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Is the EU's and NATO's Role in Institution Building in the Post-Soviet Space Counterbalanced by Russia and China?

Rainer Schweickert (corresponding author), Kiel Institute for the World Economy, Kiel, Germany

(rainer.schweickert@ifw-kiel.de)

Inna Melnykovska, Institute of Social Science, Christian-Albrechts-University of Kiel and Institute for East

European Studies of the Freie Universität Berlin, Germany

Hedwig Plamper

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EU and NATO each promote specific substances of democracy in post-socialist countries, while Russia and China are assumed to challenge democratization and to promote autocracy. In a first step, we analyze Central Asia as the most-likely case, considering both Russia and China as relevant external actors. We develop a concept for our analysis based on the different strategies of Russia (dominance) and China (doing-business) towards the region and present the results of a qualitative study of the main dimensions of autocracy promotion (regional organizations, economic cooperation, and interference and threat). In a second step, we extend a previous framework (*Melnykovska and Schweickert 2011*) and provide econometric evidence based on a panel of post-socialist countries. We argue that (unintentionally) China's doing-business approach may in fact promote institutional change. Hence, democratization should not be a precondition but rather be promoted by sweeping economic cooperation incentives.

1. Introduction

The literature on external actors in post-communist transformation is strongly biased towards Western actors. So far, only few scholars have noted the rise of counter-democratic efforts or external autocracy promotion, exercised by Russia and China to support similar autocratic regimes or de-stabilize democratizing regimes in the neighbourhood (Jackson 2010; Burnell, 2010; Ambrosio, 2010; Gat, 2007; Tolstrup, 2009). Central Asian countries can be regarded as most-likely targets of autocracy promotion because they constitute either consolidated autocracies or unstable “partly free” regimes (Freedom House, 2011). While any democratic transition would have to overcome structural impediments for democracy (Merkel, 2010), this challenge is considerable in the case of Central Asia because the countries are governed by personalised power, elite patronage and informal processes of political and economic decision-making. In addition, as a combination of weak offers and reluctance to comply with demands, both EU and NATO remain rather weak players in the region.¹

Therefore, we analyze the three dimensions of autocracy promotion relevant for Russian and/or Chinese neighbourhood policies towards Central Asia: regional organizations (partly similar), economic cooperation (different), and interference and threat (Russia only) (Section 2). In a next step, we are able to determine (rough) indicators representing these dimensions and provide econometric evidence based on panel data (Section 3). Overall, we could confirm autocracy promotion for Russia’s dominance approach, while China’s doing-business approach could as well (indirectly) promote democratization. Section 4 summarizes our results.

¹ Different to strong accession incentives (Sedelmeier and Schimmelfennig, 2005; Melnykovska and Schweickert, 2011), this applies to the cooperation schemes which are relevant for the region (see, e.g., Gawrich et al. 2010; Franke et al. 2010; Melnykovska and Schweickert, 2009). See also Hoffmann (2010) and Boonstra and Denison (2011) on the case of EU cooperation and Bhatti and Bronson (2000) and Deyermond (2009) on the case of NATO cooperation.

2. Three dimensions of autocracy promotion in Central Asia

Available analyses suggest that the strategies of Russia and China differ considerably. After a rather neutral stance that allowed for the enlargement of EU and NATO, Russia modified its foreign policy in order to reassert itself as a global power (Kanet, 2007; Galbreath, 2008; Mankoff, 2009) and to re-establish its sphere of privileged interests in Central Asia as part of the “Near Abroad” (Cooley 2009; Aslund and Kuchins 2009; Stent 2008). In contrast to the West, Russia strengthens autocracies and destabilizes democratization (Kramer, 2008; Tolstrup, 2009; Bader et al. 2010) as long as geopolitical interests and stability are not at risk (Shapovalova and Zarembo, 2009).

