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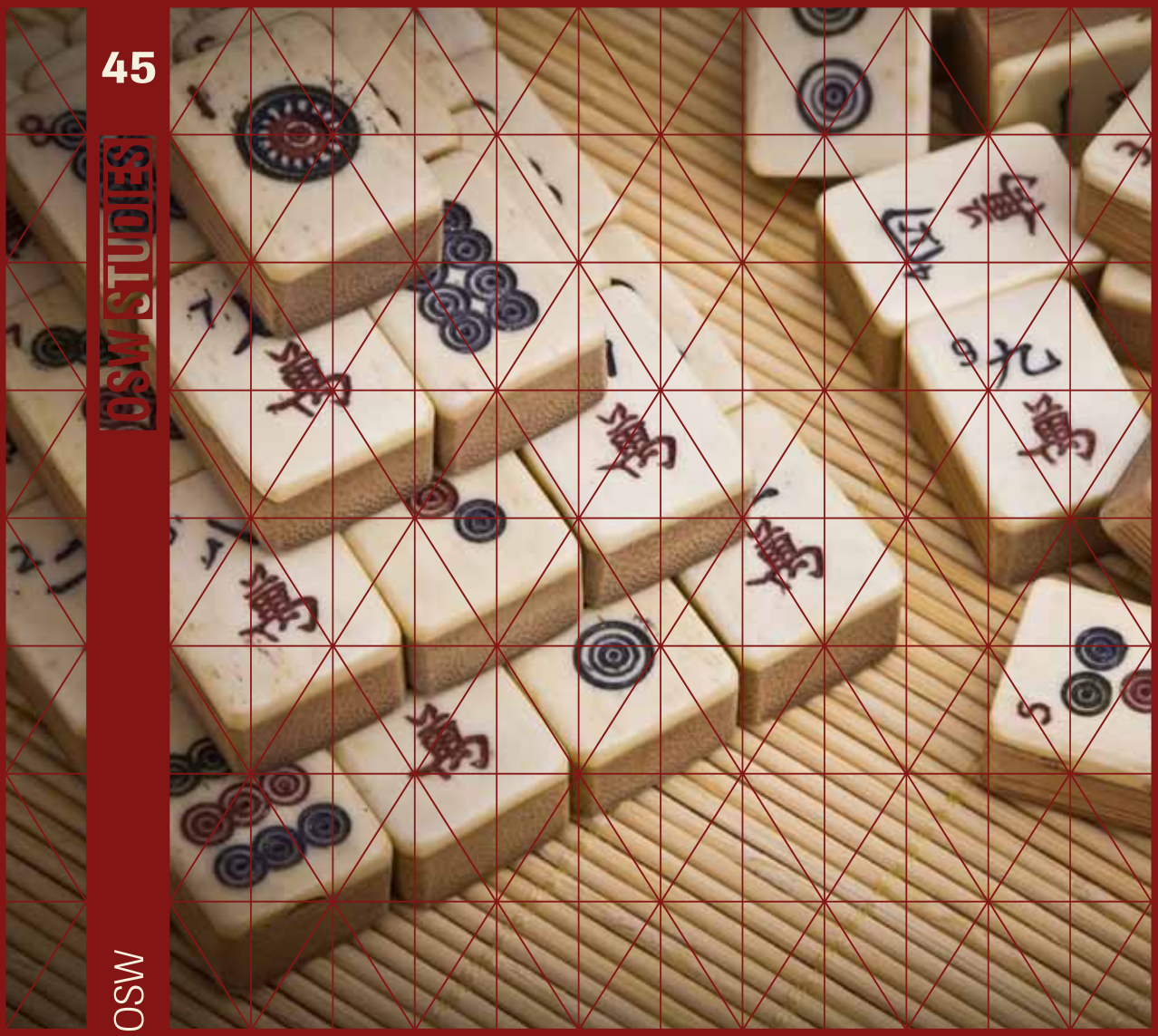

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CHINA VS. CENTRAL ASIA
THE ACHIEVEMENTS OF THE PAST TWO DECADES

Aleksandra Jarosiewicz, Krzysztof Strachota

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MAIN POINTS

- The past two decades have been a period of fundamental change in Central Asia triggered by the collapse of the USSR. One effect of this was that five new states arose in the region. The emergence of China's presence as a major player in Central Asia has been among the fundamental aspects of these regional changes.

- Security issues are at the core of Chinese engagement in Central Asia. In the regional dimension, China wants to protect its western province, Xinjiang, from possible destabilisation which could spread from Central Asian countries or draw inspiration from them. In broader terms, Beijing wants to secure its interests with regard to Russia and the USA, which are also present and active in the region. In turn, from Central Asia's point of view, securing the region against Chinese expansion is of fundamental significance. However, at the same time, the countries in the region are aware of the inevitability of co-operation with China, and have been making efforts to use it as a tool for strengthening their own stability and sovereignty.

- Although security and (in broader terms) political issues are the basis for relations between China and Central Asia, the main field of play for their co-operation is economic issues. This is an effect of two realities: the economic: the great area and basic willingness for co-operation, and the political: mutual cautiousness and the self-restriction of the partners, and above all, resistance from Russia. Despite many difficulties encountered over the past two decades, China has become a strategic economic partner for this region. This is most evident in the trade, energy and infrastructure sectors. Beijing has outstripped its competitors: Russia, the USA, Turkey and Iran over a relatively short period. At the same time, the scale of co-operation has made Central Asia an important region for China (especially as an element of the strategy to bring stabilisation into Xinjiang and as a major gas supplier). Chinese economic engagement in Central Asia – considering the specifics and the guidelines of Beijing's policy – viably contributes to China's growing political significance in the region; with regard to individual republics and relations between them and also with regard to Russia and the USA. At the present stage, the region's countries benefit, both politically and economically, from this situation. It is, though, giving rise to serious concern in strategic terms.

- Whatever attainments Central Asia or China have made over the past two decades, the general situation in and around the region remains unstable, and the parties' interests have been fixed and secured to a limited extent. Therefore, the evolution of China's regional policy to secure its own interests by political means, the ultimate geopolitical balance of powers in the region between China, Russia and the USA, and the ability of the countries of Central Asia to continue to use China to reinforce their position are still open questions. However, China's stance is playing an increasing role in each of these aspects.

I. CHINA AND CENTRAL ASIA – THE BACKGROUND FOR MUTUAL RELATIONS

A superficial evaluation of relations between China and Central Asia might have suggested that their nature is strictly local and temporary. In formal and legal terms, their bilateral relations date back to the collapse of the USSR in 1991, when the new independent Central Asian republics (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) were established. As seen by China, whose political and economic potential is concentrated in the east of the country, this is a remote area, both geographically and strategically, especially in comparison to the Pacific or even Indian Ocean basin. From Central Asia's point of view, the internal situation (as seen by both the region as a whole and individual countries), the relations with the traditional political and economic centre, i.e. Russia, and possibly relations with the United States, which won the Cold War and which is active in political, military and economic terms in Asia, are the issues of key significance.

Today's Central Asia, however, is linked to China by a long and tempestuous history and by numerous bonds resulting from shared historic events. China's and Russia's geopolitical interests in Central Asia are deeply rooted in history. In this context, the sudden changes taking place in Central Asia (the appearance of new countries) and around it (primarily, the rapid growth of China's potential and economic and political ambitions, and the disintegration of the Russian empire of the 19th and 20th centuries) are turning the region into a dynamic field for the projection of Chinese interests. At the same time, the region's countries, Russia and other international players are developing a *modus vivendi* with China. These are processes of great significance for both Central Asia itself and also for China and Russia.

Given the special characteristics of China (such as the vast and rapidly developing economy) and Central Asia (such as the enormous need for investment, the search for new markets and significant mineral resources), economic issues have thus far played a special role in mutual relations. It is economic issues which have affected the nature of mutual relations and has tangibly been changing Central Asia.

1. The historical background

From a historical point of view, what are today Central Asia and western China (the Xinjiang-Uyghur Autonomous Region) used to form a rather cohesive

cultural and political area[1], which was divided in the 18th and 19th centuries into the Chinese and Russian zones of influence, and was effectively made part of the two powers over time[2]. Strong social bonds between the Russian and the Chinese Turkestan were expressed on numerous occasions also in the 20th century. Manifestations of these bonds included mass migrations of refugees[3] and the permeation of nation-building ideas (from Russia/the USSR to China).

Throughout almost the entire 20th century, former Turkestan remained a field of tacit albeit bitter rivalry between Russia/the Soviet Union and China; Russia being clearly the stronger and more active rival. Moscow strengthened Beijing's conviction that Soviet Central Asia posed a serious threat to China in the geographically distant and underdeveloped Xinjiang, but also to the territorial integrity of the country as a whole. The starting point was Beijing's criticism of the national border imposed by Russia in the 19th century (its Central Asian section was not delimited throughout the entire Soviet period). Frustrations were worsened by the more or less open support Moscow used to offer to the Uyghur separatists (attempts were made to set up the so-called "First Eastern Turkestan Republic" in 1933–1934 and the so-called "Second Eastern Turkestan Republic" in 1944–1949)[4]. Individual problems were manifestations of a broader (*de facto* global) rivalry between the USSR and China. Tension gave rise to the Chinese-Soviet border conflict in 1969, one of the conflict sites being the Kazakh section of the border (as a consequence of the conflict, the Central Asian section of the border remained closed until 1992). Viewed from this angle, the

1 Throughout the first millennium A.D., this was the area of Chinese expansion (which was particularly evident in its eastern part). From circa 8th century A.D., it was culturally and politically dominated by the Turkish and Mongolian element, which would periodically expand at the expense of China. Over time, Islam has become another essential binding factor (in addition to ethnic proximity) which has unified the so-called "Turkestan".

2 The border between so-called "Russian Turkestan" and "Chinese Turkestan" was imposed by Russia in the late 19th century. It can be assumed principally that the region has been effectively controlled by Russia since the end of the civil war triggered by the Bolshevik revolution (1920s) and by China since Mao Zedong's victory in the civil war and the setting up of the People's Republic of China (1949). In both cases increasing control of the region involved the use of vast-scale repressions against the local population and resettlement actions aimed at weakening their demographic predominance.

3 For example, at least hundreds of thousands Kyrgyz and Kazakhs fled to China due to repressions following the suppression of the rebellion in 1916, and later as a consequence of the Great Famine in the 1930s; the Dzungar/Kalmyk people defeated by the Chinese in the 19th century and Uyghurs following the repressions of 1962 moved to Russia.

4 The precedent was set when Russia recognised the independence of so-called "Outer Mongolia" in 1911, which was confirmed by forcing Chinese troops out of Mongolia and forcing Mongolia to accept communism in 1921.

collapse of the USSR (1991) spelt a serious crisis in the fragile stability around Central Asia[5], created opportunities for reconstructing relations, but even more so gave rise to fears, mutual distrust and cautiousness among the parties involved.

2. The strategic background for relations between China and Central Asia

Relations between Central Asia and China over the past two decades have been an effect of two parallel processes of fundamental significance for the global order. One of these being the disintegration of the Russian/Soviet empire in Asia (especially its central part), and the other – the sudden rise in China's position (in Asia and worldwide).

The former of the two processes has injected a great deal of dynamism into the situation in Central Asia: new states emerged, and at the onset of their operation they needed to face a serious political, social, economic and identity crisis. This crisis has been made manifest, for instance, through military conflicts (e.g. the civil war in Tajikistan), political coups (Kyrgyzstan), the development of nationalisms and Islamic radicalism, mass migrations, sudden population growth, etc. Despite the enormous progress seen over the past two decades, it would still be inaccurate to claim that the situation has become stable. Russia has strong connections – both those inherited from the USSR and those newly created – and thus vast influence in this region. Nevertheless, its monopolistic position has been challenged: the region has opened itself up to political, economic, military and civilisational contacts with Moscow's rivals, including the USA and China. The region has been strongly affected by negative (e.g. the war in Afghanistan) and positive external impulses alike. Both transient problems linked to regional security and building durable stability in the region have always been granted top priority in Central Asia's relations with China and also Russia and other players.

Another – and by no means less significant – factor in the background of relations between Central Asia and China has been the enormous increase in the significance, activity and effectiveness of China's policy worldwide, the starting point for which was China's rapid economic development in the 1980s. The

[5] This also challenged the stability of China itself – *perestroika* posed a serious threat to the stability of the People's Republic of China, one sign of which were the student protests in Beijing's Tiananmen Square, which were in part triggered by Mikhail Gorbachev's visit to Beijing.

local indicators of these changes include Beijing's tightening control of Xinjiang and the rapid economic development of this region, though it remains a region with problems. In economic terms, Beijing's rapidly increasing demand for energy raw materials and struggle for new outlets necessary to maintain economic growth and internal stability are important factors. In strictly geopolitical terms, this is China's ambition (which is sometimes understood and recognised worldwide) to gain a position of a leading global power. China's serious economic interests and the constantly growing strength of its impact through economic influence have provided a foundation for the spectacular development of relations between China and the countries of Central Asia and for a gradual reinforcement of China's position in this region.

2.1. Central Asia as seen by China – key challenges

2.1.1. Xinjiang and stability issues

The Xinjiang issue has been the first and the foremost challenge for China in relations with Central Asia ever since 1991. This region has been underdeveloped for centuries. Beijing has had relatively weak control over it. Furthermore, it has been tormented by separatism based on the ethnic and religious distinctness of its residents (mainly Uyghurs, who are Muslims). All this has made Xinjiang potentially vulnerable to the serious threat posed by an unstable Central Asia. China was above all anxious about Xinjiang receptiveness to the ideological ferment originating beyond its western frontier (a mix of nationalism, Islam and democratic slogans) and in Afghanistan (the radical and militant Islam propagated by the Mujahideen and the Taliban)[6]. There was also a serious threat in which Central Asia either unintentionally – due to being unable to control the situation – or wilfully – whether by itself or inspired by Russia – would provide a logistic base for Uyghur separatists. Objective confirmations of the existence of this threat included the increasing resistance demonstrated by Uyghurs to Beijing[7] using national, religious and democratic slogans, the existence of a strong Uyghur diaspora in Central Asia, the limited

[6] The East Turkestan Islamic Movement (ETIM), the pillars of which are separatism and radical Islam, which has been involved on a small scale in terrorist activity, including in China, has been operating since circa 1993 in Afghanistan and Pakistan's Waziristan. In practice, China has thus far successfully neutralised this threat, capitalising on its influence in Islamabad (the Pakistani secret services, ISI, have a major impact on the operation of Muslim radicals and the Afghani Taliban, and are also able to channel their activity towards Afghanistan or India, while restricting it in China, on which Pakistan is strategically dependent).

[7] Including the serious riots in Ghulja/Yining in 1997 and in Urumqi in 2009.

ability of Central Asian countries to control their national territories and borders, and – in a broader context – conflicts inside the individual countries in the region[8]. Over the past two decades, Beijing has relatively successfully dealt with the problem posed by this province employing a combination of the use of force, demographic methods (promoting the settlement of the Han Chinese in the province, thus weakening the ethnic predominance of Uyghurs) and enormous economic engagement[9]. However, Central Asia still remains a hypothetical threat due to a relatively high level of instability there and the neighbourhood of Afghanistan. In this latter aspect, the threat is 'militant Islam', which Afghanistan is still a centre of, and also movements which find shelter in Afghanistan, namely the radical Uyghur organisations: the East Turkestan Islamic Movement (ETIM) and the Turkestan Islamic Party (TIP), linked to the radical Central Asian organisations operating in Afghanistan: the Islamic Movement of Uzbekistan (IMU) and the Islamic Jihad Union (IJU).

2.1.2. The geopolitical rivals

The collapse of the USSR and the emergence of the new states in Central Asia offered China the opportunity to radically improve its position in the region in its dealings with Russia: Moscow formally withdrew from the region, and an actual buffer was created between China and Russia, leaving Beijing more room for manoeuvre. Although China temporarily used Russia's weakness as an opportunity to raise the issue of border adjustment with the regional heirs to the USSR in the 1990s (see below), it rather tended not to openly undermine Russia's ambitions to retain political and military hegemony in the region, partly due to seeing it as a major stabilising factor there.

The weakening position of Russia and the fact that Central Asia was opening up to external contacts also involved the need to confront new rivals. The players

[8] Including the civil war in Tajikistan (1992–1997) and, when it ended, the activity of supranational radical and terrorist groups (especially the Islamic Movement of Uzbekistan); mass socio-political protests in 2005 and 2010 in Kyrgyzstan using democratic slogans, leading to the abolishment of the then presidents; bitter ethnic and social tensions with Islamic undertones in Uzbekistan (for example, the early 1990s and between 1999 and 2005); primarily conflicts in Afghanistan (including the promotion of the armed and effective Muslim 'International' under the aegis of al-Qaeda, and the effectiveness of local radicals, the Taliban, backed by foreign Muslim communities and Pakistan, among others).

[9] Including the development of agriculture, and the communicational (roads and railways connecting the region with centres in eastern China) and economic infrastructure (including the development of special economic zones), formalised in the strategy for the development of the western provinces adopted in 2000).

interested in the region have been: Turkey (posing a potential threat to China, since it has been playing the card of the community of Turkic peoples), Iran (potentially stoking up Islam in the region), Pakistan (although this country is China's ally, it has actively – especially in Afghanistan – supported Muslim radicals and used them in its political games) and India[10].

However, it turned out that, in addition to Russia, the main challenge China needed to deal with was the USA, the winner of the Cold War and the indisputable global leader in the 1990s. The active but not particularly effective promotion of economic interest and transformation models launched by the USA in the 1990s in Central Asia in 2001 in the context of the global war on terrorism and the operation in Afghanistan turned into a US military presence in Central Asia[11]. Given the intensifying geopolitical rivalry, the US presence was seen by China as continued encircling by US military bases[12] and as potentially pulling of Central Asia into the orbit of US political influence. The US political activity in certain areas Washington is particularly interested in, especially the desire to reconstruct the existing socio-political systems, is also seen as a threat by Beijing. From China's point of view, this means destabilisation in the countries around it, and gives rise to suspicions of fomenting political unrest (e.g. the colour revolutions or even the Arab Spring) and of – consciously or not – creating threats (the case of intensifying Islamic radicalism in Afghanistan, starting with the support offered to the Mujahideen in the 1980s resulting ultimately in the emergence of al-Qaeda, up to the rise of radical groupings during the Enduring Freedom and ISAF operations after 2001). Since Chinese-Russian relations in Central Asia had been principally regulated and Washington's activity had been on the rise, the USA became the major security challenge for China, overtaking Russia and other minor players.

[10] India is one of China's key geopolitical rivals. Along with (generally unsuccessful) attempts of economic activation in Central Asia, it has consistently taken action to build its military presence in the region: in the 1990s, it was co-operation with Russia and Iran aimed at backing the anti-Taliban coalition in Afghanistan (an Indian military forward operating base and a military hospital, where Ahmad Shah Massoud reportedly died in 2001, were operating in Tajikistan). Over time, efforts to open an airbase in Tajikistan (India modernised the Ayni airport, but Tajikistan reportedly had to withdraw from leasing this airport to New Delhi due to Moscow's protests in 2005).

[11] Strong presence in Afghanistan since 2001; in 2001–2005 military bases in Kyrgyzstan and Uzbekistan (and NATO member state bases in Tajikistan), military presence in Kyrgyzstan and close military co-operation between the USA and Uzbekistan and Tajikistan.

[12] In addition to the military bases in Japan and South Korea, the informal alliance with Taiwan and the presence on the Pacific and Indian Oceans.

