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CHINA ANALYSIS

THE NEW GREAT GAME IN CENTRAL ASIA

ABOUT

The Chinese have long been obsessed with strategic culture, power balances and geopolitical shifts. Academic institutions, think tanks, journals and web-based debate are growing in number and quality and give China's foreign policy breadth and depth.

China Analysis, which is published in both French and English, introduces European audiences to these debates inside China's expert and think-tank world and helps the European policy community understand how China's leadership thinks about domestic and foreign policy issues. While freedom of expression and information remain restricted in China's media, these published sources and debates provide an important way of understanding emerging trends within China.

Each issue of China Analysis focuses on a specific theme and draws mainly on Chinese mainland sources. However, it also monitors content in Chinese-language publications from Hong Kong and Taiwan, which occasionally include news and analysis that is not published in the mainland and reflects the diversity of Chinese thinking.

The French version of China Analysis can be accessed online at www.centreasia.eu.

Introduction

by François Godement

Seeking an alliance by any other name?

Chinese policy in Central Asia is important to Europe for two reasons. The first is economic: Europe (that is, the EU 27) has long been Central Asia's first trading partner. In 2010 it was overtaken by China (which does €23 billion of trade, compared to Europe's €21 billion, with the five Central Asian states). Still, the EU is far ahead of the United States and even Russia. Of course, the lion's share of EU trade with the region is with Kazakhstan – and 88 percent of that is made up by EU oil imports. Compared to Kazakhstan, the other central Asian states are minor trade partners for both the EU and China, which may explain why both tend to publicly downplay the importance of the region. For example, the European Commission's DG Trade website has up-to-date information on individual countries in Central Asia but gives an outdated 2007 figure for trade with the region as a whole.

The Chinese sources examined in this issue of China Analysis also err on the side of caution when it comes to trade levels but they are much more upbeat about the importance of the region as a destination for investment and aid and as an oil supplier. Until the last few years, China's reliance on oil from Central Asia was said to be minimal and the potential thought to be limited to less than 5 percent of its needs, compared to 3.5 percent of Europe's fuel imports. However, our sources show that the proportion of China's oil and

gas imports that comes from Central Asia has already risen beyond 10 percent. This may create opportunities for Chinese companies but also has strategic implications as it reduces China dependences on maritime routes. Our sources think that competition for access to Central Asian resources is more likely to come from Europe than from Russia, which seems still particularly well-served by its relations to Turkmenistan. With 66 million people but huge infrastructure needs, Central Asia is also a market for European equipment goods. The Silk Road still runs both ways.

The second reason to watch Chinese policy in Central Asia is strategic: the region is almost a laboratory for Chinese foreign policy. Some Western analysts hyped the Shanghai Cooperation Organization (SCO) as a new kind of international institution that would be different from its Western-inspired regional counterparts such as NATO. But our sources seem to hope that the SCO will also become a quasi-military alliance that would be able to veto a UN-based intervention in the region as well as carry out its own security actions, albeit focused on internal issues rather than classic security threats. Some military sources in China have also recently criticised the principle of non-intervention, which they see as obsolete, and called instead for classical military alliances. In a discussion of possible intervention in Kyrgyzstan, one of our sources ominously explains that while China respects the principle of non-interference, “principles must be understood based on reality”.

Our sources sketch out indeed what is a power policy using many different instruments. They recognise the opposition to a deepening of the SCO – in particular, Moscow’s own web of military relations and its wish to dilute the SCO into a talking shop. They see the West in nuanced terms: although almost all of the analysts cite the widespread fear of China and recognise that China is often unpopular (some even cite polls to that effect). Some also admit that the United States is a cautious actor that lets oil deals run their course unimpeded (which wasn’t the case five years ago) and limits its support for Xinjiang “separatists”. They are specifically critical of the US base in Manas near Bishkek – China is clearly hostile to a US presence so close to Xinjiang. Our analysts all look beyond the withdrawal of US forces from Afghanistan with a view to ensuring the security of the region and to containing the spread of the “three evils”. They are clear that China’s investment and aid packages – which actually dwarf trade figures – are also tools of influence to leverage the five states. They want to promote the SCO and Chinese financial centres – with some hedging between Hong Kong and Shanghai – for financial aid and share offerings from the region.

In short, Chinese policy in Central Asia is a mixture of “win-win” rhetoric on trade, sizeable handouts, close attention to power politics and a refusal to choose between Russia and the US – which they even see converging

together against the Kyrgyz regime recently. The Chinese analysts do not exclude the possibility of military action, short of war. They see the SCO as a hedge against Western demands and potential UN resolutions, which may mean that it becomes a “fraternal alliance”, offering protection against transnational security threats and international demands, but still falling short of a traditional alliance. China is very realistic about the obstacles and opposition it faces, but is clearly confident it can reorient Central Asia towards Beijing.

1. Strengthening the SCO

by Jérôme Doyon

Sources:

Sun Zhuangzhi, “An analysis of tension points and security trends in Central Asia”, *Xinjiang Shifan Daxue Xuebao - Journal of Xinjiang Normal University*, Vol. 32, No. 2, March 2011.¹

Sheng Shiliang, “An overview of how to deal with security problems in Central Asia”, *Eluosi Zhongya Dong’ou Yanjiu - Russian Central Asian and East European Studies*, No. 1, 2011.²

Wang Haiyun, “Thoughts on the security situation in Central Asia and strengthening cooperation to maintain stability in the SCO”, *Eluosi Zhongya Dong’ou Yanjiu - Russian Central Asian and East European Studies*, No. 1, 2011.³

Zhao Huasheng, “Focus on relations between Russia and the SCO”, *Guoji Wenti Yanjiu - International Studies*, No. 1, 2011.⁴

Yang Shu, “American Policy in Central Asia and China-US Relations, concluding remarks”, selected proceedings from the conference on American policy in Central Asia and China-US relations, *Heping Yu Fazhan - Peace and Development*, No. 6, 2010, December 2010.⁵

Peng Pei, “Viewing the China-India security partnership through the lens of the SCO”, *Xue Lilun - Theory Research*, No. 33, August 2010.⁶

Chen Jidong and Zhang Renfeng, “Pakistan’s membership of the SCO: a necessity facing hurdles”, *Xueshu Shensuo - Academic Exploration*, No. 5, October 2010.⁷

China is working to build its economic and political links with Central Asia. China is now Central Asia’s principal trading partner and its main source of foreign investment. The country plays a central role in the Shanghai Cooperation Organisation (SCO), an intergovernmental security organisation made up of China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan. But Chinese analysts

are concerned about China’s influence in Central Asia, a region that is set to be central in the “struggle for resources” between the major powers.

