

Conflict Studies Research Centre



**China & Central Asia:
Present & Future
of Economic Relations**

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Key Points

There is

- * a significant volume of trade between China and Kazakhstan, and a relatively low level between China and the other states in the region;
- * a developing balance of trade in favour of China, and a steady trend towards the consolidation of China's role as an exporter of finished products;
- * a consolidation of the status of the Central Asian countries as exporters of raw materials.

The main problems are:

- * the weakness of the national economies of the Central Asian countries;
- * the remoteness of Central Asia and the interior areas of China from maritime communications and main markets;
- * the numerous trade barriers.

There is great scope for:

- * the acceleration of regional integration in Central Asia;
- * the development of industrial cooperation between China and Central Asia;
- * the integration of the transport systems of China and Central Asia which would benefit the underdeveloped regions of China also.

However, relegating Central Asian countries to raw materials appendages of the Chinese economy will in the long term lead to their economic collapse, and is therefore not in their or China's long term security interest.

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Introduction

The economic upsurge in China at the turn of the century and the way it has successfully adapted to the globalisation process is one of the most significant events of modern times. Whereas in the 1990s, globalisation was called “Americanisation”, it is now to a large extent “Chinification”.

The economy of China accounts at present for about half the economy of the whole of Asia, and the entry of China into the World Trade Organisation (WTO) in 2001 has reinforced its position at regional and global level. Chinese experts estimate that if these trends continue, the Chinese economy will be larger than that of America and the largest in the world by 2015.¹ But what will China’s swift economic growth bring to the regions and countries of the world? Will it bring challenges and/or opportunities? And what will be the ratio of the distribution of these challenges and/or opportunities? These questions are particularly important to the regions and countries bordering China.

This report attempts to investigate the current situation and main prospects for the development of economic relations between China and the states of Central Asia (Kazakhstan, Kyrgyzstan, Turkmenistan, Tajikistan and Uzbekistan),² three of which (Kazakhstan, Kyrgyzstan and Tajikistan) have a common border with China stretching for more than 2,800 kilometres.

For many centuries there was an intensive process of economic, scientific and cultural cooperation between the peoples of China and Central Asia. In the heyday of the Great Silk Road (until the middle of the second millennium AD), the countries of the Central Asia region acted as a transport link between China and Europe. They had the status of well-developed commercial, financial and industrial centres. For a long time, China was an important source of scientific knowledge and advanced technology for Central Asia.

However, the rapid development of maritime transport in the age of the Great Geographic Discoveries (XVI century AD) led to a re-orientation of world trade from overland routes (the basis of which was the Great Silk Road) to maritime routes. The low cost of maritime transport led to the economic and geographic isolation of Central Asia and the intra-continental regions of modern China, which lasted until the middle of the XIX century.

During the second half of the XIX century, when Central Asia became part of the Russian Empire, its economic links were mainly with Russia, and its links with China became weaker. In the Soviet era, when the Central Asian region became

part of the USSR, its relations with China were for all intents and purposes curtailed.

When the countries of Central Asia gained their independence in 1991, there once more seemed to be great opportunities for mutually advantageous economic cooperation with China, and it was logical to assume that, just as in the age of the Great Silk Road, trade would become the engine for rapid economic growth and prosperity in the interior of Eurasia. But is this actually the case? In our view at least, it is far from being the case. Although the disintegration of the USSR has given rise to a substantial growth in the volume of trade, it has not automatically produced a mutually advantageous format of commercial and economic links between China and the Central Asian countries.

The Current Status of Commercial & Economic Relations³

At the moment China occupies an extremely modest place in the foreign trade of the Central Asian states. China accounts for not more than 9% of their external trade, and the countries of Central Asia themselves are not of great importance to China's foreign trade. Their total share is not greater than 0.4% of the overall volume of China's foreign trade (Table 1).

Table 1: Trade Between China & The Central Asian States in 2003⁴

Country	Turnover of commodities between China and the country in 2003, (\$m)			Share of China in the foreign trade of the country, (%)			Share of the country in the foreign trade of China, (%)		
	National Data	IMF Data	Chinese Data	National Data	IMF Data	Chinese Data	National Data	IMF Data	Chinese Data
Kazakhstan	2856	2179	3300	13.6	10.4	15.7	0.347	0.265	0.401
Uzbekistan	216	216	346	3.2	3.2	5.1	0.026	0.026	0.042
Turkmenistan	122	115	99	2.1	2.0	1.8	0.015	0.014	0.012
Kyrgyzstan	96	96	317	8.3	8.3	27.1	0.012	0.012	0.038
Tajikistan	15	10	38	0.8	0.5	2.0	0.0018	0.0011	0.0046
Total	3305	2616	4100	8.9	7.2	11.1	0.402	0.318	0.498

As Table 1 shows, the statistics can vary depending on the source. Typically, the Chinese assessments of volumes of trade are rather different to the data of the Central Asian countries and the IMF. In spite of the considerable differences, the statistics reveal on the whole the main trends in commercial and economic relations between China and the countries of Central Asia.

From here on, in view of the "specific Central Asian circumstances" of this report, statistical calculations will be based primarily on the sources of the states of Central Asia themselves and on the data of leading international institutions. The reasons for differences in the quoted statistical data, if they occur, will be specified for each Central Asian country individually.

