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China and Russia Lay Foundation for Massive Economic Cooperation

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In the past decade, Beijing and Moscow have been more competitors than partners. But that relationship may now be changing as Russian and Chinese leaders are considering combining

their two countries' regional economic projects — the Eurasian Economic Union and the Silk Road Economic Belt, respectively.

While meeting at a two-day summit of the Shanghai Cooperation Organization in Ufa, Russia, Russian President Vladimir Putin and Chinese President Xi Jinping are reportedly discussing a framework that would merge China's multi-billion dollar network of roads, railways, and pipelines through Central Asia with the Eurasian Union, the post-Soviet economic bloc that includes Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia. The two projects would be combined under the auspices of the Shanghai Cooperation Organization, and if the proposal is completed, it would make the opaque organization the preeminent economic body from Shanghai to St. Petersburg.

“For the first time there is a working group on this topic and at the moment the merger of the two projects seems feasible,” Alexander Gabuev, senior associate and the chair of the Russia in the Asia-Pacific program at the Carnegie Moscow Center, told Foreign Policy. The proposal would combine the regulation of the Moscow-led bloc with the deep pockets of China, which has already invested more than \$50 billion in Central Asia. Piggybacking on the Eurasian Union's joint customs space could drastically reduce costs for shipping products from China to Europe, with goods only having to cross one unified tariff zone before entering the European Union.

Formed in 2001 by China, Russia, and four Central Asian countries, the SCO was originally created to settle border disputes between members. Successful in its original task, the bloc has taken many forms in the following years, from development to counterterrorism, but has struggled to play a defining role on any one issue.

Leaders at Ufa approved applications by India and Pakistan to join as full members of the SCO on Friday, and Russia hopes Iran will join after United Nations sanctions on Tehran are lifted. “A reinvigorated SCO fueled by a China-Russia partnership could suddenly make the organization very relevant,” said Luca Anceschi, a Central Asia expert at the University of Glasgow.

State media in both countries are already trumpeting the cooperation proposal and the SCO, with the Chinese state news agency Xinhua calling it a blueprint for “cooperation and prosperity of the whole Eurasian continent.” That marks quite a departure from Moscow and Beijing's previous tug of war over influence in Central Asia.

As Putin has found himself isolated from the West and his economy weakened by sanctions and falling oil prices, the Kremlin has aimed to bolster its relationship with Beijing. Russia's pivot east has come mostly in the form of energy deals, exemplified by a gas deal last year worth more than \$400 billion. Moscow also joined the Beijing-led Asian Infrastructure Investment Bank this year, and is in talks at the Ufa summit to start a new development bank under the SCO, a proposition that Moscow had previously nixed for fear of giving China too much power in its sphere of influence.

But under these new circumstances, Russia is recalibrating its position in Central Asia and other parts of the former Soviet Union. “The Eurasian Union has not been the success Moscow hoped it would be,” said Anceschi. Since coming into effect in January, the bloc has been marred by

trade disputes between Belarus, Kazakhstan, and Russia and has not delivered the economic stimulus promised to its members. “The Kremlin knows that they won’t be able to compete with Chinese investment,” said Anceschi. “Russia simply can’t catch up.”

Russia is instead aiming to retain its influence as the security guarantor in the region, keeping its sway in the region through military bases in Central Asia, arms deals, and the Collective Security Treaty Organization, a security bloc of former Soviet countries. This formula satisfies both China, which is wary of deploying troops beyond its borders, and Central Asian countries used to a Russian military presence.

Despite the roadmap being drawn in Ufa, the agreement still faces major obstacles before coming into effect. According to experts, the Russian leadership is divided on anchoring itself so firmly to China. On one side, pragmatic technocrats within the Russian government view cooperation with China as an economic necessity given Moscow’s falling out with the West, its inability to match Beijing’s deep pockets, and the fact that Russia needs Chinese investment. But the Russian security organs remain wary of how an unimpeded China could erode Russian influence. At least for the moment, the pragmatic camp seems to be winning the argument.