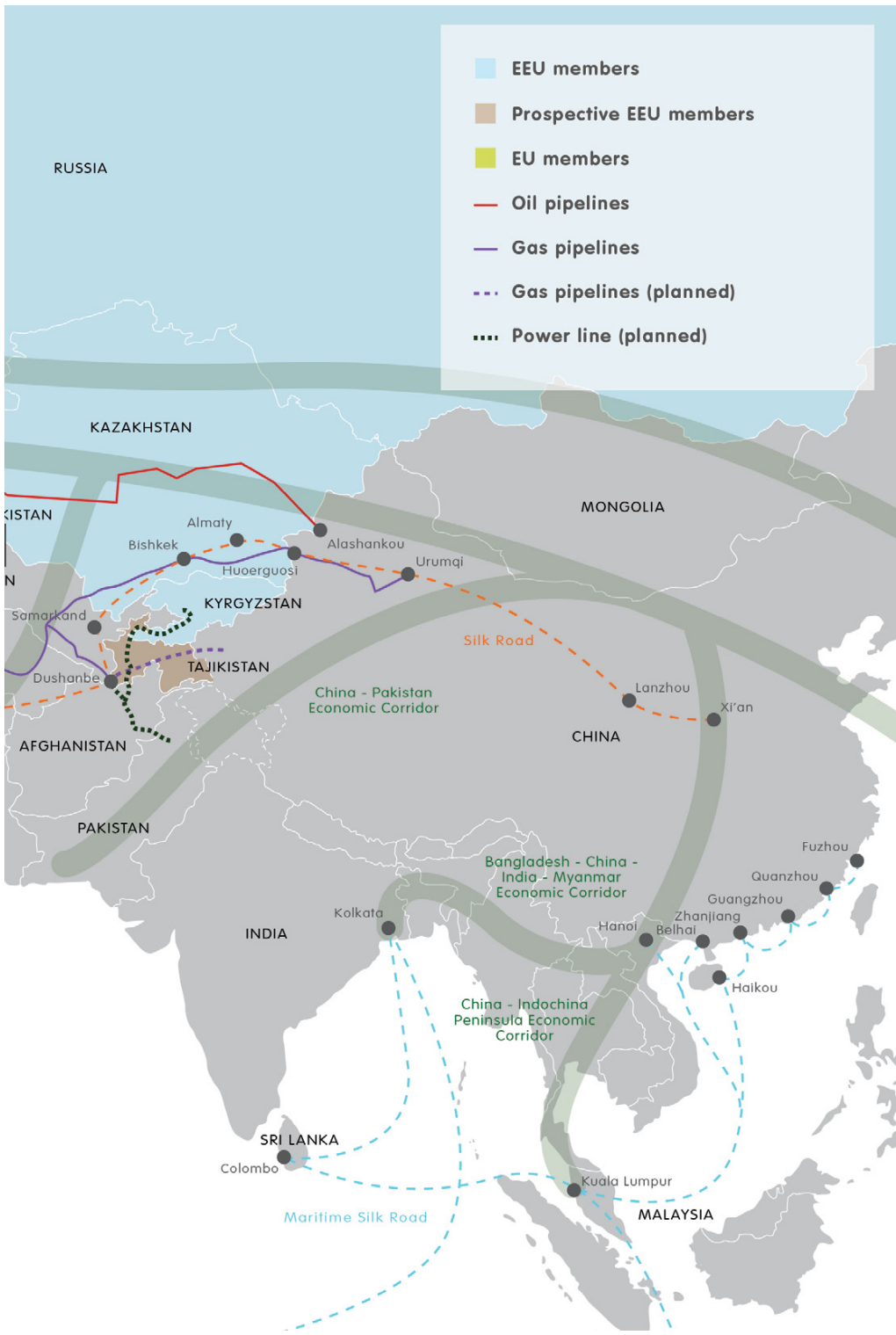
TRACECA – Transport Corridor Europe-Caucasus-Asia

TTIP – Transatlantic Trade and Investment Partnership trade talks

TTP – Trans-Pacific Partnership trade deal

WTO – World Trade Organization





Foreword

China and Russia are becoming increasingly active in the Eurasian landmass, promoting competing integration projects. In 2013, Chinese President Xi Jinping announced the New Silk Road project, “One Belt, One Road”, aimed at reviving the Silk Road - longest historical trade route - as well as a number of other potential major trade links across Eurasia. Russia, on the other hand, is actively promoting its newly founded Eurasian Economic Union. In Europe, these efforts have, so far, gone largely unnoticed. In particular, China’s activities in the region are essentially uncharted, and Europe, like other regional powers, is struggling to understand the extent of Chinese plans and ambitions. But these Eurasian integration projects will have direct implications for the EU, not least because several member states are directly concerned.

In order to find out more, ECFR conducted research among representatives of various EU institutions, with interlocutors in Russia, China, seven EU member states (Bulgaria, France, Germany, Italy, Poland, Spain, and the UK), and six countries in the Eurasian landmass (Azerbaijan, Greece, Kazakhstan, Serbia, Turkey, and Ukraine) based on standard questionnaires. The questionnaires, comprising 44 questions, cover the thematic areas of economy, politics, and public opinion for each integration project (OBOR, the EEU, and the EU), as well as country-specific questions. The interlocutors represent a mix of policymakers, decision-makers, economists, business-people, and analysts. The number of interviewees in each country varies between five and ten, but in Russia and China, and at the EU institutions, the number interviewed was well beyond ten. The research for this project was conducted between June 2015 and April 2016.

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Kadri Liik, Jeremy Shapiro, Louisa Slavkova,
Angela Stanzel & Vessela Tcherneva*

Eurasian integration and the EU

In recent years Russia and China have both embarked on ambitious projects to integrate the Eurasian landmass. Russia has established the Eurasian Economic Union (EEU) in hopes of creating a Russian-dominated geopolitical bloc. In a very different approach, China has promoted the “One Belt, One Road” (OBOR, or New Silk Road) initiative that aims to use Chinese financial power to physically and economically integrate Eurasia, with China at its core. The two initiatives differ greatly and even clash in many respects, but they share one important trait: both prompt European policymakers to think more strategically about issues and territories outside their usual scope.

Europeans naturally worry about Russian efforts to integrate Eurasia at the expense of the European Union. They worry perhaps even more about the potential of Chinese economic power to overcome the attractive power of the European idea and divide the EU. The EU’s own efforts at Eurasian integration have degenerated into a grab bag of initiatives that have often confused and disappointed potential partners. For better or worse, the EU lacks the flexibility to target politically motivated investment to a single country, the way China and Russia do. EU instruments are bureaucratic and rule-bound, and the Union has often failed to align its integration efforts with its geopolitical goals.

But this weakness is also a strength. No country in Eurasia welcomes Russian or Chinese domination. The closer the neighbour, the greater its reservations about undue influence, hegemony, or security issues in these regional projects. Just as Kazakhstan is most fearful of Russian domination, so Mongolia is most wary of Chinese efforts at integration. Russia and China’s neighbours want to enhance their prosperity and safeguard their independence, even as they

increase their links and dependencies with larger powers through the process of integration. Smaller countries welcome the competition between these projects as a guarantee of their independence and see the EU as a power that can help limit Russia and China and also create a standard to which Russia and China's integration efforts can be held.

The EU cannot use the same tools as Beijing or Moscow in Eurasia, but it has important competitive advantages. The Union has unique capacities to build institutional frameworks, comprehensive cooperation agreements, and long-term relationships of trust, along with setting standards. Simply by embarking on broad, multilateral integration efforts, the Chinese and the Russians have chosen to compete on the EU's terrain. European policymakers need not fear cooperating with these initiatives. Of course, the EEU and OBOR are intended to some extent to compete with the EU's integration efforts. But responding to this competition with a refusal to engage would simply exclude the EU from processes it could benefit from.

Rather, the EU should respond by absorbing these projects into an inclusive order, bounding the competition with cooperation, and making the competition about what the EU does best: negotiating the nitty-gritty of complex frameworks of cooperation that are the sinews of multinational integration. Russia invades and China buys; the EU negotiates, monitors, and implements. It is an impressive form of power, even if it doesn't make great television.

With that advantage in mind, this paper describes the Russian and Chinese projects for Eurasian integration, as well as the relationship between the two. It concludes with a strategy for how the EU should respond to these initiatives. Russia's Eurasian Economic Union

On the most fundamental level, Moscow sees Eurasia as a power base that will allow it to remain a major power. Moscow believes that the future world order will consist of macro-blocs, and that in order to have leverage over world affairs, countries will need to be affiliated to one, or better still to dominate one. That vision was evident in an article that President Vladimir Putin wrote about the EEU in 2012, which suggested that "existing regional institutions, such as the EU, NAFTA, APEC, ASEAN" might become "the integration bricks that can be used to build a more sustainable global economy". The progress of the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) trade deals has only strengthened Russia's macro-bloc-centric worldview. With the rise of China,

it is clear that Russia also needs a strategy more focused on its Eurasian neighbours, lest they all be absorbed into a Chinese bloc.

On paper, the EEU is in many ways a copy of the EU. A substantial part of Russia's technocratic elite hopes that, over time, it might turn into something similar in reality: a truly integrationist project that benefits its neighbours as well as its members, not least the EU; and that, by multilateralising decision-making, curbs the hegemonic tendencies of Russia itself. So far, however, the EEU's multilateralism has not worked. Now, in an increasingly xenophobic political climate, the same Russian elites – sidelined from policymaking – fear that it might never work; that the EEU could instead turn out to be a Russia-led isolationist geopolitical project, an attempt to barter security links for closer and more exclusive economic ties. The dilemma was well outlined by a young civil servant at the Eurasian Economic Commission: “We lack clarity. We still do not know whether we need to model the EEU to the face of Sergey Glazyev or Jean Monnet.”

And indeed the countries of the EEU are not really ripe for EU-style integration. The biggest economies in the group have profiles that are too similar for them to benefit from integration. EEU members trade less among themselves than with outside partners, and in recent years the slump in oil prices and the slowdown of Russia's economy have caused internal trade to decline still further. Cooperation with China's OBOR project could add a significant transit aspect to the EEU: after all, goods could move from China to Europe via the EEU, passing just two customs checks. But in order to gain real value from integration, the EEU economies would need to modernise and diversify. This is not something that transit corridors would automatically bring about.

Moscow still hopes the EEU could become a Russia-dominated integrationist bloc that, even if it cannot compete with big Western-led blocs such as TTIP, will still be able to guarantee Russia a sufficient degree of leverage and autonomy. Moscow's direct aim is to ensure its political foothold in Central Asia. There is hope that China's rise will be a help here: the smaller countries in the region will not want to find themselves in the “sphere of influence” of one dominant power; their instinct will always be to find other powers for balance. China's rise as an economic power will make the smaller countries more relaxed about Moscow's presence as a political and military power – indeed, they might even welcome it. In addition, by virtue of the Soviet past, Russia has considerable soft power in the region. Moscow's hope is that China, reluctant to assume the responsibilities of a security provider, will find the arrangement mutually beneficial.

Economically minded thinkers in Moscow criticise this arrangement for reducing Russia to a mere “security firm” guarding China’s economic expansion. The Kremlin – which has a strong tradition of valuing hard power over soft and economic power – is not disturbed. Neither is Beijing, which, at least for the time being, has no rival ambitions here.

However, it remains unclear to what extent Moscow is really willing or capable of dealing with the obvious regional security problems that are looming on the horizon. For the time being, it is largely unclear how Russia would approach its self-proclaimed role as security provider, and even whether it would prefer to act unilaterally or through bodies such as Collective Security Treaty Organization (CSTO or the Tashkent Treaty) or the Shanghai Cooperation Organization (SCO).

China’s One Belt, One Road initiative

The One Belt, One Road (OBOR) initiative, or New Silk Road, was first announced by President Xi Jinping during a visit to Astana in 2013. More than two years later, the concept, scope, and nature of the initiative are still fluid, and OBOR is likely to evolve over time. It is therefore not surprising that most people in China know little about the specifics of the project. Within China, the initiative is being implemented top-down by the State Council and the ministries (Commerce, Foreign Affairs, and the National Development and Reform Commission) via local governments and state-owned enterprises (such as the China State Construction Engineering Corporation, China Communications Construction Company, and China CAMC Engineering Co.), and some of the few private businesses (such as the Sany Group), with input from academic and social institutions (such as universities and think-tanks). Silk Road research centres and working groups, companies, and banks are in the process of studying the risks, the feasibility, and the implementation of OBOR.

China’s OBOR initiative has very broad geographical coverage, including institutions such as the Asian Investment Infrastructure Bank (AIIB) that could stretch as far as Egypt – the external boundary of “West Asia” in Chinese parlance. The finance involved is potentially enormous. China has set up a Silk Road Fund of \$40 billion, aimed at promoting private investment along OBOR. Official foreign exchange reserves, the China Investment Corporation, the Export-Import Bank of China, and the China Development Bank all sponsor the fund. The China Development Bank is said to be investing over

\$890 billion into more than 900 projects involving 60 countries as part of its efforts to bolster the initiative. The *Economist* reported that China intends to spend \$1 trillion in “government money” on OBOR.¹

But, as often with China, the headline figures are misleading. The initiative’s capacity to absorb projects is in doubt, and paid-in capital is much lower than authorised capital.

On the other hand, doubts about China’s investment capacity arising from its economic downturn are largely unfounded: China’s mammoth trade surplus (now 6 percent of GDP) and the structural need to diversify, ensure that there is plenty of money available. China’s OBOR-related funds will be able to finance, year after year, as much as the World Bank and Asian Development Bank (ADB) combined, in the range of \$20 billion per year.

China’s key problems are the ability to supervise lending and to limit risks. Working through some institutions, like the BRICS-founded New Development Bank (NDB), requires the approval of the other emerging economies that are its co-funders. In its early stages, the OBOR scheme is a web of connections rather than a single highway. However, a variety of geopolitical issues in the wider region considerably narrow the choices for where these web connections can reach.

The motive for OBOR is found in the context of its economic and, as Chinese experts such as Wang Jisi see it, strategic purpose of pushing China’s state apparatus to look beyond the rivalry with the United States in East Asia. The initiative is a means for China to invest its global foreign exchange reserves, to continue to grow and export its increasing excess capacity in the construction industries, in a context of slower growth at home and slower domestic investment. We were told in China that “The Silk Road is China’s soft power now”.

According to Chinese estimates, the number of middle-class consumers in the regions serviced by the Silk Road will reach three billion by 2050, and the Silk Road will create \$2.5 trillion in trade among the 65 countries and involve over four billion people. But there is a long way to go: of the 65 countries included in OBOR, China had signed the relevant memorandums of understanding on OBOR with just nine, as of August 2015.²

1 “The new Silk Road”, the *Economist*, 12 September 2015, available at <http://www.economist.com/news/special-report/21663326-chinas-latest-wave-globalisers-will-enrich-their-countryand-world-new-silk-road>.

2 China signed relevant documents (MOUs) on OBOR with Hungary and Poland (on a country level), and Tajikistan, Kazakhstan, Qatar, and Kuwait (on the level of government departments), and a memorandum with Russia and Mongolia on the China-Mongolia-Russia Economic Corridor.

Between January and July 2015, Chinese firms had already invested \$8.6 billion in 48 countries along the Silk Road. China accounts for, on average, 13.8 percent of imports and 8.9 percent of exports of the countries along OBOR.³ China accounts for more than 10 percent of total trade in 29 of them, and of more than 20 percent in a further 13. According to the International Monetary Fund (IMF), trade between China and the CCA (Caucasus and Central Asia), for example, has increased tenfold from \$5 billion in 2005 to almost \$50 billion in 2014.⁴ Over the years, China has the capacity to invest up to \$35 billion more in the CCA region.

There is also likely a geopolitical component to OBOR. China may be intending to use the initiative to expand into areas of the world where the US is weaker than it is in East Asia. It may also seek to attract some traditional US partners into its sphere of influence, and to gain political and strategic influence in Russian-dominated regions. China denies these geopolitical goals, but the New Silk Road does allow China to bypass Russia economically, politically, and geographically, as there are several alternative corridors to a Russia-dependent route. For example, an alternative route that skirts Russia starts in Xinjiang province and passes through Kazakhstan, Azerbaijan, and Georgia, across the Caspian into Turkey. The recent tensions between Russia and Turkey, as well as the longer-standing difficulties between Turkey and the EU, suggest that Turkey will welcome Chinese interest in providing it with alternative sources of investment and trade.

Russia and China: Integrating Eurasia together?

At first glance, the EEU and the OBOR initiative look completely different. The first is a typical Russian undertaking, focused on maintaining economic and political control. It has only two European participants so far (Belarus and Armenia, neither of which are EU members) and two Central Asian states (Kazakhstan and Kyrgyzstan). The second is a broad initiative that officially covers 65 countries, and, with a typical Chinese approach, mixes the pull of trade ties with public diplomacy.

The two countries are very differently placed. Russia is receding in importance as an economic partner to the countries in the post-Soviet space – which largely coincides with the part of Eurasia that is outside the EU – but it is still

³ The figures presented here are drawn from meetings and interviews that took place in China and Europe around this project.

⁴ “Regional Economic Outlook – Middle East and Central Asia”, International Monetary Fund, October 2015, available at <http://www.imf.org/external/pubs/ft/reo/2015/mec/eng/pdf/mreo1015.pdf>.

a significant military power, with demonstrated and probably growing ability and will to use force abroad. China has become by far the biggest economic partner of the countries in Eurasia, but the bulk of its huge military drive over the past 30 years has been invested in maritime capabilities. It is a very reluctant security actor – except on the murky issue of anti-terrorist cooperation within the Shanghai Cooperation Organization (SCO). Members of the SCO have agreed to prepare joint military anti-terrorist exercises (“Peace Mission-2016”) on a bi-annual basis, and since December 2015 have engaged with China’s initiative to sign a new anti-extremism treaty within the SCO framework.

For a long time, Moscow viewed China’s presence in Eurasia, including its OBOR initiative, with suspicion, considering Beijing as a geopolitical competitor. This changed when Russia became alienated from the West after the Ukraine crisis. The Xi–Putin summit in May 2015 effectively announced Moscow’s U-turn, and it agreed to view the OBOR and the EEU as complementary, rather than competing structures.

Moscow has three key aims related to the OBOR initiative. First, it hopes that China’s agreement to recognise the EEU and to consider the union as its main interlocutor on OBOR-related matters will be the first step towards gaining greater international legitimacy for the EEU; and will give Moscow access to and a say over China’s hitherto bilateral relationships with the Central Asian EEU members.

Second, Moscow hopes that its acceptance – though late and grudging – of China as the inevitable future economic hegemon of Central Asia will make it easier for Moscow to stay in the region as a political power and security provider. Many smaller Central Asian countries would happily accept this, as they do not want to be under China’s monopolistic influence; also, for the time being, Beijing does not have rival security ambitions in the region.

Third, Russia needs China as a source of investment because European money is blocked by sanctions and counter-sanctions. Here, Moscow has made another U-turn. It previously refused to give China access to its raw materials, but it now welcomes Chinese investment, even in sectors previously considered “strategic” and hence off-limits to Beijing. However, so far China’s cash has not been as abundant as Moscow had hoped, and China is making use of the difficulties faced by Moscow to get bargains. At the same time, China has taken over some projects that were initiated with European capital in mind, but which hit a wall because of sanctions.

