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Forum



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SPECIAL NOTE

We are excited to have in this month's edition the first featured analysis by an outside contributor. *Central Asia in the Shanghai Cooperation Organization* by Farkhod Tolipov of the University of World Economy and Diplomacy in Tashkent, Uzbekistan in an excellent piece reflecting the top scholarship in Central Asia. We look forward to including many more outside contributions to the *CEF Monthly*.

NEW THIS MONTH ON THE WEBSITE

Please visit <http://www.chinaeurasia.org/LinksandPapers.html> for new links:

- China Data Online [in Russian]
- The China Debate (Asia-Pacific Center for Security Studies publication)
- Eurasia Research Center

View us online at <http://www.chinaeurasia.org/Newsletter.html>



- Update on Energy Sector Plans and Activities in China (Tsinghua University publication)

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ANALYSIS

1) SCO Update: The Official Launch of the Shanghai Cooperation Organization

By Matthew Oresman
Director, China-Eurasia Forum

On January 15, 2004, the doors to the secretariat of the Shanghai Cooperation Organization (SCO) officially opened. After over a decade of post-Soviet interaction between China and the former Soviet states on its border, including the founding of the Shanghai Forum and Shanghai Cooperation Organization, there is an institutionalized and permanent home for regional multilateral cooperation. And while a long road remains ahead of the SCO, the member states (China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan) have begun committing resources to the group and have indicated their firm commitment to see the SCO survive in a region where so many other international organizations have failed.

The secretariat, located in northeastern Beijing, will focus on the everyday, practical issues of the SCO. According to the People's Daily, "the SCO [secretariat's] main functions are to provide organizational and technical guarantees for the SCO's activities, to participate in the research and implementation of documents of various departments, and set forth suggestions for the organization's annual budget." The

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secretariat will be made up of three departments responsible for political and security affairs; economic, trade and cultural affairs; and press and legal affairs. The political division will prepare for the regular summits and meeting of the organization, and will likely play a role in drafting communiqués and agreements. The economic division has been charged with coordinating the 20-year development plan laid out at the September 2003 Heads of Government summit, which called for the creation of an SCO economic union.

The secretariat will have a permanent staff of thirty officers from all member states. They are led by Secretary-General Zhang Deguang, who will serve one three-year term. Subsequent Secretary-Generals will be chosen by member nations in alphabetical order, starting with Russia. The SCO is also led by three Deputy Secretary Generals who will likely oversee the three divisions. The three new deputies are: Serik Narysov of Kazakhstan, Asanbek Osmonaliyev of Kyrgyzstan, and Vladimir Zakharov of Russia. The national affiliation of secretariat officers is determined by the member nations' budget contribution. Russia, for instance, provides 24% of the SCO's budget and is therefore allocated seven posts in the secretariat. The entire SCO budget for 2004 is \$3.5 million, \$2.16 million for the secretariat and the rest for the SCO Regional Antiterrorism Structure (RATS) located in Tashkent. Russia and China will each contribute 24% of the budget, followed by Kazakhstan at 21%, Uzbekistan at 15%, Kyrgyzstan at 10%, and Tajikistan at 6%. At the launch ceremony, Zhang Deguang stressed that even though different nations were assessed different areas, each has an equal right in the decision-making process and there is no "veto" power. Decisions will supposedly be made along democratic lines, implying that for a measure to pass, a majority and not a consensus is that is required.

The Regional Antiterrorism Structure will officially open on June 11, 2004 in Tashkent, likely in conjunction with the Heads of State Summit to be held there at the same time. The center, which has been operational since November 2003 and is run by RATS Executive Committee Director Vyacheslav Kasymov of Uzbekistan, will coordinate the interaction of law enforcement bodies and special services of SCO member states in fighting terrorism. The RATS is composed of a council and an executive committee. The council, as the main decision-making body, is made up of ministers in charge of anti-terrorism departments of member states, and the Director of the executive committee. The executive committee is the senior staff at the RATS

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stationed in Tashkent (for more information on the future work of the RATS, see Farkhod Tolipov's article below).

The launch ceremony and adjacent meeting were attended by Chinese State Councilor Tang Jiaxuan and the foreign ministers of six SCO members: Li Zhaoxing from China, Kasymzhomart Tokayev from Kazakhstan, Askar Aytmatov from Kyrgyzstan, Igor Ivanov from Russia, Talbak Nazarov from Tajikistan, and Sodik Safaev from Uzbekistan. Also present were representatives from the United Nations, the European Union, the Organization for Security and Cooperation in Europe (OSCE), the Association of Southeast Asian Nations (ASEAN), the Asia-Pacific Economic Cooperation (APEC), and the Organization of Islamic. All these groups have expressed willingness to cooperate with the SCO. Most importantly, Mongolian Foreign Minister Luvsangiin Erdenechuluun attended the launch ceremony, indicating the possibility of Mongolia joining the group as either a full member or observer. Zhang Deguang announced that the SCO is working on protocols to accept new members. The protocols should be ready by the June summit and will include regulations for adding observers and dialogue partners, including cooperation with other international organizations

The secretariat is also working on a new on anti-drug trafficking initiative. A draft agreement was approved at this most recent meeting, but a final document will not be ready until the June summit. One diplomat said that transportation and environmental projects are among the initial plans for anti-drug activities.

The Shanghai Cooperation Organization still had much work ahead of it. Dealing with the spread of drugs in the region and finding ways to cooperate with other countries and institutions is a high priority, and it is encouraging that the organization seems to recognize this. Counter-terrorism and security, in the near-term, will remain the most pressing issue before the organization. It is unclear what real resources the RATS will bring to the war on terrorism, if any. Plans have not yet been established as to how the SCO will respond to a new terrorist insurgency in Central Asia and how it will coordinate with U.S./Coalition and Russian/CSTO forces deployed in the region. Lastly, the secretariat is clearly operating on a shoestring budget, which does not allow for many bold initiatives. Moreover, the office of Secretary General has not yet established independence or leverage towards member nations. Only

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time will tell is the secretariat is merely an extension of the foreign ministries or if it will have a real voice in steering the organization.

However these issues evolve, the Shanghai Cooperation Organization has taken a bold step. It has established its permanence and has staked out an ambitious agenda. Though many questions remain, the SCO is positioned to be a source of future stability and an engine for growth in Central Asia.

2) Central Asia in the Shanghai Cooperation Organization

By Farkhod Tolipov

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Established in 1996 as an organization for strengthening confidence measures in the border area, the SCO gradually began to include in its summits' agenda the issues of counter-terrorism, religious extremism, and separatism in the context of regional security. However, despite the commonality of interests of the member-states in this sphere, just at the moments of serious security threats this organization remained quite passive and ineffective. Nevertheless, at the time of creation of the SCO all Central Asian countries were in an active search for any possible mechanisms of maintaining regional security, and therefore they have been expecting from this organization more productive participation in the solution of their vital interests.

The analysis of the process of the SCO evolution reveals the existence of a certain geopolitical intention. This can be traced on the consideration of two dimensions of the organization: its *geographical configuration and political composition*. It consists of two global powers and four relatively small states of Central Asia. These are not just six states, but rather six unequal states, from the viewpoint of political, economic, military, demographic and social potential. So, it is about the 2+4, or, more exactly, 1+1+4 format that should be accepted. The division of the figure 4 (all Central Asian states) would be senseless, so long as the obvious asymmetry in the political composition then will just increase. Either Central Asian state is very small in comparison to two giants – Russia and China.

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More important is that another dimension – geography – plays a critical role. The appearance of the SCO was possible only after and only in connection with the dissolution of the former Soviet state, which brought about the geopolitical transformation of the post-Soviet space. At the same time, the character of ongoing formation of the post-Cold War new world order stipulated its appearance. These two factors – post-Soviet geopolitical transformation and new world order – provide the key for “unraveling a mystery” of the SCO.

