



**ASTANA
CLUB**
2016

REPORT

EURASIA AT A CROSSROADS: A MEGACONTINENT'S FUTURE IN A GLOBALIZED WORLD

CONTENTS

PREFACE	5		
INTRODUCTION	7		
THE WORLD IN 2016: A TURNING POINT	11		
EURASIA FROM THE ENGLISH CHANNEL TO THE SOUTH CHINA SEA: THE KEY EVENTS OF THE YEAR	17		
PEACEFUL ATOM?	20		
SYRIAN DEADLOCK?	21		
WAVE OF TERROR	22		
BREXIT	23		
THE SIGNING OF THE TPP AGREEMENT	24		
TURKISH RALLY	25		
PRESIDENTIAL RACE IN THE UNITED STATES	26		
THE GREAT POWERS IN EURASIA: RIVALS OR PARTNERS?	31		
EURASIA AND THE TURBULENT ERA	32		
THE TRIANGLE: THE U.S.–CHINA–RUSSIA	32		
U.S.–CHINA	33		
U.S.–RUSSIA	34		
RUSSIA–CHINA	35		
REGIONAL POWERS	36		
CENTRAL EURASIA: A GEOPOLITICAL BREAK-UP GAME?	37		
		EURASIA AND NEW TRADE AGREEMENTS: A WEB OF OPPORTUNITIES OR A STRANGLING NET?	39
		TPP: THE AMERICAN APPROACH	40
		RCEP: THE CHINESE APPROACH	41
		BIG EURASIA: RUSSIA’S APPROACH	42
		THE CHOICE FOR CENTRAL ASIA	43
		IN THE DEPTHS OF THE EURASIAN ORES: THE END OF A COMMODITY SUPER-CYCLE?	45
		OIL PRICES: UP THE STAIRCASE THAT LEADS DOWN	46
		CHINESE DRAGON: HOW STABLE IS THE APPETITE FOR RAW MATERIALS?	46
		THE CHOICE OF CENTRAL ASIA	47
		EURASIA’S INFRASTRUCTURE: A CROSSROADS OR DEAD END?	48
		CHINESE SILK ROAD: ARE THERE ANY RESULTS?	48
		CENTRAL ASIA: A DEAD END OR A BRIDGE?	49
		EURASIA’S HUMAN CAPITAL: A SOURCE OF INSTABILITY OR WEALTH?	53
		THE MIDDLE EAST GETS CLOSER: MIGRATION, RADICALIZATION AND CHALLENGES FOR SECULAR COUNTRIES	54
		INDUSTRIALIZATION 4.0: ARE PEOPLE NEEDED?	54
		CONSEQUENCES FOR CENTRAL EURASIA	55
		CONCLUSION	57

PREFACE

The Astana Club gathered for its first meeting in November 2015. At that time the Foundation of the First President of Kazakhstan—the Leader of the Nation set itself a goal to create a platform for peaceful and trustful dialog about the fate of Eurasia—a giant megacontinent, the developments within which define the face and state of things throughout the world. The efforts of the Foundation were actively supported by the leadership of the Republic of Kazakhstan, whose help have made possible the emergence of the Astana Club. More than 40 experts from around the world representing different countries—from global powerhouses to major regional players, attended the event. The viewpoints of key players from Europe, China, Russia and the United States, and, of course, Kazakhstan have been presented in the first analytical report of the Astana Club "Geo-Economics of Eurasia." Three days of in-depth discussions held in a confidential and trusting atmosphere allowed for the detailed discussion of the main development trends in Eurasia.

The past year has shown that the creation of a new platform for dialog in Astana was more than timely. Challenges faced by Eurasia and the world in 2016 require a discussion that is based on trust and mutual respect, a desire to find compromise, and honest recognition of the problems and challenges. This has been the concept of Kazakhstan's approach to foreign policy issues consistently pursued by President Nursultan Nazarbayev for many years, allowing Astana to act as "an honest broker" in solving many acute problems in international relations.

The world and the entire Eurasian region are entering a period of turbulence caused by the post-crisis restructuring of the global economy, the change of political leaders in many key countries around the world, the formation of new trade associations, changes in global technological structures and the continuation of long-standing global and local conflicts. In the world and in Greater Eurasia a break-up game is being played and the breaking point will be the relationships between the great empires. Against this backdrop, Central Asia is one of the few regions where global and regional players demonstrate a responsible approach. It gives hope that Central Eurasia could become a place where the environment of cooperation and

hope for the opportunity to combine different approaches can spread to the entire megacontinent and serve as a prototype for sustainable global solutions.

All the current challenges faced by Eurasia, and especially those that have arisen over the last year, require honest and responsible discussion. We were therefore delighted that so many participants in the first meeting, as well as other leading experts, have accepted our invitation to gather in Astana this year. One of the Club's most important principles is the ability for its participants to communicate in confidence. We also continue to place great emphasis on analytical work, the reflection of which this year is this report "Eurasia at a Crossroads: a megacontinent's Future in a Globalized World." This report of the Astana Club aims to identify the key aspects of world development and events in the Eurasian megacontinent, and to find ways to transform Eurasia from a place of rivalry between empires and ideologies into a place of harmony and cooperation.

The new report is based on the important research of the Institute of World Economy and Politics under the Foundation of the First President of Kazakhstan—the Leader of the Nation, as well as on interviews with members of the Astana Club. We thank all the experts who participated in this work. Thus, the report that you hold in your hands is the result of a global dialog among experts, and, at the same time, is an invitation to new discussions.

**Executive Director,
the Foundation of the First
President of Kazakhstan—
the Leader of the Nation**

Sagyndyk NURAKHANOV

A handwritten signature in black ink, appearing to read "Sagyndyk N." followed by a period.

INTRODUCTION

A year has passed since the Astana Club's first meeting and many things have happened that could change the course of world history and influence the fate of Eurasia. This period has confirmed the existence of a struggle between two tendencies.

On the one hand, in Eurasia, as well as throughout the world, a break-up game is being played. The familiar stability that characterized the post-war period and the years after the end of the Cold War, is collapsing under the transformation of the world economy, geopolitical rivalry between the great powers coming to a head, the deepening of social conflicts, and the movement of huge masses of people.

On the other hand, the Eurasian macro-region is becoming more interconnected. In the past, trade and the creation of vast empires were the main driving forces, but the factors now uniting the vast continent into a single bloc are more diverse and numerous than ever before and include the strategic military-political and economic interests of countries in the West and the East, the various threats and challenges to security, the intensification of different countries' foreign policy—and not just of the most influential and large countries. All this is changing the design of Eurasia. At the same time, it is the center of the continent—Central Asia—that is becoming a hub for world geopolitics. Just as the region could become the cause of intensifying disagreement and conflict within Eurasia or on a global scale, so too could it become a place that will help great powers find common ground.

**Eurasia is an integral part of the global world.
But what happens on other continents sets the trends
and determines the health of Eurasian countries.**

The restructuring of the world economy, which started after the financial crisis of 2007-2009, is in full swing, and the outlines of a new economic world order are only beginning to emerge. There are many components in this economic restructuring. A new era in energy production which began in the U.S. with the shale revolution is setting certain guidelines for the eco-

nomic policies of different countries, especially those whose well-being is based on energy exports. This trend supports the development of alternative energy. At the same time, the so-called Industrial Revolution 4.0 is gradually changing the face of modern industry, and with it—the usual patterns of the global labor market. Along with the development of medicine and the evolution of social security systems, it will inevitably lead to tectonic shifts in demography.

Erosion of the world trading system that was built in the 2000s around the World Trade Organization (WTO), has led to the emergence of macro-regional trade blocs, such as the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP). On the one hand, emerging alliances are competing for trade and investment flows on a global scale and, on the other, they are increasingly affecting the rules of the game beyond their own borders.

TPP and TTIP will indirectly affect the economic integration in the center of Eurasia, including the work of the Eurasian Economic Union (EAEU). At the same time, powers such as Russia and China are seeking to offer an alternative to the U.S.-led treaties, resulting in projects such as the Economic Partnership for Greater Eurasia and the Comprehensive Regional Economic Partnership.

New transport corridors through the center of Eurasia are capable of connecting the region even closer. A key role is being played here by the Chinese project One Belt - One Road. However, the New Silk Road, supported by the U.S., and the infrastructure initiatives of Eurasian countries, such as Kazakhstan's project Nurlı Zhol, will also play a part. And so all these projects, by connecting the territories, not only stimulate the growth of wealth, but also increase the threat to general security.

The problem of uncontrolled migration, another trend defining the face of modern Eurasia, is closely related to this. It is already on a massive scale, and in the case of unrest in entire regions it is possible to talk of a new Migration Period. As a result

of increased migration and the emergence of new media and communication, the populations of various parts of Eurasia are being increasingly exposed to ideological influences, including those from radical sources, which may be located thousands of kilometers away. The impact on human capital assets in Eurasia is affected by global intellectual competition and the opportunities for finding a niche in the production of new knowledge, no matter where you are in the world.

Finally, many countries in Eurasia are experiencing domestic transformation. Here we are talking about architectural changes within the most powerful integrated unions, as evidenced by the results of the referendum in the UK to cease its membership in the European Union. These events, combined with regional and global trends, set the direction of development for the entire Eurasian mega-region.

Eurasia is, without doubt, the nerve center of global geopolitics and geo-economics. There is no other place on earth where so many countries' interests clash—from the super powers to the regional players.

It's important to note that what is happening in Eurasia is a reflection and part of a complex processes elsewhere. At the same time, one of the most important factors shaping the political and economic reality is decision-makers' and experts' perception of this reality. Perception of the nature of integration within the EAEU or the Chinese project One Belt – One Road, for example, can be diametrically opposed, depending on from which geographical point this or that particular analyst looks at it. Polyphony is one of the most important features in the modern debate on world order. Even more so in this era of social media. Experts living in different parts of the world can discuss issues in a message just 140 characters long in a Twitter post. Moreover, these posts are visible to millions of people who can even contribute to them.

The strategic responses of countries, corporations and military blocks are based on the interpretation of reality which can

be as different as night and day. The greater the polarity of the interpretations, the more important are the platforms and projects that are able to bring people together physically rather than virtually. When experts have time to express their views more fully than in one tweet, there is a high probability that views on the same argument will start to converge, and that the opposite side of the argument will also be heard. The Astana Club was created as a platform for direct conversation between leading experts and thinkers, analyzing the dynamics of development in different countries of Eurasia. This report is an attempt to describe the main trends in the development of Eurasia and the challenges not only to the whole megacontinent, but also to the entire world.

This report is a summary of the discussions that took place at the Astana Club's first meeting, and the work of experts throughout the year.

The report contains the different points of view that were expressed by experts from different countries during discussions. Since the Club adheres to the Chatham House Rule format, quotes from experts' direct and indirect remarks are presented in this report without any reference to the experts' name or their institutional affiliation. As a result, the report contains different views on the same issue, and sometimes the views are completely opposite. This provocative approach is exactly what we intended. Given the status of the Club's experts, their years of experience and involvement in serious discussions at the highest level, this complex and sometimes contradictory picture fully reflects the global debate about the fate of Eurasia and its development trends, which are taking place within the global expert community.

Thus, this report is a guide to the debates on key issues in Eurasia. In addition to summarizing the expert discussions, it contains a description of the latest developments and quantitative information allowing for a better understanding of the context. The analytical part of the report is largely based on

fundamental research materials, conducted by the Institute of World Economy and Politics (IWEP) at the Foundation of the First President of the Republic of Kazakhstan—the Leader of the Nation.

At the same time, the report has an important purpose – from the values standpoint - shared by the Astana Club's members. We aim to find solutions to the problems discussed in the spirit of compromise, in order to achieve a balance in the conflicting aspirations of various players. Eurasia's interest is to be a bridge, not a field for any kind of break-up game.

1. THE WORLD IN 2016: A TURNING POINT

The modern world is at an extremely interesting and at the same time very important stage in its development. The strength of the old well-established concept of the world order is being tested.

The gradual decline in economic growth is impacting many parameters, including oil prices, which affect the well-being of countries that export commodities. This puts restraints on their development, but at the same time stimulates the search for new opportunities.

The main problem is that the current model of global development is generally very unstable. By and large, the global world has exhausted the impetus, which was created at the time of the most significant geopolitical event in recent history—the collapse of the entire world order when former socialist countries began, at various pace, to integrate into the global economy. This geopolitical explosion had huge geo-economic consequences. The potential of the two previously opposing systems—capitalism and socialism—started to merge.

Today, opinion in former socialist countries is that this process is rather more like the absorption of one world into the other. There are also those that believe that it was an extremely hostile takeover, which led to a considerable loss of production capacity in the countries of the former Eastern bloc. At the same time, representatives of the old capitalist countries think this occurrence proves that their system is a more effective model for development. This explains why their economic principles have spread to the former socialist camp.

But in any case it opened up for the old capitalist countries vast new markets across the whole of Eastern Europe and the former Soviet Union. China and Vietnam should be considered separately—here the process of adapting to the external world started earlier.

Experience from the reform of China has demonstrated that much of the potential that existed in former socialist countries was not being used. But there is an exception, in the case of East Germany. The economy of East Germany, which was considered as “developed” by the standards of socialist countries, was simply liquidated by its new owners from West Germany. They thought that the economy was inefficient and could not be reformed. At the same time the needs of the new market were covered by a not so significant expansion of production in West German industries. Between these two extreme sce-

narios are all the other countries of the former socialist camp who survived the adaptation to the open markets

In any case, it was from the beginning of the 1990s that the development of the global economy gained new impetus. At that stage, the process was in the interests of almost all participants. Former socialist countries gained technology, investment and access to financial instruments. Some of them took advantage of the high prices of certain goods, in particular raw materials.

In turn, companies of old capitalist countries gained access to new markets. And that was an important distinction, because for many emergent capitalist countries that came from the world of socialism, the state often remained the main driving vehicle and continued to dominate the economy even under the new conditions. But for old capitalist countries the subjects of economic policy were the companies, large, medium and small.

It is noteworthy that all the regulatory institutions in this new global economy came from the old capitalist economy, and this was clear and understandable. Former capitalist countries provided most of the world's GDP, they had developed the intellectual sphere, and possessed a large majority of the patents on technological products. And not only this. These countries had major law firms, major credit rating agencies, and major capital. And the latter is very important—major capital provided the state with almost unlimited credit. Ever since the Anglo-Dutch wars in the seventeenth century this is how government spending has been financed.

It is also important that Western countries provided demand for products coming from Asian leaders of economic modernization. It is worth reminding that the export-oriented economies in East Asia largely relied on a trade surplus with the U.S. and Western Europe. This was the case with Japan, then South Korea, and today with China and Vietnam.