2.1.3. The economy

For China, Central Asia has above all been a market stimulating the economic development of Xinjiang (exports of Chinese products); and for years, this has been the most tangible aspect of economic co-operation. In parallel to this, China was preparing itself to enter the oil and gas market in the region (especially in Kazakhstan and Turkmenistan), which was expected to ensure fuel supplies for the Chinese economy. Unlike what has been thus far the most important fossil fuel import routes, the land connections with Central Asia are seen as safer; the maritime routes running from the Persian Gulf in the case of crisis can be easily blocked by the USA or India, or paralysed due to possible problems in the Strait of Malacca. The partners from Central Asia are weak, and thus more willing to collaborate and less eager to use the 'gas weapon' than Russia. In addition to being a fossil fuel supplier, Central Asia represents enormous transit potential for China: it potentially offers a connection for the Chinese market to Europe and the Middle East (the different variants of 'a new Silk Road'), Afghanistan and the ports (Pakistani and Iranian) by the Arabian Sea and in the Persian Gulf. In effect of the rapid increase in the Chinese economic presence in Central Asia, there is a growing need to protect Chinese interests in the region, which also means the protection of China's political interests.

2.2. China as seen by Central Asian countries – key challenges

2.2.1. The concerns

The approach the countries of Central Asia take to China is characterised by the sense of foreignness and threat. The young nations whose statehood is not yet well-established, face numerous domestic problems, inherited from the USSR and a whole host of fears and problems linked to their eastern neighbour. China has been seen as a traditionally expansionist power entering the phase of accelerated development. It is worth noting that the Chinese transformation model – in contrast to fascinations with Western, Turkish and Muslim inspirations and variations of all these applied across what was not so long ago a zone of Soviet influence – has not attracted so much interest. In turn, quite realistic concerns have been raised by Chinese border claims, Beijing's brutal policy towards Uyghurs and the threat that China could interfere with the internal affairs of Central Asian countries. A deeper foundation for such concerns originated from the state- and nation-building processes and the developing nationalism in Central Asian communities which accompanied them and was

reinforced due to the alarmist and anti-Chinese tone present in the Russian media, which has significantly affected the views in Central Asia.

2.2.2. The opportunities

Along with the concerns, relations with China brought opportunities for support to Central Asia from Beijing: diplomatic relations were established quickly thus adding credit to the newly established states in the region, enabling economic development and easing the consequences of the crisis the collapse of the USSR had brought about (especially at the social level, owing to the 'suitcase trade' typical of the 1990s). The rapidly increasing scale of China's economic presence in the region significantly added to the attractiveness of China as a key economic partner for Central Asia (see below). The fact that China (unlike Russia and the USA) demonstrated its lack of interest in imposing any of its domestic policy solutions upon individual Central Asian states turned out to be a major positive element in relations with China (especially in the first decade of the 21st century). Thus China became a factor which has indirectly been stabilising the internal situation and *de facto* reinforcing the regimes operating in Central Asia.

2.2.3. China in the region's geopolitical games

Russia has been the key point of reference in international politics for Central Asian countries. This approach is based on the traditional cultural, political and economic bonds, the belief that this is a country which guarantees elementary durability of the regional order and the awareness of Russia's determination to maintain Central Asia within its zone of influence through the use of its strong political, military and social instruments in the region. In relations between Central Asia and China, Russia aspires to be the patron and censor of the policies adopted by the region's countries. One special manifestation of this approach is the domination of the Collective Security Treaty Organization[13] (controlled by Russia) in the area of regional security, and the significance of the Shanghai Cooperation Organization[14] as the main platform for political relations between Central Asia and China. Although Russia still has a very strong political position in the region, it has been constantly weakened by the activity

[13] The members of the CSTO, in addition to Russia, Belarus and Armenia, include Kazakhstan, Kyrgyzstan and Tajikistan (Turkmenistan has consistently remained neutral, and Uzbekistan has joined and left the alliance twice – most recently in 2012).

[14] Members of the Shanghai Cooperation Organization are: China and the post-Soviet countries which border it: Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan.

of China and the USA, while developing co-operation with Russia's rivals is an important element strengthening the position of the Central Asian states.

3. Each party's interests

Given the background as presented above, **China's interests** with regard to Central Asia in political and security terms can be defined as follows:

- to secure the stability of Xinjiang and to avoid any negative impact from Central Asia on this region of China;

- to maintain and extend internal stability in Central Asia as a condition of security in Xinjiang and a condition necessary to implement economic (energy and communication) objectives;

- to maintain and strengthen the sovereignty of the states of Central Asian and the regimes operating there as a condition for unrestricted Chinese economic (and political) activity in the region;

- to weaken the domination and influence of its geopolitical rivals in Central Asia: basically (especially in the initial period) of Russia, and to an essential and constantly increasing degree of the USA (especially after 2001);

In the case of Central Asia, subject to a certain differentiation of the emphases, potentials and practices of individual countries, the constant **goals in the policy of Central Asian countries towards China** are:

- to protect themselves from Chinese expansionism, a special aspect of which has been the border issue, i.e. resisting or restricting China's territorial claims;

- to develop in a controlled manner the political and economic co-operation initiated by China. At the same time, co-operation is the factor which strengthens individual states and regimes both at home and on the international arena (also in dealings with Russia), while allowing them to avoid becoming dependent on Beijing;

- to maximise the profits of economic and infrastructural co-operation with China for instance by turning Central Asia into a conveyor belt for Chinese goods exported to Europe and the countries of the Middle East.

The interests of China and Central Asia presented in this way put Russia in a difficult position. **Moscow's traditional interests are**:

- to maintain and deepen its political and military domination and to regain economic domination in Central Asia. Factors which contribute to this include the weakness of the individual states and regimes in the region and Moscow's ability to use local conflicts and tensions in its political games;

- to block and eliminate the influence of its geopolitical rivals, especially the USA and China;

- to maintain and develop strategic co-operation on global issues with China on equal terms.

II. CHINA AND CENTRAL ASIA – THE KEY ASPECTS OF POLITICAL RELATIONS AND SECURITY ISSUES

Looking back to the past, one can clearly distinguish between two periods of relations between China and Central Asia. Fears and tension, mainly due to the border and the Uyghur issues were predominant in the 1990s, especially at the beginning of the decade. In turn, the beginning of the 21st century has seen a harmonisation of the policies adopted by China and the countries of Central Asia resulting in rapidly developing co-operation. The future of these relations is still unclear, which is due mainly to the uncertain stability in Central Asia and its immediate neighbourhood, above all Afghanistan, and the evolution of China's policy. The degree of effectiveness of the reintegration actions taken by Russia in the region and the future nature of relations between Moscow and Beijing will also have an impact.

1. The borders and the Uyghur issue – from conflicts to the Shanghai Cooperation Organization

The Uyghur and the border issues were the greatest challenges in bilateral relations between China and Central Asia; and these issues dominated bilateral relations in the 1990s.

The most serious problem was the unsettled border issue with China, primarily in Kazakhstan but also in Kyrgyzstan and Tajikistan. From the early 1990s, China openly questioned the existing borders, and put military and economic pressure, especially on Kazakhstan. The tension reached its peak in 1993–1994, one manifestation of which was the concentration of Chinese troops on the border with Kazakhstan[15]. At the same time, while the use of frontier rivers had not been regulated, China embarked on the construction of the Black Irtysh–Karamai Canal and on irrigation using the waters of the Ili River. Both projects adversely affected the economic interests of Kazakhstan and caused ecological problems[16].

[15] According to unofficial statements by Kazakh analysts and officials, exchanges of fire with Chinese troops and Chinese raids on the territories controlled thus far by the USSR/Kazakhstan took place on several occasions within that period.

[16] Cf. e.g. Effects of interdependency in the Xinjiang-Central Asian region, Ann McMillan http://unpan1.un.org/intradoc/groups/public/documents/APCITY/UNPAN021190.pdf Temirbolat Bakhytjan, Water Dispute Threatens Central Asian stability, 21 February 2005, IWPR, http://iwpr.net/report-news/water-dispute-threatens-central-asian-stability Sebastien Peyrouse, Flowing Downstream: The Sino-Kazakh Water Dispute; 16 May 2007;

The final establishment of the so-called "Shanghai Five" in 1996, which consisted of the Central Asian states bordering on China, China itself and Russia, made it possible to find a preliminary solution to the Kazakh-Chinese border problem (see below). Russia's participation clearly strengthened the Central Asian state and allowed the pressure from China to taper off. The border treaty was signed in 1996 (China received 22% – which it saw as of key importance – of the disputed territories). Since then, Kazakhstan has on many occasions (and with no major effect) resumed the efforts to regulate the water issues. The water management issues have not been settled so far.

The border treaties with the other neighbouring states, Kyrgyzstan and Tajikistan, were signed in 1998 and 2002, respectively. It needs to be mentioned that the process of treaty ratification, and the delimitation and demarcation of the section of the Chinese border with Central Asian countries was significantly extended[17]. Reasons for that included unfavourable – as seen by Tajikistan and Kyrgyzstan – solutions to the border issue and the fear that the public in these countries would oppose the deals with China. In effect, the Central Asian governments did not inform the public of the terms of the agreements, and above all about the scale of concessions made to China[18].

In turn, the Uyghur issue was resolved in a relatively painless way. Despite the presence of the numerous Uyghur minority in Central Asia (a significant group of whom was formed by people who had fled from China in 1962) and support from the public in Kazakhstan and Kyrgyzstan, where Uyghurs are the most numerous, the governments in Almaty/Astana and Bishkek did not allow the tension based on the Uyghur issue to escalate. Over time – as the Shanghai Five was established and later transformed into the Shanghai Co-operation Organisation – the countries in the region made active efforts aimed at significantly

China Brief Volume: 7 Issue: 10; http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews[tt_news]=4131&tx_ttnews[backPid]=197&no_cache=1
Arthur Dunn, The Problem Of Transboundary Rivers Being A Factor Of Strategic Security For Countries, http://www.eurodialogue.org/eu-central-asia/The-Problem-Of-Transboundary-Rivers-Being-A-Factor-Of-Strategic-Security-For-Countries
Ernst Giese, Jenniver Sehring, Alexej Trouchine, Zwischenstaatliche Wassernutzungskonflikte in Zentralasien, http://geb.uni-giessen.de/geb/volltexte/2004/1823/

17 The Tajik parliament ratified the border treaty with China as late as on 12 January 2011, thus granting consent to relinquishing a disputed area of 1,000 km² to China.

18 Part of the terms of the border treaties signed by Kyrgyzstan with China were leaked to public opinion in late 2001, which led among other thing to a political crisis and public protests (which were bloodily suppressed by the government on 17 March 2002).

reducing the activity of Uyghur organisations, especially the circles engaged in anti-Chinese activity.

From the Shanghai Five to the Shanghai Cooperation Organization

The Uyghur and the border issues served as a foundation for developing the model of co-operation between Central Asia and China and between China and Russia, namely the Shanghai Five, which later transformed into the Shanghai Co-operation Organisation (SCO). The onset of the Shanghai Five was marked by the post-Soviet republics bordering on China (Russia, Kazakhstan, Kyrgyzstan and Tajikistan) signing the Treaty on Deepening Military Trust in Border Regions on 26 April 1996. This was supplemented a year later by the Treaty on Reduction of Military Forces in Border Regions signed in Moscow. In parallel to this, co-operation on combating terrorism and separatism was declared (implicitly, the parties committed to refrain from playing the separatism card against each other). It was the first time since the collapse of the USSR that the former Soviet republics had acted together (referring to their post-Soviet bonds and community of interests) to deal with the disputes with China (for the countries of Central Asia this meant reinforcing their position owing to co-operation with Russia and an opportunity to mutually coordinate their activity). The distrust the countries of Central Asia felt towards China diminished in line with their increased sense of self-confidence. This offered Beijing greater opportunities for co-operation on border issues and the stability of the frontier areas.

As a consequence of the relatively positive co-operation as part of the Shanghai Five, (including a significant improvement of trust between the states) and in effect of increasing tension in Central Asia (the activation of the Islamic Movement of Uzbekistan in 1999–2001), Uzbekistan joined the Shanghai Five, and the Shanghai Cooperation Organization was established (15 June 2001, Shanghai). The primary goal of this organisation was determined to be the fight against terrorism, extremism and separatism. Thus China's key demands were decreed as the basis for co-operation between the countries in the region, and at the same time a platform was created for the development of political, security and (potentially) economic co-operation. This was also beneficial for the Central Asian states. However, this did not mean the development of bilateral relations was relinquished. Over time, the SCO has become the most important platform for dialogue (co-operation and rivalry) between Russia and China regarding Central Asian issues.

2. The stability issue in Central Asia vs. relations with China

Central Asia is a region with a high potential for instability. This has been manifested through military[19] and ethnic conflicts[20], political coups[21], the activity of Muslim radicals[22] and socio-economic tension[23]. Other sources of threat include the limited efficiency of government structures[24] and the unstable political systems[25]. Post-Soviet Central Asia borders directly on Afghanistan, which has been traditionally seen as a hotbed of radical Islam and ethnic conflicts, and a cradle of powerful criminal structures involved in the drug business, which are used by external powers in their political games[26]. Neither the individual countries in this region or Russia (which aspires to hegemony in Central Asia) have the tools to resolve these problems in a durable and effective way. It is also unclear precisely what Russia's intentions are; should the instability issues in Central Asia be resolved, Moscow would be deprived of its most effective instrument of applying pressure on the region.

19 In particular, the civil war in Tajikistan in 1992–1997, which had the features of both an internal (clan, political and ideological) and regional conflict (due to the engagement of other countries); and to a lesser extent the activity of terrorist organisations (mainly the Islamic Movement of Uzbekistan). The threat of interstate conflict has been regularly reiterated in Uzbekistan's rhetoric addressed to Tajikistan: at the turn of the millennium, the main reason for that was the shelter Uzbek opposition found in Tajikistan, whereas now it is a conflict over the use of Tajikistan's water resources (Dushanbe has been pushing through the construction of large hydroelectric plants which could put Uzbek agriculture at stake).

20 Including violent Kyrgyz-Uzbek conflicts in 1990 and 2010.

21 This concerns especially Kyrgyzstan, where public protests (indirectly supported by the circumstances and external players) brought about replacements of the presidents in 2005 and 2010. Government changes in the other countries were caused either by civil war (Tajikistan) or palace coups (Turkmenistan in 2006).

22 In particular, the Islamic Movement of Uzbekistan in operation since 1998 (and the groups linked to it and to al-Qaeda). The most spectacular actions were the IMU's attacks on Kyrgyzstan and Uzbekistan in 1999 and 2000. The mountainous areas of Tajikistan are reportedly strongly infiltrated by the Mujahideen; while local radical groupings have been active in urban areas (especially, but not only, in the Fergana Valley).

23 E.g. the 2005 'rebellion' in Uzbekistan, a special manifestation of which were the bloodily suppressed protests in Andijan on 13 May 2005.

24 Especially evident in Tajikistan and Kyrgyzstan.

25 The succession problems (and the questions about political stability and continuity) in Uzbekistan and Kazakhstan. In the past, the possibility of the violent democratisation of Kyrgyzstan (the coups in 2005 and 2010 were accompanied by democratic slogans, and the first of the two fitted in with the wave of the "colour revolutions", which were believed to be linked to US policy) were among the sources of anxiety.

26 The tension has been present in Afghanistan, with various levels of intensity, continuously since at least 1979. As the NATO and US missions in Afghanistan are set to end (be significantly reduced) in 2014, a new escalation of tension is expected there.

For China, the instability in its western neighbourhood is a serious challenge; it poses a threat to the implementation of each of the goals of the Chinese policy in the region. However, China has so far manifested neither the will nor any instruments necessary for direct engagement in the tensions inside Central Asia. Formally, security threats to Chinese interests in Central Asia are supposed to be regulated by the Shanghai Cooperation Organization, which has not practically developed any effective instruments necessary to deal with regional security issues[27], and as a consequence has not played any role in resolving subsequent regional crises[28]. In fact, Beijing respects Russia's interests and initiatives regarding regional security issues. For the time being, Beijing has been able to forge its weakness into a positive image of a country which does not interfere with the internal problems of its neighbours. This situation has also stimulated China to develop bilateral political and military co-operation with SCO member states (and Turkmenistan), especially at the level of political, financial and (to a limited extent) military support (supply of military materials and financial and training support). However, it would be difficult to state that this situation has been ultimately resolved in a way satisfactory to China and resistant to regional turbulences. In particular since China has barely concealed its annoyance with Russian activity in the region – above all with the consent granted to the establishment of US military bases after 2001 (which was seen by China as either Russia's weakness or conscious anti-Chinese activity), and, in broader terms, with Russia's inefficiency in bringing stability to Central Asia.

3. China in regional geopolitical games

Both China's global ambitions and its regional potential and interests place it among the strongest geopolitical players in Central Asia. At the same time, the interests of Russia, the USA and China overlap in this region, thus turning it into a place contributing to the development of global relations between these countries.

Chinese-Russian relations are of key significance for the region itself due to the historical background and the fact that both of these countries border Central

[27] For example, one of the SCO's flagship projects, the Regional Anti-Terrorist Structure (RATS), established in 2002. It still remains merely a platform for the exchange of intelligence information. No promised constant rapid reaction forces, not to mention a base for the operation of such forces in the region, have been created. Common exercises are limited. Furthermore, it was admitted during the SCO summit in 2012 that non-military impact remained the main area of the SCO's activity as regards security issues.

[28] For example, during the Kyrgyz 'revolutions' in 2005 and 2010, and especially during the violent ethnic conflict between Kyrgyz and Uzbeks in southern Kyrgyzstan in 2010.

Asia. The first and the fundamental circumstance which has characterised Russia-China relations in Central Asia since 1991 – in addition to the change in both countries' global potential – is the fact that Moscow has lost its direct and unquestionable control over the region. It is the first time over the past two centuries that Russia is unable and, above all, has no political will to treat Central Asia as its base for expansion towards China or to use Central Asia as a means to apply military and political pressure on China. In strategic terms, the past two decades have brought an absolutely new quality to the game between Beijing and Moscow in Central Asia.

As has been mentioned above, Russia's and China's strategic interests differ at some essential points: Russia's regional domination in the area of security will be irreconcilable with China's economic and political expansion in the long-term. The two countries definitely have different approaches to the 'sovereignty' and 'independence' of the Central Asian countries, which are offering more and more room for manoeuvre to China and are reducing the significance of Russia as a patron and guarantor of regional stability. On the other hand, one may also notice – in Moscow and Beijing alike – similarities of interests in global politics (primarily, restricting the global position of the USA) and the common will to reduce tension in bilateral relations. In this context, Central Asia is one of the most interesting and most versatile fields for the development of Chinese-Russian relations. In turn, these are best illustrated by the Shanghai Cooperation Organization: it was established partly with the aim of neutralising tension between Russia and China, it takes into account the existence of the new republics in Central Asia and covers up the differences existing between its two major member states. Characteristically, the Russian and the Chinese concepts for the development of this organisation have collided: while Moscow has seen it primarily as a new geopolitical bloc which adds strength to Moscow's voice on the international arena, China would like to see the SCO as a platform of co-operation in security and economic issues. The SCO remains a political dialogue platform: this organisation has not undermined the Russian domination in the security area, neither has it channelled Chinese economic activity away from the region. None of the countries can claim that strategic goals are being implemented here. It is still an open question what role the SCO could play when the ISAF mission is over in Afghanistan. On the level or rhetoric, the SCO aspires to share the responsibility for the future of Afghanistan, while in practice it does not seem to be prepared for this.

While relations between China and Russia are developing in Central Asia at the level of political co-operation and declarations correctly economic issues, to say

the least, remain a field of bitter rivalry. After the twenty years of the so-called "New Great Game", i.e. vying for access to Central Asian energy resources (which have been treated as a useful tool in the struggle for maintaining political domination), it is China who has managed to implement and develop the oil and gas production and import project in the region. This means that the previous Russian monopoly has been broken and that a step towards implementing the strategic goals of Chinese policy has been made. Given the constant increase in trade and China's financial engagement, this is a clear sign of the continuing weakening of Russia's position in the region. China's successes provided a strong stimulus for Russia to intensify its efforts aimed at the reintegration of the post-Soviet area, including economic reintegration. Constantly repeated promises (none of which have been fulfilled, and thus are becoming less and less credible) that serious Russian investments will be made in Central Asia, and above all the hurried creation of the Customs Union (whose members at present are: Russia, Kazakhstan and Belarus) are among the factors intended to contribute to the implementation of this goal. The terms of economic rivalry in Central Asia are dictated by China and are clearly favourable for this country – the political framework within which this is taking place seems to be more and more at variance with reality.