The USA and Russia both have interests in Central Asia. The two countries are in competition over pipelines and over their military bases in the region, particularly in Kyrgyzstan.⁸ The European Union is also ramping up investment in the region – Sheng Shiliang says that the EU’s aid package to Central Asia for 2007–2013 totals \$719 million. And economic cooperation between the EU and Central Asia was given a boost in 2010 when Kazakhstan was awarded the rotating presidency of the Organisation for Security and Cooperation in Europe (OSCE). India is looking to increase its involvement in the region under its strategy of “going north”, which in 2010 saw it begin development on the TAPI pipeline along with Turkmenistan, Pakistan, and Afghanistan. South Korea invited the Uzbek and Kazakh presidents to visit the country in 2010. In the same year, Japan created the Central Asia plus Japan framework, a forum to facilitate dialogue between Japan and the countries of the region. Sun Zhuangzhi says that as these other countries strive to increase their influence in Central Asia, the pressure on China to defend its interests in the region is rising. As trade with the region grows and China comes to depend more and more on Central Asian energy supplies, maintaining influence in the region is becoming a matter of crucial strategic importance.

China is trying to position itself as a “good neighbour” to the countries of the region. Hu Jintao has made three trips to Central Asia since 2009 and Wen Jiabao went to Kazakhstan for an SCO meeting in November 2010. Sun Zhuangzhi notes that traditional border security is no longer the only focus of China’s security relations with its neighbours – China needs to protect its energy supplies, along with its more than \$10 billion of investment in the region. And any instability in neighbouring countries runs the risk of threatening China’s own internal stability. China signed agreements ending disputes with Kazakhstan, Tajikistan, and Kyrgyzstan in 1994, 1996, and 2002, ensuring border security in the northwest. Its greatest remaining security concern is Xinjiang and the fight against the “three evils” of separatism, religious extremism, and terrorism. China wants the Central Asian states to take a more active part in its fight against Uyghur separatist movements. The Central Asian countries have the largest Uyghur populations of any countries apart from China, and Sun says that many separatist groups have bases there. China is also concerned about unrest in Kyrgyzstan, which shares a 1,000 km border with China, as well as in the Fergana Valley, which spreads across Kyrgyzstan, Tajikistan, and Uzbekistan. China wants to use the SCO to strengthen security cooperation with Central Asian countries in order to fight terrorism and drug trafficking, ensure the security of energy supplies, and guarantee

1 Sun Zhuangzhi is the director of the Centre for Shanghai Cooperation Organisation Studies, Chinese Academy of Social Sciences (CASS).

2 Sheng Shiliang is the director of the Policy Division of the Institute for Development of Eurasian Societies in the State Council’s Research Centre in Development and a senior analyst for Xinhua News Agency.

3 Wang Haiyun is the director of the Research Centre in Energy Diplomacy at the Chinese Foundation for International Relations and a lecturer at the National Defence University. He is a former division general and military attaché to Russia.

4 Zhao Huasheng is a director of the Centre for Russian and Central Asian Studies, University of Fudan, Shanghai.

5 Yang Shu is the director of the Institute for Central Asian Studies at Lanzhou University.

6 Peng Pei is a lecturer at Jiangnan University, Wuhan.

7 Chen Jidong is a professor at the Institute for South Asian Studies, University of Sichuan. Zhang Renfeng is a PhD candidate in the same Institute.

8 On the military bases in Kyrgyzstan, see Martina Bassan’s article in this issue of *China Analysis*.

the safety of Chinese nationals working in Central Asia.

Wang Haiyun says that although some progress has been made towards working together on anti-terrorism measures, there is no real system in place for maintaining stability in the region. The SCO has shown itself to be unwilling or unable to act in times of crisis beyond holding talks between members. Wang thinks legal barriers within the organisation need to be eliminated so that mechanisms for security cooperation can be developed and the organisation can move beyond “idle talk” (空谈, *kongtan*).

Sheng Shiliang says China has considerable economic influence in the region. However, the writers see the crisis in Kyrgyzstan in 2010 as a clear illustration of the limits of China’s political influence in Central Asia. Sun Zhuangzhi thinks China’s lack of political influence is due to the “theory of the Chinese threat” (中国威胁论, *Zhongguo weixie lun*) promoted by the West along with Russia, Japan, and India. Sun cites an

opinion poll carried out in Kyrgyzstan, which showed that just 1.36 percent of respondents considered China to be the country

The SCO needs to set up structures to help member states to settle their internal problems, especially where external powers are involved.

friendliest to Kyrgyzstan, as against 52.67 percent for Russia. Another survey found that 69 percent of Kazakhs saw China as the country representing the greatest economic threat to them. Sun thinks China is struggling to win the “soft power battle” in Central Asia, in spite of its historical relationship with the Central Asian countries and its huge investments in the region. China has to find a way to build its soft power in Central Asia.

With public opinion against it, Sun thinks China is in no position to outflank Russia and become the leader in the region in the medium term. Sheng Shiliang says the Central Asian countries need Russia because it supplies them with workers to help deal with their labour shortage. Russia provides Central Asia with an essential transit route to European markets for their exports, and is itself an important market for agricultural and industrial goods. It is an important source of foreign investment and it assists in the cost-effective development of weapons systems and technologies for extracting energy resources.

