

EIR Political Economy

Russia, China and the development of Eurasia

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Introduction

The next century will put many difficult questions before Russia. These issues are linked with various challenges, some of which have deep historic roots, and others which are the result of tectonic changes of the world situation, and of the economic, political, cultural, and other developments in Russian public life over recent decades.

The fate of Russia depends on whether we, within a fairly limited period, will manage to react in an adequate way to these old and new problems and challenges, and to mobilize a sense of national responsibility, appropriate to the difficult period of transition that Russia today is experiencing.

One of the most important aspects, when it comes to the question about the future of our country, concerns the perspectives of building up Russia's relations with the nations of the East—an East which has nothing to do with traditional, stereotypical prejudices about oriental exoticism and backwardness. On the contrary, the East evokes the image of a tightly wound spring which has suddenly been released. We are witnessing the unprecedented phenomenon of a leap—concentrated into a few decades—from the Middle Ages into a future of advanced development.

The paradigm of world history is now changing along the axis of interrelations between East and West. Many scholars, basing their analysis on the dynamics of this changing situation, have put forward the hypotheses, that the 21st century will be the "Century of Japan," the "Century of China," the "Century of the Asian Pacific Region" (APR). During the period from 1993 to 1996, summit meetings among heads of states and governments of the APR countries began to incorporate these hypotheses into political practice, leading to a change in the strategy of political development of the whole world. This strategy not only predetermines the attempts of the U.S.A. to adapt to the new situation; it also defines a transition, in which the Asian world is advancing toward Western civilization, thus returning the debt that has been accumulated during five centuries of Western colonialism in the East.

Russia is an Eurasian country. For Europe, the Russian state has for centuries remained an appendage of Asia, while for Asia, it has been an outpost of Europe, a part of the West and, consequently, a debtor.

This is the external context for Russia's identity. Its significance is obvious. But for Russia and Russia's people, it is more important to realize a sense of self-identity, based on developing a common national policy and on strengthening oneself, rather than merely recognizing, whether or not one belongs to one or another form of civilization. A comprehensive, clearly conceived foreign policy strategy, strengthened by the corresponding power of the state, makes it completely natural that a given country exercise a presence in areas important to its national interests, irrespective of how remote they might seem to be from a cultural and social point of view. One example of this, is the U.S. presence in the oil-producing areas of the Middle East. Vice versa, a state, tormented by internal conflicts and general weakness, is not even able to



China's President Jiang Zemin (left) and Russia's President Boris Yeltsin. "A strategic partnership with China would have two functional tasks," writes Professor Miasnikov. "First, it would deter a third country from pursuing an offensive foreign policy toward Russia, that would encroach on her national interests. Second, it would itself reduce the probability of a Chinese threat."

pursue its interests in regions to which it is related socially, culturally, ethnically, or in religion (as, for instance, the policy of Russia in the Balkans and in eastern Europe). The character of Russia's relations to its Asian neighbors on the verge of the 21st century is being affected by the unevenness in the development of Russia and the bordering states of Asia.

The problem of the uneven development of different states has existed in all historic periods. In the case of Russia's relations with Asia, this problem arose in the 13th century, in the period of catastrophic confrontation between the principalities formed by Kiev Rus, and the Asian nomadic powers. The nomads were victorious. The highly developed, but politically divided Rus, declined. The development of its original culture was hampered and deformed by the injection of an Asian component. This was the beginning of our "Eurasianism."

The strategy of promoting self-preservation and strengthening internal forces, that was adopted by the ruling elite of that time, led to the consolidation of Rus in the 13th century, allowing it to enter the international arena as an equal partner, and to proceed further in its struggle with the Steppes. The more advanced countries in Europe, which had experienced the first impulses from the industrial revolution, became bogged down in various wars around the succession to the Spanish throne. The Russian state had established diplomatic relations with the great powers of Asia — Turkey, Iran, India, China — and was fighting for equality in those diplomatic contacts. The concept of that equality was based on the real corre-

lation of forces and powers, above all those that even today shape the overall power of a state: economic development, scientific knowledge, national unity, and skillful diplomacy.

Encouraged by the reforms of Peter the Great, Russia made a cultural and social leap forward. Benefitting from the accomplishments of European technology and statecraft, Russia was able to surpass its Asian partners. However, the strategy for national development did not include the priority of developing a capitalistic market economy. The lingering prevalence of the aristocracy, nobility, and other attributes of feudalism hampered Russia's development. The problem of uneven development emerged in acute form at the beginning of this century, when Russia experienced the catastrophe of a war with the Japanese, who had likewise profited from the European experience. For the first time in its 400-year history of expansion to the East, Russia now clearly demonstrated its backwardness as compared with an Asian nation.

Again, in the middle of this century, a gigantic concentration of efforts by the Russians and other peoples of the U.S.S.R., brought our country into the ranks of the leading powers, as one of the two superpowers of the world. However, the forces of stress, connected with that bipolar confrontation, together with other changes unfavorable to our country, led to a situation, in which Russia gradually began to decline in world rank, as measured by an array of parameters. During the most recent years (even without a marked antagonistic confrontation), this process has taken on the character of a threat to national security.

In addition to the issue of self-identity, there is also another issue: how to characterize international partners; how to define their historic perspectives, their current situation, their understanding of Russia, the role they presumably will play in the future of Russia, and, finally, the possibilities for optimizing that role.

The economy of China: some conclusions for the years 1996 and 1997

For four centuries, China has been Russia's main partner in the East. The new geopolitical status of China has been constituted in the 1980s and 1990s. For the first time in the history of Russian-Chinese relations, China (as, also, Japan) has surpassed Russia in aggregate economic power, as measured in its rate of growth and its Gross National Product parameters. The current reality is admittedly such, that in the near future, and perhaps even in the medium term—barring some sort of *force majeure*—China will maintain a more favorable development perspective than will Russia. As far as Russia is concerned, the ongoing changes in China are of such a comprehensive character, that they necessitate a new definition of China as a foreign partner.

In 1996, the economy of China continued to develop under the strong influence of a “moderately austere” credit and financial policy. This policy has been pursued by the Chinese government since the second half of 1993, with the aim of taking the national economy out of a state of “overheating.” The main characteristic of the economic development of China during this period, has been a falling rate of economic growth, together with a simultaneously falling rate of inflation.

At the same time, economic development has progressed evenly and without disturbances. According to official Chinese statistics, for the first three quarters of 1996, China's Gross Domestic Product (GDP) amounted to 4.7 trillion yuan (\$550.3 billion), an increase of 9.6% compared with the same period of the preceding year. (In 1995, the GDP growth rate amounted to 10.2%; in 1994, 11.8%.)

The situation for agricultural production has been very favorable. Despite a severe flood in central China, the spring harvests of grain (including soybeans, potatoes, and batatas) have reached a record level of 110 million tons, which is an increase by 3% compared with the same period of 1995. Taken as a whole, the grain harvest of that year (wheat, early and late rice, corn, and soybeans) amounted to 480 million tons, a record for China. Production of meat was 700,000 tons, and the output of the fishing industry was 400,000 tons.

One of the results of the austere credit and financial policy, combined with a positive balance of trade, has been a stable exchange rate for the national currency in relation to the main world currencies. At the end of September 1996, the exchange rate was 8.30 yuan to the U.S. dollar, compared with 8.31

yuan to the U.S. dollar at the end of 1995.

1996 was the first year of implementation of the Ninth Five-Year Plan, covering the years 1996-2000, as well as the long-term program for development of China's economy until 2019. These policies orient the Chinese economy toward the target of realizing two strategic transformations: from a predominantly extensive, to a predominantly intensive mode of economic growth; and from a system of distribution by plan, to a market-oriented distribution system.

Experts point out, that China has an enormous potential for further development, but the magnitude of the problems China has to solve, is also enormous. In their view, it is impossible in principle to reach a completely unambiguous—completely positive or completely negative—evaluation of the situation in the country.

Concerning 1996, it is obvious that the prevalent tendency of socio-economic development of China, taken as a whole, has led to the aggravation of some old problems and the appearance of new ones.

The Chinese leadership can, above all, take credit for having accomplished a quite successful “soft landing” of the economy. That process started in the second half of 1993, and had the aim of decreasing the rate of growth of investments and of prices, primarily by means of a moderately austere credit and monetary policy. Under conditions of a normal (for the Chinese economy) GDP growth in 1996 of 9.7% (in comparable prices), the growth of the price index amounted to 6%, including 8.3% for the consumer sector. That is considerably less than the inflation rate in 1995 (14.8%). The Chinese have managed to restrain the growth of the added value in industry (13%—one percentage point less than in 1995) and the growth rate of capital investments (18.9% in nominal prices, and 12.5% with a deduction for inflation). Compared with 1995, the real income of the urban population and the rural population rose by 3.4% and 8%, respectively.

The comparatively higher income growth of the rural population in 1996 has, at least partly, been intended to break the tendency for a growing gap in living standards between the urban and the rural populations, with all its social implications. In 1995, for instance, 90 out of every 100 urban families owned a color TV, 66 had a refrigerator, and 89 owned a washing machine. But in the rural areas, the corresponding numbers of families possessing these domestic durables were 17, 5, and 17 out of 100 families.

The policy of active stimulation of consumption has led to a high growth rate of the retail commodity circulation: 13% in physical terms, and 19.4% in terms of monetary value. This has led Chinese analysts to speak of a qualitatively new situation having been attained on the nation's consumer markets: The “deficit economy” (to use J. Kornay's famous expression) has become a thing of the past. Concrete proof of the elimination of deficits in the Chinese economy, can be seen in the process of rather massive decreases in the prices of investment goods and consumer durables, which began in 1996.

Foreign trade relations

The foreign trade relations of the country have continued to develop, owing to a policy of opening to the outside world. It has been possible to overcome the tendency for stagnation in the field of foreign trade, which began to be noticeable during the first half of 1996—a success that was conditioned, to a great extent, by a reduction of the rate of return of value-added tax to exporters. According to expert opinion, the foreign trade turnover of China in 1996 amounted to \$290 billion (\$137 billion in imports and \$183 billion in exports), as compared to \$281 billion in 1995. China moved up to third place in the world in the export of ships, while the export of high-technology products for the first time exceeded \$10 billion.

China's foreign currency reserves reached \$100 billion. The inflow of foreign capital in 1996 was \$48 billion, including direct foreign investments of \$40 billion, a 7% rise compared to 1995.

Starting July 1, 1996, a number of restrictions on foreign exchange transactions were abolished for joint ventures. Starting Dec. 1, 1996, convertibility of the yuan was introduced on current transactions.

In terms of the volume of foreign investments in its economy, China holds second place in the world. In 1995, foreign investments into China's economy amounted to \$38 billion.

While in the first half of 1997 the GDP of the entire P.R.C. economy grew by 9.5% as compared to the same period of the previous year, the volume of pledged foreign investments (\$23.6 billion) has turned out to be 48.7% lower than in 1996. Even with due account given to the fact that real investments (\$20.7 billion) exceed last year's figures by 5.5%, some experts are beginning to talk about the end of the investment boom in China's economy.

Russian capital investments in China amounted to 0.04% of all foreign investments in the country.

In December 1996, came the announcement of transition to convertibility of the yuan for current transactions. (Complete convertibility is projected to be achieved in 2000-05.) The access of foreign capital to the country's financial market has been enlarged: Beijing has finally been included among the cities, where foreign banks are permitted to open affiliates. Permission has been given for the creation of joint ventures in the field of foreign trade (beginning with Shenzhen and Pudong as the first stage), as well as with state farms in the agricultural field.