As seen from the perspective of the two past decades, China, in comparison to its Asian competitors vying for influence in the region, has performed really well: Turkey and Iran, which have been playing the card of cultural community with Central Asian countries, are playing a very limited role, as is the influence of India and Pakistan, for whom the main motivation were their calculations regarding security. None of these countries have managed to build a strong political, economic or military position, and none of them is playing a major political role in the region.

The US achievements and position in the region are still an open question. On the one hand, despite clear economic (including the expansion of US energy companies, especially in Kazakhstan), political (the USA has become a significant political reference point in Central Asia, especially in the area of security policy) and military successes (US armed forces have been present in the region since 2001), US policy appears to be losing momentum. American political and military engagement seems to have reached its peak in 2005, when Central Asian countries started noticing its side effects[29], and now, as the ISAF mission

[29] The Tulip Revolution of 2005 in Kyrgyzstan was a breakthrough. It was seen in the region as a coup plotted by the USA. It was followed by a rebellion in Uzbekistan in May 2005 (the violently suppressed protests in Andijan and other cities in the Fergana Valley), which from

is being wound up in Afghanistan, it will further decline. Economic engagement, including a number of infrastructural projects backed by the USA (including as part of CAREEC), has also failed to translate into durable bonds between the region and the US economy, which would have provided grounds for enhancing the political engagement. As seen from this viewpoint, China's position in the region has been relatively growing as compared to that of the USA. However, on the other hand, considering China's growing regional and global ambitions and the fact that its relations with Russia have been normalised, it is the USA that is becoming China's main rival as regards security in Central Asia. The presence of US military forces in the region (especially, the airbase in Manas, Kyrgyzstan) has been perceived as indirectly targeted against China. In turn, America's determination in its efforts to continue to strengthen its presence in the region once the ISAF mission is wound up (which does not mean at all that the Americans will no longer be present in Afghanistan) has given rise to great anxiety in China. Furthermore, it is feared that the situation both in Afghanistan and Central Asia could destabilise as a consequence of the weakening Western presence in the region and this could affect China's regional interests. The increasing room for co-dependence and rivalry between the USA and China on the global scale will certainly be manifested in Central Asia, and will affect the Chinese perception of the region and of US policy.

4. The Chinese model of building its political position in Central Asia

When compared to Russian or US policy in Central Asia China's political position in the region is far from impressive. This can be justified by comparison with the spectacular manifestations of Russia's and America's presence and engagement in the political and military areas: the formal alliances (CSTO), economic (the Customs Union) and political organisations (CIS), civilisational bonds, military presence (including US bases), the influence on internal political games in individual countries, etc. Formally, the SCO is the only regional organisation China is a member of. Despite its enormous interest in security issues, Beijing has none of the hard instruments necessary to bear influence in this area, and it has been avoiding involvement in domestic games in the region's countries. Nevertheless, China is a very important player in regional policy, primarily owing to its global significance and economic potential.

Tashkent's point of view was an effect of US pro-democratic propaganda and attempt to interfere with the country's domestic affairs. In the same year, Uzbekistan ended military co-operation with the USA and NATO, and US problems in Kyrgyzstan and also in relations with Russia intensified.

But this is not all: a typically Chinese model of building a political position in a gradual and discreet manner (which has also been observed in other parts of the world) is emerging in Central Asia, which is definitely different from the Russian and the US models. From the perspective of the past two decades, this model can be recognised as internally coherent and effective.

The existence of the independent states which emerged from the rubble of the USSR has been the foundation of China's presence in Central Asia – supporting their existence and the governments which guarantee their existence has been a constant element of Chinese policy. This has been clear since the collapse of the USSR: China immediately recognised these countries' independence and opened up to economic co-operation (primarily trade). Its 'affirmative' approach towards the countries of Central Asia has been manifested through: the high level of bilateral visits, China's interest in signing strategic co-operation agreements, and its support for Central Asian countries on the international scene, especially in two especially sensitive areas: the legitimisation and the stability of the regimes, and their independence from superpowers, especially the USA and Russia.

China has consistently accepted and strengthened the rights of the countries of Central Asia to total freedom in creating their domestic situation, and has vehemently opposed e.g. the imposition of Western democratic standards or forcing them to respect human rights. This problem was especially strongly emphasised after 2001, during the US expansion in the region and attempts to push through democratic solutions (an extreme example of which was the support granted to the colour revolutions), while China (both individually and as part of the SCO) firmly defended the local regimes and its own internal stability.

One special manifestation of this approach was the political support granted to Uzbekistan and President Islam Karimov following the Andijan massacre (May 2005), when the West (including the USA) was insisting that an international investigation into the massacre needed to be launched, and the EU imposed sanctions on Uzbekistan. Tashkent saw this as direct interference with the country's internal affairs. In the weeks which followed the Andijan incidents, while Uzbekistan was being isolated by the West and had difficult relations with Russia, China was the first country to accept and back Islam Karimov.

China's relations with Turkmenistan serve as another vivid illustration of its approach. China is a country whose standards are extremely at variance

with the Western democratic standards and which is distrustful of the external world (above all Russia). Here China has consistently turned a blind eye on extreme shortcomings regarding not only democracy, but also the rule of law. Thus it has been gaining the trust of Turkmenistan's government and has been capitalised upon this in economic co-operation and, in effect, in China's increasing influence on Turkmenistan's policy.

This approach which China takes to domestic affairs in the region is crowned with the strikingly **moderate stance it takes on internal political games in individual countries.** By comparison, Russia is treated as a state which can to a significant extent create the internal situation in Central Asian countries, proofs of which included the civil war in Tajikistan in 1992–1997 and the ousting of President Bakiyev in Kyrgyzstan in 2010. Russia is also a constant factor being considered in the succession scenarios in Kazakhstan and Uzbekistan (partly due to its strong connections with the opposition and the groupings inside the government elite). The United States similarly has been accused of inspiring the Tulip Revolution in Kyrgyzstan (2005) or the pro-democratic opposition (from supporting the free press and NGOs to backing potentially democratic parties, e.g. the Sunshine Coalition in Uzbekistan in 2004/05), i.e. of having a desire to gain direct influence on the local political scene. Unlike Russia and the USA, China has never been perceived as a potential patron of any political grouping in the region.

Beijing's moderation in pushing through political and legal solutions or, more broadly, promoting the Chinese visions for the modernisation of Central Asia, fits in with this approach. This is another factor which makes China significantly distinct especially from the West (open, though inconsistent, pressure to adopt the Western model of political, social and economic transformation) and also from Russia (cherishing the elements of the Soviet heritage, and osmosis based on participation in common political, economic and military organisations). In effect, co-operation (especially economic) with China does not involve the sensation of a direct threat being levelled at the regional regimes and is not conditioned by the policies the regimes adopt at home. Proofs of this include China's ability to co-operate with countries following such different development models as Turkmenistan and Kazakhstan and, on the other hand, the continuity of co-operation with all the governments in Kyrgyzstan, regardless of the revolutions in 2005 and 2010.

Another aspect of the 'affirmative' policy towards the region is the **discreet support for individual countries in case of tension in relations with**

Russia or the USA: China has offered disinterested and benevolent backing. This was the overtone of the aforementioned political support for Uzbekistan in 2005 and this was the role China took at the time of the change in government in Turkmenistan (the Russia-China-Turkmenistan talks which accompanied the funeral of Saparmurat Niyazov were held at the Chinese embassy in Ashgabat, which was 'neutrally benevolent for Turkmens'). An especially vivid manifestation of this was the financial, and *de facto* political, assistance granted by Beijing to Ashgabat when the latter had found itself under strong pressure from Moscow during the Russian-Turkmen gas crisis (2009). A very clear symbolic sign of China's support for the durability of the political order in the post-Soviet area (and one desired by the region's countries) was the SCO's stance on the Georgia-Russia war (2008): this organisation did not recognise the independence of Abkhazia and Southern Ossetia, which Moscow was insisting on and which the countries of Central Asia were reluctant to. Support from China allowed them to stand their ground in dealings with Russia.

Although the political activity model adopted by China over the past two decades is relatively successful (Central Asian countries are trusting China more and more, and are increasingly interested in developing economic co-operation), it still does not guarantee Chinese interests in the region security and sustainability. China is unable to take any direct action in case of major internal crises, especially military conflicts, or – more broadly – processes in which the military factor plays the decisive role. This factor is of great significance in the region, where the risk of such conflicts – both domestic (e.g. the problem with 'militant Islam' and ethnic conflicts) and external (e.g. threats originating from Afghanistan, and the presence of the US and Russia in the region and with the possibility of Russia using force; this threat hypothetically also exists in the case of the USA) – is quite real. Beijing has realised this on several occasions over the past decade. The first occasion happened during the military raids by the Islamic Movement of Uzbekistan (in 1999 and 2000), then during the US and NATO operations in Afghanistan (since 2001), and finally at the time of the coups in Kyrgyzstan (especially in 2010) and the violent ethnic conflict between Kyrgyz and Uzbek people resulting from the last coup. In each of the cases China had no real impact on the situation, despite the fact that the basic condition for its ability to influence the region, i.e. the stability and efficiency of local governments, was put at stake in all of these situations.

5. Central Asian countries on China

The special nature of China and its policy in the region (including its political and economic potential and tactical minimalism in its policy towards the region) offers the countries of Central Asia no other choice but to maintain a reactive and conservative policy towards Beijing. Furthermore, political relations are a function of economic relations.

This became a well-established *status quo* once the problematic border issues had been settled, the SCO had been constituted, and the countries of Central Asia had accepted China's key political interests. This *status quo* was tested in practice between 2001 and 2010, a tempestuous decade for this region. Not even once did China take a political stance in that period, nor did it take action that could raise concern in Central Asia. As mentioned above, Beijing has on numerous occasions offered essential political support to the regional regimes, and also financial support, which *de facto* translated into political support.

In current politics, the countries of the region have on numerous occasions treated China as a convenient counterbalance in their dealings with Russia and the USA. The high frequency of visits between Central Asian countries and China, which have been focused on bilateral co-operation, especially in the area of the economy, and with no elements of political dispute, has been aimed at proving that Beijing offers an important alternative; primarily financial, but also political.

However, given the positive atmosphere of current political co-operation (which is even more true regarding economic co-operation), the way bilateral relations will develop in the longer term is still an open question. This is the area where the differences in perceiving the problem by each of the states show up most clearly.

The special features of the smaller states (especially Tajikistan and Kyrgyzstan), their political and economic weakness, and the fact that current internal problems are predominant in their politics – all this causes that it is difficult to notice any potential in the policies adopted by these countries or the ambition to create long-term strategies for developing relations with China.

The situation looks different when seen by the larger states, which are comparatively better-established and have political ambitions (Kazakhstan and Uzbekistan). They are forced to make long-term plans due to the need to develop

the energy sector (Kazakhstan and Uzbekistan, and – for slightly different reasons – Turkmenistan). In the case of these countries, long-term calculations are more noticeable, and concerns can be seen alongside the positive aspects of developing co-operation with China. In practice, this boils down to actions aimed at the diversification of both energy co-operation (all the countries are developing energy co-operation with China, and each of them has taken action to develop alternative routes), and – in the broader sense – economic and political co-operation.

In the case of Kazakhstan, China is a key political and economic partner alongside Russia. Kazakhstan is open to any kind of co-operation with China (especially in the areas of economy and transport). Their bilateral relations may be termed a strategic partnership. However, in line with the development of co-operation with China, Kazakhstan is building a kind of security against becoming excessively or too quickly dependent on China. One example of this is the development of co-operation with the USA and the EU, and above all with Russia, which is seen as counterbalance to China. Kazakhstan's accession to the Customs Union was symptomatic, as this provided Astana with grounds for restricting Chinese economic, and consequently political, expansion.

Uzbekistan has treated China with much greater reserve. Despite the crisis in relations after 2005, Uzbekistan has been actively developing political and military co-operation with the USA and NATO, especially on the foundations of the ISAF and OEF operations in Afghanistan. While developing economic co-operation with China (a gas pipeline and transportation projects), Uzbekistan of all the Central Asian countries is the most actively engaged in developing economic co-operation with Eastern Asian countries which are China's *de facto* competitors: South Korea, Japan, Malaysia and others; this needs to be seen as a sign of distrust towards China. However, Uzbekistan is the Central Asian state which has most strongly been expressing its ambitions of becoming independent from Russia in political and military terms, and its government has earned a reputation of being capable of making sudden turns in foreign policy (balancing between Russia and the USA). Tashkent is concerned about being possibly dominated by Beijing, but at the same time cannot afford to lag behind the other Central Asian countries. It is thus set to develop political and economic co-operation with China (one proof of this can be President Karimov's productive visit to Beijing in April 2011).

For Turkmenistan, China has been *de facto* the most important political partner over the past few years. This is linked to developing energy co-operation

and serious politico-economic tensions with Russia. However, following the euphoria in relations with China in 2007–2009, Ashgabat has sobered up: the temporary benefits of co-operation with China have failed to compensate for the financial losses resulting from the shrinking gas exports to Russia and the need to allocate part of the incomes from gas sales to China for payments for the services rendered by Chinese companies engaged in Turkmenistan. Turkmenistan's political shift towards China has also turned out to be an illusion. The short-term benefit gained by reducing its dependence on Russia with China's help pose the threat that Russia's difficult patronage will be replaced with an equally inconvenient Chinese patronage. This has motivated Ashgabat to search for new political and economic partners (the best example of which is the fact that Turkmenistan has been lobbying for a gas pipeline project running to India and Pakistan). At present, however, there are no grounds to conclude that Ashgabat has found a real alternative to China.

III. CHINA'S ECONOMIC PRESENCE IN CENTRAL ASIA – THE ACHIEVEMENTS OF THE PAST TWO DECADES

Chinese engagement in the Central Asian economy has been aimed at implementing Beijing's strategic interests in the region in the area of security in the strictest sense, as well as the *economic* security of China involving supplies of natural gas and uranium. Given the wide range of actions and close connections, it is economic co-operation that China's position in the region is based upon, including its political position.

In the minimum option, from China's viewpoint, the economic tools are meant to prevent the collapse of the weakest states in Central Asia, while the maximum option provides for the construction of a 'welfare zone' in the region, thus contributing to an improvement of its stability. The stabilisation of Central Asia through economic development and achieving 'welfare' is in turn aimed at ensuring stability in China's Xinjiang province owing to the creation of economic bonds between Central Asia and Xinjiang. Strong, consolidated and well-functioning states in Central Asia would also create a buffer zone between China and Afghanistan. In geopolitical terms, China wants to use economic co-operation to reinforce its position in the region and provide a balance to Russian and Western influences.

However, economic co-operation with Central Asia at present is of no strategic significance for the Chinese economy: exports to Central Asia have a marginal share in China's foreign trade (less than 1% in 2012). Nevertheless, trade with Central Asia is of fundamental significance for Xinjiang: in 2011, 78% of the province's exports went to Central Asian countries[30].

China in economic relations with Central Asia is, then, focused on achieving three tangible goals. Firstly, it wishes to continue developing trade relations, considering that they are of fundamental significance for Xinjiang. Secondly, it is interested in supplies of raw materials from Central Asia (above all, natural gas and uranium). Thirdly, it wants to turn the region into a transmission belt for exports of Chinese goods to the West and the Middle East.

[30] http://www.globaltimes.cn/content/722972.shtml

1. Regional differences in the level and nature of co-operation

The level of economic co-operation between China and the countries in the region depends on their economic potential, the level of their fossil fuel resources and their significance as transit countries. The internal stability of each of the Central Asian countries and their policy and attitude regarding co-operation with China are also key issues.

From China's point of view, the most important of the Central Asian countries is Kazakhstan, since until recently it was the only country in the region to have signed a strategic partnership agreement with China[31]. Kazakhstan has enormous economic potential due to its significant natural resources (oil, gas, uranium and metals), geographic proximity, convenient transport connections (which do not run through high mountains, as is the case with Kyrgyzstan and Tajikistan), its political stability and the essential role Kazakhstan is playing in the region. Due to this, economic relations with Kazakhstan are the strongest and have vast potential for further development.

The other two of China's Central Asian neighbours, Tajikistan and Kyrgyzstan, are given far less significance. Kyrgyzstan plays the role of the region's centre for trade in Chinese goods, owing to its WTO membership and favourable political climate. However, its role has weakened due to the development of trade and the infrastructure to support it between Kazakhstan and China, and also due to the emergence of new barriers as a consequence of the creation of the Customs Union. Kyrgyzstan has been attempting to maintain its position as a hub by joining the Customs Union. Both Tajikistan (especially since its accession to the WTO) and Kyrgyzstan can potentially be highly significant transit countries in the transport of Chinese goods and can become a bridge for exports of such goods to the other Central Asian countries, Afghanistan and further to the Persian Gulf and the countries of the Middle East.

In turn, the Chinese-Turkmen co-operation is based solely on supplies of natural resources. Turkmenistan is seen in China as the most important supplier of natural gas, with potentially the greatest capability of increasing supplies. For this reason, and given the rapid increase in gas consumption and imports to China, relations with Ashgabat are of strategic significance for Beijing.

[31] Uzbekistan and China signed a strategic partnership declaration as late as in 2012.

Uzbekistan is perceived by China as an important transit country for Turkmen gas and a source of raw materials (gas and uranium). Uzbekistan is also the most promising outlet for Chinese goods in the region, primarily because it has the largest population. However, Uzbekistan was the last Central Asian country to establish relations with China. It took Tashkent the longest time of all the Central Asian capitals to embark upon closer co-operation with China. It was also the last in the region to have accepted loans offered by Beijing. Co-operation with China will be carefully channelled and in practice restricted by Tashkent (as compared to the region) as it will continue a protectionist policy on its market.

As regards China's direct investments, the key target is the region's primary sector. Therefore, a great part of the investments go to Kazakhstan and to a lesser extent to Turkmenistan. China has also been seen to invest in telecommunication and also in sectors linked to trade development (infrastructure). However, in practice, Chinese investments in other than the primary sector are not large and until now have failed to provide a stimulus to modernisation.

2. China's 'assets' in the region and plans for development

2.1. The oil and gas sector

China has been most active and successful country in making efforts to gain access to raw material assets in Central Asia over the past decade. China's increasing presence in the region has led to a reduction in the role of economic co-operation with the other players engaged in Central Asia (above all Russia) and to a modification of the significance of this role. The primary reasons behind developing energy co-operation between the countries of Central Asia and China included: their desire to become less dependent on Russia, the unsuccessful Western plans to build infrastructure running from Central Asia, and the increasing attractiveness of China itself as a global player with vast economic potential.

