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The Prospects for Regional Economic Integration Between China and the Five Central Asian Countries

HSIU-LING WU & CHIEN-HSUN CHEN

AS THE PROCESS OF ECONOMIC GLOBALISATION CONTINUES, there is a trend towards regional economic integration. By eliminating the barriers to trade between the participant countries, regional economic integration encourages efficient allocation of production factors and a more effective division of labour, while also helping to boost the efficiency of the regional economy as a whole and enhancing social welfare. For countries seeking to enhance their international competitiveness, efforts to reduce the level of risk attached to trading and investment activity need to be combined with pro-active participation in regional economic collaboration (Hanson, 1998).

In the case of China, with the ongoing opening of its markets and the rapid economic development the country has achieved in recent years, there has been significant progress in economic collaboration between China and other countries in the region. By participating actively in regional economic collaboration, China can strengthen both its economic links with other developing nations and its political ties with these countries (Wang, 2003). At the same time, collaborating with one another on the basis of mutual benefit and reciprocity helps to facilitate involvement in the process of globalisation; China's active participation in regional economic collaboration therefore has political, diplomatic and economic benefits.

China's strategy for regional economic collaboration emphasises the leveraging of its geographical location, focusing on pro-active involvement in various forms of collaborative activity with neighbouring countries. The main emphasis in China's economic collaboration efforts is thus on the Asia Pacific region (Song & Chen, 2002). The main forms of collaboration adopted include participation in the Asia Pacific Economic Cooperation (APEC) framework for the liberalisation of trade and investment and for economic and technology co-operation, collaboration with the Association of Southeast Asian Nations (ASEAN) on the basis of the Framework Agreement on Comprehensive Economic Cooperation Between ASEAN and the People's Republic of China, and the development of a collaborative relationship with the five Central Asian countries: Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan and Turkmenistan.

Central Asia occupies a strategic position within the Eurasian landmass, linking Europe and Asia together. It also possesses abundant reserves of petroleum and

natural gas. Like China, the Central Asian countries are economies in transition. Their geographical proximity to one another and the high potential for complementarity between their economies have encouraged the rapid development of bilateral economic and trading relationships. The question is whether or not the rapid growth of economic ties will lead to economic integration. This study will examine the paths that the development of economic and trading relationships between China and the Central Asian countries might take, and scrutinises the prospects for economic integration between them. The article first analyses China's strategic goals of economic collaboration with the nations of Central Asia; next it explores the patterns of bilateral trade, and seeks to isolate the important features of this trade. It then evaluates Chinese investment in Central Asia, and discusses the problems the Central Asian countries have faced in trying to attract foreign investment, as well as the negative impact these factors might have on the promotion of economic integration between China and Central Asia. The final section contains the study's conclusions.

China's strategic goals of economic collaboration with the five Central Asian countries

The five Central Asian countries are all located in close proximity to China, and Kazakhstan, Kyrgyzstan and Tajikistan share land borders with China's Xinjiang province; the combined length of their common borders with China is over 3,000 km. On 26 April 1996 China, Russia, Kazakhstan, Kyrgyzstan and Tajikistan signed the Treaty on Deepening Military Trust in Border Regions in Shanghai. It was agreed that the leaders of the five signatory nations would meet annually; this became known as the Shanghai Five mechanism. On 24 April 1997 the same five countries signed the Treaty on Reduction of Military Forces in Border Regions. According to this agreement, military forces in border areas would be reduced to a purely defensive level in line with the amicable relations between the countries concerned. The signatory nations agreed that they would not use military force or the threat of military force against one another, that no attacks would be launched by the military forces stationed in border regions, and that the troops and weaponry stationed within 100 km of the common borders would be reduced. Timetables and methods would be set for the force reduction, and implementation would be monitored. This agreement would continue until 31 December 2020, and it could be extended by agreement between the signatory nations (Xia, 2001). The signing of these two agreements reflects the amicable relations that now exist between the five countries concerned, and is the fruit of the mutual trust and collaboration based on mutual benefit that has been established between them.

Since 1997 there have been major changes in the Shanghai Five mechanism. The scope covered by the negotiations between the five countries has expanded. Beside their discussion of border issues, there has also been a broad exchange of views on political, diplomatic, military, security and economic issues relating not only to the five countries concerned but also to global affairs in general, along with efforts to form consensus, provide mutual support and implement collaborative activities. In particular, there have been joint declarations stressing the five countries' determination to strengthen regional security and promote economic collaboration. Having

begun by focusing on issues relating to border area force reduction and strengthening mutual trust in the military sphere, the links between China and the Central Asian countries have now expanded to include economic collaboration and cultural exchange. The increasingly close links with Central Asia stem naturally from China's policy of fostering friendly relations with neighbouring countries.

The strategic significance of Central Asia vis-à-vis China's development in the twenty-first century can be summarised as follows.

1. Having won their independence during the disintegration of the Soviet Union, the five Central Asian countries have yet to establish democratic political systems and market economies (Blank, 2004). By and large, they have retained the authoritarian attitudes that characterised the Soviet Union (Kuchukeeva & O'Loughlin, 2003). Governance is weak, corruption rampant and crime on the increase; coupled with the complex mixture of ethnic groups that inhabit the five countries, these factors have led to political instability. The security situation in Central Asia could have a major impact on long-term security in north-west China and on whether China's Great Western Development project (*xibu da kaifa*) can be implemented successfully; eventually, it could affect the political stability and economic development of China as a whole (Zhang, 2003). At the same time, promoting economic development in Xinjiang by fostering trade links with the Central Asian countries is seen as an important method of maintaining social stability in north-west China.

2. Central Asia will play an important role in China's efforts to escape from its strategic encirclement by the US. Since the reform process began in China, China's economy has grown rapidly, and overall national might has increased significantly. China is now able to present itself as a major power, one that is able to exercise a steadily increasing degree of influence throughout the world. China's rapid development and growing international stature have become a source for concern in the US, which has started to position China as a potential strategic competitor. In order to protect itself against the possible threat from China and preserve US hegemony in the Asia Pacific region and the rest of the world, the US has gradually been increasing the size of the forces it has deployed in regions surrounding China, and leveraging the influence that it enjoys in these regions to curb China's development. By maintaining control over the transport routes that connect China to other parts of the world, the US can put China under pressure.

Central Asia's strategic importance and abundant natural resources have long made it a focus of competition between the world's leading powers. The level of US influence in Central Asia began to increase in the early 1990s. However, US foreign policy with respect to the former Soviet Union continued to focus heavily on Russia, with Central Asia tending to be marginalised. US involvement in the region did not begin to increase significantly until the mid-1990s, when there was a pronounced increase in US investment in the region, as well as in the provision of economic development aid and military assistance. Political and military ties between the US and the Central Asian countries now began to develop rapidly. However, vigorous efforts by China and Russia to increase their influence over the Central Asian nations led to a slackening off in US activity in the region in the late 1990s (Kubicek, 2004). China and Russia were in competition not only with the US but also with each other.