China is certainly skilled at giving Russia the symbolic respect that it craves. Beijing's agreement to "recognise" the EEU is exactly the right sort of gesture. However, on many occasions such symbolism is paltry compensation for the changes in the real balance of power, which are not in Moscow's favour. For now, Moscow is happy to trade real leverage for symbolic respect, but this may not last forever. Moreover, the risk of China reverting to bilateral relationships with Central Asian countries remains strong. This is rooted not so much in Beijing's normal style of diplomacy (overwhelmingly bilateral) as in Moscow's inability to make the EEU work as a truly multilateral organisation.

Even though Xi and Putin decided that the EEU should be China's interlocutor for conversations on integration, Russia's bureaucracy did not adapt. The follow-up to Xi's May 2015 visit to Moscow was handled by the China department of Russia's Ministry of Foreign Affairs – which does not communicate with the department that handles the EEU. Many months were lost, until "non-papers", i.e. non-official documents written by state-affiliated experts, alerted the Kremlin. The EEU Astana summit issued a directive to the Eurasian Economic Commission to coordinate the Union's communication with OBOR. But that was only in October.

Even more importantly, the EEU and OBOR clash as economic projects in some ways. While OBOR is partly about dealing with China's over-capacity by investing it abroad – which is, by and large, fine with Russia – it is also about trade; and here a clash is looming. The EEU, with its high external tariffs, is designed to stimulate internal, not external, trade. While China has agreed to push back any free trade agreements with the EEU into a distant future, Moscow is still nervous that cheap Chinese goods might invade its markets through porous Central Asian borders and thereby jeopardise the prospects for developing the EEU's internal production capacities, which are already fragile due to corruption and the lack of rule of law.

Corruption is also a good example of one of the many problems that can manifest on a practical level. Even though China does not aspire to set formal rules in the OBOR area, it has its own ways of working, which may not be compatible with Russia's. For example, in Russia, corruption is the basis of the political system, the motor behind social mobility. While corruption is certainly not alien to China, it may be reluctant to accept the peculiarities and extent of Russian corruption. Aside from natural resources, Silk Road-style transit projects are the main area where public resources are invested in Central Asian states, and

therefore are the main risk area for organised corruption.

Some liberal Russian promoters of cooperation between OBOR and the EEU even hope that, when it comes to corruption, China will have a civilising influence on Russia. This might sound far-fetched, but, should it materialise, it would probably be seen to be politically subversive by the Kremlin. On the other hand, the EEU has its own set of standards which, being copied from the EU, are often stricter than those applied by China. If Russia chooses to enforce them, this may not go down well with Beijing. And one can foresee problems when it comes to the ownership of different projects: differences over who invests in what, and who gets what share of the profit.

Russia has already had to moderate its expectations of how much it can rely on China. China has made it very clear that it is not prepared to offer Russia uncritical political support, and is wary of being dragged into other countries' confrontations where it has no clear stake. For China, OBOR is a non-confrontational initiative, a component of its "peaceful rise". This has forced Russia to scale down its earlier hopes of cultivating China as an ally in its struggle against what it calls "US attempts to impose a unipolar world order".

Investments from China these have not lived up to Russia's hopes. On a fundamental level, Beijing cannot give Moscow what it needs: access to the technology necessary to modernise its economy. Even though China is more and more advanced as a technological power, it still cannot replace Europe as a source of modernisation for Russia. And with oil prices predicted to stay low, modernisation becomes a more acute need once again.

On the more immediate issue of "emergency cash", China's help to Russia also remains limited. Many hoped-for investment projects have not materialised, while others have, but with a scope or price level that leaves Russia disappointed. Still, some deals can be viewed as compensation for Western sanctions. The Moscow–Kazan high-speed railway is so far the most visible example of China taking over a project that was intended to be carried out with western money. But even more interesting is the purchase by the Silk Road Fund of a 9.9 percent equity stake in Russian company Novatek's Jamal gas project. Though not large in size, this deal is an interesting example of a means to circumvent sanctions: Novatek is under US sanctions, which means that no financial institution with exposure to the West could afford to do business with it. The Silk Road Fund, however, was prepared to.

In the end, OBOR and the EEU are neither strictly compatible nor strictly

competitive. Russia and China have a certain will and interest in joining the two projects, but also distinct interests, distinct styles, and distinct capabilities that will tend to drive them apart. Again, this represents a challenge, but also an opportunity for the EU.

The EU's reaction

The EU's response to both the EEU and OBOR to date has failed to grasp this strategic opportunity. The EU has long been accused of taking a reactive rather than proactive approach towards the countries in its neighbourhood, and the further away they are geographically, the more reactive it has been. This pattern holds true in its response to the EEU and OBOR.

The EU and the EEU

Formal cooperation between the EU and the EEU is virtually non-existent. This is not for lack of vision: the idea of a common economic space between Lisbon and Vladivostok has often been articulated in the past. Even after the invasion of Ukraine, the idea of a “joint humanitarian and economic space from the Atlantic to the Pacific” is still cited, to quote European Commission President Jean-Claude Juncker at the G20 summit in Turkey. In a November letter to Putin, Juncker suggested building closer ties between the EU and the EEU to develop the relationship between Russia and Europe, though he pointed out that this remained conditional on the implementation of the Minsk peace deal, and the agreement of EU member states.

Russia has been very eager to gain legitimisation for the EEU from the EU. This has been signalled in various statements and documents, most recently in a letter to Juncker sent by Eurasian Economic Commission chairman Viktor Khristenko in September. But it remains uncertain how wide-ranging any real cooperation between the two blocs can be. Conversation is inevitably confined to trade issues, as, for the time being, the Eurasian Economic Commission's mandate does not cover any other areas. It is also questionable to what degree progress can be made on trade issues. Before the annexation of Crimea, the EU had repeatedly offered to move bilateral trade relations with Russia to a new level, possibly with a free trade area, but Russia was unenthusiastic. In the EEU context, such a move would be further complicated by the fact that Belarus is not a member of the World Trade Organization (WTO) – a near-inevitable pre-condition for any further bilateral trade liberalisation.

The Eurasian Development Bank has suggested that in the future the EU and EEU could be bound together by a Deep and Comprehensive Free Trade Area (DCFTA) – similar to the Canada-EU Comprehensive Economic and Trade Agreement (CETA) – which includes visa-free travel and technology exchange. The aim would be to balance the perceived asymmetrical nature of the relationship, because of EU domination, that would apply if the EU and EEU were to conclude a simple FTA. This idea – though still conditional on the internal integration of the EEU, the prospects of which remain uncertain – has potential, in theory, but there are still three stumbling blocks in the way.

First, the EEU does not function as a proper customs union at the moment. Its trade relations are not handled by a single multilateral authority (i.e. the Commission) followed by all member states. The case of Russia’s “counter-sanctions” against European food products speaks volumes - Moscow did not consult its EEU partners before imposing the measures, nor did its partners feel bound by them. The EU’s trade department, DG TRADE, could not establish a contractual relationship with a body that is a customs union in name only.

Second, EU–EEU cooperation remains hostage to geopolitical differences, particularly the lack of implementation of the Minsk II ceasefire agreement on Ukraine. The sanctions against Russia are likely to be extended at least until mid-2016. The EU has made full implementation of Minsk II a condition for cooperation with both Russia and the EEU, as the EEU is largely understood as a political project of Russia to regain influence in the post-Soviet space; and trade talks in particular would work against the sanctions.

The third issue is the nature of the EEU. Many Europeans consider it to be an involuntary union, imposed for political ends. It would be difficult for the EU to lend legitimacy to the EEU without simultaneously encouraging Moscow’s instincts to forcefully expand it.

The EU and OBOR

The EU’s response to OBOR has been similarly reactive, and even more disjointed. The EU only really began assessing the initiative in 2015 – though, to be fair, China’s plans have been extremely vague. However, even on the much more concrete issue of the AIIB, the EU lacked a clear policy, and some member states joined the bank individually.

In 2013, the EU and China agreed an “EU-China 2020 Strategic Agenda for Cooperation”, which includes infrastructure, investment, and connectivity as areas of interest.⁵ The agenda expressed the desire on both sides to enhance security consultations on Central Asia, to negotiate a comprehensive EU-China Investment Agreement, to expand cooperation on infrastructure networks between Asia and Europe, and to explore models of infrastructure cooperation, but gave little clarity on how and when these goals should be pursued.

With the announcement of OBOR, however, some concrete steps did begin to crystallise. The EU-China Summit Joint Declaration 2015 highlights the two parties’ mutual interest in the Chinese Silk Road projects, as well as the Chinese will to support Juncker’s Investment Plan for Europe.⁶ The declaration introduces a range of tools to improve EU–China relations in several areas, namely the Connectivity Platform, EU-China High Level Economic and Trade Dialogue, cooperation in the AIIB, EU-China Economic and Financial Dialogue, and the possibility of an EU-China Investment Agreement. In September 2015, during the High Level Economic and Trade Dialogue,⁷ China announced its contribution to Juncker’s plan – the first non-EU country to do so, followed by the inauguration of a joint working group to increase cooperation in all aspects of investment, including the Silk Road Fund and the European Investment Bank (EIB).

The countries of Central and Eastern Europe (CEE), in an attempt to catch up with the rest of the EU, are leading the way in terms of working with China along the Silk Road, with a huge interest in Chinese investment. In 2011, China launched the 16+1 format to promote cooperation and exchange in a region composed of both EU member states and non-EU states. The format has been controversial, as it bypasses the EU and makes it harder to achieve a common EU policy on China. China’s engagement in CEE threatens to turn the region into a strong advocate for China within the EU, regardless of Beijing’s record on issues such as human rights and democracy.

5 “EU-China 2020 Strategic Agenda for Cooperation”, available at http://eeas.europa.eu/china/docs/eu-china_2020_strategic_agenda_en.pdf.

6 “EU-China summit”, European Commission, press release, Brussels, 29 June 2015, available at http://europa.eu/rapid/press-release_IP-15-5279_en.htm.

7 “Investment Plan for Europe goes global: China announces its contribution to #investEU”, European Commission, press release, 28 September 2015, available at http://trade.ec.europa.eu/doclib/docs/2015/october/tradoc_153844.PDF.

For smaller states, though, the 16+1 offers an opportunity to tap into Chinese investment – just as Germany, France, and the UK have strong bilateral economic ties with China – even if this is through regional clusters. To date, China’s engagement in Eastern Europe has not been significant enough to change any minds. Beyond the rhetoric, China’s top EU investment destinations have been the UK, Germany, and France. China sees CEE as a testing ground for a new approach to Europe, but also as an area with less political stability and greater risks than Western Europe. The CEE countries, in turn, are excited about the potential volume of investment. Hungary was the first country in the EU to start talks with China on OBOR and signed a memorandum of understanding with China in June 2015, followed by Poland (mainly on railway projects) shortly after. Other countries may well follow suit. If this engagement aims to close the infrastructure gap between China, Eurasia, and the EU, then it will strongly serve European interests by bringing connectivity to Europe’s least interconnected region.

Overall, reactions in Europe to OBOR have been mixed. European interest, where it exists, has seemed to come from the Baltic countries, southern Europe, and central and east European countries. A common or strategic approach is distinctly lacking.

Recommendations: How should Europe respond?

All of the above will force Europe to consider its place in Eurasia. It is likely that both China and Russia – and the smaller post-Soviet Central Asian countries – will want to keep Europe and the US involved in the region, but each for their own distinct reasons. Europe will always have different stakes and approaches to the region than the US and cannot count on Washington to protect its interests. The EU must decide what its goals are in the region, and how it can best pursue them.

It is clear that Europe – both as a Union and as member states – can and should engage with both OBOR and the EEU, using the leverage that comes from its market, its soft power, and its expertise to mould and even absorb them. A principled abstention or opposition will simply encourage greater cooperation between two powers that in fact have much that might otherwise push them apart.

The EU has a clear interest in maintaining competition between Russia and China in Eurasia. Ukraine and the resulting Western sanctions against Russia

created an intense but limited rapprochement between China and Russia – most visible in the resumption of sales of sophisticated Russian arms to China (the S-400 missile defence system, and Su-35 planes). This rapprochement poses a challenge to the EU – regardless of whether it turns out to be a win-win arrangement for the two parties. Their cooperation could affect Europe’s whole relationship with Russia: political ties, the treaty base, and trade structure. Europe – and the West in general – will still want to be in a position that allows it to set the global, universal rules of the game in both politics and economics. The Russia–China relationship, though far from a perfect match, could make that more problematic in the future.

Most of the countries covered in our research warmly welcome Chinese investment, largely because of the lack of normative strings attached, while there is an awareness of the costs of cooperation with Russia. Many of the case-study countries would prefer EU regulations and Chinese investment, without Russian interference. But despite Russia’s unpopularity, efforts to shut it out are not viable. Lately, the EU has learned from hard experience that Russia reacts in harmful ways when it feels threatened. In this case, it is clear that intense pressure on Russia will simply drive it into China’s arms as a junior partner, which from Europe’s perspective would be a bad outcome.

To maintain Russian-Chinese competition, the EU needs to carve out a space and role for itself in Eurasia. The countries of the region value access to Europe’s market and look to Europe to protect them from Russian – and to a lesser extent Chinese – control. More prosaically, the EU’s knowledge and expertise is highly valued in Central Asia, often transferred bilaterally from single EU member states, notably Germany, to single Central Asian countries. These countries understand that both the EEU and OBOR would profit from more accountable institutions, better border controls, and lower corruption levels, and that European know-how will be essential for achieving those goals. Even the most corrupt leaders in these countries, who have happily ignored the rules to enhance their power and enrich themselves, understand their value once they become the weaker parties in any negotiation. The EU should make use of that leverage.

Europe’s approach will depend on which problem it fears most: Russian political hegemony or Chinese economic hegemony. Should Europeans encourage Russia’s security role in Eurasia, particularly to counter the rise of Islamic fundamentalism and reduce Chinese influence? Or does the danger that Russia could be tempted to reunify the post-Soviet space through a sphere of influence, or direct annexation, outweigh these merits?

Regarding the economy, should Europeans encourage a regional economic pact – which, at the very least, would facilitate trade, including for third parties, in the Eurasian space? Or is Chinese economic hegemony – imposed through bilateral relations, and largely without security undertakings – a preferable option that would reduce Russia’s overall capacity for making itself a geopolitical nuisance, and force it to reconsider its relations with Europe in a more positive light? The two countries in which these questions are most acute are Uzbekistan (because of its fragile security situation) and Kazakhstan (where an economic tilt towards OBOR would provide a viable Silk Road, potentially bypassing Russia).

The stakes are also high for Europe itself, particularly when it comes to OBOR. Europe needs cheap Chinese capital to compete with other sources for large public projects, both inside and outside the EU (the Commission has been pushing Trans-European Transport Network corridors, particularly in the Balkans). China’s participation in the Juncker plan (the European Commission’s Investment Plan for Europe) and the EIB has enormous domestic implications for Europeans.

Given these competing considerations, the EU will want the flexibility to promote different levels of Russian and Chinese involvement in different countries depending on their individual circumstances. Engagement with both OBOR and the EEU offers Europe the opportunity to influence these projects at a detailed level – where the EU excels – and to tailor their approach in a given country depending on whether China or Russia represents the greatest challenge.

This engagement should occur principally in areas of Europe’s greatest interest in Eurasia: energy, infrastructure, security, and migration. Here we recommend a few immediate steps to help this overall approach:

- **Set a framework for bilateral investment with China:** Push for finalisation of the comprehensive China-EU Investment Agreement, in order to institutionalise and regulate bilateral investment. Include provisions on cooperation in Eurasia in order to secure and expand continental trade and investment between the two entities.
- **Enable and promote EU investment in OBOR:** Enable EU member states, the EIB, and the European Bank for Reconstruction and Development (EBRD) to invest in OBOR through the Connectivity Platform in Eurasia and beyond.

- **Ensure that Chinese investment meets European needs:** Strengthen and expand the EU-China Connectivity Platform in order to coordinate Chinese investment in the EU with the European Investment Plan.
- **Leverage EU investment and coordination to set standards:** Create a set of rules and standards that ensure that Chinese investment through the Connectivity Platform complies with European standards and regulations. For the Chinese, corruption at Central Asia's borders is a major cost that significantly reduces the speed of transactions and therefore undermines connectivity.
- **Ensure that the various EU instruments work in harmony:** Develop a European-Eurasian connectivity strategy to coordinate cross-regional projects, investments, and policies between all related EU instruments and foreign policy fields. This implies better cooperation of financial instruments in the four policy areas: European Neighbourhood Policies, Enlargement Policies, Central Asia strategy, and internal EU development and investment programmes for Eastern and Central European member states.
- **Leverage Europe's existing stake in the region:** Increase Europe's visibility in Eurasia as the single biggest trading and investment partner of nearly all relevant countries, by promoting infrastructure and connectivity projects to develop trade relations.
- **Support projects with Chinese involvement to reduce Russian leverage in Eurasia:** For example, recognise the recent China-Kazakh-Azeri-Georgian-Turkish joint agreement on transport cooperation in Eurasia. The EU has lost leverage since 2009 when it stopped its financial assistance to the Transport Corridor Europe-Caucasus-Asia (TRACECA), the most important European infrastructure project in the region, which is now financed by member states.
- **Create a platform for EU–EEU cooperation:** Cooperate directly with the Eurasian Economic Commission and on a multilateral level. A joint working group on EU–EEU trade cooperation could be a starting point, coordinating cooperation in areas such as technical barriers to trade, sanitary and phytosanitary issues, and customs. This should involve not only Russia, but also the ENP states of Armenia and Belarus, and the Central Asia partners Kazakhstan and Kyrgyzstan – and might help strengthen their roles in the Eurasian Economic Commission.

- **Ensure that no country controls all energy routes through Eurasia:** This will require strengthening cooperation in the field of energy trade and energy security between Central Asia and Europe. Azerbaijan is a crucial partner, since it provides the only means to bypass Iran and Russia, via the Caspian Sea. Therefore, Europe may have to develop its own pipeline projects in order to avoid future project failures like South Stream and the recently halted Turkish Stream.
- **Support eastern export routes for Russian gas:** This will reduce Russia's obsession with retaining a monopolistic position on European markets and routes leading to Europe – something that has been the source of much tension between Russia and its neighbours, and Russia and the EU. Combined with the reforms in Europe's energy policy, this will help to provide the whole continent with energy markets free of excessive geopolitical stress.
- **Maintain the attractive power of EU membership:** Develop a real prospect of accession for the Balkan candidate countries, especially Serbia. Increased assistance will be necessary to help Serbia meet the necessary conditions to join the EU in a reasonable time. This will create incentives for Serbia to develop its relations with Kosovo, and help the EU to counter Russian and Chinese influence on Belgrade.
- **Develop deeper relations with key Eurasian countries, particularly Kazakhstan:** Increase technical assistance to Kazakhstan, the key country of Central Asia, through new financial assistance mechanisms. Astana left the EU's Development Cooperation Instrument (DCI) in 2014 due to its middle-income status and will not receive any basic EU assistance that is comparable to Russia's and China's government-coordinated investments. However, European foreign direct investment (FDI) still amounts to 60 percent of FDI in Kazakhstan.
- **Create a platform for EU–EEU–OBOR coordination:** The EU should establish a trilateral mechanism for EU–EEU–OBOR coordination, once EU–Russia relations normalise. There is already a mechanism for cooperation between the EU, Russia, and Ukraine on the DCFTA with Ukraine, which is intended to revise parts of the deal that Russia finds problematic. This platform has not been productive thus far, but it can be sustained and widened.

