

**Economic Integration in Central Asia: The Russian and Chinese Relationship**



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# ECONOMIC INTEGRATION IN CENTRAL ASIA

## *The Russian and Chinese Relationship*

Shipping Tang

Central Asia as a region poses serious headaches for any policy makers because it seems to contain all the ingredients for a volatile mix: vast energy reserves, ethnic and interstate strife, great power rivalries, and encroaching religious extremism. Central Asia comprises five former Soviet republics—Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan—while the broader Central Asian region can be defined as stretching from Xinjiang all the way to Azerbaijan. Russia and China cannot escape the geopolitical reality of being Central Asia's two largest neighbors; as such, they must come to terms with their proximity to this strategically important region.<sup>1</sup> Whether they can manage their interactions here wisely and reach a constructive *modus vivendi* will have a significant impact on both their bilateral "cooperative strategic partnership" and the region itself.

On the surface, this professed partnership should enable Russia and China to manage their interactions in Central Asia well. Yet, the two countries' interests in the region do not exactly coincide. The rupture of the relationship over a conflict of interest in Central Asia is a real possibility that would spell disaster for the region and beyond. But rather than passively waiting for events to unfold, there are measures the two states can undertake to build a framework for useful interaction in Central Asia.

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1. Boris Rumer and Stanislav Zhukov, "Between Two Gravitational Poles: Russia and China," in *Central Asia: The Challenge of Independence*, eds. Boris Rumer and Stanislav Zhukov (Armonk, N.Y.: M. E. Sharpe, 1998), p. 153.

This article will explore the possibilities for Sino-Russian cooperation in Central Asia, focusing specifically on the question of whether or not the two countries will cooperate on promoting regional economic integration. This issue was chosen for two reasons. First, economic integration is now recognized as one of the most effective approaches for promoting economic growth at the regional level, and Central Asia's future depends greatly on whether the states in it can achieve sustainable growth. As the two largest economies in the region, Russia and China can and should play constructive roles in jointly promoting integration there. Second, cooperation among states has been the focus of the ongoing debate between the realist/neorealist and neoliberal schools of international relations and a great deal has been written on the subject. This being the case, theoretical arguments from the two schools can be usefully employed to map out some of the courses of action Russia and China may take with respect to promoting economic integration in Central Asia.

### The Sino-Russia Strategic Partnership and Its Uncertainties

The upgrading of the post-cold war marriage of convenience between Russia and China to a cooperative strategic partnership has been largely due to three external factors: (a) the eastward expansion of the North Atlantic Treaty Organization (NATO), (b) the strengthening of the U.S.-Japan security alliance, and most important, (c) the sense of weakness felt by both Russia and China in a unipolar world. Thus, it is understandable that certain observers have serious doubts over the pairing's long-term prospects. Indeed, those who question its viability include not only Westerners mindful of the partnership's strategic overtones but also Russians and Chinese themselves.<sup>2</sup>

In Russia, the debate is concerned with a fundamental issue: is a strategic partnership with China even in Russia's national interest?<sup>3</sup> While current Russian foreign policy doctrine holds that the country is a Eurasian power albeit with a distinctly Asian flavor, most Russians believe their country to be more European than Asian and still hope that one day Russia will be regarded as part of Europe rather than a Eurasian outcast. Thus, for many Russian

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2. For views from various sides, see Lu Gan, "Rhetoric and Reality: Sino-Russia Relationship in Perspective," *East European and Central Asia Today* (Shanghai), no. 2 (April 1998), pp. 24-27; Victor Larin, "Russia and China on the Threshold of the Third Millennium: So Who Is Going to Defend Our National Interest?" *Far Eastern Affairs (FEA)*, no. 1 (1997), pp. 17-32; Stephen Bank, "Which Way for Sino-Russia Relations?" *Orbis* 42 (Summer 1998), pp. 345-61; and Jennifer Anderson, *The Limits of Sino-Russian Strategic Partnership*, Adelphi Paper no. 315 (London: International Institute for Strategic Studies, 1997).

3. For a broad survey of Russian policy makers' attitudes toward China, see Alexei D. Voskresenskii, "The Perception of China by Russia's Foreign Policy Elite," *Issues and Studies* 33:3 (March 1997), pp. 1-20.

liberals, maintaining a quasi-alliance with China does not make sense in terms of their ultimate goal of integrating Russia into Europe. Some Russian politicians and military leaders undoubtedly worry about the strategic implications of selling advanced weapons to China. In light of current economic trends, many feel that Russia increasingly will be unable to match China's capability to modernize its military and conclude that it will be Russia's most serious security threat in the future.<sup>4</sup> There even are those of the cynical view that Beijing is simply using Moscow to gain leverage over Washington. These individuals believe that when the time comes, China will jump on the U.S. bandwagon and desert Russia for good.<sup>5</sup>

Furthermore, many Russian analysts fear China's strategic intentions, noting that Siberia and the Russian Far East are sparsely populated areas with abundant natural resources while China is over-populated and might covet both the space and resources in those neighboring regions. These analysts see the inflow of Chinese traders and the frequency with which they overstay their visas as indicative of China's pursuit of a policy of "demographic expansion," and the poor quality of Chinese goods that flooded Russia at the beginning of the détente was further seen as part of a plot on China's part.<sup>6</sup> Regional Russian politicians often blame the Chinese for the illness that Russia is now suffering. They accuse China of "quietly conquering" the Russian Far East<sup>7</sup> and have even attacked the U.N.-sanctioned Tumen River Development Project.<sup>8</sup> Making the situation even more problematic, Moscow increasingly is unable to control these local leaders.<sup>9</sup>

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4. Cited in Boris Rumer, "Disintegration and Reintegration in Central Asia: Dynamic and Prospects," in *Central Asia in Transition: Dilemmas of Political and Economic Development*, ed. Boris Rumer (Armonk, N.Y.: M. E. Sharpe, 1996), pp. 14–15.