Following the terrorist attacks in the US on 11 September 2001 the US established

military bases in Uzbekistan and Kyrgyzstan, along with a logistics facility in Kazakhstan. This was the first time that US military forces had been deployed in Central Asia. With US influence increasing in the political, military and economic spheres, the ability of the US to influence the Central Asian countries' foreign policy has also grown; China's ability to influence the Central Asian nations may be constrained as a result.

With no wish to have the attainment of its strategic objective of raising China's international competitiveness affected by US deployments in Central Asia, China has stepped up its efforts to strengthen its ties with the Central Asian countries. If China is to put an end to its strategic encirclement by the US, Central Asia is one of the areas it will need to focus on. Not only will the development of closer trading relations with the Central Asian countries help China to break free from the stranglehold the US has on it, it will also create the conditions needed for China to secure more freedom of action on the international stage.

3. Central Asia represents an important starting point for China in the expansion of its international influence. As an emerging power, China is experiencing a broadening in the scope of its national interest as its economy grows and its relations with other nations become closer. China wants very much to increase its international influence, thereby gaining a greater say in world affairs. Lying just beyond China's borders as it does, Central Asia will inevitably have an important role to play in China's geopolitical strategy.

China's purchasing of large amounts of energy from the Central Asian nations can be viewed as one of the ways in which China is expanding its influence in the region. While Russia's stature has diminished, the impressive performance of China's economy since the reform process began has made China a model for economic planners in other countries. These countries hope that Chinese assistance will help them to share in the rapid economic development that so many countries in the Asia Pacific region have achieved. China is taking advantage of this situation to expand its ties with the Central Asian countries in such a way as to maximise the political and economic benefits to China and increase the degree of influence that China is able to exercise in the region.

Developing friendly relations with the Central Asian nations will provide China with a foundation on which it can build to strengthen its ties with Russia and the countries of South Asia and the Middle East. Given the potential for Central Asia to function as a bridge between China and Europe, building ties with the Central Asian countries also has great significance for the development of Sino-European trading links.

4. The abundant natural resources of Central Asia also have enormous strategic significance for China's future economic development. The rapid growth of China's economy means that demand for energy is rising all the time. If China is to maintain its current high rate of economic growth, it will need an adequate supply of energy sources. In 2001 China's petroleum consumption totaled 231 million tons, having doubled over the previous ten years. China now accounts for 6.6% of the world's oil consumption, a percentage exceeded by only two other countries (the US and Japan). Viewed on a per capita basis, China's own domestic energy resources are very limited; on their own, they will not be enough for China to maintain its current rate

of economic growth. China is thus obliged to look for external sources of energy supply that are steady, secure and large enough to meet China's needs.

Not only does Central Asia possess extensive energy reserves, it is also located close to China; it is therefore only to be expected that China should want to promote collaboration with the Central Asian countries in the energy sphere. Since achieving independence, these countries have been working actively to develop economic ties with countries outside the Commonwealth of Independent States (CIS), including China.¹ Collaboration with other countries in the area of energy production provides one way for the Central Asian nations to achieve economic development; by exporting energy they can secure the capital and foreign exchange needed for economic development. There are therefore strong incentives for both China and the Central Asian countries to collaborate on energy development and utilisation.

5. Central Asia has an important part to play in China's strategy of promoting regional economic collaboration. As a rising power seeking to win a place for itself on the global stage, China needs to strengthen economic collaboration with neighbouring countries and regions. By promoting regional economic collaboration, China can ensure that its own economic interests are served. As an important neighbouring region, Central Asia was bound to become a major focus of China's efforts to promote regional economic integration (Deng & Moore, 2004). Currently, the level of economic collaboration between China and the Central Asian countries is still relatively low, although viewed in a more positive light this means that the potential for developing such collaboration is enormous.

There is a high level of complementarity between the Chinese economy and the economies of the Central Asian countries; China needs Central Asia's energy and related products, while Central Asia needs China's light industrial products, food-stuffs and home appliances. The development of communication routes along the length of the Eurasian landmass will enhance the prospects for successful economic collaboration between China and the Central Asian nations, helping to promote bilateral trade.

6. China is promoting collaboration with Central Asia across a broad spectrum of areas, so as to ensure the long-term stability of China's relations with the Central Asian nations. Since the 1990s both China and its Central Asian neighbours have had to deal with the threat posed by separatist movements, religious fundamentalism and terrorism. This shared threat has stimulated the development of closer political and security ties, resulting in the formation of the Shanghai Cooperation Organisation (SCO) collaboration mechanism. However, economic and trading relations between China and the Central Asian countries are still not as close as those between China and its other neighbours. This is partly because the investment environment in Central Asia is a relatively unattractive one, and partly because of the region's unsatisfactory transport infrastructure. Interaction is thus still largely confined to the political and security spheres, with economic collaboration lagging far behind. This situation is not favourable to the maintenance of long-term stability in the relationship between China and the Central Asian nations. China hopes that it can use its political ties with Central Asia (which have taken concrete shape in the Shanghai Cooperation Organisation) as a foundation for developing more intensive economic collaboration, so that, beside helping to maintain security in the region, the Shanghai Cooperation Organis-

ation will also come to serve as an important mechanism for promoting economic cooperation and thereby have a positive impact on economic development in both China and Central Asia. Both the Chinese and the Central Asian economies are aggressively pursuing economic transformation and market opening, and their respective governments are encouraging individual companies to undertake collaboration and exchange; there is thus an excellent opportunity for the development of regional economic cooperation.

On 26 April 1994, during a visit to Central Asia, Chinese Premier Li Peng declared the following guidelines on which the development of economic collaboration between China and the Central Asian nations should be based: conformity to the principles of equality and mutual benefit; diversification of the types of collaboration adopted; practicality and making effective use of local resources; improvement of the transport infrastructure to create a new Silk Road; developing multilateral collaboration and promoting common development; and provision of small amounts of aid to the Central Asian nations by China.

On 5 July 2000 the leaders of China, Russia, Kazakhstan, Kyrgyzstan and Tajikistan met in Dushanbe, the capital of Tajikistan, for a fifth summit at which a consensus was reached on the promotion of friendly collaboration between the five nations and on promoting the Shanghai Five mechanism. It was agreed that the five countries would collaborate on combating separatism, religious extremism and international terrorism which threatened the region's security, stability and development, and that a Shanghai Cooperation Organisation should be established to serve as a regional mechanism for the development of multilateral collaboration in various fields. It was also decided that economic collaboration should be developed within the Shanghai Five framework, particularly with respect to the energy sector. The five nations announced that they would be working to improve the investment and trade environment in their respective economies so as to create the conditions necessary for their citizens and enterprises to undertake normal commercial activity and solve any disputes that may arise during the collaboration process. The new model for regional collaboration established by the Shanghai Five has thus led to a deepening of collaboration in all areas, particularly economic development. Beside the original member nations, Uzbekistan has now been admitted to the SCO as a member. In the future, the governments of the nations concerned will be working together to promote economic collaboration based on mutual benefit in response to the challenges created by economic and financial globalisation.