For the United States a permanent and highly significant trade deficit with modernizing Asian countries does not look like the certainly right decision. U.S. presidential candidate Donald Trump talked about this, raising the question about the price of such a policy for Americans, the loss of jobs and taxes. But it is noteworthy that the U.S. has been a significant promoter of this policy for decades. One may remember the situation with the agreement of the Plaza Hotel in 1985, when Japan agreed to strengthen its currency. Two developments emerged thereafter.

Firstly, the Japanese economy has been in a very challenging condition since. There is practically no growth because the strengthening of the yen reduced the competitiveness of the Japanese economy in the world markets and, above all, in the United States. Secondly, China was developing through the construction of an export-oriented model of economic development.

It is significant that today a defining moment in the relations between China and the U.S. is actually connected with the issue of the trade deficit between the two countries. In particular, Washington insists on the strengthening of the yuan, while Beijing seeks to maintain a trade surplus not only with the U.S., but also with Europe and, on the contrary, wants to weaken the yuan. Among the problems currently facing China, is the task to transition to a model, where economic growth is ensured by domestic demand. This is considered an indicator of the country's development and transition to a new qualitative level. At the same time, such transition leads to an increase in imports and an increase in the level of economic interdependence on a global scale.

In any case, the main result of the globalization of the past 25 years is the increase in total interdependence. For example, China is not only a major exporter, it also imports a lot. In particular, in 2014 the import value of semiconductors alone was \$218 billion and \$21 billion were paid for copyrights. It is clear that payments for the latter is one of the conditions of access to U.S. and European markets.

However, any development, including global, has its limits. Today, many problems are associated with the fact that potential that existed earlier, has been exhausted. The challenge is to determine new ways of future development. And it is not fully clear whether this will be based on the further expansion of globalization and greater unification or on greater trade protectionism and protection of territories. The first can be associated with loss of identity and the second, ultimately, can lead to isolationism.

Obviously, the main question is whether continued globalization requires the major actors to be prepared to make serious concessions? It is important to understand whether the benefits of being part of a global economy outweigh the negatives.

It should be noted that there is another quite obvious pattern of behavior—not to change anything. But the world economy is undoubtedly experiencing great problems and not just because it is difficult to maintain global demand so that it is sufficient to ensure growth. More relevant is the issue of defining the objectives of development of the world economy. Currently, the international community is in a difficult situation due to a lack of ideas for further development. At the same time, criticism of the current state of affairs is constantly increasing. The best example of this is the emergence of Donald Trump as a U.S. presidential candidate.

In connection with this, the question arises about the obvious limits currently facing the global world. It seems that quantitative growth of the world economy is coming to an end. The end of quantitative growth is largely due to a decrease in consumption` which affects demand.

Demand in major markets (U.S., EU, Japan) is practically not growing. Massive stimulation is unsuccessful, though it does not lead to higher inflation. At the same time, the theoretical possibility of rapid growth in domestic consumption in China threatens the emergence of serious imbalances. This may be due to a decrease in China's competitiveness as a result of rising labor costs and the increase in imports. In developing countries or the so-called Third World countries demand is not satisfied. But there are no necessary conditions for its growth and this demand is significantly different from that in developed countries.

As a result, there is a clear imbalance. Capital is increasingly concentrated in developed countries where there is no real use for it, where the population is aging and demand is not growing. Where there is demand, where young people make up a large proportion of the population, there are no conditions for capital growth.

The growth of capital requires certain conditions. With this in mind countries that do not have such conditions must change and evolve to the standards of the developed world. But in response, developing countries can still say that they have contributed to the global economy. They offered their markets and opened them to free trade and in many cases, as a result, they lost domestic production, which proved to be uncompetitive. Or they simply had no chance to create it. Moreover, such a situation was characteristic not only of the Third World countries, but also of many EU countries in Southern and Eastern Europe.

In their own way both sides of this theoretical discussion are correct. Within the global economy, not everyone is competitive, nor can everyone find a niche. And in developed countries they can argue that even though the regulatory rules were universal, certain countries could make their own claims within the framework of these common regulations. For example, the actively modernizing countries of Southeast Asia provided various forms of government support to its banks and industrial companies, and China continues to do so.

The concept of protecting one's own interests during the process of globalization is becoming ever more important. This signals a possible move to political protectionism, the spread of which would mean an end to the era of globalization.

However, the development of globalization in the end caused the leading countries to be dependent on each other. For example, U.S. companies have invested \$6.3 trillion around the world. Today, 500 of the largest corporations receive 40% of their revenue from outside the U.S. In turn, in 2014, China invested \$730 billion around the world and plans to increase this to \$2 trillion.

One big problem is the potential for an upsurge in protectionism in relation to national economies which could lead to a reduction in world trade. Naturally, this would be a blow to all market participants.

At the same time, the main market players do not trust each other. If the market suddenly shrinks, for example, because of problems with economic growth in China, no one wants to be the loser.

There continues to be distrust even between the U.S. and the EU. Some European countries have refused the America's proposal to conclude an agreement on the Transatlantic Trade and Investment Partnership (TTIP). Because this agreement, like the similar Trans-Pacific Partnership (TPP), assumes a high degree of liberalization. Even down to surrendering part of national sovereignty. In Europe, it is often said that TTIP primarily benefits global corporations, almost all of which are American.

But at the same time there is also strong opposition in the U.S. to concepts in TTIP and TPP. U.S. presidential candidate

Donald Trump based his speeches on an isolationist logic—this has manifested itself at this level in the U.S. for the first time in a very long time.

All in all, the world economy is poised between continuing globalization and, therefore, increased integration and an increase in the role of supranational institutions, and the policy of isolationism. And this reveals one main problem: how can global regulations be developed when there are many different parties all organized differently? Or do the different parties need to start fighting for their interests?

For now, the situation is best described as desire to postpone solution until better times. Throughout the world today debt is actively accumulating. For example, U.S. government debt since 2008 has grown from 41% of GDP to 74%. The EU's debt has grown from 47% to 70% and in Japan it has increased from 95% to 126%. Total debt in the world from 2007 to 2014 has increased to \$57 trillion. The debt of Chinese companies exceeded \$16 trillion in 2015. China's total debt—domestic and foreign—reached \$25 trillion or 237% of GDP in 2016.

It is clear that these figures today are not critical for most countries. Especially for the U.S., members of the EU, and possibly China. But the overall trend is obvious. The very ability to create such debt is associated with opportunities of the global economy. But that shows its limits of growth associated with limited demand. Capital does not see prospects, primarily in emerging markets. Although there is present a potentially very significant pent-up demand. At the same time, demand in developed countries is always stagnant. Governmental papers look like the best alternative for these countries. But obviously it cannot continue indefinitely.

In fact, the world is facing a dilemma: globalization versus isolationism. It is worth noting that during the Great Depression (1929-1933) the reason the crisis continued was due to the fact that all the major economic players of the time began to apply protectionism. As a result, world trade decreased, and the economies of individual countries were in a state of prolonged depression. In particular, therefore, during the crisis of 2007-2009, the most important thing was to prevent a fall in world trade.

One of the causes of the 2007-2009 crisis was connected with the lack of liquidity in the world economy. In a period of rapid growth, it was obvious that the economy lacked the resources

to serve the growing needs of everyone. An increase in the price of raw materials led to an increase in the cost of projects. Accordingly, more funds were needed. Rapidly developing countries of the former Third World were executing more and more projects for which funding was needed. The emission of funds from the U.S. and the EU could not provide the world economy with sufficient resources.

As a result, Western financial institutions began to actively use derivative financial instruments. Derivatives allow for a multiple increase in the size of bank funds, which are then used for the issue of loans. And as such, in 2007 the collapse of the derivatives market was the main cause of the crisis and was largely due to the lack of control of Western financial institutions.

At that time the biggest problem was the discrepancy in the size of the global economy and the institutions, including financial, that served it. That is, the world economy had become almost unified, but the rules of the game, and the finances for its existence remained within developed countries.

All this led to the idea that not only the dollar should be replaced as the global reserve currency, but other Western institutions also should to be replaced, including legal institutions, rating agencies and financial institutions. However, despite attempts, it is extremely difficult to realize these ideas.

For example, those dissatisfied with the dominance of the United States would like to see China, being a leading economy in the world, to take on the creation of an alternative economic model. But China is aware of the complexity of this situation and the danger it may pose to the economic stability of the country. Therefore, Beijing is not going to convert the yuan and fully open its financial markets.

In this situation, China believes in the need to continue the old logic of economic development in the global economy. It seeks to raise the level of its competitiveness without changing its fundamental approaches to interaction with the global economy too quickly.

A lot rides on China's chosen strategy of development. It has become a key element in the future of globalization. And it is quite indicative that China is looking for new solutions, one being the development of numerous projects in the center of Eurasia. Implementation of these projects will not only create transport corridors but also generate new demand. This is a good solution until an answer is found to the question of what to do on a global scale. This is also good for the countries of Central Eurasia. They could not only be on the crossroads of trade routes, but also become the new anchor for the development of the world economy.

2. EURASIA FROM THE ENGLISH CHANNEL TO THE SOUTH CHINA SEA: THE KEY EVENTS OF THE YEAR

When describing the different tendencies of the modern development of Eurasia, it is impossible not to look back at the year since the first meeting of the Astana Club. There were so many events between November 2015 and November 2016 that were either shining examples of contemporary trends or served as an indicator of future trends. They showed that processes are accelerating and room for maneuver is shrinking, that challenges are multiplying, and the search for answers does not get any easier.

The lack of clear and precise policy formulae is what characterizes our turbulent times, principles that were previously set in stone, can no longer serve as an absolute guarantee of success. The world is changing, it ceases to be black and white, and it ceases to be unidirectional. There is no good and bad, instead there are just interests and a struggle for their realization. The fact that the world is interdependent is encouraging. But no matter what the political, geopolitical and ideological differences are between countries, in many respects global confrontation is being avoided due to economic interests. The world is still “global,” but isolationist sentiments are becoming increasingly popular.

It was a very interesting year for Eurasia, packed with a multitude of bright and high-profile events. Some of them shook the global community, others gave hope, and yet others raised questions about the future.

The hope, of course, is inspired by the agreement reached on the Iranian nuclear program and the dynamics of the events in Afghanistan. However, the conflict in Syria is still ongoing and the agreements of a cease-fire are often not honored. The important thing is that the negotiations are taking place. Great merit should be given to Russia and the U.S. who even with great difficulties are still negotiating with each other. Moreover, they do so not only for themselves but also for their partners and allies, the tensions between which are often irreconcilable. Therefore, the rhetoric in negotiations between Russia and the United States can be very unyielding, and negotiating positions are often difficult to merge. But the mere fact that negotiations are taking place plays a stabilizing role. Neither party can consider itself the definitive victor in the conflict.

Now there is the classic balance of power that was evident during the Cold War. But it is important that a global conflict

similar to that in the Cold War does not begin. Although we have to bear in mind that the tensions between Russia and the collective West, which began because of the events in Ukraine, are the background of the Syrian conflict.

Yet it can be assumed that the parties gradually bring together their positions. They want to find a compromise because open confrontation is disadvantageous to everyone: to Russia, which has obvious problems with its economy, and to the West with many of its difficulties. It's enough to remember the rhetoric of Donald Trump or the crisis of traditional political parties in Europe. However, as we can see, the search for a compromise also involves tough rhetoric and sailing close to the wind.

Mutual dependence in the world can be clearly illustrated by the recent events in Afghanistan. At the Astana Club's last meeting one of the Chinese participants noted that China was not opposed to the construction of the Trans-Afghan gas pipeline. This was almost a revolutionary statement, as in the last 20 years geopolitical opposition in Central Eurasia was based on a number of key points, mainly around the fight for transport corridors.

The U.S. has sought to open new corridors in the strategically important region of Central Asia, which would run not only through the territory of Russia, Iran and China. Its aim is to raise the level of independence of the new Central Asian states and reduce their dependence, primarily on Russia. Moscow, for its part, has sought to prevent the penetration of third parties in Central Asia, especially the U.S. The idea is that the collective West in general and the U.S. in particular, would like to create a kind of buffer zone between the Russian border to the West and South consisting of loyal countries—similar to a project in the period between World War I and World War II. At that time there was a buffer zone in Eastern Europe which consisted of Poland, Czechoslovakia and Romania, in order to prevent the reinstatement of imperial power of Germany and Soviet Russia. China's position over the years has been similar to Russia's. Beijing is also extremely concerned about its western border.

Thus, the Trans-Afghanistan gas pipeline (TAPI) from Turkmenistan to Pakistan, along with projects creating corridors across the Caucasus, were points of geopolitical tensions in the 1990s. And, of course, China's support for its construction signified profound changes in the geopolitics of the region.

During the last year, China has very actively participated in discussions with the U.S. and Pakistan about the Afghan problems.

Moreover, Beijing is one of the main investors in the Pakistan economy and one of the projects it supports is the construction of transport corridors to Central Asia through Afghanistan.

It is also worth noting the evolution of the Shanghai Cooperation Organization (SCO). Extending the membership of the organization to India and Pakistan is currently on its agenda. These two countries with a difficult history of bilateral relations will be part of the SCO which is currently dominated by China, which, by the way, also has a historically complex relationship with India. The important thing is that SCO member countries will practically surround Afghanistan from all sides, except for Iran. The question of Iran joining the organization is still open. This idea is actively supported by Russia, and it looks like another basis for future compromise.

Interestingly, despite the convergence of views on the Afghan situation, China at the same time has very strained relations with the U.S. and its allies in the South China Sea. A significant judgment was passed on July 12, 2016 in The Hague arbitration court in the case of "Philippines vs China."¹ The court considered Manila's claim against Beijing on the basis of the United Nations Convention on the Law of the Sea (UNCLOS). The Philippines tried to challenge China's actions in the disputed waters of the South China Sea, where in recent years China has been creating manmade islands where they are keeping military equipment, which has restricted the activities of Filipino fishermen, and also, according to Manila, caused environmental damage.

Even though the court could not resolve the territorial dispute, the verdict was almost entirely in favor of the Philippines. The experts sided with Manila, accusing China of violating a number of the UNCLOS clauses. The court rejected many judicial points that China used to assert its territorial claims. The U.S. and many countries in the region sided with the Philippines. In China, the verdict caused national outrage. The public was convinced that the court was biased, and the verdict is part of the anti-China campaign, organized by Japan and the United States.

¹ The judgment can be found at the tribunal's website: <https://pca-cpa.org/wp-content/uploads/sites/175/2016/07/PH-CN-20160712-Award.pdf>

Despite the fact that The Hague's judgment will not have any legal consequences, it could lead to an aggravation of the smoldering conflict between the two 21st century superpowers—the U.S. and China. The potential consequences include an arms race in the conflict area and general confrontation around the globe.

