Citation for published version

Sanghera, Balihar and Satybaldieva, Elmira (2018) Global capitalism in Central Asia and competing economic imaginaries. openDemocracy .

DOI

Link to record in KAR

http://kar.kent.ac.uk/67360/

Document Version

Publisher pdf

Global capitalism in Central Asia and competing economic imaginaries

oDR
Russia and beyond

Balihar Sanghera and Elmira Satybaldieva 18 June 2018 (2018-06-18T15:26:20+01:00)
For the US, Russia and China, Central Asia is a space of competing economic influences.

Khan Shatyr entertainment centre. Photo CC BY 2.0: Ben Dalton / Flickr. Some rights reserved.The US, Russia and China have competing visions and strategies of economic development in Central Asia, partly in response to economic problems and contradictions in their own advanced and emerging capitalist economies. In seeking to regulate Central Asia, the major powers are also competing to shape global capitalism and the international order. Central Asia offers an array of economic opportunities for major powers, including access and control of valuable natural resources, favourable terms of trade and efficient trade routes.

In recent years, two economic regional integration initiatives have propelled Central Asia from the periphery to the centre in geopolitics. First, the Eurasian Economic Union (EEU) was established by Russia, Belarus and Kazakhstan in 2015, with Armenia and Kyrgyzstan joining later. The EEU introduces the free movement of goods, capital, labour and services, and provides for common policies in macroeconomic and industrial spheres. There are plans for greater economic integration and harmonisation, and for its expansion and cooperation with countries from South Asia and Middle East. It operates through supranational and intergovernmental institutions, and is largely modelled on the European Union.

Second, in 2013 President Xi Jinping of China proposed the Belt and Road Initiative (BRI) to create trade and infrastructure network connecting Asia with Europe and Africa along ancient trade routes, such as the land and maritime Silk Road. Since then, many Central and South Asian countries have signed cooperation agreements with China to invest in roads, railways and transport hubs, as well as in mines, factories and plants. Many of the BRI investment proposals have been approved and are at the planning stage, and some have been completed, such as the Khorgos Gateway dry port in Kazakhstan.

Russia's EEU and China's BRI contrast with the dominant neoliberal Washington Consensus model, which is promoted by US-backed international financial institutions, such as the International Monetary Fund (IMF), the World Bank and the Asian Development Bank. Since the collapse of the Soviet Union in 1991, neoliberal reforms have been standard economic prescriptions in Central Asia and other parts of the world. Kyrgyzstan and Kazakhstan have adopted many of the measures, such as the IMF macroeconomic framework and de-regulation of trade and capital, though other Central Asian economies have been more cautious, and have retained strong state controls over industries and markets.

The Washington Consensus

Neoliberalism developed as a macroeconomic doctrine in response to the crisis of Atlantic Fordism in the west. It was used to valorise private enterprise, to be suspicious of the state, and to fetishise the free market. For over two decades, western-dominated international development agencies promoted structural and institutional market reforms in transition and developing economies under the banner of the Washington Consensus policy agenda. Their "super-vision" resulted in de-territorialisation, globalisation and market integration between developed and developing economies. Neoliberal reforms opened up key economic sectors to foreign investment, reduced trade tariffs and subsidies, de-regulated and privatised public utilities, and strengthened and expanded private property and the judiciary. Foreign and private investors seized opportunities to extract rent through the ownership and control of key assets, such as oil fields, mines, quasi-monopolies and money. The neoliberal economic growth regime has been characterised by David Harvey as "accumulation by dispossession".

Drilling platform “Iran Khazar” in operation on a Dragon Oil production platform in the Cheleken field, Turkmenistan. Photo CC BY-SA 3.0: Wikimedia Commons. Some rights reserved.After the collapse of the Soviet Union in 1991, western development agencies helped to frame and regulate the transition to a market economy in Central Asia. Kazakhstan and Kyrgyzstan were favourably compared to other countries in the region on a number of indicators of market transition, including price liberalisation, large-and small-scale privatisation, and trade and foreign exchange system. Western companies were among the major beneficiaries of neoliberal reforms, acquiring and controlling lucrative assets, including quasi-monopolies.