In response to the increased US presence in Central Asia following the 11 September terrorist attacks, China has been leveraging the Shanghai Cooperation Organisation to facilitate bilateral military collaboration with the other member nations, while also working to strengthen the regional economic collaboration aspect of the SCO's activities. At the 2003 meeting of the SCO China proposed that it should work to facilitate trade and investment, with priority areas for economic cooperation to include transport, energy, telecommunications, agriculture, home appliances and light industry. In addition, China proposed the establishment of long-term objectives for regional economic collaboration and the gradual establishment of an SCO free trade zone.

China has signed various inter-governmental economic collaboration agreements

with the Central Asian countries, the most important of which include agreements on economic and trade collaboration, the encouragement and mutual protection of investment, banking sector collaboration, road transport, rail transport, elimination of double taxation, combating tax evasion and collaboration in the petroleum sector. Inter-governmental committees have been formed to oversee collaboration in the areas of trade and technology; these committees provide a forum for regular consultation concerning economic and trade collaboration issues. The Central Asian nations hope that leading Chinese enterprises will establish factories in their countries or help develop local resources; in particular, they are hoping for Chinese investment in the transport, telecommunications, textiles, food, pharmaceutical, chemical, agricultural products processing, consumer goods production and machinery production sectors.

In the last few years China has established embassies, trade offices and branches of the Xinhua news agency in all five of the Central Asian countries. The Bank of China, Industrial and Commercial Bank of China and the General Administration of Civil Aviation of China have all established offices in Kazakhstan, while Kazakhstan has opened a visa office and civil aviation office in Urumqi, the provincial capital of Xinjiang. Xinjiang's main points of entry now all have comprehensive customs, inspection and quarantine functions, and the quality of warehousing, transport and customs clearance services and facilities are improving all the time. This has helped to establish a firm foundation for the development of the Central Asian market.

The patterns and key features of bilateral trade

According to Chinese government statistics, in 1992 the total value of import and export trade between China and the five Central Asian countries was US\$464 million. As Table 1 shows, trade between Kazakhstan and China came to US\$369 million, accounting for 20% of Kazakhstan's total foreign trade. The total value of China's trade with Uzbekistan, Kyrgyzstan, Turkmenistan and Tajikistan in 1992 was US\$52.52 million, US\$35.48 million, US\$4.5 million and US\$2.75 million respectively. By 2002 the trade between China and the five Central Asian countries had grown to US\$2.388 billion. Trade between China and Kazakhstan continued to account for the bulk of this, at US\$1.955 billion, while the value of the trade between China and Uzbekistan and China and Kyrgyzstan was US\$130 million and US\$202 million respectively.

Looking at the structure of bilateral trade in terms of individual countries (see Tables 2 and 3), China's exports to Kazakhstan are mostly basic consumption goods, particularly labour-intensive products; hi-tech and high value added products account for a relatively small proportion of total exports. The main export products are shoes, clothing, machinery, electrical machinery, plastics, and iron and steel products. If one examines the changes in the structure of China's exports to Kazakhstan over the period 1995–2002 it can be seen that the proportion of exports held by footwear, clothing, machinery, electrical machinery and plastics has risen steadily. The products which China imports from Kazakhstan are mostly raw materials, including iron and steel, fertilisers, ores, copper, aluminium, cowhide and so on. There has been a similar tendency for the products that China imports from Kazakhstan to become more

TABLE 1
BILATERAL TRADE BETWEEN CHINA AND CENTRAL ASIA (US \$ 000)

		Kazakhstan	Uzbekistan	Kyrgyzstan	Tajikistan	Turkmenistan	Total
1992	Trade volume	369,100	52,520	35,490	2,750	4,500	464,360
	China's exports	227,930	38,890	18,850	1,950	4,090	291,710
	China's imports	141,170	13,630	16,640	800	410	172,650
1993	Trade volume	434,730	54,250	102,420	12,350	4,650	608,400
	China's exports	171,690	42,800	36,550	6,480	3,850	261,370
	China's imports	263,040	11,460	65,870	5,880	800	347,050
1994	Trade volume	335,654	123,667	105,375	3,177	11,260	579,133
	China's exports	138,689	51,458	29,925	675	3,669	224,416
	China's imports	196,965	72,209	75,450	2,502	7,591	354,717
1995	Trade volume	390,992	118,552	231,039	23,859	17,595	782,037
	China's exports	75,447	47,566	107,498	14,617	11,267	256,395
	China's imports	315,545	70,986	123,541	9,242	6,328	525,642
1996	Trade volume	459,901	187,258	105,494	11,715	11,467	775,835
	China's exports	95,306	38,154	68,678	7,640	8,452	218,230
	China's imports	364,596	149,104	36,816	4,075	3,015	557,606
1997	Trade volume	527,410	202,916	106,622	20,227	15,240	872,415
	China's exports	94,628	61,528	70,601	11,045	11,633	249,435
	China's imports	432,782	141,388	36,021	9,182	3,606	622,979
1998	Trade volume	635,537	90,245	198,099	19,229	12,516	955,626
	China's exports	204,681	57,883	172,406	11,042	10,293	456,305
	China's imports	430,856	32,362	25,692	8,187	2,223	499,320
1999	Trade volume	1,138,779	40,336	134,871	8,041	9,491	1,331,518
	China's exports	494,375	27,388	102,899	2,298	7,468	634,428
	China's imports	644,404	12,948	31,972	5,743	2,023	697,090
2000	Trade volume	1,556,958	51,465	177,611	17,170	16,159	1,819,363
	China's exports	598,749	39,432	110,174	6,793	12,102	767,250
	China's imports	958,209	12,033	67,437	10,377	4,057	1,052,113
2001	Trade volume	1,288,369	58,301	118,859	10,760	32,712	1,509,001
	China's exports	327,719	50,684	76,639	5,308	31,488	491,838
	China's imports	960,651	7,617	42,221	5,452	1,224	1,017,165
2002	Trade volume	1,954,742	131,777	201,874	12,386	87,515	2,388,294
	China's exports	600,097	104,374	146,156	6,501	86,780	943,908
	China's imports	1,354,645	27,403	55,718	5,886	735	1,444,387

Source: China's Customs Statistics, 1992–2003.

concentrated. If one looks at the main features of the way trade between China and Kazakhstan has developed over the last few years, it is clear that for most of the time China has run a trade deficit with Kazakhstan. The range of products being traded is narrow, and the trade is also very localised; Xinjiang accounts for around 80% of all China's trade with Kazakhstan.