In the end, Eurasian integration remains a distant prospect, whether or not it is a desirable outcome for Europe. The political obstacles to Russia, China, or the EU realising their goals of integrating the region are daunting. Instability, historic rivalries, and corruption haunt both Russia and China – not to mention the competition between them. But the importance of the region means that progress towards a certain degree of Eurasian integration is both possible and in Europe's interests. The prospect of Chinese and Russian failures should not make Europe feel better about the region or about itself. Rather, European cooperation with both the Russian and Chinese projects is necessary for progress in Eurasia, and, if properly structured, can promote European interests.

Anar Valiyev Azerbaijan:

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Azerbaijan is located at the crossroads of major Eurasian land and air transport corridors. Since the country gained independence in 1991, its government has sought to make it a bridge between Europe and Asia. It has invested millions of dollars in commercial infrastructure and transport projects over the last decade, aiming to position Azerbaijan as a lucrative link between Central Asia, the South Caucasus, and Europe. Baku understands the importance of implementing diversification strategies ahead of the depletion of the country's hydrocarbon reserves.¹

Its geographical position makes it a key territory for regional integration projects. Today, Azerbaijan is at the centre of three major integration initiatives – the European Union, the Eurasian Economic Union (EEU), and the recently established One Belt, One Road (OBOR) initiative championed by China. All three initiatives target Azerbaijan. However, Baku officially keeps an equal distance from all of them, hoping to gain more from a neutral

¹ Sections of this paper have been adapted from the following articles: Anar Valiyev, "Can Azerbaijan Revive the Silk Road?", *PONARS Eurasia*, August 2015, available at http://www.ponarseurasia.org/sites/default/files/policy-memos-pdf/Peppm382_Valiyev_Aug2015.pdf (hereafter, Valiyev, "Can Azerbaijan Revive the Silk Road?"); Anar Valiyev "Azerbaijan's Elite between Scylla and Charybdis: EU or Customs Union", *PONARS Eurasia*, February 2014, available at http://www.ponarseurasia.org/sites/default/files/policy-memos-pdf/Peppm_309_Valiyev_Feb2014.pdf.

status than from endorsing one at the expense of the others. Baku is afraid that exclusively tying itself to one project could jeopardise its economic and political stability. This profile looks at the integration projects implemented by each side, analysing the pros and cons of each initiative.

Background

After the collapse of the Soviet Union, it was neither China nor Russia that initiated the integration projects that have made Azerbaijan an important crossroads. The first effort to bring Central Asia and the Caucasus closer to Europe was the EU's project TRACECA (Transport Corridor Europe–Caucasus–Asia). It also intended to link Europe with China and Southeast Asia through Eurasia. Since 1993 the EU has invested around \$800 million in capital projects and in the renovation of ports, railroads, and roads along the TRACECA corridor. Countries along the TRACECA corridor have also invested in the project. By 2007, trade along the corridor reached \$40 billion, while their combined trade with the EU reached \$290 billion.²

However, around 70 percent of this trade came from oil and gas transport between Georgia and Azerbaijan.³ Baku and Tbilisi benefited most from this corridor, which was also good for Kazakhstan and Turkmenistan. Both Astana and Ashgabat used the corridor extensively to bypass Russia when transporting oil. However, the corridor's potential is limited by the low non-energy export potential of countries in Central Asia and the Caucasus, as well as obstacles related to border delays and controls, custom offices, and corruption.

Russia gradually began to turn back to the region in the mid-2000s, aiming to attract Baku with a new model of integration. Baku initially ignored Russia's initiatives, such as the Customs Union and later the EEU. Aiming to become an energy hub and critical state for European energy security, Baku looked at the Russian projects as hurdles in its journey toward an independent foreign policy. In addition, the economic benefits weren't sufficiently attractive. However, Baku has begun to rethink its attitude towards the EEU in the last two years, in a climate of deteriorating relations with the EU, the drop in oil prices, and Russia's position on resolving the Nagorno-Karabakh conflict. Baku has not officially stated that it wants to join the EEU, but the negative rhetoric towards Russian initiatives in the region is in decline.

² Taleh Ziyadov, *Azerbaijan as Regional Hub in Central Eurasia* (Baku: Azerbaijan Diplomatic Academy, 2012) (hereafter, Ziyadov, *Azerbaijan as Regional Hub in Central Eurasia*).

³ Valiyev, "Can Azerbaijan Revive the Silk Road?"

China, meanwhile, has never been active in Azerbaijan and the South Caucasus. Historically, relations between the two countries are positive, but neither considers the other to be a longstanding or strategic partner. Geographical distance and the absence of massive Chinese investments meant that there was little to drive this partnership forward. China has always been interested in hydrocarbon resources as well as transport routes through Azerbaijan as a tool to expand its influence, however.

Azerbaijan reacted positively when China announced its ambitious plan to promote OBOR in 2013. At the time, Baku urgently needed a regional player that could fill the vacuum left by an increasingly disengaged EU. The government hoped that land routes and high-speed rail links connecting East Asia and Europe would bring in Chinese investment and curb Russian influence, and mean that all goods were diverted through Azerbaijan.

Following Dubai's emphasis on port development, Baku is constructing an enhanced port at Alyat – “the Jewel of the Caspian” – which includes an international logistics centre and a Free Economic Zone. The project is estimated to cost around \$870 million, and it is expected to handle 10 million tons of cargo and 40,000 containers a year (with an eventual capacity of up to 25 million tons of cargo and 1 million containers).⁴

Other transport links have been created. In 2007, the presidents of Azerbaijan, Turkey, and Georgia signed an agreement to construct the Baku–Akhalkalaki–Kars railroad, uniting the three countries via a direct railway link. Azerbaijan gave Georgia a \$700 million loan for construction of the missing link between Akhalkalaki and Kars, as well as the modernisation of existing infrastructure. The railway is expected to handle 20 million tons of cargo and around three million passengers annually.

Analysis

At first glance, the EEU might appear to be the better choice for Azerbaijan. Baku's membership in the Commonwealth of Independent States (CIS) eased Azerbaijani-Russian relations after a tense period in the early 1990s, and, with its visa-free regime, addressed high unemployment by allowing for large-scale labour migration to Russia. Joining the EEU now would increase the ability of Azerbaijani products to penetrate neighbouring markets. In addition, the import

4 Ziyadov, Azerbaijan as Regional Hub in Central Eurasia.

of cheap Russian food products would lower prices, benefitting a large proportion of the population. Meanwhile, delays in Azerbaijan joining the World Trade Organization (WTO) could be one of the stronger arguments in favour of Russia admitting it to the EEU. Building on their current relationship, it would be little work for Russia to adjust Azerbaijan's trade tariffs to meet EEU standards.

However, Azerbaijan's largest trading partner today is not Russia but the EU. In 2011–2014, between 48 and 52 percent of Azerbaijan's exports went to the EU, while between 26 and 32 percent of imports came from there.⁵ According to one of the experts interviewed for this paper, "if the Eurasian Union offers a model of regional economic cooperation, then there are many benefits such as cross-border trade, customs, labour, investments. However, there are fears that this project is a political tool in Russia's hands to unify former USSR countries under its hegemonic control."⁶ In addition, it is mostly businesses that export products to Russia that would be interested in the EEU.

Nevertheless, the political establishment still toys with pro-EEU rhetoric. Foreign Minister Elmar Mammadyarov has suggested that Azerbaijan might consider joining the EEU.⁷ However, the public considered this as mere appeasement to the Russian establishment. Azerbaijan is afraid that Russia may use other means to influence it.⁸ Some experts interviewed state that the Nagorno-Karabakh conflict is considered one of the major tools of leverage. The public may accept EEU membership if Russia promises to return occupied territories, thereby sacrificing certain EU integration projects for the sake of regaining territory.

Armenia's EEU membership is not considered to be an obstacle to Azerbaijan joining the Union. Both countries have successfully participated in the Russian-led integration process. The Commonwealth of Independent States, established in the 1990s, is a good example of an integration project that both sides were able to get on board with. However, in future, the EEU may encompass the Collective Security Treaty Organization (CSTO), which could pose serious challenges to Azerbaijan and Armenia. In contrast with the EEU, where it is still possible to refrain from economic contact with other

5 Import-Export Operations, 2015, State Statistical Committee of Azerbaijan, available at <http://www.stat.gov.az>.

6 Interview with Farid Guliyev, 26 September 2015.

7 "Azerbaijan foreign minister: 'Never say never' to Eurasian Union membership", Azerbaijan News Network, 2 October 2015, available at <http://ann.az/en/azerbaijan-foreign-minister-never-say-never-to-eurasian-union-membership/#.VhDCT-swyfQ>.

8 Interview with Heydar Mirza, 26 September 2015.

members, in the CSTO both countries would need to play by rules established by Moscow. This means that they would need to find a way of cooperating on security and military affairs – something considered to be impossible from the Azerbaijani perspective. The flare-up of the Nagorno-Karabakh conflict in April cast further doubt on the prospect of both states peacefully coexisting under one integration project.

One of the strongest factors counting against Azerbaijan joining the EEU is the opposition of political and economic elites. EEU membership would undermine the position of many local oligarchs, who are close to the government and reap considerable benefits from the economy's monopolistic nature. While oligarchs in Armenia and, to some extent, Kazakhstan and Kyrgyzstan have business interests in Russia, the businesses of Azerbaijani-based oligarchs are concentrated in Azerbaijan and Turkey. For these oligarchs, joining the EEU raises the spectre of the economic "Armenianisation" of Azerbaijan – the buy-out of the economy by Russian oligarchs and companies. Ethnic Azerbaijani oligarchs who live in Russia, like Lukoil President Vagit Alekperov and billionaire Telman Ismailov, do not have sizeable business interests in Azerbaijan, and have little ability to influence the country's political establishment to move towards the EEU.⁹

It is hard to find successful example of large-scale Russian infrastructure developments or investments in Azerbaijan, and only a handful of Russian businesses are represented in the country, such as Lukoil, Aeroflot, Nikoil Bank, and VTB Bank. Meanwhile, Russia does not invest much in the development of the North Caucasus, something that would naturally spill over into Azerbaijan. For the last decade, the Russian authorities completely ignored the idea of constructing a north–south highway to connect Russia with Iran through Azerbaijan. Meanwhile, Azerbaijani investments in Russia total less than \$1 billion over the last ten years.

By contrast, the EU plays an important role in Azerbaijan's trade. For a number of years, over 50 percent of the country's foreign trade has been with EU countries – much higher than the level of trade with Russia or its partners.¹⁰ The EU is positively viewed in the country and is considered the most desirable region for study and travel.

⁹ In the same way, we can argue that the local elites receiving the rent from monopolies would be opposing Azerbaijan's close association with the European Union too.

¹⁰ Dynamic of Foreign Trade Relations, Azerbaijan State Statistical Committee, available at <http://www.stat.gov.az/source/trade/indexen.php>.

Chinese investments and projects are also positively viewed in the country. The public and the political establishment believe that China does not have political interests in the region, due to its geographical distance. Chinese projects are therefore considered in purely economic terms. China also has enormous funds for the implementation of projects, lessening the burden on Azerbaijan. With falling oil prices and fewer cash reserves in the country, Chinese investments could be critical. Meanwhile, China is perceived as a country that delivers and implements projects with a quick turnaround.¹¹ In contrast to the US and the EU, which are constrained by bureaucratic hurdles, and Russia, which puts politics ahead of economics, China is considered to be a reliable partner. Experts noted that “if China negotiates a project and investments, and credit agreements [are] signed, no obstacle stands in its way. Additionally, no countries can compete in terms of resources to provide an alternative to China.”¹²

The Chinese OBOR initiative was enthusiastically greeted by the political establishment, though the public is not aware of many of these Chinese projects. Chinese investment helps to fill the funding gap in Azerbaijan’s strategic plan, allowing many projects to go ahead that would otherwise have struggled to find financing. In August 2015, the first container to take the OBOR route, or Silk Road, travelled the more than 4,000km from China in a record six days, arriving at the newly constructed Baku International Sea Trade Port. This signalled a new era in regional transport links.

China, together with partners from Azerbaijan and Kazakhstan, was a major player in implementing the project. It demonstrated to Chinese partners that cargo could reach Europe much faster via the Silk Road than by sea or by transiting through Russia. Both Kazakhstan and Azerbaijan used the project to encourage Chinese establishments to begin infrastructure in their territories so they could reap the benefits. Azerbaijani authorities believe that by 2020 some 300,000–400,000 containers will be transported via this route, bringing billions of profits.

Though it is attracted to China’s east–west corridor, Azerbaijan does not reject the idea of a north–south corridor from Russia to Iran. Azerbaijan was in favour of this project, but both Russia and Iran lacked much interest in pushing it forward. However, the economic crisis, sanctions against Russia, and the opening of Iranian markets may offer the opportunity to revitalise the

11 Interview with A. Gumbatov, 26 September 2015.

12 Interview with Rovsan Ibrahimov, 22 September 2015.

project. On 7 April 2016, the foreign ministers of Azerbaijan, Iran, and Russia met in Baku to discuss the north–south transport corridor. On 20 April, Azerbaijan and Iran launched construction of an 8km-long railway linking the borders of Iran and Azerbaijan, due to be completed by the end of the year. Meanwhile, the Iranians have accelerated work on the construction of the Rasht–Astara railway to link the rail systems of Iran, Russia, and Azerbaijan, allowing Russian goods to reach the Persian Gulf faster. Baku has already given Iran a \$500 million loan to complete the project.

Conclusion

Comparing Chinese and Russian integration projects, it seems clear that China does not threaten the EU’s political stance on the region as much as the EEU might. Moreover, the OBOR initiative would strengthen the ties between Asia and Europe. While China would invest in OBOR, the EU could invest in and revive the TRACECA project. The question that may arise is which power – the EU or China – will have greater influence along the route. While it would be difficult for the EU to compete with Chinese influence (especially after the establishment of the Asian Infrastructure Investment Bank (AIIB)), the Caucasus, Azerbaijan, and Georgia rely more on European investments and EU involvement.

However, the differences in the political structure and ideology of China and the EU, as well as their diverging approaches towards domestic issues such as human rights, makes this problematic for the EU. Close relations with the EU make the Azerbaijani elite uncomfortable, and they are irritated by its criticism over human rights violations, corruption, and the absence of reform. The establishment understands that continued movement towards the EU will force Azerbaijani elites to carry out significant reform of the public administration, respect human rights, and open up local markets. This all points to the further democratisation of the country, which could undermine the current government.

Because of this, the Azerbaijani elite is ambivalent in its approach towards EU-led initiatives. It wants to be part of these projects, but without significantly changing the country’s system of governance. By contrast, cooperation with the EEU or China does not require reform or involve criticism of Azerbaijani policies. Beijing’s ability to pump investment into Azerbaijan and stave off financial crisis, with no reform agreements attached, may push the country towards China and away from the EU.

The oil windfall made the government bold in recent years, and led it to ignore the demands of international institutions such as the Council of Europe and the International Monetary Fund (IMF). However, the recent drop in oil prices has had a big impact on the economy. The years of massive investment and spending are over, and the population is feeling the effects of a decreased level of income. This, in turn, affects their political and economic expectations, and could lead to riots or protests if the situation becomes bad enough.

The EU should be decisive when involving Azerbaijan in its projects, making large investments that can outbid Russia, while bearing in mind that its projects will only be successful if they are planned with the peculiarities and interests of Azerbaijani society in mind. Meanwhile, the Russian-led EEU has little chance of success from an economic perspective. It lacks both financial and economic stamina. However, the political manipulation of instability in the region, and the stirring up of fears of a new “Orange Revolution”, may attract the political establishment of Azerbaijan.

The first half of 2015 was the most turbulent period in the history of modern Greece since the consolidation of democracy in 1974. After gaining power in January 2015, the leftist Syriza party, with its coalition partner, the Independent Greeks, attempted to renegotiate with the country's creditors, almost triggering its exit from the eurozone. Although the new Greek government agreed to a four-month extension of the second bailout package, it failed to contribute the necessary resources to resolve the situation, and instead imposed capital controls and organised an ambiguous referendum, before finally crashing back down to reality in July.

The “Agreekment” of 12 July 2015 put an end to the possibility of a Grexit scenario, while providing a clear answer to those who were hoping for or speculating about alternative financial sources to refinance the Greek debt. This is where Russia and China come in. Deputy Prime Minister Yannis Dragasakis made clear in a pre-election interview in September 2015 that his government had unsuccessfully attempted to secure loan finance from third countries.¹ Beijing and Moscow weren't prepared to grant bilateral loans to Greece but were highly interested in expanding their investments in the country without challenging its Euro-Atlantic orientation. China sought to place future investments in the context of its “One Belt, One Road” policy, while Russia was keen on making new partnerships in a period of international isolation.

¹ Interview with Yannis Dragasakis, *euro2day*, 9 September 2015, available at <http://www.euro2day.gr/specials/interviews/article/1359826/dragasakis-s-afth-th-fash-h-aftodynamia-einai.html>.

China's interest in Greece

Sino-Greek relations initially caught the attention of the EU because of China's desire to pursue an expanded investment policy and to play a role during the Greek economic crisis. As former Greek Prime Minister George Papandreou revealed, Beijing has bought €6 billion of Greek sovereign bonds.² Additionally, in 2010, China pledged to double bilateral trade with Greece to \$8 billion within five years and to increase its imports of Greek olive oil, wine, marble, and other products.³ Further to this, it has given favourable loans in return for the construction of Greek ships in Chinese shipyards. Since the outbreak of the crisis, however, Greek governments have respected the EU framework when cooperating with China and avoided initiatives that might help the national economy at the expense of relations with the EU. In 2013, for instance, Greece agreed that anti-dumping measures proposed by the European Commission should be applied to imports of Chinese solar panels sold in Europe, despite the negative reaction from many Chinese companies.⁴

Sino-Greek relations have slowly but steadily improved since 2009, and the announcement of the One Belt, One Road (OBOR, or New Silk Road) plan by President Xi Jinping in September 2013 paved the way for a deeper cooperation. In June 2014, the Chinese Premier, Li Keqiang, visited Athens and discussed the possibility for further collaboration in infrastructure projects with then Greek Prime Minister Antonis Samaras, including shipping, logistics, ports, airports and maritime affairs.⁵

From a Greek perspective, stronger cooperation with China could boost tourism as well as the real estate sector. The number of Chinese tourists visiting Greece was 12,203 in 2012 and more than doubled to 28,328 in 2013. In just the first nine months of 2014 the number of Chinese tourists was 37,196.⁶ As far as real estate is concerned, since 2013 foreign citizens have had

2 "China bought Greek sovereign bonds worth of €6billion at the beginning of crisis", China and Greece, 21 January 2015, available at <http://chinaandgreece.com/china-bought-greek-sovereign-bonds-worth-6bn-euros-beginning-crisis/>.

3 Speech by Ambassador Du Qiwen, Athens, 20 January 2012, available at <http://www.jmc.uoa.gr/ekdhloseis/china-greece-and-the-eu/remarks-by-ambassador-du-qiwen.html>.

4 George N. Tzogopoulos, "EU-China relations require cool heads", *Global Times*, 12 December 2013, available at <http://www.globaltimes.cn/content/830163.shtml>.

5 George N. Tzogopoulos, "Cultural and economic ties draw China and Greece closer", *Global Times*, 18 June 2014, available at <http://www.globaltimes.cn/content/866362.shtml>.