The US is one of the leading sources of foreign capital in Kazakhstan, and the majority of its investment is in the oil and gas sector. US corporations were among the first foreign investors to establish ownership and control in the sector. In 1993, two US oil corporations, Chevron and ExxonMobil, established a 75% stake in Tengizchevroil, a leading Kazakhstani oil company. Recently, the US corporation General Electric signed a strategic partnership with the Kazakhstani state railway company, Temir Zholy, giving the former 50% stake in the latter.

In addition, the neoliberal reforms sought to separate commercial banks from the central bank, liberalise interest rates, restructure and privatise state banks, and allow the entry of foreign banks. Since the early 1990s, western-backed international financial institutions have provided substantial credit and technical training to many banks and microfinance institutions in Central Asia, in particular Kazakhstan and Kyrgyzstan.

US-led financial institutions were instrumental in creating open spaces of trade, capital and finance flows in Central Asia

Commercial banks and microfinance institutions in Kazakhstan and Kyrgyzstan are strongly integrated into the global circuit of capital. In the 1990s and 2000s, these states heavily borrowed from US and other western financial institutions through syndicated loans, securitisation and issuance of bonded debt to fund a rapid expansion of credit. In Kazakhstan, the share of foreign currency lending (especially in US dollar) in the total bank credit was 71% in 2001, and 47% in 2009.

US-led financial institutions were instrumental in creating open spaces of trade, capital and finance flows in Central Asia, in particular Kazakhstan. Western companies seized opportunities to extract rent through the ownership and control of scarce assets, including natural resources and money.

The neoliberal economic imaginary also resulted in volatility, debt, insecurity, criminality and violence in Central Asia. For instance, in 2014 and 2015, the Kazakhstani tenge devalued against the US dollar that increased the debt of individuals and companies who had borrowed in dollars. The rate of non-performing loans rose to alarming levels, and some major banks were bailed out by the state. The easy access to off- and onshore centres, in particular the City of London, incentivised public corruption and rent-seeking activities by political elites, and facilitated illicit and licit outflows of capital from Central Asia. In Kyrgyzstan, the scale of looting by Maxim Bakiyev, the son of the then-president, contributed to the overthrow of the government in 2010. These negative externalities of the Washington Consensus were borne by ordinary Central Asian people, who lacked the economic and social capital to protect themselves.

Russia’s Eurasian Economic Union

The EEU can be interpreted as a movement in progress, responding to the chaos and crises of neoliberalism and globalisation. The 1998 financial crisis exposed the vulnerability of Russia and other post-Soviet states to powerful external forces and organisations beyond the control of single nation states. This crisis prompted Russia to have an interest in regional economic integration, which previously it was ambivalent about. The 2007-2008 global financial crisis accelerated the pace of economic integration. Russia betted on the fact that its economy would be less affected by disruptive global economic forces if it was embedded in a larger, more diverse, economic community.

The EEU has similar measures to the European Union to deepen regional integration. It allows for the free movement of labour and services, not just trade and capital. Migrant labour from Central Asia has helped Russia to tackle its labour shortages. A major part of Eurasian regional integration is the customs union, which was formed in 2010 and induced a trade diversion towards Russian manufactures, because the member countries applied Russia’s tariff schedule as their common external tariff for third countries. Kazakhstan’s average tariff almost doubled in the first year of the customs union, improving Russia’s competitiveness. Kazakhstan’s imports from Russia substantially increased, displacing imports from the rest of the world. This resulted in growing scepticism about Eurasian integration in the country.

The formation of the Eurasian Economic Union has allowed Russian industries to be price competitive within the EEU, exploit migrant labour, modernise production, and conduct transactions in roubles

Deep regional integration also seeks to encourage productive investment and cooperation within member countries. The EEU aims to modernise the sphere of production, which was neglected in the 1990s. In 2006 Russia and Kazakhstan established the Eurasian Development Bank to support regional integration through large-scale productive investment. Russia and Kazakhstan have developed cooperative projects in several priority sectors, such as chemical manufacturing and mechanical engineering.