Table 1. China's key assets in the Central Asian oil and gas sector (as of 1 January 2013)

	Purchase date	Share	Owner	
KAZAKHSTAN				
Key upstream assets (companies, shares in projects)				**Production in 2012**
AktobeMunaiGaz	1997-2003	85%	CNPC	6.1 million tonnes of oil, 3.7 billion m^3 of gas
North Buzachi	2003	50%	CNPC	2 million tonnes of oil
KAM Project	2004	50%	CNPC and China North Industries Corporation	0.7 million tonnes of oil
CNPC-Ai-Dan-Munai	2005	100%	CNPC	0.4 million tonnes
PetroKazakhstan Kumkol Resources (please note that CNPC sold a 50% stake in the Shymkent refinery to KMG)	2005	67%	CNPC	6 million tonnes of oil (2011)
KarazhanbasMunai (Nations Energy)	2006	50%	CITIC	2 million tonnes of oil
Mangistaumunaigaz (the refinery was excluded from the transaction and taken over by KMG)	2009	50% -2 shares	CNPC	5.9 million tonnes of oil 0.5 billion m^3 of gas
KazMunaiGas E&P	2009	11%	China Investment Corp.	7.9 million tonnes of oil
Urikhtau field	2011	50%	CNPC	Exploration work (gas)

Minor upstream assets				
Emir Oil		100%	MIE Holding	130 thousand tonnes of oil
KMK Munai		100%	Yukon Energy Holding	90 thousand tonnes of oil
Sazankurak		100%	First International Oil Company (Sinopec)	93 thousand tonnes of oil
Pricaspian Petroleum Co.		100%	First International Oil Company (Sinopec)	33 thousand tonnes of oil
Sagiz Petroleum Co.		100%	First International Oil Company (Sinopec)	160 thousand tonnes of oil
Adai Petroleum Co.		50%	First International Oil Company (Sinopec)	138 thousand tonnes of oil
Caspian Investment Resources		50%	Sinopec	n/a
Tarbagatay Munai (Zaysan field)		49%	Guanghui Energy	n/a
Refineries				**Capacity**
Shymkent refinery	2005	50%	CNPC	5.25 million tonnes of oil
Transport infrastructure				**Capacity**
Kazakhstan-China oil pipeline (Atasu-Alashankou and Kenkiyak-Kumkol sections)	1997-2009	50%	CNPC	12 million tonnes (with the option to increase to 20 million tonnes)
The Kazakh section of the Central Asia-China gas pipeline (A,B and C lines) – the transit pipeline for gas from Turkmenistan, Uzbekistan and in the future Kazakhstan to China*	2007	50%	CNPC	55 billion m^3 of gas

Section II of the Central Asia–China gas pipeline: the Kazakh section from Beyneu to Shymkent, where it will connect with section I of the Central Asia–China main pipeline	2008	50%	CNPC	10-15 billion m^3 of gas
Zaysan-Jeminay	2013	100%	Guanghui Energy	0.55 billion m^3 of gas

UZBEKISTAN

Upstream assets (companies, shares in projects)				**Status**
5 investment blocks located in Ustyurt and Amu Darya regions and in the Fergana Valley, operator: CNPC Silk Road Group	2006	n/a	CNPC	Exploration work
Rehabilitation of old fields in the Fergana Valley	2008	n/a	CNPC	Exploration
The Aral Sea Project	2006-2011	26.6%	CNPC	Exploration
The Mingulak Project	2008	50%	CNPC	Exploration
Transport infrastructure				**Capacity**
The Uzbek section of the Central Asia–China gas pipeline (the A,B and C lines), operator: Asia Trans Gas C line construction cost: US$2.2 billion	2008	50%	CNPC	55 billion m^3

TURKMENISTAN

Upstream assets (companies, shares in projects)				**Status**
The Bagtyyarlyk field on the right bank of Amu Darya	2007	PSA (the number of shares is unknown)	CNPC	The output is set to reach 17 billion m^3 of gas

TAJIKISTAN				
Upstream assets (companies, shares in projects)				**Status**
Kulob Petroleum Ltd.	2012	33.33% US$30 million	CNPC (partners: Total, Tethys Petroleum)	Exploration

KYRGYZSTAN				
Upstream assets (companies, shares in projects)				
Batkenneftegaz	2007	100%	Chung Company	
Refineries				**Capacity**
Kara-Balta Refinery (annual capacity at 850 thousand tonnes of oil), greenfield investment cost: US$250 million	2009-2013	99%	Zhongda China Petrol Company	To reach 850 thousand tonnes of oil
Tokmok Refinery (annual capacity at 500 thousand tonnes),** greenfield investment cost: US$60 million	2012-2013	n/a	China Natural Investment Holding Co., Ltd. via Xinjiang Natural Energy Group Co., Ltd	To reach 500 thousand tonnes of oil

Source: Company websites, news agencies, Argus
***** China has no share in the central section of the Kenkiyak-Kumkol oil pipeline, which is controlled by KazMunaiGas.
****** http://www.trend.az/regions/casia/kyrgyzstan/2084714.html

2.1.1. The characteristics of China's presence in the oil sector

China has many oil assets in Central Asia but is not the largest oil producer in the region. Furthermore, the assets held by China are old and depleted, which means that the share Chinese companies have in the region's oil production will fall unless new acquisitions are made. The impression that Chinese firms were expanding without restraint in the oil sector was an effect of the successful asset acquisition strategy, beginning in 2005, which resulted in the rapid growth of China's position in this sector. However, this does not mean that China is playing a decisive role here. From Central Asia's point of view, cooperation with China offers the opportunity for diversification of oil transport

routes and recipients. In this context, it is beneficial and highly significant. From China's point of view, oil supplies from Central Asia are supplementary to the imports from other directions. What makes this region important is the fact that it enables oil supply by land. If existing transport routes are developed, its significance can grow further, but this will never compensate for maritime oil supplies. China's presence in the oil sector is primarily a challenge to Western investors, who are forced to compete with Chinese firms. In turn, this is beneficial for the countries in the region.

As regards China's activity in the Central Asian oil sector, it is present primarily in Kazakhstan and to a very limited extent in Uzbekistan. The first Chinese investments in the region's oil sector were made in the late 1990s. However, the Chinese expansion began in earnest in the second half of the first decade of the 21st century, when all the most important and largest energy assets had already been allocated mainly to Western investors. Symptomatically, Chinese companies hold no shares in any of Kazakhstan's three largest fields (Tengiz, Karachaganak and Kashagan), where Western investors are dominant. Chinese investments were disfavoured by the government of Kazakhstan, which feared Beijing's excessive expansion, and also by Western energy corporations unwilling to co-operate with China (one example of this was when Western companies blocked CNPC's acquisition of shares in the Kashagan Field in 2003[32]). The situation changed in 2005, when China's CNPC bought shares in PetroKazakhstan, a company registered in Canada. This transaction ushered in the expansion of Chinese companies in Kazakhstan, and opened a new field for co-operation between the Kazakh state-owned holding KazMunaiGas (KMG) and CNPC[33]. Regardless of this, Chinese companies were still denied access to the largest upstream projects in Kazakhstan.

Before 2010, investments in the Central Asian oil sector were made predominantly by the state-owned company CNPC. In 2010, the Chinese government modified its strategy and encouraged small private and little-known Chinese energy firms to invest in Central Asia (one example was the purchase of the small oil producer, Emir Oil, by MIE Holdings in February 2011). Investments in small fields are also made by large corporations acting via small companies, which are not explicitly associated with Chinese capital in Kazakhstan. For example, Sinopec is operating via International Oil Co. This strategy means

[32] http://www.gasandoil.com/news/central_asia/f31ce0c64e6401dfbf15e9f3baa53648

[33] When CNPC was buying PetroKazakhstan, it agreed to relinquish a 50% stake in the Shymkent Refinery to KazMunaiGas.

that Beijing is making efforts to use Kazakhstan's potential to a maximum extent, and at the same time fears public reluctance towards Chinese capital, and also increasing nationalism in the policy adopted by the Kazakh government in the oil sector, which bears greatest impact on large projects. Astana wants the state to regain stakes in large fields at the expense of Western corporations, one example of which was the acquisition of Kashagan shares in 2008.

The estimated share of Chinese firms in oil production in Kazakhstan is 22% of total production (data as of 2010)[34], and is lower than that of US firms present in Kazakhstan (24%). The assets owned by Chinese firms include old and partly depleted fields, while oil production growth in Kazakhstan will be generated primarily by the large new projects, Tengiz and Kashagan. This means that, unless new acquisitions are made, the share of Chinese firms in Kazakhstan's total oil output will contract and, according to the Oil and Gas Ministry's forecasts, will reach 11% in 2020. Given the controversies linked to China's presence in Kazakhstan[35] and the reluctance of Western investors to co-operate with CNPC, Astana has been quite cautious about facilitating further asset acquisition in Kazakhstan to Chinese firms. The sale of shares in the Kashagan Field by ConocoPhillips will be a test for this approach. Kazakhstan has decided to acquire the shares (which India's ONGC wanted to take over), and it cannot be ruled out that it will resell the shares to China's CNPC in exchange for new loans. This would bring a fundamental change to Kazakhstan's approach towards co-operation with China, and would make the implementation of the Western plans for transporting oil from Kashagan via the Caucasus more difficult.

One consequence of intensifying Chinese activity in the oil sector and the gradually improving disposition of Kazakhstan's government was the construction of the oil pipeline running from Kazakhstan to China (cf. map no. 1). This route was constructed in stages, starting in 2001, and was fully launched in 2012. This pipeline is running from the Kazakh shore of the Caspian Sea, where the largest oil deposits are located, through central Kazakhstan (where CNPC operates on the smaller fields), to Alashankou on the Kazakh-Chinese border. The route is used for transporting both Kazakh oil and small amounts

[34] Article by Kanatbek Safinov, secretary at the Oil and Gas Ministry http://www.kmg.kz/press/company_news/publication/5935

[35] This issue is frequently raised by the media which are opposed to the government, and China's impact on Kazakhstan is being mythologised among the residents of this country. This is partly due to the government's failure to inform the public about the real presence of Chinese business in Kazakhstan.

of Russian oil (transported in transit). Its annual capacity is 12 million (2012) and is to be raised to 20 million tonnes of oil in coming years. The pipeline is used by China as a source of raw material for refineries in the western part of the country, which means that its development depends largely on the rate of Xinjiang's economic development.

The new route has allowed Astana to diversify oil exports, and has provided China with the first land route which enables the import of oil via a pipeline[36]. Nevertheless, China is not a major recipient of Kazakh oil. In 2012, supplies to China reached 10.4 million tonnes of oil, which accounted for 15% of Kazakhstan's total oil exports (10.9 million tonnes of oil in 2011). This means that Russia is still the main corridor for transit of Kazakh oil to the European market, and Europe is the main recipient of Kazakh oil, primarily because of the attractive prices there. From China's perspective, oil supplies from Kazakhstan are at the most supplementary to oil imports from other sources. In 2012, the share of Kazakh oil in total Chinese oil consumption stood at 2.3%, and its share in imports reached 3%.

However, in the longer run, Kazakhstan's significance for China will be growing, especially if the capacity of the oil pipeline running to China is increased. Kazakhstan and Russia are the only two countries from which oil is transported to China overland, which is of fundamental significance for security reasons; most of the oil imported by China is transported by sea. China is unable to guarantee the security of maritime routes due to the fact that the USA is the dominant naval power. The increasing significance of Kazakhstan as a supplier of raw materials to China is also very likely to be stimulated by the continuing instability in the North African and Middle Eastern countries, which are important sources of oil imports for China. Regardless of this, given China's enormous demand for oil, the significance of Kazakh oil in China's energy balance should not be overestimated; it will never be a key supplier.

At the same time, the possible development of exports to China will depend on Astana's route diversification policy and also upon the stance Azerbaijan takes, since it wants to be a transit country for the Kashagan Field (from 2018). Thus the development of transport routes to China will adversely affect above all the project envisaging oil exports in the Western direction via the Caucasus (using the Baku–Tbilisi–Ceyhan pipeline).

[36] Railroad oil transport from Russia was launched before this.

The presence of Chinese firms in the oil sector poses a serious threat to the other firms operating in Kazakhstan (predominantly large Western corporations) mainly due to the fact that Chinese firms, both state-owned and private, have significantly larger funds and facilitated access to loans, and investments in the oil sector are granted strategic priority by Beijing and are backed at every level. Since 2005, China has acquired the largest number of assets in Kazakhstan, often winning out against other bidders, including Russian ones.

2.1.2. China on Central Asia's fuel and petrochemical market

Two new areas of co-operation in the oil sector were activated in 2012: the refining of Kazakh oil under tolling contracts at Chinese refineries located close to the border, and the import of Chinese petroleum products. The supply volume is still marginal: it reached 25,000 tonnes of fuel in 2012, but in 2013 Kazakhstan is planning to buy 0.5 million tonnes of fuel from China. The Kazakh-Chinese co-operation covering petroleum products is an effect of misunderstandings over Russian oil supplies to refineries in Kazakhstan[37] and clearances for Russian fuel imported by Kazakhstan. It appears that co-operation in this area will see enhancements, at least in the medium term. Kazakhstan is currently modernising its refineries; and this process is to be finalised within three to four years' time. Until then, Astana will be unable to reduce the deficit on the internal market and will have to import petroleum products from neighbouring countries. In this context, co-operation with China is strengthening Astana's position in negotiations with Moscow concerning the rules of trade in oil and petroleum products within the Customs Union. Furthermore, Russia is at present the key supplier of fuel to Tajikistan and Kyrgyzstan (and indirectly to Afghanistan), while Kazakhstan and China seem to be interested in driving Russia out of these positions and in embarking upon the export of petroleum products to the neighbouring countries by themselves in the long term. Kazakhstan's recent investigations into the possibilities of building a low-capacity (1–1.5 million tonnes annually) product pipeline close to the Chinese border is yet another sign of the long-term plans for developing co-operation covering petroleum products[38].

China has also been making efforts to invest in the region's refining sector. Its presence is still marginal, however, and is restricted to Kazakhstan and Kyrgyzstan. Kazakhstan's government is unfavourably disposed towards Chinese (and more

[37] The Kazakh refineries in Pavlodar and – to a lesser extent – in Shymkent import Russian oil due to the infrastructural connections maintained since Soviet times.

[38] Argus Rynok Kaspiya, 6 February 2013.

broadly, foreign) activity in the refining sector, and is making efforts to regain the refineries which were privatised at the onset of the country's independence. Proofs of this policy included forcing CNPC to relinquish a 66% stake in the Shymkent Refinery to the state-owned corporation KazMunaiGas during the acquisition of PetroKazakhstan in 2005, and excluding the shares in the Pavlodar Refinery from the process of the sale of Mangistaumunaigaz corporation to CNPC in 2009. Kazakhstan has adopted a protectionist policy with regard to the refining sector, and one should expect pressure to be put on CNPC to sell back its shares in the Shymkent Refinery rather than consent to further Chinese investments in this sector.

In turn, Chinese investments in the oil refining sector are of fundamental significance for Kyrgyzstan. China is building small refineries which require low outlays (cf. Table 1) in Kyrgyzstan; their capacity will, however, be sufficient to satisfy the demand for the less advanced fuels on the domestic market. The new refineries are likely to adversely affect the interests of Gazpromneft, the key fuel supplier and distributor in Kyrgyzstan[39], and will thus deprive Moscow of some instruments of pressure on Bishkek and improve Kyrgyzstan's energy security and stability[40]. Nor can it be ruled out that fuel produced in Kyrgyzstan will be exported to Tajikistan and Afghanistan since this will offer China greater opportunities to bear influence in the region. The possibilities of co-operation with China on building refineries are also being checked by Tajikistan; this topic was raised during the visit by President Emomalii Rahmon to Beijing in May 2013.

China is also considering the use of refinery infrastructure in Central Asia to refine CNPC's Afghan oil output and re-export petroleum products to Afghanistan, which is the most attractive fuel market in the region due to the high petrol prices there. China's CNPC has enquired into the possibilities to refine Afghan oil at the Fergana or Shymkent refineries in early 2013[41]. Likewise, fuels manufactured in Kyrgyzstan can be exported by Chinese companies to Afghanistan.

Over the past few years, Chinese-Kazakh and the Chinese-Uzbek co-operation has also seen expansion into the petrochemical sector[42]. The co-opera-

[39] Gazpromneft supplies fuel to the Manas base. This firm also owns the largest chain of filling stations in Kyrgyzstan.

[40] The imposition of customs duty on Russian petroleum products and increasing prices on the domestic market preceded the outbreak of the revolt in April 2010. President Kurmanbek Bakiyev was forced to flee the country as a consequence of this.

[41] Argus Rynok Kaspiya, 13 February 2013.

[42] Although CNPC has acquired a 33% stake in the Shymkent Refinery, Chinese companies are not present in the oil refining sector. This is primarily due to the fact that Astana treats it as

tion formula is based on loans granted by China for the construction of new petrochemical plants in exchange for supplies of petrochemical products. One example of such co-operation is the US$1.25 billion loan granted by Sinopec for the construction of the petrochemical complex in Atyrau (Kazakhstan)[43]. Furthermore, Sinopec is also a subcontractor in this project. CNPC is also planning to build a rubber production plant in Uzbekistan and is offering a high financial contribution. This strategy is an effect of Chinese companies adjusting themselves to the conditions imposed by the Central Asian states, since they are unwilling to sell their key assets in the primary sectors.

2.1.3. China's presence in the gas sector

The key platform of China's presence in the Central Asian energy sector is co-operation in the gas sector, and its most essential element is the new Central Asia–China gas pipeline running through Turkmenistan, Uzbekistan and Kazakhstan. This is the first infrastructural project since the collapse of the USSR to connect most of the region's countries and in which they are forced to co-operate with each other. This is also the only large gas route to have been built in the region since 1991[44]. The launch of the gas pipeline has fundamentally changed the balance of power in Central Asia to the benefit of China and at the expense of Russia. This turned out to be possible even though China has relatively small assets in the region's gas production sector. Its force is primarily an effect of breaking Russia's monopoly on gas imports from the region and the increasing significance of the Chinese market for gas exporters in Central Asia.

The gas contract signed with Turkmenistan (April 2006), followed by the launch of the Central Asia–China gas pipeline, which was built at an express rate (2008–2009), was a turning point in China's presence in the Central Asian gas sector[45]. Before that, Chinese plans for the import of gas from Central Asia (despite efforts starting in the 1990s) could not be implemented due to such fac-

a strategic sector as a consequence of constant problems with fuel supplies. This was one of the reasons why refinery assets were excluded during the sale of Mangistaumunaigaz and acquired solely by KazMunaiGas. China has accepted this, and has focused on developing its own oil refining sector in Xinjiang.

43 http://www.universalnewswires.com/centralasia/viewstory.aspx?id=3790

44 Two gas pipelines running from Turkmenistan to Iran have been built since 1991 in Central Asia. However, in terms of capacity, these projects are incomparable to the Chinese gas pipeline. Furthermore, they have never been used at full capacity, and are now filled to around 30%.

45 The total annual capacity of the two gas pipeline branches constructed in 2009 is 30 billion m^3. The third branch, currently under construction, will have an annual capacity of 25 billion m^3.

tors as: resistance from Russia, which was treating the region as its exclusive zone of influence, the concern the countries of Central Asia have about Russia's reaction, and what they saw as the lack of attractive terms of co-operation with China. The contract and the emergence of the new route have fundamentally strengthened China's presence in the Central Asian gas sector.

Despite this, China is not currently a major gas producer in the region. Its presence in the upstream sector is reduced to several gas fields (cf. Table 1) in Uzbekistan and Kazakhstan, where the share of Chinese firms in gas output is negligible. One exception is Turkmenistan, where the gas from the Bagtyyarlyk field controlled by CNPC accounts for approximately one quarter of the total national output. However, over time, as production is launched at the fields which are currently being explored, the gas output from the fields controlled by Chinese companies is set to grow. However, against the background of the region as a whole, this share will remain relatively low, since – as in the oil sector – no Chinese company holds a majority stake in any of Central Asia's largest gas fields[46]. The level of China's presence in Tajikistan is also difficult to estimate. CNPC holds a 33% stake in the Bokhtar fields, where the size of the deposits has not yet been confirmed. If the volume of the resources is confirmed, the launch of gas production would be fundamental for Tajikistan itself, would strengthen China's position in this country, and could lead to transport infrastructure running from Tajikistan to China being built in the future. A new pipeline such as this would diversify the gas import routes from Central Asia to China and thus contribute to an improvement in the energy security of China itself and would help stabilise the region, from Beijing's point of view[47].

However, China's significance at present is primarily an effect of its successes in building transport infrastructure. The emergence of these broke Russia's monopoly on gas imports from the region and created a gas market, thus forcing the liberalisation of trade relations between the countries of Central Asia and Gazprom[48]. By constructing infrastructure, providing loans and becoming a contractor in energy projects, China is gaining *de facto* control over the gas sector in Central Asia.