While China, as a close neighbour, shares Russia’s security interests (Flikke and Wilhelmsen, 2008), its foreign policy has a strong priority on economic interests (Koldunova, 2010). As key energy suppliers Central Asian countries help to secure China’s accelerated economic growth. Thus, China concentrates its efforts on purchasing oil and gas concessions and on financing energy infrastructure development in Central Asian countries, instituting reforms to encourage more efficient energy use, and developing alternative energy sources (Thomson and Horii 2009). China also tends to deal with foreign governments indiscriminately and is, at least in practice, much more neutral towards domestic political developments in Central Asia, as long as its economic interests in the region are protected and stability in the province of Xinjiang is maintained (Bader and Kästner, 2010).

In order to allow for the joint analysis of both China’s and Russia’s impact on Central Asian countries, we built on Jackson (2010), who argued that Russia’s attempt to transfer autocratic institutions is based on the diffusion of ideas and norms by direct interference in domestic policies of neighbouring countries, by a growing use of economic and cultural soft power, by

a minimal but strategic use of hard power, and by the development of regional organizations.² We modify this framework because we look at effects rather than intentions. The diffusion of norms and ideas could also take place indirectly and/or unintended in economic cooperation or regional integration schemes (Burnell, 2010; Ambrosio, 2010). In addition, China's involvement tends to be more neutral, targeted at doing business, and does not build on direct interference and military power or threat.

Hence, we focus on three dimensions of external influence representing these alternative strategies discussed above: *regional organizations* (partly similar), *economic cooperation* (different), and *interference and threat* (Russia only).

2.1. Political support from regional organisations

All post-soviet Central Asian countries are members of a large number of regional organisations that vary greatly in both scope and effectiveness (see table 1). Due to the Soviet heritage, Central Asian countries are involved in two sub-organizations of the Commonwealth of Independent States (CIS) with a clear focus on economic cooperation (EurAsEc) and regional security (CSTO). Because of this clear focus on specific fields of foreign policy, their impact will be discussed in the following sub-sections.

[Table 1 about here]

² Similarly, Tolstrup (2009) distinguishes three dimensions of Russia's foreign policy: economic, military, and political.

The most important general purpose organization is clearly the Shanghai Cooperation Organisation (SCO), which gained importance in recent years with China's growing interest and involvement in Central Asia. It showcases all aspects of the Sino-Russian relationship, because its development as well as its success in implementation is directly affected by China's and Russia's conflicts and commonalities.

China and Russia have always seen the SCO as a way to successfully counter the Western presence in Central Asia, which they consider a threat both in a military and in a political context. According to the documents and statements by SCO officials, security expresses itself in continuing national and regional stability, i.e. the maintenance of the political status quo, and the safeguarding of national sovereignty. Most importantly, in the context of autocracy promotion, the SCO refers to "extremism", "terrorism" and "separatism" as a way to delegitimise and to excuse repressive measures against political opposition groups and dissenters. This development of a common autocratic rhetoric, which according to Ambrosio (2008) is central to the SCO's autocracy promotion strategy, has increased especially since the 2005 uprisings in Uzbekistan (unsuccessful) and Kyrgyzstan (successful) that have alerted the authoritarian regimes of the SCO members.

The two main principles that guide the member states' interaction are "diversity" and "non-interference". Diversity is used here as a tool for the de facto legitimization of authoritarianism because any political regime is seen as equally beneficial and legitimate. Similarly, the 2001 SCO Declaration and Charter also does not mention democracy, human rights, and good governance and, thus, impedes efforts of the West to promote these values in the Central Asian states (Bailes, 2007; Bailes and Dunay, 2007).³

³ Apart from its activities in the SCO, Russia has also lent legitimacy to the authoritarian regimes in Central Asia with the help of CIS election observers, declaring elections in CIS member states free and fair, even when they have been clearly fixed in favour of the incumbent autocratic and anti-Western elites (Tolstrup, 2009).

The potential impact of SCO on the consolidation of autocratic regimes in Central Asia is, of course difficult to assess. Different to Western counterparts like EU or NATO, there is no clear conditionality for membership or well defined levels of cooperation. Nevertheless, the discussion shows that both Russia and China have provided diplomatic support and legitimacy to the SCO's smaller autocratic states.