Russia is not the only major power China needs to consider: the US also has a stake in maintaining influence in Central Asia. Sun points out that although the US plans to reduce its existing military presence, it has no intention of leaving Central Asia entirely, and it will resist any attempt by China or Russia to take charge in the region. Sheng thinks the US strategy is one of divide and rule: it depends on Russia to contain the expansion of Chinese influence, while relying on China to weaken Russia’s position.

However, not all Chinese analysts share this negative view of US strategy in Central Asia. At a conference on American policy in Central Asia and China-US relations held at the University of Lanzhou in November 2010, Yang Shu said China needed to move past the idea that the US is the source of all its problems in Central Asia. Yang thinks that the interests of both powers coincide in energy security, investment, and anti-terrorism measures. He notes that the US has never blocked China’s pipeline projects in Central Asia. And he downplays the significance and extent of American financing of Uyghur separatist organisations: he says that total US funding for these groups does not exceed \$50,000 a year and that the US has no strategy on Xinjiang, either for or against Chinese government interests there.

Russia and China have very different strategies toward Central Asia. The SCO is China’s main tool to extend its influence in the region. Zhao Huasheng says the organisation differs from others in Central Asia because of its openness, which gives it greater weight on the international stage. Unlike the Community of Independent States (CIS) or the Collective Security Treaty Organisation (CSTO), it is not modelled on the borders of the former USSR. But from Russia’s point of view, this makes the SCO a “foreign” organisation, which means Russia is wary of being involved with it. In economic affairs, Russia prefers to operate through structures it has set up itself. Within the SCO, Zhao says that aside from its 2007 proposal to form an “energy club”, Russia is relatively passive on economic matters. It has shown very little enthusiasm for the Chinese proposal to create an “SCO economic cooperation zone” because of fears that it could enhance Beijing’s economic base in the region. Russia is much more active on security issues, but Zhao notes that it is more interested in combating drug trafficking than the separatist and terrorist groups that worry China. Although Zhao says there is some overlap, since drug trafficking is an important source of finance for terrorist groups, the difference in priorities makes it hard for China and Russia to find common interests on which to work together.

Sheng Shiliang articulates the opinion of most of the writers in saying that both China and Russia can best serve their own interests in the region by ensuring competition between different actors. Zhao believes that Russia would be in favour of enlarging the SCO to include, for example, Turkmenistan and Mongolia, if either country wanted to join. He thinks Russia would be particularly interested in attracting India as a member. Russia has a good relationship with India, and India’s entry would considerably strengthen the international importance of the organisation as well as providing a counterweight within the organisation to China’s influence. Peng Pei writes that India’s inclusion in the SCO is just a matter of time, since it already has observer status in the organisation. This would enable India and China to collaborate more closely on the security of energy supply routes and on anti-terrorism measures. But there are three obstacles to India’s membership: the border dispute

with China, the question of Tibet and Tibetan refugees in India, and the antagonism between India and Pakistan. Peng says China should apply the model it established in settling its border disputes with the countries of Central Asia in order to resolve its border issues with India. India must respect its official declarations recognising Chinese sovereignty over Tibet and not allow the development of an anti-Chinese movement on its territory. To solve the Pakistan problem, Peng proposes China act as moderator in tripartite discussions, which would improve relations between all three countries and facilitate the eventual entry of India and Pakistan into the SCO.

Chen Jidong and Zhang Renfeng say the best possible solution in the medium term would be the entry of both India and Pakistan to the SCO. Pakistan would be a valuable member for the SCO because of its centrality to the fight against terrorism and the settlement of the Afghan crisis. Pakistan would also give Central Asian exports access to the Indian Ocean. And since its own energy reserves are insufficient to meet its needs, it could be an important customer for Central Asian energy resources. But the country's internal instability, particularly along its border with Afghanistan, makes it difficult to envisage membership in the short term.

Even though integrating more countries would be beneficial to the organisation and the region, prioritising SCO enlargement could turn into a distraction from the work of building cooperation among its current members. Wang Haiyun prefers to focus instead on the current difficulties of the SCO. The organisation seems unable to accomplish its stated mission to establish a system that can guarantee stability in the region. Wang says an agency must be set up to enforce rules within the organisation, so as to enable intelligence-sharing among member countries and help establish common action plans. In time, each country should also make available troops for rapid response operations. This would mean considerably expanding existing arrangements for joint military exercises and "peace missions". Wang thinks the SCO needs to set up structures to help member states to settle their internal problems, especially where external powers are involved. Mechanisms must be set up for crisis meetings where countries could invite the SCO to intervene in their internal affairs. This would help achieve consensus among members and enable the organisation to get beyond the principle of non-intervention. Wang says that sometimes organisations need to "alienate" part of the sovereignty of a country in crisis, and the SCO needs to be ready to take on this responsibility. The SCO must also be prepared to confront the disorder left in Afghanistan after the eventual US withdrawal. Wang thinks the organisation should create a protective cordon around Afghanistan against drug trafficking and terrorist activities by involving the neighbouring states, especially Pakistan, as observers in the SCO. It could then more adequately support the central Afghan government in its fight against terrorism and in the country's economic reconstruction.

According to Wang, the SCO must expand its mechanisms for security cooperation by reaching out to and broadening the involvement of the region's states and the other existing organisations, especially the CSTO. The constant competition between different countries and structures must end so that everyone can work together towards an effective settlement of the problems in Central Asia.

2. Energy cooperation between China and Central Asia

by Jean-Pierre Cabestan

Sources:

Sun Zhuangzhi, “An analysis of tension points and security trends in Central Asia”, *Xinjiang Shifan Daxue Xuebao - Journal of Xinjiang Normal University*, Vol. 32, No. 2, March 2011.

