



INVISIBLE INK: LOOKING FOR THE LOST TRADE BETWEEN CHINA, RUSSIA, AND CENTRAL ASIA

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China, Russia, and the Central Asian States have consistently engaged in economic relations. However, the bilateral trade statistics that are publicly available show a history of inconsistent and unreliable reporting to an extent that makes usage of the statistics as any benchmark problematic. This Policy Brief examines the issues of unreliable bilateral trade statistics and explores ways to improve this area in the future.

Situated in the heart of the Eurasian landmass, Central Asia is an important strategic region to many of the world's leading economic powers. Due to its geographic proximity and abundant resource wealth, the region is of particular interest to China and Russia, as well as Sino-Russian relations. Russia has traditionally had a high level of influence in Central Asia. All former Soviet Republics, the Central Asian states – Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan – began to shift toward China's economic influence after the dissolution of the USSR and the economic decline of Russia. This has been a reality, even if Russia has kept its military influence somewhat intact until recently. While Russia continues to view the region as its backyard, it functions as an important gateway that connects Central Asia to export markets in Europe and the rest of the Western world even if the East has emerged as the most important economic direction. A trend that is also seen in the black and grey markets in the region, which are flooded with Asian produce, primarily Chinese.

China's influence in Central Asia is rapidly expanding, often at the expense of Russian influence. A point in case here is the pipeline and transport infrastructure that China has been developing since the early 2000s to connect Central Asia with its eastern provinces. As a result, Central Asian oil and natural gas are now flowing in both directions, west and east. Besides China, this has also benefitted the Central Asian states, as China's growing demand for energy imports provides both economic opportunities as

well as possibilities to balance against Russian and Western influences more effectively.

China and Russia are major trade partners with the states comprising Central Asia. The trade is a fraction of the Chinese and Russian economies but its importance has expanded in the energy sector, especially for China. However, for the Central Asian states trade with Russia and China is vital. Yet, upon closer examination the trade statistics between China, Russia, and Central Asia do not allow for a clear-cut analysis of their bilateral trade relations. In many cases data is either unavailable or unreliable. They show large discrepancies between statistics provided by China and Russia on the one hand, and the states of Central Asia on the other. It is obvious that the merchandise that floods the local bazaars in Central Asia is not completely, or even remotely, accounted for.

Since none of the Central Asian states' governments make reliable trade statistics publicly accessible on any of their respective official websites, most of the data used to inform this policy brief is taken from third-party sources, such as the United Nations Comtrade Database and European Union Trade Reports. These statistics show an overall lack of consistency when looking at the statistics of the bilateral trade among China, Russia, and the five states of Central Asia, as reported by each of them individually. Discrepancies that exist include, most notably, significant differences in trade values, general inconsistencies in the reporting of these figures, or even a complete lack of any



reported data. This raises serious questions about the reliability of these statistics and to what extent they are representative of the actual scope of the trade relationships.

As a consequence, one can wonder how the apparent confusion over these trade figures could affect our general understanding of the relations between China, Russia, and the Central Asian countries. Trade statistics are a common parameter used to measure and assess the nature of bilateral relations, both in terms of economic and political linkages. The ability to draw such inferences from the data about trade between China, Russia, and Central Asia is limited by the existence of large inconsistencies between the different numbers. For example, as shown in Figure 1, China's statistics of its trade with Central Asian countries (here exemplified by Kazakhstan) tend to be significantly higher than those provided by the respective states of Central Asia themselves. The available data of bilateral trade between Russia and Central Asia, presented in Figure 2, seems more consistent but presents serious discrepancies. That said, Russian data does not structurally overvalue the size of bilateral trade with Central Asia to the extent the Chinese statistics appear to do, nor does it undervalue the Chinese trade from the Central Asian states. Adding to the general confusion is the fact that it is not just the actual trade values that are inconsistent; in the majority of cases even the trade trends reported by each state do not correlate.

Figure 1: Trade from China to Kazakhstan: Although the trade patterns are similarly matching, the actual values between the Chinese and Kazakh reported statistics differ by approximately 100 percent.