In the same vein, Central Asian countries lend support to each other in the Economic Cooperation Organisation (ECO), which does not include the regional powers China and Russia (Afrasiabi and Jalali, 2001). Its members apart from the five Central Asian countries are Turkey, Iran, Pakistan, Afghanistan and Azerbaijan, so that the organisation potentially enables the Central Asian states to diversify their foreign policy towards the South and West and benefit from cooperation with states that are culturally similar (common religious and lingual roots). So far, the potential benefits of cooperation within the context of the ECO have failed to materialise due to a lack of commitment and effective implementation (Naribaev, 2008). However, like SCO, ECO provides some additional diplomatic support for the autocratic regimes by providing them with an international platform.

All in all, regional organizations involving or excluding Russia and China have recently gained in importance. The predominant role of the organizations is, so far, to organize diplomatic support for the autocratic regimes by overcoming international isolation and by transferring (autocratic) ideas and norms. This could provide some complementary element to the more specific dimensions – i.e. economic cooperation, interference in domestic policies, and military threat – where Russian and Chinese foreign policies differ strongly.

2.2. Different modes of operation in cooperation schemes

Convergence and dominance are of strategic importance in trade relations with Central Asia. With increasing bilateral trade activities, increasing interpersonal and intergovernmental contacts may lead to an unintended diffusion of norms and ideas. This can be positive or negative depending on the dominant trade partner as well as on the nature of trade (formal and large-scale vs. informal and small-scale). With increasing trade deficits, the economic dependence of the satellite states facilitates the use of (formal or informal) conditionality or a foreign buy-out of domestic assets.⁴ Strategic importance of access to energy and mineral resources for both Russia and China led to a “dual cooperative-competitive” relationship between the two dominant regional powers (Bosbotinis, 2010).

Historically, the Central Asian states have been strongly dependent on Russia in matters pertaining to economic development and trade, because most major trade routes lead from the Central Asian states to Russia. Trade between the Central Asian states, which would increase their bargaining power against Russia and China, has always been severely hindered by a lack of functioning transport and communication infrastructure and because their export portfolios have remained too limited to cover domestic demand through inter-Central Asian trade. Against the backdrop of China’s growing involvement in Central Asia, Russia seeks to maintain the economic control over Central Asia it has inherited from the Soviet Union. Here Russia’s focus is mostly directed at maintaining its monopoly over Central Asian energy resources, because its control over the majority of petroleum and natural gas pipelines leading from Central Asia to Europe is both an important source of revenues and an essential part of its bargaining power in Europe and Central Asia.

⁴ Generally, bilateral trade deficits do not necessarily lead to bilateral capital account deficits. It is, however, likely for the case of countries with limited access to the international capital market or the strategic use of complementary financial arrangements.

Russia's central goal of keeping the Central Asian states economically dependent and isolated from potential trading partners has clearly shaped its interaction with Central Asian states since their independence two decades ago. Generally, the Russian government in close cooperation with the large conglomerates governed by the Russian oligarchs, buys infrastructure assets or offer benefits like financial aid, credits, and, especially relevant for resource poor countries, cheap energy in order to finance trade deficits (see Tolstrup, 2009 for details). This is complemented by a number of bilateral and multilateral free trade agreements within the framework of the CIS and its sub-organisation, the Eurasian Economic Community (EurAsEC). EurAsEC's main objective is the formation of a customs union followed by the implementation of a common economic space. Despite these ambitious aims, the EurAsEC's customs union largely remained a construct on paper and little was achieved in the way of tariff harmonization until the most recent efforts (Shadikhodjaev, 2008; Nurmasheva, 2008; Pomfret, 2008).

Russia recently charged ahead in the formation of a customs union with Belarus and Kazakhstan, which officially came into force in January 2010 and became functional with the introduction of the Customs Code in July 2010 (fully taking effect on July 1, 2011). Whether this customs union will prove to be beneficial for Kazakhstan in economic terms remains to be seen, but it is clearly a step towards greater dependence on Russia. As the customs union's most powerful member, Russia could pressure Kazakhstan into increasing its tariff levels and it has thus simultaneously deepened its integration with Kazakhstan and isolated it from its other neighbours (Pomfret, 2008; Nurmasheva, 2008; Shadikhodjaev, 2008). The other less developed EurAsEC members (especially Kyrgyzstan and Tajikistan) are in danger of being left behind as Russia and Kazakhstan integrate at a faster pace. They have to fear higher prices on vital imports such as gas and petroleum as well as restrictions on their own exports.