Stemming from this point of view we can consider several alternative scenarios/models of the SCO development. *First* is the formation of the anti-Western alliance, a kind of an anti-NATO. But this perspective seems too unlikely from the viewpoint of long-term strategic interests of the SCO member-states because it implies the revitalization of the cold war pattern of relationships.

The second model is the creation on the base of the SCO of other organizations that are integrated with the Western structures on the base of open regionalism with wide presence of states-observers and immediate members. However, this model, too, seems less likely. Any enlargement in the composition will inevitably lead to its political and organizational complication and sophistication. In this case a problem arises about the “zone of responsibility” (or the region) of the SCO. The idea of open regionalism is unclear and therefore inadequate conception, so long as it can erode the foundation, level the essence and weaken the mission of the organization. Asia, and wider Eurasia, is too fragmented to represent a single region. Any extension of the SCO will approximate it to unrealized model of the so-called “Conference on Interaction and Confidence Measures in Asia”.

The third scenario stems from the idea of the joint patronage over Central Asia by both Russia and China. There really exist some indications of such a state of affairs. In this case, some, especially Russian, analysts point out the common Russian and Chinese interests in the utilization of SCO’s format for the activation of solely bilateral relations with respect to Central Asia. Another variety of the same scenario: the SCO serves as a mechanism of mutual balancing of two powers in the Central Asian region. What is left to Central Asians is just to use the SCO as an instrument of maintaining the balance between Russia and China, Russia and the US, China and the US, and between Central Asian states themselves. However, balance of power pattern of

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relations in Central Asia is nothing but a certain version of the first scenario. Moreover, newly independent and, in this sense, quite weak states will hardly be able to approve the old and obsolete paradigm of balance of power with respect to Russia, the US, and the PRC.

Finally, *the fourth model* is related to a novel perception of the SCO. This perception is based on the recognition of the OCAC's (Organization of Central Asian Cooperation) own autonomous role in the SCO. No one of existing visions of the SCO is constructed in such a way. In this case the Shanghai political process looks calibrated on the Central Asians. It is symbolical that almost simultaneously with the creation of the SCO the very Central Asian integrational structure got the name of the 'Organization of Cooperation'.

The global antiterrorist campaign revealed the existence of one unsolved problem of the SCO that is peculiar to the initial stage of formation of the organization. That is the necessity of its conceptual shaping. One can trace in the overall process that political will in the SCO members forestalls their strategies. Besides, one can trace, so to say, a reserve function of the SCO in either realm – fighting terrorism and economic cooperation, because in both areas this organization remains yet in the reserve in comparison to already existing and functioning mechanisms of the external activity of all states-members in the above-mentioned spheres.

Although they have common interests in the extraction and transportation of the Caspian and Central Asian energy resources, creation of transport communication systems and extension of mutual trade and economic cooperation, nevertheless, external economic activity of states considered is also diversified enough to expect their coordinated policy in this sphere.

The overall geopolitical transformation of the region might be characterized as a real *revitalization and reinforcement of regionalism in Central Asia*. For the same token after almost 8 years since the establishing of the SCO it becomes more and more obvious that the initial cause of its summoning was the so called "Central Asian question." As we see, the Shanghai process is regionalized from the very beginning: it is concentrated in Central Asia. This is its main problem and at the same time as its main chance of political success.

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First SCO military exercises conducted in August 2003 in Kazakhstan and Xinjiang-Uyghur Autonomous Region of China, undoubtedly, demonstrated a serious intention of participants to use the SCO format for addressing the regional security issues. This direction, side by side with the creation of the SCO Regional Antiterrorist Structure (RATS) in Tashkent as well as the Secretariat in Beijing and the beginning of the budgetary process, indicated serious activity in the near future. The main question, however, remains about how the whole activity of these structures will be organized. It is necessary to “arm” them with a full-fledged conception that reflects the mission of the organization, just like the mission of the UN, OSCE, NATO, ECO and many others.

The activity of the RATS in Tashkent are reported be organized in the following directions:

- collection and analysis of information about terrorist organizations;
- exchange of respective information and experience between SCO participants;
- the study of the regional context of manifestations of terrorism, the degree and level of threat of terrorism;
- the study of various forms of terrorism, including nuclear and other WMD-related one;
- timely and rapid assessment of effectiveness of joint measures as well as monitoring of the overall struggling against terrorism of SCO members;
- working out of new joint attitudes, means and ways of fighting terrorism, measures of prophylactics of terrorism including working out of recommendations on rapprochement of legislations of all participating sides in this sphere;
- establishment and development of cooperation with other similar centers and organizations on fighting terrorism, promoting wider international cooperation in this sphere;
- organization of seminars, trainings, symposiums and other meetings of experts, analysts, politicians and operational officials on the issue of fighting terrorism;
- back-up of effective implementation of the Shanghai Convention on struggle against terrorism, separatism and extremism;
- publication and dissemination of materials pertaining the competence of the RATS.

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It is necessary, after all, to express the position of the SCO towards such organizations as the *terrorist* Islamic Movement of Uzbekistan, *separatist* Uyghur movement for an independent “Eastern Turkistan”, the *extremist* party “Hizbut-Tahrir,” and others. Moreover, the SCO-made should conduct work countering drug trafficking. The Secretariat should work up a new mechanism of discussion and decision-making. *The most adequate principle of decision-making might be the consensus principle.* This principle meets, at least, the interests of Central Asian integration. The more so, in such a small structure of the organization consensus must be easily achieved.

The most adequate principle of the overall SCO’s activity today might be put as follows: *through the strengthening of confidence and regional security measures to the development of trans-regional economic cooperation.* Indeed, the PRC, Russian Federation and OCAC are situated in three different, albeit adjacent, regions. Their strategic interests also differ significantly: for the former these interests lie in the Asia-Pacific, for the Russia – in Europe, and for the latter – both in the East and in the West. Consequently, the only valid basic scientific conception of the SCO could be that of trans-regionalism or trans-continentalism. This conception objectively can serve vital interests of Central Asian countries as they are land-locked in the Eurasian continent and, therefore, have to take advantage of opportunities Russia and China provide in order to overcome such scantiness.

But this conception meets also strategic interests of two world powers – the SCO members since both, Russia and China, are objectively interested in the dynamically developing, stable, secure and integrating into the globalized world order region in their respective rears.

The perspectives of the SCO will depend to a large extent on which strategy the very Central Asian states will choose in it, if they will be able to correlate their strategies toward more unity, as well as to use the SCO’s mechanisms and goals for achieving a higher degree of guarantees of regional security and thereby higher degree of integration in their own OCAC.

3) That other Central Asian collective security organization –the CSTO

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By Malia K. Du Mont
Director, China-Eurasia Forum

While the Shanghai Cooperation Organization was launched with great fanfare this month, the other collective security apparatus in Central Asia – the Collective Security Treaty Organization (CSTO) – quietly experienced success of its own, as its joint military headquarters began operations on January 1st. The CSTO is less than two years old, and yet, in contrast to the older SCO, it has already established a rapid deployment force, seen its charter signed, conducted several military exercises and counter-narcotics raids, and registered with the United Nations as a regional international organization. As a consequence, Central Asian affairs experts characterize the CSTO as the main challenge to the SCO's credentials within the region's capitals.ⁱ

The Collective Security Treaty Organization was established in May 2002, though its origins lie in the Collective Security Treaty of the Commonwealth of Independent States (CIS), launched shortly after the break-up of the Soviet Union. Its members include Russia, Kyrgyzstan, Armenia, Belarus, Kazakhstan, and Tajikistan, and its mission is to combat all manner of security threats within member states, including narcotics trafficking and terrorism. Within six months of its founding, the member states had signed the CSTO Charter, which came into effect in September 2003.ⁱⁱ From the outset, the CSTO had very clear strategic objectives: to create rapid deployment forces in Central Asia, the Caucasus, and Southeastern Europe, to carry out coordinated military exercises, and to create a permanent institution for coordinating military action among the member states. With the January 1st opening of the CSTO Joint Headquarters at its permanent location in Moscow, all of these objectives have been fulfilled, and the organization is now fully functioning as its members envisioned when it was established.