However, the situation in the South China Sea does not interfere with China's active cooperation with the U.S. to settle the conflict in Afghanistan. Importantly, the interaction takes place on a very practical level. For example, expert discussions, including at the meetings of the Astana Club, often raise the question of whether China will be limited to economic projects only.

The point here is not just that China wants to transform its economic influence into geopolitical control. The problem is actually the responsibility for ensuring security in the region. For example, the international coalition in Afghanistan essentially finances the Afghan government and security forces and acts as an intermediary in the difficult relations between Afghan communities. And this is part of the peace process, because attempts to reconstruct the Afghan government using democratic procedures proved rather ineffective.

China's logic is most likely based on the fact that economic development, in particular, Afghanistan's revenue from the operation of TAPI and the establishment of transport corridors, will not only provide Afghanistan with resources, but will also increase stakeholders' interest in the country and beyond. In fact, China supports the establishment of a new system of interdependence in our region, like the one that exists at a global level. This is another example showing the degree of interdependence already achieved in the world. In particular, in the relationship between China and the U.S.

The latter consideration is important because the conflict over Afghanistan is largely fed by tensions between external forces. One can recall the 1990s when the Taliban movement was supported by Pakistan, Saudi Arabia and the United Arab Emirates. In the early stages the Taliban was even supported by certain circles in the U.S.—American oil companies, lobbyists, and individual officials. At the same time the anti-Taliban Northern Alliance was supported by Russia and Iran.

Today, there is hope that the conflicts around Afghanistan will gradually dissipate. The foreign policy of China, including in regard to Afghanistan, is not the only thing that affects it. Also of great importance is the settlement of the conflict over Iran's nuclear program.

PEACEFUL ATOM?

On January 16 this year, the International Atomic Energy Agency (IAEA) announced that Iran had fulfilled its part of the agreements reached on July 14, 2015 in Vienna, by the Big Six representatives (Britain, China, Russia, the U.S., France and Germany) and the Islamic Republic. As has been noted by the IAEA, Iran has reduced the number of centrifuges required for the production of enriched uranium from 20,000 to 5,000 and reduced its stocks of enriched uranium by 98% to 300 kg. Iran has started removing fuel from heavy-water nuclear facility near the town of Arak.² At the same time the reactor will be modernized, and it will no longer be able to produce weapons-grade plutonium. As a result, in the next fifteen years Iran will only have enough uranium supplies to run the Bushehr plant, and for medical and research purposes. But the most important thing is that, according to U.S. President Barack Obama, as a result of the agreement the time needed to build a nuclear bomb (break-out time), will increase from two months to a year.³

Here it is impossible not to highlight the role played by Kazakhstan during the most difficult times of resolving the Iranian nuclear issue. In February and April 2013, two rounds of talks were held in Almaty. On the eve of the talks the six international mediators and Iran reached a deadlock. They needed a fundamentally neutral mediator and Kazakhstan took on that role.

The Vienna Agreement in 2015 led to the withdrawal of the majority of the international sanctions imposed on Iran in response to the development of its nuclear weapons program. As a result, Tehran gained access to previously frozen assets and had the

² Iran nuclear deal: Key details, BBC, January 16, 2016 <http://www.bbc.com/news/world-middle-east-33521655>

³ A statement by Barack Obama on the official White House website: <https://www.whitehouse.gov/issues/foreign-policy/iran-deal>

opportunity to return to the world oil market. However, the fate of all the frozen assets is still open. Iran's losses from the sanctions imposed in 2012 are estimated to be at least \$120 billion.

It is difficult to overestimate the significance for Eurasia of the events which took place on January 16, 2016. As a result of the agreement with the Big Six Iran could effectively come out of isolation and once again become an active player in the Eurasian region. Access to frozen assets and the return of oil revenues will help boost the treasury, strengthen the economy and reduce social tensions. At the same time the removal of international sanctions has once again made Iran open to foreign investors, including transnational energy companies and diversified holdings.

Iran can also expect to become a transit hub. And, accordingly, Tehran, along with other participants of projects that create new transport corridors, such as Pakistan and the Central Asian states, is interested in reducing tensions in the region as a whole, and in resolving the situation in and around Afghanistan in particular. For Iran, the reconstruction project of the Silk Road, which once passed through its territory, is a momentous opportunity to improve its competitiveness. Tehran may become one of the most important centers of power in the region.

At the same time in the Middle East, Iran has rather complicated relations with a group of Arab countries in the Persian Gulf. Some observers argue there is a global Sunni-Shiite conflict. But in spite of its foreign policy issues, economic competitiveness is among its top priorities especially taking into account the impossibility of reaching success in the short-term.

The peace agreement on the Iranian nuclear program is an important indicator that economic development and, consequently, trade and general economic interdependence could be considered an alternative to possible conflict.

Here an interesting parallel to China can be made. The South China Sea situation is very difficult. The Chinese have a lot of problems, including with the Americans. But at the same time, to the west of China there is successful cooperation between Beijing and Washington—because the central part of Eurasia is a strategic base for China. Here it is possible to develop economic projects and create a new reality.

For Iran, the situation is similar. It has a complex system of relations in the Middle East, but in the central part of Eurasia,

Tehran is actively involved in addressing the pressing issues of economic development, including the building of transport corridors. It is clear that Iran is interested in the complete settlement of the Afghanistan tensions. The question is how to approach the tactical aims of the negotiations. Strategically Central Eurasia for Tehran is an extremely important back-yard, contrary to Syria.

SYRIAN DEADLOCK?

In recent years Syria has become a knot of a number of contradictions. The complexity of the Syrian problem is that it is multi-level in nature.

On the first level are the tensions within Syria itself, where several local communities are struggling for power in the country. This is of key importance. The communal foundation of the traditional Oriental states, where a central authority is often based on one of the local communities, in cases when such central authority collapses, results in competition between the communities.

For instance, in Iraq, after Saddam Hussein's regime - which was based on the Sunni Arab minority - was overthrown, the struggle between Sunnis, Shiites, and Kurds began. And also in Libya, there were tensions between communities and tribes after Muammar Gaddafi was overthrown. It is happening today in Syria, where Bashar Assad's government relies on the Alawite community and where, after the outbreak of civil war, the interests of individual communities and tribes began to be formulated. And so finally, Afghanistan. Here, all attempts at creating a democratic process for the formation of state institutions are faced with the problem of inter-communal and inter-tribal competition. Without the mediation of the international coalition in Afghanistan, the fragile peace would be called into question.

The only relatively successful example of inter-communal reconciliation is Lebanon. Here there is a relatively good balance of interests, though this has not stopped Hezbollah group from participating in the war in Syria. Perhaps the Lebanese way is the best model for the future political establishment in Syria. Provided, of course, that the war will not go on until the complete victory of any one side.

On another level there is a conflict of interests between the regional powers where it is very clear to see the contours of two large Muslim coalitions. On the one side, there are the Sunni Gulf states, Jordan and several other countries. And on the other there are the Syrian government of Bashar al-Assad, Iran and Shiite groups in Lebanon and Iraq. In a sense, Syria has become the battleground for these regional powers. It is almost reminiscent of the Great African War in the Democratic Republic of Congo (1998-2001), which involved many African countries.

On the third level is the reflection of geopolitical competition between Russia and a nominal collective West led by the U.S. The sudden appearance of Russia in Syria looks like an effort to expand the agenda of its relations with the West and to avoid moving to the periphery of the West's interests following the conclusion of the hot phase of the conflict around Ukraine.

In fact, Russian-U.S. relations with regard to Syria appear to be an episode of the new Great Game between Moscow and Washington. It certainly is an echo of the old Cold War, resonating after 20 years of relative calm. Although there is no talk of reawakening the war. Firstly, over the years interdependence has become too strong. And, secondly, there are no significant ideological differences between the two sides.

The relations between Moscow and Washington with regard to Syria, on the one hand, have brought about a change in the balance of power at a local level and on a regional scale, but on the other hand, are important for the efforts to find a solution for the situation in this country.

All three levels of the current Syrian conflict make it obvious that the situation is gradually reaching a deadlock, no one can win, but external parties could still strengthen their allies in Syria, in order to make another attempt. In this situation, the role of the great powers, primarily the U.S. and Russia, is of particular importance. Their global-level disagreements have major impact at a regional level.

And, of course, this does not help solve the general problems associated with the emergence of radical Islamic groups. In this sense, Syria is becoming the new Afghanistan – both of the Taliban period and of the times of Soviet presence. Against the backdrop of severe internal tensions, ideologically motivated

Islamist enthusiasts are flocking from all sides of the world, including Europe.

According to a report by Soufan Group, the number of foreign fighters in Syria doubled in 2015. Now there are more than 12,000 foreign citizens fighting there. A large number of which come from Russia and former Soviet Union countries. The flow of fighters into Syria from these regions has increased fourfold.⁴ According to Sergei Shoigu, the Russian Minister of Defense, their total number at the beginning of 2015 was 4,500 people.⁵ In addition to the events in Syria and Iraq itself, armed attacks and acts of terrorism have become more frequent in other Eurasian countries.

At the same time, the conflict in Syria has caused a flow of refugees, which has already put Europe in a very difficult situation and raised political challenges.

WAVE OF TERROR

On November 13, 2015, a series of terrorist attacks took place in Paris. It was the bloodiest in the history of post-war France and claimed the second largest number of victims in the EU after the train bombings in Madrid, which were carried out by Al-Qaeda militants in 2004.⁶ The terrorists detonated a bomb at the Stade de France in the capital's suburb of Saint-Denis, seized hostages in the Bataclan theater and attacked several cafes in the center of Paris. 130 people were killed and 368 injured. The investigation revealed facts that shocked both politicians and societies in many European countries. It turned out that the organizers and perpetrators of the attacks were EU citizens, most of them born and raised in Europe. The attacks were planned and carried out with the use of several hide-outs in France and Belgium. All terrorists took military training in Syria, and returned to Europe without any problems, joining groups of migrants fleeing the war.

4. Foreign Fighters: An Updated Assessment of Flow of Foreign Fighters into Syria and Iraq, The Soufan Group, December 2015 http://soufangroup.com/wp-content/uploads/2015/12/TSG_ForeignFightersUpdate1.pdf

5. "Shoigu: operations in Syria prevent the penetration of militants in the CIS," Rossiiskaya gazeta, July 15, 2016 <https://rg.ru/2016/07/15/shoigu-operaciia-v-sirii-predotvratila-popadanie-boevikov-v-sng.html>

6. Emma Luxton. Is terrorism in Europe at historical high? World Economic Forum, March 24, 2016 <https://www.weforum.org/agenda/2016/03/terrorism-in-europe-at-historical-high/>

The attack raised many questions, including the competence of EU intelligence services, the effectiveness of border controls, as well as the existence of the visa-free Schengen region in the current environment.

These issues became more pointed after major attacks in various EU countries followed in 2016. An explosion at Brussels airport on March 22 claimed the lives of 14 people (92 injured). Simultaneous explosions at a railway station claimed 21 lives and wounded 130. In Nice, on July 14, a terrorist in a truck ploughed into a busy promenade on Bastille Day, killing 86 people. Another 202 were injured. A lone terrorist in Munich killed 9 people. An explosion at the German Ansbach music festival on July 24 injured 15 people. The total number of terrorist attacks in the EU with a proven Islamist trail, has exceeded two dozen.

The bloodiest attacks have taken place in France, Belgium and Germany—countries with significant diasporas of first or second generation immigrants. It is noteworthy that these immigrants identify themselves not only with the country of residence or nationality, but also with their country of origin. A particular problem is not so much the number of immigrants compared to the population as a whole but rather their dense population in some disadvantaged areas and suburbs of European cities.

In addition, it is not always possible to determine the exact number of migrants in some countries. For example, it is believed that in France they do not exceed 15% of the total population, but no specific figures are available because of the ban on conducting precise sociological research on the racial and ethnic identity of French citizens.⁷

The Parisian district of Saint-Denis and the Molenbeek and Shaerbeek districts of Brussels are breeding grounds for terrorists,⁸ and, accordingly, they are a symbol of the failure of multiculturalism and the EU immigration policies. A further factor

7. To count or not to count, The Economist, March 26, 2009 <http://www.economist.com/node/13377324>

8. Aaron Williams, Kaeti Hinck, Laris Karklis, Kevin Schaul, Stephanie Stamm. How two Brussels neighborhoods became 'a breeding ground' for terror, Washington Post, April 1, 2016 <https://www.washingtonpost.com/graphics/world/brussels-molenbeek-demographics/>

that has exacerbated the problem and a search for a solution is the increased migration from the Middle East due to conflicts in Libya and Syria.⁹

The result of the wave of terrorism and the immigration that has swept Europe in 2016 has been a growth of nationalism and increased popularity of radical sentiments. Terrorism and migration challenges have dealt a blow to Europe's integration strategy. This is most clearly demonstrated by the UK's referendum on its exit from the European Union.

Essentially, the problem lies with new trends in European politics that indicate certain crisis within old parties and, consequently, the entire political system. On the one hand, it enhances the isolationist mood in European society, and is a problem for the future of globalization. On the other hand, tensions are growing with the Islamic world in general and with European Muslim communities in particular.

The latter circumstance may lead to a decrease in the already low degree of integration of Muslims into European society and to a greater self-identification. In a confrontational environment, and also in case of Muslim voters' consolidation and mobilization, this may become a political factor. It is worth noting here that there is a clear difference in the principles of the organization of Western and Eastern societies.

Western societies are generally characterized by horizontal relationships of interaction. At the same time relationships within communities do not replace or interfere with the individualism of its members. Vertical relationships are more typical within communities or "big families" in Eastern societies. The level of unity in such communities is much higher and there is a much lower degree of individualism.

Within European society such communities are under constant pressure from external forces. Some individuals leave those communities and go on to become part of the European community. But, nevertheless, intra-organization and solidarity is the predominant factor. The influx of migrants to Europe is increasing the number of representatives of such Eastern communities, and growing tensions within European societies and the growth of Right-wing radicalism may possibly result in consolidation of those communities, as a response.

9. Migration crisis: Migration to Europe explained in seven charts, BBE, March 4, 2016, <http://www.bbc.com/news/world-europe-34131911>

So far it has been possible to suppress such negative trends but each new incident will only exacerbate tensions and emphasize the dominant trend. The local European model is an example of the interaction between Western and Eastern communities, and is part of the process of their interaction at a global level. Globalization raises the question about the general rules of the game, about unification, but the features of different societies remain the main obstacle to a simple spread of the Western model. Such option was considered by the West in the early 1990s. But it turned out that not only did the West come to the East, but the East came to the West. And the West has no answer to this challenge. At the same time, it is clear that the East doesn't have the answer either.