Because geographic remoteness tends to keep them from integrating into the world market, they may stay economically dependent on Russia (Pomfret, 2010).

To counter this dependence, China has become more and more important as a viable alternative trading partner for the Central Asian states in recent years (Ibraimov, 2009). While Central Asian countries' trade with China was almost negligible in 1995, it increased to about half of total trade with Russia in 2008.⁵ Different to Russia, China is also interested in increasing the market for its cheap consumer goods and China deals both formally, where deals are closed at the level of the respective governing elites, and informally, where trade is driven mostly by ethnic minorities in the border regions.

China's economic involvement in Central Asia at the state or elite level differs for the resource-rich states Kazakhstan, Uzbekistan and Turkmenistan on the one side and the for the poorer Central Asian states Kyrgyzstan and Tajikistan on the other side. The three resource-rich states have, so far, cooperated with China on a number of large-scale and high-profile energy and infrastructure projects (Ibrahimov, 2009). In addition, China has indirectly bolstered Turkmenistan's regime through its formal economic involvement (Anceschi, 2010; Blank, 2010), while Weitz (2011) has observed that Uzbekistan has likewise become more assertive in its dealings with both Russia and the West. In the resource poor countries, China has stepped in as the main investor in a variety of domestic transport and communication projects (Ibraimov, 2009). In addition, China has provided preferential credit to Tajikistan and Kyrgyzstan (Kassenova, 2009) under the conditions of an SCO fund. As an indication for a growing dependence and against the will of the population, Tajikistan ceded disputed territory – rich in gold, other rare mineral deposits, and fresh water reserves - to China in order to conclude a trade deal (Sodiqov, 2011).

⁵ 9.8 compared to 18.2 percent of GDP (unweighted figures for 2008). Neglecting the case of Kyrgyzstan total trade with Russia would have stagnated at about 15 percent of GDP.

Hence, much like Russia, China benefits from and encourage the ruling elites' reliance on widespread corruption as a means to stabilize an autocratic rule. After all, the elites are first and foremost interested in using the business relations with China to enrich themselves – something that China does not actively promote but also does not hesitate to exploit. This confirms Bader et al.'s (2010) hypothesis that, through official trade deals, which cover large energy and infrastructure projects, China transmits mostly negative institutional norms that facilitate resource exploitation from outside.

However, as explained before, China also has an interest in breaking into Central Asian household demand for cheap consumer goods that it can produce at a comparative advantage. Thus, the small-scale cross-border trade of such goods has always been an important tool for China and has in fact flourished at the border between Xinjiang and Central Asia long before China ever engaged in the high-profile, elite-level cooperation we see today (Sadovskaya, 2007, 2008). Laruelle and Peyrouse (2009) underline that cross-border minorities play a role in the development of Sino-Central Asian economic relations and in the cultural mediation.

Due to common borders, such cross-border trade (legal and illegal) is most common in Kazakhstan, Kyrgyzstan and Tajikistan, who serve as gateways for Chinese exports into Central Asia. Kaminiski and Raballand (2009) have discovered that the majority of goods that enter the three countries in this way is subsequently sold at bazaars and re-exported into the rest of Central Asia and Russia. In the case of Kyrgyzstan the value of the re-exports makes up a large share of the country's GDP equal 20.5 percent in 2007 and up from 5.2 percent in 2004 (see table 2).

[Table 2 about here]

Apart from being economically beneficial in terms of a more diversified domestic production, the small-scale trade between China and Central Asia may provide impulses for bottom-up institutional improvements. Chinese traders are plagued by rampant corruption and choose to transport their goods through the country with the most favourable trade regime as well as the lowest corruption, which, at the moment, is clearly Kyrgyzstan (Ibraimov, 2009). Although rents from corruption fall to loyal elites, corruption has to be kept below a certain threshold in order to attract Chinese transit goods in the first place. Thus, there is a chance that increasing trade with China leads to institutional improvements driven by bottom-up activities of individual traders, eroding the power basis of autocratic regimes. This also constitutes a trade-off for the Chinese government because the country benefits from the corruptibility of the Central Asian elites in the context of official high-profile deals while overall trade dynamics depend on less corruption.

