

# **CEF QUARTERLY**

**THE JOURNAL OF  
THE CHINA-EURASIA FORUM**

**FEBRUARY 2005**



## **ABOUT THE CEF QUARTERLY**

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## **IN THIS ISSUE**

Letter from the Editor	p. 3
Articles by CEF Staff and Senior Advisors	p. 4
Featured Analysis	
Multilateralism and Narcotics Control in Central Asia By Niklas Swanstrom	p. 5
The Prospects for Chinese Influence in Central Asia By Adiljon Umarov and Dmitry Pashkun	p. 12
China and Central Asia's New Energy Relationship: Keeping Things in Perspective By Kevin Sheives	p. 16
<u>Featured Long Articles</u>	
China, Russia, and the United States: Prospects for Cooperation in Central Asia By Zhao Huasheng	p. 20
New Rules to the Old Great Game: Assessment of the Shanghai Cooperation Organization's Proposed Free Trade Zone By Leland Miller	p. 39

Selected News Summaries: November 2004-February 2005

Shanghai Cooperation Organization	p. 56
Security Situation and Regional Cooperation	p. 57
Summits and Meetings	p. 61
Economics, Trade, and Assistance	p. 63
Society and Culture	p. 66

Selected Articles form Other Publications

Shanghai Cooperation Organization	p. 67
China in Central Asia	p. 67
Security Situation and Regional Cooperation	p. 68
Energy and Trade	p. 70
China's Bilateral Relations	p. 71
China-EU Relations	p. 74
China's Foreign Policy	p. 74
China's Internal Development and "War on Terrorism"	p. 76
Central Asia and External Powers	p. 77

## FROM THE EDITOR

Friends,

Thank you for joining us for the second edition of the new *CEF Quarterly*! From the feedback we received from the first post-monthly newsletter edition, we think we are on the right track for this new form of publication.

In this issue, we have assembled a series of articles designed to demonstrate the ongoing dance between China, Russia, the United States, and the different Central Asian states in the region. These articles demonstrate how the agenda and interests of this large assortment of countries influence the development of Central Asia for both the better and the worse. While Niklas Swanstrom discusses how a multilateral approach to the region's drug trafficking problem has failed to materialize, Zhao Huasheng and Leland Miller, in two excellent, journal-length articles, discuss how the multilateral balance in the region potentially serves as both an impediment and boon to cooperation in Central Asia. In addition, Adiljon Umarov and Dmitry Pashkun from the National University of Uzbekistan offer a provocative article on the scope of China's influence in the region. And lastly, Kevin Shieves, one of the new breed of graduate students looking at this developing topic, provide a sobering assessment of the limitation of China's interest in Central Asian natural resources. These discussions should provide an excellent guide, especially as developments in the region continuously change.

Also, please note that you can now find brief news summaries like those below about events in China-Eurasia relations regularly posted on the website (<http://www.chinaeurasia.org/headlines.html>). Additionally, all of the previous *CEF Monthly* newsletters have been converted to Adobe PDF format and are available in an improved archive section on the webpage. The website is updated constantly with new topical papers and news summaries, links to outside resources, and other important information, so please visit us regularly.

Lastly, for the June Edition of the *CEF Quarterly*, we are planning a special edition: "Assessing the SCO after One Year of Operations." If you would be interested in submitting an article for this edition, please contact [moresman@chinaeurasia.org](mailto:moresman@chinaeurasia.org).

Sincerely yours,

Matthew Oresman  
Editor

## **ARTICLES BY CEF STAFF AND SENIOR ADVISORS**

People's Daily: "High terrorist risk" belt formed amid terrorist attacks

[http://english.people.com.cn//200411/08/eng20041108\\_163087.html](http://english.people.com.cn//200411/08/eng20041108_163087.html)

*(By CEF Senior Advisor Pan Guang)*

China Brief: Challenges to the Sino-Russian Relationship

[http://www.jamestown.org/publications\\_details.php?volume\\_id=395&&issue\\_id=3170](http://www.jamestown.org/publications_details.php?volume_id=395&&issue_id=3170)

*(By CEF Director Matthew Oresman)*

CAC Analyst: The Expansion Of CACO: A Russian Offensive Or A Central Asian Surrender?