[46] The estimated reserves of the Bagtyyarlyk field are at 1.3 trillion m^3, while the reserves of Turkmenistan's largest field, Galkynysh, are estimated to be between 13.1 and 21.2 trillion m^3.

[47] http://www.osw.waw.pl/en/publikacje/eastweek/2013-06-26/will-tajik-gas-change-balance-power-central-asia

[48] http://www.osw.waw.pl/pl/publikacje/tydzien-na-wschodzie/2008-03-12/kraje-centralnoazjatyckie-koordynuja-polityke-w-kwestiach
http://www.osw.waw.pl/pl/publikacje/tydzien-na-wschodzie/2008-08-06/gazprom-zabiega-o-gaz-z-turkmenistanu

The launch of the infrastructure has also made the transit countries, Uzbekistan and Kazakhstan (which were initially sceptical about the Chinese plans), interested in exporting gas to China. In effect, all the regional producers signed gas supply contracts with China, covering a total of 85 billion m^3 (cf. table 2), and two of the three Central Asian countries involved in gas production supplied their output to China in 2012. Kazakhstan will embark upon gas export once the second section of the Central Asia–China gas pipeline, running from Beyneu to Shymkent, is built. This is planned for 2013 (cf. map no. Contrary to Russian media reports, the fact that more countries are willing to use the Chinese gas pipeline proves that the gas import terms offered by China are seen by the countries of Central Asia as being competitive when compared to those of Russia. Other proofs of China's attractiveness as a gas recipient include the fact that Uzbekistan reduced its planned annual gas supply to Russia to 7.5 billion m^3 from 9.5 billion m^3 in 2012, and also the fact that LUKoil[49], operating in Uzbekistan, is considering the launch of exports to China (via Uzbekneftegaz).

Table 2. Gas supply contracts signed with China

Country (contract year)	Quantity	Comments
Turkmenistan (2007)	30 billion m^3	Final contract –implementation began at the end of 2009
Kazakhstan (2009)	10 billion m^3	Initial agreement
Turkmenistan (2009)	10 billion m^3	Annexe to a previously concluded contract
Uzbekistan (2011)	10 billion m^3	Contract
Turkmenistan (2011)	25 billion m^3	Framework agreement
The total volume of gas to be supplied to China from Central Asia under the contracts is 85 billion m^3		

China's readiness to provide financial resources for infrastructure development is also of great significance for the countries of Central Asia. The

[49] LUKoil has launched work at the Kandym-Khauzak-Shady and Southern Gissar fields, whose output is expected to reach 12 billion m^3 of gas in 2018 as compared to 3 billion m^3 produced in 2011. *LNG Intelligence*, 24 January 2012.

construction of the A and B branches of the Central Asia–China gas pipeline, with a total annual capacity of 30 billion m^3 of gas, the estimated cost of which was US$8 billion, was funded by Beijing, regardless of the fact that Chinese firms hold a 50% stake in the operators of the Uzbek and Kazakh sections, and none at all in the Turkmen section. China is also financing the C branch which is currently under construction and which will have an annual capacity of 25 billion m^3 of gas. The volume of the gas to be supplied under contracts from Central Asia to China suggests the need for further development of the region's infrastructure – the existing routes and those under construction have a total annual capacity of 55 billion m^3 of gas. In future, when one of the world's largest gas fields, Galkynysh in Turkmenistan (formerly known as Southern Yolotan) is developed, exports to China will grow, and its position in the region will be even stronger. Its dependence on gas supplies from Central Asia will, however, also be higher. Transport infrastructure running to China is developing much too slowly and this may turn out to be a real problem.

Beijing is also ready to grant loans for the development of the energy sector in Central Asian countries. However, in exchange for this it is demanding access to deposits, supplies of raw materials and for Chinese firms to be granted contracts for the implementation of specific projects; for example, CNPC is a subcontractor on the Galkynysh field in Turkmenistan. Owing to the loans, CNPC is the only foreign investor to have been given access to Turkmen onshore gas fields under the rule of the incumbent president, Gurbanguly Berdymukhammedov, (CNPC signed a production separation agreement (PSA) concerning the Bagtyyarlyk field) and it has also received shares in the Urikhtau field in Kazakhstan.

China's presence has also contributed to an improvement in the level of energy security in the region. The construction of the gas pipeline broke the previous pattern of gas supplies in Central Asia, where gas was supplied from Uzbekistan to Kyrgyzstan, Tajikistan and the mountainous regions of Kazakhstan. These supplies were often disrupted in the past due to problematic and at times even hostile relations between the countries of the region. The new gas pipeline running to China has made it possible to make emergency supplies of Turkmen gas contracted by China[50] to Kazakhstan (November–December 2011) and Kyrgyzstan (December 2012), thus reducing the possibility for Uzbekistan to

[50] The countries which received Turkmen gas had to enter into a relevant agreement concerning this issue with China. Symptomatically, this was not a contract with Turkmenistan.

put pressure on Kazakhstan or for Kazakhstan to put pressure on Kyrgyzstan. Kazakhstan's energy security will be improved owing to the second section of the Central Asia–China gas pipeline which is currently under construction and which will run from western Kazakhstan to Shymkent, where it will connect to the main pipeline (cf. map). Half of this route will be used for the export of gas to China, and the other half to serve Kazakhstan's requirements. This means that the country will no longer be dependent on supplies from neighbouring Uzbekistan. The infrastructure, which is being built by China and for China's needs, is thus improving the region's energy security[51] and forcing all of the transit countries to co-operate with each other. The Central Asia–China gas pipeline is the only project to *de facto* integrate the countries of Central Asia since the collapse of the USSR. Due to this, China can become the region's gas distributor.

From China's point of view, gas supplies from Central Asia are of key significance (unlike oil supplies), and their role is set to grow. Due to the pollution of the natural environment, China needs to continue increasing the share of natural gas in its energy balance (its present level is 5%), and at the same time to continuously increase its gas imports. Central Asia has a strategic importance as a source of gas for China because it is able to provide large supplies by land. The share of Central Asian gas in total gas imports to China reached approximately 65%, and in consumption approximately 17.6% in 2012[52]. As production and transport infrastructure are developing and consumption in China is increasing, the region's significance is set to grow.

China's increasing presence in Central Asia has changed the balance of power in the region by breaking the monopoly of Russia's gas corporation Gazprom, which had for years been the most important recipient of Central Asian gas[53]. In the short term, given the continuing low demand for gas in the EU and the progress in developing the infrastructure running to China, it is China that will become the key recipient of gas from Central Asia (cf. Table 3).

[51] China's presence (as a joint venture with France's Total and Canada's Tethys Petroleum) in Tajikistan, and planned gas production in this country will improve Tajikistan's energy security, which has so far relied on supplies from Uzbekistan.

[52] Own calculations based on the data from http://www.interfax.cn/news/21423

[53] Gazprom imports gas from Central Asia via its subsidiary registered in Switzerland, Gazprom Schweiz AG. Gazprom uses its gas from Central Asia to fulfil its obligations in Europe.

Table 3. Structure of gas exports from Central Asia in 2012 and a forecast for 2013 (in billion m^3)

	2012			2013		
Exporter/recipient*	**Russia (to Europe)**	**China**	**Iran**	**Russia (to Europe)**	**China**	**Iran**
Kazakhstan	10.3	0	0	10.3	0	0
Turkmenistan	11.5	24	10	11.5	25	10
Uzbekistan	10.5	2	0	7.5	5	0
Total	32.3	26	10	29.3	30	10
Share in total exports from the region (in %)	47	38	15	42	43	15

Source: Own calculations based on information from Gazprom Schweiz, CNPC, PressTv[54] and Uzbekneftegaz

***** In addition to the aforementioned recipients, marginal quantities of Central Asian gas are supplied to Kyrgyzstan and Tajikistan.

Nevertheless, the countries of Central Asia understand that continuing supplies to Gazprom and thus ensuring good relations with Moscow is the necessary condition in order to keep the good prices of gas exported to China. This means that the significance/share of gas supplies to Gazprom will drop in the future, but it is in Central Asia's political interests to maintain them.

China's presence is principally adversely affecting the interests of the West, which wishes to launch gas imports from Central Asia independently from Russia. On the one hand, as a consequence of competition from China, the countries of Central Asia expect the West (the EU, the USA and energy firms) to provide them with similar co-operation conditions as those offered by Chinese partners, i.e. the possibility of financing transport projects[55]. As a consequence, the West finds it more difficult to implement its projects, above all, the supplies of Turkmen gas to the Southern Gas Corridor via the planned Trans-Caspian

[54] http://presstv.com/detail/2012/12/18/278780/iran-to-resume-turkmenistan-gas-import/

[55] Manifestations of this strategy include Turkmenistan's announcement it will sell gas at its border (including to the EU) and its unwillingness to participate in the costs of infrastructure development outside its borders.

gas pipeline. On the other hand, the increasing dependence on co-operation with China, especially in the case of Turkmenistan, is giving rise to a growing desire to diversify gas supply routes and recipients, one proof of which is seen in Ashgabat's efforts aimed at the construction of the TAPI (Turkmenistan - Afghanistan - Pakistan - India) gas pipeline. In the case of Turkmenistan, it is also unclear whether Ashgabat will be able to repay its loans to China, which gives rise to concern that Turkmenistan could be forced to hand over shares in its energy assets to China.

Chinese firms invest not only in large infrastructural ventures, but also in smaller projects contributing to the enhancement of co-operation between the two countries. These are not widely publicised by the media in Central Asia. One example of such actions is the gas pipeline, measuring approximately 100 km, connecting the Zaysan field in Kazakhstan and a liquefied natural gas (LNG) factory in Jeminay in China, which was built by a private Chinese company, Guanghui Energy. The annual capacity of this route is approximately 0.5 billion m^3 of gas. Guanghui Energy holds a 49% stake in the field. The construction of this pipeline was barely mentioned in the Kazakh press. In turn, Chinese media gave it some publicity since this was the first private gas pipeline running to China to have been constructed.

2.2. The uranium sector

China co-operates in the area of uranium mining primarily with Kazakhstan, which is the world's largest producer of uranium ore (in 2012, it accounted for 37% of global uranium output) and owns around 15% of global uranium reserves[56]. Co-operation with Kazakhstan is multi-dimensional, covering joint development and the use of uranium deposits, supplies to China, and also advanced technological co-operation (cf. Table 4). In the case of Uzbekistan and Kyrgyzstan, China's engagement is small. This is primarily due to these countries' low production potential. However, if the exploration work conducted by a Chinese-Uzbek company proves to be successful, co-operation may develop further.

[56] Data as provided by the World Nuclear Association.

Table 4. The key agreements concerning uranium between China and the countries of Central Asia

Year	Partners	Type of co-operation
	KYRGYZSTAN	
2009	Gate Bridge Co. (Hong Kong) / Monaro Mining NL (Australia)	Acquisition by the Chinese company of 75% of the exploration licence for Aramsu, Utor, Naryn, Sumsar, Sogul, Djurasay, Hodjaakan and Gavas
	UZBEKISTAN	
2009	China Guangdong Nuclear Uranium Corp. / Goscomgeo	The establishment of the 50%/50% JV Uz-China Uran for exploration and mining in Boztau region (Navoiy), production is to be launched in 2014, China holds the pre-emptive right to the company's output
2011	China Guangdong Nuclear Uranium Corp/ Geology and Mineral Resources Committee	Framework agreement expanding the scope of co-operation with China to include for example exploration on additional sites
	KAZAKHSTAN	
2006	China National Nuclear Corporation and GNPGH/Kazatomprom	Strategic co-operation agreement
2007	China National Nuclear Corporation and GNPGH/Kazatomprom	Agreement envisaging the takeover of a 49% stake in Zhalpak JV and the sale of two thousand tonnes of uranium annually to them
2007/2008	China National Nuclear Corporation/ Kazatomprom	Long-term co-operation agreement which provides for Chinese investments in Kazakhstan
2008	Guangdong Nuclear Power Group Holdings/Kazatomprom	Co-operation agreement covering uranium mining, nuclear fuel and reactor production, long-term trade in uranium ore, electricity production and the construction of nuclear power plants. The Chinese partner acquired a 49% stake in the Kazakh company Semizbai-U operating at the Irkol and Semizbai sites (annual uranium output at 750 tonnes)

Year	Partners	Type of co-operation
2009	Guangdong Nuclear Power Group Holdings/Kazatomprom	Agreement establishing a special company for building nuclear power plants in China
2010	CGNPC Uranium Resources / Kazatomprom	Long-term contract regulating the purchase and sale of uranium concentrate
2010	Ulba Metallurgical Plant and China Jianzhong Nuclear Fuel	Ending the process of uranium tablet certification – the tablets are to be used for fuel production
2011	China National Nuclear Corporation/ Kazatomprom	Agreement envisaging supply of 25,000 tonnes of uranium

Co-operation with Kazakhstan may be described in terms of strategic relations and even mutual dependence between Kazakhstan and China resulting from the vast significance both countries attach to uranium trade. Even though China has a small share in uranium production (the mines co-owned by Chinese companies produced approximately 1,200 tonnes of uranium in 2012, which accounted for around 5% of Kazakhstan's total output), it is the main recipient of uranium from Kazakhstan. In 2011, Kazakhstan exported to China 10,492 tonnes of uranium, i.e. 54% of its total output that year (19,450 tonnes) and 77% of total uranium imports to China[57]. In the case of Uzbekistan, the company co-owned by China's Guangdong Nuclear Power Group Holdings still does not produce uranium. Basically, though, China is the sole uranium importer from Uzbekistan: in 2010, it bought the country's entire output, which accounted for 21% of total uranium imports to China[58]. This means that almost all of uranium imported by China is supplied from Central Asia.

China is set to be even more active in the region, above all, in Kazakhstan. The factors that will contribute to this include the still very high production

[57] *Uranium Intelligence Weekly,* 2 March 2013.

[58] Data concerning uranium imports from Uzbekistan to China is unclear. Currently, all uranium production assets in Uzbekistan are owned by the state-controlled company Navoi Mining and Metallurgical Combine, and output reached 2,350 tonnes in 2010. Meanwhile, data on Chinese imports indicates 3,000 tonnes in 2010. Uzbekistan probably exports uranium via a German agent, NUKEM, and the trade operations lack transparency. Part of the uranium supplies from Kazakhstan to China is probably also exported via NUKEM; and this suggests that the share of Kazakh uranium in China's imports could be even larger. Cf. *Uranium Intelligence Weekly*, 14 March 2011.

growth potential in Kazakhstan[59], and Chinese plans[60] to develop nuclear power plants. China's presence in this sector is first of all a challenge to Russia since it has ambitious plans for global nuclear expansion and is cranking up its investment in uranium mines, including those in Kazakhstan. China's expansion is also putting Japan's interests in the region at stake; especially given the fact that Tokyo, having recovered from its shock following the Fukushima disaster, is returning to the global uranium market and is interested in co-operation with Kazakhstan, covering for example the construction of a nuclear power plant and the production of rare earth metals (in order to reduce its dependence on China). The Japanese-Chinese competition for uranium in the region is an opportunity for the countries of Central Asia to maximise their profits.

2.3. Other selected areas of co-operation

2.3.1. Metals and precious metals

Other areas of co-operation include investments in coal, metal and precious metal deposits. However, China has managed to make investments in these sectors only in Kyrgyzstan and Tajikistan, where it is one of the key investors. From China's point of view, presence in Tajikistan and Kyrgyzstan is strategically insignificant; it is merely a form of diversification of its engagement, and an addition to its other investments worldwide. Meanwhile, Kyrgyzstan and Tajikistan, being the poorest countries in the region, attach great significance to the Chinese investments, since the countries are economically underdeveloped and generally have problems attracting foreign investments (primarily due to the lack of proper infrastructure and the high risk of instability).

[59] According to Kazatomprom's forecasts, uranium output will grow to 30,000 tonnes annually in 2018 from the level of approximately 20,000 tonnes in 2012. phttp://www.kazatomprom.kz/ru/news/1/kazahstan_hochet_dobyvat_do_25.000_t_urana_v_blizhajshie_gody

[60] China is planning to put 150 nuclear power plants into operation by 2030. They have an estimated annual uranium requirement of 30,000 tonnes.

Table 5. Selection of China's largest investments in Central Asia outside the energy sector

Company (country)	Shareholders	Asset type	When	Estimated investment value (purchase and investments in development)
Altynken **(Kyrgyzstan)**	Zijin Mining (60%), Kyrgyzaltyn (40%)	Gold mine	2011	US$66 million
Zaravshan **(Tajikistan)**	Zijn Mining 75%, Tajikistan 25%	Gold mine	2007	US$250 million
Zarnisor JV **(Tajikistan)**	China Global New Technology Imp & Exp 100%	Zinc, lead	2007	US$150 million (a US$500 million investment in a metallurgical project has been announced)
Chon-Alay **(Kyrgyzstan)**	Asia Gold Enterprises, 100%	Gold, silver, copper	2012	n/a
TK Mobile **(Tajikistan)**	ZTE 100%	Telecommunication network operator	2006	n/a

Source: News agencies, company websites

In turn, both Kazakhstan and Uzbekistan denied Chinese investors access to their mineral resources sectors. Uzbekistan has even thwarted an attempt by Chinese investors to buy shares in Oxus Gold[61]. Although China has no mineral assets in these countries, it is an important recipient of raw materials; for example, Kazakhstan's largest copper producer, Kazakhmys, exports 60% of its output to China. At the same time, although it has no stakes in this sector, China has been willing to offer loans for its development. For example, it granted loans worth a total of US$4.2 billion in 2009–2011 to Kazakhmys for production development[62]. Chinese partners have also been making efforts to ensure the stability of supplies by entering into long-term contracts; domestic producers are also satisfied with these.

[61] Chinese firms made attempts in 2011 to buy into the shares of the UK-based company Oxus Gold, but this company's assets in Uzbekistan were ultimately nationalised.

[62] http://www.telegraph.co.uk/finance/newsbysector/industry/mining/8573834/Kazakhmys-gets-1.5bn-loan-from-China.html

2.3.2. The hydroelectric sector

China is interested in investing in hydroelectric production in the region (especially in Kyrgyzstan and Tajikistan). It has, however avoided becoming engaged in controversial projects. For instance, it chose not to invest in the power plants in Nurabad and Zarafshan because Uzbekistan was opposed to this. Chinese firms have been unsuccessful at acquiring assets in the hydroelectric sector, and have no shares in any of the large water power plants in the region. Nevertheless, it was Chinese loans that enabled the development of the power supply grids in Tajikistan: ExIm Bank granted a US$300 million loan for the construction of the North-South and the Lolazor-Khatlon high-voltage power transmission lines.

In turn, China's TBEA is engaged in the construction of the Datka-Kemin high-voltage line in Kyrgyzstan, which will facilitate power transmission from the south to the north of the country, and thus reduce its dependence on Uzbekistan and make electricity exports to Kazakhstan possible. The project has an estimated cost of US$400 million and is being financed by a loan from ExIm Bank. Chinese firms also participate as subcontractors in the construction of smaller hydroelectric power plants in these countries since these do not raise controversy. The main goals of Chinese engagement in this sector include gaining electricity sources for Xinjiang, to prevent the collapse of the region's weakest states (Tajikistan and Kyrgyzstan) and to support the development of electricity exports to Afghanistan, and thus contribute to its stabilisation.

2.3.3. Telecommunication

The telecommunication sector is not so spectacular in terms of investments, but is still an interesting area of Chinese commercial activity. ZTE, a telecommunication firm from China, has its mobile network operator only in Tajikistan (TK Mobile), but Chinese firms are playing an essential role in providing communication solutions to all the countries in the region. It cannot be ruled out that the capability of using Chinese technologies for monitoring the public in the authoritarian Central Asian states is a helpful factor in this co-operation.

2.3.4. Agriculture

China is also interested in agricultural co-operation by leasing arable land from Tajikistan, Kyrgyzstan and Kazakhstan.