The member states' next step is to strengthen the organization. In December, in preparation for the January opening of the Joint Headquarters, the first Defense Ministers Council of the CSTO met in Moscow. At that meeting, the Defense Ministers agreed that in the coming year they will increase the strength of the Central Asian CSTO Rapid Deployment Force (RDF) by 150%, and work towards gaining UN observer status. The CSTO is positioning itself to play a defining role in Central Asian security.



CSTO structure

The CSTO is made up of three permanent bodies: a Permanent Council of Envoys appointed by each member nation, the Joint Headquarters that is the working body of the CSTO Defense Ministers Council, and the CSTO Secretariat, which handles administrative affairs. The Joint Headquarters is responsible for operational command of the Rapid Deployment Force, as well as for developing suggestions on strengthening the military component of the CSTO. Its 55 officers, half of which are from member states other than Russia, are permanently based in Moscow.ⁱⁱⁱ Some press reports indicate that in the future, a Military Cooperation Coordination Staff will also be established to facilitate the work of the Joint Headquarters.^{iv}

Rapid Deployment Force

The Central Asian CSTO RDF consists of 1500 troops from 4 battalions – one each from Kyrgyzstan, Kazakhstan, Russia, and Tajikistan, all of which are stationed on their own territory, with the exception of Russia's elite 201st Motorized Rifle Division, which is in Tajikistan. The RDF's decision-making structure is set up so that a decision on the use of military force can ostensibly be made within an hour from the time that hostilities against a member country are identified. The RDF has a full-time commander who is Russian. In order to expand the size of the RDF in the coming year, each CSTO member has pledged to dedicate another battalion to the force, and Tajikistan will send two.

The air component of the RDF, the Russian Aviation Group, is stationed at the air base in Kant, Kyrgyzstan. Officially opened in October 2003 under a 15-year agreement with the Kyrgyz government, Kant is the first Russian military base to be established on foreign soil since the collapse of the Soviet Union.^v The base currently serves as home to 5 Su-27 fighters, 5 Su-25 bombers, 6 Il-76 airplanes, 4 L-39s, 1 An-24, 1 An-12, 1 Il-18 plane, 2 Mi-8 helicopters, and possibly 4 MiG-29s as well. These aircraft represent the full complement of aircraft that Russia plans to station at Kant. The Kyrgyz armed forces will contribute 4 trainer planes to the RDF. Currently, 150 military and civilian personnel work at the base; plans call for an eventual expansion to 500 permanently stationed personnel. Russia has also pledged US \$2.6 million for construction to upgrade facilities at Kant.



Achievements and difficulties

Over the past two years, the CSTO has held two joint military exercises, and plans to continue them on an annual basis. It undertook a major anti-drug operation in November 2003, coordinating operations between the secret services of the six member states and interaction between CSTO armed forces.^{vi} The RDF will increasingly be used for these types of operations; an International Antidrug Center to assist with these efforts is in the conceptual stages. The CSTO also claims to have repulsed an incursion of bandit forces into Central Asia.

Finally, the CSTO has also been responsible for creating an interstate working group that will be responsible for designing a unified system for route and facility repair, as well as the security and defense of railroads.^{vii}

The success of the CSTO is mitigated somewhat by the fact that Uzbekistan – home to the most able Central Asian military force *and* Central Asia’s largest indigenous terrorist organization, the Islamic Movement of Uzbekistan – is not a member, and opposes efforts to “militarize” Central Asia, preferring economic assistance to military assistance.^{viii} The CSTO’s overlapping membership with the Shanghai Cooperation Organization (China, Russia, Tajikistan, Kyrgyzstan, Kazakhstan, and Uzbekistan) and the differing priorities that member states place on each organization may increasingly be an obstacle to CSTO unity in the future, particularly if the SCO gains in international stature. The CSTO has quietly been building a resume and a reputation in Central Asia, though, and is one of the only regional organizations that has experienced measurable successes. While the CSTO has a long road ahead of it, expect it to develop as an efficient tool for regional security and the Central Asia’s war on terrorism. \

[please scroll to end of newsletter to see footnotes]

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NEWS

1) Month in Review

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Regional security, counterterrorism, and law enforcement

- According to Hong Kong's *Sun Daily News* Russia agreed to and approved China's possible attacks against East Turkestan terrorist groups at a recent Vice Minister-Level meeting in Moscow. At the same time, a Kyrgyz human rights group called on Central Asian countries not to deport Uyghur refugees in response to reports that three Uyghur refugees recently deported by Kazakhstan were executed by the Chinese government.
- At the NATO and Partnership-for-Peace foreign ministers' meeting in Brussels on December 4-5, Kyrgyzstan proposed that the U.S. and Russian airbases near Bishkek coordinate their activities. Kyrgyz Foreign Minister Askar Aitmatov also stated that this cooperation could come in the context of NATO-CSTO interaction.
- China's Ministry of Public Security issued a "Most Wanted" list of four Eastern Turkestan terrorist organizations and eleven members of the groups. The identified terrorist organizations are: the Eastern Turkestan Islamic Movement (ETIM), the Eastern Turkestan Liberation Organization (ETLO), the World Uyghur Youth Congress (WUYC) and the Eastern Turkestan Information Center (ETIC). The 11 identified terrorists are: Hasan Mahsum, Muhanmetemin Hazret, Dolqun Isa, Abudujelili Kalakash, Abudukadir Yapuquan, Abudumijit Muhammatkelim, Abudula Kariaji, Abulimit Turxun, Huadaberdi Haxerbik, Yasen Muhammat, and Atahan Abuduhani. This is the first time China issued a list of terrorist organizations and terrorists. Shortly after the publication of this list, Hasan Mahsum was killed in a joint Pakistani and US operation along Pakistan's Afghan border.
- The Indian Air Force refused a batch of Sukhoi jets from Russia after engine problems in a previous consignment were discovered. The Indian Air Force has told the Defense Ministry to stop further payments to the Russian manufacturers Rosvoorouzhenie until they can rectify the glitches in the SU-30 MKIs.

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- China sent one policeman, Zhang Ming, to Afghanistan to help in U.N. efforts to control the flow of drugs along Afghanistan's border.
- The public security department of China's Heilongjiang Province and Russia's General Administration of the Far East Region of the State Drug Control Department agreed to cooperate in combating the drug trade in their regions. They will initially focus on information exchanges and cooperative police training.
- According to a Beijing newspaper, the Chinese military placed a purchase order for a large quantity of anti-terror weapons at the Moscow Exhibition and Demonstrations Show. These weapons will be used in a combined crackdown on terrorist organizations to be coordinated by the Shanghai Cooperation Organization.

Political and social movements

- The United States stepped up condemnation of Uzbek human rights practices as part of the re-certification needed for Uzbekistan to receive Nunn-Lugar non-proliferation funding. While the condemnation would usually deny Uzbekistan the money, President Bush issues a waiver, noting the national security importance of Uzbekistan in the war on terrorism and the fight against the proliferation of weapons of mass destruction.

Meetings and summits

- The Shanghai Cooperation Organization was officially launched on January 15th in Beijing (please see the summary of event above for further details).
- Chinese Defense Minister Cao Gangchuan went to Moscow on December 15 for a weeklong visit aimed at strengthening the two countries' military cooperation, particularly on arms sales and military-technical cooperation. The total value of the new and continuing contracts stipulated in the protocol for next year exceeds \$2 billion, roughly the same figure as in the last several years. At press time, it is unclear what the exact content of the new purchases are, though it likely includes new S-300 SAM systems, fighters and bombers, and tanks and artillery systems.