[http://www.cacianalyst.org/view\\_article.php?articleid=2873](http://www.cacianalyst.org/view_article.php?articleid=2873)

*(By CEF Senior Advisor Farkhad Tolipov)*

CAC Analyst: A Strong Japanese Initiative In Central Asia

[http://www.cacianalyst.org/view\\_article.php?articleid=2789](http://www.cacianalyst.org/view_article.php?articleid=2789)

*(By CEF Senior Advisor Frederick Starr)*

## **FEATURED ANALYSIS**

### ***MULTILATERALISM AND NARCOTICS CONTROL IN CENTRAL ASIA***

**BY NIKLAS SWANSTROM**

Central Asia is new as a region with regional cooperation lacking in both stability and depth. Still there are some new attempts at regional multilateralism, including the Shanghai Cooperation Organization (SCO), Commonwealth for Independent States (CIS), Central Asian Economic Community (CAEC) and Collective Security Treaty Organization (CSTO). Yet, the characteristic for multilateralism in Central Asia is that it lacks the depth in organization and national influence that older organizations such as the European Union (EU), the Organization of American States (OAS), and the Association of Southeast Asian States (ASEAN) exhibit. There have been arguments that Central Asia is unable to enforce regional multilateralism due to strong intra-regional conflicts and fear of regional control by strong states, such as Uzbekistan. These arguments have been partly overruled by practical cooperation in military and drug related operations. However, despite impressive reports from the participating member states, there is little testifying to the actual effectiveness of these exercises, and, if they have contributed to an increased level of regional cooperation.

Narcotics trafficking is the major threat to regional development. It has a corrupting effects and negative economic impact to the regional security as it finances terrorists, separatists, and criminal groups. Narcotics has become a major source of income, and possibly the largest export commodity, of the Central Asian states. The region functions as the major transit route between Afghanistan and Russia, China and Europe. Currently, Afghanistan produces more than 70 percent of the world's opium supply and is increasing its production strength.<sup>i</sup> This has made narcotic trafficking a tremendous economic problem in Central Asia to the point where it dominates the illegal market, which in turn ranges from 70 to 10-15 percent of the overall economy.<sup>ii</sup> Tajikistan is the worst affected and Kazakhstan might be the least affected, seen in proportion to the overall economy. Corruption is endemic in the region and ranges from the control of key individuals among the police, military, customs, courts, and politicians to what is called "state capture", control of the entire state apparatus, not just individuals or groups of individuals. This is a rare phenomenon and it is only Tajikistan that could fall within this category, even if Afghanistan and Turkmenistan could be argued to partly have fallen in this trap.

Regional and national security is also badly affected by the narcotics trafficking. This is not only by the increase in petty crime and violence related to the narcotics trafficking, but also by the arming of militants in the region (criminals, terrorists and separatists)

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through the narcotics trade. It seems evident that criminals benefit from the chaos created by insurgency, as that prohibits the governments to focus on the narcotics problem. Militants in the region have increasingly been forced to revert to narcotics trafficking for finances, as the support they used to receive from national actors is negligible following the war against terrorism. For example, the Islamic Movement of Uzbekistan (IMU) controlled the drug routes from Afghanistan, and, while their hold on these routes has weakened since the U.S. led invasion of Afghanistan, it is apparent that they still control important parts of it.<sup>iii</sup> However, due to its changed focus towards the control of the narcotics trafficking and the apparently decreased attention towards its initial goal to overthrow the Uzbek government, the IMU can today be said to be as merely a criminal organization. Thus, In many cases in Central Asia, regional efforts to combat the financing of militants and prevent criminal organizations from further weakening state are ineffective at best. This makes it important to look closer at the ongoing attempts to curb the narcotics problem and where the reasons for failure lie.