Lan Peng, “An analysis of the feasibility of cooperation in the energy sector between China and Central Asia based on the SWOT method (Strengths, Weaknesses, Opportunities, Threats)”, *Kejiao Daokan - The Guide of Science and Education*, November 2011, pp.240–241.⁹

Qiang Xiaoyun, “The future of multi-lateral cooperation within the SCO – an analysis of the prospects for cooperation in terms of gas pipelines”, *Shanghai Shangxueyuan Xuebao - Journal of Shanghai Business School*, Vol. 11, No. 2, March 2010, pp.42–45.¹⁰

Xie Wenxin, “Oil and gas cooperation between China and Central Asia: analysis and commentary”, *Jingjiishi - China Economist*, No. 2, 2011.¹¹

Xu Xiaotian¹² and Wang Cong, “The TAPI gas pipeline and the energy game in Central Asia”, *Shijie Zhishi - World affairs*, February 2011, pp.30–31.

China wants to deepen its energy cooperation with Central Asia and the countries of the Caspian Sea. This cooperation is part of China’s new strategic and geopolitical approach to this region of the world, an area in which China increasingly thinks of itself as a neighbour and a privileged partner.

Based on a SWOT analysis (strengths, weaknesses, opportunities, threats), Lan Peng argues for greater energy cooperation between China and Central Asia. He notes the other regions of the world that could supply China with oil and gas are all risky in different ways: the Middle East, which has 61 percent of global oil reserves and 41 percent of natural gas reserves, is politically unstable; Africa has other drawbacks such as societal instability, the risk of terrorism, and its distance from China; Latin America, in geopolitical as well as geographical terms, is too close to the US.

Central Asia, on the other hand is a region that is close to China and in which it has geopolitical advantages. Closer cooperation with Central Asia could also help boost economic development in the west of China. The main

⁹ Lan Peng is a faculty member of the Political Science and Law Institute of the China University of Geosciences, Wuhan.

¹⁰ Qiang Xiaoyun is Deputy Director of the Department of Russian-Central Asian Studies at the Shanghai Institute of International Studies.

¹¹ Xie Wenxin is a faculty member of the Central Institute for Minorities in Beijing.

¹² Xu Xiaotian is Deputy Director of the Central Asian studies division at the China institute of contemporary international relations (CICIR).

weaknesses militating against cooperation are the relative backwardness of Chinese technology, China’s overdue and inadequate energy diplomacy, and the influence in Central Asia of the “theory of the Chinese oil threat” (中国石油威胁论, *Zhongguo shiyou weixielun*). One opportunity is the relative importance of Central Asian oil and gas reserves, which represent 8 percent and 4.3 percent of world supply respectively. The fact that Central Asia is already sending energy supplies to China gives a basis for the expansion of cooperation, while the Shanghai Cooperation Organisation (SCO) provides an advantageous diplomatic context for future collaboration. The competition between major powers, particularly Russia and the US, is a threat to the development of cooperation, as is the battle over the legal status of the Caspian Sea as a sea or a lake, along with its implications for access to resources.

To establish energy cooperation, Lan says China should support the SCO in ensuring the security of its periphery. It needs to build good relationships with all the littoral states of the Caspian Sea, as well as with the states engaged in extracting resources. It should pursue trade relations with its Central Asian neighbours and enhance the power of Chinese oil companies in the region by enlarging their regional presence, their management structures, and the size of their operations. Lan endorses China’s policy of increasing its energy dependence on Central Asia at the expense of the other regions of the world. But he leaves out three obvious limitations of this policy: Central Asia’s relatively limited reserves, the presence of other customers, and the so far unconvincing role played by the SCO “energy club”, whose creation was announced in 2007, but which Lan does not mention.¹³

Qiang Xiaoyun stresses the role of the SCO in the implementation of multilateral energy cooperation and in the construction of Turkmenistan-Xinjiang gas pipeline, which started operations in December 2009. This gas pipeline runs for 188 km in Turkmenistan, 530 km in Uzbekistan, and 1,300 km in Kazakhstan before connecting to the Chinese grid, stretching 8,000 km all the way to the east of the country. Qian says this project is a big step towards ensuring China’s energy security. In 2008, China produced 76 billion m³ of natural gas and consumed 80.7 billion m³, depending on external sources for 5.8 percent of supply. By 2010, externally-sourced supplies of natural gas were estimated at between 30 and 40 billion m³. In 2015, supply from outside sources will rise to 50–60 billion m³, and in 2020, to 80–90 billion m³. Imports from Central Asia are already helping China to reduce dependence on liquefied natural gas (LNG), which must be imported by sea and is therefore more exposed to the risks of terrorism and piracy. In 2008, China imported 3.3 million tonnes of LNG, with 80 percent coming from Australia and the

¹³ On this last point, see Hélène Rousselot, “Le Club de l’énergie de l’OCS, un élément (moteur) d’intégration régionale ?”, [Is the SCO Energy Club a (driving) factor of regional integration?] in “La Chine et l’Asie Centrale”, *Relations internationales*, No. 145, Winter 2011, pp.117–132.

remaining 20 percent from Qatar, Algeria, and Nigeria.

Qiang says this gas pipeline is a “win-win” solution (共赢, *gongying*) that benefits the countries of Central Asia as well as China. It strengthens Turkmenistan’s negotiating position on costs by increasing the number of customers for its gas, and it stimulates the Uzbek and Kazakh economies. More importantly, this gas pipeline has provided a model for multilateral cooperation within the SCO and contributed to “an appropriate resolution of the contradictions between the countries of the region”. Qiang is alluding to the poor relations between Turkmenistan, Uzbekistan, and Kazakhstan, especially between Uzbekistan and its neighbours. Qiang avoids emphasising Turkmenistan’s absence from the SCO, but he hopes this pipeline will eventually lead to the country’s joining the organisation. He says the project has met with universal support, since even Russia and the US have offered technical assistance – so it provides a good example of how China’s rise can be “benign”.