Bilateral trade between China and Uzbekistan developed rapidly after Uzbekistan gained independence, with the value of the trade between the two countries rising to US\$203 million by 1997. In 1998, as a result of changes in demand in the two countries' domestic markets and the impact of the financial crisis in Russia, the volume of the trade fell dramatically, declining by 55.5% to US\$90.25 million. In 2002 the value of the trade between China and Uzbekistan was US\$131 million; China's exports to Uzbekistan totaled US\$104 million, while its imports from Uzbekistan totaled US\$27.4 million. By 2002 China's main exports to Uzbekistan included machinery, optical and medical instruments, tea, coffee and electrical

TABLE 2
CHINA'S IMPORTS FROM CENTRAL ASIA, 1995 AND 2002 (US\$ MILLION AND %)

HS	Description	1995	%	HS	Description	2002	%
Kazakhstan		315.55	100.00			1354.64	100.00
72	Iron and steel	75.21	23.84	72	Iron and steel	546.95	40.38
31	Fertilisers	51.64	16.37	74	Copper and articles thereof	448.07	33.08
51	Animal hair and yarn,fabric	41.62	13.19	27	Mineral fuel, oil etc	170.46	12.58
74	Copper and articles thereof	35.63	11.29	76	Aluminum	44.83	3.31
52	Cotton and yarn,fabric	35.36	11.21	79	Zinc and articles thereof	32.01	2.36
41	Hides and skins	23.59	7.48	26	Ores,slag,ash	31.33	2.31
76	Aluminum	19.81	6.28	28	Inorg chem;rare earth MT	30.18	2.23
14	Other vegetable	18.32	5.81	41	Hides and skins	13.16	0.97
26	Ores,slag,ash	6.07	1.93	31	Fertilisers	8.82	0.65
84	Machinery	1.40	0.44	78	Lead	6.67	0.49
Uzbekistan		70.99	100.00			27.40	100.00
52	Cotton and yarn,fabric	23.70	33.39	52	Cotton and yarn,fabric	23.11	84.33
14	Other vegetable	17.59	24.78	50	Silk and silk yarn,fabric	1.38	5.04
31	Fertilisers	15.66	22.06	88	Aircraft,spacecraft	1.07	3.89
51	Animal hair and yarn,fabric	6.50	9.15	27	Mineral fuel, oil etc	0.88	3.23
50	Silk and silk yarn,fabric	2.13	3.00	09	Spices,coffee and tea	0.25	0.92
41	Hides and skins	1.69	2.38	14	Other vegetable	0.18	0.66
74	Copper and articles thereof	1.12	1.58	12	Misc,grain,seed,fruit	0.17	0.62
55	Man-made staple fibres	0.74	1.05	81	Other base metals etc.	0.16	0.60
76	Aluminum	0.73	1.03	28	Inorg chem;rare earth MT	0.08	0.30
29	Organic chemicals	0.46	0.64	61	Knit apparel	0.02	0.09
Kyrgyzstan		123.54	100.00			55.72	100.00
41	Hides and skins	30.91	25.02	76	Aluminum	19.16	34.38
74	Copper and articles thereof	30.70	24.85	72	Iron and steel	17.17	30.82
52	Cotton and yarn,fabric	20.68	16.74	74	Copper and articles thereof	7.28	13.06
51	Animal hair and yarn,fabric	19.48	15.77	41	Hides and skins	7.05	12.66
76	Aluminum	7.51	6.08	28	Inorg chem;rare earth MT	1.89	3.40
72	Iron and steel	5.95	4.81	51	Animal hair and yarn,fabric	1.43	2.57
50	Silk and silk yarn,fabric	2.89	2.34	50	Silk and silk yarn,fabric	0.74	1.33
14	Other vegetable	2.63	2.13	08	Edible fruit and nuts	0.49	0.89
31	Fertilisers	0.87	0.70	52	Cotton and yarn,fabric	0.13	0.24
81	Other base metals etc.	0.51	0.41	07	Vegetables	0.12	0.21
Tajikistan		9.24	100.00			5.89	100.00
52	Cotton and yarn,fabric	4.27	46.19	72	Iron and steel	2.42	41.10
14	Other vegetable	2.85	30.88	52	Cotton and yarn,fabric	1.21	20.49
26	Ores,slag,ash	0.63	6.79	76	Aluminum	1.20	20.33
74	Copper and articles thereof	0.58	6.27	50	Silk and silk yarn,fabric	0.58	9.86
51	Animal hair and yarn,fabric	0.41	4.45	26	Ores,slag,ash	0.39	6.66
76	Aluminum	0.16	1.69	86	Railway;trf sign eq	0.04	0.71
72	Iron and steel	0.12	1.26	14	Other vegetable	0.03	0.43
41	Hides and skins	0.10	1.09	57	Textile floor coverings	0.02	0.42
50	Silk and silk yarn,fabric	0.06	0.65	70	Glass and glassware	0.00	0.00
42	Leather art;saddlery;bags	0.06	0.64	40	Rubber	0.00	0.00
Turkmenistan		6.33	100.00			0.74	100.00
14	Other vegetable	2.06	32.54	39	Plastic	0.21	28.92
52	Cotton and yarn,fabric	1.71	26.99	50	Silk and silk yarn,fabric	0.19	25.99
74	Copper and articles thereof	1.20	19.04	51	Animal hair and yarn,fabric	0.09	11.83

TABLE 2
CHINA'S IMPORTS FROM CENTRAL ASIA, 1995 AND 2002 (US\$ MILLION AND %)—*continued*

HS	Description	1995	%	HS	Description	2002	%
51	Animal hair and yarn,fabric	0.96	15.10	14	Other vegetable	0.08	10.20
56	Wadding,felt,twine,rope	0.12	1.91	41	Hides and skins	0.05	7.17
50	Silk and silk yarn,fabric	0.12	1.85	12	Misc grain,seed,fruit	0.03	4.65
41	Hides and skins	0.11	1.73	01	Live animals	0.02	3.14
76	Aluminum	0.05	0.82	28	Inorg chem;rare earth MT	0.02	3.08
72	Iron and steel	0.00	0.03	74	Copper and articles thereof	0.02	2.69
54	Man-made filament fabric	0.00	0.00	13	Lac;vegetable sap,extract	0.01	1.98

Source: *China's Customs Statistics, 1996, 2003.*

machinery. Raw cotton, cotton yarn and cotton fabric accounted for 84.33% of China's imports from Uzbekistan.

According to Chinese customs statistics, over the period 1992–2002 the value of the bilateral trade between China and Tajikistan rose from US\$2.75 million to US\$12.38 million. In 2002 China's exports to Tajikistan came to US\$6.501 million, while its imports from Tajikistan totaled US\$5.886 million. The main products being exported from China to Tajikistan in 2002 included electrical machinery, woven clothing, shoes and miscellaneous foodstuffs. The products that China imported from Tajikistan that year included iron and steel (41.1% of the total), cotton textiles and aluminium. At present, most of the trade between China and Tajikistan takes the form of small-scale trading by tourists. Both countries are hoping to achieve greater diversification in the bilateral trade between them.

During the period 1992–2002 the value of the bilateral trade between China and Turkmenistan rose from US\$4.5 million to US\$87.515 million. The value of China's exports to Turkmenistan in 2002 was US\$86.78 million, with the main export products including machinery, transport equipment and iron and steel products. The main products which China imported from Turkmenistan were plastics, silk, animal hides and fur, and vegetables.