BREXIT

Not many people imagined that the referendum on June 23, 2016 on the UK's exit from the European Union would result in a political earthquake in Europe. David Cameron, the Prime Minister and Leader of the British Conservative Party, had promised back in 2013 to conduct a survey on the UK's membership of the European Union. The Prime Minister himself had campaigned for the country to remain in the EU. But the Leave campaign, which was led by Nigel Farage (former leader of the UK Independence Party (UKIP)) and Boris Johnson (the ex-mayor of London), was more successful. The results of the vote were sensational—almost 51.9% were in favor of exiting the EU. This ultimately led to the Prime Minister's resignation and many politicians, including Farage, have resigned from their party posts. Theresa May is now Prime Minister.

The UK's exit from the EU promises to be a long and difficult process. The negotiation of terms will take at least two years, and the key issue will be the country's ability to maintain access to the EU single market. In return, Brussels demands that the UK accept the EU's migration policy of free movement, which was a key issue for the Leave campaign. Many economists warn there will be serious long-term economic consequences for the British economy as a result of the referendum.¹⁰

10. Fact and fiction, The Economist, September 3, 2016 <http://www.economist.com/news/britain/21706348-dire-prophecies-doom-have-not-come-trueyet-economy-slowing-fact-and-fiction>

For the entire Eurasian continent the thing of most significance with regards to Brexit is its symbolic effect. For a long time European integration looked like the most successful integration project in human history. It was thought that the EU created conditions for the security and prosperity of all European residents. Since its inception, the EU has only expanded and was attractive for both its residents and for the neighboring countries. In many ways, it was this expansion that led to clashes between the West and Russia in Ukraine. Also, the EU served as an example for other integration projects in Eurasia, including the EAEC and even ASEAN.

After Brexit the attractiveness of the European model has been put in doubt. Furthermore, the democratic model of decision-making was put in doubt. The majority of the UK population voted to leave, which was strongly opposed by all the elite and experts, who were guided by short-term and populist motives. The polarization of society has put into question the sustainability and feasibility of the existence of liberal democracy in its present form.

The UK's exit from the European Union should be seen not only in the context of the EU problems. Rather it is the problem of the feasibility of deep integration in principle.

If the European Union which spent decades working out the interaction mechanism between the member states before its inception, had to face the contradiction in the interests of its members, then what can be said about other unions, such as the Eurasian Union, the North American NAFTA and some others? Incidentally, U.S. presidential candidate Donald Trump stated during the election campaign that NAFTA does not serve the interests of Americans and received a strong support within the society.

Both Brexit and Trump's statement are a reflection of the crisis in the global economy. This is a serious indication that globalization is wearing out, i.e. it is still important but the dividends are not as obvious as before.

This is particularly true for some countries. And interestingly, for successful ones. The UK is one of the most successful countries in the EU. The U.S. is the clear economic and geopolitical

leader in the world. In addition, the U.S. government provides the global economy with the currency for trade and reserves, and also sustains demand by way of agreeing with long-term trade deficits with developing economies.

We are now seeing an emerging tendency: developed countries that were the main beneficiaries of globalization are preparing to withdraw from this project. So far this is only a tendency. But this gives reason for everyone else to start thinking about how long a policy of globalization and integration will last.

Obviously, this will depend on the benefits that come with it. But there are a lot of questions about the benefits. If the U.S. and UK are beginning to doubt the benefits of integration due to fear of loss of jobs, taxes and domestic production, then what about other, less developed countries, such as those in Southern Europe or the former socialist countries in Eastern Europe and the former Soviet Union?

But for now the United States is officially focused on greater integration as demonstrated by the projects of the Trans-Pacific Partnership (TPP) and Transatlantic Trade and Investment Partnership (TTIP).

THE SIGNING OF THE TPP AGREEMENT

On October 5, 2015, an announcement was made on the final agreement of the formation of the Trans-Pacific Partnership (TPP), and on November 5, the treaty was published. The final version ¹¹ of the agreement was signed on February 4, 2016. On this day a mega-bloc with a population of 800 million people was formed. TPP countries account for 36% of global GDP, 23.9% of world exports and 26.7% of world imports of goods and services.

For the TPP agreement to come into force, it must be ratified in the next two years by either all 12 signatory countries (the U.S.A., Japan, Canada, Mexico, Australia, New Zealand, Singapore, Brunei, Chile, Peru, Malaysia and Vietnam), or by the countries that account for over 85% of the total GDP of the union. Currently the main difficulty for the TPP is ratification

¹¹. Text of the agreement on the establishment of the Trans-Pacific Partnership can be found on the website of the U.S. Trade Representative: <https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-full-text>

by the United States. Many members of the U.S. Congress are not prepared to vote for the TPP because of the threat of job cuts in their constituencies. President Barack Obama has called for the TPP to be ratified as soon as possible, during the last session of the current Congress. The positions of the two main presidential candidates, Hillary Clinton and Donald Trump, are negative so far. Both say they will not promote the TPP. However, during the Astana Club meetings U.S. participants have pointed out that Clinton's position may change immediately after her election. Trump's position may also change.

Despite the fact that the TPP covers many countries that are not formally part of Eurasia, the impact of the agreement on Eurasia will be enormous. As noted by some participants of the Astana Club, even if the agreement cannot be ratified within the required period of time, the depth and revolutionary spirit of the agreement's context will certainly affect any subsequent attempts to create a similar trade bloc in a more favorable political environment.

The fact is that the TPP is an advanced version of the free trade agreement, which implies not only tariff reductions, but also the introduction of new standards in the implementation of investments. Not to mention advanced rules regulating intellectual property rights, the standards for state-owned companies, and an extensive set of measures to fight corruption. The TPP is based on WTO rules, but the rules of its organization are very detailed and deep.¹²

And so it can be expected that the norms preserved in the TPP can survive the agreement itself, and have significant impact on global trade rules. The formation of the TPP alone has influenced the actions of major Eurasian powers that are not a party to the agreement. Russia was first to counter by announcing the formation of the Economic Partnership for Greater Eurasia.

The first practical step was the start of negotiations between China and the EAEC on a trade agreement, which was announced in Beijing on June 25, 2016. If this can be agreed, it will have significant impact on the configuration of regional trade in the center of Eurasia and on the economy of Central Asian countries.

¹². Sergei Afontsev, Frank Soamolis, Natalya Stapan. Future outlines of world trade: Trans-Pacific Partnership, Asia Vector, November 13, 2015 <http://asiavector.ru/analytics/451/>

But a curious trend seems to be emerging. Within the global economy, certain groups of countries begin to shape. Moreover, their composition will have to be superimposed on the existing geopolitical realities. Essentially, a regrouping of countries and economies is taking place. This appears to be a preparation for a new geo-economic reality. Those countries that will sign the TPP and TTIP agreements will qualify for special trade terms with the U.S., and will have access to its market and demand generated by it.

By refusing to participate in TPP, European countries, the second most powerful economic bloc, seek to preserve their identity, economic sovereignty and feel they have grounds for this. Accordingly, Brexit opens a door to the TTIP for the UK, which corresponds to the logic of a more liberal economic approach, and the Anglo-Saxon unity. But this, in turn, will force Europe, with its greatly regulated economy, internal contradictions on major geo-economic approaches and proximity to the Islamic world, to try and find ways to respond to the new situation.

TURKISH RALLY

The events in Turkey in the Summer of 2016 could lead to large-scale changes not only in Turkey, but also in the relationship between the collective West and the Muslim countries.

The attempted coup in Turkey has led to a significant shake up in the army, the government and the education system, and is changing the model of the state itself. And this fact is more important than the internal political conflict between supporters of various Islamic projects and even between the supporters of secular and Islamic way of development of Turkey.

In the past decade Turkey has played an important role in the Muslim world. It has demonstrated the success of its political system in which the Islamic political party, with the support of many different segments of the population, effectively manages the economy and society. It was sort of an example, and was Turkey's main argument in support of its claim to influence the Islamic world. For many years, economically, it was the most successful state. There was a balance of interests of different groups of the population—from supporters of the secular way of development to the Kurds, who made to the parliament

thanks to the Islamists. And all this under the undisputed leadership of supporters of political Islam.

Turkey's experience was actually considered as a model during events of the Arab Spring. At that time democratic models, such as the Turkish one, were more popular and were considered to be a better alternative to centralized political regimes. The period of the Arab Spring was a high point for Turkey, and personally for Prime Minister Erdogan.

It is important to note that the basis of Erdogan's political model, which distinguished Turkey from other Muslim countries, was the balance of internal political forces. Erdogan's party had the political power, but it was balanced out by the army, the courts and the media. In addition, within the party there were numerous groups, either formed around influential leaders, such as former President Abdullah Gul, or regionally-based.

It was a horizontal system of relationships, where no one could win a decisive victory over an opponent. These kinds of centuries-old relations are the basis of the Western democratic system. A special feature of Turkey's system was the existence of well-developed—by Eastern standards - institutions such as courts and the army, that are important for any democratic system.

In Turkey the army's role was slightly hypertrophied. This is because for many years the army acted as guarantor of the secular state. Nevertheless, it was one of the institutions that regulated relations within society. It is possible that during the reign of Erdogan's party the army could intervene in certain events, as it had done so many times before in Turkey's history. In this instance the West could play a part through NATO structures or directly through the U.S. Turkey was too important as an alternative model of a horizontal political system for the Muslim world.

If one agrees with this assumption, then the last coup attempt in Turkey means de facto the end of this project. In response to the events, Erdogan put massive pressure on the main institutions—the army, the media, the courts, the education system. This means that the horizontal system of political relations in Turkey has been partly replaced by a vertical one—more typical of Eastern countries.

PRESIDENTIAL RACE IN THE UNITED STATES

Events in the United States, separated by water deserts of the Pacific and the Atlantic Ocean from Eurasia, are at first glance not related to changes in Eurasia. But given the huge role played by the only real superpower in the modern world system, any major change in that country also affects Eurasia.

In this sense, the presidential campaign in 2016 is no exception. Although the elections themselves will take place on November 8, 2016—a few days before the second meeting of the Astana Club and after the writing of this report—the campaign itself has become one of the most important events of the year so far. The topics raised by Hillary Clinton and Donald Trump during the nomination of the candidates for the Republican and Democratic parties, as well as developments that have been exposed during the campaign, say a lot about the challenges facing the U.S. and future trends in American society.

Most importantly, as with Brexit, the outcome of the nomination in the U.S. has questioned the effectiveness of modern liberal democracy as a mechanism for solving problems and building a team of competent leaders trusted by society. First, as a result of the primaries and caucuses—an open and competitive process—the two major U.S. parties nominated their presidential candidates, who are not particularly well received by the public. Clinton and Trump have high negative ratings and it is unlikely they will be able to unite the nation.

Second, during the course of the campaign, many observers have begun to talk about the growth of populist trends in American politics. This is evidenced by the rhetoric of Donald Trump with his promise to build a wall along the border with Mexico, the construction of which will be funded by Mexicans themselves, and the unexpected success in the primaries by Senator Bernie Sanders of Vermont. His views are close to the socialist ones, and in many ways are contrary to traditional American values—individualism, competition and market mechanisms.

According to many observers, the call for leftist and socialist values in American society is growing. And not only among the poor, but also among the young educated elite. Sanders' groups of supporters in university campuses were one of the main driving forces of his campaign.

Third, the rise of populism has exposed the real problems of American society—increasing inequality, increase in crime, the inability of today's young middle class to repeat the success of their parents' generation, and the isolation of the Washington and New York elite from the voting masses.

Finally, Trump's campaign clearly manifested a new trend in American society—demand for a less ambitious foreign policy. People are tired of building democracy in the world at the expense of domestic growth. Moreover, the public is expressing a growing distrust toward the usefulness of the allied relations both in Europe and in Asia.

Although fatigue from the wars in Afghanistan and Iraq was one of the reasons for the success of Barack Obama's campaign, he did not question the purposefulness of NATO or U.S.-led military alliances in Asia. Therefore, the new radical stance in the Trump campaign is not supported by the foreign policy establishment—by Democrats or many Republicans.¹³ However, Trump has stubbornly maintained this stance in his campaign, recognizing its popularity among ordinary voters.

As the past year has shown, regardless of who the new U.S. President will be, the world will have to deal with a new America. This America will be more polarized, mired in internal debates, less self-confident and more limited in resources for an active foreign policy.

Nevertheless, the U.S. remains an important structural element. It is a keystone in the foundations of the current global world. There can be different views on this. Some consider this to be imperial ambitions, manifested by Washington's desire to interfere in the affairs of other countries around the world. An even more extreme view is the U.S. "parasitizes" the rest of the world, by using the control of the dollar to finance its spending, including on its military.

Another point of view: U.S. activity in the foreign arena is an unnecessary responsibility and excessive for a single country. That is why the U.S. is forced to agree with trade deficits in relations with many countries. It accumulates such a huge debt

¹³ David E. Sagner, Maggie Haberman, 50 G.O.P. Officials Warn Donald Trump Would Put Nation's Security 'at Risk', The New York Times, August 8, 2016 <http://www.nytimes.com/2016/08/09/us/politics/national-security-gop-donald-trump.html>

so that it can support not only the army, but pay for, among other things, the upkeep of the Afghan government and its security forces. And the benefits of the dollar being the world's main currency are not evident to the United States. A stronger dollar reduces the competitiveness of the U.S. economy on a global scale. In addition, in crisis, most countries try to weaken their currency against the U.S. dollar.

This explains the discontent of many Americans and their willingness to abandon the excessive, in their opinion, role of the leader of the modern world. Significantly, the story of Trump's campaign comes on the eve of the 100-year anniversary of the U.S. entering World War II. It was then, during the presidency of Woodrow Wilson, that the U.S. withdrew from voluntary self-isolation, and stepped onto the path that led them to the current situation.

It will change the whole world if isolationist policy in the U.S. becomes a reality, and America scales down its presence in the world.

If this were to happen the U.S. will seek to reduce its trade deficit with many countries. This will lead to a reduction in global demand, due to inevitable reciprocal steps. Consequently, the volume of U.S. trade will decrease with countries like China or Mexico. This will lead to a deterioration of the economic situation in these countries.

From a political point of view, U.S. withdrawal from many sensitive areas will leave a vacuum. They will cease to be a factor in regional politics in the Middle East, in Afghanistan, in the South China Sea. For some it will be a very welcome step, but all this means that regional conflicts will begin to dominate and may take extreme forms. For example, if the U.S. ceased to be engaged in Afghanistan, it is very likely the struggle between the Afghan communities would worsen, with the support of foreign interests.

By the time of the next meeting of Astana Club the name of the new President of the United States will be already known, but the problems and challenges will not disappear. They will continue to be an important factor not only in America, but also in all countries in the world.