5. Vladimir Miasnikov, "Russia and China," in *Damage Limitation or Crisis? Russia and the Outside World*, eds. Robert D. Blackwill and Sergei A. Karaganov, CSIA (Center for Science and International Affairs, Harvard University) Studies in International Security, no. 5 (Washington, D.C.: Brassey's, 1994), pp. 232–33.

6. For surveys of these perceptions, see Sherman Garnett, "The Russian Far East as a Factor in Russian-Chinese Relations," *SAIS Review* (Summer/Fall 1996), pp. 1–19; Alexei V. Zagorsky, "The Security Dimension," in *Politics and Economics in the Russian Far East*, ed. Tsuneo Akaha (New York: Routledge, 1997), pp. 23–45; and Elizabeth Wishnick, "Prospects for the Sino-Russian Partnership: Views from Moscow and the Russian Far East," *Journal of East Asian Affairs* (Seoul), 12:2 (Fall 1998), pp. 418–51.

7. Ludmila Zabrovskaya, "The Tumanggang Project: A View from the Primorie (Maritime)," *FEA*, no. 1 (1995), pp. 34–38; and "Russia: Ongoing Border Dispute with China Eye," *Moscow Literaturnaya Gazeta*, February 4, 1998, in Foreign Broadcast Information Service (FBIS), *Daily Report/Central Eurasia*, February 19, 1998. For an overview, see Alexander Lukin, "The Image of China in Russia Border Regions," *Asian Survey* 38:9 (September 1998), pp. 821–35.

8. For the debate over Tumen River (Tumenjiang) Development Project, see Zabrovskaya, "The Tumanggang Project"; and Vladimir Portiakov, "The Tumenjiang Project and Russia's Interest," *FEA*, no. 4 (1998), pp. 49–62.

9. On this point, see David Hoffman, "Russia Is Sinking into the Void of a 'Failed State',"

Chinese analysts' views about the partnership generally are more sanguine. The debate inside China is not about whether it is in China's interest to form a partnership with Russia but rather about how far this relationship can go.<sup>10</sup> Some of these analysts worry that if NATO expansion one day encompasses Ukraine and Belarus, Russia may have no choice but to join the West. Many also believe that despite Russian liberals disillusionment with the West, their aspiration for Russia to be a part of it has not disappeared but simply been subdued. Analysts of this view see the Russians as using China as a bargaining chip to get a better deal with the West. Other scholars have reached a more ominous conclusion from a different angle: they argue that Russia's current policy toward China is a choice forced upon them by circumstances. When Russia once again becomes a superpower, it will not continue its presently benign policy toward China.

Chinese analysts also are disturbed by the balancing act Russia has played in retaining its strategic alliance with India at a time when the latter increasingly is identifying China as its archenemy. These observers see the Indo-Russian partnership as having more substance than Russia's much-touted one with China, pointing as evidence to Russia's refusal to condemn India's nuclear test and Moscow's commitment to supply New Delhi with high-tech weaponry.<sup>11</sup> They point out with resentment that even as political factions within Russia still debate whether China is friend or foe,<sup>12</sup> none seem to doubt that India is Russia's friend.

Equally worrisome to the Chinese is the fact that the lack of exchange—whether of elites or nonelites—between Russia and China makes the relationship seem more a product of political will.<sup>13</sup> While some older Russians may yet have fond feelings for China, today's Russian youths have little understanding of China, let alone the two countries' historic and present connections. Likewise, while the present Chinese leadership has a solid understanding about Russia (many in fact were educated there), today's Chinese youths, like their Russian counterparts, look up only to Western societies.

Having said that, most Chinese analysts do believe that if China treats Russia with respect, the amicable bilateral relationship will likely remain in place

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*Washington Post*, February 27, 1999.

10. He Xinhua, "Russia's International Standing and the Sino-Russia Relationship," *East European and Central Asia Today* (Shanghai), no. 3 (June 1998), pp. 1–6; Lu, "Rhetoric and Reality"; Li Jingjie, "Chinese-Russian Relations: From Friendship to Strategic Partnership," *FEA*, no. 3 (1997), pp. 33–51; and Li Fenglin, "The Historic Choice of the People of our Two Countries," *FEA*, no. 2 (1997), pp. 35–38. Li Fenglin was China's ambassador to Russia.

11. "Russia Will Help India Become a Power," *Kommersant-Daily*, October 10, 1997, in *Current Digest of Soviet Press* (hereafter *CDSP*) 39:41 (1997), p. 20.

