

GEO-ECONOMICS OF EURASIA: A VIEW FROM EUROPE

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«A power that dominates Eurasia would control two of the world's three most advanced and economically productive regions. Eurasia is thus the chessboard on which the struggle for global primacy continues to be played».¹

DEFINING EURASIA

While originally Eurasia has been a geographic concept denoting the landmass of Asia and Europe, it is often used as a geopolitical concept reflecting different national interests with regard to this huge landmass. From a Western European perspective, Eurasia is generally used to describing Russia as both a European and an Asian country at the same time. Therefore Eurasia is also described as the link between Europe and Asia. Culturally it stands for values that are different to European or Western ones. At the same time, Kazakhstan views itself as a Eurasian country and uses this term as a geopolitical and identity-establishing concept. In this context Kazakhstan adapts and promotes itself as a bridge between Europe and Asia.

Today's EU-member states are not thinking about Eurasia as such, but about Europe and Asia as separate entities. The EU as a regional union is mapping the world into regions and develops its policies towards other regions and areas even if they do not share a common identity. Additionally, Brussels builds regions more or less successfully: it has for example successfully established the Baltic Sea area as a region whereas this has not really been the case for the Black Sea area.² This is different to Russia, which prefers bilateral relations

with other big powers than creating regions as such. Even if we are observing in the Russian policy the building of an Eurasian Economic Union, the bilateral relations with the participating states are more important than the multilateral framework.

The renaissance of Eurasia is linked to globalization and growing economic interdependence. Emerging security challenges, global economic competition and demand for economic growth often need regional answers. For instance China's economic activities in Eurasia in the context of the Silk Road project have shifted attention to the region. At the same time, growing security risks are spreading in this region from the conflict zones of Afghanistan-Pakistan and Syria-Iraq as well as a number of weak states in the region, which are not able to create economic welfare. These security challenges threaten China, Russia, and the EU at the same time.

Central Asia is in the very heart of Eurasia. It is another region where the EU has tried to combine bilateral with multilateral approaches but with limited success. Regional identity in the region is weakly developed, and the Central Asian states are mainly interested in exclusive bilateral relations with international partners while Kazakhstan sees itself as the regional leader. The EU's core concept for its external relations is organized in concentric circles reaching at its outermost

point Central Asia. Because Central Asian states are not direct neighbors of the EU, they — like Russia — are described as "neighbors of the neighbors".³ The conflict with Russia over Ukraine shows that the EU has ignored the geopolitical implications of its neighborhood policy and the interests and impact of other states in this particular region.

Michael Emmerson has coined the term "greater Eurasia", which includes Europe, Russia, Central Asia as well as Asia.⁴ He also poses the question whether China is part of Eurasia. Using this term in such a comprehensive way may help to understand how Eurasia can link different regions, and how it can play a role in developing economic cooperation and solving regional problems. However, by including so many different countries in the definition of Eurasia the concept becomes so broad that it loses all meaning. In this essay, I therefore define Eurasia in a more traditional way placing Russia and Central Asia at its core.

The focus of this paper will thus lie on the Central Asian states. In the context of this publication, I will address the different views and activities of the EU, Russia, and China in this region. All three are part of this regional concept and try to shape Eurasia in their own way. However, the main aim of this paper is to analyze the European view on the opportunities and challenges which are linked to Eurasia.

DIFFERENT CONCEPTS OF DEVELOPING EURASIA

The EU, Russia, and China have different interests, strategies, and concepts towards Eurasia. For the EU Eurasia is not a relevant concept as such since it mainly focuses on cooperation in the context of its Central Asian strategy, which aims at stabilizing the region, building up platforms for economic and security cooperation, as well as exporting

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the EU's norms and standards. Russia, in the context of the Eurasian Economic Union (EEU), approaches Eurasia with a mixed policy of assertive cooperation and integration where Russia sets the rules and acts as the regional hegemon. With the EEU Moscow tries to dominate the partner countries and isolate them from outside influences. China seeks to penetrate the region with its Silk Road Economic Belt project, which is vague and very flexible at the same time, opening up several channels for other countries to cooperate or participate. One could therefore argue, that while China's Silk Road project like the EU's Central Asia cooperation in the region are inclusive and open to multilateral cooperation, Russia's policy in the region is exclusive while pushing other powers from the region away.