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- Russian President Vladimir Putin of Russia made an official two-day visit to the Kazakh capital Astana on January 9. The summit with President Nazarbaev of Kazakhstan resulted in the signing of several agreements, including one for joint oil exploration in the Caspian and the extension of Russia's lease of the Baikonur spaceport.
- India and China initiated a second round of high-level border talks in January to settle many of their long-running disputes. The Indians were led by National Security Advisor Brajesh Mishra. His Chinese counterpart is executive vice-foreign minister Dai Bingguo. The talks resulted in the launching of a new "process" to settle the Sikkim border dispute.
- Uzbek Foreign Minister, Sodik Safaev, met on the fringes on the SCO launch with Chinese Foreign Minister Li Zhaoxing to discuss cooperation between China and Uzbekistan.
- The fourth meeting of the Russian-Chinese Antiterrorism Working Group was held in Moscow on January 15. Deputy Minister of Foreign Affairs Anatoly Safonov headed the Russian delegation, and Deputy Minister of Foreign Affairs Shen Guofang the Chinese. The talks covered a wide range of issues, but reiterated China and Russia's claim that Chechen and "East Turkestan" terrorists and separatists represent a part of international terrorism.
- Chinese Public Security Minister Zhou Yongkang and Kyrgyz Interior Minister, Police Lt. Gen Bakirdin Subanbekov, met in Beijing to discuss counterterrorism tactics and cooperation.

Energy, trade, and infrastructure development

- The West-East pipeline began supplying gas to Shanghai. The pipeline currently only transports 500,000 cubic meters a day from Jingbian in Northwest China's Shaanxi Province, but will eventually bring as much as 12 billion cubic meters a year from the Tarim Basin in Xinjiang. The pipeline can already begin bringing in gas from the Ordos Basin in Xinjiang, but

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disagreements over management and distribution have delayed the launch of export operations.

- China's National Development and Reform Commission announced recently that China would likely build four coastal strategic oil reserves including two in Dayawan and Zhanjiang in Guangdong Province.
- Japan has increased its offer to Russia to bring oil from Angarsk to Nakhodka on the Pacific coast instead of China's Daqing. The new offer of approximately U.S.\$7 billion dollars includes \$5 billion to fully fund the construction of the pipeline and another \$2 billion for future exploration.
- China and Russia agreed to jointly develop 68 new economic projects at a trade fair cosponsored by the Chinese Ministry of Commerce and the Heilongjiang Provincial Government. These agreements, made between over 120 Chinese companies coming predominantly from Heilongjiang and several Russian companies from the Chita and Amur Oblasts, total 2.353 billion yuan (U.S. \$286 million).
- The China National Petroleum Corporation (CNPC) will cut investment in two oil fields in Azerbaijan, Kyursengi and Karabagly (K&K) and Southwest Gobustan, next year to \$50 million, down from \$65 million this year.
- China has provided Turkmenistan with a grant of 15 million yuan, (about U.S. \$1.8 million), and an interest-free credit for 20 years of 30 million yuan (about U.S. \$3.6 million). This money will be used by Turkmengaz to buy equipment and spare parts for its repair plant. CNPC already has several contracts with Turkmengaz to modernize Turkmenistan's gas sector and increase the effectiveness of constructing gas exploration and production wells.
- The construction of the 2.3-kilometer-long road from Suifenhe city in China's Heilongjiang Province to Pogranichny in Russia was completed. This is an important part of the Suifenhe-Pogranichny cross-border trade zone, which covers and area of

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1.53 square kilometers in Chinese territory and 3 square kilometers in Russia territories.

- Russia has agreed to provide assistance to China for the future construction of four new power sets at the Tianwan nuclear power station in Jiangsu province, as well as the shipment of nuclear fuel to the plant.
- China's Sichuan Electric is fully financing the construction of the new Khador Hydroelectric Plant in Georgia, costing U.S.\$27 million. Sichuan Electric has a 93% share in this joint venture with the Georgian company Peri.
- Kazakh President Nursultan Nazarbaev said that he would encourage Kazakh investors to invest in China's Xinjiang province, adding that Kazakh legislation should not restrict Kazakh investment outside the country.
- China, the United States, and Russia initiated a global network for scientific research in December, connecting major scientific centers such as Chicago, Moscow, and Beijing. The project, called the Global Ring Network for Advanced Applications Development (Gloriad) is expected to be an important platform for research for the "Next Generation Internet."
- Kazakhstan has proposed the creation of a Caspian energy consortium as a counterweight to the Organization of Petroleum Exporting States (OPEC). Kazakh President Nursultan Nazarbayev recently stated, "Caspian oil flows may destroy OPEC's might, affect its ability to set high prices and use oil as an instrument of political blackmail."
- Kazakh Deputy Foreign Minister Mukhtar Tleuberdi denied a press reports that an unidentified Kazakh official has agreed to lease vacant land in Kazakhstan's Alakol Raion to 3,000 Chinese farmers, who would use it to grow soybeans and wheat and to raise livestock. Similar to Russia's Far East, many Kazakhs fear massive Chinese immigration into their sparsely populated country.

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- Chinese-Uzbek trade grew to \$200 million dollars in 2003, up from \$130 million in 2002.
- Xinjiang's trade with Kazakhstan increased by 80.7% in the first 10 months of 2003 to U.S. \$2.3 billion.
- India has proposed to set up a trading block between countries from the South Asian Association of Regional Cooperation (SAARC) region and Central Asia. This announcement comes on the heels of new initiatives for both CIS and SCO economic unions.
- China agreed in December to provide 25 million yuan (about U.S. \$3 million) worth of assistance to Tajikistan for the implementation of social and economic programs in the country.
- The Kazakh newspaper, *Almaty Ekspres-K*, carried an editorial criticising cheaply made Chinese goods being brought over by shuttle traders from China. The article cited an instance of a child hurting himself on a soft toy filled with sewing needles.

Environment

- On December 1, an earthquake, measuring 6.1 on the Richter scale, hit China's Xinjiang Uyghur Autonomous Region, killing 10 people and injuring 34.

SELECTED ARTICLES FROM OTHER PUBLICATIONS

2) [Kyrgyzstan: Hunting The Islamists](#)

By Leila Saralaeva and Ulugbek Babakulov

Iwpr's Reporting Central Asia

December 04, 2003

www.iwpr.net

“The Kyrgyz authorities have been accused of pandering to the United States, China and Russia by issuing a ban on radical Islamic groups. Government spokesmen defended the move, saying these organisations pose an increasing security threat inside the country...”

View us online at <http://www.chinaeurasia.org/Newsletter.html>



3) [Living With Normalcy](#)

By Yu Bin

Pacific Forum: Comparative Connections

Winter 2004

<http://www.csis.org/pacfor/cc/0304Qchina-rus.html>

“By any standard, relations between Moscow and Beijing in the last months of 2003 were uneventful and unenthusiastic. This "normalcy" was in sharp contrast to the more memorable events in the first half of the year (Moscow summit, Shanghai Cooperative Organization gathering, and St. Petersburg's celebration). The world, too, was relatively quiet without Saddam or SARS. Chinese Foreign Minister Li Zhaoxing mentioned Russia only in passing in his year-end review of China's diplomacy, while relations with India and Pakistan were given more significant space. Even the Korean nuclear crisis became less alarming, as Washington was absorbed by the bloody peace in Iraq and the beginning of the presidential race at home...”

4) [Russia accused of plot to sabotage Georgian oil pipeline](#)

By Nick Paton Walsh

The Guardian

December 1, 2003

<http://www.guardian.co.uk/international/story/0,3604,1096825,00.html>

“A £2bn pipeline to carry Caspian oil to Europe through Georgia risks being damaged by Chechen mercenaries or ecological saboteurs sponsored by Russian intelligence, a senior Georgian security official and sources in Moscow claim...”