12. For overviews of these debates, see Voskresenski, "The Perception of China"; and Lukin, "The Image of China."

13. Lu, "Rhetoric and Reality."

as such for the foreseeable future. Although Russia clearly is not a superpower at present and many Western countries (especially the U.S.) often treat it as being irrelevant to world affairs, interested Chinese believe that Russia nonetheless will remain a distinct power of its own. To analysts of this opinion, Russia has so many natural resources that it surely will regain its greatness, and Russia has too much pride to be easily pressured and cajoled into becoming a junior partner in a Europe dominated by NATO and the U.S. Accordingly, these observers believe the last thing China should want is to make itself the object of Russian nationalist antipathy by not showing Russia respect. On the Russian side, the realist camp that dominates Russia's foreign policy establishment also favors holding a steady course in the partnership with China, despite the lingering doubts about the relationship's stability.<sup>14</sup> Most Russian analysts understand that it is in their country's interest to have a friendly China, and the only way to achieve that outcome is by continuously, if cautiously, nourishing the partnership.

Thus, it can be said that, despite the uncertainties in the bilateral relationship, most analysts on both sides believe that Russia and China can get along if both take a long-term view and behave prudently.<sup>15</sup> With Russia trying to make economic progress and sustain political recovery, it simply cannot afford to have a hostile China sitting along its eastern border. Equally, China cannot afford a return to the situation it faced in the 1960s when it had to cope with the two great powers on two fronts. Having experienced the enormous cost of conflicts between them, both China and Russia recognize that the lack of natural geographic barriers between them makes it all the more important that they maintain a nonconfrontational relationship at minimum; without one, the resulting security dilemma would be not only economically expensive but also potentially explosive. In essence, a partnership is now a strategic necessity.

### Central Asia in the Shadow of Sino-Russia Partnership

Perceptions aside, there are real issues and areas where Chinese and Russian interests diverge. With respect to most matters, the two countries can easily take steps to settle or otherwise alleviate those areas of difference. For example, China could exercise greater control over the quality of goods that get exported to Russia, and the two can coordinate efforts on such matters as

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14. For discussion on Russian realists' view on Sino-Russia relations, see A. Arbatov, "Russia's Foreign Policy Alternatives," *International Security* 18:2 (Fall 1993), pp. 5-43; and Voskresenski, "The Perception of China."

15. Vladimir Lukin, himself a China hand and chairman of the Russian Duma's International Affairs Committee, predicated that "there are at least 15 years of good time." See Lukin, "Russia-China Strategic Partnership: A Predictable Reality," *FEA*, no. 3 (1997), pp. 58-65.

border patrols in the Russian Far East. There are, however, other matters over which Russia and China have different interests yet neither alone nor even together can effectively dictate the outcome. The uncertainties are great in these areas and any misstep could inadvertently produce a severe backlash. Central Asia is one of those areas.

The Soviet Union's collapse left a power vacuum in Central Asia. For a brief period, Russia was relieved to rid itself of its Central Asian burden and ignore its former republics. External powers took full advantage of Russia's negligence during this period and plunged into the struggle for influence in this vast region. Indeed, the scene in Central Asia could fittingly have been dubbed the New Great Game. But it did not take Moscow long to realize that ignoring the region was a blunder and so it sought to reimpose order on what is now its so-called Near Abroad. Thanks to economic policies of the long Soviet era that were designed intentionally to create interdependence among the constituent republics, Central Asian states to a large extent remain politically and economically reliant on Russia. Such developments as the civil war in Tajikistan, ethnic strife between Kyrgyzstan and Uzbekistan, and the long Afghan civil war helped Russia find reasons that justified getting involved in the region again. Thus, Russia remains the dominant force in Central Asia, a region still regarded as its backyard.

However, there is no doubt that the Russian position is being seriously challenged from all sides, including China. China is keenly aware of Russia's sensitivity over Central Asia and does not intend to challenge its sphere of influence. Nonetheless, Beijing does have significant stakes in the region. First, Central Asia neighbors the troubled Xinjiang Uighur Autonomous Region (XUAR), where a segment of the ethnic Uighur population is striving for independence, and instability in the former could cause serious problems in XUAR. Second, China is now a net importer of oil and wants access to Central Asia's vast petroleum resources. Finally, Chinese manufacturers covet a share of the Central Asia market for their products. The potential for disagreements with Russia over any of these matters is real.

### Russia and China in Central Asia: Convergent and Divergent Interests

Thus, while there is convergence between Chinese and Russian interests over common Central Asian threats such as Islamic extremism, drug trafficking, arms smuggling, and terrorism, there also is divergence in other areas, particularly with respect to China's economic aspirations. In the Russian Far East, the two governments have been able to coordinate their efforts and exercise control over potential incidents; in Central Asia, however, such coordination is difficult though the stakes are also high for both countries.

Economically, Russia is deeply interconnected with the states of Central Asia, too much so to be indifferent to their economic viability. An economic collapse in these states could lead to a serious refugee problem that Russia would not be able to handle. On the other hand, Central Asia holds the world's second largest energy reserves; with Russia's main export product being energy materials, Russia would not mind retaining some control over the export route of Central Asia's oil and gas. From a security perspective, Russia has to be concerned that one or several Central Asian countries might turn into an extremist Islamic state, that they might join with Turkey and create a bloc hostile to Russia, or that the long Russian-Kazakh border could become increasingly porous to organized crime and drug trafficking. Finally, the mere presence of millions of ethnic Russians in the region makes their welfare an important political issue in Russian domestic politics.