China & Kazakhstan

The volume of trade between China and Kazakhstan has tended to grow in the post-Soviet era. Commercial and economic links have grown particularly rapidly since 1999. For example, whereas from 1992 to 1999 bilateral trade increased by a factor of 1.5, it increased by a factor of 5 from 1999 to 2003 (table 2).

Table 2: Trade Between Kazakhstan & China⁵

(\$m)	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Volume of trade	373	428	219	392	495	489	432	556	825	1253	2478 (1337)	2856 (2179)

In 2003, trade between China and Kazakhstan amounted to 2.856 billion dollars, a growth of 13% over the previous year (approximately 13.6% of Kazakh and 0.35% of Chinese trade). The volume of Kazakh exports to China amounted to 1.31 billion dollars (10.3% of Kazakhstan's exports and 0.33% of China's imports), whereas Chinese exports to Kazakhstan were approximately 1.546 billion dollars (18.4% of Kazakhstan's imports and 0.35% of China's exports).

Over 80% of Kazakhstan's exports to China were attributable to raw materials (sources of energy 58%, ferrous and non-ferrous metals 24%). The range of goods exported from China included engineering and metalworking production (approximately 69%), foodstuffs (approximately 9%) and other goods (Table 3).

Table 3: The Structure of the Trade Between China & Kazakhstan (2003)⁶

	Exports from Kazakhstan to China		Exports from China to Kazakhstan	
	\$m	Share, %	\$m	Share, %
Chemical production	68.1	5.2	-	-
Non-ferrous metals	85.1	6.5	-	-
Ferrous metals	229.3	17.5	-	-
Energy sources	758.4	57.9	-	-
Machinery and equipment	-	-	1071.2	68.8
Foodstuffs	-	-	141.1	8.9
Other	168.9	12.9	334.1	22.3
Total	1309.8	100	1546.4	100

The official statistics of Kazakhstan generally fail to take into account the volume of the so-called shuttle trade. The Kazakh Customs Committee estimate that the Sino-Kazakh shuttle trade, at approximately 2-3.5 billion dollars, is comparable in scale to the official bilateral trade.⁷ This explains to a large extent the differences in the figures of international organisations and statistical organisations in Kazakhstan and China in respect of the real volume of Sino-Kazakh trade. Chinese estimates, for example, put bilateral trade in 2003 at approximately 3.3 billion dollars, which is about 16% greater than that indicated in the Kazakh statistical data and nearly 50% more than that indicated by the IMF.

China & Kyrgyzstan

The annual volume of trade between China and Kyrgyzstan in the post-Soviet period has been characterised by irregular variations. The volume of bilateral trade for 1992-2003 grew more than twofold, but is still at a low level (Table 4).

Table 4: Trade Between China & Kyrgyzstan⁸

(\$m)	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Volume of trade	44	72	66	30	43	64	60	62	80	71	97 (98)	96 (96)

In 2003, trade between China and Kyrgyzstan amounted to about 96 million dollars, which corresponds approximately to the level of the previous year (approximately 7.3% of Kyrgyz and 0.01% of Chinese trade). The volume of Kyrgyz exports to China amounted to 23 million dollars (approximately 4% of Kyrgyzstan's exports and 0.005% of China's imports), whereas Chinese exports to Kyrgyzstan were 72 million dollars (approximately 10% of Kyrgyzstan's total imports and 0.01% of China's exports).

Exports from Kyrgyzstan to China included raw materials for textiles (mainly leather and wool – approximately 23%), and ferrous and non-ferrous metal waste (approximately 60%). The range of exports from China included machinery and equipment (approximately 11%), foodstuffs and other consumer goods (approximately 65%) (Table 5).

Table 5: The Structure of the Trade Between China & Kyrgyzstan (2003)⁹

	Exports from Kyrgyzstan to China		Exports from China to Kyrgyzstan	
	\$m	Share, %	\$m	Share, %
Chemical production	2.4	10.4	4.7	6.5
Non-ferrous metal waste and scrap	7.6	32.2	-	-
Ferrous metal waste and scrap	6.4	27.6	-	-
Energy sources	-	-	5.7	7.9
Machinery and equipment	-	-	7.9	10.9
Raw leather and wool	5.3	22.9	-	-
Consumer goods and foodstuffs	-	-	47.7	65.4
Other	1.6	6.9	6.8	9.3
Total	23.3	100	72.8	100

As was the case with Kazakhstan, Kyrgyzstan's statistics generally fail to take into account the volume of the shuttle trade with China. It is thought that it may amount to several hundred million dollars, which largely explains major differences between various sources of statistical information. Chinese estimates for 2003, for example, put bilateral trade at approximately 317 million dollars, which is four times greater than figures quoted in other sources.

China & Uzbekistan

The volume of trade between China and Uzbekistan in the 1990s was low. A growth was seen during the period 1992-1996, whereas there was a reduction during 1997-2000. Since 2001, Sino-Uzbek trade has been increasing once again (Table 6).

Table 6: Trade Between China & Uzbekistan¹⁰

(\$m)	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Volume of trade	5	12	75	64	136	127	72	80	84	107	132	216

In 2003, trade between China and Uzbekistan, at 216 million dollars, grew by more than 60% compared to the previous year (approximately 3.2% of Uzbek and 0.03% of Chinese trade). The volume of Uzbek exports to China amounted to 52 million dollars (1.4% of Uzbekistan's exports and 0.01% of China's imports), whereas Chinese exports to Uzbekistan were 164 million dollars (5.5% of Uzbekistan's imports and 0.04% of China's exports).