6 Data are based on the Association of Greek Tourism Enterprises (SETE) and refer to Chinese tourists coming directly to Greece from China.

the opportunity to acquire a long-term entry visa in Greece, if they decide to buy a property worth €250,000 or more.

From the beginning of 2015 onwards, Sino-Greek relations entered a new period of misunderstanding. Before the election in January 2015, some ministers of the new cabinet and other members of the governing Syriza party started to question Greece's privatisation policy.⁷ The Chinese Ministry of Commerce responded by asking Greek authorities to protect the legal interest of companies including the China Ocean Shipping Company (COSCO), which has invested heavily in the Piraeus port project; and, for the first time during the ongoing economic crisis, the Chinese questioned the motivations of Greece's new leader.⁸

It was only after the U-turn of the Greek government in July 2015 and its acceptance of the terms of the new bailout that Sino-Greek relations started to improve again.

The importance China attaches to Greece is high. COSCO is managing the construction of piers II and III in the port of Piraeus – a port which is a key component of China's "One Belt, One Road" policy.⁹ It marks the passage from the Maritime Silk Road in Europe to the land-based one towards Europe. Specifically, Beijing wants to establish trade links from Greece to Central and Eastern Europe via the Balkans. This strategy was made clear during the 16+1 meeting in Belgrade in December 2014. Greece was officially absent from this meeting because it did not want to further frustrate its relationship with the EU.

The success of COSCO in Piraeus is widely acknowledged. In fact, the numbers speak for themselves – 3,030,000 twenty-foot shipping containers (TEUs) were delivered to piers in Piraeus controlled by the Chinese company in 2015, compared with 2,984,000 in 2014 and 2,520,000 in 2013. China has clearly communicated to Athens that COSCO is the "head of the dragon" in its policy to revive the ancient Silk Road. COSCO's existing investments as well as its desire to invest more in Piraeus is one of the reasons China was highly concerned about

7 George N. Tzogopoulos, "Greece takes realistic approach to Chinese investments after election wobble", *Global Times*, 4 March 2015, available at <http://www.globaltimes.cn/content/910227.shtml>.

8 Liu Zhun, "Greece betrays principle of contract by halting port sale", *Global Times*, 29 January 2015, <http://www.globaltimes.cn/content/904648.shtml>.

9 For a detailed discussion on the investment of China in the port of Piraeus, see Frans-Paul van der Putten, "Chinese Investment in the Port of Piraeus, Greece: The Relevance for the EU and the Netherlands", Clingendael Report, 14 February 2014, available at <http://www.clingendael.nl/sites/default/files/2014%20-%20Chinese%20investment%20in%20Piraeus%20-%20Clingendael%20Report.pdf>. On the investment of China in foreign ports including Piraeus, see Frans-Paul van der Putten and Minke Meijnders, "China, Europe and the Maritime Silk Road", Clingendael report, March 2015, available at <http://www.clingendael.nl/sites/default/files/China%20Europe%20and%20the%20Maritime%20Silk%20Road.pdf>.

the risk of Grexit in 2015.¹⁰ However, the Greek decision to cooperate with the Chinese in Piraeus has also created some concern in Europe. The European Commission has recently argued that Greece has granted COSCO benefits such as tax exemptions and preferential accounting treatment, providing the company with an undue advantage over competitors in breach of EU state-aid rules. Therefore, the EU has asked COSCO to pay the advantage it has received back to the Greek state, in order to deter China and Greece from further infractions of EU competition law.¹¹ In parallel with the recommendation from the European Commission, Athens has also had to manage resistance from trade unions that claim that workers are losing their privileges.

The Chinese investment in Piraeus is also cause for concern in the EU because it will lead to China wholly controlling the Greek port. China is also in the bidding for the Thessaloniki Port Authority, which would allow it to expand its influence in Greece. The EU currently has no common policy for ports, which are able to autonomously make decisions on critical affairs such as their management by foreign companies without guidance or input from the European Commission.¹² That said, the privatisation of the Piraeus Port Authority could speed up attempts within the EU to pass a new law that require member states to have at least two providers of port services to prevent monopolisation.

Last but not least, it is worth mentioning that China's future presence in Greece can be facilitated to an extent by its positive public image in the country compared to other European states that want to invest, principally Germany. According to a poll in 2013, 83 percent of respondents in Greece want strong economic relations with China. In addition, 17.2 percent consider China as a friendly country, which constitutes the highest percentage vis-à-vis a foreign country following Russia (39.2 percent).¹³ In such a China-friendly environment, Beijing finds favourable conditions for the expansion of its "One Belt, One Road" initiative and possibly for the construction of the China–Europe Land-Sea Express Route. The recent creation of the association of Chinese companies operating in Greece, including COSCO, Huawei, ZTE, and

¹⁰ George N. Tzogopoulos, "Stake high for China in possible Grexit", *Global Times*, 23 July 2015, available at <http://www.globaltimes.cn/content/933442.shtml>.

¹¹ "State aid: Commission orders Greece to recover incompatible aid from Piraeus Container Terminal", European Commission press release, 23 March 2015 available at http://europa.eu/rapid/press-release_MEX-15-4650_en.htm.

¹² "Piraeus port concession could reshape European supply chains", *the Journal of Commerce*, available at http://www.joc.com/port-news/european-ports/port-piraeus/piraeus-port-concession-could-reshape-european-supply-chains_20150729.html.

¹³ Georgia Dama, "China is a main supporter for Greece", *Eleftherotypia*, 9 February 2014, available at <http://www.enet.gr/?i=news.el.article&id=414414>.

Air China, is indicative of China's interest to invest more.

The acquisition of the Piraeus Port Authority is not just a Sino-Greek affair. Its importance goes beyond the bilateral context and affects the evolution of Sino-European relations as a whole. In a period during which Beijing has stated that it will participate in Jean-Claude Juncker's investment initiative and more Chinese investments in Europe are taking place, the Piraeus deal could be a model for both sides generating new Sino-European interest for partnerships. From a European perspective, it is also important that the president of the newly established China COSCO Shipping Group, Xu Lirong, publicly focuses on the importance of working conditions and environmental guidelines for his company during his official visit to Athens in April 2016.

The Russian angle

Russia can hardly claim to rival the expediency with which China has made direct and tangible inroads to Greece with its New Silk Road. In fact, Greek interest in Russia's Eurasian Economic Union (EEU) has been rather tepid. Athens supports the launch and continuation of talks between the EU and the the EEU – principally on custom issues – and considers the recent Russian initiative “potentially another source of new wealth production and economic power”,¹⁴ but it has not taken any initiative on the matter and aligns itself with EU foreign policy. Greece and Russia have bilaterally cooperated on certain things, but not under the moniker of the EEU.

The meetings of Greek Prime Minister Alexis Tsipras with Russian President Vladimir Putin in Moscow and St. Petersburg in April and June 2015 respectively generated serious concerns in Brussels – and also in Washington – that there could be a potential Greek-Russian rapprochement. Although the possibility for a bilateral loan was officially excluded by politicians of the two countries,¹⁵ talk of potential Greco-Russian cooperation abounded during the period in which Greece seemed on the verge of leaving the eurozone.¹⁶ Further to this, one day ahead of Tsipras's official visit to Moscow on 8 April,

14 Statement by Greek Prime Minister Alexis Tsipras at the Economic Forum in St. Petersburg, 19 June 2015, available at <http://www.primeminister.gov.gr/english/2015/06/19/prime-minister-alexis-tsipras-statement-at-the-economic-forum-in-st-petersburg/>.

15 Tsipras, for instance, responded negatively to a relevant question during a press conference after his meeting with Putin in Moscow on 8 April 2015. One day earlier, Russian Finance Minister Anton Siluanov said that Greece had not asked the Russian government for a loan.

16 George N. Tzogopoulos, “View from Athens: Walking the line between Europe and Russia”, European Council on Foreign Relations, 6 April 2015, available at http://www.ecfr.eu/article/commentary_view_from_athens_walking_the_line_between_europe_and_russia31161.

the President of the European Parliament, Martin Schulz, warned Greece to stick to the EU's line on Russia sanctions.¹⁷ In theory, Greece would be prepared to play the card of the embargo in order to put pressure on the EU for a better economic deal in exchange for cooperating on the Ukraine crisis. This strategy could have entailed either a veto at the EU level or a practical unilateral blockage of the embargo by exporting Greek products to Russia and/or importing Russian ones.

The first meeting between Tsipras and Putin in Moscow ended without any clear results, but the will of the Greeks to participate in Turkish-Russian energy cooperation by complementing the proposed “Turkish Stream” with a new pipeline¹⁸ sparked a new wave of frustration in Europe and in the US, both of which were actively reducing their dependence on Russia for energy. Approximately two months later, during the St. Petersburg International Economic Forum, Russian media went further and reported that Russia would give a loan to Greece to join the “Turkish Stream” project on its soil.¹⁹ On this occasion, the two countries signed a deal worth of €2 billion.²⁰ Responding to this Greek-Russian rapprochement, the Greek blogosphere was full of anonymous reports that Greece might even join the EEU at some point in the period from April until June 2015.²¹

Moreover, Russia's invitation to Greece to join the BRICS-led New Development Bank deserves some attention. Responding to the invitation, the Greek government appointed its former representative to the IMF, Panagiotis Roumeliotis, to explore whether the country might be able to participate in the new scheme. Some scholars saw this possibility as unrealistic because founding members need to contribute €10 billion, Athens would not be able to find this amount of money, and other founding members would be unwilling

17 Michelle Martin, “Schulz warns Greece to stick to EU's line on Russia sanctions – newspaper”, *Reuters*, 7 April 2015, available at <http://uk.reuters.com/article/2015/04/07/uk-ukraine-crisis-russia-greece-idUKKBN0MY1ZX20150407>.

18 Sarantis Michalopoulos, “Tsipras: ‘Turkish Stream’ will have another name on Greek territory”, *EurActiv*, 9 April 2015, available at <http://www.euractiv.com/sections/global-europe/tsipras-turkish-stream-will-have-another-name-greek-territory-313636>.

19 “Greece to receive loan from Russia for construction of Turkish Stream – energy minister”, *Tass*, 19 June 2015, available at <http://tass.ru/en/economy/802161>.

20 “Russia, Greece sign €2bn deal on Turkish Stream gas pipeline”, *Russia Today*, 19 June 2015, available at <https://www.rt.com/business/268279-russia-greece-turkish-stream/>.

21 Articles published on Defencenet.gr and Defencenews.gr constitute an example: “Exclusive: Tsipras will submit a request to Putin for Greece to enter the Eurasian Economic Union”, 1 April 2015 and “Eurasian Union: A choice for Greece?”, 17 April 2015.

to put up the cash for them.²² Some scholars were rather less reserved about the idea than expected. Andrey Shelepov, of the National Research University Higher School of Economics (HSE) in Moscow, explained that Greece could enter under favourable conditions by paying only €100,000.²³ Jayshree Sengupta, of the Observer Research Foundation in New Delhi, went even further and argued that the BRICS-led New Development Bank could function as an alternative to the IMF if Greece joined.²⁴

The re-engagement of the Greek government by the EU has put a lid on discussions about its alleged future membership of the New Development Bank. This is also the case with Greece's bilateral relations with Russia as a whole. In an interview with the Italian daily *Il Corriere della Sera*, Putin said it "was up to the Greek people to make a sovereign decision in dialogue with their main European partners" about the future of their country, and argued that Russia was "building [its] relations with Greece irrespective of whether it is an EU, euro zone or NATO member".²⁵ However, this can hardly happen at the practical level. The experience is didactic. In 2013, the privatisation of Greek gas company DEPA failed and Gazprom decided not to submit a bid in a political and economic environment where both the EU and the US would have strongly resisted such a process.²⁶

The ongoing political difficulties, along with the economic restrictions at the EU level, heavily influence Greek-Russian relations and the possibility of Greece doing business as part of the EEU. However, it is very early days for Russia and Greece's relationship. In April 2015, for instance, the Hellenic-Russian Chamber of Commerce informed businesses that it is able to conduct studies into how economic cooperation between Greece and the EEU might work in areas such as agriculture, taxation, pharmaceuticals, medicine, marketing,

22 Examples include Elena Lazarou, Head of the Centre for International Relations at the Foundation Getulio Vargas; Sergey Lukonin, Head of the Department of Economics and Politics of China at IMEMO RAN in Moscow; and Constantinos Filis, Research Director of the Institute of International Relations in Athens. See "The BRICS new Bank, Greece and the IMF", China and Greece, 29 May 2015, available at <http://chinaandgreece.com/brics-new-bank-greece-imf/> and "Can Greece join the BRICS Bank?", China and Greece, 18 May 2015, available at <http://chinaandgreece.com/can-greece-join-brics-bank/>.

23 "Greece can enter BRICS Development Bank under favourable conditions", China and Greece, 4 June 2015, available at <http://chinaandgreece.com/greece-can-enter-brics-development-bank-favourable-conditions/>.

24 "The BRICS Bank will start functioning as an alternative to the IMF if Greece joins", China and Greece, 18 June 2015, available at: <http://chinaandgreece.com/brics-bank-will-start-functioning-alternative-imf-greece-joins/>.

25 Vladimir Putin, interview with the Italian newspaper *Il Corriere della Sera*, 7 June 2015, available at http://www.corriere.it/english/15_giugno_07/vladimir-putin-interview-to-the-italian-newspaper-corriere-sera-44c5a66c-0d12-11e5-8612-1eda5b96824.shtml?refresh_ce-cp.

26 George N. Tzogopoulos, "No salvation for Greece in hard-hit Moscow", *Global Times*, 15 April 2015, available at <http://www.globaltimes.cn/content/916983.shtml>.

transportation, tourism, real estate, etc.²⁷ Irrespective of the obstacles in their way, representatives from the Greek business sector often exchange visits with those from Russia exploring the opportunity for cooperation in the future. As far as Russian investments in Greece are concerned, Russia – as is also the case with China – can benefit from its positive public image in Greece. A survey by the Pew Research Center in July 2014 demonstrates that 61 percent of people in Greece have a net positive view of Russia, making it the only European country to have an overall positive image of the country.²⁸

At the time of writing, the possibility of Russia's active participation in the Greek privatisation process is a significant issue on the political agenda. Russian railways have shown an interest not only, like China, in the Thessaloniki Port Authority, but also in the Greek railway company TrainOSE and rolling stock operating company ROSCO. To be more precise, Russia wants to buy the three Greek companies together rather than only one of them. The pursuit of this interest will go hand-in-hand with a likely holistic improvement in Greek-Russian relations. Beyond benefiting from the recent privatisation of some Greek businesses, some Russian businessmen have already expanded their presence in Greece. As a prime example, Ivan Savvidis, the owner of the Russian holding company Agrocom, is also a major shareholder of Thessaloniki's PAOK football club.

Putin is expected to visit Greece towards the end of May 2016. Although this visit will principally be of a religious nature, due to the shared Orthodox faith, it will also give him an opportunity to engage in new investment discussions with Greek politicians. It is, perhaps, not a coincidence that Putin has scheduled his visit just a few days in advance of the deadline for submitting offers on the aforementioned Greek companies. As far as energy cooperation is concerned, although the construction of the Turkish Stream project has been cancelled due to the deterioration of relations between Moscow and Ankara, a new opportunity is presenting itself. In February 2016, Russia's Gazprom, Italy's Edison, and Greece's DEPA signed an agreement for deliveries of Russian natural gas through third countries to Greece and from Greece to Italy via an undersea pipeline in the Black Sea.²⁹

27 Press release from the Hellenic-Russian Chamber of Commerce on the implementation of case studies, 23 April 2014, available at: <http://www.hrcc.gr/new/index.php/el/news/20060-2015-04-23-12-07-11>.

28 "Russia's Global Image Negative amid Crisis in Ukraine", Pew Research Center, 9 July 2014, available at <http://www.pewglobal.org/2014/07/09/russias-global-image-negative-amid-crisis-in-ukraine/>.

29 "Gazprom, DEPA and Edison sign Memorandum of Understanding", Gazprom press release, 24 February 2016, available at <http://www.gazprom.com/press/news/2016/february/article267671/>.

Looking ahead

The re-election of Syriza means that the leftist party has to follow a pro-bailout policy, and is attempting to attract foreign investments without questioning Greece's Euro-Atlantic foreign policy orientation. Good relations with China – in the context of its Silk Road – and with Russia – irrespective of its EEU – will be high on the agenda of the re-elected Greek government. Athens seeks to benefit from both countries by privatising sections of its infrastructure and does not believe it takes part in a competing game of different integration and investment projects. Even when it comes to the geopolitical implications of having close relations with countries such as China and Russia, Greece does not consider its position to be fundamentally different from that of other EU states.³⁰ In the final account, Greece – as opposed to several European states – has not, until now, participated in the Asian Infrastructure Investment Bank (AIIB), while international media speculates on its hypothetical affiliation with the BRICS-led New Development Bank.

In the coming months, relations between Greece on the one hand and China and Russia on the other are expected to improve. The attention of the Greek government, however, will be primarily directed towards the privatisation of the Piraeus Port Authority. Greece will insist on privatising these industries only if there are potential future benefits to its national economy. Pillars of this Greek strategy include the launch of additional foreign direct investment – particularly from China and Russia – starting with the aforementioned sale of port authorities and extending to a significant increase in the number of tourists visiting Greece from these same countries.

The fragile state of its national economy makes it hard for Greece to turn its back on capital coming from China and Russia. The future course of privatisation will become important at the EU level because of Greece's geographical position for non-European countries wishing to export goods to Europe. In that regard, the EU might need to closely monitor the situation in Greece in order to safeguard its interest there, as well as to better understand the policies of Beijing and Moscow. More importantly, however, the principal objective has to be the creation of conditions for win-win cooperation that facilitates trade and the growth of the Greek economy, but not at the expense of European values.

30 Thanos Dokos, "The geopolitical implications of Sino-Greek relations", Clingendael, 10 June 2013, available at <http://www.clingendael.nl/publication/geopolitical-implications-sino-greek-relations-0?lang=nl>.

After experiencing fast economic growth since 2000 thanks to high oil prices, Kazakhstan's economy has been suffering from their decline since late 2013. It has also been hit by Russia's economic troubles – especially the drop in the rouble – because since 2010 it has been part of the Customs Union (CU) with Russia, which became the Eurasian Economic Union (EEU) in 2015.

Kazakhstan's future economic growth depends on the development of infrastructure and regional trade. The country aims to become the largest business and transit hub of the Central Asia region, a bridge between Europe and Asia. It considers China's One Belt, One Road (OBOR) initiative and the EEU as means to this end.

Background

At the 25th meeting of the Foreign Investors' Council in May 2012, President Nursultan Nazarbayev proposed the New Silk Road project, under which Kazakhstan would become the largest business and transit hub of Central Asia. The initiative, also known as One Belt, One Road (OBOR), was formally announced by Chinese President Xi Jinping in Astana in September 2013.¹

¹ "Promote People-to-People Friendship and Create a Better Future", Speech by President Xi Jinping at Nazarbayev University, Astana, 7 September 2013, available at http://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpfwzysies-gitfhshzzfh_665686/t1076334.shtml.