Since the Commonwealth of Independent States (CIS) summit in May 1992, Russia has stepped up its effort to reintegrate the Central Asian states under the banner of the CIS, both politically (including the security dimension) and economically. Russia's often overbearing attitude toward the states, however, has proven to be counter-productive and its effort to reassert control has been met with strong resistance. With backing from the West, Uzbekistan now regards almost every Russian move in Central Asia as encroaching on Uzbekistan's aspirations for regional leadership. For its part, Kazakhstan, which because of its ethnic composition traditionally went along with many Russian initiatives, has been promoting intraregional integration to counter Russia's presence. In fact, the view has been expressed in Central Asia that "the CIS is an acceptable model of cooperation among states in the *transitional stage*" [emphasis added].<sup>16</sup> Some Russian analysts wonder if that stage is coming to an end, and because of this realization, Russia may be ready to take a more economically oriented approach toward the region's states.<sup>17</sup>

China, after having absorbed the ideological shock of the collapse of both the Soviet Union and the Eastern European socialist bloc, moved cautiously into Central Asia. Though it promptly established diplomatic relations with all five Central Asian states, China did not fully grasp the strategic weight of the region until 1993. By then, the country's oil explorations in its own Tarim Basin had produced only disappointment and it became a net oil-im-

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16. Quoted in "Forward in CIS?" *Izvestia*, January 9, 1998, in *CDSP* 50:2 (1998), pp. 1-3. Also see Gayaz Alimov, "Central Asia Won't Wait for Russia," *Izvestia*, March 28, 1998, in *CDSP* 50:13 (1998), pp. 17-18.

17. "Moscow Receives Karimov as Equal Partner," *Kommersant-Daily*, May 6, 1998, in *CDSP* 50:18 (1998), p. 20.



porter. With China forced to look for outside energy supplies, many Chinese analysts viewed Central Asia as the ideal place for finding them.<sup>18</sup>

Although lingering fear persists, Chinese fears of Islamic extremism in Central Asia had largely been alleviated by 1993 owing to the pragmatic policies the five regional governments had adopted. It was also apparent by this time that China's trade with Central Asia was one of the main engines for economic growth in XUAR, which benefited greatly from serving as the transportation and distribution hub for China's Central Asia trade. In 1993, Central Asia already accounted for more than half of XUAR's US\$912 million foreign trade and XUAR's exports to the five states were valued at US\$240.2 million, or 3.5% of Xinjiang's gross provincial product.<sup>19</sup> These impressive numbers, plus the unsettled situation in the autonomous region due to Uighur secessionist activities, convinced Beijing that a prosperous and stable Central Asia would be the best thing possible for XUAR's economic development and stability.

Premier Li Peng's 1994 tour of the region marked the beginning of a more coherent Central Asian policy on Beijing's part.<sup>20</sup> China opened more border outposts and routes to foster trade with Central Asian states and championed reviving the Silk Road. In 1997, China outbid several Western oil companies and won a contract to explore two of Kazakhstan's richest oilfields. As part of the deal, China promised to build a 3,000-km pipeline that would run from Kazakhstan to China's northeast coast. The project, sealed with handshakes and champagne, became a symbol of China's strategic march into Central Asia (although the project is now on hold because of its enormous cost).<sup>21</sup>

Despite Central Asia's growing importance to China, however, Beijing attaches far more weight to its relationship with Moscow. Li Peng went to great lengths during his 1994 Central Asia tour to deny that China was trying to fill the power vacuum left by Russia. China carefully crafted its Central Asia policy to allay potential Russian discontent. For instance, in its discussions over a potential gas pipeline project from Turkmenistan, China pledged to build a branch of it to run from Russia's Irkutsk to northeastern China. Furthermore, one analyst noted that China did not even get into the pipeline battle until well after Western influence in the region had become obvious

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18. "China Wins Sudan Oilfield Project Bid," Xinhua News Agency, January 31, 1997; Ahmed Rashid and Trish Saywell, "Beijing Gusher: China Pays Hugely to Bag Energy Supplies Abroad," *Far Eastern Economic Review*, February 26, 1998, pp. 46–48; and Zhou Jiangmin, "Can China Deal with Its Need for Oil in the Next Century?" *Strategy and Management* (Beijing), no. 2 (June 1995), pp. 22–25.

19. James P. Dorian, Brett Wigdortz, and Dru Gladney, "Central Asia and Xinjiang, China: Emerging Energy, Economic and Ethnic Relations," *Central Asian Survey* (CAS) 16:4 (December 1997), pp. 461–86.

20. *People's Daily*, April 24–29, 1994.

21. Anthony Davis, "The Big Oil Shock," *Asiaweek*, September 24, 1997.

and it was apparent that Russia was unable to maintain its previous standing there.<sup>22</sup> China's goal has been to promote economic growth in Central Asia while limiting its political clout there, all while respecting Russia's dominant role in the region—Beijing has no wish to jeopardize the Sino-Russia strategic partnership by making too many bold moves in Central Asia.