To conclude our discussion of how Russia and China's economic strategies for Central Asia influence economic and political institutions, Russia's influence is overwhelmingly negative using its monopoly over export routes and its economic dominance in order to exercise control over the Central Asian states. The jury is still out on China's growing involvement in the region. The growing independence of the Central Asian governments thanks to a diversification of trading partners and the preferences of individual Chinese traders for less corruption and more liberal economic institutions may promote institutional improvements in a bottom-up manner. However, we cannot be entirely confident that these benefits will cause long-term improvements, because the Chinese government profits from the corruptibility of the governing elites that enables it to close profitable deals in the energy sector.

2.3. Interference and threat – the Soviet heritage

In spite of China's growing involvement especially in the economic sphere, Russia can still capitalise on unique cultural and military links that arise from Central Asia's Soviet heritage. While Russian minorities are important for the direct diffusion of ideas and norms (Jackson, 2010), a military organization like the Collective Security Treaty Organization (CSTO) may serve the same goal indirectly because external threat helps to justify autocratic regimes (see, e.g., Gibler and Sewell, 2006). These links are weakening because the number of ethnic Russians in Central Asia is in decline and the CSTO is largely ineffective. Nevertheless, Russia has, so far, prevented the Russian language and culture from disappearing from Central Asia alongside its people and it has also maintained a regional monopoly for military intervention.

In light of the decline of Russian minorities (see Table 3), the Russian government has developed a strategy to counter the erosion of the minorities' influence by spreading Russian cultural ideas and norms in Central Asia as well as to maintain the Russian language's status as the region's lingua franca. Russia ensures that what little civil society exists in Central Asia remains under the control and favourable to Russia and the domestic authoritarian regimes by promoting a number of Kremlin-financed NGOs, think tanks and research centres (Jackson, 2010). Russia's culture and language diffusion strategy serves the specific goal of guaranteeing that the Russian minorities retain their status within Central Asia, with autocracy promotion as a side effect. The strategy may certainly prove to be an important advantage in the long run, because it helps to create public acceptance of Russia and its involvement in Central Asia, whereas Han Chinese face growing prejudices on account of their alleged territorial ambitions (witness the Tajik land deal).

[Table 3 about here]

The military ties within the framework of the CSTO, which have grown out of the Soviet heritage, are also unique to the relationship between Russia and Central Asia, as China does not (yet) have a similar institution at its disposal. Accordingly, the CSTO provides Russia with some additional leverage over the Central Asian states.

However, even after the CSTO was formed as a proper regional organization following several reforms of the Tashkent Treaty⁶ (Saat, 2005; Gleason and Shaihutdinov, 2005), its effectiveness suffered from Uzbekistan's absence until 2006 and, later, from its strong opposition.⁷ Uzbekistan's opposition is significant because as the most populous country in Central Asia it sees itself as the natural regional leader. Most importantly, Uzbekistan remains wary of Russia's influence in Central Asia and wants to safeguard its borders against the unwanted entry of Russian-led joint forces in Uzbekistan, especially since several battalions have been stationed in neighbouring Kyrgyzstan (Socor, 2009b).

While this implies that CSTO is not effective, it also demonstrates the relevance of external threat from the perspective of Uzbekistan because Russia nevertheless retains the option of using military power. Russia's willingness to use that option has not been tested in the region but past experiences in the Caucasus suggest that Russia would not hesitate to use its superior military power if necessary. The most important aspect, however, is the regional monopoly for military intervention. As witnessed by the 2010 uprisings in Kyrgyzstan, Russia can undermine democratic efforts also through non-intervention. When Kyrgyzstan's interim

⁶ The Tashkent Treaty (signed in 1992) was the first step towards a regional security organization. For details on military capabilities of the CSTO following reforms in 2002 and 2009 see, e.g., Socor (2009a), and Bailes and Dunay (2007).