### **Regional narcotics control in Central Asia**

There are few effective cooperation attempts in the region to combat narcotics trafficking. However, the attempts we have seen designed to curb the drug problem, most notably the Shanghai Cooperation Organization (SCO) and United Nations Office on Drugs and Crime (UNODC), are dominated by external actor's whose presence guarantee that no regional power will be able to dominate the others. In regard to the combat of narcotics in the region, and the transit trade specifically, these organizations has emerged as the two most interesting.

The Memorandum of Understanding signed by the five Central Asian governments and the UNODC in May 1996 on sub-regional Drug Control Cooperation has proven to be toothless despite its annual review meetings. The Central Asian states and the UN have, on several occasions, reiterated their desire to cooperate in order to curb the illicit trade.<sup>iv</sup> These efforts have, however, been less than successful, and transit trade and consumption has increased to worrisome levels. This is primarily due to the lack of bilateral and multilateral cooperation in the region, which has made any measures from UNODC side ineffective. This was especially apparent in the "Osh knot" (Khorugh-Osh) where the UNDCP initiated a project aiming at cross-border cooperation between the law enforcement agencies.<sup>v</sup> The project failed and was terminated in 1999 due to ineffectiveness and misuse of funds. There was, and still is, not enough political willingness in the region to cooperate multilaterally with the UN.

The SCO has emerged as one of the more important actors when dealing with drug control, at least on paper. In July 2002 the SCO agreed that they would work to (decrease, curb, stop, eliminate?) weapons trafficking, drug trafficking, and illegal immigration.<sup>vi</sup> In May 2003, it was agreed that the members would, in the near future, come to an agreement on combating trafficking of illicit drugs and psychotropic substances.<sup>vii</sup> As a result of the meeting, five nations expressed support for a proposal by Kyrgyzstan to establish a regional anti-terrorism center in Bishkek, Kyrgyzstan. In August 2003 at the regional meeting of SCO members, it was decided that the anti-

terrorism center would instead be transferred to Tashkent, Uzbekistan. This could be explained as an attempt of the Central Asian states, and also Russia and China, to keep Uzbekistan involved in SCO activities, and to distance Uzbekistan from the United States. It also reflects the reality that Uzbekistan has the financial and military capabilities to organize such an endeavor that is lacking in the other states. Despite some substantial progress, there are still large drawbacks with the SCO, especially when considering the power struggle between Russia and China and the regional fear of an expansionist Uzbekistan.<sup>viii</sup> There is also a fear that deeper cooperation in the narcotics control regimes could decrease the sovereignty of states. This is not only the case for the Central Asian states, but China and Russia are likewise reluctant to do anything which would make it possible for the other side to undermine their sovereignty under the pretext of narcotics control. Despite some interesting attempts at cooperation, the evident lack of cooperation in most aspects and severe limitations in cooperation are more apparent than the successful aspects of SCO in multilateral narcotics control.

There are a myriad of attempts to meet the challenge from the narcotics trade, but the efforts to curb the regional drug problem are notably national and international. When examining the narcotics problem it is evident that there currently are very little truly regional efforts in Central Asia that attempts to deal with the transit trade of narcotics. All five Central Asian states have ratified the UN anti-narcotics conventions of 1961, 1971, and 1988 and all states except Turkmenistan have national drug control agencies. Despite this, there are very limited levels of cooperation between the different national drug enforcement agencies. Unilaterally, most states have established strong measures, even draconian in some cases, against the narcotics problem, but the question is how effective these are in reality.<sup>ix</sup> It has even been argued that the national drug control agencies are corrupted to the extent that they have very little practical impact. In 2003, the state worst affected by corruption, Tajikistan, had become one of the leading states in intercepting heroin (2.3 tones of opium and 5.6 tones of heroin) which equals 80 percent of the total Central Asian seizures.<sup>x</sup> At the surface this is a very positive result, but despite the bulk of opium and heroin is still passing through Tajikistan with relative ease. This has been explained by the high degree of state infiltration by the narcotics networks. Apart from the state infiltration, there is also an apparent lack of trust in the region between the Central Asian states, which prevents regional cooperation to combat the narcotics trade. As mentioned before, there is an overall fear that Uzbekistan, as the most powerful state, could dominate the region. This tension and distrust between the Central Asian states has made it imperative to engage external actors if any multilateral initiatives is to be implemented. The necessity of this can be seen today where there is no single regional cooperation that functions between the five Central Asian States without external involvement.