### Economic Integration in Central Asia: Can Russia and China Go Together?

Regional economic integration is part of the trend in economic globalization. The appearance and growing importance of such organizations and international trade frameworks as the North American Free Trade Agreement (NAFTA), the Association of Southeast Asian Nations (ASEAN), and the European Union (EU), among others, all are signs that economic integration via regionalization is moving forward. It is no overstatement to say that participating in some degree of transboundary economic integration is necessary for any state or region to compete effectively in today's global economy.

#### *Integration in Central Asia: The Present*

Central Asia as yet has not made much headway on this front despite the presence of three economic integration organizations in the region.<sup>23</sup> First among these is the Russia-centered CIS. Although Russia's ties with Central Asian states remain strong and it continues to be their most important trading partner, the country's economic presence in the region is in decline. The volume of Central Asia's trade with CIS countries has been falling steadily. Evidence for this can clearly be seen in the trade data for the two largest economies in Central Asia, Kazakhstan and Uzbekistan. In the case of Kazakhstan, the share of the country's total exports that was destined for CIS states fell from 56% in 1993 to 44% in 1997, while that of total imports went from 60% to 53%, respectively. Similarly, from 1994 to 1997, the volume of total Uzbekistan imports that came from CIS states fell from 52.6% to 32%, while that of total exports going to those states went from 66.7% to 22.8%.<sup>24</sup> Such negative trends make the prospect of integration under the CIS framework look remote.

22. P. Stobdan, "Central Asia in Geopolitical Transition," *Strategic Analysis* (New Delhi), April 1998, pp. 95–118.

23. Heribert Dieter, "Regional Integration in Central Asia: Current Economic Position and Prospects," *CAS* 15:3/4 (December 1996), pp. 369–86; and Houman A. Sadri, "Integration in Central Asia: From Theory to Policy," *CAS* 16:4 (December 1997), pp. 573–86.

24. Markhamat Khasanova, "Kazakhstan: Foreign Trade Policy," in *Central Asia: The Challenge of Independence*, pp. 169–207; and Eshref F. Trushin, "Uzbekistan: Foreign Economic Activity," in *Central Asia: The Challenge of Independence*, pp. 208–33. Some of the numbers were calculated from Table 2 in page 213.

The second economic integration organization of note in Central Asia is the Central Asian Union (CAU). It has a "three-plus-one" structure in that Kazakhstan, Uzbekistan, and Kyrgyzstan founded the CAU in 1994 and were joined later by Tajikistan, which became an observer in 1996 and a full member in 1998.<sup>25</sup> The prospect of integration under the CAU's aegis does not look any brighter than it does under the CIS. The market formed by the union is too small and intraregional Central Asian trade has been decreasing, even as the region's total trade with outside states increases. Trade data show that total exports from the five states amounted to US\$13.78 billion in 1996, a full 1.5 times increase over the 1994 level; however, intraregional exports over the same period actually fell from US\$2.1 billion to US\$1 billion.<sup>26</sup>

The underlying reason why economic integration either with the CIS or within Central Asia itself has been limited is that these economies are far too similar to trade extensively with each other. They produce roughly the same set of goods and as a consequence the market for them lies elsewhere. These shortcomings are shared by the Economic Cooperation Organization (ECO),<sup>27</sup> the third and currently the largest economic cooperation organization in the region. In addition to the five Central Asian states, ECO's principal members presently include Iran, Turkey, Pakistan, Afghanistan, and Azerbaijan. The organization encompasses more than 350 million people, covers almost eight million square kilometers of territory, and the combined GDP of its members totals about US\$420 billion. On the surface, it should be a powerhouse for regional integration. The reality, however, is far more sobering. To begin with, the three founding members—Iran, Turkey, and Pakistan—are not necessarily focused on promoting a spirit of cooperation within the ECO. Turkey is more interested in joining the European Union, while suspicions persist that Iran is an exporter of revolution. Worse yet, Iran and Turkey have long competed for regional leadership, and their rivalry has made many initiatives impossible to implement jointly. Moreover, the three founding states do not trust each other. And finally as noted above, the ECO economies are far too similar for the prospects of integration to be good. Intra-ECO trade accounts for less than 5% of member states' total trade,<sup>28</sup>

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25. See R. Yu, "Economics Is the Foundation of the Union: Meeting of the Heads of Three States of Central Asia," *Moscow Delovoy Mir*, January 15, 1997, in FBIS, *Daily Report/Soviet Union*, January 15, 1997; and Sergei Guly, "Three Plus One Play in Tashkent," *Noviye Izvestia*, March 28, 1998, in *CDSP*, 50:13 (1998), p. 18.

26. Boris Rumer and Stanislav Zhukov, "Economic Integration in Central Asia: Problems and Prospects," in *Central Asia: The Challenge of Independence*, pp. 104–05.

27. Bruno de Cordier, "The Economic Cooperation Organization: Towards a New Silk Road on the Ruins of the Cold War?" *CAS* 15:1 (March 1996), pp. 47–57; and Richard Pomfret, "The Economic Cooperation Organization: Current Status and Future Prospects," *Europe-Asia Studies* 49:4 (June 1997), pp. 657–68.

28. Pomfret, "The Economic Cooperation Organization."

standing in sharp contrast to more than 15% each for NAFTA, ASEAN, and EU. In sum, economic integration in Central Asia under the existing organizations and transborder trade regimes does not look promising.