The proposed selection of the most important events and trends of 2016 is certainly not exhaustive or exclusive. Nevertheless, it appears that the trends noted by the experts of the Astana Club and IWEP will largely define the course of the Eurasian development in the medium term. Changes in the situation have affected many areas of life in the megacontinent and are important for the entire region, and its nerve center—Central Asia. The world situation is becoming increasingly uncertain and unstable.

It is possible to note the key parameters that influence the geopolitical, geo-economic and social development of Eurasia. These include the dynamics of competitiveness between the great powers, the operation of trade regimes, the changing model of economic development, the condition of transportation and financial infrastructure, and the dynamics of the movement of the population. Will these new trends mean that Central Eurasia can become an area of struggle and generator of conflict, thereby increasing the existing gaps? Alternatively, could the region become a bridge that connects everyone?

3. THE GREAT POWERS IN EURASIA: RIVALS OR PARTNERS?

EURASIA AND THE TURBULENT ERA

Most of the Western participants of the Astana Club, who reflect the dominant position of Europe, the U.S. and its Asian allies, believe that Eurasia is a purely geographical concept. Still, no one denies the role and importance of the Eurasian continent as an arena of geopolitical competition and cooperation. Although some of the Club's experts believe that even if you describe Eurasia as a single region geographically it will never operate as one ("The West does not consider Eurasia as a single region that includes Western Europe and all of East Asia"). However, the majority agree that the region is a geopolitical and geo-economic center of the world.

"There are no spheres, neither political, economic nor military that would indicate the possibility of any other continent challenging Eurasia's dominance in the world. Eurasia is at the center of the world," points out an American member of the Club.

Russian and Chinese experts suspect that the West's skeptical attitude toward Eurasia is because the U.S. is not part of the region, and therefore they try to play down its significance. Although the Americans hotly debate such a view: "The United States, which is the only truly global power, though not geographically belonging to Eurasia, has a rich heritage from Eurasian history and culture."

It is noteworthy that Russian and Chinese experts' views on the concepts of the meaning of "Eurasia" and "Central Eurasia" differ from a description of the geographical realities. "We need to finally figure out what kind of animal Central Eurasia is, and whether it does in fact exist," said a Chinese participant at the first meeting of the Astana Club. It is possible that the meaning of the concept of Eurasia that Russian experts give is a reflection of their desire to maximize the scope of the comparison of the great powers and to introduce a spatial element into it. In this geographical context, Russia looks much better than in a linear comparison of its economy and dynamism of its society with Europe and China, or in terms of its military power—with the U.S.

Experts of the Astana Club agree that Central Asia will play a special role as the geographic center of the entire megacontinent. Moreover, Central Asia acts as the strategic base for five major powers.

"No global problems can be resolved without Eurasia. The region should be part of every decision, at the same time becoming part of each problem," concluded a participant. At the same time, some experts believe that the central position of Eurasia is not always a benefit. "The dominant position of Eurasia in the world is not necessarily good news," says one expert. "In the foreseeable future the continent will remain important as an arena of rivalry between the great powers."

THE TRIANGLE: THE U.S.—CHINA—RUSSIA

When it comes to the great powers, the Club's experts mostly agree that, in general, the dynamics of the security situation in Eurasia, including Central Asia, is determined by the complex relationships in the triangle of the United States-China-Russia. To some extent this is a revival of the triangle from the Cold War. Henry Kissinger's opinion on a winning strategy for each player at that time still remains relevant now. The former U.S. Secretary of State believed that the U.S.'s relations with Beijing and Moscow had to be better than those between Beijing and Moscow.¹⁴ However, the current situation is markedly different from the times of the 1970s and 1980s, when Henry Kissinger was active. Today, the United States continues to be the global leader. It has the most innovative economy, the most powerful military potential and an almost complete monopoly on the global agenda. But its position as leader in the midterm is no longer guaranteed.

China's power has increased incredibly since the beginning of market reforms in the 1980s. China has become the second world economy in terms of size of nominal GDP, and in terms of purchasing power parity (PPP), some consider China as the first world power.¹⁵ Russia's capabilities have decreased significantly following the drop in its economic potential. In terms of PPP Russia is still among the ten largest economies in the

¹⁴. Henry Kissinger. *Years of Upheaval*. New York: Little Brown & Co, 1982.

¹⁵. GDP ranking, PPP based. The World Bank, July 22, 2016. <http://data.worldbank.org/data-catalog/GDP-PPP-based-table>



world, in sixth place,¹⁶ but in terms of nominal GDP it has fallen to 13th place¹⁷ as a result of the devaluation in 2014.

The relations between the pairs in the triangle have become more complex. The countries have moved on from the harsh opposition of bipolar times to more flexible models of competition and cooperation. And so it makes sense to consider these relationships in pairs.

U.S.—CHINA

Relations between the two largest economic and military powers—the United States and China—are rightly called the most important bilateral relationship of the 21st century. In 2015, they were experiencing a dynamic transformation. Together with increased cooperation and interdependence, elements of rivalry have also increased. Firstly, in the east of Eurasia—in the waters of East China and the South China seas. After the decision of the Arbitration Court in The Hague in July, which found many of Beijing's claims in the South China Sea around the Spratly Islands insignificant, the conflict has escalated. Despite conciliatory statements by Chinese diplomats, the Chinese leadership does not intend to recognize the outcome of the tribunal, which is what the U.S. is calling them to do. This sets the stage for conflict between China and the U.S. and its regional allies. Another aspect of the conflict will become the arrangements for regional trade, as well as the problem of access to each other's markets and work standards. Cyberspace will also become an area for conflict between the two superpowers.

This uncertainty in the relations between the two giants was clearly evident at the first meeting of the Astana Club in November 2016. On the one hand, the U.S. and Chinese experts emphasized the need for cooperation between the two nations to address global challenges. One example of which is the climate deal which was made at a conference in Paris and ratified during the G20's summit in September in Hangzhou.¹⁸ Another is the general consensus on many issues of global governance, including the yuan being included in the IMF's Special

¹⁶. Ibid.

¹⁷. GDP ranking. The World Bank, July 22, 2016. <http://data.worldbank.org/data-catalog/GDP-ranking-table>

¹⁸. Mark Landler, Jane Perlez. *Rare Harmony as China and U.S. Commit to Climate Deal*. The New York Times, September 3, 2016. <http://www.nytimes.com/2016/09/04/world/asia/obama-xi-jinping-china-climate-accord.html>

Drawing Rights Basket from 2016. On the other hand, there were different interpretations of many specific issues. And even though discussions within the Astana Club concentrated on different structural elements, the disharmony between the powers has an increasingly prominent place in the bilateral agenda. Eurasia has its own role in these struggles.

"Eurasia is becoming the focal center of world politics due to the slowly growing rivalry between China and the United States," points out an expert of the Astana Club.

In 2015, the conflict between the U.S. and China was slightly subdued. China is preparing for the important 17th National Congress of the Chinese Communist Party (CCP), which will take place at the end of 2017. It is expected that the leadership of the country will be overhauled and the position of the existing leader of the CCP, General Secretary Xi Jinping, will be strengthened. In the run-up to the Congress, the head of the party will have to show himself to be a tough leader who can defend national interests in the face of the West. On the other hand, escalation of the conflict could lead to undesirable consequences. As such Beijing tried to keep relations with the U.S. in a state of "controlled confrontation" during the whole of 2015. "A new model of relations between the great powers," implying mutual consideration of "core national interests," that Xi Jinping proclaimed in 2013, has not been fulfilled. Although among these interests Beijing included issues of territorial integrity, claims in the South China Sea, and respect for China's political system, which is clearly unacceptable to the United States. The Chinese leadership simply tried not to aggravate the conflict unnecessarily.

A similar approach is used by the U.S. government. Concluding his eight-year term as president, Nobel Peace Prize winner Barack Obama has been the least interested in a full-scale confrontation with China. Obama declared in 2011 a policy of turning to Asia (Pivot to Asia), and has always tried to minimize the point of a potential conflict with China explaining that that "pivot" is not against China.¹⁹ However, in 2015 and 2016, China had many reasons to be annoyed. Some of the experts of the Astana Club acknowledged a significant though not

¹⁹. Jeffrey Goldberg. *The Obama Doctrine*. The Atlantic, April 2016 issue. <http://www.theatlantic.com/magazine/archive/2016/04/the-obama-doctrine/471525/>

too advertised story in which in the spring of 2015 the servers of America's staff administration department database were hacked. As a result of the security breach the personal data of 21.5 million people was stolen.²⁰ The data considered priceless to any intelligence service in the world due to the fact that it contained personal profiles of anyone who had tried to obtain permission to gain access to classified information in the United States, was now in the hands of the hackers. U.S. experts believe that Chinese intelligence agencies were behind the attack. Beijing denied it and blamed cybercriminals. After the incident, Washington decided to launch operations to ensure freedom of navigation in the South China Sea (FONOP).²¹ FONOP has become another massive irritant in the U.S.-China relations, as American ships patrolling the sea would come defiantly close to the Chinese manmade islands and sometimes cross the 12-mile line around them.

It is clear that the tensions between the U.S. and China in relation to the South China Sea, the building of the People's Liberation Army of China and territorial disputes with Japan over islands in the East China Sea will increase. The economy, including competition between RCEP and TPP, as well as intellectual property and freedom of access to each other's markets, is also becoming a basis for disagreements.

Conflicts have not only manifested themselves in the west of the Pacific Ocean or in cyberspace, but also in the physical area of Eurasia. Here there is also no shortage of differences in each other's intentions. For example, U.S. experts refer to the strengthening of the U.S. partnership with countries of South-east Asia, as a usual practice in the normalization of relations. In particular, they commented on the relationship between America and Vietnam. But after President Obama's May tour when the arms embargo was lifted,²² many Chinese experts believed that the U.S. did this because it wanted to create a "buffer zone" around China and to limit the natural rise of China, and cause conflict with its neighbors. The speech of Pentagon chief Ashton Carter during the dialog "Shangri-La" in Singapore in June

²⁰. Julie Hirshfeld Davies. Hacking of Government Computers Exposed 21.5 Million People. The New York Times, July 9, 2015. http://www.nytimes.com/2015/07/10/us/office-of-personnel-management-hackers-got-data-of-millions.html?_r=0

²¹. Lynn Kuok. The U.S. FON Program in the South China Sea. Brookings Institution. June 7, 2016. <https://www.brookings.edu/research/the-u-s-fon-program-in-the-south-china-sea/>

²². Carl Thayer. Obama's Visit to Vietnam: A Turning Point? The Diplomat, May 31, 2016. <http://thediplomat.com/2016/05/obamas-visit-to-vietnam-a-turning-point/>

was interpreted exactly this way. However, as is pointed out by some members of the Astana Club, the contention is much broader and deeper than just the geopolitical rivalry between the aging world leader and the emerging challenger.

"The most important issue in Eurasia is not geopolitical in nature. It is not a fight for resources, territory, or any physical assets. It is an ideological struggle—a battle between two fundamentally different ideologies, liberal world order and its opponents."

However, China and the U.S. are trying to find common ground. One area where the two superpowers could cooperate is the situation in Afghanistan and Central Asia. For example, the Foreign Ministry of China and the U.S. State Department have a special format for interactive dialog of the problems in the region.²³ China is interested in maintaining stability in the region, where it plans to implement a number of large-scale economic projects. For this reason, China is apprehensive of aggravating geopolitical tensions, especially with the participation of external forces to the region. In turn, China's transport and logistics initiatives, like the American concept of the New Silk Road, involve opening the center of Eurasia to the outside world. In this case, China can find understanding from Washington. One of the most typical examples of a statement by a Chinese participant at the meeting of the Astana Club is that Beijing would not oppose the construction of the TAPI gas pipeline and will even support it.

U.S.—RUSSIA

U.S. and Russian rivalry remains the most acute among the three great powers, although the stakes are much lower than with the U.S.-China tensions. In 2011, President Vladimir Putin said his country does not claim itself to be a global superpower, and that Russia will not take anyone's side in the confrontation between China and the U.S. However, from 2014, due to the conflict in Ukraine, relations between the two former rivals of the Cold War era deteriorated sharply, and they have been at

²³. See, for example, U.S. Deputy Assistant of Secretary of State Daniel Rosenblum's speech in Congress on overseas relations with Central Asia: <http://docs.house.gov/meetings/FA/FA14/20160609/105043/HHRG-114-FA14-Wstate-RosenblumD-20160609.pdf>.

their lowest point since 1991. The parties differ in their interpretation of what actions motivate their opponent. There are differences not only between U.S. and Russian experts, but among the expert communities within the countries themselves. These differences were visible during the Astana Club meetings.

Most Russian experts believe that the U.S. is trying to weaken Russia's position on all fronts and to punish it for its increased autonomy in its foreign policy. Events in Ukraine are interpreted as a military coup to "drag" the country into NATO and to occupy the base of the Black Sea Fleet in Crimea. In this context, sanctions, attempts at international isolation, and even international scandals involving Russian athletes are seen as elements of U.S. pressure on Russia. The complicated relationship between Moscow and Washington intensifies their mutual distrust in Central Eurasia. U.S. government policy aimed at strengthening the sovereignty of countries in Central Asia and the Caucasus are seen in Moscow as an attempt to penetrate the exclusive sphere of Russia's influence. The fight against the influence of the United States is a foundation of Russia's policy toward the region. And this is the dominant view in Russia with some minor exceptions.

In the United States, in turn, there is stormy debate as to what Russia's and Vladimir Putin's intentions are, and to what extent Moscow is a threat to the modern liberal world order. Researchers within the same institutions often have directly opposing points of view on this issue.²⁴ Some experts believe that Russia's aim is to undermine the international liberal order, while others explain the Kremlin's behavior based on internal factors. The most heated discussions in the American government relate to specific situations—whether it is Russia's actions in Syria or Ukraine. This year, the U.S. administration has tried to seek common ground with the Kremlin; however, the conflict still persists. Relations worsened again in the summer of 2016, when the WikiLeaks hackers posted stolen material from the Democratic National Committee. Many in the U.S. interpreted

²⁴. For example, in the prestigious Brookings Institution in the summer of 2014 scholars took diametrically opposed positions on the question of sending offensive weapons to Ukraine. And in the Carnegie Endowment for International Peace some scholars consider Vladimir Putin to be attempting to encroach on international order, and others think that the Kremlin is only defending its positions, fearing the expansion of EU and U.S. influence. See, for example: Ulrich Speck. Russia's Challenge to the International Order. Intersection Project, August 13, 2015. <http://carnegieeurope.eu/2015/08/13/russia-s-challenge-to-international-order/ixed> Eugene Rumer. Russia—A Different Kind of Threat. July 20, 2015. <http://carnegieendowment.org/2015/07/20/russia-different-kind-of-threat-pub-60782>

this as an attempt by Russian special services to interfere in the course of the American elections.