Kazakhstan receives significant Chinese investment in natural resource extraction, and China is an important destination for its mineral exports. As analyst Vladimir Fedorenko has commented, the “Chinese approach to Central Asia is based on advancing China’s own economic and business interests. China sees Central Asia as an important region that will help promote its own economic growth via trade routes that satisfy the Chinese demand for hydrocarbon resources. China gladly makes generous investments in the Central Asian infrastructure if it finds that these investments will benefit the Chinese economy.”²

Russia, Belarus, Kazakhstan, and Kyrgyzstan made the first effort to create a customs union in the mid-1990s, but the project remained on paper only. Then, in 2009, Russia began to accelerate the integration process. The Customs Union between Belarus, Kazakhstan, and Russia has been operational since 2010. In 2011, the three countries formed a common customs territory. The EEU was launched on 1 January 2015; Armenia became a full-fledged member the following day, and Kyrgyzstan on 12 August.

The main argument in favour of these initiatives was economic – that Kazakh businesses would gain access to a common market of 170 million people. However, there was no consensus within Kazakhstan in favour of the union.

The creation of the Customs Union and then the EEU opened serious divisions in Kazakh society. The EEU is unpopular among the population, and the annexation of Crimea has Kazakhs worried that their country might be the next victim of Russia’s imperial ambitions. In 2012, the opposition suggested a referendum on membership of the Customs Union and the EEU’s Single Economic Space.³ At the beginning of 2014, an anti-Eurasian movement was established, based on an idea of the EEU as a threat to Kazakhstan’s sovereignty. The war in Ukraine and the West’s sanctions against Russia have led some to say that it is dangerous for Kazakhstan to be in a union with Russia.

The Russian rouble’s fall in 2014, when it lost more than half its value against the US dollar, made Russian goods much cheaper than Kazakh goods, causing

² Vladimir Fedorenko, “The New Silk Road Initiatives in Central Asia”, Rethink Institute, Washington, DC, August 2013, available at <http://www.rethinkinstitute.org/wp-content/uploads/2013/11/Fedorenko-The-New-Silk-Road.pdf>.

³ “Chego ozhidat’ Kazahstanu ot predstoyashchego referendum”, *Total.kz*, 6 November 2012, available at http://total.kz/politics/2012/11/06/chego_ozhidat_kazahstanu_ot_pred.

problems for local producers.⁴ The deputy chair of the National Chamber of Entrepreneurs has said that the lack of customs controls at the border with Russia caused a “substantial growth of grey trade and the increase of shadow turnover”.⁵

From time to time, Russia tries to promote the idea of creating a common monetary market and single currency. But Kazakhstan has turned down all such discussions. Deputy National Economy Minister Timur Zhaksylykov said: “Kazakhstan has a clear and consistent position on excluding the possibility of introducing a single currency within the Eurasian Economic Union.”⁶

Free trade has not always run smoothly. Kazakhstan has on several occasions restricted sales of Russian food, including meat, citing safety concerns. Russia has cited similar reasons for imposing bans on Kazakh dairy products and fruit, though these have since been lifted or eased. Nevertheless, Kazakh officials remain optimistic that the EEU will help the country’s economy to grow.

Opinions on OBOR

Economics

In interviews conducted for this project, government officials, businesspeople, political analysts, and economists agreed that Kazakhstan has a strong demand for infrastructure to develop transit, “as a tool to boost economic growth owing to the fall of energy resource prices and economic problems of Russia”. Kazakhstan “definitely needs Chinese investment and other resources (know-how, etc.) to support its infrastructure projects, especially due to the lack of foreign sources of capital”. Respondents think that China is also in favour of this because “China must be interested in improving its infrastructure in the west part of the country”.

China is the second-most important import partner to Kazakhstan after Russia. Respondents estimate Kazakhstan’s potential to develop into a significant export market for China respondents as “limited due to a relatively small population and low purchasing capacity.” But, at the same time, Kazakhstan is important for the development of China’s western regions. One

4 Abdujalil Abdurasulov, “Kazakhs find uneven playing field in Russia’s trading bloc”, *BBC News*, 26 April 2015, available at <http://www.bbc.com/news/world-asia-32403837>.

5 “Vnutri EAES rastet ob'em serogo tovarooborota”, *365info.kz*, 30 May 2015, available at <http://365info.kz/2015/05/vnutri-eaes-rastet-obem-serogo-tovarooborota/>.

6 “Edinoi valyuty v EAES ne budet – MNE RK”, *Kazinform*, 22 April 2015, available at <http://www.inform.kz/rus/article/2768268>.

interviewee noted that “some work has been done to improve road and railroad infrastructure. However, more work is needed to reach an appropriate and required export level from China.”

According to Kazakhstan’s National Chamber of Entrepreneurs, the business community wants the country to be part of the OBOR project. But many are not aware of the opportunities that OBOR offers their businesses. According to one business person: “There is a lack of relevant information. China has been pushing the project on the government level, ignoring the grassroots level.” According to another, “this initiative has the highest political support but looks controversial due to the Customs Union. The business community’s expectations are associated with the transit potential and opportunities around it. Political risks also add ambiguity.”

The economic incentives for Kazakhstan to join the OBOR initiative should be considered in terms of its location between China, Europe, and South Asia. In the view of one interviewee, the “leadership of Kazakhstan clearly understands that China is a rising global power, and in the near future it will definitely have capacity to directly influence the global agenda. So it is better, or maybe safer, to actively join its project.” The OBOR initiative is therefore seen as an alternative or reserve option in case the EEU fails.

China is strengthening its presence in the energy sector, particularly in terms of large oil projects: there are two pipelines transporting oil and gas to China. Kazakhstan wants support for an international exhibition, Expo 2017. It also wants to diversify its transport infrastructure, to build a terminal in the Chinese province of Lianyungang in cooperation with China, and to increase transport links to the sea.

Interviewees said that Kazakhstan would probably not agree to China using its own materials, companies, or workforce to construct the OBOR infrastructure. Kazakhstan protects its market, and its procurement policy for such projects explicitly promotes national suppliers. China might work with neighbouring countries to invest in the project, but local companies must be chosen through a transparent bidding process. On the other hand, if the economic situation worsens, and Kazakhstan cannot find any other sources of foreign investment and capital, the Kazakh leadership might have no option but to agree to China’s terms.

Politics

Kazakhstan's political incentives to join OBOR are based on balancing Russia's influence. The project has the highest possible political support; no disagreement within government is visible to the general public. There is consensus among policymakers that the project could boost the country's economic growth in the near future.

Interviewees were divided as to whether Kazakhstan has already benefited from OBOR. One said: "I don't think that there are any projects that have already been successfully implemented; up to now, there is no significant evidence of benefits for our economy. There are only talks on potential benefits for participants of the Silk Road initiative." Another said: "I think Kazakhstan is rather gaining indirect benefits as a result of being part of the Chinese initiative. As an example, recent deals worth more than \$20 billion signed during the recent visit of our president to China can be taken."

Kazakhstan has had some negative impacts from OBOR: "Road accidents have increased on the newly built segments of highways; pollution shows a growing trend; occasionally, farmers and people living in villages see constraints in access to agricultural lands and pastures."

When asked about the level of detail of the Chinese leadership's engagement with OBOR, one interviewee answered that "the concept of the Silk Road project is still extremely vague; there is no clear political document or concrete blueprint that would describe how the Chinese government is planning to implement the Silk Road initiative". Another said "I don't think that there was a detailed assessment by the Chinese leadership; the project was rather a reaction of Chinese leadership to the changing geopolitical situation in the region (establishment of the EEU) and in the global arena (US action to contain China)."

Public opinion and media

The Kazakh population is not well informed about OBOR. The project does not have offices or contact people in Kazakhstan, and all OBOR matters are discussed directly with President Nazarbayev. The project has been implemented using a top-down approach, and public opinion has not been explicitly consulted. As a result, public perceptions of China have not changed in Kazakhstan since the announcement of the project. According to interviewees, the topic has not

gained any “significance in public discourse, our public do not pay attention to this issue, and discussion is confined to the expert community”.

China’s communication about OBOR in Kazakhstan has concentrated on the official level. PR efforts include frequent high-level visits, work by diplomatic channels and embassies, and economic cooperation, and depend heavily on traditional tools such as holding conferences, large-scale public events, projects supported by multilateral development banks including the Asian Development Bank, the newly established Asian Infrastructure Investment Bank (AIIB), consultations, and student and research exchanges.

Recently, the Chinese government has made some efforts to engage with non-governmental actors through organising trips to China for Kazakh bloggers, youth delegations, and others. But language and cultural differences still pose significant obstacles for China in its efforts to promote its initiatives.

There has been no broad public discussion about the pros and cons of cooperation. Articles and interviews on the subject are published only in the official media in the context of their connection to national infrastructure projects, planned investment, and top-level visits to Kazakhstan and China.⁷ Several conferences and roundtables with government representatives and government research institutes have been covered by local media.⁸

Recent changes in the public mood could hamper further cooperation. Large numbers of people have been protesting about proposed land reforms.⁹ This is highly unusual, because public meetings require preliminary permission from local authorities. Since 24 April 2016, protests against changes to the country’s Land Code have spread across the country. The amendments would allow foreigners to rent agricultural land for 25 years, and enable land to be sold or leased at auction. These amendments were approved in November 2015 but will come into effect on 1 July 2016. The protesters fear that the change will allow Chinese investors to buy out their land. The general public opinion is: “We can’t give land to the Chinese. If they come, they won’t leave.”

7 See “Novyi Shelkovyi put’ otkroet dlya Kazakhstana unikal’nye vozmozhnosti dostupa na mirovye rynki”, Official Website of the Prime Minister of Kazakhstan, 4 August 2015, available at <http://www.primeminister.kz/article/view/34>; “Kazakhstan potratit \$20 mlrd, chtoby stat’ zvenom novogo Shelkovogo puti”, *Zakon.kz*, 17 April 2015, available at <http://www.zakon.kz/4704496-kazakhstan-potratit-20-mlrd-chtoby-stat.html>.

8 “Sozdanie Evrazii: ekonomicheskii poyas Shelkovogo puti”, *Forbes Kazakhstan*, 17 April 2015, available at <http://forbes.kz/finances/integration/sozdanie-evrazii-ekonomicheskii-poyas-shelkovogo-puti>.

9 “Kazakhstan’s land reform protests explained”, *BBC News*, 28 April 2016, available at <http://www.bbc.com/news/world-asia-36163103>.

Opinions on the EEU

Economics

The business community of Kazakhstan views Russia's EEU initiative as a "purely government-led initiative that does not take into consideration the interests of SMEs [small and medium enterprises]". It is disappointed in the lack of opportunities presented by the project so far, especially because it coincided with economic slowdown, and because economic sanctions against Russia indirectly affect the Kazakh economy.

The business community has diverging interests with regard to the EEU. Major exporters of raw materials are very interested in the project. SMEs stress economic concerns, because they do not see any significant benefits for themselves. Kazakhstan's exports to Russia have shrunk significantly. Occasionally, EEU members have used non-tariff barriers to protect their respective domestic markets. The global economic slowdown, decreased oil prices, and depreciation of the Russian rouble have undermined Kazakhstan's economy, with two devaluations undertaken, and other negative effects expected.

What were the economic incentives for Kazakhstan to join the EEU? There were high hopes in the initial stages that the EEU would offer great economic opportunities to business, providing access to a common market of over 170 million people. Economic ties with Russia are still strong; most export goods, even if not traded with Russia, pass through Russian territory, so gaining access to Russian infrastructure was welcomed. Unfortunately, as one interviewee said, "from the beginning the EEU has had more of a political format than an economic one".

Politics

How is Russia's EEU initiative perceived among administration officials and policymakers from different institutions? "There is a consensus that the EEU was initiated by the president and fully supported by the administration." "The EEU is perceived as a political project; officials themselves do not see any significant economic benefits for the country."

It is difficult to identify the political incentives for Kazakhstan to join the EEU. Respondents speculate that “it was the decision of the president”; and that “it is more a political union that benefits one country” – that is, Russia.

No diverging opinions on the EEU are heard within the different relevant ministries. “All decisions are taken for execution as an order.” But there is no consensus among policymakers concerning Kazakhstan membership in the EEU – simply, “no one voices alternative points of view on this issue”.

When asked about areas in which Kazakhstan has already profited from the EEU, respondents answered either “no benefits” or “simplified customs and passport control at borders”. In the opinion of those interviewed, negative experiences with the EEU included “indirect impact of the anti-Russian economic sanctions”, “uncertain geopolitical situation in the region due to tension between Russia and Ukraine”, and “trade conflicts between members of the Eurasian Economic Union”.

Public opinion and media

Public perceptions of Russia have changed in Kazakhstan since the announcement of the EEU. The creation of the EEU’s predecessor, the Customs Union, in 2009 did not cause much concern in Kazakhstan. But the rise in prices due to the increase in Kazakhstan’s customs tariffs forced people to think about the consequences for their wellbeing. Russia’s annexation of Crimea showed that the alliance with Russia could have negative consequences for the welfare of the country. Public opinion on Kazakhstan’s membership of the EEU differs depending on ethnicity and social status. The public is divided: some support the EEU, others oppose it. But most people in Kazakhstan believe that Russia is trying to restore the Soviet Union.

The EEU has been widely discussed in the national media. Civil society representatives have conducted press conferences, forums, and roundtables at which they recommended that the government refrain from joining the Customs Union and avoid signing an agreement on the EEU.¹⁰

10 Khalil Mukanov, “Antievraziiskie nastroeniya krepchayut”, *Sayasat*, 5 March 2014, available at <http://sayasat.org/articles/823-antievraziiskie-nastroeniya-krepchajut>; “Antievraziiskii forum’ v Almaty”, *Radio Azattyk*, 12 April 2014, available at <http://rus.azattyq.org/content/antievraziiskii-forum-almaty/25330706.html>; Oras Jandosov, “My ne mozhem byt’ v odnom soyuze s gosudarstvom-okkupantom”, *Ratel.kz*, 6 March 2016, available at http://www.ratel.kz/raw/myi_ne_mojem_byit_v_odnom_soyuze_s_gosudarstvom-okkupantom/.

Comparing OBOR and the EEU

Kazakh officials are optimistic that the EEU and OBOR will create new growth in the Kazakh economy. Both initiatives have the highest political support. According to Kazakh authorities, economic pragmatism should prevail, and the authorities hope to harmonise them and bring them into line with one another. However, Russia and China may have different views. Some interviewees thought that “officials feel safer cooperating with the Russian side rather than with China”.

When asked whether businesses would prefer to cooperate with China on OBOR or with Russia on the EEU, respondents said: “Kazakhstan adheres to a multi-vector policy and tries to find a consensus between the two initiatives”, but “due to the cultural and language differences, the Chinese market is still not considered as a priority for the local business community”.

One problem is that the two initiatives are not properly aligned. According to officials, OBOR and the EEU should link up in harmonisation of technical requirements, integrated infrastructure, a permanent negotiation process on customs, and financial and legal issues, among other things. So far, this has not happened. One interviewee said: “The difficulties emerge from restricted access of goods and services from non-EEU countries.” Another said: “The Silk Road initiative at this stage is seen as a way towards integration into the regional infrastructure. Trade facilitation, customs, financial systems, and other issues around it are at the early stage of discussion.”

Recommendations for the EU

The EU is one of Kazakhstan's main trading partners, accounting for almost a third of its external trade, and Kazakhstan is interested in the West as a hedge against the growing influence of Russia and China. The country is geostrategically important to the EU thanks to its location, and represents a bridge to China. Moreover, Kazakhstan's position as a supplier of hydrocarbon resources makes it a crucial partner.

1. The EU should play the role of an external balancer to China and Russia's competition for power in Kazakhstan and Central Asia. Regional stability depends on economic stability. At present, Kazakhstan and other Central Asian countries are suffering from turbulence in Russia and the slowing growth of China's economy.
2. OBOR is at an early stage of development, and often vague on details. The public perception in Kazakhstan is that it looks more like a philosophical concept than a concrete action plan. The EU should take the opportunity to identify its own position on OBOR.
3. The EU should promote trade and cooperation at Central Asian level, taking Kazakhstan into account as an engine of regional synergies and a link with neighbouring countries. China and Russia are working with Central Asian countries on an individual basis in most cases, preferring bilateral relations.
4. The EU should pay attention to Russia's growing military presence in Kazakhstan, and forecast its potential consequences for regional stability and security.
5. The EU can help science and technology industries in Kazakhstan by sharing knowledge and developing partnership programmes. Kazakhstan is interested in becoming a technological and innovation hub of Central Asia, and the EU should coordinate its projects with Kazakhstan's needs.
6. The EU should strengthen dialogue and cooperation between EU and Kazakh businesses, and support and promote rule of law in the country.
7. The EU should support public participation in decision-making by promoting government dialogue with business and citizens in order to take into consideration their views on OBOR and the EEU.

China's Silk Road initiative (One Belt, One Road – OBOR) and Russia's Eurasian Economic Union (EEU) have raised hopes in Serbia that the country might soon get much-needed infrastructure investment, strengthen its energy security, and increase its exports. The country's expectations are economic in nature, but are also based on the very good – indeed, “special” – political relations that Serbia has with both China and Russia, in parallel with Serbia's status as a European Union candidate country.

Background

Serbian politicians and businessmen hope that their country's excellent political relations with both China and Russia can form a basis for additional economic benefits through the EEU and OBOR projects. Serbia's special bilateral ties are inherited from the past, when, as a non-aligned country, Yugoslavia (of which Serbia was a part until 1991) was on good terms with both the West and the East. After the Cold War and the disintegration of Yugoslavia, unlike other Central and Eastern European states, Serbia strengthened its political and economic relationship with both. Russian and Chinese political support to Serbia during the 1990s military conflicts in the former Yugoslavia prevented many Western actions against it within the United Nations Security Council, and the NATO bombing was executed without the Security Council's authorisation in 1999. Most Serbians are grateful to Russia and China for this

past political support, and also for present support: both countries refuse to recognise Kosovo, a former Serbian province that unilaterally seceded in 2008.

The “special” character of Serbia’s relations with Russia and China has been formalised through bilateral agreements on strategic partnership: in 2009, with China, and in 2013, with Russia. The significance of these strategic partnerships is mostly symbolic, primarily showing goodwill towards economic cooperation on both sides. China and Russia are not Serbia’s only “strategic partners”; France and Italy are on the same list. Serbian politicians have also showed enthusiasm for developing strategic partnerships with Turkey and Germany, but no formal agreements have been signed.

Serbia’s strategic partnerships with China and Russia are not as important as cooperation with other regions. The EU is by far Serbia’s most important economic partner, accounting for two thirds of the country’s total imports and exports. Russia and China are, however, important in terms of their exports to Serbia. Russia has a share of 10.2 percent of total Serbian imports, but only 7.6 percent of Serbian exports go to Russia. In recent years, natural gas made up 70–80 percent of imports from Russia. Direct imports from China (that is, excluding international companies’ goods produced in China) amounted to \$1.5 billion in 2015, which made China the fourth-biggest importer to Serbia, while Serbia’s exports to China were worth only \$12.2 million in that year. China is thus 43rd on the list of Serbia’s export destinations, and there are no real possibilities for improvement in the future.

Nevertheless, the “special relations” with Russia and China have great importance for a small country like Serbia, which has managed, unlike its neighbours in the region, to become a strategic partner of two big and powerful countries. In times of economic crisis, diversification of economic cooperation is essential, and Serbia feels that its relationship with Russia and China is a move in the right direction.