Russia gave soft loans, subsidies and guarantees to secure poorer member countries' commitment to deepen integration, and to address uneven development within the EEU. In 2015 Russia gave loans totalling USD 500 million to establish the Russian-Kyrgyz Development Fund. The Fund's goals include the modernisation of Kyrgyzstan's export-oriented industries (including agribusiness and clothing) to ensure a smooth transition to the economic union. The Fund also issues business loans for productive investment only, and caps interest rates well below the market rates.

To deepen economic integration, Russia, Kazakhstan and Belarus envision a new common currency possibly by 2025. This would ensure greater monetary control and stability, and would insulate member countries from disruptive global economic crises. It would also counter the hegemony of the US dollar and its 'exorbitant privilege'. The international monetary system has been criticised for sustaining the US's excessive military and consumer spending, without imposing austerity cuts to address the US's budget and trade account deficits.

The EEU attempts to de-dollarise the region. Between 2012-2017 the share of rouble settlements in the EEU increased from 56% to 75%, while the share of the US dollar decreased from 35% to 19%. In addition, Russia promotes the rouble in trade negotiations with numerous countries. For instance, Russia signed billions worth of tripartite hydrocarbon deals in roubles with Iran and Azerbaijan.

The formation of the Eurasian Economic Union has allowed Russian industries to be price competitive within the EEU, exploit migrant labour, modernise production, and conduct transactions in roubles. But the EEU faces some obstacles. As the EEU market size is small, Russian companies can struggle to fully realise their economies of scale. The EEU's trade barriers can restrict imports of high quality and innovative products, thereby damaging member countries' technical and long-term competitiveness. Tension and conflicts between member states can threaten the EEU's future viability, as members disagree over key issues, including political sovereignty. Member states also face challenges arising from western-backed sanctions against Russia over its annexation of Crimea.

China's Belt and Road Initiative

By the late 2000s, China faced an overaccumulation crisis, stemming from both overproduction and demand deficiency. Capital accumulated at a rate higher than what could prevented the average rate of profit from falling. Economic decentralisation created a fragmented national economy, in which local governments engaged in anarchic competition to attract foreign direct investment. This nurtured overinvestment and uncoordinated construction of redundant production capacity and infrastructure.

China's economic crisis was exacerbated by its response to the 2008 global financial crisis. Fearing a downturn in global trade would trigger a collapse of the export sector, and then an economic recession and a loss of political legitimacy, the Communist Party quickly introduced a 570 billion USD stimulus package of government spending and credit. The stimulus package did little to re-balance China's economy and its dependence on exports to western markets.

China's BRI is an economic imaginary that attempts to address the tensions and contradictions of its capitalist economy. It re-affirms the model of investment-driven and export-oriented economic growth. It relieves and displaces the crisis in regions of overaccumulation by moving capital to new territories at home and abroad. The existing regime of capital accumulation is enlarged and transformed, as new spatial networks are created, and capital is re-routed to areas that can ensure more profitable returns. The new space is endowed with the necessary infrastructure to create different and faster circuits of production, distribution and consumption.

The three economic imaginaries of Central Asia are attempts by major global powers to address specific dilemmas, contradictions and crises within their own capitalist economies

The BRI attempts to rebalance the Chinese economy by creating new trade routes and markets in Eurasia, South Asia and the Middle East, so that it can become resilient to debt deflation and economic slowdown in the west. The 2008 financial crisis exposed the vulnerable nature of China's economic dependence on the US and Europe for exports and capital accumulation.

China views Central Asia as a strategic region for trade and access to natural resource reserves, such as oil and gas from Kazakhstan and Turkmenistan, and minerals and precious metals from Kazakhstan, Kyrgyzstan and Tajikistan. China used its surplus capital to give loans to Central Asian states to secure energy and resources. For instance, in 2009 China provided 10 billion USD in loans to Kazakhstan in return for access to its oil and gas sector, about 15% of the total oil output.