Uzbekistan's exports to China included services (48%), machinery and equipment (19%), cotton (4%), foodstuffs (4.6%) and non-ferrous metals (1.5%). The range of exports from China included chiefly engineering products (approximately 48%), chemical products (approximately 19%) and foodstuffs (approximately 9%) (Table 7).

Table 7: The Structure of the Trade Between China & Uzbekistan (2003)¹¹

	Exports from Uzbekistan to China		Exports from China to Uzbekistan	
	\$m	Share, %	\$m	Share, %
Cotton	2.1	4.0	-	-
Chemical production	0.3	0.6	30.7	18.7
Non-ferrous metals	0.6	1.2	-	-
Ferrous metals	-	-	2.3	1.4
Energy sources	2.1	4.0	-	-
Machinery and equipment	9.9	19.0	78.4	47.7
Foodstuffs	2.4	4.6	14.6	8.9
Services	25.4	48.2	14.1	8.6
Other	9.6	18.4	24.1	14.7
Total	52.4	100	164.2	100

As is the case with other countries of Central Asia, it is clear that Sino-Uzbek trade also has a certain amount (although negligible) of shuttle trade, which the official statistics take either little account of or fail to take into account altogether. Therefore, it is likely that the real volume of bilateral trade is somewhat greater. This, at least, is what the Chinese statistics say. For example, they estimate that in 2003 trade between China and Uzbekistan amounted to 346 million dollars, which exceeds by a factor of approximately 1.6 the data given in Uzbekistan's statistics and those of the IMF.

China & Turkmenistan

Commercial and economic links between China and Turkmenistan in the post-Soviet period have been slow to develop. Nevertheless, a steady trend towards an acceleration can now be seen (Table 8).

Table 8: Trade Between China & Turkmenistan¹²

(\$m)	1997	1998	1999	2000	2001	2002	2003
Volume of trade	19 (28)	24 (14)	29 (19)	37 (24)	47 (65)	91 (109)	122 (115)

There are no data for 1992-1996. According to the figures for 2003, the trade between China and Turkmenistan, at 122 million dollars, shows a growth of 10% on the previous year (approximately 2.1% of Turkmen and 0.01% of Chinese trade). The volume of Turkmen exports to China has not exceeded 19 million dollars (0.6% of Turkmenistan's total exports and 0.004% of Chinese imports), and imports from China amounted to 103 million dollars (4.2% Turkmenistan's total imports and approximately 0.02% of Chinese exports).

Exports from Turkmenistan to China have included mainly energy sources (approximately 83%) and cotton and other types of raw materials for textiles (approximately 5%). The range of exports from China has included mainly engineering and metalworking production (approximately 60%) (Table 9).

Table 9: The Structure of the Trade Between China & Turkmenistan (2003)¹³

	Exports from Turkmenistan to China		Exports from China to Turkmenistan	
	\$m	Share, %	\$m	Share, %
Cotton	0.6	3.1	-	-
Other types of raw materials or textiles	0.4	2.2	-	-
Energy sources	16.1	83.1	-	-
Machinery and equipment	-	-	62.1	60.0
Foodstuffs	-	-	15.5	15.0
Other	2.2	11.6	25.8	25.0
Total	19.3	100	103.4	100

Typically, the data contained in the Turkmen statistics and those of the IMF are close to each other, whereas the figures in the Chinese statistics are somewhat lower. According to the Chinese data, for example, the bilateral trade in 2003 amounted to approximately 99 million dollars, which is approximately 15-20% less than the Turkmen statistics or those of the IMF. The proportion of the shuttle trade in Sino-Turkmen relations is apparently small and difficult for Chinese statistical organisations to measure. The Turkmen shuttle business is orientated to a much greater degree towards Iran.

China & Tajikistan

Sino-Tajik commercial and economic links have been extremely slow to develop in the post-Soviet period. This is to a large extent due to the civil war in Tajikistan in the first half of the 1990s and the fact that the two countries are isolated from each other geographically.¹⁴ However, it is likely that Sino-Tajik trade will increase considerably in the near future, because of the opening in autumn 2004 of road communications between China and Tajikistan through the Kulma pass.

At the moment, bilateral trade is on a small scale. From 1992 to 2003, the volume of Sino-Tajik trade fluctuated between 5 and 15 million dollars a year (Table 10). According to IMF, in 2003, trade amounted to 9.7 million dollars (approximately

0.5% of Tajik and 0.0011% of Chinese trade). According to the figures for 2003, Tajikistan's main trading partners are the European Union, Russia, Iran, Uzbekistan and Kazakhstan. Tajikistan's main exports are aluminium (55% of exports), cotton (14%) and electricity (10%).¹⁵

Table 10: Trade Between China & Tajikistan¹⁶

(\$m)	1998	1999	2000	2001	2002	2003
Volume of trade	6	5	15	N/A	N/A	9.7

According to Chinese statistics, the trade between China and Tajikistan in 2003 amounted to 38 million dollars. This is approximately 4 times greater than the data of the IMF and more than twice that of the Tajik statistics. As was the case with Kazakhstan and Kyrgyzstan, this considerable difference appears to be the result of the large volume of shuttle trade, which is virtually ignored by international organisations and statistical organisations in Tajikistan.