Financial and credit policy

Compared to 1995, the market in stocks livened up significantly. The index of stocks on the Shanghai Stock Exchange rose from 500 points in January-February 1996, to 700 in the middle of the year, and exceeded 900 points in October-November 1996. The index of stocks on the Shenzhen Stock Exchange, which at the beginning of that year was somewhat below 1,000 points, in July exceeded 2,000 points, and rose by October-November 1996 to 3,500 points. In contrast to previous years, in 1996 the volume of transactions on

the Shenzhen Stock Exchange was, as a rule, 2-3 times larger than in Shanghai. In the course of nine months, the total turnover of share transactions on the two security markets exceeded 970 billion yuan, which is 2.4 times more than for the whole year 1995.

At the same time, during the last months of 1996, there was a sharp increase of speculative tendencies on the stock markets in China. The stock index in Shanghai passed 1,200 points during the first ten-day period of December, while Shenzhen rose to over 4,000 points. The highest quotation was reached on Dec. 9 (1,247 in Shanghai and 4,501 in Shenzhen). Moreover, the turnover from share transactions reached record levels: 19 billion yuan in Shanghai and 17 billion yuan in Shenzhen (a total sum three times larger than the maximum turnover on the stock exchange in Hongkong). The speculative demand for shares was stimulated by prognoses of an impending growth of the stock index to 1,800 points on the Shanghai stock-exchange and to 6,000 points on the Shenzhen stock-exchange.

The Chinese leadership judged that the situation was fraught with the danger of a stock-market crash, which would have extremely severe consequences for the whole economy. Accordingly, on Dec. 15, authorities imposed a 10% limitation for the maximum change in share prices during one day of stock-exchange trading, while, at the same time, launching a broad educational campaign among the population about the existence of a risk factor in stock-exchange operations. This made it possible to bring down the wave of speculative demand for shares. On Dec. 24, 1996, the stock index fell to 865 in Shanghai and 2,916 in Shenzhen, and the turnover decreased to 2.9 and 4.8 billion yuan, respectively.

This once again demonstrated, that the Chinese leadership, at critical moments, does not refrain from using methods of direct administrative intervention into the functioning of the economy.

At the same time, the shift of the center of gravity of macroeconomic regulation to market-type mechanisms, announced in many Communist Party and governmental documents, has overall been quite successfully realized in practice. To give an example: Twice in the course of 1996, there were reductions in the basic interest rates of the People's Bank of China on credits and deposits. (This was one of the serious reasons for the rise in demand for stocks.) Beginning May 1, the average-weighted bank rate on deposits was lowered by 0.98 percentage points, and beginning Aug. 23, by yet another 1.5%. The bank rates on credits were correspondingly lowered by 0.75 and 1.25 percentage points. As a result, the bank rate on one-year deposits went down from 10.98% to 7.4%, and on one-year credits from 12.06% to 10.08%.

This measure is evidence of a certain adjustment of the economic policy in China as a whole. Above all, it indicates that the government has gone over to a policy for stimulating economic growth, rather than restraining it as was done in the preceding stage. According to prognoses by experts at the Academy of Social Sciences of China, the growth of GDP

in 1997 will reach 10.3%. A big growth in investments is expected; foreign trade turnover is expected to be \$321 billion (\$156 billion in imports and \$165 billion in exports). At the same time, the policy of curbing inflation will officially remain in place. Prices are expected to rise by 6.7% in 1997, including 7.9% in the consumer sector and 5.8% in the investment sector of the economy.

The state-sector industry

The softening of monetary policy was intended, above all, to at least partly remedy the severe financial situation of the state-sector industry, where the problems during the last years have been growing like a snowball. According to an expression used by some Chinese economists, the “soft landing” of the economy turned into a “hard, stony ground” for many state-owned enterprises.

At the beginning of 1996, the indebtedness of the state enterprises reached 800 billion yuan. In the middle of that year, the total debts of 148,000 state-owned enterprises to credit and finance institutions, amounted to 3.36 trillion yuan, thus exceeding the sum total of the individual savings of the whole population. The assets to liabilities ratio of the state-owned companies was 85%, as compared with 20% at the beginning of the 1980s. The immediate aim of planned government measures, is to ease the burden of the companies’ interest payments on credits — a sum total of 100 billion yuan a year — in order that they could more actively seek credits to resolve their mutual indebtedness.

Especially alarming is the unprofitability of the textile industry, which has recently begun to reveal itself. For a long period, the textile industry has been China’s leading export industry and an unflinching contributor to the state budget. One of the reasons for its present unprofitability, is the rapid increase in purchase prices of domestically produced cotton (from 6,600 yuan per ton in 1992 to 14,000 yuan in 1996). Here, it seems that China’s leadership has committed a serious miscalculation. The high cotton prices have made it difficult for the peasants to sell their cotton to purchasing organizations, leading to production cuts. Thus, cotton harvests dropped to a mere 3.8 million tons in 1996, as compared with 4.76 million tons in 1995, leading to an increasing demand for imported cotton in China.

The situation is also problematic in the automobile industry, despite plans to make it one of the “locomotives” for the country’s modernization in the medium-term future. In 1996, Chinese car manufacturers were working at 50% of their capacity. By the middle of 1996, the volume of unsold cars reached 116,000 — a third of the total volume of 1995 (320,500).

The worsening of the financial situation of such traditionally successful branches as the textile industry and automobile manufacturing, provides irrefutable proof of the urgency of reforming the state-owned enterprises. This could be the most difficult and most extensive problem confronting the Chinese

economy today. The failure of all previous attempts to reform the state sector, has caused some people to raise doubts about the success of China’s whole reform process, while convincing others of the inevitability of a transition to privatization of the state-owned enterprises.

Responding to these kinds of sentiments, the national leadership took a number of steps during 1996, to search more actively for pathways to reform the state-owned enterprises. These decisions emphasized elaborating methods to reduce state-enterprise indebtedness, including the following: shifting debts to state investments; transforming companies to joint-stock companies and subsequently selling off a part of their shares; using bankruptcy as a means of stopping the growth of indebtedness; giving benefits to companies that have reduced the assets-liabilities ratio to an acceptable level; and so on.

At the same time, there is in China a deepening understanding of the fact, that the transfer of state-owned companies to a market-oriented mode of operation requires an array of interlinked reforms; including, above all, in the administration of state property. Thus, according to a poll, the most difficult area in creating a “system of modern corporations” (that is the official term for the targeted model of reforming the state sector in China), is located in the “uncertainty of property rights” (36% of the company managers and 41% of the civil servants) and “the absence of an adequate social security system” (18% of the managers and 22% of the civil servants). In 1996, steps were taken to reform the system of medical care and pensions, in the direction of increasing the direct payments of the workers for health services and pensions. But the principle of gradualness, which has become something like a distinctive visiting card for China’s economic reform, is maintained also in this domain.

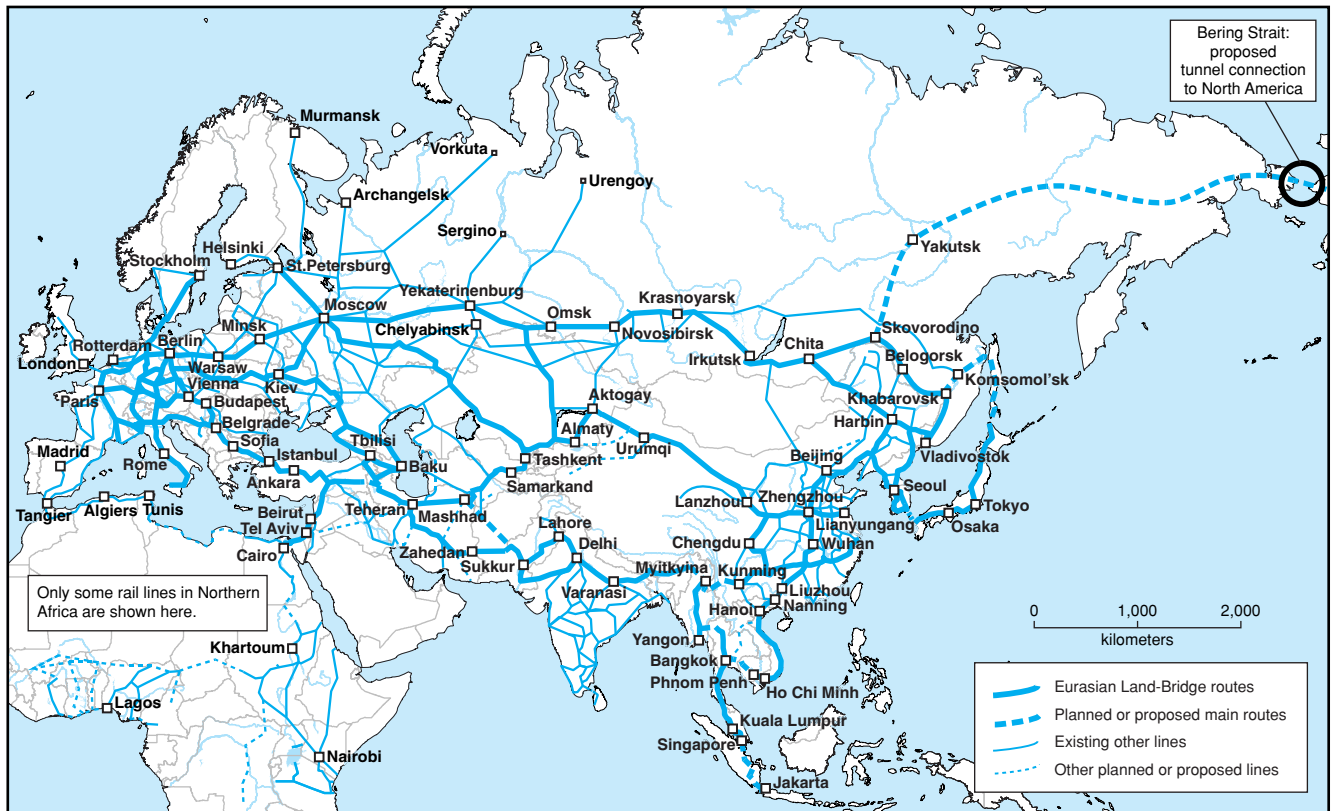
Problems of food supply and living standards

A strategic long-term dimension is inherent in many other problems facing the economy of China. The Oct. 25, 1996 issuance of the document “On the Question of Food Supply in China,” by China’s State Council Information Office, can lay claim to be the event of the year. As a kind of White Book on food supply, this document is intended to prove the groundlessness of various dark prophecies about China’s alleged inability to feed itself in the next century. The document declares, that the measures that have been taken to reform the system of managing agricultural production, and to enhance the productive forces of the rural areas, will enable China to produce 640 million tons of grains by 2030 — enough to feed a population of 1.6 billion people.

The Chinese leaders are worried about the still-high level of poverty among the population. If the poverty level were to be measured on the basis of a per-capita consumption of \$1 a day, instead of using the standard of 60¢ now used in China, the proportion of poor would rise from the official 9% of the population, to approximately one-fourth.

FIGURE 1

Eurasia: main routes and selected secondary routes of the Eurasian Land-Bridge



The overwhelming majority of the poor are concentrated in central and western China. The backwardness of those regions, as compared with the successful coastal regions, has become not only an economic problem, but also a political one, actively debated in the press. In this field, it is high time to translate words into deeds. One important practical step to uplift the western regions, is to raise the city of Chongqing to the status of a city under direct central government jurisdiction (up to now only Beijing, Shanghai, and Tianjin have had this status). In any case, these matters are receiving wide publicity in the world press.

Of course, even the most decisive adjustment of regional policies by administrative methods, does not guarantee that the central regions of the country will manage to reduce the gap vis-à-vis the eastern provinces, over the short term. This disproportion has been growing in the 1990s, under the strong objective influence of China's accelerating transition to a more market-oriented economy. In the near future, the Chinese leaders will give priority to other tasks, such as the transformation of Shanghai into one of the leading economic and financial centers of East Asia, and the problem of "absorbing" Hongkong into the mother country. All this objectively requires massive financial support from the state budget, which

will reduce the resources available to be allocated to the interior regions of the country.