However, these issues come in for enormous public resistance fuelled by anti-Chinese phobias, and do not play a major part in bilateral co-operation as yet. Meanwhile, China is becoming an increasingly important recipient of grain from Kazakhstan.

2.3.5. Common investment funds

Kazakhstan is the only country where China is involved in this kind of co-operation. The Kazakh holding Samruk-Kazyna and its Chinese partner, CITIC, established an investment fund worth US$200 million in 2009. The fund's overriding goal is to back infrastructure development beyond the oil and gas sectors. In turn, in 2010, Samruk-Kazyna and billionaires from Hong Kong (Li Ka-shing, Larry Yung and Cheng Yu Tung) decided to create a private investment fund worth US$400 million. This fund will primarily be involved in helping large Kazakh mineral corporations (e.g. Kazakhmys) enter the Hong Kong stock exchange[63]. During President Nazarbayev's visit to China in 2011, the parties agreed to establish an investment fund worth US$1 billion, which would invest in both countries. The emergence of such funds is a proof of growing capital connections between Kazakhstan and China, and could also signify that joint investments in the Kazakh mineral resources sector will be made in the future. This kind of co-operation looks set to develop further due to China's significance as a source of capital for investments.

2.4. Trade

China is also beyond any doubt the most important trade partner for Central Asia. Even if the estimated value of gas exports from Central Asia is added (which is not taken into account in the statistics of the Russian Federal Customs Office), China became the region's key partner in 2011, outperforming Russia. In 2012, China's advantage over Russia in the region's trade balance grew even further (cf. Table 6). Given China's economic potential and the desire of the countries of Central Asia to develop trade, and also the lack of effective means to counteract Chinese expansion, trade volumes are set to rise even more intensively. Increasing imports of energy raw materials from the region (oil, gas and uranium) will be another catalyst. Trade development is also triggered by the development of transport infrastructure connecting the region with China (cf. 2.5. Transport infrastructure – the New Silk Road). The total trade balance

[63] http://www.bloomberg.com/news/2010-10-14/kazakhstan-hong-kong-billionaires-li-cheng-yung-plan-fund-premier-says.html

is unfavourable for the region, but this is not the case with the region's largest oil and gas exporters, Kazakhstan and Turkmenistan.

What also helps in trade development is the fact that the international currencies are not used in settlements between the countries, and thus currency risk is avoided. China wants to replace the dollar with the yuan in mutual settlements. The first results of this strategy included the currency swap agreements signed with Kazakhstan and Uzbekistan in 2011. This added significance to the national currencies.

The goods predominant in China's exports to Central Asia are: consumer goods, and machinery and equipment. In turn, Central Asia is a source of raw materials for China, and exports oil, gas, uranium and other mineral resources (copper and lead), grain and cotton.

Table 6. The volumes of imports to individual Central Asian states from China and Russia (US$ million)

	Kazakhstan		**Kyrgyzstan**		**Tajikistan**		**Turkmenistan**		**Uzbekistan**	
Year	From China	From Russia	From China	From Russia	From China	From Russia	From China	From Russia	From China	From Russia
2003	1,566	3,279	245	161	21	128	79	222	147	512
2004	2,212	4,664	493	268	53	183	85	242	172	767
2005	3,899	6,534	866	377	144	240	90	224	230	861
2006	4,752	8,967	2,113	561	306	378	162	229	406	1,087
2007	7,447	11,920	3,666	879	514	607	302	384	766	1,729
2008	9,820	13,299	9,214	1,308	1,480	794	803	808	1,277	2,038
2009	7,750	9,147	5,228	916	1,217	573	916	992	1,560	1,694
2010	9,280	10,690	4,100	991	1,375	673	522	757	1,179	1,889
2011	9,568	13,348	4,879	1,159	1,997	719	786	1,156	1,359	2,107
2012	11,002	14,558	5,073	1,634	1,748	678	1,700	1,251	1,784	2,325

Source: Statistical Offices

Table 7. The volumes of exports from individual Central Asian states to China and Russia (US$ million)

	Kazakhstan*		Kyrgyzstan		Tajikistan		Turkmenistan*		Uzbekistan*	
Year	To China	To Russia	To China	To Russia	To China	To Russia	To China	To Russia	To China	To Russia
2003	1,721	2,475	69	104	17	70	4	28	200	484
2004	2,281	3,429	109	150	15	76	14	43	403	613
2005	2,902	3,225	105	146	14	95	19	77	451	904
2006	3,607	3,840	113	194	18	126	16	80	566	1,292
2007	6,419	4,623	113	291	10	162	49	69	363	1,471
2008	7,726	6,379	121	491	20	213	28	100	330	1,300
2009	6,231	3,697	48	367	185	213	38	45	349	847
2010	11,034	4,449	70	393	56	214	1,045	148	1,299	1,557
2011	15,329	7,146	98	293	72	89	4,693	143	807	1,860
2012	14,647	7,870	88	195	109	67	8,022	183	1,091	1,390

Source: Statistical Offices

***** Gas exported by Central Asian countries is not taken into account in the export data. Since 2011, natural gas has been purchased exclusively by Gazprom's subsidiary, Gazprom Schweiz[64]. The estimated value of gas purchased in Central Asia in 2011, according to Gazprom Schweiz's report, was approximately US$8 billion (the company stated 8.18 billion Swiss francs as a cost linked to gas purchase in 2011)[65]. These estimates correspond to media reports on the gas price, which is around US$250 per 1,000 m³ of gas.

Table 8. Central Asia's trade volumes with Russia and China in 2011 and 2012

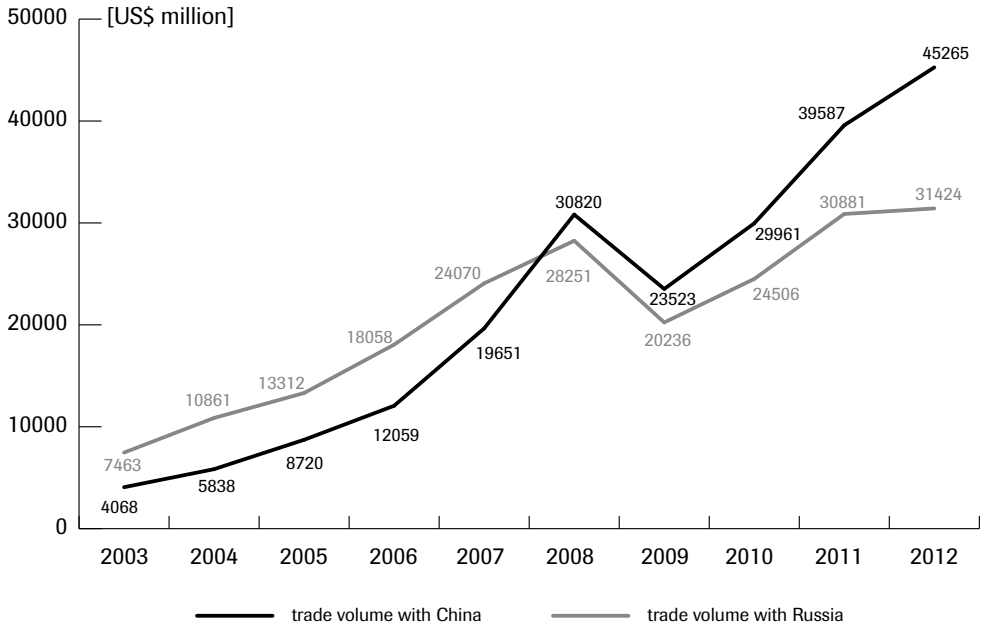
	2011			2012		
	imports	exports	trade volume	imports	exports	trade volume
from/to China	18,589	20,998	39,587	21,308	23,957	45,265
from/to Russia	18,489	12,392	30,881	20,446	10,978	31,424

Source: Statistical Offices

64 http://www.gazprom-schweiz.ch/en/company.html

65 http://www.gazprom-schweiz.ch/en/publications.html during the purchase of 35 billion m³ of gas from the Caspian region (including 1.5 billion m³ from Azerbaijan).

Chart 1. The dynamics of Central Asia's trade with Russia and China in 2003-2012 (source: Statistical offices)



2.4.1. Kazakhstan

Kazakhstan is China's most important trade partner in the region, in terms of both imports and exports. The high trade volumes have been generated by exports of oil, uranium and metals from Kazakhstan to China. Trade development is stimulated by both countries through the construction of adequate transport infrastructure (railways and roads) and the creation of modern transport-and-trade centres located on the borders. Besides the Jeminay and Alatau trade centres which have been in operation since the early 1990s, the most spectacular example is the trade-and-transport centre, which is being built in Khorgos next to the border. Both Kazakhstan and China are also introducing legal solutions to stimulate trade. Kazakhstan is also planning to create a special economic zone around Khorgos and to embark upon industrial development with the aid of Chinese investors and a Chinese workforce (*sic!*). Khorgos is expected to become a gateway to Asia for Kazakhstan, while for China it will be a way to gain access to the area of the Customs Union and a transmission belt for Chinese products to be sent further on to Europe.

KHORGOS

The Khorgos International Border Co-operation Centre is a land transit port and a logistics hub on the Kazakh-Chinese border. A Special Economic Zone will operate here. The decision to build the centre was made in 2002, and the first part of the project was launched on 1 July 2011.

The busy Khorgos border checkpoint is the pivot of the centre. A visa-free zone for citizens of the two countries has been established within its area (they are allowed to stay there for 30 days solely on the basis of an identity card).

The Xinjiang–Khorgos railway line (which was put into operation in December 2012) runs through the zone. An international airport is earmarked for construction close to the centre (in 2018). The Central Asia–China gas pipeline also runs next to Khorgos (from Turkmenistan via Uzbekistan and Kazakhstan – in five years' time this will be the most important gas export route running from Central Asia). Khorgos is situated approximately 320 km from Almaty and 670 km from Urumqi.

The centre will cover an area of 528 hectares (185 hectares on the Kazakh side and 343 on the Chinese side). **Transshipment terminals** will be built there. Five terminal sectors are planned, including a goods processing sector. The centre's annual transshipment capacity is planned to reach 120,000 goods containers.

According to estimates from the Japan International Co-operation Agency, **the annual volume of shipments transported via the port** will grow from 19 million tonnes in 2008 to around 46 million tonnes in 2020.

Khorgos is also a modern business complex, with offices, hotels, a conference and exhibition centre, a sports-and-recreation and culture-and-entertainment complex, and an ethnographic park. A sewage system and treatment plant, a landfill and waste processing and recycling plants will also be built as part of the project.

The estimated project implementation cost is approximately US$3.5 billion.

Gateway to the East: the Special Economic Zone (being established in the immediate vicinity of Khorgos)

The Special Economic Zone will cover **5,840 ha of the frontier Panfilovskiy Region** (Almaty Province).

The zone is expected to contribute to the creation of 220,000 new jobs, and its annual income will reach around US$1 billion.

The Kazakh part has been granted the status of a Special Economic Zone. A zero VAT rate is expected to be imposed on goods manufactured within this zone. Furthermore, the zone will be exempted from social tax, and special, simplified procedures for employing citizens from third states will apply there.

2.4.2. Uzbekistan

Uzbekistan, like Turkmenistan, has the lowest import levels from China and a relatively low negative trade balance (approximately US$ 700 million in 2012). This is an effect of the protectionist policy adopted by the Uzbek government, which is attempting to protect the country from being flooded with cheap Chinese goods and is imposing prohibitive customs duties on imports of consumer goods[66]. At the same time, the high import volume is generated by supplies of technologically advanced machinery and equipment from China, which are bought using Chinese loans. Uzbekistan exports to China primarily uranium and natural gas, and also cotton and gold. Considering the plans to increase gas exports to China and Uzbekistan's imports of equipment from China (backed by Chinese loans worth US$5 billion, granted in 2012), the trade structure could be maintained. Uzbekistan is interested in developing trade co-operation and investments from China, but only to a limited extent. This is due to the fact that Tashkent sees the South-East Asian (South Korea) economies as a model, and is unwilling to become dependent on China.

2.4.3. Turkmenistan

Turkmenistan's gas exports to China generated a positive trade balance of US$6.3 billion in 2012, an unprecedented result when compared to the other countries in the region. Given the plans to increase gas exports to China, Turkmenistan's positive trade balance is likely to be maintained. At the same time, the rapid increase in imports from China is linked to the engagement of

[66] http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews[tt_news]=39646&cHash=ec65823bc326166eb210879fcbdffc94

Chinese firms in the development of Turkmen gas fields (CNPC is operating on the right bank of Amu Darya, at the Bagtyyarlyk field, and is a subcontractor at Turkmenistan's largest field, Galkynysh). China has outpaced the other countries, and is undoubtedly the largest trade partner for Turkmenistan, whose economy is based on gas exports. This means that Turkmenistan's economy is too heavily reliant on gas exports to China when compared to other partners, and this could turn into political dependence.

2.4.4. Kyrgyzstan and Tajikistan

These two countries are primarily outlets for Chinese goods. Their exports to China are marginal and limited to raw materials produced by the countries and scrap metal. Their negative balances in trade with China are the largest in the region: in 2012 the levels were US$5 billion for Kyrgyzstan and US$1.7 billion for Tajikistan. Both countries import consumer goods, machinery and equipment from China, and these purchases – as is the case with the other countries in the region – are financed by Chinese loans. Kyrgyzstan also plays the role of regional hub for distribution of Chinese goods, and re-exports[67] them to the neighbouring countries, primarily to Uzbekistan and Kazakhstan. The two countries will keep their negative trade balance since, being the region's and the world's most economically backward countries, they have no potential to develop their exports. What plays a key role in developing trade with these countries is their WTO membership (Tajikistan finalised the accession procedures in 2013).

China is interested in extending trade relations. There are plans to establish a Kyrgyz-Chinese company, which would manufacture goods in Kyrgyzstan and thus reduce the negative impact of Kyrgyzstan's possible accession to the Customs Union[68]. The establishment of the Customs Union of Russia, Kazakhstan and Belarus alone has adversely affected the possibilities of exporting goods from Kyrgyzstan to Kazakhstan. However, it is impossible to state beyond any doubt that this has hampered the development of trade between China and Kyrgyzstan to a major extent. Imports from China were almost halved in 2009, i.e. before the

[67] Re-export of goods from Kyrgyzstan is not reflected in official statistics. This is outdoor market trading. According to CAREC estimates, it generates much greater volumes than official exports from these countries.
http://www.carecprogram.org/uploads/events/2011/14th-TPCC/Customs-Union-Impact--Kyrgyz-Republic-Tajikistan.pdf

[68] AKIpress, 12 June 2012.

Customs Union was established, as a consequence of the global economic crisis. Since then, imports from China to Kyrgyzstan have not reached 2008 levels. The reasons for this include both the poor economic situation in the country (especially in 2010 due to the coup and ethnic riots) and the restricted possibilities to re-export goods due to procedures introduced by Astana[69].

The Customs Union was established on 1 January 2010 by Russia, Kazakhstan and Belarus. It is the first stage in the integration process being pushed through by Moscow (its subsequent elements include the Common Economic Space, which was formally set up on 1 January 2012, and the Eurasian Union not yet established). All these projects are aimed at integrating the post-Soviet countries economically, and in the longer term also politically, with Russia being the leader. Kazakhstan is strongly opposed to this vision of the union. This country is determined to restrict its integration to economic issues alone, and is not ready to relinquish its ambitions to play an important role on the global arena for Moscow's sake[70]. Kyrgyzstan is clearly interested in joining the Customs Union.

2.5. Transport infrastructure – the New Silk Road

Chinese engagement in developing transport infrastructure in the region is unprecedented and covers infrastructure development in both Central Asia and Xinjiang in order to build cohesive transport corridors. There are two railway lines: from Urumqi to Astana and from Urumqi to Almaty[71], and three land ports with roads running to them in operation. China also supports the development of road infrastructure in Tajikistan and Kyrgyzstan, and is ready to back up such projects in these countries with loans (for example, the US$75 million loan for the rehabilitation of the road running from Osh to Irkeshtam by the Kyrgyz-Chinese border, the US$282 million loan for the reconstruction of the road from Dushanbe to Chanak (in Uzbekistan) and the US$200 million loan for the reconstruction of the Bishkek-Torugart road). The plans, in addition to further support for road development, include the construction of a railway line running from Kashgar to Uzbekistan via Kyrgyzstan and a railway line to Afghanistan (cf. Map 3).

[69] http://www.carecprogram.org/uploads/events/2011/14th-TPCC/Customs-Union-Impact-Kyrgyz-Republic-Tajikistan.pdf

[70] http://www.osw.waw.pl/en/publikacje/eastweek/2013-01-23/kazakhstan-distances-itself-moscow-s-integration-projects

[71] It was opened in December 2012.

Chinese firms are the most competitive in the region. It is for this reason that they are usually chosen as subcontractors for the projects sponsored as part of the CAREC programme by international financial institutions (primarily in Tajikistan and Kyrgyzstan). Air connections from Central Asia to Urumqi and other parts of China are also rapidly developing. Investments in infrastructure development in Central Asia are made primarily by financial institutions implementing the CAREC programme (cf. Map 4).

The CAREC programme covers ten countries, including all the Central Asian states, and is aimed at supporting regional co-operation through the development of transport and trade infrastructure (such as border checkpoints, etc.). Six transport corridors running through Central Asia are also being developed using CAREC funds. The programme's donors are: the Asian Development Bank, the EBRD, the IMF, the Islamic Development Bank, the UNDP and the World Bank. Over one hundred projects worth more than US$17 billion were executed as part of the programme between 2001 and 2011[72]. Beyond any doubt, CAREC is the key source of funds for the development of transport infrastructure (other than energy) in the region[73].

One of the goals of China's engagement in infrastructural projects is to create durable connections between the states of Central Asia and Xinjiang. The new infrastructure is expected to nurture trade developing between Xinjiang and the countries of Central Asia, to reinforce China's presence and to make the countries of Central Asia stronger. Infrastructural connections between Central Asia and China are developing at a much more rapid rate than those with other neighbouring countries. Furthermore, the infrastructure which is built by other donors or the Central Asian states themselves will anyway be used for the development of trade between China and the region, and for transforming Central Asia into a transit platform for Chinese goods. This will inevitably lead to a further enhancement of the economic bonds between Central Asia and China, and a continuing decrease in Russia's significance.

[72] The list of transport projects: http://www.carecprogram.org/index.php?page=transport-projects

[73] http://www.carecprogram.org/index.php?page=projects-list

3. The instruments of co-operation: loans and the SCO

3.1. Loans

To stimulate the development of co-operation with the countries of Central Asia, China lavishes loans on them for infrastructure development and for the import of Chinese goods, above all machinery. The loans are also secured on the basis of future supplies of raw materials from Central Asia.

Until 2009, the key recipients of Chinese loans were Tajikistan, followed by Uzbekistan and, to a much lesser extent, Kyrgyzstan. Kazakhstan and Turkmenistan did not take Chinese loans. China was not the main source of loans to Central Asia in this area, either; it lagged far behind international financial institutions. The region's countries became more interested in Chinese loans due to the economic crisis and, in the case of Turkmenistan, the crisis in relations with its key trade partner, Russia.

Chinese loans are expected to boost infrastructure development, trade and access to natural deposits, and possibly supplies of raw materials from the region. Characteristically, in the case of loans granted for infrastructure development and plant modernisation, Chinese firms operate as subcontractors and suppliers of technologies and manpower. In trade, meanwhile, Chinese loans are used to buy Chinese products. Similarly, in exchange for loans granted for the development of natural deposit sites, China expects supplies of these natural resources.

Turkmenistan is the region's most indebted country. In 2009 and 2011, it signed loan agreements with Chinese institutions worth a total of US$8.1 billion, making up over 90% of this country's total estimated foreign debt. Turkmenistan had traditionally used hardly any external forms of financing, but in 2009 it was forced to take a Chinese loan in order to stabilise its financial situation in connection with the crisis in relations with Russia and the withholding of gas supplies to Gazprom[74]. The next loan, granted in 2011, was needed to fund the development of Turkmenistan's largest gas field, Galkynysh. In exchange for this loan, Turkmenistan agreed to guarantee additional supplies of gas at 25 billion m^3 (cf. Table 1), and CNPC is set to be a subcontractor at the field. It is highly likely that part of the debt will be repaid with gas supplies.