5) [India Set to Expand Presence in Central Asia](#)

Muslim Uzbekistan

December 04, 2003

<http://www.times.kg/auth/1096392.html>

“Energy-hungry India is set to put its economic muscle to work, as it strives to make inroads into Central Asia. A recent India-Central Asia Conference in Tashkent, along with visits throughout the region by



Prime Minister Atal Bihari Vajpayee, Defense Minister George Fernandes and Foreign Affairs Minister Yashwant Sinha, indicate that India's foreign policy focus is shifting increasingly beyond its traditional China-Pakistan focus..."

6) Central Asia: Dwindling Options for the United States

nCa

November 24, 2003

<http://www.times.kg/news/1095588.html>

"Conversation with 847 persons in 6 countries of the greater Central Asian region shows that a vast majority of the people already considers the United States a superpower on the decline. A curious mixture of wishful thinking and introspective worldview is shaping the people's ideas into a mould that leaves no space for American presence in the region and that would be extremely difficult to break once it sets in place firmly..."

7) China Pursues India-Pakistan Peace

By Jay Solomon, Charles Hutzler and Zahid Hussain

Wall Street Journal

December 8, 2003

<http://online.wsj.com/article/0,,SB107082645176366800,00.html?mod=world%5Fnews%5Ffeatured%5Farticles>

"China is playing an increasingly central role in pushing for a peace pact between India and Pakistan, officials from the three countries say. The development is another sign of Beijing's growing diplomatic clout across Asia..."

8) Washington Pushes for Closer Cooperation with Tajikistan

By Zafar Abdullaev

Transitions Online

December 8, 2003

http://www.tol.cz/look/TOLnew/article.tpl?IdLanguage=1&IdPublication=4&NrIssue=51&NrSection=6&NrArticle=11227&ST1=body&ST_T1=wir&ST_PS1=9&ST_AS1=0&ST_LS1=0&ST_max=1

China-Eurasia Forum



“The United States is making a push to improve ties with Tajikistan. Since the Soviet collapse, Dushanbe has proven to be Russia’s staunchest ally in Central Asia. But Tajik leaders lately have been receptive to Washington’s overtures...”

9) [The devil's tears](#)

The Economist (Book Review)

By Lutz Kleveman

November 20, 2003

http://www.economist.com/books/displayStory.cfm?story_id=2227304

“Across Central Asia and the Caucasus, people understand why oil is the “devil's tears”. Lutz Kleveman, a journalist who has criss-crossed the region and met numerous oil barons, politicians and warlords, as well as ordinary people, concludes that the great powers are once again playing a cynical “great game”, leaving blood and tears in their tracks. The prize and the players, however, have changed since the 19th century. What is at stake is not India, but access to the region's abundant oil and gas resources—possibly the world's largest untapped reserves of energy. And tsarist Russia and colonial Britain have been replaced by the United States, post-Soviet Russia, China, Iran and Pakistan...”

10) [NATO: Alliance Praises Efforts Of CSTO States, But Cool To Offer Of Cooperation](#)

By Breffni O'Rourke

RFE/RL

December 03, 2003

<http://www.rferl.org//nca/features/2003/12/03122003164831.asp>

“The six countries which form the Collective Security Treaty Organization (CSTO) of the Commonwealth of Independent States (CIS) have declared their intention to cooperate more closely with NATO. The CSTO states say their aims are basically the same as those of the Atlantic alliance. ...”

11) [China, U.S. Lead a Burst in Oil Demand](#)

By Bruce Stanley

The Washington Post

Thursday, December 11, 2003; 2:24 AM



<http://www.washingtonpost.com/wp-dyn/articles/A55092-2003Dec11.html>

“ With China's economy expanding rapidly and a recovery simmering in other countries, demand for oil will increase faster than expected this year and in 2004, the International Energy Agency said...”

12) [U.S. Denied Permanent Military Base Use](#)

By Burt Herman

The Associated Press

Thursday, December 11, 2003; 3:17 PM

<http://www.washingtonpost.com/wp-dyn/articles/A56856-2003Dec11.html>

“Uzbekistan will allow the United States to keep troops at a southern base there only as long as they are needed for the war on terror in Afghanistan, and would not allow a permanent deployment, the president said Thursday...”

13) [China, Lacking a Key Port, Looks Longingly to Russia](#)

By James Brooke

The New York Times

December 15, 2003

<http://www.nytimes.com/2003/12/15/international/asia/15PORT.html>

“With a 10-mile-wide sliver of Russian territory blocking Manchuria from the Sea of Japan, China is drawing on its own history for a solution, pushing Russia to sign a 49-year lease to convert the midsize cargo port on Trinity Bay here to a Chinese economic enclave, a Hong Kong of Russia's Far East...”

14) [China Issues Wanted List of Muslim Separatists](#)

By Jonathan Ansfield

Reuters

December 15, 2003

<http://www.washingtonpost.com/wp-dyn/articles/A1124-2003Dec15.html>



“China released a wanted list of Muslim separatist groups and individuals Monday, accusing them of acts of terror and appealing to foreign governments to ban the groups and track down and hand over their members...”

15) China's peripheral diplomacy carries a heavy weight

The People's Daily
December 18, 2003

http://english.peopledaily.com.cn/200312/18/print20031218_130696.html

"China is building up a brand-new reputation among its neighbors", this was the comment made in an article carried in the US Washington Post November 15. For a period of time, appraisals of China being a big country which is creating a new diplomatic image and undertaking regional responsibility have been lingering in people's ears...”

16) 2003 & Beyond: Five Different Futures Await Five Central Asian States

By Bruce Pannier
RFE/RL
December 19, 2003

<http://www.rferl.org/nca/features/2003/12/19122003164156.asp>

“Central Asia is becoming less of a region and more of a land comprising five distinct and different countries. The year 2003 offered many examples of the diversification under way. Some of the divisions are the result of a natural divergence of interests while others seem to be driven by external factors, but the trend looks set to continue in 2004 and the years beyond...”

17) Central Asia's Great Base Race

By Stephen Blank
Asia Times
December 19, 2003

<http://www.times.kg/news/1097505.html>



“Anyone examining contemporary security issues in Central Asia and the Caucasus quickly comes to the conclusion that security has become increasingly militarized. This growth of military power, influence and ambition is taking place in many ways, but a key theme is the scramble by major foreign powers for military bases in the strategically vital region...”

18) [China's Dark Days and Darker Nights](#)

By Peter S. Goodman
The Washington Post
January 5, 2004

<http://www.washingtonpost.com/wp-dyn/articles/A54689-2004Jan4.html>

“In a country gaining dominance in the production of electronics, 9-year-old Sheng Minjie sat down one recent evening to do his math homework. First, though, he had to solve a physics equation: How many candles did he need to illuminate his work..?”

19) [Foreign Officials at PLA Event Reveal Reform of PRC's Military Diplomacy Underway](#)

By Hu Qihua
China Daily
January 12, 2004

<http://www.chinadaily.net>

“The Chinese military will develop a "comprehensive" friendship with all its foreign counterparts in the new year, said Zhang Bangdong, director of the Foreign Affairs Office of the Ministry of National Defence at reception for foreign defence attaches in Beijing yesterday...”

20) [Emerging triangles: Russia-Kazakhstan-China](#)

By Robert M Cutler
Asia Times
January 14, 2003

http://www.atimes.com/atimes/Central_Asia/FA15Ag03.html

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“The significance of the agreements on energy cooperation achieved during Russian President Vladimir Putin's recently completed visit to Kazakhstan is only an indicator of the consolidation of deeper tectonic shifts in Eurasian security and economic affairs. A new triangle is emerging in East Central Eurasian geo-economics among Russia, Kazakhstan and China. (It is being complemented by the emergence of another such triangle in West Central Eurasia among Russia, Turkmenistan and Ukraine.) Energy cooperation is a linchpin of each of the emerging triangular ententes, but the ententes themselves go far beyond energy...”