Characteristics

In sum, the current format of bilateral commercial and economic relations between China and the five Central Asian states can be characterised as follows:

- a significant volume of trade between China and Kazakhstan, and a relatively low level between China and the other states in the region;
- a developing balance of trade in favour of China, and a steady trend towards the consolidation of China's role as an exporter of finished products;
- a consolidation of the status of the Central Asian countries as exporters of raw materials;
- instability or even sudden leaps in the volume of bilateral trade from year to year.

Firstly, a typical feature of commercial and economic relations between China and the countries of Central Asia is their "unevenness". At the moment, the largest volume of trade is between China and Kazakhstan, and there is a low volume of trade with Kyrgyzstan, Uzbekistan and Turkmenistan. Trade between China and Tajikistan has been and remains negligible.

According to the figures for 2003, the volume of trade between China and Kazakhstan was approximately 86.4% of the total trade between China and all the countries of Central Asia. The figures are estimated to be 2.9%, 6.6%, 3.7% and 0.4% for Kyrgyzstan, Uzbekistan, Turkmenistan and Tajikistan respectively.

Furthermore, according to the official statistics of the Central Asian countries and international organisations, the volume of trade is still not significant either for China or for most of the states in the region. The only exception is Kazakhstan, for which China is an important trading partner (approximately 13.6% of Kazakh trade).

At the same time, unlike the statistics of the countries of Central Asia and the international organisations (Asian Development Bank and IMF), China's statistics seem to take into account to a greater degree the actual volume of trade (including the shuttle trade). Therefore, trade links with China are probably of much greater

importance to the majority of the Central Asian states (principally Kazakhstan and Kyrgyzstan) than their official statistics show.

Secondly, the balance of trade between China and the Central Asian states is characterised by a stable positive balance in China's favour. For example, according to the Central Asian statistics, the figures for 2003 show that Chinese exports to Central Asia were in the region of 1,901 million dollars, more than 35% greater than Chinese imports from the region (approximately 1,404 millions dollars). For Kazakhstan, the surplus of exports from China over imports was approximately 18%, and 212%, 215% and 442% for Kyrgyzstan, Uzbekistan and Turkmenistan respectively.

It is very revealing that China is confidently consolidating its role as a supplier to the region of finished goods. According to the figures for 2003, Chinese exports to the Central Asian states consisted mainly of machinery and equipment (approximately 65%), as well as of foodstuffs and consumer goods (over 30%).

Thirdly, the Central Asian republics are consolidating their role as suppliers of raw materials and natural resources to China. The structure of the trade between China and Kazakhstan and China and Turkmenistan is particularly revealing in this respect – the proportion of raw materials in the exports of these two countries is in excess of 85%. Furthermore, this structure is typical of Kyrgyzstan, which is poor in natural resources and which supplies China with raw material for textiles (mainly leather and wool – approximately 23% of exports) and even (!) ferrous and non-ferrous metal waste (about 60% of exports).

Fourthly, the dynamics of the bilateral trade between China and the states in the region is characterised by an absence of increasing volume from year to year. This is related to the world prices for raw materials. The volume of trade between China and the countries in the region (with the exception of Kazakhstan) is comparatively small, being measured in tens of millions of dollars (from 216 millions for Uzbekistan, falling to 10-15 millions for Tajikistan). As a result of the orientation towards raw materials of the economies of most of the Central Asian countries, the volume of exports from the region very much depends on world prices for raw materials. From 1998 to 2001, there was a fall in prices for the main categories of raw materials supplied by these countries – oil, cotton, gold, aluminium and so on, whereas from 2002 to 2003 there was a growth. Therefore, variations in world prices for different raw materials have frequently caused sharp fluctuations in the dynamics of the bilateral trade between China and the Central Asian states.

On the whole, although there is a discernable stable trend towards increased bilateral trade between China and the Central Asian countries, the current format of economic cooperation between them cannot be called mutually beneficial. For example, in the opinion of a number of experts, “the economic benefits of trading between China and Central Asia seem to have accrued more favourably to China than to the Central Asian countries, considering the terms of the trade between China's exports (including textiles, consumer electronics, food, fertilizers and machinery) and its imports (consisting mainly of mineral, agricultural and animal products)”.¹⁷

The Main Problems Associated with the Development of Mutually Advantageous Economic Relations

The current pattern of economic relations seems to reveal a complex set of problems facing the development of mutually beneficial cooperation between China and the Central Asian countries. Whilst we do not claim to know the full range of problems, we believe that the main ones are as follows:

- the weakness of the national economies of the Central Asian countries;
- the remoteness of Central Asia and the interior areas of China from maritime communications and main markets;
- the numerous trade barriers.

These problems are closely interrelated, and the classification of them is therefore largely arbitrary.

Problem 1: The Weakness of the National Economies of the Central Asian Countries

The collapse of the single economic area of the former USSR has resulted in relatively small economies and weak national producers in Central Asia. The problem is related to a great extent to the fact that the republics of Central Asia¹⁸ occupied a niche within the economic system of the USSR. In Soviet times, the economic activity in the region was aimed primarily at satisfying the needs of the other Soviet republics in terms of raw materials and to a lesser extent finished goods. Thus, a considerable proportion (over 50% according to various estimates) of consumer and industrial goods were delivered to the region from other republics of the USSR, primarily Russia. Intra-USSR imports were also mainly to Russia, and included consumer goods, industrial equipment, and components and spare parts for the economic infrastructure.