Since the establishment of diplomatic relations between China and Kyrgyzstan bilateral trade between the two countries has grown rapidly, with considerable diversification. Besides trading links, China has also been participating actively in collaborative efforts on the production side. According to Chinese customs statistics, in 2002 the value of the bilateral trade between China and Kyrgyzstan was US\$201 million, representing 4.69-fold growth since 1992. China's exports to Kyrgyzstan rose from US\$35.49 million to US\$146 million over this period. Much of the growth in Chinese exports was due to the rapid development of collaborative projects focusing on technology. According to statistics produced by the Kyrgyzstan government, in 2002 the share of the value of Chinese exports to Kyrgyzstan held by 'investment-type products' including machinery and materials used in Chinese companies' investments in Kyrgyzstan and their undertaking of construction work there rose to 18%. China's main exports to Kyrgyzstan in 2002 included woven fabric, man-made fibre, footwear, plastics and machinery. The main products that China imported from Kyrgyzstan were aluminium, iron and steel, copper, and animal hides and skins.

The trade between China and the nations of Central Asia is not limited to conventional international trade but takes a variety of forms, including tourist trading, conventional border trade and small-scale exchange between the inhabitants of the

TABLE 3
CHINA'S EXPORTS TO CENTRAL ASIA, 1995 AND 2002 (US\$ MILLION AND %)

HS	Description	1995	%	HS	Description	2002	%
Kazakhstan		11.27	100.00			86.78	100.00
22	Beverages	4.08	36.19	84	Machinery	64.42	74.23
58	Spcl woven fabric,etc	2.35	20.87	87	Vehicles, not railway	4.86	5.61
64	Footwear	1.46	13.00	73	Iron/steel products	4.60	5.30
84	Machinery	0.91	8.09	85	Electrical machinery	3.01	3.47
90	Optic,NT 8544;med instr	0.38	3.36	61	Knit apparel	3.00	3.45
96	Miscellaneous manufact	0.28	2.44	64	Footwear	2.08	2.39
09	Spices,coffee and tea	0.23	2.08	09	Spices,coffee and tea	1.82	2.09
61	Knit apparel	0.21	1.86	05	Other of animal origin	0.47	0.54
62	Woven apparel	0.19	1.67	94	Furniture and bedding	0.45	0.52
17	Sugars	0.16	1.43	68	Stone,plaster,cement,etc	0.45	0.52
Uzbekistan		47.57	100.00			104.21	100.00
22	Beverages	9.35	19.65	84	Machinery	37.95	36.42
84	Machinery	6.63	13.94	90	Optic,NT 8544;med instr	15.62	14.99
63	Misc textile articles	6.63	13.93	09	Spices,coffee and tea	8.73	8.38
85	Electrical machinery	4.47	9.40	39	Plastic	7.69	7.38
62	Woven apparel	3.62	7.62	85	Electrical machinery	5.06	4.86
64	Footwear	2.72	5.73	87	Vehicles, not railway	4.34	4.16
61	Knit apparel	2.38	5.01	61	Knit apparel	3.25	3.12
39	Plastic	1.67	3.51	28	Inorg chem;rare earth MT	3.03	2.91
90	Optic,NT 8544;med instr	1.17	2.46	62	Woven apparel	2.46	2.36
29	Organic chemicals	0.95	1.99	29	Organic chemicals	1.67	1.60
Kyrgyzstan		107.50	100.00			146.16	100.00
58	Spcl woven fabric,etc	31.95	29.72	58	Spcl woven fabric,etc	31.49	21.54
22	Beverages	16.65	15.49	55	Manmade staple fibres	15.15	10.36
61	Knit apparel	13.10	12.19	64	Footwear	14.84	10.16
62	Woven apparel	12.21	11.36	39	Plastic	8.96	6.13
54	Man-made filament,fabric	5.04	4.69	84	Machinery	8.57	5.87
64	Footwear	4.94	4.60	54	Man-made filament,fabric	7.83	5.36
84	Machinery	3.92	3.65	61	Knit apparel	6.52	4.46
55	Manmade staple fibres	3.56	3.31	28	Inorg chem;rare earth MT	4.76	3.26
52	Cotton and yarn,fabric	2.93	2.73	83	Misc art of base metal	4.30	2.94
39	Plastic	1.33	1.24	85	Electrical machinery	3.70	2.53
Tajikistan		14.62	100.00			6.50	100.00
84	Machinery	3.18	21.77	85	Electrical machinery	2.45	37.63
62	Woven apparel	2.95	20.21	62	Woven apparel	0.74	11.31
22	Beverages	2.23	15.26	64	Footwear	0.64	9.84
64	Footwear	1.35	9.22	21	Miscellaneous food	0.46	7.07
61	Knit apparel	1.33	9.10	09	Spices,coffee and tea	0.31	4.80
34	Soap,wax,ET dental prep	1.12	7.69	39	Plastic	0.23	3.49
55	Manmade staple fibres	0.55	3.74	84	Machinery	0.22	3.39
85	Electrical machinery	0.40	2.71	94	Furniture and bedding	0.22	3.38
09	Spices,coffee and tea	0.30	2.08	26	Ores,slag,ash	0.17	2.63
28	Inorg chem;rare earth MT	0.26	1.81	61	Knit apparel	0.15	2.33
Turkmenistan		11.27	100.00			86.78	100.00
22	Beverages	4.08	36.19	84	Machinery	64.42	74.23
58	Spcl woven fabric,etc	2.35	20.87	87	Vehicles, not railway	4.86	5.61

TABLE 3
CHINA'S EXPORTS TO CENTRAL ASIA, 1995 AND 2002 (US\$ MILLION AND %)—*continued*

HS	Description	1995	%	HS	Description	2002	%
64	Footwear	1.46	13.00	73	Iron/steel products	4.60	5.30
84	Machinery	0.91	8.09	85	Electrical machinery	3.01	3.47
90	Optic,NT 8544;med instr	0.38	3.36	61	Knit apparel	3.00	3.45
96	Miscellaneous manufact	0.28	2.44	64	Footwear	2.08	2.39
09	Spices,coffee and tea	0.23	2.08	09	Spices,coffee and tea	1.82	2.09
61	Knit apparel	0.21	1.86	05	Other of animal origin	0.47	0.54
62	Woven apparel	0.19	1.67	94	Furniture and bedding	0.45	0.52
17	Sugars	0.16	1.43	68	Stone,plastr,cement,etc	0.45	0.52

Source: *China's Customs Statistics, 1996, 2003.*

border regions. Many Chinese and Central Asian trading organisations have established companies, shops and offices in border areas so that buyers and sellers can negotiate face to face; this makes it possible to complete transactions rapidly and conveniently. The highest level of convenience is found in the small-scale trading between border region inhabitants. Since opening in August 1992 the market established for inhabitants of the border area at Khorgos, on the border between Kazakhstan and China, has recorded an average monthly transaction volume of RMB200,000.

Enterprises with their headquarters in Xinjiang play a very important role in trade between China and Central Asia. This is partly due to the emphasis the Chinese government has placed on border trade. Under the border trade policy, the government encourages China's border regions to develop economic collaboration with neighbouring nations; the idea is that this will help to create prosperity and stability in the border regions, while also reducing the disparities that currently exist between different areas of China (Womack, 2001). The main features of this policy are as follows (Ji, 2003).