21) Kazakhstan said preferring Western aid to Russian in upgrading air defences

Nezavisimaya Gazeta (from CDI Russia Weekly)
January 13, 2004

<https://www.cdi.org>

“A Russian newspaper sees problems looming in Russian-Kazakh military relations over Kazakhstan's alleged plan to spend over 1bn dollars on modernizing its air defence system. The article suggests that Kazakhstan may not involve Russia in these plans to the extent Russia may wish, since "Kazakhstan is gradually reorienting its military and military-technical contacts away from Russia and towards the USA and NATO countries". The following is the text of the article by Vladimir Mukhin entitled "Astana alters its military orientation; Kazakhstan abandons Russian weapons in favour of US weapons" published by the Russian newspaper Nezavisimaya Gazeta on 13 January; subheadings inserted editorially...”

22) China's West-East Pipeline Highlights Energy Problems

Radio Free Asia
January 15, 2004

<http://www.rfa.org/front/article.html?service=eng&encoding=10&id=125848>

“Natural gas began to flow through the mammoth 4,000-km West-East pipeline at the beginning of the year, but experts told RFA in a series of recent interviews that state-owned operator PetroChina is still struggling to deal with the project's crippling costs...”



23) China: Hungry For Power

By Qiu Xin

Asia Times

January 16, 2004

<http://www.atimes.com/atimes/China/FA16Ad04.html>

“China's energy crisis caused by shortages of coal and hydroelectric power is compounded by a worsening oil shortfall. Though the world's fifth-largest oil producer, China has fallen from being a net oil importer in 1993 to becoming the world's fastest-growing importer. Its estimated exploitable oil reserves would last about a week. The energy crisis has sounded a national alarm, requiring China's leadership to confront the power famine head-on, review its energy policies and develop a long-term, sustainable energy policy...”

24) Japan And China Battle For Russia's Oil And Gas

By James Brooke

The New York Times

January 3, 2004

<http://www.nytimes.com/2004/01/03/business/worldbusiness/03asia.html?ex=1074413306&ei=1&en=46e39863a39f93fc>

“Krylova Cape is not much to see: a spit of land between the Russian taiga forest and the Sea of Japan, its soil being graded a bit by a bright yellow bulldozer. But what is taking shape here is central to a pitched struggle between the two most important economies in Asia: the reigning titan, Japan, and its rising challenger, the PRC. Both economies are hungry for raw materials, especially energy - Japan because it has almost none of its own, the PRC because its economic boom has fast outstripped what once were adequate domestic supplies. Both want to limit their dependence on oil from distant, politically volatile regions like the Middle East. And both see an attractive alternative in the little-tapped energy riches of the vast, vacant Russian Far East...”

25) PAGES OF PEPE!!!

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Pepe Escobar, a reporter with the Asia Times has recently finished an excellent travelogue/investigative report about China, Central Asia, and Russia. He traveled throughout the region, following parts of the Silk Road and filed several articles. They can be found at:

http://www.atimes.com/atimes/Central_Asia/EL25Ag02.html

Or

<http://www.atimes.com/atimes/others/Escobar.html>

NEW DOCUMENTS

26) Economic And Political Implications Of China's Growing Economic Power On Central Asia. Testimony Before The U.S.-China Economic And Security Review Commission By Martha Blaxall

December 4, 2003

Madam Chairwomen and other Commissioners:

I am Martha Blaxall, an independent consultant who has worked as an economic development specialist for more than 30 years. I have been involved in economic and regional development issues in the Central Asia region of the former Soviet Union for the past decade. Most recently, I was a Visiting Fellow at the Central Asia Caucasus Institute at the Nitze School of Advanced International Studies at Johns Hopkins University, and Director of the Central Asia project at Yale University's Center for the Study of Globalization. My research has focused on regional trade issues in Central Asia, including trade between the Central Asian Republics and China. I am pleased to be able to contribute to this hearing on China's economic and political impact on its Central Asian neighbors.

It is important to point out at the start that China has differing relationships and interests with the five former Soviet Republics that comprise what we refer to as "Central Asia." These differences, to a large extent, are reflected in the economic and political realities that shape each Republic's policy towards establishing closer economic ties with China. China interacts more with Kazakhstan and the Kyrgyz Republic, both of which share common borders with the People's

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Republic and have significant economic and political ties with China. Uzbekistan is interested in China as a possible export market and as an ally in the war against Muslim extremism in the region. Tajikistan, though an immediate neighbor, and a market for Chinese consumer goods, has little to sell to China and is too heavily dependent upon the Russian military to envision major security ties with China. Tajikistan does see China as an ally in the war against heroin trafficking from Afghanistan, however. Turkmenistan, while a major source of natural gas, a commodity in great demand in the development of China's western provinces, is not a major economic or political player in China's diplomatic initiatives towards Central Asia at this point in time, despite China's interest in Turkmen gas.

In general, the Central Asia Republics (CARs) are still emerging from the Soviet legacy of Central Planning. In all five states the Government retains at least some ownership – and in many instances control – of the major industrial sectors. Kazakhstan has encouraged foreign investors to become major partners, particularly in the energy sector, and its fiscal and monetary policies are supportive of foreign investors' interests. But even here, both domestic and international political considerations, rather than economic or market-based factors, are more likely to affect investment decisions and policies. Uzbekistan still retains a multi-tier foreign exchange rate regime with non-convertibility and government control over access to foreign exchange. There is greater market freedom in the Kyrgyz Republic, but even here there are many barriers for foreign businesses. Turkmenistan has become an autarkic dictatorship in which economic and political decisions are made by its President, Saparmurat Niyazov, who prefers to be known as Turkmenbashi, the father of all Turkmens. As a result, the country's modernization has more or less come to a standstill.

These countries are also burdened with a transport and economic infrastructure that was put in place to implement the Soviet centrally planned economic system. Railroads, pipelines, roads, and, until recently, telecommunications networks, still operate around Moscow as the "hub" of economic activity. The World Bank and the Asian Development Bank have begun to invest in new roads and railroad lines that will allow the CARs to become an economic region by themselves, and to trade more effectively with China. However, traditional trading relationships and transport routes have allowed Russia to remain one of, if not **the** principal trading partner for all countries in Central Asia.

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In Soviet times, Central Asia was a source of raw materials and unprocessed agricultural commodities that were sent to Russia for further processing and distribution. This legacy has meant that the Central Asian countries have been struggling to evolve from colonial-style economies that export low value products and import finished goods. Their economic policies are focused on attracting the foreign investors and new technologies that will result in more value added production. The region also needs technology-related investments and technical assistance that will facilitate the transformation away from the old Soviet models to more market-based models that will attract foreign investors and generate desperately needed economic growth. Except for Kazakhstan and the Kyrgyz Republic, however, they have been reluctant to decentralize economic decision-making and allow private firms, rather than government agencies determine prices and production quantities for much of their export sectors.

As a result, their economies have suffered enormously since independence. After the disastrous economic implosions that followed the collapse of the Soviet Union – the Kyrgyz Republic’s economy shrank to about 30% of its Soviet-era level, for example – economic recovery began to occur in Kazakhstan with the growth of the energy sector in the mid to late 1990s. Uzbekistan suffered less during that decade due to its conservative approach towards privatization and public debt, but its economic base continues to struggle, and the US Military expenditures related to the Khanabad base have been an important contributor to Uzbekistan’s economy in the last two years.

At this point in time, only Kazakhstan has a per capita Income greater than \$1500. The Kyrgyz Republic and Tajikistan have GNI/capita of less than \$300, which makes them among the poorest countries in the world. Table 1 displays the GNI/capita for Central Asia and China for 1998 and 2002, as well as their respective infant mortality rates. None of these countries is wealthy now, although Kazakhstan is on the verge of sustained economic growth. Turkmenistan’s numbers are highly suspect, since the average Turkmen is at a subsistence level.