### *An Integration Alternative and Its Rationale*

As an alternative to the existing options, China's economy can provide some much-needed complementarity to those of Central Asia. Evidence of such can be found on at least two fronts. First, in addition to China's having become one of Russia's most important trade partners after Germany and the U.S., the Chinese economy already has been integrating directly with those of Central Asian via XUAR.<sup>29</sup> China's trade with Central Asian states grew steadily after the Soviet Union's collapse, rising from US\$463 million in 1992 to US\$782 million in 1995 and US\$872 million in 1997.<sup>30</sup> The volume of such commercial exchange between China and Central Asia's largest economy, Kazakhstan, reached particularly impressive levels; in 1994, it was greater than that of Turkey's with the five Central Asian countries combined. China's trade with Uzbekistan and Kyrgyzstan also expanded steadily, going from US\$85 million in 1992 to US\$281 million in 1996. Recently, China's commerce with the other two Central Asian states also has been gaining momentum. With its civil war winding down, Tajikistan's trade with China shot up 72.53% in 1997 from the previous year, while Turkmenistan's also made significant gains, having risen 32.87% over the same period.<sup>31</sup>

Second, aside from its own dynamic economy, China offers the Central Asian states one thing that no other neighboring country can, and that is access to the economies of East Asia. China has two strategic transportation corridors for such trade—the second Trans-Eurasia Railway and the Uzbekistan-Kyrgyzstan-Xinjiang (Kashgar) Highway, built in 1997—and it also has opened 11 trade ports with Kazakhstan, Kyrgyzstan, and Tajikistan, the three Central Asian states bordering China. These factors greatly facilitate Central Asia's ability to trade with other Asian countries.<sup>32</sup>

Russia and China have compelling common interests to promote economic integration in Central Asia jointly. First, as the region's largest neighbors

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29. Xing Guanchen, "China and Central Asian States: A New Relationship," *East European and Central Asian Studies (EECAS)* (Beijing), no. 1 (February 1996), pp. 58–64; Dorian, Wigdortz, and Gladney, "Central Asia and Xinjiang"; and Yao Qinghua et al., "Trade between China and Central Asia: Development and Prospect," *EECAS*, no. 6 (December 1998), pp. 74–82.

30. Dorian, Wigdortz, and Gladney, "Central Asia and Xinjiang"; and Yao et al., "Trade between China and Central Asia."

31. *China Customs Statistics Monthly* (Hong Kong), December 1997.

32. Witt Razkac, "Xinjiang and Its Central Asian Border Land," *CAS* 17:3 (September 1998), pp. 373–408.

and trading partners, the two countries have huge stakes in its economic future. Economic integration could lead to greater regional growth, which would benefit all seven states. Second, such integration could further buttress the Sino-Russian partnership and help defuse potential conflicts between the two in this region. Finally, by promoting economic cooperation together China and Russia could partially alleviate the fear among the Central Asian states that one or the other will dominate the region<sup>33</sup>; such a joint move would make integration a more likely outcome than it would be if promoted by either country on its own.

Significantly, a solid foundation already exists for an economic integration effort in Central Asia that involves both Russia and China. It comes in the form of the annual five-state summit meeting between Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and China. The security-oriented gathering was first held in 1996 in Shanghai, at which time the participants signed a border confidence-building treaty. Meeting subsequently in Moscow, Almaty, and Bishkek, the summits have provided the nations' leaders with a regular forum for discussion. Unlike the CIS or ECO, which carry either political or religious burdens, the five-state summit was established to deal purely with topics of mutual interest and thus has a better chance of evolving into a genuine regional economic cooperation regime that is open to all regional states wishing to join.

A call for the summit to discuss more economic issues rather than focus exclusively on security ones has already been issued. It was done so by Kazakhstan's President Nazarbayev in 1997. Thus far, his proposal has received only token support from Russia and China. Their positions apparently remain fixed: Russia does not want a greater Chinese presence in the region, while China undertakes no initiative there without Russian support, or at least approval. With XUAR's economy increasingly dependent on trade with Central Asia and stability in Xinjiang greatly dependent in turn on economic development, it can be assumed that China has committed itself to economic integration in Central Asia, but only as long as Russia concurs.<sup>34</sup> The choice as to whether such integration is to occur, then, is largely Russia's.

### Russia's Choice: Theoretical Analysis and Reality Check

Cooperation among nations has been the focus of the ongoing debate between neorealism/realism and neoliberalism. As might be expected, each theory of-

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33. Sanoussi Bilal and Marcelo Olarreaga, "Regionalism, Competition Policy, and Abuse of Dominant Position," *Journal of World Trade* 32:3 (June 1998), pp. 153-66.

34. Analysts at Chinese Academy of Social Sciences, author interviews, Beijing, September-December 1998.

fers a different view on the possibility of achieving cooperation under the anarchic world order.<sup>35</sup>

Neorealist theory cites at least three factors that tend to hinder cooperation among states: fear of defection, concern for relative rather than absolute gain, and fear of vulnerability under interdependence. The first two points can be applied to the Sino-Russian situation relatively straightforwardly. The third argument, with a twist, will also support the conclusion that Russia will oppose cooperation over Central Asian economic integration. At present, interdependence between Russia and China favors the former because China needs Russian military technology and energy supplies; this asymmetry should give Russia more bargaining power with China. Consequently, it can be expected that Moscow would resist cooperating with Beijing in Central Asia because otherwise China could lessen its energy dependence on Russia by using the region as an alternative supplier of such resources.