The question of who is setting the rules has always been the key to any form of cooperation and integration. China, on the one hand, sets no clear rules, as it is very flexible. It mainly has business interests and does not ask political questions while it promotes a narrative that every interested party can join the project with its business interests. Neither China nor Russia ask questions on human rights or governance structures, which, on the other hand, are the main focus of EU policy. For Moscow and Beijing informal rules and deals are part of their policy, which also entail comprehensive corruption not as an exception but as their attribute of the political and economic system.

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bureaucratic standards. While Russia pushes integration in the EEU partly modeling its efforts on the experience of the European Union, opaque and informal rules still trump formal rules and Russia prefers establishing bilateral relations with its partner countries rather than pursuing a multilateral approach. What we can observe when looking at the growing Chinese engagement in Eurasia in the context of its Silk Road project is a shift from geopolitics to geo-economics from which everybody could benefit economically. Political and security questions are secondary while the focus lies on economic cooperation and profits for the Chinese economy and domestic labor market.

The policies of Chinese and Russian leadership in the region are mainly driven by domestic calculations while for the EU this is much less the case. China aims to push its domestic labor market especially in the economically underdeveloped Western regions and economic growth through financing huge infrastructure project in Eurasia. Russia has developed the EEU and its policy in Central Asia in the last year with the goal to protect its sphere of influence and shield traditional markets from outside influence. That means the Kremlins activities are also about stability and public support in both countries. This is not the case with the EU, as Central Asia is not an important market for the EU and the whole region is of marginal importance for European decision makers and societies.

THE EU'S CENTRAL ASIAN STRATEGY

In Central Asia the EU and its policy face a gap between ambition and reality. The Central Asian strategy developed by Brussels in 2007 created expectations for increased investment, cooperation and the EU's growing role in the region.⁵ The priority areas defined in 2007 were very broad and included human rights rule of law, youth and education, trade and investment, energy and transport, environment and water management, as well as common security threats and challenges. In the period between 2007 and 2013, the EU

allocated a budget of 750 million euros to Central Asian states, which set limits for engagement. In February 2012 Germany and Kazakhstan signed a raw materials partnership, which again raised high expectations, but also only led to a very limited outcome.⁶

The EU's policy towards Central Asia should thus be viewed more as a developmental approach rather than an investment-driven policy. At the same time, the focus of Brussels's regional strategy lies mainly on Kazakhstan, which accounts for two thirds of the EU's trade with the region.

Central Asia is not a priority for EU member states since they do not share common interests in the region and lack the will, as well as the relevant resources, to compete with China or Russia. At the same time, Russia and especially China are important trade partners and thus lie at the heart of the EU's policy. The EU's foreign and regional policy is still underdeveloped, many elements of the neighborhood policy in particular stem from the EU's enlargement policy of the 2000s. EU policy in the region focuses on the following main areas: crisis management (local conflicts, rule of law, and good governance), security (Afghanistan, terrorism, fighting drug trafficking), development and infrastructure (water management, environment protection, transport), and resources.

With the International Security Assistance Force (ISAF) operation in Afghanistan, Central Asia became one of the main links for transporting troops and military equipment to the country. As a result, the EU's focus shifted to security issues in the region with Afghanistan as its focal point. With the withdrawal of ISAF this priority is again changing and returning to more traditional topics of regional cooperation, the rule of law, development and infrastructure issue. However, this does not mean that the regional security challenges after ISAF's withdrawal have been solved. In contrast, the security pressure on Central Asian states and the whole of Eurasia will only continue to grow in the next years.