⁷ Belarus refuses to cooperate as well and boycotted the 2009 meetings on account of a conflict with Russia over energy imports.

government asked for Russian or CSTO help, Russia hesitated to intervene, because it considered the interim government's proposal for a new constitution "too democratic", and thus, bloodshed could not be prevented (Bond and Koch, 2010).

Overall, Russia has at least the potential to exercise some leverage on Central Asian countries because Russian minorities can be instrumental as stakeholders for the diffusion of Russian ideas and norms and because Russian military capabilities at least provide a potential threat for any sweeping democratic reforms, in case that such a development tends to act against Russian interests in the region.

In the case of Kyrgyzstan, non-intervention may be explained by a complex situation. It is yet not clear whether the second revolution since independence will succeed and whether the position of Russia and the Russian minority will be actually weakened. In addition, trade integration with China may have not only helped to increase demand for better governance but weakened external threat as long as Russia (under SCO) does not want to interfere with strong Chinese interest. Hence, with diplomatic support from SCO trade integration with China may help to balance Russian interference and threat and, thereby, help to improve governance in Central Asia.

3. Empirical Evidence from Panel Data

In order to provide an empirical test for the validity of the arguments on autocracy promotion, we extend the empirical model of Melnykovska and Schweickert (2011). They have shown that institution building in transition countries measured by an indicator of broadly defined institutional quality – the World Bank Governance Indicators (*WGI*) - is positively affected by basic cooperation with the EU (*EU_BASIC*) or inclusion into NATO Membership Action Plan (*NATO_MAP*). In addition, institution building benefits from foregoing economic liberalization (*EC_LIB*) and cultural heritage of Western Christianity (*WESTERN*), whereas the availability of funds from resource exports (*RESOURCE*) or aid inflows (*AID*) and tensions at the time of independence (*TENSIONS*) negatively affect the quality of institutions.⁸

As argued above, there are three main areas of Russian and Chinese external influences. First, Central Asian countries belong to regional organizations which include either Russia and China (*SCO*) or Russia only (*CSTO*, *EurASec*). In addition, we have to consider that the attempt to establish an own regional organization (*ECO*) may be relevant in supporting each other's autocratic regimes.⁹

Second, all CIS countries are engaged in general trade relations with the world and special relations with China and Russia. We assume that three trade related variables are adequate in order to measure the trade effect on governance:

⁸ Variable names are in paratheses written in capital, italic letters. *EU_BASIC* implies Partnership and Cooperation Agreements (PCA) and Stability and Association Agreements (SAAs) for the Balkan countries respectively.

⁹ For membership in regional organizations, we use time-varying dummies for the years of membership.

- The share of total Exports in GDP (*EXPORT*) controls for the impact of the general outward orientation of countries in order to determine an additional impact from China and Russia;
- The share of total trade with Russia/China in GDP (*TRADE_.....*) measures the potential convergence effect towards institutional quality in these countries. In analogy to the literature on learning-by-exporting, countries may adopt the institutional standards of major trading partners;
- The share of net imports in GDP (*IMPORT_.....*) from Russia/China measures a potential dominance effect via complementary capital flows, i.e. concessional credits or foreign investment. This, in turn, implies a growing dependence on these capital flows.

Third, with respect to Russian foreign policy, we also have to consider that Russia has a strategic interest in post-Soviet countries leading to direct interference in domestic affairs and to the threat of Russian intervention. We use two variables in order to measure the diffusion effect in neighbouring countries – direct neighbourhood to Russia (*RUS_NBR*) and the Russian diaspora (*RUS_DIAS*), i.e. the share of Russian population in total population.