However, once a year the Central Asian states undertake joint operations that aim at combating drugs. For example between June 10-14, 2002, transport police from Russia, Kyrgyzstan, Kazakhstan and Uzbekistan carried out a joint operation to stop drug trafficking. The operation was named “Kanal” and involved the Russian Customs Committee and the Federal Security Service. Law enforcement agencies checked 1,049 means of transportation, exposed 218 crimes and instituted criminal proceedings against

219 people. More than 15 kilograms of drugs were seized.<sup>xi</sup> If these exercises could generate the same results each day it would be substantial, but so far it has merely been a showpiece for the international community.

Moreover, the ordinary corruption and state infiltration that is a direct effect of the narcotics trade has made segments of the state and its institutions reluctant to engage in regional efforts to combat the trafficking as they simply benefit from the trade. The corruption in the region has reached unprecedented levels and the narcotics trade is the main reason for this. Estimates from the Transparency Index clearly show that all states in the region are severely affected by corruption and that the increased financial weight of the narcotics trade supports the negative trend.<sup>xii</sup> Mexico had, for example, to reorganize its Drug Enforcement Agency three times in the 1990's due to corruption and direct criminal infiltration, and, even though no exact information exists, there are good reasons to suspect parts of the police, legal structures, and military in Central Asia to benefit greatly from the narcotics trade; especially because the narcotics economy is a larger percentage of the economy than it ever has been in Mexico. States such as Tajikistan, due to its small legal economy, Afghanistan due to the production, and Turkmenistan due to state infiltration are worse off than the other states, but the problem is endemic in the region and prevents effective control of trafficking. This level of corruption and cooption has made effective attempts at regional and international cooperation virtually impossible to implement with regard to narcotics control.

Central Asia has a history of weak institutions and corruption, and the region face a variety of problems in regard to governance, economic development, and control over the drug trade. It is very difficult to initiate any cooperation without committed and strong institutions that back up the political decisions. Most states in the region can be classified as weak states, as they have failed to provide their citizens with the most fundamental political, economic, and social goods, such as security, political participation, and economic security. This has made the political cohesion within the states relatively weak, and the state, in extension to the organizations the states engage with, is not always considered to be the most important unit of solidarity. Narcotics traffickers have used the internal weakness of the Central Asian states, and, more importantly, the lack of cooperation between the states on narcotics trafficking against these governments. Transnational narcotics trafficking is, by its definition, a cross-border activity and to effectively combat this there is a need for cooperation. The failure to provide this has made the Central Asian states an attractive transit route.

The political weakness in Central Asia, in combination with a weak institutional framework, is prohibiting any regional cooperation, not to mention combating the most lucrative trade in the region. In the short term there seems to be little positive developments on the horizon and it is not pessimistic to assume that the situation will become worse before it will become better.

### *Effects on Central Asia*

The unchecked smuggling of narcotics in Central Asia has increased tension between and inside the individual states. Violence has increased within the states due to increased petty crime, but also as a result of the combat between different smuggling organizations. This is especially apparent in the border regions, where the national narcotics enforcement agencies, in the best of cases, attempt to prevent a further inflow of drugs, Petty crime has increased in all regions of transit, and the use of heroin has increased rapidly due to the transit traffic.<sup>xiii</sup> This is especially apparent in the so-called “Osh Knot” and other major transit regions. Prostitution and increased amounts of small arms follows the transit routes, which increases both the overall level of insecurity and human tragedies through the diseases that follow the trade, such as HIV/AIDS, and the trafficking of women. The social consequences of the increase in narcotics are staggering. Drug addiction, especially intravenous usage, is increasing in the region. This is especially apparent in the transit regions: Osh, Jalal-Abad and Batken regions in Kyrgyzstan; Yangi Yol and Samarqand in Uzbekistan; Temirtau, Kostanai in Kazakhstan.