As a result, the EU is an observer rather than a player in Eurasia and Central Asia. The focus of the EU and its key member states including Germany is on China and Russia. While Brussels has more or less ignored both Russia-led Customs Union and the EEU project for a couple of years, the EEU is now, in the context of the Ukrainian crisis, seen through the lens of engaging with Russia.⁷ Belarus and Kazakhstan are viewed as countries that can help foster cooperation



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with Russia on the Ukrainian crisis rather than focusing on developing economic relations in the region. Even if the EEU is developing more as a geopolitical than economic project, it still creates an economic reality, which is relevant for the EU's economic relations with the member states of the EEU. Consequently it would make sense to develop economic relations with the EEU on a technical level rather than to upgrade this institution as an instrument to engage with Russia in other fields, especially in regard to solving the Ukrainian crisis.⁸

GEOPOLITICS VERSUS GEO-ECONOMICS

EU's focus with regard to its economic interests in the wider-Eurasian region is China, because it is much more important as a trade partner for the EU member states than Russia or Central Asian countries. At the moment China is the second biggest trade partner for the EU after USA (followed by Russia) and the EU is the biggest trade partner for China (as well as for Russia). In the context of the rise of China, the discussion on who sets the rules in the global economy in the future is crucial. The USA are still the most important global economic power but competition with China will further grow. In this context we observe an increasing conflict of EU member states with the US on the participation in the new China-led Asian Infrastructure Investment Bank because it challenges US dominated international financial institutions such as the World Bank and IMF, and could weaken the transatlantic partnership. Many EU members have an interest to be part of this Chinese project because it represents the key region of global growth and promise for investment opportunities.

The rise of China will also challenge the EU's economic role in the world, which leads to an increasing competition about standards and rules. In this context the Transatlantic Trade and Investment Partnership (TTIP) is seen as an important tool to set the future international standards together with the US. At the same time TTIP is discussed as a political project, strengthening transatlantic relations, particularly in trade and

investment, and as a common binding project for the EU and the US. Furthermore TTIP is also discussed as a powerful instrument to respond to the growing Chinese influence in the global economy and maybe the last chance to set the rules for the world economy in the context of the transatlantic relations for the next decades. But there is also an increasing skepticism among European societies about this agreement, which would become a compromise between EU and US standards. In this context TTIP is also an example for the growing split between the US and the EU. The negotiation process will have a strong influence on the future of the transatlantic relations.

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With regard to Central Asia, the US has more or less withdrawn from the region. The US led New Silk Road project is somehow forgotten and was first of all focused on integrating Afghanistan into the region. Contrary to the Russian and Chinese concept, the US government promoted a North-South transit and trade route instead of an East-West link. With the US withdrawal from Afghanistan and the shift of attention to Iraq, Syria, Iran, this initiative is not a priority anymore.

For the EU it is difficult to deal with political systems, which are not democratic. The member states are split on the question whether the EU should follow more a value-oriented policy or an interest-oriented economic policy. This weakens the EU's role in Eurasia. Therefore in Central Asia we observe a two-track approach of the EU. EU institutions are responsible for political relations and the difficult questions on rule of law, democratic standards and human right, while member states prefer to do business without asking the difficult questions.

WHAT ARE THE STRENGTHS OF EURASIA FROM THE EU PERSPECTIVE?

Basically the European interests in Eurasia are limited and focused on the EU's neighbors. The EU is still a weak foreign policy player and limits its foreign policy either to interactions with immediate neighbors or to promoting economic interests of its member states. Russia is a direct neighbor and an important trade partner

of the EU but Central Asian states are not. Economically this region is interesting because of its natural resources. At the same time there is competition with Russia and China in the region, whereas the EU is in many terms the weakest player in this “New Great Game”. It is a huge landmass that links Europe with China and Russia as important economic partners. The whole region is often described as a huge empty space, which needs investment in infrastructure and gives access to Russian and Central Asian resources and the Chinese market.

WHAT ARE THE WEAKNESSES OF EURASIA?

Main hindrances for investment and more activities in the region are the underdeveloped infrastructure, authoritarian types of governance, lack of interregional cooperation and a limited market. The small population limits investment attractiveness. A huge weakness from the EU perspective are the authoritarian regimes which stand for a weak legal framework, lack of rule of law, and widespread corruption among a clientelistic economic and political systems. The 2014 corruption perception index of Transparency International lists Kazakhstan in 126th place, Russia and Kyrgyzstan — in 136th, Tadjikistan — in 152nd, Uzbekistan — in 166th, and Turkmenistan — in 169th, out of a total 175 countries.¹⁰ This is a huge hindrance for investment in the region.