The parsimonious model estimated for 24 post-communist countries excluding Russia and China (Table 4), includes only variables, which revealed significance when added one-by-one.¹⁰ We compare the impact on the aggregate WGI (*WGI_all*) with the impact on single WGI indicators, i.e. voice and accountability (*VOICE*), political stability (*STAB*), government

¹⁰ The time period for the estimation is restricted by data availability (WGI is available since 1996) and the fact that, unrelated to governance issues, trade data is distorted by the emergency of the world wide crisis starting already in 2008. Hence, the estimation period spans the time period between the initial transition crisis and the recent world wide crisis. Additional exogenous variables are three-year averages. For the instrumentation of potentially endogenous variables, see Melnykovska and Schweickert (2011).

effectiveness (*GOV*), quality of regulations (*REG*), rule of law (*RoL*), and control of corruption (*CONTR*).

[Table 4 about here]

As a first result, outward orientation as expressed by *EXPORT* seems to improve the quality of institutions. The exception is *VOICE*, a result consistent with the assumption that trade affects the preconditions for doing business in the first place. Measured against this background, the impact of Russia and China is quite different:

- Russia has a negative impact on countries with a strong Russian diaspora, whereas the argument that trade is used for dominance could not be confirmed by our results. Interestingly, the “diaspora effect” is relevant for the quality of democracy as well as for the two variables related to the judicial system, i.e. the rule of law and the control of corruption.
- China has a positive impact on countries which are net importers from China. This is somewhat surprising because the variable was intended to measure a negative impact from trade with Russia in the first place. Similar to the negative impact of the Russian diaspora, the impact matters for the quality of democracy and the control of corruption. Chinese financing for investment seems to reduce relevant bottlenecks for economic and, indirectly, institutional development.
- Regional organizations seem to play a minor role. Compared to EU and NATO, these regional organizations are far from defining a homogenous group with a well structured and conditioned accession process. They rather provide a basis for organizing diplomatic support for bilateral policies, which are already accounted for by the *RUS-DIAS* and *IMPORT-CHINA* variables.

It is also interesting to see the negative impact of *ECO*, especially on *VOICE*. For our country sample of post-communist transition countries, *ECO* is equivalent to a dummy for the five Central Asia CIS countries. Hence, a significant extent of bad governance in Central Asia remains unexplained even if the impact of Russia (most likely negative) and China (possibly positive) is taken into account.

4. Summary and Policy Conclusions

Overall, the somewhat surprising result of our analysis is that, in contrast to Russia's dominance mode of operation, China's doing-business approach towards its neighbours in Central Asia may have - although unintentionally - even positive effects in terms of improving governance and undermining autocratic structures. Panel data analysis allowed for some tentative conclusions, which are basically in line with country evidence on regional organizations, trade relations, and direct interference in domestic affairs as potential transmission channels for external influences:

- Regional organizations including China and/or Russia don't seem to have an own independent impact on institution building.
- Exports are good for institutions related to doing business. This seems to be independent of the direction of exports and it is unrelated to democratization.
- Countries with a strong Russian diaspora are likely to be negatively affected by Russian foreign policy. An additional, trade related impact could not be confirmed.
- Countries do profit from doing business with China even if trade is unbalanced. This has a positive effect on democratization and control of corruption stemming from bottom-up demand for better governance and the moderation of Russia's position.

If this conclusion is correct, China's doing-business approach may give some hints for increasing the effectiveness of EU neighbourhood policy. Democratization should not be a precondition but rather be promoted by sweeping economic cooperation incentives.

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Table 1: Membership in selected regional organizations as of June 2010

	CIS	EurAsEC	EurAsEC Cu sto ms Uni on	CSTO	SCO	ECO
Russia	X	X	X	X	X	
Kazakhstan	X	X	X	X	X	X
Kyrgyzstan	X	X		X	X	X
Tajikistan	X	X		X	X	X
Uzbekistan	X			X	X	X
Turkmenistan	X					X
China					X	

Table 2: Kyrgyz Trade with Russia and China, 2004-2008 (in percent of GDP)

	2004	2005	2006	2007	2008
Total trade with Russia	19.5	20.9	28.4	31.9	35.1
Total trade with China	5.4	5.3	10.0	11.0	15.0
Net imports from Russia	10.5	12.0	20.7	23.2	26.6
Net imports from China	1.8	3.1	7.3	7.7	13.3
Domestic consumption of bazaar imports	3.9	5.0	6.3	8.3	n.a.
Revenue from re-exports	5.2	9.1	15.4	20.5	n.a.