Furthermore, as a result of the division of labour established in Soviet times (and the consequent territorial location of production), nearly all the industrial enterprises of the states of Central Asia were and remain very much mutually dependent, both structurally and technologically. In many cases there is no alternative to the existing economic ties between the countries of the region, which are still linked to each other or to enterprises in other CIS states (mainly Russian enterprises).

Against this backdrop, it is clear that the national economies of Central Asia are not comparable in terms of size with China's economy, which accounts for about half the economy of the whole of Asia. "China has rapidly expanded in trade, almost tripling its share of global exports and more than doubling its share of global imports over the periods 1990-2002".¹⁹ Furthermore, according to the Asian Development Bank, "export in China surged by 34.6% in 2003 – after strong growth of 22.4% in 2002 – pushed higher by increased production capacity and a favourable competitive position. Import soared by 41.0%, nearly double the rate of 2002, due to strong domestic demand, higher oil prices, and lower tariffs. China is the world's biggest consumer of copper, tin, zinc, platinum, steel and iron ore; second biggest of aluminium and lead; third largest of nickel; and fourth largest of gold; second-largest oil consumer, and accounted for 35% of the global rise in oil demand in 2003".²⁰

In sum, the economies of the Central Asian countries cannot compete with the Chinese economy. The region is consolidating its role of supplier of raw materials to China and purchaser of consumer goods (not by any means of the best quality by Chinese standards). This has to do to a large extent with the fact that the Central Asian countries trade mainly with areas of the Chinese interior which are relatively undeveloped in terms of industry (for example Xinjiang), rather than with the industrially developed coastal areas. This will lead to the gradual, but steady exhaustion of the Central Asian states, as a result of the drain of capital and loss of processing industries.

Problem 2: The Remoteness of Central Asia & the Interior Areas of China From Maritime Communications & Main Markets

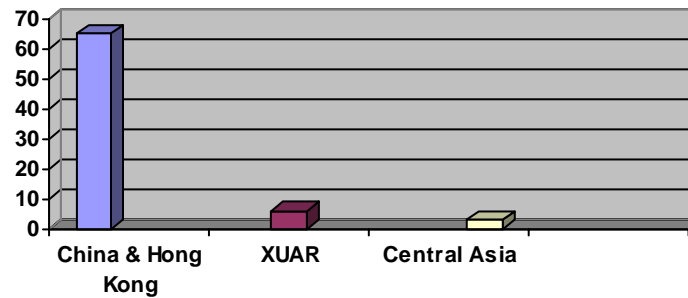
The Central Asian region and the interior areas of China (such as the Xinjiang Uyghur Autonomous Region, XUAR) are geographically remote from maritime communications and consequently from main markets. This problem is particularly severe for the Central Asian countries, whose landlocked status became glaringly obvious after the disintegration of the USSR. Furthermore, Uzbekistan is one of the two countries in the world which are doubly landlocked²¹ (the other is Liechtenstein). Tajikistan's geographical circumstances are even more complicated, since most of its territory is mountainous, and the most effective overland communications are through the doubly landlocked Uzbekistan.

Following the disintegration of the single economic area of the USSR, geography has started to dictate the "rules of the game". A "landlocked country's shipping costs [are] more than 50% higher than those of coastal country. If the country's distance to the coast is halved, all of its trade partners yield an increase of over 70%".²² In this respect, a statement made by a Kazakh spokesman is particularly revealing (Kazakhstan is situated in geographically more advantageous circumstances than most of the other states in the region). It says that "transport costs in Central Asia could amount to 60% of the value of manufactured imports".²³

The interior of China is not significantly different in terms of geography to the Central Asian states. This geography has already predetermined the concentration of China's most developed industrial enterprises on the coast, with the consequent acute problem of the backwardness and underdevelopment of China's interior provinces. "The inland transport costs of moving goods from some remote regions of China to external markets are roughly 10 times the inland transport costs at the other end".²⁴

In sum, the geographical circumstances of Central Asia, which became clear after the collapse of the USSR, and the lack of well-developed transport communications with the industrially developed provinces of China have raised transport costs and reduced the advantages of economic cooperation, and, most importantly, are consolidating the existing format of economic relations. The possibilities of transport communications across Central Asia will be more or less ignored. As a result, the interior provinces of China and the Central Asian region share the key problem of being on the economic and geographical periphery within a system of global economic links.

In these circumstances, the Central Asian countries and the neighbouring areas of China's interior continue to be isolated from international movements of funds. Whereas China (including Hong Kong) receives about 12% of the world volume of direct foreign investment, the figures for XUAR and Central Asia are only 0.9% and 0.4% respectively (Diagram 1).

Diagram 1: The Distribution of Direct Foreign Investment in 2003 (US\$bn)²⁵

Problem 3: Numerous Trade Barriers

There are numerous trade barriers between China and the Central Asian countries, both official and unofficial. A reflection of this - the so-called spaghetti bowl effect - are the various rules and measures associated with different trade agreements. Since every state has its own mini-regime for trade, the existence in one country of different commercial procedures for different trade partners is normal.

The difficulty of manoeuvring in the diverse and relatively complex regimes of differing trade agreements, as well as cases of incoherence in agreements with additional members, result in increased costs and administrative expenses. This can also regularly put political difficulties in the way of processes of regional integration in Central Asia and in the way of cooperation with China.

The problem is magnified by the fact that many Central Asian countries try to raise the cost of transporting goods across their territory. They are frequently motivated by considerations of short-term gain, and disregard the interests of neighbouring countries and partners and their own long-term interests.

