

**CHINA INTENSIFIES ECONOMIC RELATIONS
WITH CENTRAL ASIA**

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Executive Summary

1. China's recent deepening relations with Central Asia stem from three strategic considerations: to counter terrorism, religious extremism and Uyghur's independent movement; to secure its increasing demand for energy and to generate economic gains for China's less developed western region.
2. For Central Asian states (here referring to Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan), China is becoming increasingly attractive in view of its huge domestic market, financial loans and investment it offered to Central Asia in recent years.
3. Although China's exports to and imports from Central Asia are less significant (1% of the total in 2010), China is already an important trading partner for Central Asia (20% of Central Asia's imports in 2008).
4. China's exports to Central Asia have risen considerably faster than its imports from the region, which resulted in a sizable trade surplus, averaging at over US\$7 billion over the past four years (2007-2010).
5. China's imports from Central Asia are highly concentrated in resource-related products, while its exports to the region are mostly manufactured consumption goods, machinery and equipment.
6. China's investment in Central Asia is highly complementary to its trade activities with the region, mainly on energy and infrastructure projects such as the construction of oil pipelines and railways.
7. The China-Central Asia economic relation will be largely driven by China's demand for energy resources. Nonetheless, further development may face various constraints. First, Central Asia's rising trade imbalance with China may promote protectionist sentiments against Chinese manufactured goods.

8. Second, China's participation in energy and resource sectors may inevitably be drawn into a competition for influence in Central Asia among big powers such as Russia, the United States, and India.
9. Third, as Central Asian countries are considerably less developed, the region's potential to become a major trading power is limited. Poor infrastructure in the region will also hamper the growth of bilateral economic relations.
10. Fourth, due in part to the large diversity within Central Asia and to the difference in China's relations with the five states, Central Asia's views on China's growing influence differ greatly. Distrust of China by the larger and more developed countries in the region will hinder China's economic relations with Central Asia.