Xie Wenxin thinks the energy situation in Central Asia and around the Caspian Sea remains complex and uncertain. The Caspian Sea is thought to hold 12–15 billion tonnes of oil and 11–12 trillion m³ of gas; Central Asia has 2 billion tonnes of oil and 3 trillion m³ of gas. The internal economic situation of the countries of Central Asia remains fragile and their economies continue to depend heavily on energy exports. Since the collapse of the Soviet Union, other countries have helped them exploit their energy resources, which has helped to weaken Russian influence in the region. Xie says US oil firms dominate, controlling 75 percent of new oil fields with an investment of \$30 billion, representing 30–40 percent of foreign investments in Kazakhstan and Azerbaijan. Energy companies from the UK, France, Turkey, Iran, and Japan are also present. The Central Asian countries are benefiting from competition between the powers. They have maintained close relations with Moscow, since much of their oil and gas exports continues to transit via Russia. But for technical and financial reasons, they are in the process of re-examining their cooperation with Western oil companies. China should try to take advantage of the situation.

Xie proposes a proactive strategy for China in the region. The country should support the current energy strategy of the countries of Central Asia and use its geopolitical position to make Russia a counterbalance to the influence of the US and Japan. China must mobilise the major Chinese oil companies to extend their cooperation with Central Asian states in resource exploitation and in constructing oil pipelines. China’s foreign currency reserves could be used to finance energy cooperation projects, in a model that “showed its advantages” (展现其优点, *zhanxian qi youdian*) during the global financial crisis in 2008–2009. China should conduct effective energy diplomacy in Central Asia, including in the Caspian Sea region, by appointing a regional ambassador, like that of the US, Russia, and the

EU. This could increase China’s mediating influence in a troubled and complicated region. China should establish a “cultural and information strategy” in Central Asia in order to counter “anti-Chinese feelings” fuelled by the Western media.

But as Xu Xiaotian and Wang Cong point out in *Shijie Zhishi*, the energy situation in Central Asia is in constant flux, and China must stay alert. On 11 December 2010, the presidents of Turkmenistan, Afghanistan, and Pakistan, along with the Indian Minister for Oil and the governor of the Asian Development Bank, signed an inter-governmental agreement on the TAPI (Turkmenistan, Afghanistan, Pakistan, India) gas pipeline. This agreement provides for the construction of a 1,735 km gas pipeline at a cost of \$8 billion. When completed in 2013–2014, this gas pipeline should enable Turkmenistan to export 33 billion m³ of gas, 5 billion m³ going to Afghanistan and 14 billion m³ to Pakistan and India. India and Pakistan hope this project will help them cope

with increasing demand: India’s natural gas consumption will exceed 110 billion m³ by 2015, up from 60 billion m³

in 2010, while in-country production in 2010 totalled just 48 billion m³. And Pakistan’s shortfall in natural gas is set to triple between 2015 and 2025, rising from 28 billion m³ to 100 billion m³.

The TAPI gas pipeline is an old project – it was first considered in 1995, but its start date has been repeatedly postponed because of political instability in Afghanistan and northwestern Pakistan. It will help Turkmenistan to further diversify its gas exports: the country’s first gas pipeline to Iran came into operation in 1998, followed by a second in January 2010, which together enable Iran to import 20 billion m³ of gas a year. The US is supporting the TAPI project for strategic reasons: it is concerned about a rival Iran-Pakistan-India gas pipeline project, which it opposes as long as Iran is the subject of international sanctions. Xu and Wang note that TAPI has strategic value to the US because it can help “kill several birds with one stone” (一石多鸟, *yishi duoniao*). It can block Iranian gas exports, boost Afghanistan’s income through transit fees, and assist Afghanistan, Pakistan, and India in settling their energy problems and stabilising political relations. TAPI also strengthens US influence at the expense of that of Russia and China. Thus TAPI is an integral part of US strategy in Central Asia.

But the pipeline faces problems. Afghanistan remains unstable and the security of its 735 km stretch of pipeline is uncertain and it is unclear whether Turkmenistan has the capacity to satisfy the needs of current and potential customers. Turkmenistan today produces some 66 billion m³ of gas; it keeps 16 billion m³ for domestic consumption

and exports the remaining 50 billion m³. In 2010, it sold 10 billion m³ to Russia, down from its usual 30 billion m³, and exported 20 billion m³ to Iran. In 2012, China will probably buy 40 billion m³. With 33 billion m³ set to be exported through the TAPI pipeline, Turkmenistan needs to increase production as a matter of urgency. The country plans to produce 230 billion m³ by 2030, of which 161 billion m³ will be exported. Can it meet this target?

This question highlights the new stakes and uncertainties of the “great game” in the energy sector in Central Asia. Clearly, energy cooperation between China and Central Asia is expanding rapidly; it constitutes one of the cornerstones of a partnership built on the sidelines of the SCO, rather than directly within the framework of the organisation. But Chinese experts and the Chinese government are aware that the situation is complex and shifting – and that in this new great game, only change is certain.

3. Economic cooperation beyond the energy sector

by Marie-Hélène Schwoob

Sources:

Zhou Lihua, “An analysis of the security of capital flows between China and Central Asia”, *Eluosi Zhongya Dong’ou Shichang – Russian Central Asian and East European Market*, No. 1, 2011.¹⁴

Ling Ji, “Economic and trade cooperation between China and Central Asia: status, problems and recommendations”, *Guoji GuanCha – International Review*, No. 5, 2010.¹⁵

Yusufu Abulaiti, “Exploring the possibilities for fast-tracking the economic integration of Xinjiang and the five countries of Central Asia”, *Eluosi Zhongya Dong’ou Shichang – Russian Central Asian and East European Market*, 2011, n°2.¹⁶

Zhou Panpan, “Developing cross-border trade in Xinjiang”, *Hezuo Jingji Yu Keji – Cooperative Economy & Science*, No. 5, 2011.¹⁷

Li Xin, “The internationalisation of the yuan: financial cooperation among member states of the SCO”, *Xuexi Yu Shensuo – Study and Exploration*, No. 1, 2011.¹⁸

Economic cooperation between China and the five countries of Central Asia – Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, and Turkmenistan – has been growing steadily. Over the past few years, the volume of trade has increased by 40 percent a year, reaching \$18–20 billion in 2010, and this growth shows no sign of stopping.¹⁹ Economic cooperation with Central Asia can help China enhance its energy security, as well as generating revenue to stimulate the development of its economy.