China helped to fund and build transport infrastructure in Central Asia to increase and speed up transcontinental trade. Kazakhstan's Khorgos has become a key transit hub and logistical centre for cargo on the Silk Road between China and Europe. Khorgos is one the BRI's flagship projects, and is being developed as the world largest dry port. Freight trains from China to Europe increased from 1,000 in 2016 to 1,612 in 2017, though not all of them went through Kazakhstan.

China is also running new freight services to emerging markets. For instance, in 2016 cargo trains started to operate between China and Iran via Kazakhstan and Turkmenistan. In addition, a proposal is likely to be approved to construct a new railway from China to Uzbekistan that will shorten the delivery time of Chinese products to the Persian Gulf countries by 7-8 days.

Several local protests have broken out in Kazakhstan and Kyrgyzstan over China's access to agricultural land and mines, its environmental damage and pollution, and the use of Chinese workers over local labour. Furthermore, the lack of transparency of the BRI projects' terms and conditions has raised fears that political elites in Central Asia are involved in corruption and fraud.

The economic imaginaries compared

The three economic imaginaries of Central Asia (the Washington Consensus, the EEU and the BRI) are attempts by major global powers to address specific dilemmas, contradictions and crises within their own capitalist economies. In trying to manage the crisis of Atlantic Fordism, the US opened up and liberalised other economies to US trade, investment and finance. Russia's strategy to promote deep regional integration and productive investment evolved in response to the neoliberal shock therapy and the 2007-2008 global financial crisis. China's 'going out' strategy aimed to invest surplus capital into other countries' infrastructure and productive projects so as to tackle its overaccumulation crisis.

Despite their historical differences, the global powers' economic imaginaries have treated some capitalist dilemmas and contradictions in a similar way. For instance, in order to secure cost advantages at home and abroad, the US, Russia and China emphasised the importance of the wage as a cost of production. This meant that the US weakened collective labour power at home and moved its production abroad to low-wage countries. Russia used migrant labour from Central Asia to depress domestic wages and to be price competitive within the EEU. China maintained tight controls on wages to secure its export-growth strategy.

The economic imaginaries also highlighted the role of the state to secure internal and external conditions for the valorisation of capital. Their integration into the world economy and the global circuit of capital partly explains these similarities. While there were differences in their treatment of rentier activities and collective production, they recognised the importance of capital as an abstract value in motion.

The global powers' economic imaginaries of Central Asia involved significant discursive, cultural and historical elements. The neoliberal discourse in the post-Soviet space was powerful, because market reforms were associated with broader economic and political values, such as choice, enterprise, individualism, freedom and pluralism. While Central Asia's middle class groups found ideas of openness and competition attractive, the ruling elites were more cautious.

Despite ethnic and religious differences, EEU member countries had strong cultural, linguistic and symbolic ties, because of their shared Soviet history, though this also caused Central Asia countries to be wary of reproducing any remnant of the past. China re-invented the historical connections between China and Central Asia, by comparing the BRI to the Silk Road's ancient network of trade routes. But a history of territorial disputes and Chinese persecution of Turkic ethnic groups such as the Uyghurs have shaped regional distrust of Chinese expansion.

The political legitimacy of global powers' economic imaginaries, or social fixes, have not gone unchallenged, partly because of negative effects in Central Asia. For instance, neoliberalisation in Kyrgyzstan generated social discontent over foreign and elite acquisition of assets, predatory lending practices and household indebtedness. After entering the EEU, both Kazakhstan and Kyrgyzstan experienced economic difficulties. Households either bought inferior Russian commodities or paid higher prices for non-EEU goods. Some Chinese-financed projects were embroiled in controversies over Central Asian kleptocracy. For example, Tajikistan’s ruling elites were accused of fraud when they transformed a BRI highway project into a toll road.

About the authors

Dr Balihar Sanghera is Senior Lecturer in Sociology and Director of Graduate Studies (Taught) at the University of Kent

Elmira Satybaldieva is a research fellow at the Conflict Analysis Research Centre, University of Kent.

Related Articles

Subjects

Related Articles