The contradictory and sometimes very painful social effects of market mechanisms, are illustrated by the situation of housing in China. Implementation of a policy of payment for housing, has led to a growth of the average prices on "marketable housing" in the country, from 703 yuan per square meter in 1990, to 1,282 yuan in 1993, and 1,585 yuan in 1995. In Beijing, Shanghai, and Guangzhou, prices went up to 7,000-10,000 yuan. As a result, the value of an apartment of 40-60 square meters, is 10 times the annual income of an average Chinese city-dweller. By comparison, the international norm is considered to be on the level of 3-6 times the annual income. At the end of 1995, there were 40 million square meters of "marketable housing" in the cities, while at the same time, 4 million families live in apartments with less than four square meters of dwelling-space per person.

It seems that the Chinese leadership has become convinced, in practice, that a forced transformation of the economy to a market-oriented one, while solving some problems, creates others which cannot be resolved by the workings of the free-market forces alone. The decisions of the Sixth Plenum of the Fourteenth Central Committee meeting of the

Communist Party of China, entitled "Some important questions about strengthening the construction of a socialist spiritual culture," clearly express the intent to not merely hold the market economy "by the tail," but to direct it more rigorously toward a form of overall development of a society, which officially remains socialist.

Such, in general outline, is the economic situation in China today. Despite all its difficulties, there is little basis for predictions of an inevitable socio-political destabilization in the country. It makes more sense to characterize the state of affairs in China today, in terms of the typical problems of a nation in the process of a difficult transition to a market economy, taking into account the enormous size of the Chinese economy and the problems it is facing.

According to the Ninth Five-Year Plan (1996-2000), the average growth rate of the Chinese economy will be 8% per year. China will continue its policy of macroeconomic control. The level of inflation will be around 6-7%, the turnover of China's foreign trade in 1997 will, according to the prognosis, exceed \$320 billion (a projected growth of 7%), with a small trade account surplus.

Summing up the analysis, it is important to note:

1. The transition from restraining economic growth to stimulating it. That is the distinguishing characteristic of the current economic policy of the Chinese leadership. The adherence to a moderately austere credit and monetary policy, together with a general policy of securing socio-economic stability in the country, is expected to have a positive effect on the growth rate of the economy. This will occur through a more flexible policy on interest rates, an expansion of consumer demand, and a dirigistic solution of the problems of the state sector.

2. During 1996, the leadership of the country gave unprecedented attention to the question of reforming the state-owned enterprises. On the basis of a comprehensive analysis of the underlying reasons for the difficulties of the state sector, it seems that China's leadership has succeeded in finding some concrete ways to solve the problems that have been accumulating. These problems include: how to reduce the number of employees in the enterprises; how to realize plans for "optimizing the property structure," including bankruptcy and selling off property rights of inefficient companies through market channels; and, how to soften the indebtedness of the companies.

3. As a matter of fact, the effectiveness of many of the proposed measures will be seriously tested in the course of 1997. This is occurring in connection with realization of the policy, proclaimed by the country's leadership at many political and economic conferences at the end of 1996, to accelerate and expand the reforms of the state-owned enterprises. Judging from all indications, reforms of the state-owned enterprises, together with measures intended to ensure the success of those reforms — measures such as improvement of the secondary stock market and creation of a social welfare system consistent with market-economic principles — will be given

the highest priority within the overall economic reform in China, in the course of 1997 and following years.

4. The complex character and high social price of the coming market reforms lead one to suppose, that the reform policy in China has reached a critical point. The general success or failure of the whole Chinese model of a "socialist market economy" is directly connected with the final success or failure of the proposed transformation of the state sector and the social security system.

5. The Chinese leadership has also announced, that agriculture belongs among the sectors which should enjoy priority attention in 1997. This should be interpreted with certain reservations. The agrarian sector benefitted from a considerable price advantage in the preceding years. Hence, the only domain that can count on a serious financial support from the state in the near future, is the construction of irrigation systems. The Chinese leadership does not want to force through a new round of reforms in the rural areas, but rather counts on the possibility, that some of the problems will be resolved through the natural functioning of market mechanisms. That would include optimization of the division of arable lands into districts, and rapid development of the non-agrarian sector in the interior districts. At the same time, the way has been paved for a probable activation of the transformation process in the future. Of particular interest, are the elections of local authorities in the rural areas, the acceptance of a law on village enterprises, experiments with various cooperative forms of management, and the decision to carry out the first nationwide inspection of agriculture.

6. There has been increasing attention paid by scientists, businessmen, and politicians, on how to improve China's economic structure. It would appear that this tendency cannot be explained only by the necessity of a better "fine tuning" of the structural policy in order to create a favorable macroeconomic climate for reforming the state sector. There are, in addition, clear indications that the previous strategy for economic development, based to a large extent on forced growth of production and export of labor-intensive products (textiles, shoes, a wide spectrum of domestic durables), has begun to run out of steam. It seems that the attempt to gradually shift the center of gravity for industrial development, to a new group of leading industries — mechanical engineering, electronics, auto manufacturing, petrochemical industries, construction — has not yet led to the projected results. It is not to be excluded that, in the near future, China may undertake a significant correction in the choice of priority sectors. (In our opinion, the main candidate for the role as high-priority industry is the ferrous metals industry. Here, a policy of import substitution, together with an orientation toward exports in this sector, can be expected to produce a large economic gain.)

7. In a short-term perspective, one can expect that the influence of non-economic factors on the economic development of the country, will grow considerably. Of significance, is the emphasis on the socialist character of the development of Chinese society, pronounced by Jiang Zemin and reempha-

sized in the decisions of the Sixth Plenum of the Fourteenth Central Committee Meeting of the Communist Party of China (CPC), in which the goals of economic growth and of the creation of a socialist culture, are allotted equal importance. Also important is the Fifteenth National Congress of the CPC (which has recently taken place), and the evident political consolidation of the "Shanghai group" in the highest echelon of power. The Fifteenth Congress directed special attention to reforms of the state-sector industry. All of these things, taken together, add up to a very powerful "vector of influence." In particular, one can expect a more active struggle against corruption, at least formally, and strong support for Shanghai in its striving to become one of the economically most important centers in the Asia-Pacific region—even if this would compromise the task of uplifting the interior regions of China.

8. In summary, China confronts a large array of complex economic problems which must be solved in the immediate future, many of which are contradictory in nature. China must find answers not only to old questions, but also to new ones, which in many respects are different from those China faced during the previous stage of reforms and opening-up. This, in our opinion, underlines the need to carry out painstaking investigations of the economic life of China, on an ongoing basis.

The new phase in Russian-Chinese relations

China is going through a transition period, not only from a socialist planned economy to a planned market-economic system, but also from being a regional power to becoming a great world power.

The most important components of China's development strategy are fulfillment of the policy of the Four Modernizations, the reunification of Hongkong with China, followed by a union with Taiwan, and the creation of a "Chinese economic space" ("Great China"), comprising the People's Republic of China, Taiwan, Hongkong, and Singapore.

The reunification of Hongkong with the P.R.C. creates a new political climate in East Asia, and may be able to facilitate Taiwan's reunification with the mainland. Favorable developments include the opening of maritime transport routes between the mainland and Taiwan, opening the offshore zone in Gaoxiong, and opening the navigation route to Xiamen. Only technical issues remain to be settled in order to open direct airline service between Moscow and Taipei. The volume of Russian non-direct trade with Taiwan has reached \$1.2 billion in 1996, and is expected to be \$1.5 billion in 1997. At present, all trade transactions are made through third countries.

At the same time, China's influence on the world economy will be strengthened through the interaction between the

"Chinese economic space" and the overseas Chinese population, the *huaqiao*. Finally, Chinese penetration into the economic space of the Commonwealth of Independent States (CIS) countries, above all, Russia, should also play a significant role. In that case, the breakthrough will be achieved through the principle of exerting influence upon the weakest link of the world economic system.

The realization of this strategy to turn China into a great world power, depends to a great extent on the internal development of China in the period after the departure of Deng Xiaoping, and other political leaders of his generation, from the political scene. But already today, it is obvious that a strategy for bringing Russia out of its crisis and making it an active and equal partner of the states of the Asia-Pacific region, or any of its sub-regions—especially in Central Asia—might lead to a confrontation with China's strategy. The struggle for foreign investments, defense of labor markets, and the competition for export markets, constitute by no means all of the areas where contradictions might emerge between the two states and their respective strategies. At the same time, at the present stage, both countries have an interest in strengthening each other as a counterweight to the dominance of the U.S.A. and Japan, as well as in the interest of improving their bilateral relations.

On March 17, 1996, the Ninth Five-Year Plan for economic and social development of China was adopted, together with a long-term program extending to the year 2010. This also means the implementation of the second stage of the strategy for China's entry into the 21st century. China's experience of 19 years of reform gives reason to expect, that the impressive goals of the new plan will be achieved.

Some experts today, who are examining possible scenarios for the development of Russian-Chinese relations on the verge of the 21st century and beyond, foresee not only a probable strengthening of a strategic partnership, but also its inevitable development into some kind of union. Others, however, speak about the Chinese menace and a very high probability of a confrontation between the two powers in the next century. A certain dialectic exists in these two, quite contradictory approaches. That includes, in particular, the fact that we, given the changing situation in our own country, cannot for certain exclude either of the alternatives just mentioned. In this context, we are aware that none of them would be desirable for Russia: A union with China would mean a confrontation with a third country, whereas the second version, by itself, means a confrontation. Therefore, it is absolutely imperative to be clear about the fact, that any sort of confrontation with another great power in the foreseeable future (regardless of whether or not Russia would have support from an allied country) would be disastrous, because Russia would thereby become a pawn in a foreign game.

Consequently, from a geopolitical point of view, a strategic partnership with China would have two functional tasks: First, it would deter a third country from pursuing an offensive foreign policy toward Russia, that would encroach on her



A view of Tacheng, in northwestern China, designated as an opening frontier city in June 1992. Eight kilometers southwest of the city, the Baketu Port, opened to Russia 200 years ago and reopened in 1992 after 30 years, is the transit point for trucks carrying goods from Kazakhstan into China. Russia and China aim at quadrupling trade, to \$20 billion per year, by the year 2000.

national interests. Second, it would itself reduce the probability of a Chinese threat.

A strategic partnership, second in rank compared to a relationship of union, carries a number of advantages: On the one hand, in contrast to a union, it does not presuppose some kind of Russian responsibility for China's activities; nor does it impose obligations that would seriously restrain Russia's freedom of maneuver. On the other hand, it increases the level of confidence in Russian-Chinese relations, and, as seen through the prism of "geopolitical polygons," it stimulates other powers—the corners of these polygons—to upgrade their relations with Russia and China to this higher level. (The latter condition is generally more favorable to China, but even Russia will obtain certain dividends, owing to the interest of other powers in not permitting a further Russian-Chinese rapprochement.)

For example, speaking at the session of the Association of Economic Co-Thinkers in August 1997, Japan's Prime Minister R. Hashimoto set forth a new concept of national foreign policy, described by him as "Eurasian diplomacy." The major objective of the concept is to expand and strengthen ties with Russia, the CIS countries, and China. This step has been necessitated by the new conditions emerging in the world. The main change is the "disappearance of communism as a desired objective, making it possible to direct many countries toward the liberal market economy." A period has come which does not recognize national borders, and international corporations are now free to select the countries where they wish to operate. All this has resulted in the urgent revision of

obsolete stereotypes and the opening of new markets for Japan. In this connection, the primary task is to settle relations with neighbor countries.