Yusufu Abulaiti forecasts that China will depend on imports to fulfil 80 percent of its demand for energy by 2020, as compared to 50 percent in 2010. Ling Ji says China’s energy cooperation with Central Asia is at a critical juncture (能源合作进入关键期, *nengyuan hezuo jinru guanjianqi*). The writers try to defuse the idea of the “Chinese oil threat” (中国石油威胁论, *Zhongguo shiyou weixielun*) – Abulaiti says the energy resources of China and the Central Asian

¹⁴ Zhou Lihua is an associate professor at the Institute of Finance, Xinjiang University of Economics.

¹⁵ Ling Ji is the deputy director of the Department for Cooperation with Europe in the Ministry of Commerce.

¹⁶ Yusufu Abulaiti is an associate professor at the Institute of Finance, Xinjiang University of Economics.

¹⁷ Zhou Panpan is a professor at the Institute of International Trade, Xinjiang University of Economics.

¹⁸ Li Xin is a researcher at the Centre for Economic Studies of the Shanghai Research Institute.

¹⁹ These figures, given by Yusufu Abulaiti, are surprisingly low compared to those of the IMF, according to which China-Central Asia trade reached €23 billion in 2010 – almost \$33 billion. (IMF DoTS)

countries are “complementary”. Central Asia has significant fossil fuel resources and great potential for hydroelectric power. But China has its own large reserves of coal that it could supply to its neighbours.

China sees great potential in Central Asia’s growing consumer markets. At the moment the countries of Central Asia have a combined population of 60 million, and Abulaiti says considerable demand already exists, in particular for electrical goods and motor vehicles. The region’s economies were deeply affected by the break-up of the USSR and they are struggling to return to levels of economic development under the planned economy. Central Asian countries have insufficient industrial capacity to meet internal demand for consumer goods, and textile industries along with other light industries are under-developed relative to their former capacity. In some cases, more than 70 percent of consumer goods have to be imported, and Abulaiti sees valuable opportunities for China’s more developed manufacturing sector to meet growing demand.

The writers note that Russia too presents opportunities. With a population of around 140 million, adding the country to the China-Central Asia axis would create a market of more than 1.5 billion potential consumers. And Russia plays a key role in determining the structure of regional relations. The creation of the Shanghai Cooperation Organisation (SCO) has been a crucial factor in the development of economic and trade relations in the region. But the writers are more interested in the SCO’s capacity to stabilise relations between China and Russia. Yusufu Abulaiti sees one obvious political advantage in the SCO for China: it has created institutional mechanisms for cooperation between China and the five countries of Central Asia. And, he says, the creation of the SCO means China and Russia have “recognised their respective interests in the region” and “established a compromise in the two countries’ strategies in the Central Asian region”. So, Russia is more than a potential consumer market – it is a political actor that plays an essential part in ensuring economic and political cooperation among the countries of Central Asia.

Political relations may have stabilised, but the economic climate is less certain. Zhou Lihua has doubts about the security of Chinese investment in the region. The Central Asian countries have serious debt problems, and shifts in exchange and interest rates also present risk. Ling Ji thinks the countries of Central Asia are politically unstable and suffer from “three evils” (三股势力, *sangushili*) – religious extremism, ethnic separatism, and terrorism – which could endanger economic and trade cooperation. Ling thinks that the centralised authoritarianism of Central Asian countries is a worrying factor for foreign companies. While authoritarianism can speed up decision-making in major collaboration projects, it means foreign companies have no way of controlling or influencing decisions in the countries.

China’s involvement in the Central Asian countries is still limited to a relatively small number of sectors. Energy resources (oil and natural gas) and raw materials (uranium, cotton, iron ore, copper, and other non-ferrous metals) remain the major commodities traded. China is working on broadening its investment in transport, electricity, and telecommunications, and Li Xin suggests that China could offer loans for oil (贷款换石油, *daikuan huan shiyou*). Ling Ji thinks it is in China’s interest, as well as Central Asia’s, to support the economic development of Central Asian economies. China should invest in transport infrastructure, energy supply, and other sectors. This could help improve social stability, which has been undermined by extremism, separatism, and terrorism, as well as by declining growth since the fall of the USSR. China’s investment in Central Asia currently amounts to more than \$10 billion.²⁰ Several hundred direct investment projects have been agreed, and other agreements are being negotiated. And the Chinese government is giving loans to enterprises that “go abroad”

China is beginning to feel the weight of responsibility for the economic development of Central Asia and it is seeking new sources of finance to fuel economic cooperation.

(走出去, *zouchuqu*), as well as to Central Asian governments, which use the funds to pay for infrastructure projects carried out by Chinese firms.

Zhou Panpan thinks China should support companies in Central Asia by working to improve their competitiveness and helping them to diversify their offerings to goods with greater added value. It should also supply loans and funds to finance their activities. Zhou Lihua says Chinese companies have taken advantage of Central Asian countries’ policies encouraging foreign investment to develop a network of Wholly Owned Foreign Enterprises (WOFE), joint ventures, and acquisitions. China is providing funds to consolidate this wave of Chinese exporting companies, and Central Asian countries welcome Chinese companies’ involvement in infrastructure projects that can promote social stability. Bilateral cooperation funds have been set up to develop infrastructure and the industrial sector.

However, Central Asian countries want more Chinese capital to help them get on the “express train of Chinese economic development” (搭乘中国经济发展快车, *dacheng zhongguo jingji fazhan kuaiche*). Ling Ji says that after the financial crisis, Kazakhstan, Kyrgyzstan, and Tajikistan asked China for credit to finance 56 priority infrastructure projects at a total cost of \$16 billion. China is beginning to feel the weight of responsibility for the economic development of Central Asia and it is seeking new sources of finance to fuel economic cooperation. China has allocated \$10 billion to set up economic cooperation on regional development. Ling Ji says that new avenues for financing development must

²⁰ Sun Zhuangzhi, “An analysis of tension points and security trends in Central Asia”, *Xinjiang Shifan Daxue Xuebao*, Vol. 32, No. 2, March 2011.

be found, and all the countries involved need to work on and contribute to new solutions. The creation of an SCO fund should be further explored. By consolidating the SCO's role to attract international financial institutions and strengthening commercial banks, a regional system to finance development could be established.