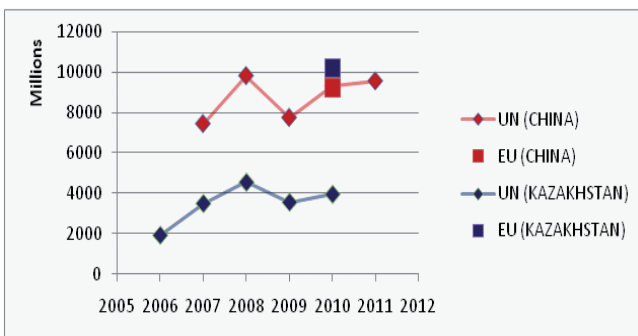
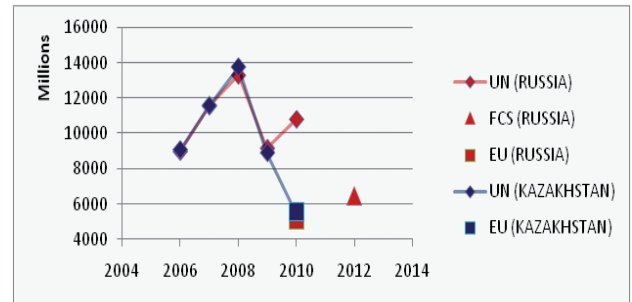


Figure 2: Trade from Russia to Kazakhstan: The trade statistics appear to be more or less equal, as would be expected, until 2010 when there is a sharp change in reported values from both countries.



These discrepancies in data are problematic for several reasons. First and foremost, they complicate bilateral and multilateral relations. For policymakers, inferences and analysis are rendered difficult without accurate data. Further, problems arise with combating illegal trade, such as human, drug, and arms trafficking. This illegal trade becomes more difficult to regulate if trade data is unreliable and inaccurate, due to an unregulated flow of cash over borders. This could lead to gross violations of human rights and widespread crime but also decreased tax incomes from the states involved, as the grey trade seems to be rapidly expanding. The second problem with the current inaccuracies of bilateral statistics is that the states involved are all either members of or in the process of becoming members of various international organizations, such as the UN, the IMF, and the OECD. Flawed statistics will most likely hinder their abilities to be full members of such institutions, and thus weaken them as members of the international community.

Trade Flows

The graphs shown below portray a small collection of the problems that can be seen within the available trade statistics between China, Russia, and Central Asia. This is by no means a complete sampling.



Figure 3: Trade from China to Kyrgyzstan: Both the general trade patterns and the actual values of reported trade are completely different. There is no coherence between each country's reports.

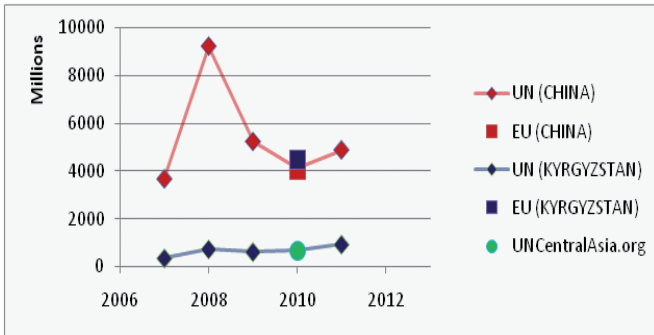


Figure 4: Trade from Kyrgyzstan to Russia: Although Russia's reporting is consistently higher in the four years of reporting, the two countries appear to follow more or less the same pattern until 2010-2011, when they start going in opposite directions and meet in the middle.

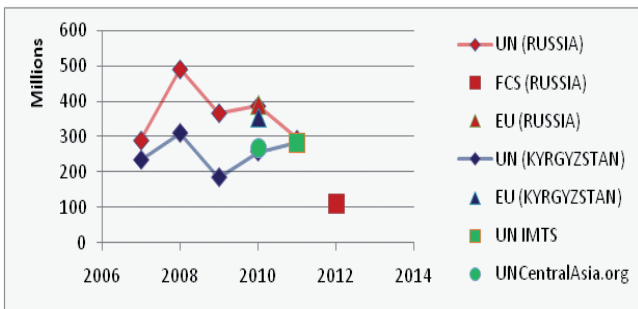


Figure 5: Trade from Tajikistan to Russia: There is virtually no reporting from the Tajik government, and the reporting that comes from Russia is severely erratic and there is a lack of data between 2000 and 2007.