Central Asia has experienced a HIV/AIDS explosion. Official numbers have gone from fewer than 1,000 in 1995 to over 10,000 in 2003. Yet, unofficial figures are much higher, believing there to be 100,000 cases of HIV in 2003.<sup>xiv</sup> By May 2002, 87 and 82 percent of HIV/AIDS cases in Kazakhstan and Kyrgyzstan respectively, were intravenous drug users. Among the reported HIV cases in Tajikistan 75.6 percent and more than 60 percent in Uzbekistan, are intravenous drugs users.<sup>xv</sup> The HIV/AIDS as well as Hepatitis epidemics in Central Asia originate from needle sharing but they are made worse by the weak health structures in the states in combination with lack of information about the ways the diseases spread. The explosion of HIV/AIDS cases is based on sharing needles, even if sexually transmitted HIV/AIDS cases are worsening the situation and spreads the diseases outside of the addict circles.

Organized crime however, has a more sinister effect than the humanitarian. The criminal activity corrupts and co-opts parts of the state apparatus, which then simplifies transit and sales. It is evident that some states are affected by the drug trade, particularly Tajikistan, Turkmenistan, and, increasingly, Kyrgyzstan. Some states are even on the verge of becoming what has been termed “narco-states.”<sup>xvi</sup> The direct state involvement in the drug trade has effects on regional relations. Uzbekistan, for example, has criticized their neighbors for not doing enough to control the transit of narcotics and threatened to act unilaterally outside of its borders in the issue. Increased levels of state cooption decreases the determination to deal with the problem as well as increases the tension with their neighboring states that are in many ways the continuation of the transit trade with narcotics. As some states are partly involved in the trade there is little to be expected from cooperation with other states in the region.

Corruption in general and, more specifically, corruption related to the narcotics trade has impacted the mode of regional cooperation and integration in a negative way. Endemic corruption has naturally decreased any effects regional organizations might have. One case of this is that the SCO, despite its intentions, will have little effect in the worst affected states due to state infiltration by the criminal networks. There is simply very little political willingness to control the narcotics trade by large segments of the elite.

One of the major problems is that it is very likely that the narcotics trade is supporting separatists and individuals or organizations that are directly involved in terrorism. One of the reasons is very simple, the attack on the United States on 9/11/2001 made state funding of terrorism virtually impossible to conduct and these groups are today looking for alternative funding of which organized crime and narcotics trade are the most lucrative. The IMU is an example of this and has specifically sought to control the transit routes for heroin through Central Asia from Afghanistan.

### *Effects on multilateralism in Central Asia*

Failure of cooperation in the field of narcotics control in Central Asia does not necessarily have direct effects on other forms of cooperation, but is a symptom of the failure to cooperate in general, even over acute issues. Failure to cooperate in one of the most pressing questions for the region will over time. However, create tension both domestically, as well as regionally.

Regional cooperation is conditioned by state capacity and weak states are not able to fully commit to this. States that are heavily affected by narcotics trade are even less able to engage in cooperative structures, as the narcotics trade has further decreased its capacity. The Central Asian states inherited a weak political structure from the Soviet Union, a structure that has been seen as largely illegitimate. The transit and involvement in the narcotics trade has not increased the legitimacy of the state and its structures. Due to increased corruption and political cooption of states in the region, the overall capacity to cooperate within the region as well as internationally, has decreased. This is not all due to the narcotics trade, but the significant economic incentives the trade has on the national economies it is a major source of further weakening state institutions.