On the other hand, neorealists would argue that there are at least three factors that favor greater Sino-Russian cooperation in Central Asia. The first is the presence of common threats. These would include U.S. attempts to extend its hegemony to the region and Islamic extremism, among others. Second is the presence of existing and extensive bilateral military cooperation. It is assumed explicitly that cooperation in the security arena is more difficult to achieve than in economic affairs; thus, the fact that Russia already cooperates extensively on military matters with China should make Russia more willing to work with China in the economic domain. Finally, that both sides possess a nuclear deterrent also favors cooperation.

Beyond the aforementioned three neorealist factors, the idea of contingent realism adds more support for the conclusion that Russia can be expected to cooperate with China in Central Asia. Contingent realism argues that states will choose to cooperate under far more circumstances than neorealism suggests, because a state's attitude toward cooperation is dependent on the security environment and there are many conditions therein that favor mutual efforts. Jervis, in his seminal paper on security dilemmas, listed several ways to escape the Prisoner's Dilemma that make cooperation more likely:

- (1) increasing the incentives to cooperate by increasing the gains of mutual cooperation (CC) and/or decreasing the costs the actor will pay if he cooperates and the other does not (CD); (2) anything that decreases the incentives for defecting by decreasing the gains of taking advantage of the other (DC) and/or increasing the

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35. David A. Baldwin, ed., *Neorealism and Neoliberalism: The Contemporary Debate* (New York: Columbia University Press, 1993). For a fresh take on the debate, see Robert Jervis, "Realism, Neoliberalism, and Cooperation: Understanding the Debate," *International Security* 24:1 (Summer 1999), pp. 42–63.

costs of mutual non-cooperation (DD); (3) anything that increases each side's expectation that the other will cooperate.<sup>36</sup>

The situation between Russia and China conforms to all three scenarios. First, there are powerful incentives for cooperation (high CC value). Second, the mutual nuclear deterrents and existing security cooperation arrangements provide both sides with a surplus of security that can alleviate the fear of devastating loss should the other side cheat (low CD cost). Lastly, both countries would be weakened severely if cooperation fell apart (high DD cost), while defection in one area by one side would be met with retaliation from the other side, thus diminishing the return for defection (low DC payoff).<sup>37</sup>

A neoliberalist analysis would also predict high probability for Sino-Russian cooperation to unfold in Central Asia. While accepting realism's assumption that the world is anarchic, neoliberalism argues that cooperation among states is more likely because of the emergence of international institutions and regimes. Neoliberalism contends that such structures increase the likelihood that states will interact with one another regularly and frequently, and states' preferences with respect to cooperation will improve. Moreover, having institutions in place makes it easier for states to exchange information, monitor one another's actions, and punish (collectively or unilaterally) defectors. Since such international frameworks as the Sino-Russian strategic partnership and the five-state summit are already in place, a neoliberalist analysis would strongly support the conclusion that Russia can be expected to cooperate with China in Central Asia.

In summary, contingent realism and neoliberalism overwhelmingly endorse the supposition that Russia will cooperate on the question of Central Asian economic integration with China, and even the answer provided by neorealism is far more optimistic than the usually pessimistic view associated with it. Significantly, all three theories agree that there are at least three factors favoring greater cooperation between Russia and China, namely, common threats, nuclear deterrents, and established security cooperation arrangements. The reality, however, is that Russia so far has shown little interest in cooperating with China over economic integration. Some alternative or complementary explanations can be offered for Russia's behavior. One is that Russia still regards Central Asia as its "exclusive zone" and that economic integration in former Soviet space with an outside player remains a taboo in

36. Robert Jervis, "Cooperation under the Security Dilemma," *World Politics* 30:2 (January 1978), p. 171.

37. Implicitly, this connects to the repeated Prisoner's Dilemma game in which cooperation can be enforced by tit-for-tat under the long shadow of future. See Robert Axelord, *Evolution of Cooperation* (New York: Basic Books, 1984).

Russia that not many dare to breach.<sup>38</sup> Hence, even though there are incentives to do so, economic integration in Central Asia with China is not something that Russians could accept. And cooperation with China in the strategic partnership does not automatically lead to cooperation in another area, a situation that appears to be mirrored in the frequent trade disputes the U.S. has experienced with its allies.

A more intriguing explanation for Russian behavior may be that Russia cannot expect anything meaningful in return from China should Moscow take Beijing as its partner in promoting economic integration in Central Asia. As Hans Morgenthau put it: "No nation will concede political advantages to another nation without the expectation, which may or may not be well-founded, of receiving proportionate advantages in return."<sup>39</sup> Given that China already offered Russia all that it could when Beijing made its commitment to the strategic partnership, including respecting Central Asia as Russia's sphere of influence, Moscow has nothing to gain by cooperating over economic integration in the region. In fact, Russia would stand to lose something, namely, its political dominance in Central Asia. The gains it could make would come only after integration had occurred; moreover, since they would be mutual, Russia still would come out as having lost something. Indeed, Beijing faces a credibility dilemma. On the one hand, it has to shore up its economic presence in Central Asia to build its case for playing a role in regional economic integration; on the other, Moscow likely would view such moves with great apprehension and deem them as hostile to its interests in the region. In essence, China is not in a position to signal Russia that its intentions are benign in Central Asia.