The biggest specificity of Serbia’s strategic relations is the coexistence of special relations with Russia and China and its EU integration perspective. All Serbian governments in recent years have insisted that their goal of EU accession is not incompatible with good relations with Russia and China. Several years ago, former Serbian President Boris Tadic dubbed the approach a “four-pillar Serbian foreign policy”, with the pillars being the EU, the United States, Russia, and China. None of the four has so far objected in principle to this formula, and public opinion in Serbia is strongly in favour of this

differentiated approach. The key question, however, is whether or rather for how long will Serbia be able to balance between the West and the East without compromising its main goal of joining the EU.

Serbia's desire to be a kind of "liaison" between the East and the West not only is overambitious, but also has already encountered powerful challenges. As an official candidate for EU membership, Serbia is obliged to gradually align its foreign and security policies with the Union, particularly since accession negotiations were opened in January 2014. Serbia's turn towards being a "militarily neutral" country in 2007 might not be a crucial obstacle here: several EU member states are neutral, too. However, its military cooperation with Russia has caused suspicion and criticism in the EU. In 2013, Serbia received observer status at the Parliamentary Assembly of the Russian-led Collective Security Treaty Organization. In 2014 and 2015, Serbia held several military exercises with Russia, in the context of radically worsened relations between Russia and the West, following Russia's involvement in the Ukrainian crisis. The Serbian government did not follow the West in imposing sanctions against Russia and, additionally, it irritated many in the West by courting Russian President Vladimir Putin at the military parade in Belgrade in October 2014.

Even so, the Serbian army has much stronger ties with NATO and has held many military exercises with NATO within its Partnership for Peace (PfP) programme, ever since it became a PfP member in 2006. The imbalance in favour of NATO continued to grow in early 2016, when Serbia ratified the two-year-old Status of Forces Agreement with the alliance, which allows free NATO transport through Serbia's territory and immunity for its personnel. Russia's efforts since 2014 to conclude a similar type of agreement, guaranteeing diplomatic status and immunity for its personnel in the Russian-Serbian Humanitarian Centre based in Nis, have remained unsuccessful. In the context of renewed NATO interest in the Balkans, Serbia's move has been met with harsh criticism from still marginal but increasingly important pro-Russian political forces in the country, and with an official warning from Moscow that Russia expects Serbia to stick to its proclaimed neutrality.

Economically, ties with Russia are important, not only because of Serbia's almost complete dependence on imports of natural gas from Russia, but also because of the bilateral free trade agreement signed in 2000, which was later extended to the members of Russia's Customs Union, Belarus

and Kazakhstan. This agreement is expected to expire with Serbia's full integration into the EU. But accession to the EU may be many years away, which is another motive for Serbia, in the meantime, to try to exploit its lucrative relations with Russia while it can.

Serbia, China and the Silk Road

Serbian policymakers think the OBOR initiative should be used mainly for infrastructure investments in railways and roads, which are eventually to become the basis for future growth. Serbia desperately needs China's capital and know-how to improve its infrastructure. There are two main reasons for this: a very poor transport and energy infrastructure that has not been properly renovated for decades, and the lack of necessary investment in this area by its other main partners, the EU and Russia.

Serbia's EU integration path has not helped much in attracting investment or aid for infrastructure from the EU and its member states. Most EU funds have so far been used for other purposes and the prospects for change are not promising. Similarly, several years ago Russia promised an \$800 million credit to Serbia to renovate its railways, but only a small part of this deal has been realised so far. Highly indebted Serbia is not able to invest much from its own funds, which leaves China as the most important actual and future investor in infrastructure, in part through the special €10 billion fund it has created for Central and Eastern European countries. With its central position in the Balkans, Serbia expects to play an important role in the OBOR project, raising the current level of €1.5 billion projects it has with China to €3 billion in the near future.

China is already involved in road-building: it built a bridge in Belgrade in 2014. Two additional projects have been planned but not begun: the construction of parts of the highway between Belgrade and the Montenegrin border, and a new block in the Kostolac thermal power plant near Belgrade.

The OBOR project, however, is supposed to first concentrate on the modernisation of the 350 kilometre-long railway connection between Belgrade and Budapest. The beginning of work on the line has been postponed several times since the signing of the first memorandum of understanding on it between China, Hungary, and Serbia in November 2013. During the last summit of China with Central and Eastern European countries, in November 2015, an additional memorandum was signed, and

the two-and-a-half-year construction project worth €1.1 billion is expected to begin in Serbia in 2016.

Serbian political and economic elites are expecting Chinese infrastructure investments to push new growth in the Serbian economy, but also to lead to Chinese acquisition of Serbian firms and the establishment of Chinese or joint firms in Serbia with the aim of exporting cheaper goods abroad from Serbia. Serbia is also interested in diversifying Chinese investments into textiles, agriculture, and high-tech industries, where Chinese IT giant Huawei has recently made the first successful move in Serbia.

One big project tends to overshadow all the others because of its great significance for the Serbian economy: the long-anticipated acquisition of the Serbian steel mill in Smederevo by the Chinese steel giant HBIS for €46 million in April 2016. To comply with the Stabilisation and Association Agreement it has with the EU, Serbia first had to prove that its total state aid to this enterprise up to February 2015 was not greater than half of the intended Chinese investment.

Negotiations with Chinese counterparts are also under way concerning another potential grand Chinese undertaking in Serbia: the possible acquisition of the metallurgic complex RTB Bor, another formerly important economic pillar of Serbian industry now a bankrupt consumer of state subsidies. At the end of February 2016, Chinese company Li Ten expressed interest in strategic partnership with the big producer of copper and gold for a price between \$350 and 400 million.

While the political class glorifies current and potential cooperation with China, the Serbian business community has been either silent or mildly critical of such opportunities. The main objections are twofold: the low level of engagement of local companies, material, and labour force, and non-transparent tender procedures. It is far from certain, however, that after decades of deindustrialisation and neglect, Serbian companies are ready now to engage on a mass scale in big and complicated projects.

There is a strong consensus in Serbia among all relevant political and economic actors that the country should definitely be part of the OBOR project, and this view is firmly supported by the public. Serbia also contributed an original idea to the OBOR initiative, suggesting the construction – by China or with its

help – of a water canal between the Danube, near Belgrade, and the Aegean Sea, near Thessaloniki. The proposal's downside is its very high cost, and the lack of enough water in the rivers of Morava and Vardar, along which the canal is supposed to be built. No support for the project has been registered in Macedonia and Greece, but one Chinese company financed a favourable feasibility report in 2013 and another showed some interest in 2015.

Serbia, Russia and the EEU

With a predominantly “wait-and-see” approach, Serbian politicians and businessmen for now perceive the EEU only as an opportunity to increase Serbian exports. For this to happen, the Serbian free trade agreement with the Customs Union of Russia, Belarus, and Kazakhstan should be extended to other members of the EEU. However, there are no concrete plans for this yet, despite repeated announcements in the last few years. Everything else in connection with the EEU is reduced completely to bilateral relations with Russia, since the other EEU members are not considered important in Serbia, either politically or economically. For this reason, the level of further Serbian relations with the EEU will mostly depend on Russia's attitude. If Russia pushes for the formal extension of the free trade area to the EEU, Serbia will have nothing against it, hoping for economic benefits. There are no signs that Russia has such ambitions at the moment, but getting Serbia formally into the EEU orbit might become important for Russia, as a symbol of the EEU's attractiveness to non-members.

Economic deals with Russia leave considerably more freedom for Serbian companies than those with China, because of the free trade regime that Serbia has had with Russia since 2000. Serbian companies are currently hoping that they can replace some Turkish companies in the Russian market (particularly in construction) after the serious deterioration in Russian-Turkish relations in late 2015.

Due to Serbian companies' weak export capabilities (the total share of exports in Serbia's GDP is only 45 percent), venturing into a foreign market, including the Russian one, is anything but easy. Serbian exports to Russia are far below expectations. Exports to Russia have risen four times during the last decade, from only \$225 million in 2005 to \$1,065.1 million in 2013 (yearly imports from Russia have been twice that). But since 2013, they have been decreasing, by 19 percent in 2014 in comparison with the previous year, and then by another 29.7

percent in 2015. Serbia did not follow Western countries in imposing sanctions on Russia in connection with the Ukraine crisis, and so there are no Russian counter-sanctions on Serbia – but even in these favourable circumstances, the offering of Serbian exporters is far below the needs of the big Russian market. For all these reasons, much higher export volumes to the whole of the EEU or to Russia alone are hardly possible in the near future.

Serbian companies that depend on exports to Russia have, naturally, more vested interests in cooperation. But those currently more oriented to the European and other markets would welcome the opportunity to direct and increase their own exports to the EEU. So there are no divergent interests within the business community at the present time of crisis: every export destination is good, including Russia and possibly the EEU.

While it would favour increasing exports to one more regional grouping, most of the Serbian business community is not at all enthusiastic about Serbia taking formal membership in the EEU, since this would derail Serbia from its EU integration path and put an end to the economic benefits offered by Europe.

Although many Serbian politicians – including some from the incumbent government – speak emotionally and enthusiastically about Russia, those in power have never explicitly suggested EEU membership for the country. And both Serbian Prime Minister Aleksandar Vucic and Foreign Minister Ivica Dacic have explicitly denied any possibility that Serbia will become an EEU member.

Occasional public demands for Serbia's formal membership in the EEU come, instead, from fringe political parties and nationalist organisations. Although marginal, this phenomenon carries additional political weight because Russia is very popular among Serbs, and Russia has also intensified its information campaign towards Serbia and inside it. According to all recent Serbian public opinion polls, Russia is the most popular country of all. A more detailed look at the polls reveals, however, that most people have equal interest in Serbia's EU membership as in good relations with Russia. This means that, while Serbian citizens have clear pro-Russian sympathies, they fall short of the desire for Serbia to join the EEU.

The EEU is not a frequent topic in Serbian media but, in the last year or so, pro-Russian organisations in Serbia have been more active in demanding Serbian inclusion in the EEU. At least some of these initiatives seem to have been

sponsored by Russia itself, which feels it has fertile ground for intensifying its influence in the Balkans, primarily through Serbia.

The parties of the ruling coalition of the Serbian Progressive Party (*Srpska napredna stranka*, SNS) share some of these sentiments, although they still officially support EU integration. A more vocal pro-Russian stance in public is to be expected after the snap parliamentary elections in April 2016, which will result in a number of parliamentary seats for nationalistic, anti-European, and extremely Russophile political parties from the opposition, who were not represented in the Serbian legislature after the last two elections in 2012 and 2014.

Serbia's complete energy dependence on Russia will continue to play a prominent role in the agendas and priorities of every Serbian government. The present one, although it consists of former staunch nationalists and former unreserved pro-Russians (turned Europeans just a few years ago), has lately been trying to secure alternative sources for its gas imports, including through cooperation with the US. This came as a result of Russia's cancellation of the South Stream gas pipeline in late 2014, which left Serbia in a kind of energy security limbo.

Conclusion

Serbia expects to gain important economic benefits from both the OBOR initiative and the EEU. While the Silk Road might possibly bring much-needed infrastructure investments, the EEU could potentially lead to bigger exports through the extension of the free trade regime with Russia to other EEU members, and to strengthened energy security too. Judging by the results so far, it is not certain that Serbia, with its economy in deep crisis, will be capable of making use of its favourable political and economic opportunities and of meeting current inflated expectations.

Serbia is currently walking a very fine line between an obvious need to cooperate closely with China and Russia, and to continue successfully its accession to the EU – proclaimed as the country's highest priority. Strong feelings for Russia within both the population and the ruling parties will remain the main challenge, especially because of Russia's increasing efforts to step up its influence in Serbia and through Serbia further into the Balkans.

Whether the scale will turn more towards Russia during the years of Serbia's rapprochement to the EU depends not only on the political and economic situation in Serbia itself, but also on relations between the West and Russia, and on EU policy towards Serbia.

Recommendations for the EU

1. The EU must systematically address all the economic, political, and security challenges stemming from the rising influence of Russia and China in the Western Balkans. China's OBOR and Russia's EEU are new forms through which this influence can further grow, turning these countries into powerful competitors in the region. In order for Western Balkan countries to remain in the EU's orbit as the key condition for a united, secure, and prosperous Europe, the EU should further include them into its transport and energy policies and funds. The EU should also step up its information campaign within the region, showing more directly the unique advantages of further EU integration for the region.
2. The EU should welcome China's and Russia's investments in the Balkans, as long as they contribute to the improvement of infrastructure and to the overcoming of the serious economic crisis in the region – tasks for which the EU cannot provide enough support at the moment. The EU should, however, insist that Western Balkan governments include as many EU rules and standards in Chinese and Russian projects in the region as possible, in order for them to be EU-compatible, which was not the case in the now-defunct South Stream gas pipeline.
3. Countering Russian propaganda in the Western Balkans should also be higher on the EU agenda, particularly in countries such as Serbia, where deep pro-Russian feelings among the citizens and politicians coupled with growing Russian ambitions and pressures could derail the country from EU integration. Serbian media and non-governmental organisations should get much more aid from the EU for this purpose.

Selim Koru & Timur Kaymaz
Turkey

5

It has become a cliché to speak about Turkey as a “bridge between East and West”. The country was indeed part of the historical Silk Road, and many of the country’s settlements were founded along the route, roughly 35 kilometres apart from each other – a day’s distance by caravan during the road’s heyday. But the Silk Road collapsed six centuries ago, and the 10 million shipping containers travelling from China to Europe are, today, almost all transported via maritime routes. The shift from a land route to a maritime route represented a huge change for East–West trade, and it may be changing again.

China’s One Belt, One Road (OBOR) and Russia’s Eurasian Economic Union (EEU) are both initiatives that are designed to create common spaces for trade and investment in Asia. In that sense, each project could create a trading network in Central Asia that links East and West via Turkey, fulfilling once more the country’s former economic role as a “bridge” nation. Turkey is well poised for the task – it already has the largest fleet of articulated lorries in Europe, modern highways, active ports, one of the most important air travel hubs in Europe, and a fast-developing railway network. Ankara is now tracking these projects with an eye to widening its logistical outreach. OBOR especially is the subject of great interest in Ankara’s ministries, even if levels of public awareness about both OBOR and the EEU initiatives remain limited.

Turkish stakeholders, both public and private, see potential in OBOR and the EEU on three fronts. First, Turkey’s transportation infrastructure is being upgraded to enhance internal East–West connectivity. Becoming a key player in these trade networks would make it easier for Turkey to tap into relevant development banks and funds to finance Turkish infrastructure projects.

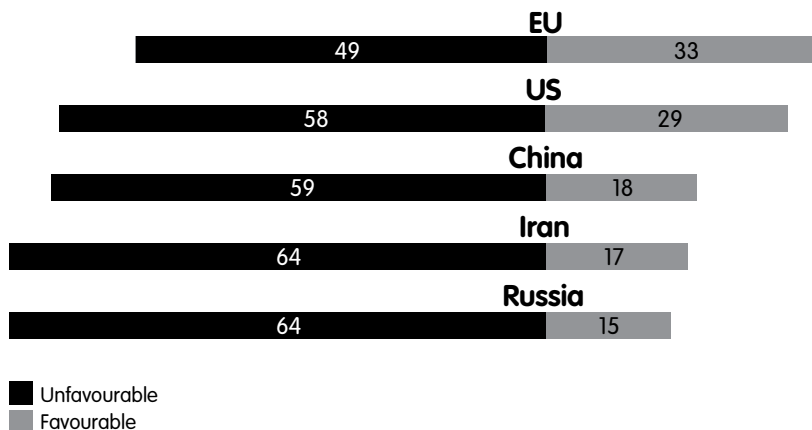
Second, in order to accelerate its economic transformation and escape the middle-income trap, Turkey must diversify its exports away from the already satiated EU and low-tech MENA markets, and increase its presence in emerging Asia. Third, both initiatives could recast the geopolitical balance in the region, and Turkey wants to be on firm footing in its political relations with both China and Russia.

Diplomatic history

The modern history of Turkey–China relations is relatively uncontroversial. Both countries went through anti-imperialist struggles in the first part of the twentieth century. They were on opposing sides of the Korean War, after which Turkey became a NATO ally and China turned inward to focus on reforms. In 1971, Turkey adopted the One-China policy and recognised the Beijing government. The debate in parliament at the time was between those who wanted to recognise China for the economic benefits of the relationship, and those who were ideologically opposed to the idea of working with “Red China”. These two poles of opinion are still intact, but the economic incentive to cooperate is prevailing over political obstacles. This is why, despite the Ministry of Foreign Affairs coordinating the government’s OBOR activities, their approach is largely economic in focus.

Turkey’s relations with the former Soviet countries has also gradually strengthened over the past few decades. As the former Soviet Republics of Central Asia gained independence in the 1990s, the Turkish business community was eager to secure contracts and begin investing in them. Business lobbyists in Ankara at the time pitched ideas to various ministries, but were turned back due to political considerations. Their hopes for the region, however, were well-placed. Turkish firms, especially those in construction, now have a strong presence in the region. Turkey’s relations with post-Soviet Russia have been on an even keel, and in 2008 the country became Turkey’s top trading partner, due to Turkey’s increasing imports of natural gas. More recently, however, the two countries have been on opposing sides of the Syrian civil war. While Russia has supported the Damascus regime, Turkey has supported the rebels, and tensions gave way to a crisis in November 2015 when Turkey shot down a Russian jet that violated its airspace. Russia has subsequently placed strategic sanctions on selected Turkish exports, expelled Turkish companies, reinstated visa requirements for Turkish citizens, blocked Russian tour operators from organising trips to

Turkish public opinion towards foreign powers (2015)



Source: PEW Research Center, Spring 2015, Global Attitudes Survey

Turkey's Mediterranean coastline, and taken several more punitive measures. Turkey has refrained from responding in kind, and hopes to come to an understanding with Russia without deepening the crisis.

Turkish public opinion towards China and Russia is in keeping with the generally mistrustful mindset of the country's population, which has been born out of uneasy relations with great powers ever since the defeat of the Ottoman Empire in the First World War. At the end of that war, the allied forces all but liquidated the Empire, with the Treaty of Sèvres in 1920. A group of Ottoman officers then launched a war against the occupying powers and went on to establish the Republic of Turkey we know today. This period in history remains deeply embedded in the Turkish psyche, and manifests in strong distrust of great powers.

The so-called Sèvres Syndrome is in full effect against Russia and China, even if the latter does not have a strong imprint in Turkish historical consciousness. Both countries are great powers that are not shy when it comes to exerting their will through considerable military and intelligence capabilities. Both have Turkic minorities – the Crimean Tatars and Uighur – whom considerable parts of the Turkish public see as their oppressed brethren. And while the mistrust Turks feel towards the United States and

EU is somewhat mitigated by those countries' cultural clout in Turkey, few Turks know anything about Russian and Chinese culture. China has recently kicked up its public diplomacy efforts, however, involving new branches of the Confucius Institute, Turkish-language publications, and academic exchange programmes. In time, these efforts may trickle down to broader strata of society. For now, the public perception of the Eurasian mammoths is negative in Turkey.

Why look East?

Turkish officials are eager to operate within an Asian context. The widespread feeling in Ankara is that both political and economic relations with Europe, though always vital for Turkey, have come to maturation. The bureaucracy's perception is that the country is unlikely to join the EU any time soon, nor is there much room to improve upon relations with the US, which is more strategic and carries with it fewer regional issues with Turkey, such as visa regimes or trade.