Hashimoto put forward two new ideas in the economic field. First, economic cooperation with Russia should be promoted in strictly defined sectors. Japan is prepared to contribute to energy development in Siberia and the Russian Far East. This meets the interests of both countries and the Asia-Pacific region as a whole. Japan is also prepared to take part in joint projects for oil and gas production in Sakhalin, as well as the construction of gas pipelines in Yakutia and the Irkutsk Region. For example, the Japanese side expresses its readiness to take a most active part in development of the Kovyktinsky natural gas deposit in the Irkutsk Region and construction of the gas pipeline to China, South Korea, and Japan. Ten private companies plan to set up a joint investment-based company as early as 1997, which would be a major Japanese partner in the project.

It is necessary to add the reservation, that the realization of all these above-mentioned positive elements, is only possible under conditions of active and competent diplomatic support. An example of this is the array of many-sided and unique measures, such as: the establishment of mechanisms for regular summit meetings between high-level leaders and heads of the governments of the Russian Federation and People's Republic of China, the April 1996 Shanghai agreement, and the April 1997 Moscow agreement with the participation of Kazakhstan, Kyrgyzstan, and Tajikistan.

During his planned visit to Russian Siberia in the beginning

of November 1997, Hashimoto will discuss in Krasnoyarsk city his new "Eurasian diplomacy" with President B. Yeltsin. After this meeting, the Russian leader will visit China.

In these days, the booming economic growth in the countries of the Asia-Pacific region has dramatically altered the attitude to the "Easterly" direction in Russian politics. The development of cooperation with the APR countries, and the search for an optimal path of integration into this region, have become primary tasks for Russia's foreign policy. Accordingly, during recent years, Russia's strongest attention has been fixed on its Chinese neighbor.

The 'new international order'

The transition from one century to another is not a date on the calendar, but a complex historical process, implying qualitative changes in the development of human civilization. This approach to understanding the milestones of the onward march of history, becomes even more important when it comes to evaluating a "double step," i.e., when the turn of the century coincides with the turn of the millennium. Mankind is right now advancing to that sort of landmark.

What we see on the international scene is not simply a regroupment of forces. It is a matter of principal and qualitative changes. The paradigm of world history has shifted: Instead of a confrontation between social-economic systems, the line of conflict now runs East-West and North-South; the struggle between objective tendencies toward economic integration and international convergence, on one hand, and subjective separatist aspirations, on the other, becomes more intense.

The "new international order" (NIO), for which the overwhelming majority of nations is pleading, is a new architectonic structure of international relations, arising in connection with the objective conditions of development in various countries. The NIO is also shaping the new historic conditions, under which mankind will live in the next century. According to the view of the majority of states, the NIO must be built on a democratic foundation, on the principles of the United Nations and the fundamental principles of international law. In the process of its creation, it is necessary to take the basic set of values of each civilization fully into consideration.

On April 23, 1997, during the state visit by Chinese President and CPC Chairman Jiang Zemin to Moscow, Russia and China signed a "Common Declaration for a Multipolar World and the Formation of a New International Order." This document gave concrete form to the paths of development of a strategic interaction between the two powers in the 21st century.

The Moscow Declaration binds the parties, in the spirit of partnership, to "make efforts to contribute to the development of a multipolar world, and the establishment of a new international order." In that respect, both Russia and China adopt as point of departure, the fact that fundamental changes have occurred in the sphere of international relations at the end of the 20th century, following the end of the Cold War. The

system of bipolar confrontation has disappeared and been replaced by a positive tendency to build a multipolar world. These changes not only affect the interrelations among and between the large states, including the former antagonists of the Cold War. Also, a growing number of other countries have come to a common conclusion about the necessity of developing mutual understanding, equality, and mutual benefit, instead of "hegemonism" and power-politics; dialogue and cooperation, instead of confrontation and conflicts. In order to build up a peaceful, stable, just, and rational new political and economic international order, one must not forget the increasingly important role of regional organizations for economic cooperation. Broad international cooperation is an urgent demand of this epoch and an imperative for historic development.

The Russian-Chinese declaration makes it possible to build a realistic road leading to humanization and democratization of international relations. Similar to the UN Charter of Human Rights, the Moscow Declaration is a fundamental code of rights and obligations for the behavior of states in the international arena, adapted to new conditions. The sacrifices made by mankind during the Cold War make it imperative, that mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-intervention in the internal affairs of other states, equality and mutual benefit, peaceful co-existence, and other universally recognized principles of international law, finally may triumph in international relations.

Truly democratic relations imply that each partner in international relations has to be accepted for what it is; that every state has the right, independently of other states, to choose its own path of development, taking into account its concrete circumstances. In this respect, different social systems, ideologies, and sets of values must not become an obstacle for the development of normal relations between nations.

Especially significant, is the statute which says that all nations, no matter if they are big or small, rich or poor, are in fact equal members of the international community. No country should strive for hegemony, pursue power-politics, or try to monopolize international affairs.

It is also important, that the declaration underlines the role of a great circle of developing countries, and of the Non-Aligned Movement, as a significant force, furthering the formation of a multipolar world and a new international order. The interaction between developing countries is becoming stronger; their role in international politics is growing, and their share of the world economy is increasing. "The rise of the developing countries," proclaimed leaders of Russia and China, "gives a powerful impulse to the historic creation of a new international order. These countries must occupy their rightful place in the future international order, to be able to participate as equals in international affairs, and without any discriminatory limitations."

The new international order must not be implemented by coercion or force. In order to consolidate a new, all-embracing



An artist's rendition of the Three Gorges Dam, a project which will provide China great benefits, including power generation and flood control. In the interest of participating in this project, a special Three Gorges consortium has been created in Russia.

security concept, it is necessary to do away with the Cold War mentality and other reminiscences of bloc politics, across the board. "It is imperative," the declaration emphasizes, "to settle disputes and conflicts between nations through peaceful methods, not by force or threats to use force; by means of dialogue and consultations to further the establishment of mutual understanding and confidence; and to strive for peace and security through bilateral and multilateral coordination and cooperation."

One should also note that Russia and China were unanimous in the view that "it is necessary to strengthen the role of the UN and its Security Council." They gave a positive evaluation to the UN's efforts to maintain peace and security in the world as a whole, and particularly emphasized, that "the role of the UN in the world, as the most universal and authoritative organization of sovereign states, cannot be replaced by any other international organization." They expressed their conviction that "the UN plays an important role in establishing and maintaining the new international order." The mission of renewing the character of international relations, has high priority for the peoples of all countries. In the Moscow Declaration, Russia and China "call on all nations to start an active dialogue on the question of building up a peaceful, stable, just, and rational new international order, and are prepared to jointly discuss any constructive proposals brought forward in this context."

Russia's economic and trade cooperation with China

From the side of the People's Republic of China, the Resolution on the Ninth Five-year Plan and the Program for China's Development Up to the Year 2010, emphasize the necessity to continue raising the level of China's opening to the outside world, and upgrading its contacts with other countries. In this respect, it is important to note, that stress is placed on utilizing foreign investments and other foreign resources to promote the development of the central and western parts of China, and that exports of Chinese products are growing dramatically. By virtue of its geopolitical position, Russia occupies a special place in the economic strategy of China.

As a consequence of this, beginning in 1995, Russian-Chinese cooperation in the fields of trade, science, and technology, entered a new phase. The documents signed as a result of President Yeltsin's visit to China in 1996, and President Jiang Zemin's visit to Russia in 1997, have consolidated this new model of relations, in which the leading role will be played by cooperation in the fields of energy, machine-building, space technology, transportation, and advanced technologies. This was elaborated more in detail during the visit to China in June 1997, of Russian Prime Minister V. Chernomyrdin.

In the course of these visits, the leaders of the two countries expressed their wish to promote mutually beneficial bi-

TABLE 1

Soviet and Russian trade with the People's Republic of China*

(millions \$)

	1981-85	1986-90	1991	1992	1993	1994	1995	1996**
Trade volume	6,216	18,922	3,904	5,862	7,679	5,077	5,463	5,697
Exports	3,047	9,546	2,081	3,526	4,987	3,496	3,799	4,338
Imports	3,169	9,376	1,823	2,336	2,692	1,581	1,664	1,359
Trade balance	-122	+170	+258	+1,190	+2,295	+1,915	+2,135	+2,979

* Before 1992, trade between the U.S.S.R. and the P.R.C.; from 1992 on, trade between Russia and the P.R.C. From 1991 on, data based on Chinese trade statistics.

** First 10 months.

lateral cooperation, and came to a common understanding on a wide range of questions connected with the directions, pathways, and goals of a comprehensive partnership between the two nations. They also signed a number of inter-governmental agreements, giving a further impulse to the development of bilateral cooperation in the fields of trade, science, and technology. These documents are of utmost importance for the further development of friendly and mutually beneficial Russian-Chinese relations in the form of a constructive partnership, aiming at strategic interaction in the 21st century.

At present, the volume of trade between Russia and China has begun to grow. It increased by 41.2% in the first half of 1996, reaching \$3.27 billion on July 28, 1996. *Business Weekly* (the Sunday supplement to *China Daily*) proclaimed the view of the Chinese side, that it would be fully realistic, to be able to raise the trade volume between the two countries to \$20 billion annually by the year 2000. This figure, which would mean a quadrupling of trade relative to present figures, was mentioned in President Yeltsin's speech in Shanghai on April 1996.

At the current stage, economic and trade cooperation between Russia and China consists of two components: interactions on the international level and cross-border trade. They are both subordinated to the general Russian strategy, which is aimed at strengthening relations with China, increasing the presence of Russian companies on the Chinese market, and activating Russia's participation in the process of integration in the Asia-Pacific region.

At present, China occupies third place among Russia's most important trade partners, after Germany and the U.S.A. China's share of Russia's total trade volume is 4.7%. In terms of trade volume, Russia is number seven among China's trade partners, after Japan, U.S.A., Hongkong, South Korea, Taiwan, and Germany. Trade with Russia accounts for 2.6% of China's total trade volume.

International trade relations

There was a drop in Russian-Chinese trade in the early 1990s, but this ended in 1995, and was replaced by rapid growth. The volume of trade reached \$5.46 billion in 1995,

an increase of 7.6% in comparison with 1994. Russia's exports were \$3.8 billion and China's \$1.66 billion. From January to October 1996, the volume of Russian-Chinese trade reached \$5.70 billion, which is a 36.2% increase relative to the corresponding period of the preceding year. Russian exports were \$4.34 billion, and Chinese exports were \$1.36 billion. The trade volume in 1996 exceeded \$6 billion (see **Table 1**).

The main components in Russia's raw-materials exports in 1996 were fertilizers and other chemical products, iron and non-ferrous metals, and fish and sea products. Their share of Russia's total exports during the first 10 months of 1996 was 71.5%.

There was a significant increase in the value of trade in machinery and equipment, which also took an increasing share in Russian exports. During the first 10 months of 1996, the corresponding trade figures reached \$866 million and 20%, respectively. There was even an increase in the category "aircraft" (from \$33 million to \$694 million).

Cooperation in the field of construction and reconstruction of industrial plants in China has seen a further development. Russia is actively participating in developing the energy complex of the P.R.C. In the view of Russian experts, it is a realistic goal to build an integrated energy system in Northeast Asia. Going into operation during 1995 and 1996 were: two power-producing units on the Inkao thermal power station, each with an output of 300 megawatts; two power units of 500 MW each on the Qixian thermal power station; two power units of 300 MW each on the Shantou thermal power station, as well as a number of other industrial projects.

The agreement on expansion of joint cooperation in the sphere of energy, signed by the two parties during President Yeltsin's visit to China in April 1996, gave an additional impulse to realization of the above-mentioned cooperation. The corresponding organizations in both countries have accomplished major work on an agreement to build a gas pipeline between the district of Irkutsk in Russia to the port of Rizhao in Shandong, China. They also had a preliminary exchange of views on construction of an oil pipeline and a high-voltage line for electricity transfer from eastern Siberia to

China, as well as the exploitation of gas and condensed gas deposits on the territory of the P.R.C.