[74] Gas supplies to Russia were interrupted following the explosion at the Central Asia–Centre gas pipeline in April 2009. Supplies were resumed in December 2009, however at a level almost four times lower than before the explosion.

Table 9. Turkmenistan's foreign debt

Loan provider	Debt value	Debt share
China	US$8.1 billion (August 2011)*	91.6%
ADB	US$125 million (31 December 2011)**	1.4%
IDB	US$613 million (25 November 2011)***	7%
total	US$8,838 million	

Source: Own estimates based on data from IDB, ADB and press agencies

* Chinese loans are not taken into account in the estimates of international financial institutions, e.g. the IDB and ADB.

** http://www.isdb.org/irj/go/km/docs/documents/IDBDevelopments/Internet/English/IDB/CM/Publications/Member_Countries_Facts_Figures/FactsFigures2012.pdf

*** http://www.isdb.org/irj/go/km/docs/documents/IDBDevelopments/Internet/English/IDB/CM/Publications/Member_Countries_Facts_Figures/FactsFigures2012.pdf
http://www.adb.org/countries/turkmenistan/main

China's second largest debtor is Tajikistan, which took a Chinese loan for the first time in 2008. In five years, China has become Tajikistan's main creditor in the area of bilateral loans (its share has reached 84%), replacing Russia, whose share in bilateral loans granted to Tajikistan stood at 39% at the end of 2007 and fizzled out completely in 2012. Chinese loans are given primarily for the development of infrastructure in Tajikistan (power supply lines, roads, etc.) and for the purchase of Chinese goods. Tajikistan is also ready to take more loans from China; for example, in 2012, it was announced following President Rahmon's visit that China's investments and loans to Tajikistan would reach a total of US$1 billion[75].

[75] http://www.jamestown.org/programs/edm/single/?tx_ttnews[tt_news]=39503&cHash=c09678c17ad8078ba5cb0cc1e14c0431

Table 10. Tajikistan's foreign debt (as of 1 January 2012)

Country	Debt value	Foreign debt share
China	US$878.5 million	41.3%
Russia	0	0
total	US$2,124.3 million	

Source: Ministry of Finance of Tajikistan[76]

Uzbekistan, which had not previously been willing to enhance co-operation with China, became more interested in Chinese loans over the past two years. Although it had obtained a loan worth hundreds of millions of dollars in 2006, the key creditors were international financial institutions and Asian countries, including South Korea. At present, Uzbekistan is using Chinese loans for the purchase of machinery and equipment necessary to improve the country's production facilities and to develop its energy sector, including transport infrastructure.

Uzbekistan's foreign debt

The country's total debt estimated by CIA Factbook reached US$10.5 billion at the end of 2012[77]. The estimated value of Chinese loans allocated to Uzbekistan stood at US$4.5 billion in September 2012[78]. The greater part of this sum was most likely allocated in 2012, when the agreement on the loan of US$2.5 billion for the construction of the third branch of the gas pipeline running to China and the US$1.5 billion credit line agreement were signed.

Kyrgyzstan has used Chinese loans to a limited extent, but it is constantly striving for more. China's share in this country's total foreign debt is relatively low (17.4%). Like Tajikistan, Kyrgyzstan is also using Chinese loans to finance the development of energy and road infrastructure and for buying machinery and equipment. The ratio of foreign debt to the volume of trade between the two countries clearly indicates that Kyrgyzstan imports mostly consumer goods from China.

[76] http://minfin.tj/downloads/files/otjet-2011.pdf

[77] https://www.cia.gov/library/publications/the-world-factbook/geos/uz.html

[78] http://uza.uz/en/politics/3017/

Table 11. Kyrgyzstan's bilateral loans (as of December 2012)

Country	Entity	Debt value	Foreign debt share
China	Bank Export-Import	US$527.5 million	17.4%
Russia	government	US$488.9 million	16.1%
Total debt		US$3,031.8 million	

Source: Ministry of Finance of Kyrgyzstan[79]

For Kazakhstan, Chinese loans are primarily a source of funds for the construction of new infrastructure (gas pipeline). Kazakh companies are taking loans from China in order to develop their raw material production base (e.g. the loan granted to the copper potentate, Kazakhmys, for the development of new production sites). Chinese loans are also used to modernise and develop the country's energy sector, e.g. the loan for the construction of the petrochemical complex in Atyrau, where China's SINOPEC is a project subcontractor.

The global financial crisis and problems with obtaining loans for development from international financial markets (partly due to the default of Kazakhstan's largest bank, BTA, in 2009) have been of key significance for the expansion of Chinese loans in Central Asia. China is the source of almost 11% of Kazakhstan's total debt. The level of financing from China is likely to be maintained in the coming years, given the work on C branch of the gas pipeline running to China, but its significance may decline, since it is primarily international consortiums engaged in the work at Kazakhstan's largest oil fields who will be taking the loans, and also because Kazakhstan is currently promoting the policy of using its own financial sources (e.g. pension funds) to finance the development of its economy.

[79] http://www.minfin.kg/index.php?option=com_content&view=article&id=1923:-------c-1992-2012--31122012&catid=61:2010-10-05-10-30-35&Itemid=131

Table 12. Kazakhstan's foreign debt (as of September 2012)

Country	Debt value	Foreign debt share
China	US$14.65 billion	10.9%
Russia	US$3.96 billion	2.9%
Total	US$134.88 billion	

Source: National Bank of Kazakhstan[80]

3.2. The Shanghai Cooperation Organization (SCO)

The SCO is also seen by China as a tool for economic co-operation with Central Asia. This is the purpose the Business Council was set up for as part of the organisation in 2003, and the SCO Interbank Consortium was established in 2005. China was also hoping that a free trade zone would be created within the SCO framework. Furthermore, for more than a half of the past decade, China was offering loans to the countries of Central Asia almost exclusively as part of the SCO. This policy has been adjusted due to resistance from Russia, which does not want the SCO to be transformed into an efficient economic organisation, and is even creating competitive institutions (the EurAsEC, and since 2010, the Customs Union and the Common Economic Space). Finally, Beijing has chosen to develop bilateral economic co-operation. The best example of this is the multi-billion loans granted to Kazakhstan and Turkmenistan in 2009. This means that China is ready to develop bilateral co-operation in the areas which it sees as important, regardless of the Russian stance. Nevertheless, Beijing will not give up its efforts to transform the SCO into an economic co-operation platform, and it has upheld its offers to grant loans within the organisation's framework (in December 2012, it declared its willingness to allocate US$10 billion as loans to SCO member states). China also wants an SCO bank to be established, which would become an institution supporting economic development as part of the organisation and which would be in charge of granting loans. These ideas have been backed by the countries of Central Asia. It should be expected that Beijing will continue its efforts to transform the SCO into a regional co-operation platform, and will also develop bilateral co-operation independently of Russia.

[80] http://www.nationalbank.kz/?docid=346

4. The balance of economic co-operation

4.1. The geopolitical dimension

The depth and the potentially long durability of the economic bonds (achieved through the development of infrastructure) between China and Central Asia offer Beijing the opportunity to influence the region's politics and security issues. China has apparently not used the influence to the full here. The reasons for this include its attachment to the principle of refraining from interfering with the political processes in the region, the lack of a concept for such interference and its unwillingness to have a confrontation with Russia. However, the increasing debt which the countries of Central Asia owe to China could in future be used to force these countries to make political concessions.

The success of the policy seen this way depends on Russia's presence and success in the area of security in Central Asia, as well as – contrary to official statements full of criticism towards Washington – on the success of the US and NATO stabilisation mission in Afghanistan. China's economic presence is still nonetheless too small, and other tools have not been sufficiently developed (military) or verified (political) for China to play the role of regional hegemon by itself.

China's increasing economic presence, especially in the energy sector, poses a challenge to Russia and the West in their rivalry for access to Central Asian natural resources. Even though China's presence in the Central Asian energy sector has been presented in Russia by politicians and the media as being beneficial for Russia (making exports of raw materials from the region to the West more difficult), in practice, China's engagement is seriously jeopardising Russian interests in the region. It is precisely due to China's activity that Russia can no longer see the region as its exclusive source of raw materials. It is also competition from China which has forced Russia to liberalise the rules of its co-operation with the countries of Central Asia. Furthermore, increasing imports of raw materials from Central Asia to China has also been used as an argument in Chinese-Russian negotiations regarding gas supplies. Central Asia has thus become Russia's competitor on the Chinese market. China's economic engagement has also laid bare just how unattractive the offer from Russia is and it is no longer seen as the key sponsor and economic patron of the region.

In the case of the West, which has for two decades been seeking for opportunities import raw materials from Central Asia, the Chinese activity has revealed

the ineffectiveness and unattractiveness of the offer presented by the USA and the EU. Competition from China is forcing the West to come up with an offer comparable to China's. Nor does the West have an alternative but to change its stance on human rights issues within the broad meaning of the term, if it wishes to establish closer economic co-operation.

Regardless of this, given increasing fears of Chinese influence, the countries of Central Asia are more frequently making attempts to counterbalance this influence. Signs of this have included Kazakhstan's accession to the Common Economic Space (along with Russia and Belarus) and Kyrgyzstan's declared will to join this organisation.

4.2. The economic dimension

Over the past decade, China has become the key economic partner, the main sponsor and the most promising partner in future co-operation for Central Asia. This has been a consequence both of China's growing significance as a global player and of its activity in the region. Despite the difference in the levels of co-operation between individual Central Asian states with China, this co-operation is the key element of the economic policy of each of these states. Central Asian countries are unable to withdraw from or even reduce their economic co-operation with China. This means a serious difference in potentials: China, for which co-operation with Central Asia is of minor economic significance, has gained an enormous tool for influencing the region.

As regards the energy sector, China is the only player to have successfully implemented its interests in the region. One measure of the success of Chinese policy is the fact that almost all[81] new routes used for the transport of raw materials from Central Asia put into operation over the past ten years are running in the eastern direction. It is co-operation with China that has made it possible to break the Russian monopoly, diversify the routes and recipients, and strengthen the states in this region. At the same time, it is precisely the development of exports of energy raw materials to China that has the greatest potential: in the short-term, China will become the most important recipient of natural gas from Central Asia. This means that the region's (above all, Turkmenistan's) dependence on China will grow.

[81] One exception is the gas pipeline running from the Dauletabad field to Iran, which was built in 2010 at the time of a major gas crisis between Turkmenistan and Russia. However, it is not used at full capacity.

The process of transforming the region into a transmission belt for Chinese goods exported to the West and the Middle East is also rather advanced. The most important trans-regional connections run through Kazakhstan, thus connecting Russia with China. Routes connecting the region with the Middle East are also being developed (the railway line from Kazakhstan via Turkmenistan to Iran). Furthermore, the construction of these connections has backing from the West[82] as a means of providing economic assistance to the countries of Central Asia. China is an inevitable element of this policy. This means that the newly constructed infrastructure will contribute to durable bonds being forged between the region and China.

China has been able to achieve its goals even though it has no major assets in the region. The success of its policy is an effect of its adaptability to the conditions created by the countries in the region. China is capable of investing in the development of energy infrastructure without gaining control over it, of financing the development of oil and gas fields without holding shares in them, and of developing trade by offering enormous loans for the purchase of Chinese equipment. In effect, it has become the most important trade partner for the region and is starting to be the main recipient of energy and mineral resources.

[82] The so-called "New Silk Road" has been backed by the USA; see for example the statement made by then US Secretary of State, Hillary Clinton, in October 2012.

IV. CHINA'S PRESENCE IN CENTRAL ASIA IN THE SOCIAL DIMENSION – THE ACHIEVEMENTS OF THE PAST TWO DECADES

In parallel to its ambitious political and economic activity in Central Asia, China faced the need to develop a model for functioning in Central Asian societies. Recent key challenges have included overcoming distrust among residents of the region towards China, and developing the contacts necessary to implement its economic and political interests, and, in strategic terms, creating an image of China as an appealing civilisational model so as to strengthen China's position against Russia and other players.

The attitude towards China which the residents and states of Central Asia have has been burdened with strong distrust and historical resentments (the aforementioned negative perception of the policy China has adopted towards the Uyghur people, coupled with the baggage of Soviet and Russian anti-Chinese propaganda).

The fears of mass migrations from China to Central Asia (strongly mythologised), changes in the ethnic structure, etc. have been very strong among the young Central Asian states and societies (the colonisation of Xinjiang province by Han Chinese has provided good grounds for these fears). Other potential sources of threat were land purchases by Chinese people and business competition on many levels. These two issues gave rise to tension and public protests. In the case of 'land defence' these included the protests in Kyrgyzstan which resulted in the overthrow of the government after the scale of border adjustments in favour of China had been revealed (2002). An example in Kazakhstan saw people protesting against leasing land to Chinese people with an undertone of corruption and politics[83]. The fears of the market being flooded with Chinese goods and of unfair competition from Chinese traders and businessmen were expressed with equal strength. These gave rise to protests (leading even to local clashes at marketplaces) entailing legislative action restricting the freedom

[83] Protests were seen in December 2009 and January 2010. Possibly as many as 2,500 people took to the streets in 2010 in Almaty. Corruption charges brought against President Nazarbayev's extremely influential son-in-law, Timur Kulibayev were the immediate cause of the demonstrations (Kulibayev was reportedly corrupted by Chinese investors and was for example lobbying for Chinese citizens to be allowed to lease land). The demonstrators called for the dismissal of Prime Minister Karim Massimov, who is believed to be the author of the policy establishing closer relations with China, and demanded the Chinese loan be given up (US$10 billion granted in 2009).

of operation for Chinese traders. For example, in 2003–2004 Uzbekistan introduced a number of laws resulting in the concentration of imports of goods sold at marketplaces in the hands of a small group of Uzbek wholesalers. In turn, Kyrgyzstan imposed a formal (albeit unenforceable) ban on foreigners working at marketplaces (2007). Anti-Chinese sentiments have reverberated widely in both media publications and political discourse (for example, they are a constant element in parliamentary debates in Kazakhstan; and protecting Kyrgyzstan from Chinese domination was among the issues on the agenda in the electoral manifesto of the Ata-Zhurt party in 2010[84]).

The special characteristics of Central Asia, including the scale of anti-Chinese sentiment, which are reflected in the stances taken by each of the countries' approaches, have created an exceptional situation: unlike with other areas where China is very active economically (from South-East Asia to Russia's Far East), no strong migration pressure has been observed here so far[85].

Both China's constantly growing potential and ambitions, as well as the scale of its economic and political interests, are causing increasing concern and creating a situation wherein the Central Asian public are pinning more and more hope on the possible benefits of co-operation with China. Furthermore, China has more and more instruments to influence its neighbours. Along with enhancing direct trade contracts (including numerous trips for residents of Central Asia to China), this is also reflected primarily in education. One special example of this is the constant development of the network of Confucius Institutes across the region, promoting Chinese culture and the language: by 2009 six Confucius Institutes had begun operation in Central Asia, the most buoyant of which (at the Al-Farabi University in Almaty) has already educated over 2,000 students. In parallel to this, the attractiveness and the offer of Chinese higher education for Central Asia is constantly improving (the key academic centre being Urumqi). This not only offers the opportunity to learn an appealing foreign language, but also ensures a relatively high level of technical and

[84] Cf. http://www.youtube.com/watch?v=4F5j3gSdoYc&feature=related

[85] The official data on Chinese migration does not take into account illegal migration, which is most widespread in Kazakhstan and Kyrgyzstan: traders working at local marketplaces predominantly hold tourist visas and frequently extend their stay illegally. This is probably the reason why the estimates differ so much, ranging between 70,000 and 300,000 for Kazakhstan, and between 10,000 and 100,000 in the case of Kyrgyzstan. It should also be assumed that an essential proportion of Chinese citizens linked to Central Asia are still not the Han Chinese but Uyghurs. The presence of Chinese citizens in Tajikistan is of a different nature; they are predominantly employed at infrastructural projects.

medical education[86]. The Chinese language learning offer is also constantly being enhanced in Central Asia, both at university level (at least ten universities in Kazakhstan and several in Kyrgyzstan) and in the form of individual courses[87].

Given China's rapidly developing economic activity and growing political position, the social dimension appears to be the most difficult and, so far, the least successful manifestation of its presence in the region, including when compared to its political and civilisational competitors. In this area, China is far behind Russia, whose influence has been rooted in this region for two centuries, and which still has the most appealing and widespread cultural models (at the level of both high and pop culture). Since relatively many residents of Central Asia speak Russian, and considering the similarity of the institutions and the mechanisms public life, Russia is still easily accessible and appealing, for instance, as a labour market and a migration direction. China is also unable to compete in culture and education with Turkey and the West, whose presence in Central Asia in these areas is strong. However, given the clearly worse starting position (not to mention the fact that Russia, Turkey and the West were viewed quite positively following the collapse of the USSR) and the delayed start time (a more extensive Chinese offer has been addressed to the region's public in the past decade, while Western, Turkish and Muslim institutions have been active there since the collapse of the USSR), China's position has been growing at an significant rate. Considering the expected continuous growth of its economic attractiveness and political position, China's position in the social dimension is also likely to improve already in the medium term, especially among the most active and influential groups of the Central Asian public.

[86] In 2010, the number of students from Kazakhstan exceeded 6,500, which means a 350% increase in comparison to 2006 (the studies are financed by the students themselves, as part of national scholarships, including the Bolashak programme, as part of the scholarship pool financed by Beijing – 200 students annually as part of the SCO scholarship programme – and also by Chinese firms, including CNPC). Over 500 students from Tajikistan are studying in China. The Kyrgyz-Chinese intergovernmental agreement provides for 27 scholarship holders annually. The number of students who organise their education in China by themselves is difficult to estimate.

[87] Based on press advertisements and own observations.

V. CONCLUSION – FUTURE CHALLENGES

The achievements of the past two decades in relations between China and Central Asia are impressive. From the level in 1991, characterised by a lack of direct relations and enormous mutual distrust, China has gained the position of strategic economic partner and a player with a real impact on the Central Asian economies. It is also becoming more and more clear that the scale and nature of China's economic engagement in Central Asia is fundamentally affecting the region's politics and global position. Importantly, each of the Central Asian countries is part of these processes and, furthermore, they are beneficiaries of these processes. If the current trends and their dynamics are continued, it may be expected that China's significance, including political, in the region will continue to grow.

The success of the Chinese strategy towards the region is at contrast with the relatively low success rate of its geopolitical competitors: Russia and the West (the USA and the EU).

Although Russia is deeply rooted in the region and still has a strong position here, it has failed to develop a concept for the region's development in line with its expectations. Russia's actions are conservative and defensive; their goal being to preserve the old bonds in the areas of security and economy, and in doing so to maintain its political position.

Actions taken by the West are focused on individual sectors: in the area of security they are signified by the US military presence in Central Asia, while in the energy sector attempts are made to build oil and gas export routes running from the region to the West, bypassing Russia. As regards security, it can be assumed that the US presence in Central Asia in this area will be reduced to a minimum as the mission in Afghanistan is wound up (2014). As regards the energy sector, attempts to build new routes will run up against serious resistance from Russia and economic competition from China. In this context, one should expect a constant increase in China's political significance in Central Asia and continuously strengthening connections between the region and China. At the same time, each of the Central Asian countries will be making attempts to create a counterbalance for China through developing further cooperation with Russia and the West.

However impressive the successes and the dynamics of Chinese policy in Central Asia are, China is still far from gaining the position of key player in the

region, and its political and economic influences are not secured. This is due to China's political restrictions revealed so far and, to an even greater extent, to the development of the situation inside Central Asia and within its immediate neighbourhood (Afghanistan). Above all, the future of China itself, i.e. its ability to maintain stable economic growth and a further efficient evolution of the Chinese political and social model, remains an open question.