This, together with the widespread practice of so-called unofficial payments (extortion, bribes, general disorganisation on routes and so on), leads to a hefty increase in the cost of transporting goods (by a factor of 3, according to some estimates).²⁶ "If some of the restrictions (in trade) that currently exist between and among Central Asian republics are lifted, these nations might see a change of 3%-5% per year economic growth as a regional unit. Over five years, that could be 33%-50% cumulatively."²⁷ In spite of the fact that it is extremely difficult to make a similar prediction with regard to the prospects for commercial and economic cooperation between China and the Central Asian countries, "the increase in trade", according to the same estimates, "could be quite large and even perhaps more stimulative than the internal Central Asian numbers".²⁸

Summary

On the whole, the analysis of the main problems in commercial and economic relations between China and the Central Asian countries leads one to the conclusion that they nearly all agree that there is a lack of inter-state integration in the Central Asian region itself. To a large extent, this circumstance prevents the effective development of Sino-Central Asian relations. It seems that while the current situation of inter-state demarcation and distrust continues in Central Asia, mutually beneficial economic cooperation between China and the states in the region will not really be possible.

It is logical to suppose, in this case, that China will build commercial and economic relations with the Central Asian countries exclusively on the basis of its own interests. It is most likely that China will try use the mineral and raw materials base of the Central Asian states as effectively as possible for the economic advancement of its own interior areas. China, with its economic potential, will not have any great difficulty in filling the small markets of these countries with consumer goods and industrial products.

Therefore, China will gain in exchange access to the huge resources of raw materials in the region. Since Central Asia has considerable reserves of energy (of all kinds), and huge deposits of non-ferrous metals, it can be predicted with a high degree of probability that China's immediate economic interests in the region are in the energy sector and mining and extraction. At the same time, China may use the region as a major supplier of raw materials for textiles and semi-finished products for its own light industry.

In sum, this could increase the export of raw materials from Central Asia even more, and at the same time stop the development of processing industries in the countries of the region. Initially, there could be an increase in trade between these states and China, as well as a formal improvement in their macro-economic figures. However, this format of relations may in the long term bring Central Asia to economic collapse. The scenario we have presented is a potential threat not only to Central Asia, but also to China itself. If the Central Asian states experience an economic collapse and consequent destabilisation, China risks being faced with a socially unstable region on its western borders.

The Potential for Economic Cooperation: Main Recommendations

In spite of the continuing and difficult problems facing mutually advantageous commercial and economic relations between China and Central Asia, the potential for cooperation at various levels is enormous. The opportunity to bring this about will be determined to a large extent by the success or failure of the processes of inter-state cooperation, the most important of which are as follows:

- the acceleration of regional integration in Central Asia;
- the development of industrial cooperation between China and Central Asia;
- the integration of the transport systems of China and Central Asia.

These processes can only develop as an integrated whole, and any division of them is largely arbitrary.

The Potential for Speeding Up Regional Integration in Central Asia

Extending the processes of integration in the region could improve the effectiveness of economic activity in the region itself, make it more attractive to investors, and improve the competitiveness of Central Asian producers. Overcoming the segmentation of national markets could be a highly effective way of mobilising the regional, energy and transport infrastructure for the purpose of achieving economic growth in the region.

All this could lead to a considerable increase in investment (including Chinese investment) in Central Asia, and to a major change in the format of commercial and

economic relations between China and all the countries in the region. A large regional market is clearly more attractive from an objective point of view to external investment in the processing industries, than are small national markets. This has a particularly urgent appeal for the Central Asian states, whose industrial infrastructure does not have an objective national framework. The Shanghai Cooperation Organisation provides a basis on which to develop economic integration.

The Potential for the Development of Industrial Cooperation Between China & Central Asia

The intensification of multilateral industrial cooperation between China and the Central Asian countries could speed up the industrial development of the region and the Chinese interior provinces in a fundamental way. A good way of doing this would be to create Chinese and Central Asian holding companies in different industries, such as energy (including nuclear energy), textiles, light industry and food production, non-ferrous metallurgy, and different types of engineering (principally textile and agricultural).

This would enable the Central Asian states and interior provinces of China to orientate the production cycles of their manufacturing plants even more to finished products made from local raw materials. The production of Sino-Central Asian enterprises could be highly profitable and competitive in world markets, owing to the low and more or less identical energy consumption of industrial production in China and Central Asia, to the abundance of power, and to the highly skilled and cheap workforce.

Furthermore, the attraction of creating Sino-Central-Asian industrial complexes in Central Asia also derives from the ample opportunity to protect them from external competition during the period of formation. The Central Asian states (except Kyrgyzstan) are not yet members of the WTO. Later on, when the enterprises of the Sino-Central Asian companies have grown stronger, they will be able to compete in circumstances where all countries in the region are in the WTO.

The development of inter-state industrial cooperation will bring great advantages to China, as well as to the Central Asian countries.

China, by investing capital in profitable industrial projects in Central Asia, could not only make a profit, but also use the resources, industrial enterprises and energy supplies of the Central Asian region to open up its interior provinces, which will then be involved naturally in joint inter-state projects. This would create a considerable economic growth dynamic in the interior areas of China, which would subsequently greatly reduce their backwardness vis-à-vis the coastal areas. The result will be a stronger internal market in China and a rise in the standard of living of the population of the interior provinces.