Asia, on the other hand, is virgin territory for Turkey. Turkish decision-makers like to point out that OBOR coincides with the broader geopolitical goals that Turkey would have pursued either way. According to officials, the overwhelming majority of Turkey's €27 billion of trade with China goes through the port of Rotterdam. Aside from the obvious economic inefficiency of this route, Turkish officials feel that it is a symbol of undue western influence over South–South relations. They see OBOR as a way of forming direct links to fellow developing countries.

Meanwhile, Turkey is developing a comprehensive Asia policy. Analysts, government officials, and the private sector strongly reject the notion that Turkey would prioritise one of the initiatives over the other or choose a side between Russia and China. They believe that Turkey can and should balance the two powers whenever necessary, and believe, in theory, that OBOR and the EEU will eventually complement each other. The recent crisis with Russia, however, has prompted them to shift their energy to focus on OBOR.

Trade

Officials see Asian markets as a critical component in the effort to meet Turkey's export targets. A cursory glance at the country's export numbers shows why. Turkey's emphasis on the Middle East and North Africa (MENA) in the past decade boosted its commercial relations with that region. The share of Turkey's exports to MENA as a proportion of the country's total exports rose from 9.8 percent in 2000 to 24.6 percent in 2014, while the share of exports to the EU-28 declined from 57.6 percent to 43.4 percent. While these two regions currently make up about 70 percent of Turkey's total exports, the country's exports to emerging Asian markets lag significantly behind. Turkish officials state that if Turkey is to come anywhere close to achieving its ambitious 2023 targets of €25,000 per capita and €500 billion in exports, trade relations with Asia, home to the world's fastest-growing middle class, will have to improve rapidly.

The single most important barrier to expanding Turkey's trade with Asia via land routes is the lack of connectivity. In 2014, 280,000 trucks carried goods from Turkey to the Caucasus and Central Asia. Of this number, 215,000 were headed for Azerbaijan, Georgia, and Iran, whereas the remaining goods were transported to Turkmenistan, Uzbekistan, Tajikistan, Afghanistan, Kazakhstan, Kyrgyzstan, and Russia.¹ The data shows zero trucks carrying goods between Turkey and China, primarily due to the lack of any Land Transport Agreement between the two countries.² Furthermore, Turkey's trade ties with Central Asia are heavily dependent on one mode of transportation – roads. In 2014, out of Turkey's €400 billion of total trade, only €2 billion worth of goods were transported via rail. Trucks might be a viable way to trade with Europe, the Balkans, and the Middle East, but not with the vast landmass of Asia. "It's like taking a taxi from Ankara to Beijing", one expert said. The cost of trucking is prohibitively high over such a vast distance, making efficient railroad connections a necessity.

1 International Transporters Association (UND), 2015, authors' calculation.

2 The framework for a Land Transport Agreement for Turkey and China was initialled in 2015. This agreement would be the first of its kind that China would sign with any country. The full agreement is expected to take effect by 2018.

Turkey's logistical priorities

There are currently three routes through which Turkish trucks connect to Central Asian markets: the northern route through Russia, the trans-Caspian central corridor, and the southern route through Iran. According to figures from the Turkish Ministry of Foreign Affairs, in 2014, about 80 percent of Turkish trucks took the southern route, with Russia getting slightly more than 10 percent, and the rest taking the trans-Caspian route. There were, and have since been, serious problems with all three of these routes.

The “Southern Corridor” puts Turkey at the mercy of Iran, which is yet to prove its potential as a reliable trade partner. Turkish officials also point out that trucks at the Gürbulak customs post, Turkey's primary crossing point to Iran, experienced a 25 kilometre-long queue over the holiday period in 2015. During the research period for this piece, the queue remained fixed at around 12 kilometres on the Turkish side and six kilometres on the Iranian side. Iranian officials have also imposed taxes on Turkish trucks' fuel costs, despite repeated agreements that these restrictions will be lifted by both sides, the latest of which took place in January 2015. Turkey's railway line to Tehran also needs serious upgrades and will, at this point, not be able to take the kind of stress OBOR would require, according to experts. These problems could be overcome with the influx of investments into Iran after the lifting of sanctions, but Turkish officials aren't holding out much hope that longstanding political issues will be resolved any time soon. Nobody who was interviewed for this piece on the Turkish side – in the bureaucracy, the private sector, or academia – believes that Iran is currently a reliable partner for broadening Turkey's outreach to Asia.

Turkish officials strongly favour what they call the “Central Corridor”, which starts in Xinjiang province in China, goes through Kazakhstan and into Turkey via Azerbaijan and Georgia. They point out that this route would be relatively simple to construct, since Kazakhstan is capable of creating the “soft infrastructure”, meaning logistical and bureaucratic links that the operation would require. The Caspian states are already part of Turkey's logistical infrastructure, and Turkey would merely have to widen the already-present routes for this new route to be operational. Turkish freight forwarders state that the Russian crisis provided the necessary impetus for Turkish politicians lobbying to streamline the Caspian crossing. Since November 2015, the number of RORO ships operating from Baku to Aktau and Turkmenbashi increased, while costs for both routes significantly decreased. During this

time, round-trip costs for a truck between Baku and Aktau decreased from €3,380 to €2,100, and for Baku–Turkmenbashi from €2,150 to €1,700.³ Still, the crossing clearly requires significant investment to become viable in the medium term. One actor that is hard to predict is Russia, because the Kremlin sees the Caspian as its backyard, and some say that a shift in the trade routes would require Russia’s blessing to go ahead. Whether this is the case and, if so, whether it can happen, given the current crisis in Turkish–Russian relations, is unclear.

The “blue” Silk Road is also a complicated game for Turkey. Europe currently uses the port of Rotterdam as its main hub, where ships traverse the Cape of Good Hope around South Africa, which takes about 60 days. The newly expanded Suez Canal is an important alternative that will shorten that time significantly. The state-owned China Ocean Shipping Company’s (COSCO) purchase of the port of Piraeus rang alarm bells in Ankara because it would significantly divert the traffic on the Mediterranean towards Greece. The Syriza government in Athens at first blocked the privatisation deal, but it went through in April 2016.

This likely means that Greece will provide Turkey with serious competition to be the naval hub of the Mediterranean Silk Road. The Chinese were eyeing up Çandarlı Port in the northern Aegean Sea, which would become one of the top ten largest ports in the world once finished, but are reported to have hesitated due to political uncertainties and the lack of a structured, bureaucratic approach to logistical planning. However, China Merchants Holdings and COSCO recently paid over \$900 million to purchase the majority of shares of Fina Liman from Fina Holding, an investment holding company that owns Kumport in Istanbul with an annual capacity of 1.7 million twenty-foot containers (TEU). Like the land connections, developments on the “blue” Silk Road are still in their early stages, and it remains to be seen to what extent Turkey will be able to realise its ambitions.

Turkey’s infrastructure projects

Infrastructure investments are a vital part of Turkey’s development strategy. The country’s Tenth Development Plan (2014–2018), the Regional Development National Strategy (2014–2023), and the 2023 Vision documents attribute great importance to enhancing the transportation network of the country for

3 Figures as reported by International Transporters Association (UND).

both people and goods. Currently, there are numerous “mega” infrastructure projects at the construction or design stage, such as the third airport to Istanbul, the third Bosphorus Bridge, the bridge over the Dardanelles, and under-sea passages for trains and other cargo across the Marmara Sea.

Experts argue that the planned projects will require a great deal of foreign investment. One of the most salient examples is the trans-Bosphorus Edirne–Kars fast railway line that spans over 2,000 kilometres. This will then link up to the Kars–Tbilisi–Baku line, which is under construction, constituting the backbone of the Europe–Caspian transportation network. Each kilometre of this railway line is reported to cost \$35 million. Even building the north-east Anatolian stretch between Sivas and Kars would cost roughly \$35 billion. Government officials stress that they would approach all sources of potential financing for this project equally and enthusiastically.

The Uighur issue

The recurrent topic when talking about OBOR in Ankara is the issue of the Uighur people. The Turkic minority in China’s Xinjiang province is ethnically close to Turkey. The Chinese government has been said to restrict cultural and religious rights of the group, and Uighur individuals have committed bloody terrorist acts in major Chinese cities. The Chinese government is highly sensitive about the issue and is concerned about Turkish activists protesting against its alleged treatment of the Uighur.

Reported repressions during the month of Ramadan in 2015 caused riots in front of the Chinese embassy in Turkey, where a mob burned Chinese flags. Nationalist groups have also assaulted Korean and other Asian tourists in Turkey because they mistook them for being Chinese. The feeling appears to be mutual in China. There is often speculation, especially in the wake of Uighur terrorist attacks, that Turkey is supporting Uighur groups in order to destabilise Beijing. Experts believe that this is why China put little emphasis on Turkey and its OBOR plans when the strategy was initially announced in 2013.

But the tide seems to have turned with President Recep Tayyip Erdoğan’s recent Beijing visit. When the Uighur issue heated up in Turkey in late 2014 and early 2015, Erdoğan intervened directly. He dispatched reporters to Xinjiang to counter reports that Uighur culture was under threat. Erdoğan then went on a visit to Beijing in July and expressed Turkey’s unequivocal support in “combating terrorism”, meaning that Turkey would cooperate with

China on counterterrorist measures.

Bureaucrats seem comfortable that the political class will continue to maintain the tone that Erdoğan has set. They argue, and China experts in Turkey largely agree, that the Uighur are free to practise their cultural and religious rights. Some are sympathetic to Turks who are worried about the Uighur way of life, but argue that there is no room for sentimentality in state policies. They caution against emotional reactions in the short term and point out that Xinjiang province, as China's gateway to the Silk Road, is sure to benefit from the investments to come. In this sense, they argue, Turkey's kinship with the Uighur could be an asset in the long run, rather than a liability.

Political concerns regarding the EEU

Turkey is not a former Soviet country, and its accession to the EEU is, at this point, not on the agenda. Officials point out that the issue is new and that there is no department in charge of coordinating matters relating to the EEU, and refrain from commenting on it at length. It is, however, fair to assume that bilateral relations with Russia will be the determining factor for Turkey's relations with the EEU. If relations should remain in a state of crisis, and the EEU deepens as an economic union, it might put Turkish exporters and investors in Central Asia in a difficult position. But if the EEU should deepen, it would almost certainly give Russia increased leverage over Turkey's economic activity and thereby further restrict the country's foreign policy choices.

Recommendations for the EU

There are a few things European policymakers can do to cooperate with Turkey's economic policy towards Central Asia. They can encourage investment in Turkey's efforts to be complementary to, rather than a substitute for, current trade routes. Effective communication with Turkey on this issue could conserve much energy. One way of doing this would be to prioritise the Central Corridor over the Northern and Southern Corridors. This would have the dual function of building confidence in the Southern Caucasus and decrease reliance on Russia and Iran.

In the short to medium term, EU leaders should also look into ways they can facilitate the start of scheduled freight trains between Turkey and the EU. They should emphasise container/freight over passenger traffic. Turkish institutions such as BALO (Büyük Anadolu Logistics Organization) have some

recent experience on this issue that could be expanded to other areas.

On a larger scale, European countries could also share know-how with Turkey in the establishment of regional Trade Facilitation Bodies (TFBs) in Central Asia and the Southern Caucasus within the framework of the World Trade Organization (WTO). Integrating Europe's experience in forming coherent business groups into such mechanisms would greatly facilitate the development of "soft infrastructure" (i.e. streamlining of trade rules and functioning of border crossings) in the region.

Lastly, European leaders should make sure to continue the "interconnectivity" agenda of the Chinese G20 presidency throughout Germany's 2017 G20 presidency, with a special emphasis on the OBOR initiative. It should utilise and empower both the 2016 G20 troika of Turkey, China, and India, as well as the 2017 G20 troika of China, Germany, and India, to push for "hard infrastructure" investments and "soft infrastructure" convergence along the OBOR routes.

Ukraine does not yet participate in China's Silk Road initiative (One Belt, One Road – OBOR) and did not agree to become member of the Russian-led Eurasian Economic Union (EEU), thus, its prospects for membership in either project are unclear. The EEU project is much more familiar and comprehensible to Ukraine, given the country's common border with Russia and Belarus, which are members, and its Soviet/Commonwealth of Independent States (CIS) experience. However, it is currently pointless to debate EEU membership in Kyiv in light of Russia's war against Ukraine. On the other hand, the OBOR initiative seems economically and financially important to Ukraine. But there is little understanding of the initiative, and this, combined with a lack of vision, seems to undermine the significance of the New Silk Road for the Ukrainian political and business elite.

The New Silk Road

Ukraine sees the OBOR initiative as a possible means towards improving infrastructure in various areas, from roads and energy projects to agriculture technology, such as grain storage and processing facilities and irrigation systems. Although there is limited knowledge in Ukraine about the OBOR initiative, stakeholders in Kyiv would like to attract investment from China.

Given the current challenges faced by Ukraine's economy and the 10 percent drop in GDP that it experienced in 2015, the need for investment is urgent.¹ Some funds are available from the European Union, the United States, and Japan, but not enough to cover Ukrainian needs. Moreover, in the absence of Russia - the traditional source for loans - Ukraine is not in a position to be picky, despite the fact that it did not like China's support for Russia during the annexation of Crimea.

In 2013, during President Viktor Yanukovich's visit to Beijing, Ukraine declared its intention to join the OBOR initiative. At the time, China was quite often discussed within certain political circles in Ukraine. The focus on China was not necessarily the result of a special interest in the country; rather, it was the effect of Yanukovich's international isolation. The president's visit secured Chinese commitments for investments in Ukraine, but these were postponed after the annexation of Crimea. Despite Ukraine's declared interest in China, there was no serious follow-up.

Today, lack of consistency on the part of Ukraine's authorities is preventing the development of concrete projects with China. Meetings between Chinese and Ukrainian representatives do not go beyond general statements and concrete projects are rarely discussed: in fact, an intergovernmental commission scheduled for September 2015 has been postponed several times, because the parties are not able to set an agenda involving concrete projects. This means that Ukraine's relations with China are kept within the traditional framework of bilateral trade, which has experienced significant growth. For instance, Ukraine has become the biggest corn exporter to China, overtaking even the US, the traditional number one exporter – and beyond corn, “since the 2014 Russian annexation of Crimea, Ukraine has increased its agricultural trade with China by 56 percent”.²

Despite increasing levels of trade between the two countries, the OBOR initiative remains generally unknown among the business community, except by a very few players who are directly involved in certain cooperation bodies, such as the Joint Ukrainian-Chinese Business Council. The “anonymity” of OBOR is driven by a lack of research and feasibility studies that could explain the opportunities provided by the initiative to the business community.

1 “World Bank: Ukraine's economy contracted by 10%, 1% increase expected in 2016”, *112 TV*, 1 April 2016, available at <http://112.international/ukraine-top-news/world-bank-ukraines-economy-contracted-by-10-1-increase-expected-in-2016-3702.html>.

2 Samuel Ramani, “Hey, Putin, have you seen how much China is investing in Ukraine?”, the *Washington Post*, 24 July 2015, available at <https://www.washingtonpost.com/blogs/monkey-cage/wp/2015/07/24/hey-putin-have-you-seen-how-much-china-is-investing-in-ukraine/>.

Moreover, there is almost no information about the OBOR project in the public sphere. With some minor exceptions, all knowledge and communication is concentrated in official channels such as the Chinese Embassy in Kyiv, the Ukrainian Embassy in Beijing, and intergovernmental bodies.

The experience of cooperation between Ukraine and China has not always been positive. In the past, failed projects have included the construction of the “air express” railway between Boryspil International Airport and Kyiv, and a project on affordable (social) housing, which was abandoned. The annexation of Crimea and the war in the Donbas also caused China to lose major projects involving the irrigation of agricultural land and the construction of a combined-cycle power plant. The government had launched a pilot project with China on the reconstruction of mining infrastructure and the introduction of Chinese coal gasification technologies in Lysychansk, in the Donbas area. Today these mines are located in contested areas that the Ukrainian constitutional authorities do not have full control over. This means that it is impossible to continue with the implementation of these projects.

Other projects were agreed during Yanukovich’s visit to China: the former president even convinced Beijing to commit to a multi-billion-dollar investment deal aimed mainly at Crimea. As in the Donbas, the annexation of Crimea means that the projects have been put on hold and might be relocated to other areas such as Odessa or Mykolaiv Oblast that are under Ukrainian control, should the parties reaffirm their claims of support.

Some investment from China is still taking place through credit lines opened by state banks, but these are unknown to the public and do not have a visible impact. This might be because all of these projects are state-driven, and private business is poorly connected.

The legal issues between the two countries make things even more complex. In February 2014, China took Ukraine to the London Court of International Arbitration claiming damages amounting to \$3 billion because, it said, Ukraine had broken the rules on which credit was offered. In 2013, Ukraine received \$1.5 billion for the supply of grain which it did not deliver, and Ukraine pledged to purchase Chinese goods with another \$1.5 billion, which it did not do. After the lawsuit, Ukraine and China entered into negotiations, and the results have not yet been made public.

Officials and think-tankers see potential political risks in joining the Chinese

project. Would Ukraine have to be more loyal to Chinese ideas if it were to join the project and receive funds from China? On the one hand, China could offer political incentives that would be appealing for Ukraine: Beijing could provide support at the United Nations Security Council on the issue of Crimea and on opposition to Russian aggression. However, it would be unlikely to do so, since the Kremlin's relations with Beijing are significantly more developed than Ukraine's, and more important to China. Moreover, China widely accepts Russian supremacy in the CIS region. The joint statement of the Russian and Chinese presidents during their 2010 meeting says: "The Chinese side reaffirmed its support for Russia's efforts to protect its fundamental interests, and promote regional peace and stability in the Caucasus region and in the CIS."³

Despite the primacy of Russia in the CIS, one country, Kazakhstan, has a very well-developed relationship with China. Kazakhstan plays an important role in Ukraine's relationship with China. It is seen in Kyiv as a gateway to China, given the special relations between Astana and Beijing, and Astana functions as a sort of interpreter between Kyiv and Beijing, given that it understands both countries well. Meanwhile, for Kazakhstan, Ukraine could become the gateway to the EU, in light of the advanced and special relationship between Kyiv and Brussels. President Petro Poroshenko's recent visit to Kazakhstan and his discussion there on the OBOR initiative illustrates Astana's central role. Some think that if China contributed the same level of investment in Ukraine as it has in Kazakhstan, Russia's aggressive behaviour in Ukraine would have been less likely.⁴

The EU could also help Ukraine to benefit from its relationship with China. To increase efficiencies in Ukraine, China is prepared to combine its efforts with the EU, in particular in rebuilding Ukrainian infrastructure and assisting with the process of reforms, as stated in the remarks of European Council President Donald Tusk after the EU–China Summit in June 2015.⁵ And Ukraine's trust in Brussels is relatively high. Therefore, including Ukraine in the EU–China dialogue could lead to Ukraine being better integrated in the trade routes and projects between the EU and China. A good comparison is the trilateral negotiations on gas supply between the EU, Russia, and Ukraine, where the EU has helped Ukraine to make arrangements for further gas supply.

3 "Sovmestnoe zayavlenie Rossiiskoi Federatsii i Kitaiskoi Narodnoi Respubliki o vsestoronnem uglublenii rossiisko-kitaiskikh otnoshenii partnerstva i strategicheskogo vzaimodeistviya", the Kremlin, 27 September 2010, available at <http://kremlin.ru/supplement/719>.