1. Exchange between inhabitants of the border region is limited to an area within 20 km of the border, and is restricted to the exchange of commodities up to a specified value at locations approved by the government. Small-scale border trade comprises trading activities undertaken by authorised enterprises in approved counties and cities lying along the border and authorised enterprises located close to the border region.
2. With the exception of exchange between inhabitants of the border region, all other types of border trade that may currently exist will eventually be incorporated into small-scale border trade for the purposes of administration and policy formulation. In principle, there will be no restrictions based on the type of trade. This will make it possible for enterprises engaging in border trade to develop new business areas using flexible, diversified trading methods, and to integrate their activities with both the Chinese domestic market and overseas markets.
3. China imposes quotas or a permit system on border trade exports but products will not be subject to quotas or permit requirements within the national export plan. In the case of products for which China imposes import quotas or an import permit

system, the state will allocate a special import quota to the border region every year, and the provincial government department with responsibility for foreign trade will issue an import permit. In the case of goods brought into the country through border region economic and technology collaboration projects, engineering contracts or the provision of labour services, these goods may be imported according to the regular procedures for the item in question, with no restrictions. Within limits, exports of production equipment and materials will not be subject to export quota restrictions and no export permit will be required.

4. Tariffs and import turnover tax will be reduced by half for border trade; up to a certain value, exchange between inhabitants of the border region will be exempted from customs duty completely. This measure has been implemented by the central government in response to decisions made at the local level to exempt goods from import duty or import turnover tax; the aim is to support the economic development of the border regions.

China's border trade policy has great significance for the economic development of the border areas. It provides favourable conditions for stimulating economic collaboration in the border regions, and should breathe new life into the small-scale border trade that has been taking place in these regions. By easing the problems that people have experienced crossing the border and making procedures less complicated, the policy creates incentives for economic and technical collaboration in the border areas.

The main objective of China's border trade policy is to maintain stability in the border areas and encourage the development of friendly relations with neighbouring states. The inhabitants of China's border regions include a large number of different minority peoples; in order to keep separatist sentiment to a minimum and maintain stability in these areas, while at the same time promoting economic development, the Chinese government is prepared to give the border regions special treatment.

The Chinese province of Xinjiang shares a 3,500 km long border with the Central Asian countries. Xinjiang's geographical location makes it the obvious channel for contacts between China and Central Asia, with potential benefits both for Xinjiang and the Central Asian nations. China is taking Xinjiang as the base and using border trade incentive measures to encourage the development of economic ties with the five Central Asian countries in response to the growing geopolitical importance of Central Asia (Loughlin & Pannell, 2001; Spechler, 2003). To sum up, Central Asia is geopolitically important to China in three respects: (1) China has become an oil importer nation; Central Asia has extensive oil fields lying close to China. Whether or not China is able to maintain easy access to these oil fields will have a major impact on the country's future development; (2) China is currently implementing the Great Western Development project to stimulate economic development in western China. Stable conditions in the border regions are vital if this project is to be a success. If Central Asia were to become unstable, or if China were to lose its ability to influence events in the region, this would have a negative impact on China's overall national development strategy; and (3) there has been collaboration between terrorist groups in Central Asia and the separatist movement in Xinjiang, threatening the stability of China's western borders. China hopes that by promoting the growth of

economic ties with the five Central Asian countries it can increase the amount of influence it is able to exercise in the area.

Assessment of Chinese investment in Central Asia

In 1992 an important new transport link between Asia and Europe began operation with the extension of the railway from Urumqi in Xinjiang through the Altaw pass into Kazakhstan. Both passenger and freight services began in September 1992; the opening of this section of railway line brought the Central Asian nations much closer to Lianyungang, one of the most important ports on China's east coast, and is thus of great significance for the development of economic collaboration between China and Central Asia. Historically, Xinjiang and Central Asia have played an important role in linking East and West. Now, with the implementing of economic reforms in both regions, collaboration between them in the economic, technical and social spheres is being strengthened; Xinjiang and the five Central Asian countries are coming together to form an important new Central Asian economic zone with great potential which can be expected to attract investment from enterprises in many different countries. Although the amount of direct investment in the Central Asian countries by China is still relatively small (see Table 4), given the extensive natural resources the Central Asia nations possess the volume of investment is bound to increase. The current state of Chinese investment in the Central Asian countries will now be briefly surveyed.

Kazakhstan

According to China's *Almanac of China Foreign Economic Relations and Trade*, at the end of 2002 the total amount of Chinese investment in Kazakhstan approved by the Chinese government was US\$39,601,300, with the number of enterprises involved totaling 51. According to statistics produced by Kazakhstan's investment commission, more than 1,000 Chinese-invested enterprises (including joint ventures, wholly-owned subsidiaries of Chinese companies and representative offices) have been registered in Kazakhstan since 1992; however, less than 100 are still engaged in production or trading activities, with more than 20 being representative offices. Chinese investment in Kazakhstan totals around US\$800 million, with the main sectors invested in being petroleum and natural gas, banking, food processing, construction materials and car assembly.² China accounts for 4.4% of total foreign direct investment in Kazakhstan, putting it in sixth place behind the US, the UK, South Korea, Italy and Canada. Some of the more significant Chinese-invested companies in Kazakhstan include the China National Petroleum Corporation, the Kazakh–China Bank, the Almaty–China Commercial Bank, the representative office of Xinjiang Airlines, the Nikar joint-venture tobacco-rolling plant and the Xinkang tomato sauce factory.

Uzbekistan

China's *Almanac of China Foreign Economic Relations and Trade* showed that, at the end of 2002, the total amount of Chinese investment in Uzbekistan approved by the

TABLE 4
CHINESE OUTWARD FDI STOCK IN FIVE CENTRAL ASIAN COUNTRIES (US \$ 000)

	Kazakhstan		Uzbekistan		Kyrgyzstan		Tajikistan		Turkmenistan	
	Number of projects	Chinese investment value	Number of projects	Chinese investment value	Number of projects	Chinese investment value	Number of projects	Chinese investment value	Number of projects	Chinese investment value
1992	6	1,164.0	5	3,647.0	3	3,363.0	1	1,200.0	0	0.0
1993	5	2,167.0	2	300.0	1	180.0	0	0.0	0	0.0
1994	1	255.0	0	0.0	0	0.0	0	0.0	0	0.0
1995	1	102.0	0	0.0	0	0.0	0	0.0	0	0.0
1996	0	0.0	1	208.0	2	402.0	0	0.0	0	0.0
1997	1	480.0	0	0.0	0	0.0	0	0.0	0	0.0
1998	11	6,127.0	9	3,643.0	6	6,716.0	2	1,880.0	2	300.0
1999	7	17,210.0	0	0.0	4	1,790.0	0	0.0	0	0.0
2000	5	7,734.0	3	1,139.0	4	10,381.2	0	0.0	0	0.0
2001	1	307.0	2	532.5	2	1,754.6	1	50.0	0	0.0
2002	3	2,690.0	4	3,731.5	3	1,396.0	0	0.0	0	0.0
Up to 2002	51	39,601.3	29	12,923.0	29	24,252.8	8	3,390.0	2	300.0

Source: *Almanac of China Foreign Economic Relations and Trade, 1993–2003*.