According to experts of the Astana Club, tensions between Russia and the United States will inevitably spread to the center of Eurasia. "If we talk about Central Eurasia in a wider sense, this region is becoming the center of controversy between Russia and the West," points out an expert. "It is important how far Central Asian countries will be embroiled in the new Cold War between Russia and the West, and if they will be on one particular side or take a more neutral stance."

America's European allies have different positions on this argument. On the one hand, some EU countries are in favor of easing relations and lifting sanctions. An example of which is Italy, where Prime Minister Matteo Renzi attended the St. Petersburg Economic Forum in June 2016. Head of the European Commission Jean-Claude Juncker also leans toward this thinking. On the other hand, EU leaders led by German Chancellor Angela Merkel firmly stand by Trans-Atlantic solidarity and demand that Moscow fully implement the Minsk agreement. For Central Asia, the EU position on Russia, as well as plenty of internal problems in the EU, means that Europe is unwilling to engage in regional affairs.

"The EU will focus on the development of relations of any post-Soviet country that is in the Eastern Partnership and has signed an agreement on association with the European Union" sums up a European participant of the Astana Club.

RUSSIA—CHINA

The relationship between Russia and China remains one of the most controversial in the triangle of big powers. Several participants (primarily Russian) of the Astana Club believe that Moscow and Beijing have become much closer since 2014 in the face of the common threat from the U.S. Some experts suggest that relations between Russia and China have already outgrown their typical partnership and are close to being

allies.²⁵ This is proven true by the frequent personal contacts between political leaders and joint military exercises like the "Sea Cooperation-2015" in the eastern Mediterranean and the "Sea Cooperation-2016" in the South China Sea.

On the other hand, over the past year the limits of their partnership have become apparent. Chinese financial institutions adhere to sanctions against Russian companies, and the volume of trade between the two countries following the collapse of commodity prices fell by 30%. Beijing has not become a major investor in Russia except for several projects with businessmen close to the Kremlin.²⁶

The relationship between China and Russia in Central Asia, too, is far from clear. On the one hand, Moscow and Beijing have many common interests: to maintain regional stability, fight against extremism, and develop transit routes on the continent. On the other hand, the activity of China in building economic relations with countries in the region, including via the Silk Road Economic Belt (SREB), induces Russia to be wary of the threat of losing its monopolistic position in the region as the largest trading partner, as well as the possible risks for the EAEC. This objectively compels Moscow to strengthen its measures to isolate Central Asia from any external forces, which are contrary to the strategic plans of China—to develop transport and logistics infrastructure and the involvement of Central Eurasian countries in global markets. The uniqueness of the situation in the region is that China voluntarily or involuntarily finds itself taking the side of Washington.

In turn, Beijing is concerned about Moscow's ability to maintain security in the region in the long term. And that is why China has already started thinking about their own instruments and maintaining China-oriented security mechanisms. In addition to traditional measures of supporting the armies of the weakest countries in the region, i.e. the armed forces of Tajikistan and Kyrgyzstan, Beijing has started to build a four-sided security agreement between China, Pakistan, Afghanistan and Tajikistan.²⁷ Given that Dushanbe is a formal ally of Moscow within

²⁵ Vasily Kashin, More Than A Partnership, Vedomosti, August 17, 2016 <http://www.vedomosti.ru/opinion/articles/2016/08/17/653493-bolshe-chem-partnerstvo>

²⁶ Alexander Gabuev, Friends With Benefits? Russian-Chinese Relations After the Ukraine Crisis. Carnegie Moscow Center, June 29, 2016. <http://carnegie.ru/2016/06/29/friends-with-benefits-russian-chinese-relations-after-ukraine-crisis/j2m2>

²⁷ China joins Afghanistan, Pakistan, Tajikistan in security alliance. Reuters,

framework of the CSTO, China's practical steps to implement this policy could lead to clashes with Russia.²⁸

Western participants of the Astana Club are very skeptical as to whether Moscow and Beijing can agree on the division of labor in Central Asia and avoid clashing. Chinese participants also talked about the fact that Beijing's interests largely coincide with the interests of Moscow, but the Kremlin shouldn't attempt to limit its choice of sovereign countries. In addition, any partnership should be built on a market basis.

REGIONAL POWERS

Even though in Eurasia the U.S., China and Russia are still countries that are able to mobilize significant power and financial resources to promote their interests, they are no longer the only major players.

There are strong regional players, whose decisions increasingly influence the behavior of the big powers. And their relationship with global players sets a new dynamic for development, which is especially evident in times of regional crises.

The most marked example of such a crisis is the development of the situation in Syria, where the actions of the great powers such as the U.S. or the Russian Federation are superimposed on the strategy of regional players such as Turkey, Iran and Saudi Arabia. The atmosphere of rivalry can lead to conflicts between the powers. An example of this is the conflict between Turkey and Russia after the incident when the Turkish Air Force shot down a Russian Su-24 bomber on November 24, 2015 in the skies over Syria. Although the existence of shared interests and personal relations between the leaders contributed to resolution of the conflict, which in no small part was helped by a failed coup in Turkey, the likelihood of violent clashes only grows.

The abilities of Washington, Beijing and Moscow to influence the geopolitical processes in Central Eurasia are not in doubt.

August 4, 2016 <http://www.reuters.com/article/us-china-security-idUSKCN10F1A6>

²⁸ Tatiana Baikova, China oppresses Russia in Central Asia, Izvestiya, March 16, 2016, <http://izvestia.ru/news/606469>

However, it is no longer possible to ignore countries such as Germany, France, Turkey, Iran, Saudi Arabia, Pakistan, India and others. They have their own interests in the region and are able to implement them through various economic projects. At the same time the foreign policy and strategic interests of the countries in this group can be the same but can also be in significant conflict with the interests of the "big three," and with the interests of each other.

CENTRAL EURASIA: A GEOPOLITICAL BREAK-UP GAME?

Judging by the discussions within the framework of the Astana Club, most participants considered the main threat to security in Eurasia to be fundamental conflicts of the national interests of the great powers. These conflicts are related not only to pragmatic national interests in the spirit of Realpolitik, but also to the models of values systems and development strategies. Incorrect understanding of the interests and priorities of each other can lead to mistakes and miscalculations.

Firstly, the unpredictable internal dynamics that causes distrust among the great powers can have fatal consequences. In addition to the clash between the powers there is also the risk of a possible surge in instability in one of the regional superpowers. For example, in China, GDP growth has fallen below 7% and is already having an impact on the social situation. The lack of incentive to reform the system increases the long-term risks. Although it should be noted that the CCP is skillfully coping with the challenges.²⁹ Another cause for concern is the situation in the Russian Federation.

"A separate external risk is the weakening and potential loss of stability in Russia, the effect of this could be extremely negative for Central Eurasia," points out one of the members of the Astana Club.

The potential loss of stability in Russia could have extremely negative consequences for Central Asia.

Secondly, another threat is when the interests of regional players are ignored. If before regional powers played though an

²⁹ David Shambaugh, The Coming Chinese Crackup. Wall Street Journal, March 6, 2015 <http://www.wsj.com/articles/the-coming-chinese-crack-up-1425659198>

important, but often a secondary role in addressing key regional problems, now the situation is changing. World powers are more willing to give them the initiative, but they are increasingly using the regional powers to promote their own interests. This is particularly the case in Yemen, as well as in Syria, where the interests of Saudi Arabia, Turkey and Iran openly clashed. Another example is China's desire to use a number of regional powers as an instrument for the successful implementation of the transport and logistics project One Belt—One Road.

At the same time, according to a participant of the Club, "compared with the Middle East, the situation in Central Asia is not nearly as dramatic. There is no state of crisis, no open conflict, no systemic contradictions on an ethnic and religious basis."

Thirdly, due to its geographical position the region is at risk of the instability being exported. "Given the proximity of Western Asia, the spread of non-traditional security threats such as civil wars, terrorism, and the growth of IS, regional stability is a major challenge for Eurasia," points out one expert.

The key question is whether Central Eurasia will become the break-up point or a bridge for collaboration? Is this region able to independently form a relevant agenda in international politics, or is it a subject in the games of the great powers for influence? Undoubtedly, a special role in the process of building confidence between the superpowers should be played by the countries in the region that are interested in constructive cooperation with all the powers in the world.

A good example is Kazakhstan, which pursues a balanced multi-vector policy. Kazakhstan's interest, just like other Central Eurasian countries is to unite the region, returning it to its former geo-economic position.

There is hope that because of the fragility of the situation in Central Eurasia and its importance as a strategic base for many central powers, this region has become one of a few in the world where the big players retain the ability to take into account the national interests of each other and build a responsible course of action.

4. EURASIA AND NEW TRADE AGREEMENTS: A WEB OF OPPORTUNITIES OR A STRANGLING NET?

One element of the growing competition between the great powers in Eurasia and at a global level is the birth of new trade and investment mega-blocs. Because of the WTO crisis and the growing struggle between superpowers to write rules for the global trade, the new architecture will be more polycentric, multiform and competitive.

The key formats are the U.S. promoted ideas of the Trans-Pacific Partnership (TPP) and Transatlantic Trade and Investment Partnership (TTIP), which set the highest standards in the field of labor relations, access to public procurement, intellectual property, regulatory issues, etc.

In addition, each of the global players has its own approach and strategy. China relies on the Regional Comprehensive Economic Partnership (RCEP), and Russia is trying to create the Economic Partnership for Greater Eurasia.

Although Central Asia is not a subject for competition between such geo-economic blocs, the countries of the region highly value the competition between such integration formats. On the one hand, the successful development of such formats as TPP can establish the roles of the countries as raw appendages of the developed countries without any hope of jumping to another level. On the other hand, the persistent efforts of Moscow and Beijing for Central Asian countries to be included in the patronized blocs can create extremely tough conditions for the regional economies.

Obviously, such complex and contradictory processes as the construction of new blocs, cause a lot of different interpretations and disputes. The Astana Club was one of the first to discuss the value of such organizations.

TPP: THE AMERICAN APPROACH

The US did not initiate the TPP, however after the start of negotiations they joined the original four partners (Brunei, New Zealand, Singapore, and Chile) and headed the process. The U.S.'s motivation for the TPP is due to several reasons. Firstly, some corporate players' interest has been to promote their own view of the global regulation of their industries. Second, Washington's geopolitical interests called for adding an eco-

nomical component to its military policy "Pivot to Asia." But the main incentive was the exhaustion of their attempts to modernize the WTO within the Doha Round.³⁰ It is clear that developed and developing countries have not been able to reach deeper compromises. But American business requires them to move to higher regulatory standards. In addition, American business is tired of the protectionism of major developing countries (especially China and India) in their respective markets. Therefore, it has engineered a transition to new rules: the opening of its market in exchange for the opening of the largest market in the world – the U.S.

"The logic is this: it is impossible to move into 8th grade if you continue to wait for the lazy ones who are falling behind and who are happy to remain in the 7th grade. All outstanding pupils need to gather together and move onto the next step while those falling behind either catch up or be stuck forever," says one participant of the Astana Club about the U.S. approach.

That is why TPP is often called an "economic NATO," and it is often noted that the creation of the bloc will undermine the universal rules.³¹ "We drew up all these rules together and tried to adapt to them for a long time, but now we are told that the old rules won't work or in some instances their use will be limited, and that it is now necessary to adopt ones," said one of the experts.

The logic, according to which the TPP will be a universal organization, is based on the fact that the removal of trade barriers and easier access to markets will help ensure that many global added value chains will flow into the TPP and TTIP. This means that the countries that are left outside the agreements will lose the business that moves to TPP/TTIP. This will push them into joining the mega-blocs on the conditions that already exist and open their markets thereby creating equal conditions for

competition.³² "In a way, TPP/TTIP can be compared to Marshall's post-war plan," notes a member of the Astana Club.³³

If the TTIP agreement is signed and the TPP is ratified, Eurasia would be boxed in by American-centered trade regimes from both sides. The next step could be the conclusion of agreements between the two blocs. Or, for example, the agreement between the EU and Japan. In this case, many Eurasian countries risk being left behind which, in the long term, might cause degradation of the global system of division of labor.³⁴

It should be noted that the TPP and TTIP generate huge misunderstandings among those experts who are not familiar with world trade and geo-economics. Among Russian commentators there is the theory that the TPP and TTIP are "a new edition of colonial practices." This, in particular, has even been written by former Chairman of the State Duma Sergei Naryshkin.³⁵

It goes without saying, the implementation of both projects has been called into question in 2016. The U.S. Congress has not yet ratified the TPP, and since it entered the agreement a number of countries have dropped out. It is expected that ratification will be possible after the November U.S. presidential elections, when the Congress will convene for the "lame duck" session. However, the outcome of the vote cannot be predicted. Both Hillary Clinton and Donald Trump have publicly criticized the TPP and are saying they will not support the agreement if elected.

The signing of the agreement on TTIP also faces enormous challenges. The U.S. and the EU cannot agree on a number of key areas. For example, access to public procurement, support for agriculture, the liberalization of the financial sector and

phytosanitary standards. Given the growth of protectionist sentiment in the EU and the role of populist parties increasing, it is unlikely that these issues can be resolved before the elections. At the same time the events surrounding Brexit further complicate the negotiations, in so far as the conditions of the UK's exit from the EU are not yet known.

Accordingly, it is not clear whether London will continue to be able to participate in negotiations on TTIP.³⁶ However, even if the U.S. is unable to ratify the TPP and TTIP under Barack Obama, it is unlikely to force Washington to completely abandon these plans. Therefore, the most likely scenario is the revival of both projects, albeit in a modified form.