The Central Asian states, on the other hand, could, with China's help, develop the processing industries (engineering, textiles, electronics etc.). In view of the fact that their infrastructure and production cycles were originally created on an all-regional basis, Chinese investment would be an incentive to integrate the economies of Central Asia. This would produce a fundamental improvement in the economic situation in all the states in the region and compensate the Central Asian republics for the severing of traditional economic ties with other CIS countries.

All this could lead in the medium term to an upsurge in industrial production in Central Asia to approximately the level of 1990 (6-10 times higher than the present level). It is also possible that industrial cooperation with China will in the long term allow the Central Asian states to build national economies that are competitive in the world market.

The Potential for the Integration of the Transport Systems of China & Central Asia

Integration of transport between China and Central Asia could accelerate the construction of railways and road communications both in the region and inside China. This would provide the stimulus for the creation of a Eurasian overland transport system. Such a system of communications would connect by the shortest route the industrially developed areas of China to its underdeveloped interior provinces, and then to the Central Asian states and the countries of the Middle East.

An indispensable condition for the implementation and successful functioning of this transport system must be close cooperation between China and the Central Asian states with regard to providing economically viable transportation. This could include a set of measures at inter-state level aimed at providing the lowest possible transport costs.

During the initial stage, this could provide a strategic breakthrough in integrated, multi-aspect cooperation between China and the Central Asian states. This could later give a powerful stimulus to economic growth in Central Asia and the interior provinces of China, and increase international trade via the intra-continental regions of Eurasia.

According to preliminary estimates, the movement of goods in the Central Asian region could potentially grow by a factor of 2 to 5 times. This is possible primarily because of the substantial reduction in the time taken to transport goods, and also because of lower tariffs. Furthermore, a considerable proportion (from 8 to 20%) of the movement of goods from China and the states of South East Asia could potentially go through a transport corridor running through China, Kazakhstan, Uzbekistan, Turkmenistan (then to Afghanistan) and Iran. These figures are based on the rate of transportation of goods on this route being in principle comparable to that in the Central Asian region in the period when it was closely integrated with the other republics of the former USSR. For example, the volume of the overland transportation of goods in the Soviet republics of Central Asia in 1977 was 4,241 billion tonne-kilometres, including 3,237 tonne-kilometres by rail, 338 tonne-kilometres by road, and 666 tonne-kilometres by pipeline. The average movement of goods on the Central Asian rail network was in the region of 13 million tonne-kilometres per kilometre.²⁹

Conclusion

An analysis of the current situation and trends in the development of commercial and economic links between China and the Central Asian countries indicates a gradual but steady expansion. There is a continuing high probability that the Central Asian region will be transformed into a raw materials appendage of the Chinese economy. It can be said objectively that in circumstances of globalisation (which for this region increasingly wears a “Chinese face”), the Central Asian

countries (which have not been able to form an effective regional economic zone) could find themselves allocated no more than this niche.

The only alternative may be the political will of China and the Central Asian countries to make a fundamental change to the format of their economic relations. Bearing in mind the current situation of inter-state demarcation in Central Asia, the way in which the economic and political strategy of China itself will develop is of fundamental importance. A consolidation of the existing format of economic relations between Central Asia and China, in accordance with the wording “resources in exchange for finished products” is not, from an objective point of view, in the long-term interests of China’s security.

Therefore, strange as it may now seem, China must have an objective interest in integration between the countries of Central Asia. It is also possible that China itself (rather than another external force) will in the near future become the main engine in this process. The first signs of this are already noticeable in the increasing activity of China within the framework of the only institution for multilateral cooperation with the region – the Shanghai Cooperation Organisation (Kazakhstan, China, Kyrgyzstan, Russia, Tajikistan and Uzbekistan). At the summit of the Shanghai Cooperation Organisation which took place in June 2004, China announced the allocation of 900 million dollars for the development of economic relations within the framework of the organisation.

It is likely that sooner or later the Central Asian countries will understand the importance of economic integration amongst themselves and cooperation with China, in order to quicken the pace of their own development and make an effective entrance into the global economic area. Only then will overland transport routes across the Central Asian region and the interior provinces of China play a role in the global economy comparable to the role now played by the main international maritime routes. And only then will it be possible to talk about long-term stability in the middle of Eurasia and the revival after four centuries of the Great Silk Road.

ENDNOTES

¹ Huan Jingu, “China: approaches to and features of economic transformation”, *Problems of the Theory and Practice of Control*, No 6, Moscow, 2000, p12-15.

² “Central Asia” here means the area of central Eurasia comprising five states – Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan – which were established by their declarations of independence and the collapse of the USSR in 1991. This is a somewhat notional definition, as it does not altogether take account of some geographical peculiarities or of certain demographic aspects of the situation in the region. However, it is reasonable in view of the well-known commonality of socio-political and economic development of these countries within their designated borders, the maintenance of close links between the five states and the high level of reciprocal influence they exert on each other in terms of internal and external political, economic and other processes, and their close cooperation in matters of economics, policy and, of course, security.

³ The statistical calculations for this part of the report were prepared jointly with Dr A V Stokov, an independent expert from Uzbekistan.