In the first ten-day period of October 1996, some 300 days before the date of expiration of the contract, the first part of project 405-1A was put into operation in the town of Hanzhong in Shaanxi Province.

An agreement for Russian assistance in the construction of a Chinese experimental fast neutron reactor, reached between the Russian Ministry of Atomic Energy and the Chinese state nuclear industry corporation, is now being carried out. Various cooperation projects are also being developed in the field of processing spent fuel from nuclear reactors. Cooperation between Russian and Chinese organizations is also expanding in the fields of controlled nuclear fusion, in military conversion technologies, and other areas.

In October 1996, China decided to shift the planned construction site of a nuclear power station from the province of Liaoning, to Jiangsu Province. Russian experts have carried out preliminary studies on the new site. At present, the parties are carrying on negotiations on the technical aspects of the project, and on signing a framework contract. This will form the basis for the Chinese government to make a final decision about the construction of a Russian-designed nuclear power station in the city of Lianyungang in Jiangsu Province.

During 1995 and 1996, taking into account 35 projects confirmed by the 4th session of the Subcommittee on Scientific and Technological Cooperation held in Moscow in July 1996, Russian-Chinese cooperation has been launched on 199 specific items, in such areas as machinery construction, electronics, chemistry, new materials, agriculture, light industry and food processing industry, geology, biotechnology, instrument-building, ecology, and medicine. In the majority of these areas, either concrete work has already begun, or, at least, plans have been drafted.

A mechanism is beginning to be developed, for bilateral cooperation in the sphere of industrial implementation of new, high-technology innovations. Within the framework of the Russian-Chinese consortium, "Center for Science and High-Technology," concrete projects are being worked out on sublimation drying of food-stuffs and production of industrial diamonds.

Cooperation in the field of peaceful exploitation of space is developing successfully. After a successful visit to Russia by a Chinese governmental delegation on astronautics, the parties have made significant efforts in creating good conditions for cooperation and confirmation of various projects.

The parties drew particular attention to the strict observance, by corresponding foreign trade organizations in each country, of the agreement on hard currency payments for the thermal power stations Yimin and Suzhong. They also called for observance of the provisions of the bilateral protocols on economic and trade cooperation, according to which, contracts between organizations of the two sides must apply current world market prices for commodities purchased in China.

The Chinese side is concerned about China's continuously rising deficit in Russia-Chinese trade. According to Chinese statistics, China's trade deficit in trade with Russia for 1992-95 exceeded \$7.5 billion. From January to October 1996, it reached \$2.98 billion. According to Russian statistics, China's negative balance for 1992-95 was \$6.3 billion.

Only through active and effective measures to expand China's exports to Russia, can bilateral trade continue to successfully develop on a balanced basis, with the object of increasing the annual volume to \$20 billion.

In the view of the Russian side, consistent cooperation between the two countries in the field of civilian aircraft technology would help attract Russian companies as subcontractors for the realization of the Chinese project to build the 100-seat passenger aircraft AE-100.

The main areas of cooperation in the immediate future would be the construction of a gas pipeline from Irkutsk district to China and South Korea, and participation in construction and reconstruction of industrial plants on the territory of China.

The structure of Russian imports from China has, in recent years, remained practically unchanged. The basic component of imports is consumer goods and food-stuffs, amounting to 78.4% of Russia's imports from China. Imports of food-stuffs fell by 5.4% during the first ten months of 1996, to \$368 million, while imports of consumer goods rose by 12.6%, to \$697 million.

A new structure of trade relations

Russia and China share an objective interest in raising the level of cooperation to a new qualitative level. For our countries, the creation of a new structure for foreign economic relations is a matter of vital importance going into the 21st century.

The inter-governmental Russian-Chinese Agreement on Economic and Trade Relations of March 5, 1992, provided for a mutual policy of most-favored-nation status in trade and other forms of economic cooperation. China is also included under Russian trade privileges for developing countries, whereby lower duties are imposed on imported goods from China (25% at present), compared with the basic rates for countries enjoying most-favored-nation status.

A certain negative effect on Russian purchases in China has resulted from the new Russia import tariff, valid as of May 15, 1996. From that date, importers of goods from developing countries granted trade privileges by the Russian Federation, must pay duties amounting to 75% of current rates, rather than 50% as before. That means a de facto increase of 50% on duties for Chinese goods.

In turn, Russian goods imported into China are granted preferential duties in accordance with the policy of most-favored-nation status. According to the Chinese import tariff, the size of preferential duties is fixed individually for different types of goods; but, as a rule, it amounts to 50-60% of the

basic rate. China has not granted Russia the status of a developing country.

For the short term, the Russian side plans to give priority to trade in machinery and technical equipment. The technological level of Russian and Chinese industry permits a significant increase in the share of finished industrial production in the Russian-Chinese trade structure, and can help promote realization of the task of structural transformation of Russia's economy.

The situation in this sphere, however, is, so far, rather complicated. The share of machinery and equipment in Russia's exports to China dropped from 35.2% in 1993 to 10.8% in 1995. During the first ten months of 1996, this share rose to 20%. However, it is somewhat worrisome, that growth was achieved only due to big deliveries of military equipment. Exports of civilian production continued to fall during 1995.

In February 1996, the Russian government adopted a federal program to expand exports, which concretizes the basic policy for state support to Russian exporters. In 1997, concrete measures are envisaged to realize this program—within the limits of the state budget. Such measures could include reduction of the tax rate on profits, exemption from taxes on advertising, and so on. The subsequent increase in the competitiveness of Russian products on the Chinese market, would lead to growth of deliveries of machinery and equipment. In this context it is necessary for the Russian government to take a number of measures, giving tax supports to exporters of machinery and equipment, including, above all, for export of entire equipment systems. Activation of the Russian "Eximbank" and creation of a Russian foreign trade insurance company, are being contemplated.

Modern trade in complex technical equipment, is impossible without providing a corresponding level of after-sale service; in particular, creating centers for repair and maintenance, together with warehouses for spare parts, inside the importing country. However, even here, the Russian policy of currency regulation serves as an obstacle, because it, in fact, deprives organizations of the possibility to build up inventory supplies of components and spare parts.

At the same time, Russian producers and exporters must themselves take a more aggressive attitude, in order to penetrate the Chinese market and consolidate their achievements. They have to more boldly participate in tenders for contracts for project construction and equipment delivery.

In the joint declaration of 1996, the parties noted that it will only be possible to raise their economic and trade relations to a qualitatively new level, if there is government support for the activities of Russian financial and production structures in the Chinese market. Russia is striving for multilateral, mutually beneficial partnerships in the Chinese market, including cooperation with companies of third countries.

The perspective for expanding economic and trade contacts between the two countries, is connected with the entrance of Russian financial and industrial groups into the Asia-

Pacific region, including the Chinese market. In terms of their multiple functions and their powerful capabilities, these groups are comparable to well-known transnational corporations. As a rule, they were created on the basis of groups of enterprises from the former military-industrial complex. These enterprises possess unique, highly advanced technologies in a variety of areas, from space industry and microelectronics, to oil prospecting and the use of non-traditional energy sources. Such enterprises will be able to upgrade, by an order of magnitude, the level of economic relations between Russia and China—up to the "Japanese" or the "American" level.

Russia finds it highly important to realize long-term economic projects, to be carried out jointly with other states in the region. Such projects include: the creation of a free-trade zone in Northeast Asia (and its future unification with the North American Free Trade Agreement); the Tumen River project; the Sea of Japan economic zone; the Yakutsk gas project; the Sakhalin free-trade zone; the Nakhodka special economic zone; and the Blagoveshchensk-Heihe Russian-Chinese special economic zone.

To these projects, and perhaps even absorbing them all, the Eurasian Land-Bridge project should be added. The realization of this grandiose international project, aiming at the re-creation, on a new basis, of the economic bridge between Asia and Europe, could mean a new qualitative leap in the interrelations between Russia and China. Discussions about this project are taking place both in China and in European analytical centers. Russia, together with other CIS countries such as Kazakhstan, Kyrgyzstan, and Belarus, has a key position in this project. In this connection, the signing, on March 29, 1996 in Moscow, of the "Four Country Agreement" on intensified integration and removal of custom barriers between the above-mentioned countries, can be regarded as a collective contribution to the construction of the Eurasian Land-Bridge.

For China, this project makes it possible not only to start to reduce one-sided dependence on the American market, and reorient its economic relations toward Europe and the CIS states, but also, to search for its own "niche" in the Russian market. Ever more frequently, Chinese analysts remark, that it is both desirable and possible to invest Chinese capital in Russia, whereas it is more difficult for China to do so in the markets of other developed countries.

Border trade and economic cooperation

A decisive factor for the development of Russian-Chinese border trade and economic cooperation in 1996, was China's decision to change the status and policy for border trade in accordance with the requirements of the World Trade Organization (WTO), an organization China intends to join.

At the beginning of 1996, the State Council of China reached a decision defining a new border trade status. As of April 1, 1996, this term now applies to trade operations of

only two kinds: 1) trade operations on special markets in a 20-kilometer-wide border zone; and 2) operations carried out by special companies and firms, authorized to conduct small-scale border trade, in districts around border towns, through passages determined by the state. For operations of the first kind, a duty- and tax-free minimum has been established (currently 1,000 yuan per person per day). Operations of the second kind, during 1996-98, will pay duties and taxes at rates half the current ones.

As of April 1, 1996, all other kinds of trade operations, including barter trade conducted by Chinese companies in border provinces, lost all privileges, and are liable to full duties and taxes.

The removal of privileges for a majority of leading Chinese border trade companies, has had negative effects on their foreign trade operations. At the same time, the reduction of the Chinese import tariff by 30% from April 1, 1996, to a certain degree compensated the border trade companies for the loss of former privileges. It promoted Russian exports to China, and, in particular, to the provinces bordering on Russia. During the first five months of 1996, the volume of Russian-Chinese border trade, defined in accordance with the new Chinese rules, was estimated at \$200 million, including the \$138.4 million commodity circulation with the Heilongjiang Province, which has the most extensive border with Russia. This is an increase of 2.2%, as compared with the same period in 1995.

During this period, 86.7% of the border trade with Russia went to districts adjacent to the main customs stations on the state boundary with Heilongjiang: Suifenhe, \$60 million; Dongning, \$36 million; Heihe, \$24 million. At the same time, there has been a boom in border trade operations through other customs stations of Heilongjiang. Thus, the volume of border trade going through the passage of Ceshi increased by a factor of 19, reaching approximately \$7 million; trade through Mishan grew by 130%, to \$5.5 million; and via Songke by 270%, to \$2.1 million.

During 1996, factors which had caused stagnation in 1995, continued to have an unfavorable influence on the volume and dynamics of border trade. These were, especially, the increases in prices of Russian goods traditionally delivered to China through border trade channels, and saturation of the limited Russian markets for Chinese consumer goods in Siberia and the Far East. The Chinese market for investment goods has also been dulled as a result of the country's austere credit policy.

The changing macroeconomic situation in both countries has altered the structure of border trade. In 1995, there was a predominance of ferrous and nonferrous metal scrap and fertilizers in Russian exports; during the first five months of 1996, however, pulp wood and paper, timber, oil, and petroleum products have taken precedence over fertilizers and nonferrous metals.

The main imports from China in 1996 consisted, as before,

of food-stuffs and consumer goods. In a number of border districts of Heilongjiang Province, special organizations have been set up with the sole aim of delivering vegetables and other agricultural produce to Russia.

In Northeast China, there has been a restructuring of Chinese border traders. In particular, during 1995 there was a merger between smaller companies and larger, more competitive structures.