Li Xin says that although the SCO countries have been severely affected by the financial crisis, the lessons learned from it have created the potential for closer regional financial cooperation. To break dependence on Western financing, companies from SCO member countries should be listed on the Chinese financial market (Russia has already begun listing companies on the Hong Kong market). Through the implementation of bilateral agreements, Moscow and Shanghai could become international financial centres. Li suggests exploring possibilities for financial cooperation in the energy sector, where China, as a capital-rich country with large energy needs, can benefit from working with the other member states of the SCO that need Chinese investment. To build multilateral financial cooperation, SCO countries should coordinate the monetary policies of their central banks and establish a regional platform for exchanging financial information. They need to set up monitoring systems and create support structures to deal with any future financial crisis. The successful creation of a regional financial system, remote as it may seem, could eventually be the decisive factor in achieving regional stability and international recognition.

4. Addressing instability in Kyrgyzstan

Martina Bassan

Sources:

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Pan Guang, "Troubles in Kyrgyzstan: the role of Russia, the United States and Europe, and their influence on China", *Xinjiang Shifan Daxue Xuebao - Journal of Xinjiang Normal University*, No. 31 (4), December 2010.²³

Zhao Huirong, "The hidden reasons behind the troubles in Kyrgyzstan", *Dangdai Shijie – The Contemporary World*, No. 8, August 2010, pp.23–25.²⁴

When the riots that led to the fall of President Bakiyev and his government broke out in Kyrgyzstan in April 2010, the international community woke up to the country's political instability. Kyrgyzstan had experienced a "colour revolution"²⁵ in 2005, but the change neither stabilised the country nor satisfactorily resolved its internal conflicts. Most Chinese analysts think the "Kyrgyz revolution" of 2010 was brought about by internal factors, such as inequality and social fragmentation, economic stagnation and poverty, corruption and ethnic conflict, but agree that external factors were also involved. Kyrgyzstan is not one of the main players in the region, either in terms of size and demography or natural and energy resources. However, its central geographic position places it at the intersection of the geopolitical interests of the great powers. Kyrgyzstan is the only country that has both American and Russian military bases on its soil. Chinese analysts are

21 Jia Lihong (贾丽红) is a doctoral student in international politics at the Institute for International Relations at the People's University of China (Renmin University) in Beijing. Her research focuses on relations with Central Asia and the United States.

22 Lu Gang (陆钢) is a journalist at *Lianhe Zaobao Wang*.

23 Pan Guang (潘光) is Director of the Shanghai Cooperation Organisation Studies Centre and the Shanghai Centre for International Studies and Institute of European and Asian Studies at the Shanghai Academy of Social Sciences, as well as President of the Centre of Jewish Studies Shanghai (CJSS), and Vice-President of the Chinese Society of Middle East Studies.

24 Zhao Huirong (赵会荣) is a researcher at the Research Institute on Central Asia, Eastern Europe and Russia at the Chinese Academy of Social Sciences.

25 The "colour revolutions" is the name given to the non-violent anti-government protest movements that developed in the post-communist societies of Central and Eastern Europe and Central Asia. The coup that overthrew Kyrgyzstan's President Askar Akayev and his government on 24 March 2005 following the elections of 27 February and 13 March is referred to as the "tulip revolution".

mostly concerned with the international dimension of the country's current situation, and what it means for China in terms of its strategic interests in Kyrgyzstan, its national security, and its position as a member state of the Shanghai Cooperation Organisation (SCO).

Kyrgyzstan was ruled by China from the Han period until the end of the Qing dynasty. Because of its geographic location, it has always been of great strategic importance for China. Jia Lihong says this small Central Asian country is important to China in terms of traditional security, as a strategic entry point to Xinjiang: "For China, Kyrgyzstan's security corresponds to Xinjiang's own – a threat for Kyrgyzstan is also a threat for Xinjiang (...) and for this reason, China must defend this country against any attempt by another country to occupy or subjugate it." As regards non-traditional security, Kyrgyzstan is crucial to China's fight against terrorism, secessionism, and religious extremism,²⁶ especially in relation to the separatist movements in southern Xinjiang. These separatists aim to obtain the separation of Xinjiang from China and establish what they call "the Republic of Eastern Turkestan" (东突厥斯坦, *dong tujuesitan*). Jia says the separatist movement in Xinjiang has carried out several terrorist actions and that they are supported by "encouragement and external aid" from Russia and some Western countries. Kyrgyzstan is also important to China in its efforts to diversify energy supplies to ensure energy security. China's main suppliers of oil in Africa and the Middle East are politically unstable, and its supply route through the Straits of Malacca is also problematic. Central Asia is beginning to be seen as the "new storehouse" of energy resources for the twenty-first century. Although Kyrgyzstan has itself only limited oil reserves, it is important to China as a port of entry for oil from Turkmenistan and Uzbekistan.

So how should China respond to the internal crisis in Kyrgyzstan and the growing influence of Russia and the US in the region? Because of the situation in Xinjiang as well as China's strategic interests in Kyrgyzstan, Lu Gang says "China cannot simply stand by and do nothing". Pan Guang thinks China must support stability and development in Kyrgyzstan so as to support regional stability and encourage good relations between Kyrgyzstan and China. At the same time, China must be aware that the US and Russian military bases in the country give those countries a degree of influence over Kyrgyzstan's internal affairs.