Two other factors are important in setting the stage for Central Asia’s relationship with the PRC. First, the enormous oil and gas reserves in Kazakhstan, Turkmenistan and Uzbekistan are potential sources of energy for China. Kazakhstan has more than 15 billion tons of oil

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overland and in the Caspian Basin, at least 2 billion cubic meters of gas, and the capacity to reach 1 million barrels of oil per day in the very near future. Turkmenistan has the fifth largest natural gas reserves in the world, but its exports are hostage to a wholly Russian-controlled pipeline system. Uzbekistan, though not now a large exporter, and the eighth largest natural gas producer in the world, is energy self-sufficient. Yet all of these countries are geopolitically landlocked, with no access routes to the West or the Far East except through Russia. This makes them entirely dependent upon friendly relations with their neighbors, including each other, for transport corridors to markets, or for pipeline transmission of oil and gas. Not only does this leave each country vulnerable to instabilities in neighboring states, but also to terrorist acts that can damage or destroy existing transport routes.

CHINA'S ECONOMIC RELATIONS WITH CENTRAL ASIA

It is becoming increasingly clear that China views closer relations with its Central Asian neighbors as an important strategic objective. China is cultivating institutional and cultural ties with the region and expanding its security relationships, principally through its leadership of the Shanghai Cooperation Organization (SCO). On the economic front, China has increased both its exports and its imports with the CARs, and has explored and realized several major commercial and infrastructure investments.

While China's trade with Central Asia is still relatively small, officially-recorded imports and exports have more than doubled since the late 1990s. In 2001, for example, China officially exported \$0.8 billion of goods and services to the CARs and imported \$1.3 billion. This was a tiny fraction of China's total trade (less than one percent in both cases), but it equaled almost eight percent of Central Asia's exports and more than five percent of the region's imports. If unofficial and unrecorded trade is also included – mostly the \$1 billion in consumer goods that is shuttle-traded across the Xinjiang borders with Kazakhstan and the Kyrgyz Republic — China's growing importance as a supplier of consumer goods becomes evident. China's principal competitor is Russia.

Kazakhstan is, by far, the most important trading partner for China within Central Asia. While China exports manufactured products to Central Asia, its imports from the area are mostly raw materials, with

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petroleum products from Kazakhstan being the largest single item. Kazakhstan's exports to China in 2002 reached nearly \$1 billion, three-quarters of the total CAR exports of \$1.3 billion, and China has become one of Kazakhstan's top five bilateral trading partners. Recognizing the importance of its growing trade with Kazakhstan, then President Jiang Zemin was quoted in the Chinese press in 1999 as having said that "Kazakhstan had become China's second largest trade partner after Russia within the CIS." President Hu Jintao reinforced Kazakhstan's priority in China's foreign policy by visiting Kazakhstan during his first trip abroad in June, 2003.

Expanded trade in raw materials and commodities offers growth opportunities for the Kyrgyz Republic and Uzbekistan. For the Kyrgyz, hydropower offers an opportunity to export electricity along the border with China. Uzbekistan's exports to China are growing, but reached only \$50 million in 2001, with short cotton fiber being the primary export.

Uzbekistan could also export chemicals, mineral fertilizers, horticultural products, non-ferrous metals and natural gas, as well as cotton lint and other cotton products. For China, exports of consumer goods, particularly to Uzbekistan and the Kyrgyz Republic, could expand further, particularly in processed foodstuffs, food processing equipment and technology, and some electronic goods. Better roads and a railroad between China and Uzbekistan would contribute substantially to realizing these opportunities. Asian Development Bank funding for these investments is now becoming available.

China's status as a major trading nation and locus for foreign investment has probably had less of an effect in Central Asia than elsewhere in Asia. Countries like Singapore, Korea, Thailand, the Philippines, Taiwan, and even Indonesia, have been losing market share in the United States and the EU to Chinese-made goods that these countries formerly manufactured themselves. Since none of the CARs had ever gained market share in the major Western markets, they have not suffered from competition with Chinese goods. Russian exporters, however, continue to compete with Chinese products in the former's traditional markets in Central Asia.

One positive effect on the CARs that stems from increased trade with China has been an improvement in the quality standards applied to export-related goods. China, in general, demands a higher quality



product than these countries were required to meet for Soviet or post-Soviet markets.

One negative impact, however, relates to China's insatiable demand for copper. Chinese copper imports have been growing at about 30 percent annually as China upgrades its power grids and installs telecommunications cables throughout its western regions. This has led to smuggling and unrecorded trade of illegally obtained copper supplies. In the Kyrgyz Republic, for example, copper equipment has been stolen from the Kyrgyz electricity grids and sold to markets in Xinjiang, negatively affecting electricity production and distribution in Kyrgyzstan.

ENERGY TRADE AND INVESTMENT

China's rapid economic growth, and its emphasis on the "development of the west," including Xinjiang Province, are having a significant impact on energy developments in Central Asia and Russia. The Commission's recent hearings dealt in great detail with China's energy needs, and that information need not be repeated here. Suffice it to say that China is about to surpass Japan as the world's second largest oil importer, and is expected to import more than 200 million tons of oil annually by 2015.

Kazakhstan, along with Russia, is the closest available source of energy in the quantities needed by the Chinese economy. This has spurred China to explore major investment opportunities in Kazakhstan's energy sector, and to investigate the feasibility of constructing major pipelines from Western Kazakhstan to Xinjiang Province. CNPC has made a large investment in the Kazakh oil firm, AKTOBERMANAIGAZ, and there is a joint CNPC/KazMunaiGaz effort being explored to construct a pipeline from Atyrau and Kenkiyak, with a 1300 kilometer second stage planned from Atasu to a rail junction at the Kazakh border. China also attempted to become a partner in one of the major US-European-Kazakh oil production ventures on the Caspian Sea but was excluded by the existing partners. Since the Chinese tend to take into account economic, as well as energy security issues in their investment decisions, they have deferred the potential pipelines from Western Kazakhstan to Xinjiang until there is enough production to meet the 400,000 barrels per day (bpd) volume that will make this pipeline commercially viable.



CHINA'S VISION FOR THE SHANGHAI COOPERATION ORGANIZATION (SCO)

The Chinese see the opportunity to satisfy several of their strategic economic and security goals through a strengthened Shanghai Cooperation Organization. Originally conceived in 1996 by China, Russia, Kazakhstan, the Kyrgyz Republic and Tajikistan as a cooperative effort to ensure regional security, the original “Shanghai Five” evolved into the “Shanghai Forum” at a meeting in Dushanbe in July 2000. The Forum agreed to cooperate in fighting terrorism and Muslim extremism from both domestic and foreign (Afghani) sources. At this meeting, which Uzbekistan attended as an observer, a proposal was put on the table to consider economic, as well as technical cooperation. Uzbekistan has subsequently joined the group, which has evolved further into the Shanghai Cooperation Organization with headquarters in Beijing, and secretariat support provided by the PRC. China’s Ambassador to Russia, Zhang Deguang, has been appointed the Executive Secretary.

Chinese leadership has contributed to the institutionalization of the SCO and an energized program in several areas of key importance to the Chinese leadership. It offers China a framework within which it can pursue its key strategic goals of political stability and greater regional economic cooperation. The new SCO military initiative against terrorism and Islamist extremism provides a regionally-acceptable justification to clamp down on Uyghur efforts to promote a separate state in Xinjiang. It also helps to assure border security and to reduce drug trafficking, one of the most important reasons for skyrocketing increases in HIV disease throughout Central Asia and Western China.

Further, from the Chinese perspective, the SCO counter-balances the growing U.S. military presence in the region and allows China to avoid voicing its concerns about a long term U.S. military presence in its backyard; a stronger SCO in which China has a dominant role is a non-threatening way to assert Chinese influence in Central Asia that does not overtly confront U.S. military or political objectives. A recent article in a well-known Chinese journal commented how the SCO helps China to maintain “restraint” towards the United States, despite America’s “ever growing unilateralism” and the “formation of a power structure like the Roman Empire.”