At the same time, some corrections were made in the system regulating the activities of border trade companies. To ensure a smooth transition to hard currency trade, an increasing number of firms have been granted the right to conduct hard currency trade with Russia, other CIS countries, and eastern European states. Through a decision by China's Ministry of Foreign Economic Relations in 1995, the right to conduct this kind of trade was also granted to 50 local companies. At the same time, the amount of direct foreign trade operations with companies in Northeast China has significantly diminished, and the flow of goods to Russia has been diversified to the benefit of the coast provinces of China.

Buying light industry products, domestic durables and electrical appliances, and food-stuffs (in particular, frozen pork) from other Chinese provinces, is cheaper than purchasing it from Northeast Chinese companies, which are trying to retain a monopoly by virtue of their geographic position. This encourages Russian businessmen, including those who also operate in border districts, to search for more advantageous business contacts.

Banking infrastructure needed

In 1995, the foundation was laid for solving the problem of payments, after a number of banks in the border districts of both countries established direct correspondent accounts. Such banking relations have, in particular, been established by an affiliate of the Agricultural Bank of China in the town of Heihe, and Amurskiy Bank of Commerce in Blagoveshchensk, the Harbin affiliate of China's Investment Bank and Regio-bank in Khabarovsk. However, their experience has shown that establishing relations between pairs of banks does not once and for all solve the payment problem. A broad, widely developed banking infrastructure along both sides of the international boundary would be necessary to achieve this.

Both the Russians and the Chinese are concerned about the fact, that some border trade companies do not fulfill their contract obligations. The number of non-realized contracts is large, and the number of trade disputes, too. One important task today is to create a functioning mechanism for settling trade disputes, and to develop a corresponding network of arbitrators in the border districts. Much will depend on the results of cooperation between Russia's Chamber of Industry and Commerce and the Chinese Committee for Development of International Trade (CCDIT) in arbitration. The first steps have already been taken; in August 1996, both parties signed an Agreement on Cooperation, which defines the main princi-

ples for settling commercial disputes between Russian and Chinese traders.

The Agreement on Cooperation includes a clause to make the arbitration procedure easier: The parties can decide to carry out arbitration, not only at the institutions' permanent location, but also in other towns in the border district of Russia and China.

The improved skills of Russian foreign trade participants have led to a diminishing profit rate for Chinese border trade companies. Nowadays, it rarely goes beyond 50%. Cases of excess profits enjoyed by Chinese companies—up to 600% and more was characteristic during the initial period of border trade—have now become impossible.

All this gives evidence of a transition of border trade to a new, more mature stage of development, characterized by relations of long-term partnership, and rejection of unqualified foreign trade partners.

Recently, economic and trade cooperation has begun to include a growing export of Chinese labor force to Russia. In particular, in the course of 1995, companies from Heilongjiang Province cooperated with Russian organizations in approximately 500 projects, mainly in the fields of agriculture and construction. The costs of contracts for labor provided by Heilongjiang firms in 1995 amounted to \$150 million, which is 50% less than in 1994; while, at the same time, the number of workers who went to Russia on contract reached 8,500 persons, which is 6% more than in 1994.

This indicates that there has been a certain stabilization in this field of cooperation, and that Chinese companies have adapted to the new, more permissive order for import of foreign labor force, introduced in Russia in 1994, as well as a stricter visa policy.

In the course of 1995 and 1996, China has continued to actively pursue, on a local level, the necessary realization of "free-trade zones" in the districts around the main border passages (Zabaykalsk-Manchuria, Blagoveshchensk-Heihe, Grudekovo-Suyfenghe).

In this respect, China has made great efforts to improve the infrastructure on the territory of the districts intended to become "free-trade zones" with Russia. However, this is presently being held up by the absence of Russian legislation concerning the status and conditions for this type of zone.

An important step in the development of Russian-Chinese economic and border trade cooperation, was the signing in December 1995, at UN Headquarters in New York, of three multilateral agreements on developing the Tumen River district (Tumenjiang). This UN project, with the participation of Russia, the Korean People's Democratic Republic, the People's Republic of China, as well as South Korea and Mongolia, would create good conditions for the fast development of economic and trade relations in this region. In connection with its intention to join the WTO, Russia needs to develop border trade procedures in agreement with the international standards in this field. On the one hand, a new, strict, and

narrow framework for this kind of trade will give the trade a more civilized character. On the other hand, without contradicting WTO requirements, it would grant certain privileges to border trade, stimulating development of such trade, and consequently also promoting development of the districts directly adjoining the border. According to experts at the Institute of Far Eastern Studies of the Russian Academy of Sciences, it would be worthwhile to accelerate the preparation of a Russian-Chinese inter-governmental agreement on economic and trade cooperation.

The Three Gorges project and the issue of Russian participation

In accordance with the Spring 1992 resolution of the Fifth Session of the Seventh Chinese National Peoples Congress, the Three Gorges hydroelectric plant is being built in Hubei Province in the middle reach of the Yangtze River. It will have a total maximum capacity of 18.2 million kilowatts (26 hydroelectric power units of 700,000 kW each, which makes it the biggest in the world).

The construction of the dam, 2,331 meters long and 185 meters high, on the Yangtze River between the towns of Yichang and Chunqing, will create a water reservoir of about 660 km length, with an area of more than 1,084 km² and a surface height of 175 meters above sea level. The dam complex will include a left-bank hydroelectric power station with 14 power units and a right-bank station with 12 units.

The construction of the hydroelectric plant will take place in three stages.

The first stage of work (excavation and construction of the dam foundation) started in October 1994. Up to the beginning of 1997, according to expert estimates, the construction work has cost more than \$2 billion. The work area is 15 km², involving 20,000 workers excavating 120 million cubic meters of earth and rock and pouring more than 2.6 million m³ of concrete. Construction of a bulkhead downstream from the future power station has been completed, and the lower part of the length-wise bulkhead at the dam itself, and 83% of the work on the conduit of the hydroelectric plant, have also been finished. Toward the end of the first stage (in 1997), a temporary ship lock will be built on the left bank of the project.

In the course of the second stage of work (1998-2003), the schedule foresees the following operations: completion of the ship lock (length 483 meters) and the left-bank hydroelectric station (length 644 meters); strengthening of the left bank of the hydroelectric plant and the upper part of the length-wise bulkhead at the station; and completion of the permanent shipping locks with their lifting system. In this period, up to 4 million tons of concrete will be used every year. According to the official schedule, operation of the first two turbines will begin in the year 2003.

In the third stage (2004-2009), the dam will cause the river's water surface to rise to a level of 135 meters, which will allow exploitation of the left-bank hydroelectric station

and the passage of ships. At the same time, the construction of the right-bank hydroelectric station will be completed.

In October 1996, China's State Bank for Development signed a contract with the Three Gorges Corporation in Yichang, granting a loan of 30 billion yuan (about \$3.6 billion) up to the year 2003, for the construction of the project. According to the terms and conditions of the contract, the corporation will receive more than \$360 million annually for construction. The loan is financed chiefly by the national payment fund for electric power. In addition, the entire profit from the sales of electricity from Gezhouba, China's biggest existing hydroelectric power station, goes to the development fund for the Three Gorges project.

Foreign financing of construction of the first 14 hydroelectric units of the power station is also being arranged through China's State Bank for Development.

Estimates by Chinese specialists show that the total cost for construction of the hydroelectric plant will reach \$24.5 billion, taking into account projections of the inflation rate, interest on foreign credits, and exchange rates of convertible currency at the time of completion of the project in 2009. The Chinese government intends to cover part of the expenses by issuing securities, especially abroad.

In the interest of participating in this project, a special Three Gorges consortium was created in Russia, including the following main organizations to coordinate deliveries of Russian equipment: Energomashexport, specialized in deliveries of turbines and other power equipment; Tekhnopromexport, for hydromechanical equipment, including locks and power lines for electricity transfer; and Traktoroexport, for machinery for construction and road work.

The Chinese took a positive attitude toward the Russian leadership's declarations of intention to give state support to the Russian consortium, which participated in international tenders for contracts on deliveries of hydroelectric units and hydromechanical equipment for the locks, in summer of 1997.

Provided that the Russian government would decide to grant state support to the consortium, the Chinese considered it a serious and realistic perspective, that Russian organizations would even participate in the construction of infrastructure in the new residential districts, which are to be built for the approximately 1.8 million people who must move out from the area to be flooded. The Chinese report that construction has already begun, in the framework of the migration program, of some 800 projects, with a total cost of 1.4 billion yuan.

It is revealing that, on Nov. 19, 1996, the authoritative central Chinese newspaper *Jingji Ribao* published an article about the pre-tender preparations of the Russian companies. Besides voicing a positive opinion on the technical quality of the Russian turbines, this article also drew a conclusion about the weak financial situation of the Russian consortium, which was "busily searching for capital" in order to compete with Western companies in the forthcoming tenders.

Unfortunately, the Russian consortium failed in its effort to win the tender for construction of the Sanxia hydroelectric plant. Formally, the decision, counter to our favor, was taken on the basis of an 8% difference in the cost of Russian and European equipment. However, the main factor of the failure seems to be located in the insufficient government support for the enterprises participating in the tender, as no funds for the initial period of manufacturing of equipment had been provided for in the budget. Now the question arises, how to reach the target of \$20 billion in Russian-Chinese trade and economic cooperation by the end of the 20th century?

Project for electrical energy transfer to China

Considering the deficit of electrical energy in China, the Chinese show some interest in a project for constructing a power line to transfer electricity from Russia to China.

In September 1996, a group of high-ranking Chinese experts visited the Irkutsk region and carefully studied existing capacities for electrical energy production, as well as technologies for long-distance transfer. Local specialists conclude that this project demands significant financial resources, which might necessitate international credit arrangements.

A certain amount of time will be required to solve the financing problem. Private discussion with Chinese representatives indicates, however, that in light of the unstable political and economic situation in Russia, China does not regard the project in question as a reliable channel for electrical energy transfer to China. In the opinion of the Chinese, efficient implementation of this project would require participation by authoritative foreign companies, able to guarantee its realization through a system of international financial engagements.

It is noteworthy, that foreign companies recently have begun to show a more active interest in this project. In November 1996, in the course of a visit to the Russian Embassy in China, managers of the Canadian companies Walsh Automation and ABB, represented by their vice presidents John Osborne and Wido Hoville, presented the idea of building the electricity transfer line to China through the territory of Mongolia.

The Canadian representatives proposed a 10% Russian participation in the project. ABB and Walsh Automation are prepared to take total responsibility for financing the project and supplying the main equipment. The Russians could, in their turn, deliver masts and auxiliary equipment. Purchases of electrical energy from Russian suppliers would take place in convertible currency.

The Canadians have announced that project plans already have been brought to notice of Irkutskenergo, the Ministry of Foreign Economic Relations of China, and the Chinese Ministry of Electrical Energy, and have been approved by the Mongolian government. Before they go further with the project, the Canadian entrepreneurs are waiting for official approval from the Chinese and the Russian sides.

Cooperation on constructing nuclear power stations in China

In October–November 1996, there were negotiations with the Chinese side on a number of key issues concerning the realization of the “Agreement between the governments of the Russian Federation and the People’s Republic of China, on cooperation in constructing a nuclear power station and granting a Russian state loan to China.”

The Chinese side confirmed its interest in constructing a nuclear plant, jointly with Russian organizations, in the province of Jiangsu, instead of Liaoning as had been previously planned. In this context, the Chinese expressed interest in the possibility of increasing the capacity of the proposed nuclear power station to four units of 1,000 MW.