Chinese government was US\$12,923,000, with a total of 29 enterprises involved. According to statistics released by China's Ministry of Foreign Affairs, there are 106 Chinese-invested companies registered in Uzbekistan, with the total amount invested being around US\$6 million.³ The vast majority of these companies are small in size, with most of them being trading companies. Those companies which are involved in production are mainly engaged in light industry, electronics manufacturing or agricultural production. Government policy in Uzbekistan has tended to be rather capricious, and strict foreign exchange controls have been imposed, making it difficult for foreign investors to transfer profits back to their home country. Transport is another problem; there are no direct transport links between China and Uzbekistan, so goods must be transported by road via Kazakhstan or Kyrgyzstan. This tends to make Chinese companies less enthusiastic about investing in Uzbekistan. While some Chinese-invested companies—such as the Harbin Xiandai Group, which has established liquefied petroleum gas (LPG) and water meter factories in Tashkent—are still operating normally, most Chinese-invested firms have ceased production.

Tajikistan

According to China's *Almanac of China Foreign Economic Relations and Trade*, at the end of 2002 the total value of Chinese investment in Tajikistan approved by the Chinese government was US\$3.39 million, with eight enterprises involved. Data produced by China's Ministry of Foreign Affairs indicate that in June 2003 there were eight Chinese-invested companies operating normally in Tajikistan, including a representative office of Shenzhen Zhongxing Telecom Equipment Corporation (ZTE) (responsible for implementation of a foreign aid programme and the provision of related equipment), the Lishida yarn factory (a Chinese–Tajik joint venture), the Dushanbe tobacco-rolling plant (another joint venture), the You Yi Agricultural Development Corporation, the Kashi Agricultural Development Company (a wholly-owned subsidiary of a Chinese company) and several restaurants. While the Lishida yarn factory, the Dushanbe tobacco-rolling plant, the You Yi Agricultural Development Corporation and the Kashi Agricultural Development Company are registered with China's Ministry of Commerce, most of the other enterprises have been established by individual Chinese entrepreneurs; in some cases they are not even registered with the Tajik authorities.⁴

ZTE's representative office in Tajikistan is responsible for overhauling the communications network in Tajikistan, a project being funded by the European Bank for Reconstruction and Development and the Swiss government with loans to the value of US\$15 million. In addition, the Chinese government has provided Tajikistan with a development grant of RMB8 million for the installation of telephone switching and code division multiple access (CDMA) equipment to be installed in the Tadanjila region; implementation of this project has also been entrusted to ZTE. The Lishida yarn factory is a joint venture established with financing from the Export–Import Bank of China. The factory has a total capitalisation of US\$9.74 million, with the Chinese partner having a 19% share (provision of technical services) and the Tajik partner 81% (equipment, plant buildings and working capital). It has proved difficult to develop the yarn market in Tajikistan, and there have been problems with

inexperienced managers; the factory has been making a loss, with the Tajik partner unable to repay its debts. Owing to a shortage of parts needed to repair the production equipment, the factory has now ceased production.

The Dushanbe tobacco-rolling plant, another Sino-Tajik joint venture, was established in 1994 with a RMB50 million loan from the Chinese government, which also provided technical assistance. The company has registered capital of US\$300,000, with the Chinese partner having a 10% share and the Tajik partner 90%; the joint-venture agreement has a term of 30 years. Several years on, the factory is still experiencing problems; in July 2003 it was producing two competing brands of cigarette. Daily production volume is 80 cartons (800,000 cigarettes).

The Kashi Agricultural Development Company is a trading company established in 1997 as a wholly-owned subsidiary of the Xinjiang Production and Construction Corporation. It is mainly involved in the import and export of small electromechanical machinery, scrap metal, silkworms, short-staple cotton, leather and so on. Recently, the company has used Xinjiang Production and Construction Corporation funding to invest RMB500,000 in the establishment of a water purification plant in Dushanbe; the plant now produces 10 tons of bottled water a day. Production began in May 2003 and the company is marketing the water aggressively. The You Yi Agricultural Development Corporation is mainly involved in implementation of a Chinese government aid project to introduce drip irrigation for cotton cultivation in Tajikistan.

Turkmenistan

According to China's *Almanac of China Foreign Economic Relations and Trade*, at the end of 2002 the total value of Chinese investment in Turkmenistan approved by the Chinese government was US\$300,000, with only two enterprises involved. The biggest collaborative project is the agreement signed in 1997 whereby China National Petroleum Corporation undertook to repair 100 oil wells in Turkmenistan; the value of the contract was US\$27 million. In 2000 the government of Turkmenistan asked China National Petroleum Corporation to take on the repair of another 100 oil wells.

Kyrgyzstan

China's *Almanac of China Foreign Economic Relations and Trade* showed the total value of Chinese investment in Kyrgyzstan approved by the Chinese government as US\$24,252,800 at the end of 2002, with 29 enterprises involved. According to data produced by China's Ministry of Foreign Affairs, there are approximately 384 Chinese-invested companies registered in Kyrgyzstan, of which just over 150 are actually operational.⁵ The industries in which these companies are involved include import-export trade, construction, agricultural production, the restaurant business, processing of agricultural products and the chemical industry. Segments of the local economy in which China has come to play a significant role include paper-mill operation, pig raising and bag manufacturing. Recently, Chinese investment in the manufacturing sector has started to increase gradually, making for more diversified investment; thus demand for Chinese production equipment has increased.

Beginning in 1992 all five of the newly independent Central Asian countries

announced that they would be opening their markets, aiming to attract foreign investment and expand foreign trade in the process of institutional transformation. Central Asia's main attraction to foreign investors is its abundant natural resources (Spechler, 2000; Deichmann *et al.*, 2003), such as Kazakhstan's oil and natural gas and Kyrgyzstan's gold mines. The Central Asian nations have made changes to their legal systems to demonstrate their commitment to market opening. 1991 saw the promulgation of Kazakhstan's Foreign Investment Law, Basic Law Governing Foreign Economic Activity and Law Governing Free Economic Zones, Uzbekistan's Law Governing Foreign Economic Activity and Free Economic Zone Law, and Kyrgyzstan's Foreign Investment Law. These were followed in 1992 by the Basic Law Governing Foreign Economic Activity, Free Economic Zone Law and Law Governing Rental by Foreign Companies in Kyrgyzstan and Turkmenistan's Foreign Investment Law.

As the process of economic transformation in the Central Asian countries continued, there have been major changes to the laws governing foreign trade and foreign investment since 1995; for example, Kazakhstan promulgated a new Foreign Investment Law in 2003 to replace its existing law.⁶ Nevertheless, these various laws relating to foreign trade and foreign investment tended to lack the necessary ancillary measures and implementation regulations; as a result, in practical terms they achieved little. The legal framework seemed to be changing all the time, making it difficult for foreign investors to ensure that their rights were protected. With the complex mix of legal traditions that existed in the Central Asian nations and the long period of political and economic instability that followed independence, the legal framework for economic activity remained highly unsatisfactory; in some countries there was no clear legislation governing trans-national technology transfer, transport, protection of foreign intellectual property rights or judicial remedies. Another problem was the lack of ancillary measures, such as technical standards and tariff standards. The weakness of the legal framework tended to foster abuse of power and corruption.