RCEP: THE CHINESE APPROACH

The responses of the largest Eurasian countries on the U.S. initiative are different. China is looking forward to signing the Regional Comprehensive Economic Partnership (RCEP), which will reduce tariffs and open markets, though to a lesser extent than the TPP. The idea of RCEP was put forward by ASEAN countries in 2012 during a meeting of the East Asia Summit in Phnom Penh. It was intended to create a deeper partnership on the basis of free trade areas (FTA) between ASEAN and its dialog partners. With the exception of America and Russia which do not have a free trade agreement with the proposed group of countries. Thus, in addition to the ten South-East Asian countries, the bloc should include China, Japan, India, South Korea, Australia, and New Zealand. The Total GDP in 2014 would have been \$22.6 trillion, and the total population of the Member States 3.47 billion people.³⁷ China quickly joined the negotiations and is one of their driving forces.³⁸

Compared to the requirements of the TPP, RCEP requirements should be less strict in relation to the most sensitive sectors for China. These include public procurement, the fight against corruption and intellectual property. RCEP membership will allow Beijing to partly inhibit the potential of business flow from the

30. Council on Foreign Relations Background: WTO <http://www.cfr.org/international-organizations-and-alliances/world-trade-organization-wto/p9386>

31. Jomo Kuwame Sundaram. TPP's Threat to Multilateralism. Global Issues, February 16, 2016 <http://www.globalissues.org/news/2016/02/16/21842>

32. Peter A. Petri, Michael G. Plumer. The Economic Effects of the Trans-Pacific Partnership: New Estimates. Peterson Institute of International Economy. January 2016. <https://piie.com/publications/working-paper/economic-effects-trans-pacific-partnership-new-estimates>

33. Peter A. Petri, Michael G. Plumer. The Economic Effects of the Trans-Pacific Partnership: New Estimates. Peterson Institute of International Economy. January 2016. <https://piie.com/publications/working-paper/economic-effects-trans-pacific-partnership-new-estimates>

34. Ibid.

35. Sergei Naryshkin. Geopolitics: Colonizers' Instincts. Vedomosti, 14 April, 2015. <https://www.vedomosti.ru/opinion/articles/2015/04/14/instinki-kolonizatorov-ili-podopлека-globalnogo-liderstva>

36. Alena Sokolyanskaya. Why the US and EU can't agree on the Trans-Atlantic Partnership. Carnegie.ru, 26 August, 2016 <http://carnegie.ru/commentary/2016/08/26/ru-64348/j3w6>

37. According to the Australia's Ministry of Foreign Affairs: <http://dfat.gov.au/trade/agreements/rcep/pages/regional-comprehensive-economic-partnership.aspx>

38. "Give Play of China's Important Role and Accelerate RCEP Negotiations", a Statement of PRC MOFA, September 1, 2014

PRC in such TPP member states as Vietnam, which, judging by the Peterson Institute of International Economics,³⁹ will be one of the main winners if the TPP is signed. However, against the background of problems with TPP, RCEP is also slowing down. Therefore, the signing of the agreement, which was supposed to take place before the end of 2016, has been postponed until 2017.⁴⁰

However, in the absence of progress on RCEP and in case TPP is ratified, China does not rule out joining the U.S.-led TPP mega-bloc on the already agreed terms.⁴¹ Washington and its partners emphasize that there will not be the "special conditions" for new members. But Beijing is hoping that the chaos in American domestic politics will not allow Washington to achieve this strategic success.⁴²

It is important to note that even if the TPP is ratified, the conditions for the infrastructure components of the Chinese project Silk Road Economic Belt will not change much. The participation of Chinese companies in large infrastructure projects in Asia will be the subject of special arrangements with each country receiving investments. The significance of the TPP is only important for the implementation of that part of SREB associated with the creation of the FTA. In this case the TPP does not alter the existing network around China's free trade zones. It only changes the external conditions of their functioning, contributing to an overflow of value added chains within the TPP.⁴³

BIG EURASIA: RUSSIA'S APPROACH

Russia categorically rejects the TPP, suggesting that the project has geopolitical goals and is aimed at weakening Moscow and Beijing. "The exclusionary creation of rules without Russia's

participation is aimed at isolating those major countries in the region who do not agree with the American dictate, especially China and Russia," points out one participant of the Astana Club, describing the Russian approach.

However, American experts say that the process of joining TPP is very transparent. The applicant country should simply ask to join the union, as did the United States. But Russia has not followed the negotiations for a long time, assuming, unlike China, that it will not be possible to reach an agreement.

After the announcement of the signing of the TPP, the Russian government announced that it will create an alternative format. The first announcement was made in December 2015 during Vladimir Putin's speech to the Federal Assembly.⁴⁴ This partnership, according to Moscow's concept, must consist of the countries from EAEC, SCO (including new members India and Pakistan, as well as a future member - Iran) and ASEAN. The partnership should include the removal of non-tariff barriers in various areas, agreement on the protection of investments, as well as produce technology standards for future products. The first step should be an agreement on trade and economic cooperation between China and the EAEC,⁴⁵ for which negotiations were launched in June 2016. At the moment Beijing is cautious about this project, having decided to wait and let Moscow take initiative in shaping the agenda of the negotiations. "We do not really understand what exactly Russia is offering so we are waiting for clarification from our partners," said the Chinese participants of the Astana Club.

Russia's interest lies in stopping the FTA with China from destroying the EAEC from within, i.e. not allowing it to become too deep and be built based on unconditional acceptance of Chinese standards. This negotiation process will clearly be influenced by events taking place around the TPP. But even if the American initiative fails, the pace of negotiations between EAEC and China will still be slow, and the depth of the agreement will not exceed that of the FTA between the EAEC and Vietnam.

THE CHOICE FOR CENTRAL ASIA

Competing formats leave countries in the Eurasian region with a difficult choice in the field of foreign trade and diplomacy, as well as in the area of structural reforms.

After all, they will need to decide which of the agreements to join. In any case, the consequences for the countries of Central Asia will be extremely important. Given the commodities nature of many countries' exports, as well as the dominant role of the Russian and Chinese markets for all Central Asian economies, the process of creating a free trade zone on the basis of the TPP and TTIP will not have rapid effects on the economy of the Central Asian countries. However, if both partnerships are formed and the existing value-added chains start moving there, the Central Asian countries will remain the suppliers of raw materials without the ability to occupy new niches in the global markets. Plans to diversify national economies will be under threat.

However, these processes already have an important consequence. If Russia and China become the driving forces of forming the economic partnership between China and the EAEC, the impact on the countries of Central Asia will be much more serious. It will include a potential threat to local producers and to import-substitution programs. A response to this may be in carrying out structural reforms to improve the business environment, and help the development of national production capacities. This economic challenge is exacerbated by the changing external conditions, above all by the global drop in commodity prices.

39. Peter A. Petri, Michael G. Plumer, *ibid.*

40. Petchanet Partuangkrai. RCEP talks extended to next year amid hiccups. *The Nation*, September 12, 2016. <http://www.nationmultimedia.com/business/RCEP-talks-extended-to-next-year-amid-hiccups-30295062.html>

41. Sarah Hsu. China and the Trans-Pacific Partnership. *The Diplomat*, October 14, 2015. <http://thediplomat.com/2015/10/china-and-the-trans-pacific-partnership/>

42. Barry Naughton, Artur R. Kroeber, Guy de Jonquieres, Graham Webster. What Will the TPP Mean for China? *Foreign Policy*, October 7, 2015. <http://foreignpolicy.com/2015/10/07/china-tpp-trans-pacific-partnership-obama-us-trade-xi/>

43. Peter A. Petri, Michael G. Plumer, *ibid.*

44. Text can be found on the official website of the Kremlin: <http://kremlin.ru/events/president/news/50864>

45. See the declaration at the website of the Eurasian Economic Commission: <http://www.eurasiancommission.org/ru/nae/news/Pages/28-06-2016-1.aspx>

**5. IN THE DEPTHS
OF THE EURASIAN ORES:
THE END OF
A COMMODITY
SUPER-CYCLE?**

The past year has shown that the hopes for a speedy recovery of the prices for commodities, and the return of the price of hydrocarbons to above \$100 per barrel, were overly optimistic. The fall in commodity prices observed in 2014-2015 may be structural in nature. The influence of dynamic forces on global markets, from the "shale revolution" in the United States to the transition to a new, more resource-efficient technological structure on a global scale, will radically change the economic policy of resource countries. Central Asian countries, part of the Eurasian region, are where the problems can be felt the most.

OIL PRICES: UP THE STAIRCASE THAT LEADS DOWN

Many of the world's leading analysts point out that the only truth when trying to predict the price of oil is that it is impossible to predict it. The range of expert opinions on how the world's energy sector will be developing, is extremely broad. For example, forecasts by the U.S. Energy Information Administration (which traditionally reflects consumers' expectations) and BP oil company (which expresses the aspirations of energy producers), highlight completely different factors that may define future price dynamics. The U.S. Energy Information Administration⁴⁶ predicts that the leading trend will be growth of the generation of electricity close to the locations of its consumption. This will happen due to the increased efficiency of the use of renewable energy sources, such as solar and wind, which could seriously affect demand from households. They also predict a continuation of the technological revolution that will reduce the cost of the production of "shale" oil and gas and will allow to recover reserves at complex deposits. Due to the desire to reduce carbon dioxide emissions, natural gas consumption will increase. Although it was noted in the forecast that oil prices in the long term can still grow, the growth is assessed as insignificant. Besides, if global central banks continue the policy of competitive devaluations, a significant proportion of the growth may be offset by the dollar inflation.

46. Annual Energy Outlook 2016 with projections to 2040. U.S. Energy Information Administration. August 2016. [https://www.eia.gov/forecasts/aeo/pdf/0383\(2016\).pdf](https://www.eia.gov/forecasts/aeo/pdf/0383(2016).pdf)

BP's Report "BP Energy Outlook to 2035"⁴⁷ indicates a positive trend for the oil industry. According to the oil company, the increase in energy consumption between 2014 and 2035 will be 34%. At the same time, world GDP will double during the twenty years: 20% of this growth is due to demographics, as the world population is expected to increase by 1.5 billion—to 8.8 billion. The other 80% will be achieved as a result of increased productivity. Hydrocarbons (oil and gas) will account for 60% of the increase in demand, and their share in the total world matrix of energy supply will be around 80%. This will be due to a fall in the share of coal. The share of renewable energy sources will grow, but will not exceed 9% of the global matrix of energy supply by 2035. As for oil prices, they will grow. The current level of low prices, BP analysts say, will hit manufacturers, including the companies who were the pioneers of the "shale revolution." All this will spur consumption. According to BP, China will remain the main driver of demand.

Only time will tell which of these forecasts is more realistic. Today we can say that most analysts downplayed the role of technology and the speed of their development, which seriously reduced the cost of production. The belief that oil companies are so powerful they can delay the appearance of technologies in the market is not justified. The trend of recent years, when the capitalization of technology companies began to outpace the capitalization of traditional hydrocarbons producers, indicates a shift of power in the global economy. Technologies have become more important than access to resources. In any case, one of the most important factors determining the dynamics of commodity prices will be China.

CHINESE DRAGON: HOW STABLE IS THE APPETITE FOR RAW MATERIALS?

Deceleration of the Chinese economy is one of the most important factors determining the price of oil and other commodities and therefore has been laying the foundation of all macroeconomic models. China's growth is falling, and it will never return to a GDP growth rate above 10% per year, typical for the country in the 1980s, 1990s, and 2000s. This is agreed by the experts of the Astana Club.

47. BP Outlook to 2035 — energy use to rise by a third <http://www.bp.com/en/global/corporate/energy-economics/energy-outlook-2035/energy-outlook-to-2035.html>

"The so-called super cycle of commodities caused by the three decades of China's growth of above 10% per year, has come to an end. It is unlikely that we will see the emergence of another cycle," underlines one expert of the Astana Club.

China's economy grew 6.9% in 2015. Growth in 2016 is projected to range between 6.5% and 7%. However, many economists doubt the validity of even these estimates because of distrust of the Chinese statistics. In addition, experts doubt China's ability to grow at a rate of 5–6% per year if the price of this growth will be quicker accumulation of domestic debt. According to estimates of McKinsey & Co, China's debt to GDP reached 281% in 2014. Now, according to various sources, it ranges from 250% to 300%. This is less than the level of debt in the U.S. and Japan, but in China debt growth occurs at a much lower level of GDP per capita. Besides, China's model of economic development is centralized, and its inefficiency is recognized even by the authorities. This was even said in the speeches of the Chinese Premier Li Keqiang. Analysts point out that achieving high growth by increasing debt is a road to nowhere. China is better off sacrificing growth for the restructuring of its debt portfolio.⁴⁸

In its reforms Beijing relies upon reducing the role of investment in the infrastructure and a transition to domestic consumption as the main driver of growth.⁴⁹ Under these conditions, a decrease in consumption should be expected, first of all in basic metals that are needed for infrastructure development, as well as in hydrocarbons. More economists predict a drop in the prices of exchange commodities, due to the deceleration of the Chinese economy.⁵⁰ The biggest losses so far are being suffered by mining companies.⁵¹

None of the possible scenarios of the development of the Chinese economy is good news for countries specializing in the

48. Michael Pettis. China's Rebalancing Timetable. China Financial Markets, November 29, 2015 <http://blog.mpettis.com/2015/11/chinas-rebalancing-timetable/>

49. Barry Naughton. Supply-Side Reform by Mid-Year: Compliance, Initiative and Unintended Consequences. China Leadership Monitor. Fall 2016: Issue 51.

50. Paul Cashin, Kamiar Mohaddes, Mehdi Raissi. China's Slowdown and the Global Market Volatility: Is World Growth Losing Out? International Monetary Fund Working Papers, March

51. Sarah Gordon. Which industries will be hit hardest by China's slowdown? World Economic Forum, January 20, 2016 <https://www.weforum.org/agenda/2016/01/which-industries-will-be-hit-hardest-by-china-s-slowdown>

production of raw materials. If Beijing is successful in carrying out economic reforms, this will require a sharp slowdown in infrastructure construction, and more focus on efficient use of natural resources, therefore reducing its consumption. If the Chinese authorities are unable to solve the problem in time, China's financial system and then the whole economy may be faced with a "hard landing" in the form of a sharp drop in GDP and an even more drastic reduction in the consumption of resources.

THE CHOICE OF CENTRAL ASIA

The Astana Club's experts agree that despite the fact that natural resources will continue to play an important role in the global economy, the "golden age of the commodity super-cycle" has ended. In such circumstances, countries whose main source of income was the export of hydrocarbons and metals will face new challenges. Budget revenues will fall, which will require a reduction in costs and a search for new sources of growth. Diversification of the economy, structural reforms and improving the investment climate are no longer simply a formula—they are becoming an urgent need.

"A change of the global economic paradigm and the end of the resources era is a serious challenge for those countries of Central Eurasia that receive a significant share of GDP from resources," sums up one of the experts.

At the same time countries in the region will have to look closer for potential niches in the global division of labor, which will be determined by the configuration of trade and investment mega-blocs. Projects on improving the infrastructure of the megacontinent's connectivity will be faced by new challenges. With the decline of the role of natural resources, as well as in the case of the formation of the closed blocs around the TPP and TTIP, the attractiveness of such projects would be called into question. On the other hand, countries that remain outside of Western-led formats will be even more interested in the development of a physical infrastructure to improve their connectivity with Europe and the development of alternative formats of macro-regional integration such as SREB.