During the negotiations, the Chinese side drew accentuated attention to the fact that leading reactor-construction companies from the West are presently very active in exactly this market in China. In 1986–94, a consortium of French-British companies constructed the nuclear plant at Daya Bay, with a capacity of 2×930 MW. In 1995–96, the same consortium signed a new contract to build the nuclear station Ding Gao, with a capacity of 2×985 MW. A contract to build, in the near future, a nuclear plant with a capacity of 2×700 MW, has practically been approved and signed with the Atomic Energy Commission of Canada.

Negotiations are taking place between American and western European companies about cooperation in the field of atomic energy. With the object of conquering the highly promising Chinese market, Western companies are willing to offer extensive transfer of technologies for production of equipment and nuclear fuel for a nuclear power station, and also to take total responsibility for financing not only their own services and equipment supplies, but also local expenses. Furthermore, available information indicates that the French-British consortium, toward the end of the negotiations, had to accept payments for its services and equipment at prices approximately 20–30% lower than those that were agreed upon in previous contracts. Specific capital costs for the Canadian companies, constructing nuclear plants with a capacity of 2×700 MW, have been fixed at the same level.

In these circumstances, the Chinese side considers it acceptable, if overall capital costs of the construction of a new nuclear power station would amount to approximately \$3–3.4 billion, including price escalation, interest charges during the construction period, and two-thirds of the costs of initial nuclear fueling for the reactors. Russian enterprises’ prices for services and equipment (without the costs of nuclear fuel) would be approximately \$1.5–1.6 billion—an amount which approximately corresponds to the minimum necessary to finance the expenses of Russian suppliers—provided that payments to the Russian organizations, carried out on the basis of a state credit, would be based on the full market exchange rate of the ruble to the U.S. dollar.

If these conditions are met, there is a real possibility to

find mutually acceptable solutions with the Chinese side, for the price of a contract for Russian enterprises to participate in constructing a nuclear power station in China, and to sign corresponding commercial contracts.

China’s new role in the cooperation of Independent Asian States zone

When the organization of Independent Asian States (IAS) was formed by Russia and its historical neighbors in Asia (China, Afghanistan, Iran, and Turkey) as an active entity in international relations, this coincided with the development of a new zone of instability on the flanks of Eurasia, including in the Balkans, the Caucasus, and Central Asia. Here, it is necessary for Russia and its traditional historical neighbors to form new, very specific sorts of ties, creating a new structure of international relations. The stability of Eurasia and of the whole world depends on developments in this region.

First, it should be said that the IAS—as an object of the policy of various states of Asia—has existed already for a rather long time; but the periods are different for China and Iran, compared to Japan and Turkey. For a long time, the “Russia factor” played a definitive role in the developments in this region. History speaks of local conflicts in this region, which in the past were resolved by Russia. Russia played the role of supporter and defender, providing to the ethnic peoples residing there since ancient times, the possibility to preserve themselves, and above all enriching them with her culture. By raising them to a new level of civilization, Russia created the conditions for them to develop modern statehood.

The fact that the national interests of Russia and the IAS are far from coinciding, must be understood in terms of new elements in the situation in the region. It appears that Russia will try to coordinate its policy with the policy of the Asian members of the CIS, which border China; nonetheless, however, these are sovereign nations which, in certain situations, will try to realize their own interests in an independent way. Although this creates quite a few problems for China, Chinese diplomacy has distinguished itself by the ability to conduct a differentiated policy, taking into account the specifics of its partners.

China is pursuing a policy course which excludes its taking part in any blocs or groups of powers, which have a political character. Nevertheless, China has a real potential to fill the vacuum of political dominance, which has been created by the collapse of the Soviet Union within the enormous arc from southern China to the Caspian Sea and from the Pamirs to the Korean peninsula. Under present conditions, China is also able to exert pressure on the Russian leadership, exploiting the contradictions between the former Soviet republics and Russia. From this standpoint, the security threshold for

Russia has been lowered on its southern borders. This, in turn, leads to a new quality in Russia's regional policy.

Together with the factors mentioned above, for the first time in many decades, we can see an overwhelming coincidence between the geopolitical interests of Russia and China. This, above all, is determined by the anxiety of both countries about the possible evolution of the situation in the "arc of instability" reaching from Central Asia to the Korean peninsula. This is a region of general contact between the various world religions, civilizations, and socio-political formations, in which, in addition, changes of epoch-making importance are taking place.

China recognized the IAS immediately after the dissolution of the Soviet Union. On Feb. 3, 1992, the P.R.C. established diplomatic relations with Kazakhstan. President N. Nazarbayev had visited China already in the summer of 1991 as a guest of the government of the Xinjiang-Uigur Autonomous Region of China, and was afterwards received in Beijing at a high level. On Jan. 4, the P.R.C. established diplomatic relations with Tajikistan, on Jan. 6 with Kyrgyzstan, and on Jan. 7 with Turkmenistan.

Chinese diplomacy bases itself very strongly on the principle, that economic relations are the foundation of contemporary international relations. It is not an accident, that Chinese recognition of the IAS, coincided with the visit to the CIS states, of a Chinese government delegation led by the Minister of Foreign Economic Relations and Trade Li Lanqing and Deputy Foreign Minister Qian Zengpei, from Dec. 25, 1991 to Jan. 7, 1992. Chinese diplomacy considered as one of its most important tasks to strengthen the position of China in the markets of the IAS, and to conclude bilateral government negotiations concerning trade and economic cooperation for this purpose. It is notable, that in each of the capital cities of the IAS, the Chinese trade mission was opened before the embassy itself.

CIS countries all faced the problem of newly demarcating their borders with China. The Central Asian portion of the Russian-Chinese border is only 54 km, while the border with Kazakhstan is 1,800 km, with Kyrgyzstan 900 km, and with Tajikistan 600 km. Negotiations concerning the western sector of the border with the U.S.S.R. began already in 1964. All parts of the border in Central and Middle Asia were settled by Russo-Chinese agreements and protocols. Russia, in fact, as the lawful successor to these settlements, agreed to continue the negotiations as part of a unified delegation with the states of the CIS. However, Kyrgyz diplomacy did not at first agree to working with the joint delegation established on Sept. 8, 1992. Nevertheless, understanding that the complex of issues is not a simple one¹, and that it was necessary to make

1. The recent decades' events concerning the borders of Russia and the CIS with China, are discussed in the articles by Professor Ginsburg. See: George Ginsburg, "Recent History of the Territorial Question in Central Asia," Part 1, *Central Asia Monitor*, 1992, No. 2, pp. 31-41; Part 2, *Central Asia Monitor*, 1992, No. 3, pp. 21-29; Part 3, *Central Asia Monitor*, 1992, No. 4, pp. 32-40. Also by the same author: "The End of Sino-Russian Territorial Disputes?"

use of the experience and materials accumulated by the Russian side, Kyrgyzstan finally agreed to join in the talks.

The year 1993 marked a period of intensive efforts to work out an agreement on the borders with Russia, Kazakhstan, Kyrgyzstan, and Tajikistan. Meetings of working groups were conducted in Beijing during April 5-15, and then during June 9-20, to work out an agreement on the borders. This was necessary, since the largest number of "contested areas" were located in the western sector.

According to exactly the same model, through the formation in September 1992 of a joint Russian-IAS delegation, negotiations were continued on the reduction of armed forces and confidence-building measures in the border areas. Regular rounds of these negotiations were held, in March 1993 in Moscow, and then on May 21-June 11 in Beijing. The negotiating sides made efforts to complete their work by the end of 1994, as had been determined in the inter-governmental memorandum of Dec. 18, 1992. In the course of the Russian President's visit to Beijing in May-June 1994, the delegations continued their work on those aspects of force reduction, which included land and air forces—with the exclusion of rocket forces, including strategic rocket forces, as well as border guards, which are not part of the military.

At the time of President Yeltsin's visit to China in April 1996, the decisive step was accomplished toward strengthening stability on the borders of the two countries: In Shanghai, a wide-ranging agreement on confidence-building measures in the border zones was signed, an agreement which was joined also by the other CIS nations bordering on China—Kazakhstan, Kyrgyzstan, and Tajikistan. This agreement thus became a multilateral act, of significance not only for the relationship of two countries, but also exerting a principal influence on analogous situations in other areas of the Asia-Pacific region. The meeting in Shanghai of five leaders of Asian nations—in Asia, Russia is regarded as an Asian nation—dedicated to border problems, was an event unprecedented in world diplomatic practice. A "Belt of Confidence" was created along the former Soviet-Chinese border. The borders of the new CIS nations with China were transformed into zones of peace and economic cooperation. Incidentally, the territory of this zone (comprising 100 km on each side of the border) corresponds to twice the combined land area of Great Britain and Spain.

It is also important, that the agreement on confidence-building measures in the border zones, is not static in character. Other nations bordering on Russia and China, can join the agreement. For Russia, this meant an improvement in the political climate: for example, on the Russo-Japanese, Russo-Mongolian, and Russo-Korean borders; for Russia and Tajikistan, it led to a normalization of the situation in the zone of the Tajik-Afghan boundary. By means of this and analogous agreements, China would be able to abolish the old theory of

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an alleged “Chinese threat” to the nations of the region. Finally, one of the consequences of the Shanghai meeting, was the reciprocal visit of the President of the People’s Republic of China, Jiang Zemin, to the capitals of the Asian CIS nations in 1996, and, following that, to Moscow in April 1997. There, the leaders of the “Five” met once again, and on April 24 signed the agreement on reduction of armed forces in the border zone, which will permit a further deepening of confidence in all domains.

All of this shows that leaders in both Moscow and Beijing recognize the responsibility of both countries for maintaining a favorable political climate, as well as the possibility of cooperating together as guarantors of stability in the neighboring region.

With respect to trade and economic relations, the first agreement China signed, was a five-year inter-governmental trade and economic accord with Kazakhstan, concluded in Beijing in December 1991. This agreement granted most-favored partnership status, and privileges in terms of trade tariffs and taxes on imports and exports. Among the many joint projects agreed upon, major importance was given to creation of joint ventures, to opening direct airline service between Almaty and Beijing, and—most important of all—the revival of the “Silk Road”: effective use of the transcontinental railroad, beginning in central China and reaching Europe through Russia².

This agreement was concretized in supplementary accords and protocols on comprehensive cooperation, reached in the course of the visit to the P.R.C. by Kazakh Prime Minister Tereshchenko in February 1992. At that same time, China granted Kazakhstan a commodity credit of 30 million yuan³. Trade and economic relations between the two states were placed on a footing of rapid development⁴.

The leadership of both countries actively promoted this process. When Chinese Foreign Minister Qian Qichen led a P.R.C. delegation to Almaty in November 1992, President Nazarbayev proposed making the entire border between Kazakhstan and China into a free economic zone, with possible participation of capital from third countries. The prerequisites for this, in the opinion of Kazakhstan’s President, are constituted by the already-existing transport links, six border crossings, and 50 joint ventures⁵.

During his visit to Beijing in October 1993, President Nazarbayev discussed, in addition to bilateral relations, the most important international problems concerning the global

situation and the situation in the Asia-Pacific region. Meeting Nazarbayev just after this visit to China, U.S. Secretary of State Warren Christopher encountered a rather firm and decisive position on the Kazakh side, in connection with the procedures for signing the agreement on liquidation of nuclear weapons on Kazakh territory.

The apogee in relations between the two countries was reached in April 1994, during the visit to Kazakhstan of Chinese Premier Li Peng, when the agreement concerning the common border was signed.

Chinese-Tajik relations present a complicated array of interconnected problems. Here, relations were launched according to the typical schema: Already on Jan. 5, 1992, the P.R.C. and Tajikistan concluded an agreement on trade and economic relations, and exchanged notes concerning the establishment of trade missions. But Tajikistan is the most difficult part of the CIS for Chinese diplomacy. Two points constitute delicate problems for both sides.