4 Interviews conducted for this study.

5 Interviews conducted for this study.

In some cases, the EU has indirectly helped Ukraine to get more out of cooperation with China. For example, the Chinese market for Ukrainian milk products was opened as a result of Ukraine harmonising its food legislation with the EU's requirements.⁶ Another reason why Kyiv is becoming more interesting to China is Ukraine's Association Agreement with the EU and the Deep and Comprehensive Free Trade Area (DCFTA). Unlike the EEU, the OBOR initiative does not require exclusive membership – on the contrary, overlapping economic projects that complement each other seem to be very welcome.

Some of the missed opportunities for cooperation with China to date are down to Ukraine's poor road and maritime infrastructure, which require serious investment. Many routes connecting China and the EU transit through Belarus. However, Ukraine has many more EU neighbours than Belarus does, and represents the shortest route connecting the EU with China. If Ukraine's infrastructure were better, it would be a preferred transit country. Ukrainian officials are fully aware of their infrastructure problem. During President Poroshenko's visit to Kazakhstan, the broadening of transport infrastructure for transporting cargo from Asia to Europe across Kazakhstan and Ukraine was one of the issues explicitly mentioned.⁷

Goods in transit from China to Ukraine have traditionally passed through Kazakhstan and Russia. However, in 2015, Russia banned the transit of Ukrainian goods through its territory, which forced Kyiv to begin thinking about alternatives. Help in finding a solution came from Turkey, which has been subject to Russian sanctions since 28 November 2015. On that day, China, Kazakhstan, Georgia, Azerbaijan, and Turkey signed an agreement on the creation of a consortium for transporting goods from China to Europe without transiting Russia. The agreement created the Trans-Caspian transport route.

After Georgia sent the first train on the New Silk Road in January 2016, Ukraine made its first practical step. In a test run, Kyiv sent a freight train to China using the route from Ukraine through Georgia, Azerbaijan, and Kazakhstan, reaching the border with China in Dostyk, on Kazakhstan's border with China's Xinjiang province. It took 16 days for the freight train to reach the Chinese border, instead of the anticipated 11 days. The route is not simple because trains must travel across the Black Sea and Caspian

6 Katerina Onul, "Shlyakh u Kitai cherez EC – shans dlya ukrains'kikh virobnykiv", *Evropeis'ka Pravda*, 29 October 2015, available at <http://www.eurointegration.com.ua/experts/2015/10/29/7039966/>.

7 "Poroshenko kicks off Kazakhstan visit, meets PM", *Unian Information Agency*, 8 October 2015, available at <http://www.unian.info/politics/1147380-poroshenko-kicks-off-kaakhstan-visit-meets-pm.html>.

Sea on ferries (at Illichivsk-Batumi and Alat-Aktau Port), something which requires extra logistical effort. In comparison, goods from (East) China reach Hamburg through Russia within 14 days, bypassing Kazakhstan and costing significantly less.⁸ Transportation through Russia costs half of Ukraine's test freight train: about \$3,900 for one container, compared to the \$5,559 officially reported by Ukraine, or \$7,950, which experts assess as the real "all-in" cost. On account of the cost efficiencies that routes through Russia offer, the Ukrainian train was stationed in Dostyk for one month, and returned to Ukraine empty.

Politically, the experiment was successful, but from an economic point of view, the route is not yet competitive, since Chinese logistics companies can still transport goods more cheaply and efficiently through Russia. Ukraine's route by-passing Russia also goes to the north-west of China, which is not a major region for imports and economic activity. If Ukraine cannot encourage greater use of the route and reduce the time of transit and the cost, it is likely that it will remain little more than a public relations exercise. Ukraine needs to join the Trans-Caspian agreement in order to benefit from a single tariff, which would reduce the price and time of transit.

If the project is to be made fully operational and sustainable, it needs to attract the participation of countries from the region. Ukrainian officials say there is interest from Poland, Hungary, Slovakia, and others. Experts also say that other countries such as the Baltic states, Finland, and Austria could be interested.

Creating better transit routes could allow Ukraine to use the New Silk Road to build security of supply and diversify, especially in energy, by using the road to transport oil and liquefied gas from Azerbaijan. Ukraine is also hoping that oil- and gas-rich Turkmenistan will also join the project.

However, Ukraine still needs to become an attractive destination for the transit routes and for other EU member states. What Ukraine is doing now serves the interests of Ukrainian exporters, but does not make it an attractive transit location. China would likely consider Romania and Bulgaria a better option for sending goods to the EU, given that the shipment would be going directly into the EU. Also, non-transparent practices and customs procedures in Ukraine discourage transit through the country. This is not to mention the acute infrastructure problems Ukraine faces. If Ukraine can make itself attractive to China it could stand to benefit significantly from the

OBOR initiative, which has a \$40 billion fund allocated for infrastructure improvements. Discussions on funding infrastructure projects are already taking place within the Ukraine–China Commission.

The EEU

Unlike OBOR, the EEU's chances of succeeding in Ukraine are almost non-existent. In Ukraine, the Russian-led project is considered a purely political one, created to ensure the incorporation of Ukraine. Most experts believe that joining the EEU would be the same as losing independence.⁹ Moreover, political support for the EEU right now (and most likely for the next seven to ten years) would be considered political suicide. No serious political party supports the EEU. Even the Russian loyalist party Opposition Bloc does not speak out for the idea, while public support for the EEU has dropped from around 37 percent in 2013 to 15 percent in 2016.¹⁰

Before the war, Russian-owned and Russian-loyal media tried to influence public opinion in favour of the EEU (then called the Customs Union), but this strategy is no longer applied. Certain serious media and political figures, broadly perceived as Russia's voice in Ukraine, such as Viktor Medvedchuk, are now focused on criticising the EU integration process and the "horrors" that await Ukraine after the implementation of the DCFTA with the EU.¹¹ The plan is to create a negative public opinion about the EU and only later to promote integration into the EEU. Medvedchuk has also been criticising and mocking the Ukrainian test freight train to China, which is a sign of Russia's distaste for the project.

In a de facto state of war with Russia, Ukrainian businesses cannot influence Kyiv's policy towards the EEU. Ukraine has already started to implement the Association Agreement with the EU and, as of 1 January 2016, it has been implementing its economic component, the DCFTA. Certainly, some businesses in Ukraine have different ideas about the EEU (for which, read Russia). But the oligarchs' business interests are not generally taken into account in setting policy, with some minor exceptions. Business that was traditionally tied to the Russian market and business created from Russian investments are suffering because of the Russian ban and the sanctions imposed by the Ukrainian authorities. According to the State Statistics Service of Ukraine, in

9 Interviews conducted for this study.

10 "Dynamics of socio-political attitudes in Ukraine: March 2016", Rating Group Ukraine, 15 April 2016, available at http://ratinggroup.ua/en/research/ukraine/dinamika_obschestvenno-politicheskikh_vzglyadov_v_ukraine_mart_2016.html.

11 "Medvedchuk rasskazal, kakie uzhasy zhduet Ukrainu posle togo, kak zarabotaet Zona svobodnoi trgovli s EC", *Glavkom*, 3 November 2015, available at <http://glavkom.ua/news/337540.html>.

the first seven months of 2015, Ukraine's exports to Russia dropped by 58.7 percent and imports from Russia fell by 61.5 percent compared to the same period in the previous year.¹² Also, exports from Ukraine to Russia made up 12.7 percent of Ukraine's total exports in 2015, while in January–February of 2016, Ukraine's exports to Russia were 7.9 percent of total exports.¹³

The EEU's inability to dictate policy has brought some benefits to Ukraine. Russia wanted the EEU to impose trade bans against Ukraine, but the effort failed, because Belarus and Kazakhstan did not support the trade bans. This showed that Russia cannot always use the EEU in its own interest. Moreover, the fact that Ukraine's relations with Belarus and Kazakhstan have not suffered from their membership in the EEU shows that the EEU is nothing more than a project for harnessing political power.

Political incentives for Ukraine to join the EEU could include the potential return of Crimea and the potential of Kyiv to gain control once more of the regions in eastern Ukraine, along with stopping the war in the Donbas. Russia could also offer cheaper energy resources and loans. However, none of these incentives are realistic. Russia will not give back Crimea or the territories in eastern Ukraine. Ukraine has paid too high a price for its European choice for Russia to roll over on any of these issues. Even before the conflict in the East began, Ukraine was not willing to join the Russian-led project because it thought that it would undermine the independence of Ukraine, and would be unlikely to result in substantial economic development.¹⁴

As Ukraine is not going to join the EEU in the foreseeable future, and the disputes with Russia over the DCFTA continue, the EU needs to ensure that it participates in the dialogue between Russia and Ukraine. The trilateral consultations that were held on the occasion of the implementation of the DCFTA were negatively perceived in Ukraine, but in fact proved to be useful. The main result for Ukraine was not to resolve the trade disputes between Ukraine and Russia (which would have been impossible, since the reasons are political), but to demonstrate that Russia's opposition to the DCFTA is not based on economic arguments.

Ukraine's position is unlikely to change in the medium term, despite the difficulties

12 "Ukraina za 7 mes. sokratila eksport tovarov v RF na 58.7%, import – na 61.5%", *RBK Ukraina*, 16 September 2015, available at <http://www.rbc.ua/rus/news/ukraina-mes-sokratila-eksport-tovarov-rf-1442413492.html>.

13 "Kitaj yavlyaetsya liderom po ob'em u eksportyx gruzoperevozok iz Ukrainy", *FDLX.COM*, 19 April 2016, available at <http://fdlx.com/business-ukraine/50876-kitaj-yavlyaetsya-liderom-po-obemu-eksportnyx-gruzoperevozok-iz-ukrainy.html>.

14 Arkady Moshes, "Will Ukraine Join (and Save) the Eurasian Customs Union?", *PONARS Eurasia*, April 2013, available at <http://www.ponarseurasia.org/memo/will-ukraine-join-and-save-eurasian-customs-union>.

that Kyiv is experiencing on its integration path with the EU. The negative result in the Netherlands' referendum on the Association Agreement is seen in Ukraine as a domestic problem of the EU, intended by its opponents to weaken the EU rather than having much to do with Ukraine. This was explained quite well in Ukraine and therefore there is, as yet, no real sense of disappointment about the EU that might lead it to somehow look differently at the Russian-led EEU.

At the crossroads of the EU, the EEU, and the New Silk Road, Ukraine has an opportunity to diversify its trade and consolidate relations with the EU, China, and potentially in the medium term, with Russia. However, Kyiv finds it difficult to manage these processes. Ukraine wants to be integrated with the EU, but the EU is not willing to grant this yet, and Kyiv is not ready. Ukraine could integrate into the EEU but it is not willing to do so. However, Ukraine could, and is willing, to benefit from OBOR, it just doesn't understand how to.

Recommendations for the EU

1. The EU is an important player in relations between Ukraine and China, and including Kyiv in the dialogue between Brussels and Beijing, as happened during the EU–China summit, might lead to better integration of Ukraine in the trade routes and projects between the EU and China.
2. The deepening relations between Kyiv and Brussels have a spill-over effect on Ukraine's trade with China, such as, for instance, Ukrainian milk being accepted in the Chinese market as a result of harmonisation of food legislation with EU requirements. This process should be extended to other goods, with the support of the EU.
3. Ways to use the DCFTA to boost trade between China and the EU by involving Ukraine should be explored. But for this, Ukraine needs to make sure that its infrastructure has the capacity to make this possible.
4. Joining the EEU is seen as a step towards losing independence and, in the current context, the promotion of the idea would be political suicide, not only because of Russian aggression in Ukraine but also because it is not seen as a project that could bring substantial economic development. However, Kyiv has to consider trade and economic issues if the opportunity does become viable at some point. In this context, the involvement of the EU is crucial, as was evidenced by the trilateral talks on gas supplies and on the implementation of the DCFTA.

Annex

EU instruments

The Eurasian landmass is currently subject to two major integration initiatives: China's "One Belt, One Road" (OBOR) and the Russian-led Eurasian Economic Union (EEU). These initiatives have emerged and taken shape in a relatively short period of time, and target, in a broad sense, all countries in Central Asia, the Caucasus, and Eastern Europe. At the same time, the European Union has various policies, instruments, and tools that guide its relations with the countries in these regions. With the EU's major foreign policy tools under revision – the European Neighbourhood Policy (ENP) and the Global Strategy – it is a good moment to ask what Europe's interests are in the neighbourhood it shares with Russia and China, and what resources it has to hand. What are Europe's choices in an environment where it is not the only game in town, and where it may have diverging interests, and limited resources to pursue them?

The EU has developed varying relations with the countries of Eurasia, depending on geographical proximity and its interests. Some are candidates for membership and subject to its enlargement policies (i.e. Turkey and Serbia), some are part of the ENP and the Eastern Partnership (Azerbaijan and Ukraine), others are part of Europe's Central Asia strategy (Kazakhstan), and a fourth category is EU member states. The EU has diverse interests in these different sets of countries, and, because of the dynamics vis-à-vis Russia and Syria, these change quite rapidly. The variation in EU policies towards the countries covered by our case studies (see below) points to the need to reassess the existing tools, and potentially work on a more coherent approach towards the countries targeted by the EEU and OBOR. The EU has no policy yet towards the EEU, but has made more progress towards a common approach to OBOR via the new Connectivity Platform with China.

The EU assists Eurasia through various policies and instruments, whose financial volume is larger than Russia's assistance to the region, but smaller

than what China has announced it will invest through OBOR.

Between 2007 and 2013, the EU spent €13.4 billion on the ENP through its European Neighbourhood and Partnership Instrument (ENPI), of which €3.9 billion went to the Eastern Partnership. After the European Commission proposed in 2011 to increase ENP funding to €18.2 billion, the EU agreed to spend €15.4 billion, through its newly created European Neighbourhood Instrument (ENI), to finance the Southern and Eastern Partnerships between 2014 and 2020. From 2007 to 2013, the EU budget for bilateral and regional cooperation in Central Asia was €675 million, which increased to €1.028 billion for 2014 to 2020.

In terms of its enlargement policies, the EU spent €11.5 billion on its Instrument for Pre-accession Assistance (IPA) from 2007 to 2013, and its successor, the IPA-II, has a budget of €11.7 billion for 2014–2020. However, Russian and Chinese investments are directly targeted to single countries, while the EU takes issue-based bilateral and multilateral approaches.

The EU has allocated around €82.2 billion for 2014–2020 through nine funding instruments, seven of which are related to countries in Eurasia. These are:

1. The European Instrument for Democracy and Human Rights (EIDHR), with a budget of €1.3 billion.
2. The Instrument contributing to Stability and Peace (IcSP), with a budget of €2.3 billion.
3. The Partnership Instrument, with a budget of €954 million.
4. The Instrument for Nuclear Safety Cooperation (INSC), with a budget of €225 million.
5. The Development Cooperation Instrument (DCI), with a budget of €19.6 billion.
6. The European Neighbourhood Instrument (ENI), with a budget of €15.4 billion.
7. The Instrument for Pre-accession Assistance II (IPA-II), with a budget of €11.7 billion.

Only the Instrument for Greenland (IFG) and the European Development Fund (EDF) do not contribute to projects in the Eurasian landmass. The budget allocated to projects with Central Asia falls within ENI, and amounts to €1.028 billion.

The objectives of the instruments are highly diverse, as are the needs of the target countries. This is why it is key for the EU to establish common rules and principles with the China- and Russia-led projects.

Trade figures

Trade between the EU28 and the case study countries (for Greece, intra-EU trade)

Trade in goods (€bn)	Total trade				Trade balance				Trade growth		
	2011	2012	2013	2014	2011	2012	2013	2014	2012	2013	2014
KAZ	28.9	31.5	31.4	30.7	-16.9	-17.6	-16.4	-17.1	9%	-0.3%	-2.2%
AZER	18.4	17.3	18.1	16.7	-12.6	-11.3	-10.6	-9.7	-6.3%	4.6%	-8.4%
UKR	36.4	38.5	37.8	30.7	6.1	9.2	10.0	3.3	5.8%	-1.8%	-23%
SERB	14.3	14.7	16.5	17.5	3.9	4.6	3.3	3.2	2.7%	12%	6.1%
TURK	122.1	124.2	128.2	129	24.4	26.6	26.9	20.3	1.7%	3.2%	0.6%
GRE	36.2	33.8	33.4	34.3	12.1	10.2	9.3	9.9	-7.1%	-1.2%	2.7%

Sources: European Commission, *for Greece, Trade Map

Trade between Russia and the case study countries

Trade in goods (\$bn)	Total trade				Trade balance				Trade growth		
	2011	2012	2013	2014	2011	2012	2013	2014	2012	2013	2014
KAZ	21.1	23.3	22.9	21.0	7.3	5.5	11.5	6.7	10%	-1.7%	-9%
AZER	2.8	3.4	3.5	2.6	1.6	2.2	2.3	1.7	21%	2.9%	-35%
UKR	38.1	32.8	31	22.1	-1.9	-3.2	-0.6	0.6	-16%	-5.8%	-40%
SERB	1.4	1.4	1.5	1.6	0.4	0.6	0.7	-0.6	0%	7.1%	6.6%
TURK	21.5	22.9	22.4	21.4	8.7	9.3	7.8	8.1	6.5%	-2.2%	-4.6%
GRE	4.1	5.3	5.6	3.5	3.9	4.1	4.4	2.5	29%	5.6%	-60%

Sources: UN Comtrade

Trade between China and case study countries

Trade in goods (\$bn)	Total trade				Trade balance				Trade growth		
	2011	2012	2013	2014	2011	2012	2013	2014	2012	2013	2014
KAZ	24.9	25.7	28.6	22.5	-5.7	-3.7	-3.6	3.0	3.2%	11%	-27%
AZER	1.1	1.3	1.1	0.9	0.7	0.9	0.6	0.4	18%	-18%	-17%
UKR	10.4	10.3	11.1	8.6	3.8	4.3	4.5	1.6	-0.1%	7.8%	-29%
SERB	0.5	0.5	0.6	0.5	0.3	0.3	0.3	0.4	11%	20%	-24%
TURK	18.7	19.1	22.2	23	12.5	12.1	13.2	15.6	2.1%	16%	3.6%
GRE	4.3	4.0	3.6	4.5	3.5	3.5	2.8	3.8	-7.5%	-11%	25%

Sources: UN Comtrade

Foreign direct investment (FDI) from the EU28 into the case study countries (for Greece, intra-EU investment)

FDI (€bn)	2012		2013		2012		2013	
	Inflows	Balance	Inflows	Balance	EU stocks	Balance	EU stocks	Balance
KAZ	N/A	N/A	-1.9	-5.1	N/A	N/A	51.2	35.6
AZER	N/A	N/A	-11.8	-11.6	N/A	N/A	5.1	4.8
UKR	N/A	N/A	2.4	2.2	24.7	23.2	27.1	26.6
SERB	-0.9	-0.7	2.1	2.1	12.3	12.2	18.1	18.3
TURK	6.9	4.6	0.9	-1.6	65.5	55.9	57.6	50.4
GRE	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Sources: Eurostat/DG TRADE

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“Absorb and conquer: An EU approach to Russian and Chinese integration in Eurasia” is an ambitious undertaking, seeking to scope out the three major integration projects in the vast Eurasian landmass, based on research in six case-study countries, eight EU member states, and numerous round-table discussions and study trips to Beijing, Brussels and Moscow. While China is actively promoting a revival of the Silk Road, the longest historical trade route and Russia the Eurasian Economic Union, Europe’s approach is a mix of ambition and modesty, conditionality and transactional relations. In the core of our research is the attempt to define the role the EU could play in Eurasia.

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