Finally, one last plausible explanation for Russia's behavior is that taking China as its partner in Central Asian economic integration is in fact an all-or-nothing deal for Russia: once China's economic presence becomes institutionalized in Central Asia, it is unlikely to be uprooted. For Russia, therefore, cooperation with China in Central Asia does not cast the long shadow of the future. The weakness of such an explanation is that China's presence in Central Asia already is a fait accompli and the chances of it being eliminated cannot be high. From Russia's point of view, it may be better to accept the situation and deal with it rather than refuse to accept it. Besides, taking China as its partner for promoting economic integration would institutional-

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38. "Chinese Are Quietly Occupying Kazakhstan," *Pravda*-5, January 9, 1998, in *CDSP* 50:2 (1998), p. 21. See also Rumer, "Disintegration and Reintegration," in *Central Asia in Transition*, pp. 17–39. For a taboo-breaking exception, see Yuri Peskov, "Russia and China: Problems and Prospects of Cooperation with CIS Members in Central Asia," *FEA*, no. 3 (1997), pp. 9–23, and no. 4 (1997), pp. 48–58.

39. Hans J. Morgenthau, *Politics among Nations: The Struggle for Peace and Power*, 5th ed. (New York: Knopf, 1973), p. 187.



ize Sino-Russian cooperation in the region and China would likely respect such an arrangement.

### Sino-Russian Cooperation in Central Asia: Perception and Prospect

Because Russia is unlikely to undertake any major foreign policy initiatives until well into 2000, predictions about whether it will cooperate with China in Central Asia are hazardous. What is clear is that Russia's actions will be shaped by the structural constraints of international politics and economic relations as well as Russian perceptions of the overall international situation, Central Asia, and China's intentions there.

The trend toward globalization will penalize those states not actively participating in regional economic integration and reward those that do. While Russia does participate in the world economy extensively by exporting energy resources and military hardware, it has yet to engage actively in any regional economic integration effort besides that represented by the CIS. Moscow continues to rely on the existing economically interdependent relationships between itself and these former Soviet republics. However, the CIS states, perhaps excepting Belarus and Tajikistan, increasingly are trying to be as independent from Russia as possible.

Russia is unlikely to find customers for its major industrial products in developed countries. Rather, the markets for these goods are more likely to be those of Eastern Europe, Central Asia, China, and the Middle East. Increasingly, the most effective way to gain access to markets is through the integration of economies in a particular region because integration favors being mutually open to trade. In an integrated economic bloc, a state's competitiveness can be sharpened in a relatively protected environment. Furthermore, the increased availability of capital along with the mobility of technology, both important features of today's global economy, help facilitate economic development across an entire region.

Structural forces alone, though, cannot lead Russia to promoting economic integration in Central Asia. The course of action Russia takes will depend mostly on the lenses through which it perceives these forces. The first such lens is Russia's perception of the unipolar world. At present, Russia's foreign policy makers comprise moderates—both liberal and conservative—and centrists. Their view of international politics is largely informed by realist theories. Given this, if there should be, for example, a deterioration in how Russia views the U.S., the expansion of NATO into parts of the former Soviet bloc, or intensification in the projection of U.S. power into Central Asia, Russia can be expected to counter the resulting pressure by trying to strengthen its relationships with China, India, and Iran.

Next, there is the matter of how Russia conceives of its own presence in Central Asia. Aside from the anxiety produced by such other states as the U.S., Turkey, and the members of the EU projecting their own influence into Central Asia, Russia also is concerned with the growing defiance of the Central Asian states and the waning of its own presence in the region. Russia has to find a way to slow these trends and at present it seems that only with a policy that aims at greater economic integration can Russia hope to achieve a revival of its influence in Central Asia while simultaneously alleviating the apprehension of the region's states.

Finally, there is the lens through which Russia views China. Despite the seemingly cordial relationship between the two giants, there is lingering suspicion on both sides about the other's long-term commitment to present strategic partnership. Russia certainly understands that China is a competitor for influence in Central Asia; if Moscow perceives Beijing to be aggressively challenging its position in the region, then it is highly unlikely to partner with China there. Russia's condition for cooperation is that China must acknowledge Russia to be the undisputed dominant (outside) force in Central Asia.

Russia and China are the two most powerful states neighboring Central Asia, so it is only natural that the bilateral relationship will cast a long shadow on the region. If the two countries can manage their strategic partnership successfully, it will be possible for them to act in cooperative and constructive ways in Central Asia to the region's advantage. Conversely, a clash would leave Central Asian states with the difficult task of finding a balance between them. Given that Central Asia is only one of many areas of concern facing the Sino-Russia partnership, whether Russia and China can cooperate in the region will not have a decisive impact on their overall bilateral relationship. That said, Central Asian affairs can have a powerful influence on the health of the partnership should one or both partners act improperly in the region. Establishing a cooperative economic integration regime in Central Asia that involves both Russia and China would decrease the risk of a rupture between the two over conflicts of interest in the region. Such a regime would also promote regional growth and political stability. Because there are such compelling common interests, the future of economic integration in Central Asia may be an optimistic one.