First, Tajikistan is the object of most serious attack by Islamic fundamentalists. On the one hand, this attack destabilizes the situation in the region; Tajikistan is de facto embroiled in a civil war, and for that reason cannot function as a normal trade and economic partner. On the other side, Tajikistan could serve as a detonator for Muslim agitation and separatist movements in neighboring Xinjiang. On one of his first foreign trips, I. Rakhmanov visited Beijing, to discuss the situation in Xinjiang, and especially the position of China concerning Afghanistan. It was clear, that this visit to China had the effect of consolidating his position inside his own country. In 1996, in the course of his regular visit to Beijing, Rakhmanov signed an important agreement on ensuring stability and combatting terrorism in the region. As subsequent events have demonstrated, it is precisely the separatist forces which are exploiting terrorism.

Second, China has long laid claim to a territory of 20,000 km² in the Pamirs. Because of the incursions from the territory of Afghanistan, both Tajikistan and even Russia itself have less and less possibility to control the situation on the “Roof of the World.”

It should be noted that the Presidents of the CIS states followed the Russian President on his visits to Beijing. Uzbekistan President I. Karimov visited the P.R.C. capital on March 12-14, 1992.⁶ He was received at a high level by all the Chinese leaders. As a result of these talks, a joint communiqué and 14 other documents were signed, including inter-governmental agreements on cooperation in the domains of transport, culture, education, health and medicine, science and technology, tourism, and sports. In addition, protocols were signed for consultations among the ministers of foreign affairs. Uzbekistan was granted a commodity credit of 50 million yuan for the purchase of corn, sugar, and baby foods. The textile and electronics industries were defined as priority

2. See: I.P. Azovskij, “The New Transcontinental Railroad Magistral Asia-Europe (Chinese and Russian Approaches),” in the volume *Russia in Foreign Trade Relations: Historical Lessons and the Present* (Moscow: Inion publishing house, 1993) pp. 132-147 (Russian).

3. *Delovoi Vestnik*, 1992. No. 4 (Russian).

4. Yu. S. Peskov, “Relations with China From the Side of the CIS in 1992,” in the volume *P.R.C.-92* (Moscow: Nauka publishing house, 1994) p. 1, 1994 (Russian).

5. *Rabochaya Tribuna*, Dec. 4, 1992 (Russian).

6. *Izvestia*, March 16, 1992 (Russian).

directives for cooperation. Only on one point did the visit leave a certain aftertaste with the hosts: The Uzbek leader suddenly cancelled his planned tour of Shanghai, and left Beijing directly for Tashkent.

Comprehensive cooperation was strengthened and expanded in the course of Premier Li Peng's visit in April 1994. In his speeches, the Chinese guest remarked that China is reviving the traditional relations in the IAS, which had been interrupted by the domination of Russia and the U.S.S.R.

Kyrgyzstan's President A. Akayev made an official visit to Beijing in May 1992. This laid the foundation for cooperation between the P.R.C. and Kyrgyzstan in the political, trade, economic, and scientific-technical domains. According to the plan for normalization of relations already set down, China granted Kyrgyzstan a commodity credit of 30 million yuan. Airline service was opened between the two countries on the lines Bishkek-Urumqi and Bishkek-Beijing.

During the visit of Premier Li Peng in Kyrgyzstan in April 1994, Premier Li and President Akayev discussed the "controversial" portions of the Sino-Kyrgyzstan border. There was a convergence of views on two out of five sections, while the remaining sections were set aside to be discussed by diplomats in the course of the work of a mixed commission.

"Presidential diplomacy" also characterized the beginning stage of relations of China with Turkmenistan. At the invitation of P.R.C. President Yang Shangkun, President S. Niyazov travelled to Beijing in November 1992. He was received by the top Chinese leaders. In the Sino-Turkmen communiqué signed at the conclusion of the visit, the principles were laid down for mutual relations and cooperation, mainly in the sphere of trade and economic relations. These principles were concretized in the protocols concerning mutual protection of investments, and cooperation in the fields of culture, health, and consular services.

In November 1993, Chinese Foreign Minister Qian Qichen paid an official visit to Uzbekistan and Kyrgyzstan. The paper *Renmin Ribao* noted in connection with this, that relations between China and the IAS were "the best at any time since the founding of the People's Republic of China."⁷ It is necessary to add, that such better relations may not be completely without self-interest: According to a report in the foreign press, some Chinese companies are using joint ventures with Uzbekistan and Kazakhstan in order to circumvent U.S. restrictions on imports into the United States.⁸

Japan: an advantageous partner

Central and Middle Asia were in the center of interest of Japanese policy during the early decades of the 20th century. Tibet and Mongolia, and the Central and Middle Asian areas of Russia, were viewed in Tokyo as a special sphere of Japanese interests. In scholarly circles, the theory of an alleged

Central Asian origin of the Japanese people received exaggerated attention. The events at Khalkan Gol in 1939, marked the failure of Japan's attempt to forcefully penetrate into this region.

The disintegration of the Soviet Union created favorable conditions for the entrance of Japan into the former Soviet republics. Japan very quickly recognized all the former Soviet republics as independent, and opened diplomatic relations with them—even, in some cases, much before Russia did so. But Japan gave special attention to the republics of Central Asia and Kazakhstan, striving to become the main donor of economic assistance to these countries. Not being interested in supporting the CIS, Japan proposed to give assistance to each country separately—and, above all, to the Central Asian republics, where Japan immediately sent exploratory delegations—rather than to the Community as a whole.

Kyrgyzstan represents the typical model of Japanese penetration into Central Asia. Kyrgyzstan's President Akayev went to Tokyo in April 1992, exploiting the chance to receive a certain amount of economic assistance. Japan wants to make Kyrgyzstan a model for aid to the former Soviet republics of Central Asia. The company Sumitomo Sedsu took on the responsibility for creating a modern infrastructure in Kyrgyzstan. Commitments have been made for the development of human resources, and so forth.

At the initiative of Japan, and through Japan's active cooperation, the five republics were admitted to the Organization for Economic Cooperation and Development (OECD), which opened for them a way to obtain credits on advantageous conditions.

Japanese delegations visited all the Central Asia republics, studying the exploitation of minerals—first of all, petroleum—on their territory. The Japanese firms Mitsubishi and Mirubeni signed agreements for participation in the construction of 5,200 km of gas pipelines, to take gas from Turkmenistan to Europe, through Turkey and Bulgaria. Studies are in progress concerning the possible construction of a petroleum refinery in Uzbekistan.

The goal of these actions also includes an indirect influence on Russia—to demonstrate that Japan is able to give real assistance to countries with which it has friendly relations. In a word, Japan is striving to strengthen its position in the IAS and to exploit the energy resources of that region in its own interests, calculating on the expectation, that the economic expediency of importing oil from the Near East will decrease in the future.

In May 1994, Uzbekistan's President Karimov paid his first official visit to Japan. This visit was well prepared from the Japanese side: On the eve of the visit, approximately 20 Japanese delegations had been visiting Tashkent to study the perspectives for bilateral economic cooperation. In meetings with Prime Minister C. Hata and Emperor Akahito, the topics of discussions included, in addition to questions of bilateral cooperation, also the problems of Uzbekistan-Russian relations, the situation in Tajikistan and Afghanistan, and a large

7. *Renmin Ribao* Nov. 9, 1992 (Chinese).

8. *Journal of Commerce*, Dec. 22, 1992.

circle of other issues connected with Central Asia as a whole.⁹

However, in spite of a certain strengthening of Japan's position in the countries of Central Asia, it is necessary to state, that those nations remain rather firm. When they act, the Central Asian republics always look back to see the reaction of the Russians. On the other hand, if Russia takes on the role of a passive observer, then we must expect, that Japan will succeed in drawing the Central Asian republics into her sphere of influence. This, in turn, would create the conditions for a corresponding degree of influence on the political attitude of those countries, with all the consequences which would follow, including in the military domain.

Some words concerning the Continental Bridge

The project of the Eurasian Transcontinental Bridge, must not be considered separately from the Asian-European dialogue which has begun on the inter-governmental level. On March 1, 1996, the first meeting of the leaders of the two continents took place in Bangkok. The second meeting of this forum is planned for the fall of 1998 in London. Preparations for this second meeting are already being made on the level of the foreign ministers of the interested states. In this context, China has shown a high level of activity.

This project is clearly connected also with the plan to create a "Great China," i.e., to integrate the Chinese economic space, which includes China and Taiwan, Hongkong, and Singapore, and the Chinese diaspora around the world, the *huaqiao*. That is China's answer to the numerous prognoses by Western political scientists concerning a supposedly inevitable disintegration of China in the "post-Deng era."

As for the subregion IAS: Reacting to the drastic weakening of political and economic potential within the Eurasian space, the Chinese leadership decided to put forward a plan for economic transformation of a significant part of the Eurasian landmass. In this context, the concept of Eurasia is interpreted in an extended sense: not on the ethnic-cultural plane, but in a geopolitical sense, to include within the Eurasian space China, Iran, Afghanistan, Pakistan, and India.

For the Russia side, it is important that the proposed projects do not exclude, but, on the contrary, include the future co-development of the Great Siberian Magistral (the Trans-Siberian Railroad), as well as the railroad network of South-east Asia and northern India. What we are talking about, is a system of corridors, whose territory includes 60 of the largest cities in the world, and a population of more than 1 billion people. In order to raise these zones to the necessary level of development, it is necessary to increase the energy supply by a factor of five, compared to the present level, including supply of electrical energy to industry and housing areas.

If we want to talk about post-Soviet Eurasia, then the first priority is to launch integrative processes through mutual agreements among Russia, Kazakhstan, Kyrgyzstan, and Be-

larus. Second, one must not omit from consideration the fact that the "corridors" of Russia and Kazakhstan pass through regions where the richest deposits of natural resources have been prospected, or are already being exploited: oil and gold, ferrous and non-ferrous metals, and much more. Third, in these same corridors we find the largest enterprises for extraction and processing of materials — world-famous metallurgical groups and machine-building giants. To the extent the present economic crisis has led to the collapse and shutting down of these enterprises, this is merely a temporary situation. What is important, is the fact that the necessary infrastructure has already been created in this region, and needs only to be rebuilt on a higher technological level. In addition, in our opinion, the conception of the Continental Bridge does not contradict the idea, promoted by a number of Russia scholars at the present time, to modernize and exploit the northern sea route. These are mutually complementary projects, whose importance is dictated by their advantageous economic effect.

Conclusion

Does all this imply that we now can relax, and that relations between our countries and peoples will develop automatically? Of course not!

For Russia, an important aspect of interaction with China, is the possibility to benefit from studying the Chinese experience.

Generally speaking, it is necessary for us today, in a period of temporary national weakness, to assimilate the lessons of China. After having to exist in the status of the weaker party in relation to other world powers, and starting from a very low position in nearly all the areas which together determine overall national strength, China has refused to follow the experience of the existing "great-power poles." It has decided not to pursue a policy of military expansion, nor of creating blocs and spheres of influence. Before one's eyes, thanks to its policy of self-maintenance and self-strengthening, its policy of opening-up to the outside world and its maneuvers on the international scene, the People's Republic of China is becoming a full-fledged world "pole." This Chinese world "pole" has the ability to attract and repel, and to carry out a completely independent policy, directed above all toward subordinating external circumstances to its national objectives — only deviating where compromises are acceptable to its interests, and then only as a matter of compromise.

Our countries not only have to interact in international affairs and strengthen our economic, scientific, and technical ties; we must also resume solid cultural contacts on the highest level. Leading representatives of literature and art should establish a constant exchange of the best achievements of our peoples' creative minds. This would definitively erase from the collective mentality, all remainders of negative, Cold War stereotypes, characteristic for the period of confrontations. It would constitute a common contribution to world culture.

9. *Pravda*, May 14, 1994 (Russian).