The response of Europe and the United States to the economic crisis, which has been ongoing since 2008, is the transition

to a new stage of development. This may include new technological practices (Industrial Revolution 4.0), and the return of production from the developing world. In this instance, the ability to implement the "catching-up" strategies will be severely limited for developing countries because capital flows to the developing world will be reduced. The increasing hierarchization of the world economy is also bad news for the Central Asian countries and underdeveloped parts of Eurasia. International transit is one of the niches that the Central Asian countries can count on in these conditions.

One important response could be measures to stimulate the development of the domestic markets, which will require governments to undertake deep structural reforms. The 25 years' experience of independence of post-Soviet countries and the uneven experience of transformation in many Eastern European countries, as well as, subject to a few exceptions, the lack of reforms in the Middle East suggests that the transition will be difficult. As noted by one participant of the Astana Club, "the cycle of low oil prices will put pressure on Central Asia and will push countries to implement structural reforms. But so far only Kazakhstan has made some progress in this direction." However, in conditions of low domestic and external demand, only successful reforms will lead to an influx of foreign capital.

"Failure to diversify the regional economy, the departure from reliance on the resource extraction industry and the impossibility of economic reform will limit the potential of the region to attract foreign investment," categorically states one participant in discussions at the Astana Club.

EURASIA'S INFRASTRUCTURE: A CROSSROADS OR DEAD END?

A new source of Eurasia's economic growth should be improving transportation links in the region through the development of land routes. However, many projects and routes are competing. The SREB project (China) and TRACECA project (EU), as well as a dialog between Russia and China (started in May 2015) on aligning the EEU and the SREB initiatives, promote horizontal Asia-Europe routes. At the same time, America's project New Silk Road is focused on improving the connectivity

of Central Eurasia with the Indian Ocean basin through Afghanistan and Pakistan, rather than with China or Europe.

Ideally, all these projects could be mutually complementary. The competition based on market principles would allow manufacturers and exporters to develop optimal supply chains and more effectively use the transit potential of the region. Thus, from being "the end of the world" and "dead end," Central Asia would become a bridge between at least three global centers of economic growth: the giant EU market, huge China and dynamic South Asia led by India.

"Eighty percent of world trade passes through sea routes. Some countries may consider it a vulnerability, so they will choose the SREB initiative and routes through Central Asia that represent an alternative," said one of the Club members.

However, several factors hinder the development of such cooperation. One of them is the low commercial domestication of such routes. Another important factor is foreign policy competition and the suspicion accompanying each of the initiatives. All these issues were discussed within the Astana Club's framework.

CHINESE SILK ROAD: ARE THERE ANY RESULTS?

The Chinese Silk Road Economic Belt (SREB) initiative and supplementary oceanic component Maritime Silk Road of the 21st century was announced by Xi Jinping in Astana in September 2013 and has triggered heated debates. Together, both projects became known firstly as One Belt - One Road, and then in 2016 as just the Belt and Road. Opinions about the project vary widely as was seen in during the meetings of the Astana Club. No one denies the value of the project.

"The whole discussion about Eurasia as a single geopolitical and geo-economic structure was caused by China's Belt and Road strategy," admits one expert. However, specific estimates vary.

Chinese participants stressed that the SREB is an exclusively economic project. The most important aspect for Beijing is to help in the development of neighboring countries. China simply wants to share its phenomenal development over the last 30 years with the outside world and thereby contribute to strengthening peace and security throughout Eurasia.

"The Belt and Road project opens up the opportunity for countries in the region, especially for countries in Central Asia and the South Caucasus, to restore their historical significance as corridors linking China and Europe," says one participant.

At the same time, many participants of the Astana Club representing the U.S., EU and Japan react to the Belt and Road project with a large dose of skepticism. Primarily, many of them have doubts about the sincerity of Beijing's intentions. Some believe that the SREB will become a tool for the Chinese colonization of Central Asia. Others with a softer opinion believe that China wants to solve its domestic problems using this mega-project. First, China wants to gain access to raw materials, find new markets for Chinese products, export excessive and environmentally harmful production facilities and create more jobs. "All these projects that are promoted by external forces especially such as One Belt - One Road are aimed not at solving the problems of Eurasia but at solving the problems of those countries that promote them," says one Western member of the Astana Club.

The participants are also skeptical about the benefits that the SREB can give to countries of Central Asia in the future. One reason is China's desire to develop relations with rich and advanced Europe, which could become a new market for Chinese products and use Chinese infrastructure solutions. In this scheme Central Asia plays only a transit role without creating any added value.

"China is much more focused on strengthening its relations with Eastern Europe than Central Asia," says one European commentator. "Unless the region starts developing its own markets, no transit projects will change it," says another expert.

The fact that no great results have been achieved in the three years since the project was announced has also raised some doubts about the SREB initiative. This is evident, for example, if we look at the level of investments. Established in 2014, the Silk Road Fund has so far completed only three deals: financing the construction of a hydropower plant in Pakistan together with other Chinese institutes of development; helping a Chinese company to buy a stake in Italian tire manufacturer Pirelli; purchasing shares in the Russian project Yamal LNG.

"Too many Eurasian countries are experiencing euphoria from the Belt and Road project. They all consider themselves to be transit hubs and expect large-scale investments, but they are all competing for their place in this project," notes one expert.

CENTRAL ASIA: A DEAD END OR A BRIDGE?

And yet the complementarity of transport projects could become the basis for interaction of the great powers in Central Eurasia. At least in the field of logistics. The main driver of the process is largely China supporting its initiatives with promises to provide large-scale credit facilities. In addition, Beijing promises to make infrastructure investments through new institutions like the Asian Bank. On the other hand, in the context of the New Silk Road, the U.S. promotes the idea of growing the vertical connectivity of Eurasia—from Central Asia to the Indian Ocean. Furthermore, Japan intends to develop its infrastructure initiatives in Central Eurasia after promising to allocate \$110 billion.

"Eurasia may get large benefits from Chinese, Indian and Japanese investments in projects improving the infrastructure connectivity of Western Asia and Eurasia," concludes one participant.

An abundance of transport routes will, of course, be beneficial to the countries of Central Asia, the Caucasus, and many neighboring states as it helps to overcome their isolation. At the same time, competition among routes will raise tensions between the great powers, reinforce the geopolitical risks and reduce their attractiveness. One of the key issues is whether the U.S. has

the sufficient managerial capacity to implement their concept. And, secondly, whether China has enough resources to implement the SREB project against the background of China's GDP growth slowdown and growing concerns about bad debts.

Both the political risks and inadequate regulation create obstacles for commodity flows. The lack of clear and generally accepted economic calculations of different routes increases the state of uncertainty. Security-related risks are not just confined to the competition between various projects. Indeed, in the case of implementation of the transport initiatives and improvement in inter-region connectivity, the possibility of migration increases. China has already faced security issues after a terrorist attack on the Chinese Embassy in Bishkek in August. It is clear that the implementation of transit transport routes through Central Asia is not only a geopolitical contest for the great powers, but also the issue of guaranteeing security against terrorist threats. To overcome all these problems, a platform will be needed for dialog—involving both businesses and representatives of national governments and security specialists.

A separate issue is how funds will be raised for the construction of the infrastructure and the development of investment projects. Regional financial centers could become an important source of such financing, such as the AIFC that is being created in Astana.

6. EURASIA'S HUMAN CAPITAL: A SOURCE OF INSTABILITY OR WEALTH?

Amidst worsening geopolitical contentions, an increase in ideological and religious conflicts, the global economy's transition to a new technological structure and changes in economic conditions in resource-producing countries, the issues of social stability and human capital development have become particularly acute. First come the migration issues. As at the dawn of the Middle Ages, when climate change and the emergence of passionate nomadic empires resulted in the migration of large masses of people, so today changes in the global economic structure, coupled with increasing tensions, have resulted in significant migration flows. Obvious examples are many countries in the Middle East, where in the aftermath of the Arab Spring the population swept into more prosperous countries in the region or to the EU.

THE MIDDLE EAST GETS CLOSER: MIGRATION, RADICALIZATION AND CHALLENGES FOR SECULAR COUNTRIES

Migration and the change in the ethnic and religious composition of societies have already become a problem not only for developing countries but also for successful developed European countries. The wave of terrorist attacks through France, Germany and Belgium in 2016 has called into question the foundations of the European concept. In particular its fundamental principles of freedom of movement, tolerance and multiculturalism. Extreme right sentiments and the desire to restrict migration and protect traditional ways of life have gained popularity as a result of the growth in radical Islamic terrorism. For example, France has introduced restrictions on the wearing of traditional Islamic clothes. A negative attitude to migration was one of the main reasons for the victory of Brexit supporters in the June referendum in the UK. The consequences of these phenomena are still difficult to predict since the increased pressure on the Muslim population in Europe may lead to further radicalization of young people and the expansion of underground Islam in the EU. The political consequences include the strengthening of the electoral positions of Right-wing parties. For instance, the National Front in France.

Many experts of the Astana club are confident that the events in Europe and the migration crisis faced by the EU are echoes of deeper problems caused by the aftermath of the Arab Spring and attempts to transform the Middle East. "One of the main challenges for the region is the globalization of the public life and of Islam as a religion, which, in a democratic society, can lead to clashes and intensification of nationalism and religious radicalization," says one expert. "The main confrontation will unfold between the modernist projects of secular states and radical religious movements. Political elites will have to modernize not only for their own citizens but also with the preservation of the State in mind," says another member of the Astana Club.

INDUSTRIALIZATION 4.0: ARE PEOPLE NEEDED?

The human capital issue has one more important aspect: a technological one. It is no wonder that the phenomenon of Industrialization 4.0 has caused serious debate this year.

A new industrial revolution started in Germany has influenced much of the world and has led to deep changes in the labor market.⁵² Similar to the industrial revolution in Britain two centuries ago, the current German one has led to a significant increase in production efficiency.⁵³

However, the overall effect on the economy is accompanied by uncertainty over its social impact. As a result of scientific breakthroughs many millions of people could lose their jobs. In manufacturing automation largely reduces the role for humans. Modern machines are far less unpredictable and far more economical in the consumption of resources. And, the pace of innovation makes industrial machines cheaper. These trends may become the basis for unrest and new waves of migration.

⁵² The Fourth Industrial Revolution. World Economic Forum, January 2016 <https://www.weforum.org/agenda/2016/01/the-fourth-industrial-revolution-what-it-means-and-how-to-respond/>

⁵³ Dominique Barr. Manufacturing's Next Act. McKinsey Global Institute <http://www.mckinsey.com/business-functions/operations/our-insights/manufacturings-next-act>

CONSEQUENCES FOR CENTRAL EURASIA

Many parts of Eurasia, including Russia and Kazakhstan, are at risk. The southern periphery of Central Asia is especially vulnerable as in the case of political and economic cataclysms it may face migration from Uzbekistan, Tajikistan and Kyrgyzstan.

People-related challenges are not limited to migration issues. In a changing environment many governments face a difficult dilemma. On the one hand, the population becomes a threat to social stability and therefore governments should take measures to limit negative media influence and expand social-oriented programs. At the same time resources to implement such programs are diminishing and attempts to restrict information have led to degradation in the quality of human capital.

On the other hand, attempts to increase the human capital development level through promoting education, internationalizing the population and increasing the role of civil society has promoted greater autonomy of these societies. And, most importantly, it has led to greater requirements in the quality of public administration institutions. Under new economic conditions, where the quality of human capital becomes a key element for competitiveness of any country, and in the global radicalization of the masses, a completely aligned social and educational policy and a structural reform program similar to the 100 Steps program adopted by Kazakhstan are required.

7. CONCLUSION

Today we are at an extremely interesting and very important stage of our development. Probably for the first time in 25 years, no one in the world has a clear understanding of the nature of the ongoing processes or is absolutely confident that he or she knows our big world and its rules. This equally applies to the economy, politics and, most significantly, ideology.

Surprisingly, no one currently has absolute dominance. There are no more just "teachers" and "students" like 25 years ago. Now it is possible to say that the "students" have mostly learned how to follow the new rules and the "teachers" are now facing their own challenges that are not easy to handle. For example, there is absolutely no question any more about promoting basic ideological values of the Western world in new territories, as until recently seemed a natural element of globalization process around the world. Now these values must be protected at the heart of the West and not only from migrants coming from the East who live by different rules and bring these rules with them. Today they need to be protected from the impulsive response of Western societies who are increasingly wary of external influence and may become prone to isolation.

Isolation is hypothetical but still highly probable, and it is becoming a major threat to the modern global world. Its advantages are not very obvious even for those who, as is maintained outside the Western world, are the main beneficiaries of globalization processes. Countries increasingly start to think about their own interests in a challenging environment in the world economy and international relations.

Today no one can say they have no problems. And maybe this is the perfect situation to preserve global peace. Although the circumstances today look like a return of the Cold War period, perhaps this is just a rearguard action, because today there are no unsolvable disagreements and no opposing ideologies. Like never before in history, basic interests are related to "goods for money" relations, this time on a global scale.

Open conflicts are too great a luxury nowadays. Today is the time of accountants and any conflict in the first place is a set of numbers: the balance sheet of assets and liabilities.

Therefore, all the discussions about the advantages or disadvantages of old and new integration projects, both continental, such as the European or Eurasian Unions, and trans-continental, like the TPP and TTIP, it is a question of interests and figures closely related to them, as well as of competition. It is obvious that they all reflect a desire to find new prospects for development which in the current environment means finding opportunities for global peace. Because global peace is better than isolation.

In this sense, the development of the Central part of Eurasia helps create new opportunities. And it is not just that world trade is returning to the center of the continent from where it left 500 years ago, though this is of enormous historical significance. It is important that new markets are engaged in the global economy and create new demand. At the same time, it is also important because this opens up new opportunities for land locked countries in the central part of Eurasia. These countries situated between the great empires of the past and the future get another chance for their own development and for the global world.

In many respects 2016 was a landmark year for the whole world, setting forth the outline of a very turbulent future. Political systems regarded as exemplary put forward leaders obviously disliked by large parts of the society. The checks-and-balances systems are faltering and populists are getting the opportunity to dictate their own agenda. Differences between the great powers are intensifying, leading to local conflicts or geo-economic confrontation. And finally, many countries are facing serious internal challenges triggered by the incorrect governance decisions from previous years. The search for collective responses at an international and regional level is desirable but not an inevitable scenario. In these circumstances, maintaining dialog has become one of the most

important values, and platforms supporting communication between different centers of power have come to the forefront as generators of breakthrough ideas capable of bringing Eurasia and the world out of ideological crisis.

It is in these difficult conditions that the Astana Club continues to be a global platform where leading experts representing key global players can speak openly about the fate of Eurasia—a megacontinent that is maintaining its importance. Expert discussions should help the transformation of discourse in Eurasia, turning it from confrontation to rigorous analysis and a search for a balance of interests, which could help turn the region from a place of global games that break it up to a place for promoting cooperation and building trust.