The EU prefers to develop its policy and support towards multilateral cooperation in greater regions. Central Asian states have limited interest in regional cooperation and their relationships with neighboring countries are based mainly on conflict and competition. As a result, there is a lack of common standards and cooperation, which makes market access more difficult, and the EU’s approach less successful. The Eurasian Economic Union could change this situation because it would create an area of common standards and regulations. But as long as the EEU is mainly an instrument to create barriers for cooperation and trade of the participating countries with the EU by increasing custom tariffs and introduce new barriers for external trade, this benefit will not become a reality. Russian President Vladimir Putin’s idea to develop a common economic space from Vladivostok to Lisbon has become a project of the remote future, as a result of the current crisis between Russia and the West and the war in Ukraine.¹¹

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WHAT ARE OPPORTUNITIES FOR THE EU IN THE REGION?

The underdeveloped infrastructure in nearly all areas is a huge chance for investment and export of technological know-how by European companies. In this context, the Chinese Silk Road project is often seen as a big chance for investment where European companies can also participate and benefit. Furthermore the improvement of infrastructure in the whole region could give better access to Asia, and particularly the Chinese, market. Economic growth in the region could improve the security situation in the entire region in the long-term. EU member states can supply what the countries of the region need most of all: machinery, technology in many areas, high quality goods. On the other hand, the EU can benefit from the resources of the region. The EU’s policy for Central Asia has the fundamental goal to create stability and growth in the region and to develop regional states into security providers, not security risks.

WHAT ARE THE MAIN THREATS FOR THE REGION?

Seen from a European perspective, the main threats of the region are security risks like terrorism and drug trafficking coming from Afghanistan, Pakistan, and the Arab world into these countries. This is linked to the fact that many countries in Central Asia and the wider region are weak states which are not able to provide security and economic and social demands of their societies. Bad governance, weak economic performance, huge social discrepancies within the countries are typical trends in the region. Growing competition for fundamental resources like water and changing societal dynamics will increase the challenges for local governments and clans. Russia’s deep economic crisis and lack of a sustainable growth model have negative consequences for Central Asian countries. This will weaken any attempt to fight against external and internal

threats and will undermine economic prosperity and investment perspectives. Further more, because of the geopolitical location and the huge extent of resources, the geopolitical competition in the region will grow.

Russia is the main security provider in the region, but at the same time Moscow uses conflicts to secure its influence. The combination of low oil and gas prices, coupled with Western sanctions over the Ukraine crisis and the annexation of Crimea, Russia will have less resources to provide security for the entire region. This will have consequences for the stability in post-Soviet countries, Russia included. China was very successful in the last years increasing its economic influence in many regions of the world including Central Asia, Russia, and the European post-Soviet countries. At the same time, this policy has a weak security pillar. China is not willing to fill the security gap since the US has withdrawn from many regions. Its Silk Road project sounds impressive by numbers and ambitions but does not include answers to the urgent social and security challenges in the different targeted countries and regions even if it can create economic growth and stability in the long run.

Also as the US is focusing on other regions of the world like Asia and the Arab world, Eurasia is of limited importance. Russia and China will not fill this gap and cooperation in the context of the Shanghai Organization or the Russia-led Collective Security Treaty Organization (CSTO) are not able to find adequate answers to the security, social, economic and political challenges of the region. The European Union is preoccupied by its own economic, political, and institutional crisis, which will not be solved in the foreseeable future. That means there are no ambitions and resources to play a key role in Central Asia and its neighborhood in the next years even if the budget for Central Asia has increased to 1.03 billion euros for the period of 2014-2020.¹²

EUROPE AND EURASIA — FUTURE PROSPECTS

According to the Council conclusions on the EU Strategy for Central Asia from June 2015, the EU will strengthen its trade and energy links with Central Asian countries in the next years and improve cooperation on security and stability in the region.¹³ The EU has all the instruments to support good governance, rule of law, human rights, capacity building

in public administration, and promote sustainable economic and social development in the region. These are preconditions to stabilize the region, improve security, and achieve prosperity. But Brussels is not able or willing to expand its activities to have more impact in the region. On the other hand this policy stands in opposition to many interests of the local elites and in direct competition with Moscow’s policy. Particularly, Russia has a much greater interest in the region than the EU and can manipulate it with its policy approaches. While the EU should not ignore Russia’s role in the region and follow a cooperative approach, it should more extensively explore the common interests with China and possibilities to cooperate in the region.

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