The lack of cooperation in the drug control area is, first and foremost, a consequence of the lack of trust and willingness to cooperate among the Central Asian states. The few attempts that have been more successful have included external actors to balance regional ambitions and fear of domination. Currently there is no political willingness to initiate effective regional organizations that are exclusively Central Asian. Increased levels of transit narcotics trade between Afghanistan and the Central Asian states has decreased the trust between the states in the region, and Tajikistan and Turkmenistan are increasingly seen by their neighbors as heavily involved and even controlling some of the trade that continues to transit and supply consumers in the other states.

Additionally, the narcotics trade has direct effects on future relations, as the drug trade is increasing in importance, and states are increasingly affected by the criminalization of the state, corruption, and increasing HIV/AIDS rates that follow the trails of the intravenous users. These effects are increasingly attributed to other states, specifically to Tajikistan and Afghanistan, even if all states have their own national problems. The capacity to cooperate is decreasing, as the narcotics trade is increasing in importance and scale of corruption grows. This does not bode well for the future.

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- <sup>i</sup> Niklas Swanström and Svante Cornell, "Is Afghanistan's Opium Boom Reversible", *Central Asia - Caucasus Analyst* (14 July 2004); United Nations Office on Drugs and Crime, *2004 World Drug Report* (United Nations Publication, New York, 2004).
- <sup>ii</sup> Konstantin Parshin, "Tajik, Russian Officials Suggests Tajikistan is developing into Drug Production Center", *Eurasia Insight* (8 July 2001); United Nations Office on Narcotics and Crime, *Global Illicit Narcotics Trends 2003* (United Nations, New York, 2003); Svante Cornell, *The Nexus of Narcotics, Conflict and Radical Islamism in Central Asia*, Cornell Caspian Consulting (2002); Svante Cornell (2004); Tamara Makarenko, *Crime, Terror, and the Central Asian Narcotics Trade* (2003), [http://www.cornellcaspien.com/briefs/25\\_0207CA\\_Narcotics.pdf](http://www.cornellcaspien.com/briefs/25_0207CA_Narcotics.pdf); M. Olcott & N. Udalova, *Narcotics Trafficking on the Great Silk Route: The Security Environment in Central Asia*, Carnegie Endowment for International Peace, Washington, D.C. (2000). Niklas Swanström, "Open borders: Central Asia as a Transit Region for Narcotics", *Asia Times Online* (Friday/ August 29, 2003); Niklas Swanström, "The Southeast Asian and Chinese Connection to Narcotics Trade in Central Asia", *Central Asia - Caucasus Analyst*, Johns Hopkins University, SAIS (Wednesday/August 27, 2003). Fact sheets on the Central Asian states: [www.silkroadstudies.org/sheets.htm](http://www.silkroadstudies.org/sheets.htm)
- <sup>iii</sup> Svante Cornell, "Narcotics, Radicalism and Security in Central Asia: The Islamic Movement of Uzbekistan", *Terrorism and Political Violence* (forthcoming 2005).
- <sup>iv</sup> United Nations, *Cooperation in countering illicit drugs in central Asia* (CND Resolution 44/12, 29 March 2001); UNODC, *Central Asia Drug Control Cooperation* (Memorandum of Understanding) (13 December 2002); United Nations Information Service, *United Nations Counter-Narcotics Chief Visits Central Asia, Urges Greater Regional Co-operation against Drugs, Crime and Terrorism* (UNIS/NAR/845, 21 May 2004).
- <sup>v</sup> AD/RER/96/B88, "Strengthening of law enforcement agencies and cooperation development at the borders of the Central Asian sub-region (Kyrgyzstan-Tajikistan-Uzbekistan)".
- <sup>vi</sup> Ministry of Foreign Affairs of the People's Republic of China, *Shanghai Cooperation Organization* (7 January 2004).
- <sup>vii</sup> Ministry of Foreign Affairs of the People's Republic of China, *Shanghai Cooperation Organization* (7 January 2004).
- <sup>viii</sup> Pan Guang "The Tashkent Summit Meeting: The Steady Advance of the SCO", *CEF Quarterly* (October 2004); Stephen Blank "Russia, China and Central Asia: The Strange Alliance", *CEF Quarterly* (October 2004); Niklas Swanström, "The Prospects for Multilateral Conflict Prevention and Regional Cooperation in Central Asia", *Central Asian Survey* (Vol. 23 No. 1, March, 2004).
- <sup>ix</sup> See Swanström Niklas and Maral Madi, "The Emperors New Clothes: International cooperation against drug trafficking in Central Asia", in K. Santhanam, ed, *United Nations, Multilateralism and International Security* (Institute for Defense Studies and Analyses: SHIPRA Publications, 2005).
- <sup>x</sup> [www.silkroadstudies.org/docs/factsheet/2004/tajikistan.pdf](http://www.silkroadstudies.org/docs/factsheet/2004/tajikistan.pdf)
- <sup>xi</sup> Itar Tass 12 June 2002
- <sup>xii</sup> Transparency International, *Corruption Perception Index 2004*, (<http://www.transparency.org>).
- <sup>xiii</sup> See: Silk Road Studies Program, *Drug Trade in Eurasia Database*, [www.silkroadstudies.org/drugdatabase.htm](http://www.silkroadstudies.org/drugdatabase.htm)
- <sup>xiv</sup> See Silk Road Studies Program, *Drug Trade in Eurasia Database*, at <http://www.silkroadstudies.org/drugsdatabase.htm>. Most estimates are from UNODC, as well as Government sources.
- <sup>xv</sup> Ibid
- <sup>xvi</sup> It should however be noted that even in severely corrupted and co-opted states there is a resistance against the continuation of smuggling of narcotics for humanitarian, economic and political reasons.