Despite the achievements of the past two decades, Central Asia is still unstable. In politics, changes in power in Kazakhstan and Uzbekistan, the continuing socio-political tension in Kyrgyzstan and Tajikistan, and the unpredictability of the internal evolution of Turkmenistan, are all huge challenges. It is also unclear whether the political system models these countries have developed will be durable. This problem is even more serious, since the region is undergoing major social changes: a new generation has grown up, strong demographic pressure is continuing, a revision of ideological and identity values has been observed, including the strengthening of national and state identity; this could potentially reduce the public acceptance of China's actions. This means that China's policy, which is fitted to the current model and based on today's leaders, is facing a serious test. In the medium term, the problem of the functionality of the present politico-economic model (and as a consequence of its evolution and the evolution of foreign policy) will also concern Russia and China itself.

Another serious challenge for China will be the development of the situation in Central Asia after the ISAF mission in Afghanistan has ended (2014), especially due to the radical reduction of US and NATO forces from Afghanistan and Central Asia, most likely followed by a total withdrawal. On the one hand, this would mean a reduction/end of the pressure on the western frontiers of China, and would be beneficial for Beijing in strategic terms. Nevertheless, the winding up of the mission in Afghanistan is seen as a portent of the breakdown of the existing unsteady order in Afghanistan and, as a consequence, of instability spilling over from Afghanistan to Central Asia (and further to Xinjiang). Even though the risks linked to the year 2014 are clearly exaggerated (especially as regards the capabilities and the desire of any Afghan political and military groupings to have an impact on Central Asia, let alone Xinjiang), China sees the need to develop a set of instruments that will allow it to influence security in Central Asia. The diminishment/disappearance of the US presence in Central Asia, China's increasing interest in Central Asia's security, and Russia's intensive efforts aimed at reintegrating the post-Soviet area (such as the development of the Customs Union, the plans to set up the Eurasian Union and the efforts to strengthen the CSTO) are all creating more room for increasingly

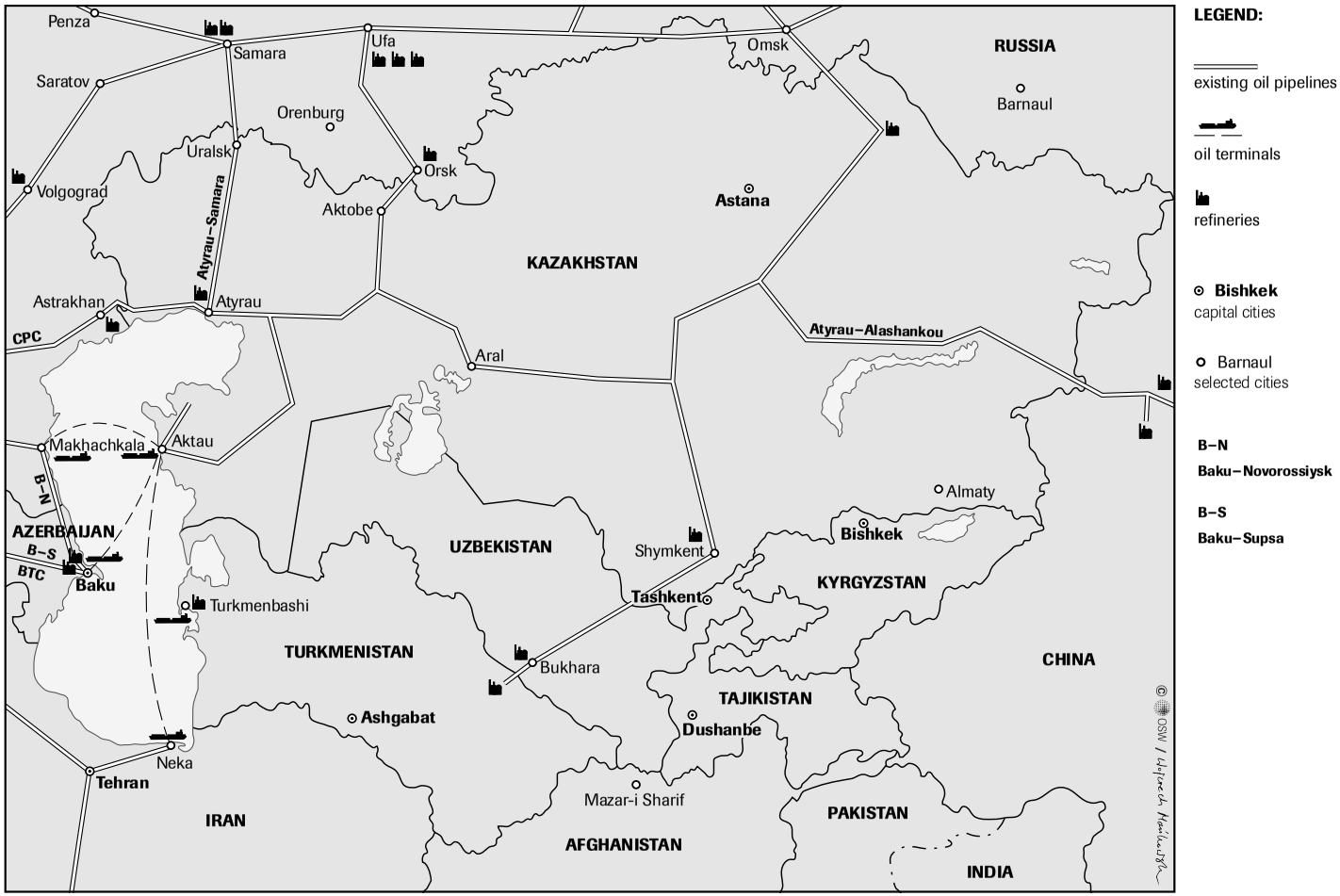
open rivalry in the coming years between China and Russia in Central Asia. This will scale up the opportunities and the risks the countries of Central Asia are facing at present.

The nature of the Chinese presence in Central Asia will also be influenced by the development of the global situation, especially in areas vital for the energy sector. A possible escalation of the problems in the Persian Gulf would add significance to Central Asia as a source of raw materials for China. A possible destabilisation in the Southern Caucasus (including the threat of conflict in Nagorno-Karabakh) would impede the development of transport routes running from Central Asia to the West, and would thus stimulate further development of co-operation with China.

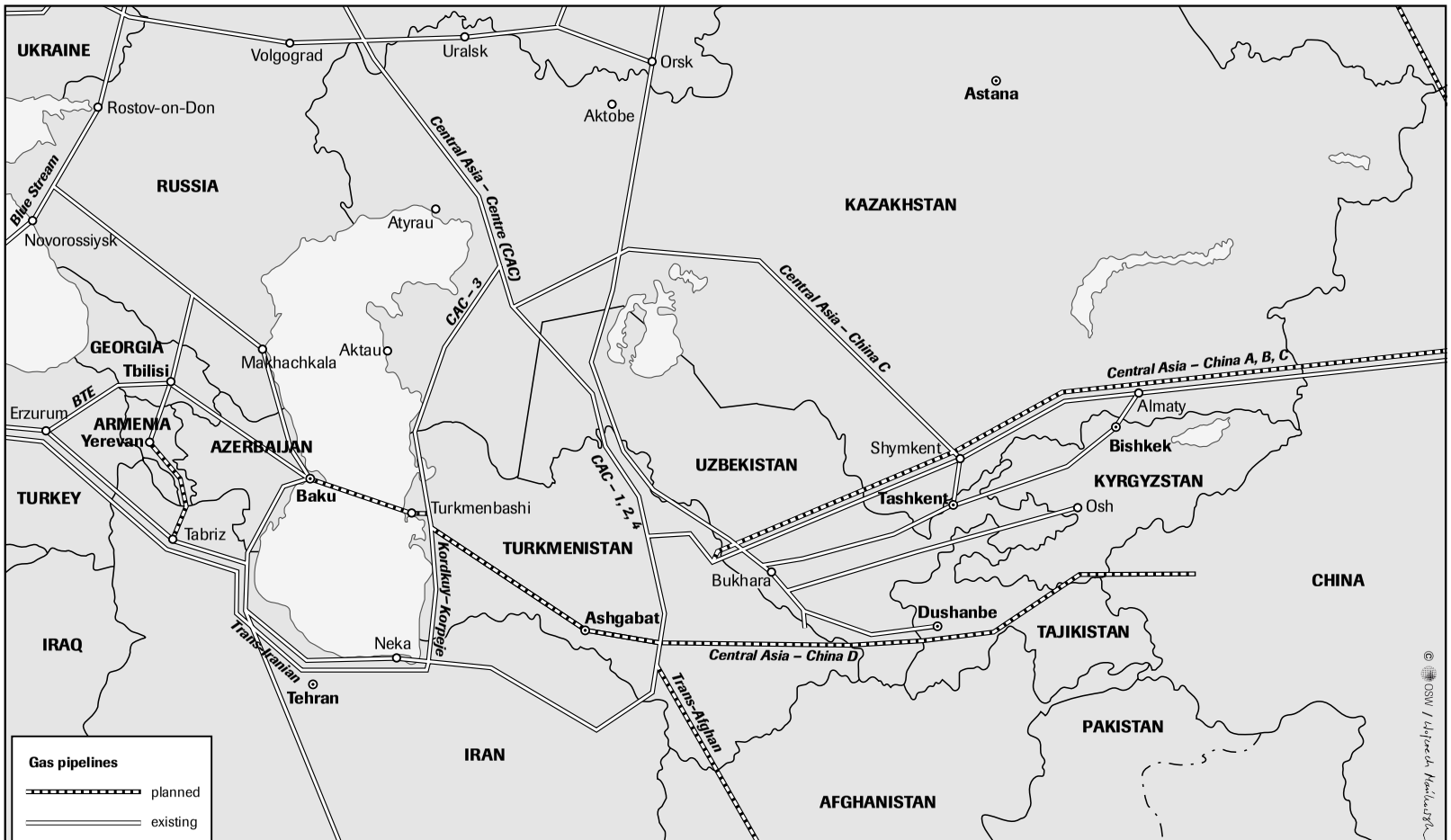
ALEKSANDRA JAROSIEWICZ, KRZYSZTOF STRACHOTA

Work on this text finished in July 2013

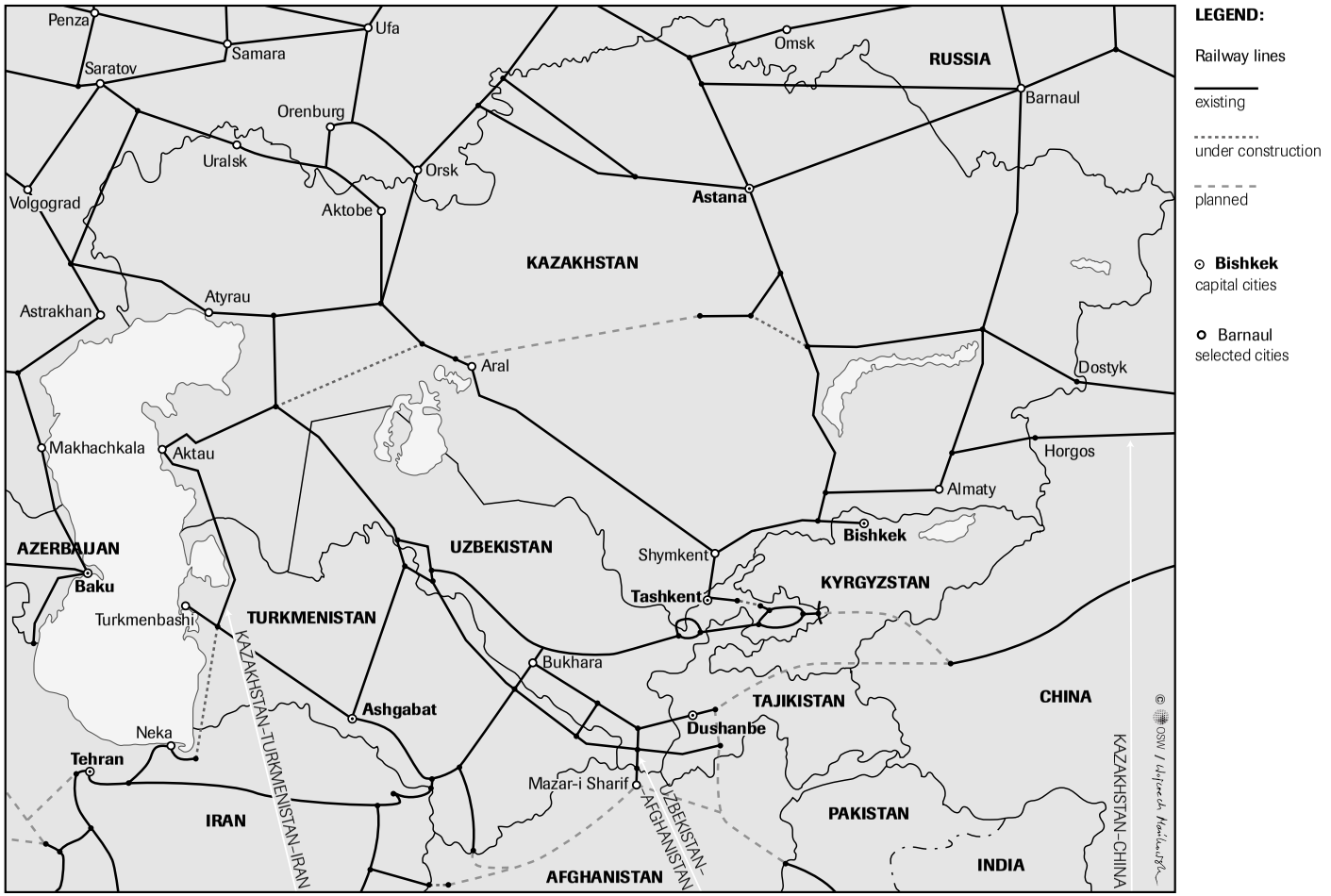
Map 1. Oil export routes from Central Asia



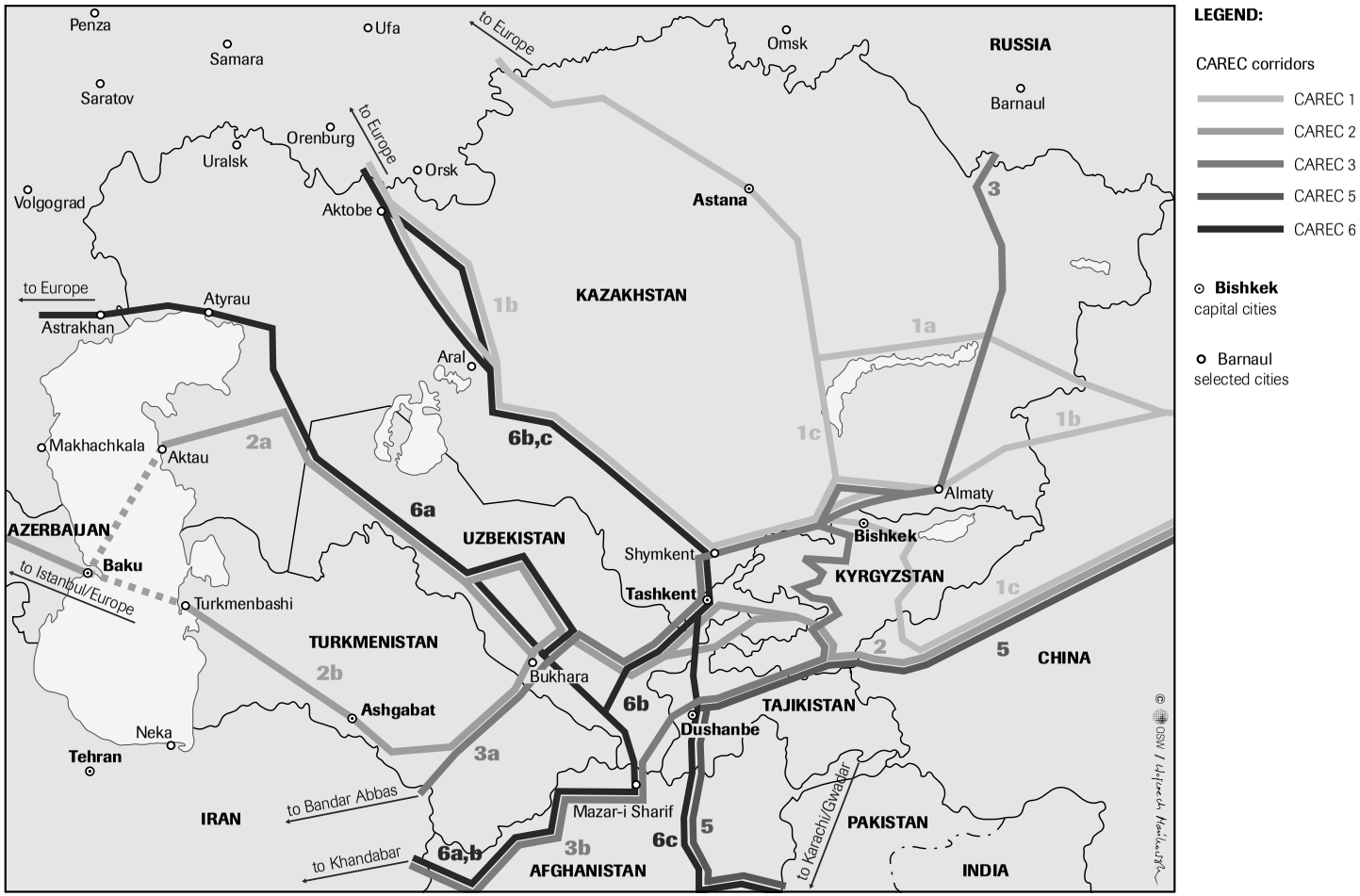
Map 2. Existing and planned gas pipelines in Central Asia



Map 3. Existing and planned railway lines in Central Asia



Map 4. Transport corridors being implemented as part of the Central Asia Regional Economic Co-operation (CAREC) programme



CAREC transport corridors in Central Asia

International financial institutions, such as the Asian Development Bank, the EBRD, the IMF, the Islamic Development Bank, the UN (UNDP) and the World Bank offer support for the development of six transport corridors, five of which run directly through Central Asia (CAREC corridor number 4 connects Russia via Mongolia with East Asia, and does not run through Central Asia), as part of the Central Asia Regional Economic Cooperation (CAREC) programme. The overriding goal of CAREC is to create connections within the regional network between Central Asian countries and, more precisely, between their economic centres. Furthermore, CAREC is expected to enable the creation of routes that will allow the countries of Central Asia, which are situated far away from seas and oceans, to gain access to the global market. The programme envisages that the emerging transport routes will over time transform into logistic routes (with the entire necessary logistic infrastructure) and later into economic corridors triggering development through the influx of new investments.

Corridor I: Europe–East Asia, runs through Russia, Kazakhstan and Kyrgyzstan. It consists of 13,600 km of roads, 12,000 km of railroads, one logistical hub and three airports. This is the corridor with the heaviest traffic.

Corridor II: Mediterranean Sea–East Asia, connects the Mediterranean Sea region and the Caucasus with East Asia running through Azerbaijan, Kazakhstan, Turkmenistan, Uzbekistan, Kyrgyzstan and China. This corridor consists of 9,900 km of roads and 9,700 km of railroads.

Corridor III: Russia–Middle East and South Asia, connects Russia's Siberia with the Middle East and South Asia running through Afghanistan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. It consists of 6,900 km of roads and 4,800 km of railroads.

Corridor V: East Asia–Arabian Sea, runs through China, Kyrgyzstan, Tajikistan and Afghanistan. This corridor consists of 3,700 km roads and 2,000 km railroads.

Corridor VI: Europe–Middle East and South Asia, consists of three routes running through Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan and Afghanistan to the Gwadar and Karachi ports in Pakistan and the Bandar Abbas port in the Persian Gulf (Iran). This corridor consists of 10,600 km of roads and 7,200 km of railroads.

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