Besides the problems relating to the legal system, there were several other areas in which the Central Asian countries were not competitive, leading to a loss of confidence on the part of foreign investors, namely:

1. The process of institutional transformation meant that domestic enterprises in the Central Asian nations found themselves competing against foreign companies. The domestic companies were usually extremely uncompetitive, with low labour efficiency, low quality standards and an absence of innovation.
2. The bureaucracy that had become such a feature of life in the Central Asian countries was difficult to eradicate. Corruption and bribe taking were widespread, discouraging both foreign investment and domestic entrepreneurial activity.
3. The Central Asian nations' industries were oriented mainly towards the production of raw materials. The level of technology in manufacturing industry was low, production machinery was old and decrepit, and labour costs were high relative to other developing nations. This made it difficult to attract foreign investment.
4. The Central Asian countries' location in the middle of the Eurasian landmass gave them strategic significance, but it also restricted their access to maritime transport.

5. Central Asia lacks effective democratic institutions, and there is a high potential for inter-ethnic conflict. Social attitudes tend to be conservative, and Islamic fundamentalism is on the rise (Akbarzadeh, 2001; Zardykhon, 2002). These factors are detrimental to economic development and discourage foreign investment.

As regards the process of institutional transformation itself, in the future the key factors affecting Central Asian economic development will be structural reform and macroeconomic management. Structural reform includes market liberalisation, price adjustment, privatisation of state-owned enterprises and the establishment of fiscal, judicial and administrative systems that will allow the market economy to operate properly. As for macroeconomic management, the main issues here are how to make effective use of both domestic and international funds and secure assistance from international agencies.

Conclusions

As economies in transition, market opening is an important policy for both China and the five Central Asian countries. The Central Asian nations need to revitalise their economies; they are hoping to secure the technology, funds and development aid needed to achieve their economic development goals, and as a result they have all taken the basic steps necessary for market opening and economic collaboration. In the aftermath of the 11 September terrorist attacks, China has decided to focus on the development of trade and investment links as the best means of increasing its influence over the five Central Asian countries.

Xinjiang is in close geographical proximity to the Central Asian nations and provides a convenient artery for China's development of the Central Asian market. Many of Xinjiang's inhabitants share the same languages and customs as the peoples of Central Asia, putting Xinjiang at an advantage when it comes to developing trading relations with Central Asia. At the same time, the Chinese government has begun implementation of the Great Western Development plan, which focuses particularly on Xinjiang. This means that the central government will be providing Xinjiang with extensive support in terms of manpower, material, finance, technology and policy tools, thereby facilitating further development in the region. Central Asia is already becoming more dependent on products manufactured in eastern China, and the importance of the Central Asian market to China's coastal regions is rising. With enterprises in the coastal regions eager to develop the Central Asian market, the Great Western Development project will provide an opportunity for further strengthening of the collaboration between China and Central Asia.

In the last ten years the volume of trade between China and Central Asia, and Chinese investment in the region, have grown rapidly. The comparative advantages that China and Central Asia possess are complementary to one another, and there is considerable potential for increased collaboration in the economic sphere in the future. However, if further progress is to be made in the development of economic integration between China and Central Asia, there are several problems that will need to be overcome.

First, the various agreements that have grown out of the SCO will not in themselves

be sufficient to achieve the long-term objectives of regional economic collaboration. The agreements that have been signed so far do not specify clear long-term objectives for regional economic integration or a timetable for their implementation, nor do they specify the mechanisms for implementing and safeguarding the liberalisation and facilitation of trade and investment. This raises the question of how the SCO will go about coordinating and monitoring the implementation of the various related measures by its member nations. Furthermore, the existing agreements make no reference to key issues such as tariff and non-tariff barriers to trade, market opening and achieving transparency in trade and investment policy.

Second, the SCO member nations have differing attitudes with respect to collaboration and the building of regional economic integration. Russia, Kazakhstan, Kyrgyzstan and Tajikistan have made little effort to keep to the timetable for trade and investment facilitation laid down in the existing agreements between these nations. The Central Asian nations feel that the agreements signed so far do not fully reflect their needs with regard to economic collaboration. Kazakhstan, Kyrgyzstan and Tajikistan want more in the way of trade and investment facilitation than China has been willing to agree to so far; they consider the scope of multilateral economic collaboration that China has been discussing to be too limited.

Third, there are conflicts of interest between the SCO member nations. Russia wants to ensure that it will have a leading role in regional economic collaboration. Russia, Kazakhstan, Kyrgyzstan and Tajikistan are all members of the Eurasian Economic Community (EEC) which Russia heads. Kazakhstan, Kyrgyzstan and Tajikistan are all at a relatively low level of economic development and suffer from a shortage of capital; the main focus of economic collaboration would thus be on attracting Chinese investment, or on collaborating with Chinese companies to develop natural resources. Russia is thus concerned that China will become too influential within the SCO and will come to dominate the organisation, thereby reducing the level of influence Russia is able to exercise over the Central Asian nations. There is also some conflict of interest over the development of energy sources. The Central Asian nations want to set their own prices for oil exports and control the channels by which oil is exported from their countries, but Russia refuses to allow this.

On 28 February 2002 Kazakhstan, Uzbekistan, Kyrgyzstan and Tajikistan established the Central Asian Co-operation Organisation (CACO), formed from the former Central Asian Economic Community. By giving preferential treatment to one another in various areas, the member nations of CACO hoped to promote economic collaboration in Central Asia. At the same time, there has been considerable development in the border trade between Xinjiang and the five Central Asian countries and in economic and technical collaboration between Xinjiang-based companies and these republics. Border Region Economic Co-operation Zones have been set up in the Ili, Bole and Tacheng regions. The trade between China and Central Asia is no longer confined to Xinjiang; it now also embraces other parts of northwest China, the interior of China and the coastal regions. However, China has yet to sign any concrete collaborative agreements with the Central Asian nations covering economic development in the region as a whole. By comparison with the situation in other regional economic organisations, therefore, the development of economic collaboration be-

tween China and Central Asia is still in the early stages. The market mechanism is still not operating satisfactorily in either Xinjiang or the five Central Asian countries, and no organisation has been established to undertake arbitration in the event of trade disputes. These problems will tend to slow the pace of economic integration.

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¹ Since the early 1990s the Asian Development Bank (ADB) has actively supported the Central Asia Regional Economic Cooperation initiative (Shin, 2002).

² The data are produced by Kazakhstan's investment commission. The discrepancy between the amount of approved Chinese investment and realised investment in the host country arises because some investment items do not conform to the Chinese government ordinance and are not declared for approval by the Chinese government. Moreover, differences in statistical methods and basis in different countries may cause discrepancies between data produced by two countries.

³ See < <http://www.fmprc.gov.cn/> > , 5 January 2004. The data released by China's Ministry of Foreign Affairs are based on the information collected in the host country.

⁴ See < <http://tj.mofcom.gov.cn/> > , 6 January 2004.

⁵ See < <http://www.fmprc.gov.cn/> > , 3 January 2004.

⁶ See < <http://www.bisnis.doc.gov/> > , 3 February 2003.

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