Source: Kaminski and Raballand (2009); IMF (2011); own calculations.

**Table 3: Russian Minorities in Central Africa
(percent of GDP)**

	1989	1999/2000	2009
Kazakhstan	37.0	29.9	23.7
Kyrgyzstan	21.5	12.5	7.8
Tajikistan	7.6	1.1	0.9 ^a
Uzbekistan	8.3	3.0 ^a	2.7 ^a
Turkmenistan	9.5	2.0 ^a	1.8 ^a

^aestimate

Source: Peyrouse 2008; World Bank (2011); own calculations.

Table 4 - Quality of Institutions in Transition Countries - the Impact of Russia and China, 1986-2007

	WGI_all		VOICE		STAB		GOV		REG		RoL		CONTR	
EU_BASIC	0.188 (4.41)	****	0.181 (2.78)	****	0.237 (2.55)	**	0.196 (3.17)	****	0.106 (1.55)		0.254 (4.15)	****	0.155 (2.37)	**
NATO_MAP	0.295 (4.45)	***	0.401 (5.41)	***	0.367 (2.05)	**	0.287 (3.35)	***	0.272 (3.60)	****	0.208 (3.31)	***	0.236 (2.67)	****
EC-LIB	0.259 (6.38)	***	0.480 (11.57)	***	-0.179 (-1.78)	*	0.204 (3.27)	***	0.826 (12.83)	***	0.180 (3.76)	***	0.0411 (0.76)	
AID	-0.0134 (-1.17)		-0.0347 (-4.47)	***	-0.0372 (-1.30)		0.0164 (1.81)	*	-0.00111 (-0.07)		-0.0196 (-1.54)		-0.00430 (-0.38)	
WESTERN	0.702 (10.19)	***	0.541 (6.19)	***	0.720 (4.32)	****	0.921 (20.17)	***	0.656 (7.29)	***	0.684 (8.64)	***	0.692 (7.73)	***
TENSIONS	-0.276 (-5.81)	***	-0.248 (-5.05)	***	-0.368 (-3.63)	***	-0.233 (-3.42)	***	-0.174 (-2.02)	**	-0.267 (-2.58)	***	-0.365 (-2.89)	***
RESOURCES	-0.00454 (-1.24)		-0.00566 (-1.76)	*	-0.0166 (-1.77)	*	0.00335 (0.98)		0.00592 (0.89)		-0.00816 (-1.80)	*	-0.00605 (-1.51)	

Table 4 continued

ECO	-0.188 (-1.62)		-0.377 (-3.58)	***	0.0825 (0.28)		-0.351 (-4.25)	***	-0.320 (-1.38)		0.00254 (0.02)		-0.165 (-1.52)
EXPORT	0.00629 (3.05)	***	0.00208 (1.02)		0.00776 (1.88)	*	0.00507 (2.50)	**	0.0114 (3.70)	***	0.00663 (2.39)	**	0.00482 (2.16)
RUS_DIAS	-0.00433 (-1.87)	*	-0.00685 (-1.82)	*	0.00323 (0.43)		0.0000611 (0.02)		-0.00321 (-0.73)		-0.0113 (-3.96)		-0.00789 (-2.09)
IMPORT_CHINA	0.0227 (0.91)		0.0591 (2.85)	***	-0.0561 (-0.84)		0.0282 (1.27)		0.0290 (1.02)		0.0299 (0.89)		0.0460 (1.80)
CONSTANT	-1.588 (-6.02)	***	-2.209 (-9.38)	***	0.487 (0.89)		-1.564 (-4.75)	***	-4.075 (-9.61)	***	-1.452 (-4.24)	***	-0.714 (-1.95)
N	168		168		168		168		168		168		168
r2	0.951		0.946		0.819		0.916		0.933		0.924		0.893
r2_a	0.945		0.939		0.797		0.906		0.925		0.915		0.880

For the definition of variables, see text. t-statistics in parentheses; * p<0.10, ** p<0.05, *** p<0.01.

Source: World Bank (2011); IMF (2011); own calculations.