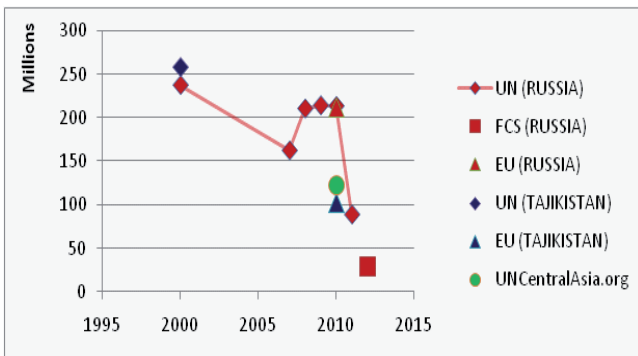
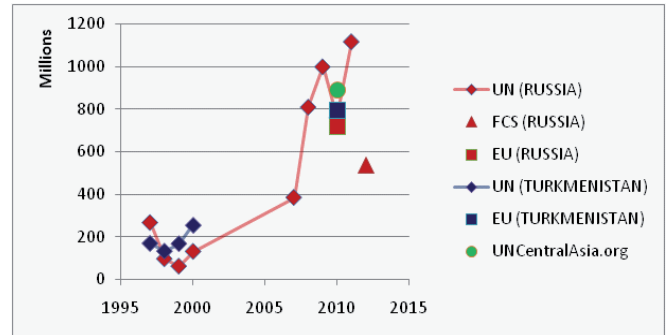


Figure 6: Trade from Russia to Turkmenistan: Turkmenistan's reports come to a halt in 2000, and the Russian reports are very erratic and there is a lack of data between 2000 and 2007.



Possible Explanations

Although it is difficult to determine the exact causes for these discrepancies in trade statistics, it is worth considering several elements. A primary cause might be mostly logistical and structural. Some of the states involved might simply lack the funding, personnel, and overall capability to accurately assess bilateral trade even if this can only partly explain the discrepancy, least of all in the case of China and Russia. Russia and China might face the challenge of interrupted or strained communication between regional and federal governments. Moreover, there are differences in economic reporting that tend to create discrepancies even among other countries, such as tax laws, currency conversion, or transit trade. Nonetheless, it seems unlikely that such fiscal irregularities could account for the complete range of variation in the examined trade statistics, which show differences of up to 800 percent.

Another explanation for the severe differences in statistics is that black market and grey trade are not included in official trade reports, yet significantly affect the local economy, leading to additional gaps in trade reports. There is a lack of research on grey/black trade, for obvious reasons. Similarly, Central Asian states also appear to have very poor estimates of the volume of illegal trade. Much of Central Asia's technology is transported and sold illegally from China, and black trade, arms, human, precursor and drug trafficking, is absent from official reports, yet contributes significantly to the regional imports and exports, particularly due to Central Asia's position between Afghanistan and Russia. Included in this "invisible" zone is the so-called grey trade, or licit trade that is traded illegally, for example re-



frigerators and consumer goods made in China, and traded illegally over the border to Central Asia. Traveling around the bazaars in Central Asia it is striking how much of the trade there is in Chinese goods, of which very little is showing up in official statistics.

Although these are all plausible explanations, we must also consider other possibilities. China and Russia are competing for influence in Central Asia, a region in which both have major geopolitical interests. They could have an incentive to inflate their trade statistics with Central Asian countries to display a stronger influence in the region. This would explain why the Chinese and Russian trade statistics are often higher compared to those of their Central Asian counterparts. Following this line of reasoning, this could also explain why China's trade figures diverge so much from the data from Central Asian states. China's incentive to inflate its economic leverage over the region may be stronger than Russia's as the latter already has longstanding historical ties with Central Asia. Conversely, it may also reflect the economic reality of a Russian decline in the region. Additionally, there is some remaining fear of Russia among the Central Asian states, particularly due to the Russian invasion of Georgia in 2008.

Policy Recommendations

Firstly, there is a need to refrain from using the current statistics as more than an indication of the problems the region faces. In order to create an environment with more accurate trade reports and statistics, the trade organizations that have been created should investigate more thoroughly the actual bilateral trade among China, Russia, and Central Asian states. Ideally, membership in international organizations such as the United Nations, World Bank, and IMF would be contingent upon, among other things, accurate and annual trade reports that follow a certain structure. However, it would be more realistic to expect proper investigations and guidance from regional organizations such as the Shanghai Cooperation

Organization and the Eurasian Economic Community. Additionally, it is imperative that the governments of the states mentioned in this policy brief become more equipped to deal with providing accurate trade statistics, not least for their own national interest. This is the starting point to address this problem, but it will need to be supplemented by stronger policy and stricter regulation by outside authorities of trade data.

As long as this issue of inaccurate and unavailable trade statistics exists between Russia, China, and Central Asian states, trade reports will continue to be inaccurate and incomplete. Due to these inaccuracies, it proves difficult to provide a robust analysis of how these countries are investing in each others' economies and how trade, both legal and illegal, is flowing between borders. These "invisible" interactions complicate a better analysis, and improvement of licit trade, while it also hinders the ability to track and combat the regions illicit trade.

References

1. United Nations Statistical Division. (2012). Data retrieved October 25, 2012, from <http://comtrade.un.org/>.

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