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Finally, the SCO offers China a framework within which it can pursue its energy security goals. A Chinese Commerce Ministry Trade Institute publication in August 2003 stated that “The greatest economic benefit that China can achieve in the Shanghai Cooperation Organization is the acquisition of the energy resources needed for our country’s sustainable economic development and the exploitation of the Organization’s role as an Eurasian continental bridge.” The articles then goes on to say that increased Chinese investments in Central Asia not only help China to achieve its economic objectives but also to satisfy certain political goals as well. Stronger economies in the CAR contribute to regional stability. Further, China’s economic support can only enhance China’s image as a true “partner” in contrast with the “double-sided nature of the U.S.” or the limited capacity of Russia to provide real economic assistance.

RUSSIA AND CHINA: IMPACT OF CHINA’S GROWING ECONOMIC STRENGTH

Russia has responded pragmatically to recent strategic changes in Central Asia, seeking to maintain both its significant economic and political position and its military presence in order to neutralize China’s growing economic and diplomatic initiatives and America’s military inroads. Along with China, Russia was a driving force in the establishment of the SCO, and has a great deal at stake in its success. The SCO reflects, in part, improved Russian-Chinese relations that have led to border demilitarization, expanded trade, and the June 2001 “Good Neighborly Treaty on Friendship and Cooperation” that was the first such treaty between the two countries in several decades, partly in response to concern about U.S. policies.

Beijing became concerned, however, in the post 9-11 period, that the U.S.- Russia Treaty of Moscow and the creation of the NATO-Russian Council would shift Russian priorities away from the SCO to European matters. Such a move would weaken China’s relative position in the Beijing-Moscow-Washington strategic triangle.

Despite Chinese concerns, it would appear that the Russian-China relationship vis-à-vis Central Asia will remain solid, particularly as long as the United States continues its proactive military position in the region. There is substantial bilateral trade – about \$12 billion this past year -- between the two countries that has benefited Russia substantially as the Chinese economy has grown. There is the prospect for major

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Chinese investment in the Russian oil industry in the central and western part of the country. And there is the joint policy of zero-tolerance towards Islamist and separatist movements that is a primary motivating force behind the Shanghai Cooperation Organization. As long as Chinese inroads in Central Asia remain economic, rather than military, it is likely that the two countries will see a commonality of interests that will strengthen their cooperation. The SCO will serve as a mechanism through which that policy can be translated into visible steps of a military and economic nature. The multilateral approach to Central Asian security and economic cooperation that the SCO facilitates serves the interests of both Russia and China in counterbalancing the growing economic, military and political presence of the United States in the region. (Certainly the Russian base at Kant, in Kyrgyzstan, offers Russia the symbol it needs to reassert unilaterally its military influence in the region.) At the same time, however, the SCO can also serve as a collective partner with the U.S. in attacking the joint enemy of militant Islamist movements. And from the Russian perspective, the U.S. presence in the region also counterbalances Chinese efforts to strengthen its military or diplomatic cooperation with the Central Asian Republics; Chinese military interests in Kyrgyzstan to bolster its campaign against Uyghur separatists in Xinjiang is a case in point.

HOW DOES CHINA'S GROWING ECONOMIC STRENGTH AFFECT U.S. INTERESTS IN CENTRAL ASIA?

American policy towards Central Asia seeks to combat Islamic extremism and terrorist activities that could threaten the political stability of the region and U.S. access to Central Asia's vast supplies of oil and gas. The U.S. also asserts its support for more rapid movement towards democracy and market-based economic systems, but it has subordinated these universal American foreign policy objectives to its anti-terrorist campaign and American firms' access to energy.

The fact that China and the U.S. have a meeting of the minds on the anti-terrorist objective has minimized potential diplomatic conflict between the two countries in their respective Central Asia initiatives. The U.S. military presence in the region, as well as the Chinese-led SCO military exercises have been directed to the same goal and are viewed as complementary rather than competitive. Over time, however, this shared interest may come into conflict with other U.S. objectives.

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For example, it is likely that political instability will characterize the transition from the current post-Soviet authoritarian regimes in Central Asia to the next set of political structures. Should there be “velvet” revolutions similar to those that occurred in the then Czechoslovakia or in Georgia last month, U.S. support for the new regimes would undoubtedly be forthcoming, as long as democratic principles underlie the ideology of successor government leaders.

China’s concerns may be different, however. The Chinese fear instability within the CARs because of its potential to generate greater pressures for Uyghur separatism in Xinjiang. The existing autocratic regimes can be counted on to suppress any domestic opposition from Muslim extremists or other nationalist groups; more democratic regimes may be more tolerant of minorities’ claims for recognition, and by the same token, more willing to support Uyghur nationalist ambitions in Xinjiang. The Chinese are probably more aware of these potential policy divergences than the U.S., and are using the Shanghai Cooperation Organization as a vehicle to suppress Islamic terrorism and any associated separatist movements.

Chinese concerns in this area go way beyond Afghanistan, the Islamic Movement of Uzbekistan, or any of the other existing Islamic organizations, whereas American interests fall short of the condemning the legitimate nationalist aspirations of the Uyghur people. The U.S. decision to categorize a key Uyghur nationalist movement as a terrorist organization was undertaken to gain Chinese support for U.S. foreign policy elsewhere in the world, and did not necessarily represent an unwillingness to recognize some kind of legitimate minority status for Uyghurs within the PRC. What happens in Central Asia as the current regimes evolve into the next stage of political rule may affect U.S.-Chinese diplomacy in this regard.

The area with the greatest potential for problematic competition, however, is access to the region’s oil and gas supplies. It is clear that the Central Asian countries benefit from multiple markets for their oil and gas. The one country that has only one outlet for its exports, Turkmenistan, has little leverage on the prices it negotiates with its Russian buyers. Kazakhstan and Uzbekistan are aware of this situation, and the former, in particular, intends to maximize the number of players investing in and buying its vast oil supplies and to retain the freedom to pursue the best deal offered by any of the players.. Kazakhstan’s foreign

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minister told The Asia Society in September that “as far as pipelines are concerned, our policy is clear and simple: have as many export routes as possible.” This means that the Kazakhs are likely to pursue actively additional Chinese investments in oil field development and pipeline construction.

Should the U.S. be concerned? To the extent it is advantageous for these countries’ economic growth to have diversified markets for their oil and gas, U.S. interests are well served. The U.S. gains, as well, if supplies of non-OPEC sources of oil are expanded through Chinese investments. Also, if China is able to obtain greater quantities of petroleum products from its neighbors in Central Asia, sources closer to the U.S. in the Middle East, Africa and Latin America will become more available to the United States.

U.S. influence in the region will remain strong in any case. American and European business practices, cutting edge technologies and capital base are attractive to, if not essential, for Central Asia to realize its full potential in the energy sector. Neither Russia nor China can provide the expertise and funding needed to exploit these vast resources. Furthermore, the Central Asian nations view the U.S. presence as a positive counterweight to Russia and China, and American involvement will continue to be a priority for these countries’ foreign investment strategies.

The U.S. should remain vigilant towards Russian and Chinese goals and actions, but countering these actions should not be the principal motivating factor in U.S. policy towards Central Asia. It is equally important that we continue to press for political reform, democratic approaches, and market-based economic systems in order to promote the kind of economic and political governance that will best contribute to the long term stability of these countries. We should also provide assistance in the use of oil and gas sector royalties for poverty alleviation and economic development in order to create the broad-base of economic and political support that can withstand the threats from Islamic extremism and endemic corruption.

These latter goals demand that the U.S. remain committed to the growth and development of the Central Asian Republics for the long term, perhaps well beyond the time period needed to stamp out Islamic terrorism coming from Afghanistan or other parts of the region. We

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must continue to support realistic, sustainable, economic assistance programs that bring about real gains for all segments of the population. In this regard, we should welcome Russian and Chinese initiatives that are consistent with our long run objectives and not respond in a knee-jerk fashion that labels any such initiative a threat to U.S. interests.

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