China's position as a member of the SCO complicates its relationship with Kyrgyzstan – as an SCO member, China cannot act unilaterally in Kyrgyzstan but must instead act through the organisation. If the SCO were to intervene in Kyrgyzstan on its own initiative, Beijing would most likely support it. China respects the principle of non-interference, but, Lu says, "principles must be understood in the context

26 Religious extremism (宗教极端主义, *zongjiao jiduan zhuyi*), international terrorism (国际恐怖主义, *guoji kongbu zhuyi*) and separatism (民族分裂主义, *minzu fenlie zhuyi*) are more generally known as the "three evils" (三股势力 *san gu shili*).

of reality". Lu thinks that if the SCO refuses to act because of its principles, its prestige in the region will be affected, and outside parties might step in to take action instead.

Zhao Huirong thinks the SCO needs to find new ways to combat terrorism, secessionism, and fundamentalism in Kyrgyzstan, and should concentrate in particular on the activities of the Islamic Movement of Uzbekistan and the influence of Hizb ut-Tahrir in southern Kyrgyzstan.²⁷ If the situation in Afghanistan deteriorates as US and NATO forces withdraw, extremist religious groups in Central Asia could strengthen relations with terrorist groups in Afghanistan, so the SCO must act to prevent future terrorist threats. Politically, the SCO should enhance cooperation among its member countries, promote mutual confidence, and safeguard the security and stability of the member countries. And since Kyrgyzstan needs the financial support of the SCO to ensure stability and development, the SCO must come up with an appropriate aid scheme for the country.

If the SCO refuses to act because of its principles, its prestige in the region will be affected, and outside parties might step in to take action instead.

Pan Guang says any intervention by the SCO in Kyrgyzstan must necessarily be limited. Since a military alliance is out of the question, if the situation in Kyrgyzstan deteriorates, only the United Nations as the representative of the international community can intervene. But Pan interprets the April 2010 "Joint Declaration on Cooperation by the Secretariats of the UN and the SCO" to mean that any action by the UN in Central Asia must be approved by the SCO. As a member of the SCO, China has a privileged position in Central Asia, and it has to be ready to assert it. It cannot allow other powers like Russia and the US to exert too much influence in such a strategically important region.

Jia and Zhao think Russian and US interference in Kyrgyzstan's internal affairs has been a crucial factor in the development of the country's internal crisis. Pan acknowledges that there is no proof that Russia was involved in any conspiracy to bring about the 2010 coup. But he says that Russia's support for the Kyrgyz opposition had the clear goal of overthrowing the president. And just before the fall of the Bakayev government, the USA was in frequent contact with Roza Otunbayeva, the opposition leader who became president of the Kyrgyz Provisional Government in April 2010. China needs to take Russian and US involvement into account in coming up with a political strategy that can best help it to defend its interests and borders.

27 A Muslim group set up in Amman, Jordan, in 1953, the Hizb ut-Tahrir was the product of a split in the Muslim Brotherhood. The movement is active today in over 70 countries and has several million followers and sympathisers throughout the world. It is especially active in Central Asia, where it is subject to severe repression by the authorities, for example in Turkmenistan and Uzbekistan.

Since the collapse of the USSR, Russia and the US have been competing for influence in Central Asia. So Chinese analysts think it is interesting that in Kyrgyzstan, they have been “keen to collaborate and coordinate their actions” – Zhang sees a “mutual sympathy” (相互示好期, *xianghu shi hao qi*) and Jia Lihong notes a “common Russian-American management style” (美俄共治, *mei-e gongzhi*). The writers conclude that both countries want to prevent any political instability that could threaten their interests and their military bases. Zhao notes that “from the outbreak of violence in the country, the main concern of the US and NATO has been to secure the Manas Air Base”.²⁸ He points to the fact that the US has contacted the interim government on several occasions to make sure the base will continue to be available for NATO’s use in the conflict in Afghanistan. Zhao adds that the US hopes to strengthen its military presence in the country to help it contain the regional influence of Russia and China and to reinforce its position in dealings with Afghanistan, Pakistan, and Iran. Zhao thinks “there might be new foundation for the old idea that the US would like to move its troops from Afghanistan to the Fergana Valley and turn it into an axis for controlling Central Asia”. Jia says that the US fight against terrorism and the Afghan Taliban is only a pretext for the US presence in Kyrgyzstan: “American troops have already left other countries in Central Asia, while Kyrgyzstan, which does not have a common border with Afghanistan and which has enormous strategic importance for China, is the only country where they are still present.” He thinks the real intention is to “stand up to China”. But China is not the only country that objects to the US presence. Since 2001, the Kyrgyz and Russian governments have both tried but failed to persuade the US to close Manas. Russia too has own strategic ambitions in the area. Jia thinks the Russian military base in Kyrgyzstan is also focused on China. But Zhao thinks the base is there to help Russia retain a monopoly on influence over the former Soviet space and to limit the capacity of the US and NATO to act in the region.

Both the US and Russia have supplied humanitarian aid to Kyrgyzstan, but they have refused military assistance to suppress the unrest. Zhao and Pan agree that the two countries are reluctant to get too involved in Kyrgyz internal affairs. The US and Russia want to avoid any confrontation that could disrupt their current amicable relations, and neither wants to get drawn into a complicated conflict that could prove difficult to disengage from. So they prefer to accept the current state of affairs in which each protects its interests by maintaining its own military base. If the US and Russia were to increase their military presence, it could destabilise the situation in Kyrgyzstan still further, which would have consequences for the neighbouring countries –

including China. Jia concludes: “It can be safely said that the enormous influence of the US and Russia in Kyrgyzstan represents an extremely serious threat for the security of Chinese Xinjiang.”

Translation: Peter Brown
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²⁸ The Transit Centre at Manas, previously Manas Air Base, is a US military base located at Kyrgyzstan’s main airport, Manas International Airport, 25 km from the capital, Bishkek. Opened in 2001, it is used as a base for the war in Afghanistan. The Shanghai Cooperation Organisation has been urging Bishkek to close the base since 2005. Since the closure in 2005 of a base in neighbouring Uzbekistan, Manas is the last remaining US base in Central Asia.

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