⁴ **National Data:** Republic of Kazakhstan Statistics Agency, 2004; Republic of Uzbekistan State Statistics Committee, 2004; “Turkmenistan” Information and Business Centre, <http://www.turkmenbusiness.org>; Republic of Kyrgyzstan National Statistics Committee, 2004; Tajik information portal “Ahbor”, <http://www.ahbor.com/main.php?qid-447cid=5>;

IMF Data: Direction of Trade Statistics, International Monetary Fund, Yearbook, 2004.

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On Kazakhstan –

http://www.russian.xinhuanet.com/russian/2005-02/26/content_84030.htm;

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http://www.russian.xinhuanet.com/russian/2005-02/26/content_84035.htm;

On Turkmenistan –

http://www.russian.xinhuanet.com/russian/2005-02/26/content_84031.htm;

On Kyrgyzstan –

http://www.russian.xinhuanet.com/russian/2005-02/26/content_84033.htm;

On Tajikistan –

http://www.russian.xinhuanet.com/russian/2005-02/26/content_84036.htm.

⁵ Sources: data for 1992-2001 – Asian Development Bank, 2002 (Key Indicators of the Developing Asian and Pacific Countries, Asian Development Bank, 2002); data for 2002-2003 – Republic of Kazakhstan Statistics Agency, data in brackets – the IMF, 2004 (Direction of Trade Statistics, International Monetary Fund, 2004).

⁶ Source: Republic of Kazakhstan Statistics Agency, 2004.

⁷ O G Mirutina, Prospects for cooperation between China and Kazakhstan and its importance to Russia”, website for social-humanitarian and political science education in the Russian Federation, <http://www.humanitiews.edu.ru/db/msg/19819>.

⁸ Sources: Data for 1992-2001 – Asian Development Bank (Key Indicators of Developing Asian and Pacific Countries, Asian Development Bank, 2002); data for 2002-2003 - Republic of Kyrgyzstan National Statistics Committee, 2004, The Economist Intelligence Unit, Kyrgyz Republic, November 2003, p32 and November 2004, p31; data in brackets – the IMF, 2004 (Direction of Trade Statistics, International Monetary Fund, Yearbook, 2004).

⁹ Sources: Ministry of Economic Development, Industry and Trade of the Republic of Kyrgyzstan, 2004; “Kyrgyzstan Development Gateway” information site,

http://www.rus.gateway.kg/cgi-bin/page.pl?id=53&story_name=doc8438.shtml

¹⁰ Source: Republic of Uzbekistan State Statistics Committee, 2004.

¹¹ Source: Republic of Uzbekistan State Statistics Committee, 2004.

¹² Sources: “Turkmenistan” Information and Business Centre,

<http://www.turkmenbusiness.org>; in brackets – IMF data, 2004 (Direction of Trade Statistics, International Monetary Fund, Yearbook, 2004).

¹³ Source: “Turkmenistan” Information and Business Centre,

<http://www.turkmenbusiness.org/turkmen.asp?id=5>

¹⁴ Although Tajikistan shares a border with China (about 414 kilometres), it is inaccessible as far as the development of trade is concerned. This is because the border runs through mountainous terrain, where there is virtually no transport infrastructure.

¹⁵ “Tajikistan” information portal, <http://www.tajikistan.tajnet.com/economy.htm>.

¹⁶ Source: International Monetary Fund, 2004 (Direction of Trade Statistics, International Monetary Fund, Yearbook, 2004). There are no data for the periods 1992-1997 or 2001-2002.

¹⁷ See for example, Cheng Peng Chung, “The Defence of Xinjiang: Politics, Economics and Security in Central Asia”, *Harvard International Review*, Summer 2003, p61.

¹⁸ At the time, the area was known as “Central Asia and Kazakhstan”.

¹⁹ Elona Lanchovichina, Sethaput Suthiwart-Narueput, Min Zhao, “Regional Impact of China’s Accession to the WTO”, *East Asia Integrates: A Trade Policy Agenda for Shared Growth*, The International Bank for Reconstruction and Development/The World Bank, Washington DC: Oxford University Press, 2004, p21.

²⁰ *Asian Development Outlook 2004*, Asian Development Bank, 2004, p43.

²¹ The borders of at least two states have to be crossed to gain access to maritime ports.

²² Eva Molnar, Lauri Ojala, *Transport and Trade Facilitation Issues in the CIS 7, Kazakhstan and Turkmenistan: paper for the Lucerne Conference of the CIS-7 Initiative*, 20-22 January 2003, p39.

²³ Statement by H E Mrs M B Jarbussynova, Ambassador, Permanent Representative of the Republic of Kazakhstan to the United Nations, New York, 26 October 2000.

²⁴ Kathie Krumm & Homi Kars (eds), Introduction, *East Asia Integrates: A Trade Policy Agenda for Shared Growth*, The International Bank for Reconstruction and Development/The World Bank, Washington DC, Oxford University Press, 2004, p xxix.

²⁵ Source: Asian Development Outlook 2004, Asian Development Bank, 2004

²⁶ *Transport and Trade Facilitations Issues in the CIS 7, Kazakhstan and Turkmenistan*, World Bank, January 2003, p9.

²⁷ Martha Blaxall, presentation at Forum “China’s Emergence in Central Asia; Security, Diplomacy and Economic Interests: Energy and Trade in China-Central Asian relations”, Washington DC: CSIS, 22 April 2003, http://www.csis.org/china/china_emergence.cfm

²⁸ Ibid.

²⁹ *Bolshaya Sovyetskaya Entsiklopediya*, Moscow, Vol 24, 1978, p536.

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