# **THE PROSPECTS FOR CHINESE INFLUENCE IN CENTRAL ASIA**

**BY ADILJON UMAROV AND DMITRY PASHKUN**

The launch of the Shanghai Cooperation Organization (SCO) in June 2001 marked a new era in relations between China and the countries of the Central Asia. From a forum created to demarcate and demilitarize the common border between China, Russia, and three Central Asian countries (Kazakhstan, Kyrgyzstan and Tajikistan) a new organization was established to combat international terrorism and develop economic, political, and cultural ties, in addition to continuing work on existing border disputes. The inclusion of Uzbekistan, one of the key states in Central Asia into the organization gave new stimulus to the development of SCO and to further development of relations between the People's Republic of China (PRC) and the countries of the Central Asia.

Following the Cold War, China became an essential international player with versatile global interests and a well-defined foreign policy. Although its relations with the great powers remain a cornerstone of Chinese foreign policy, fundamental change along the borders of China, namely the disintegration of the Soviet Union and the establishment of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan as independent states, have forced Beijing to reconsider its approach and its policy towards Central Asia. In the opinion of former U.S. National Security Advisor Zbigniew Brzezinski, this turn of events has far-reaching geostrategic consequences as China substantially returns to the region for the first time since the Mongol Dynasty and the Great Silk Road.<sup>i</sup>

Taking into an account the geographical position of China, its current borders with three Central Asian countries, dynamic economy, expanding trade, and cultural and political relations, it is not surprising that the ties between China and Central Asia have considerably expanded in all directions since 1991. It is unclear at present, though, how far China's growing influence in Central Asia extends and if that influence will be mainly economic or will include a military component.

## **China's Goals in Central Asia**

Overall, China's engagement with Central Asia can be broken into four broad and overlapping categories. First, China recognizes the strategic importance of Central Asian and its potential impact on global events. Second, on the economic side, China understands the important role Central Asia can play in its the future economic development, especially as a supplier of vital energy resources. Third, China has a security and political interest in making sure the individual nations of Central Asia develop in a way that does not threaten China, such as the establishment of radical governments in any Central Asian capital. Lastly, China recognizes that a multilateral approach to cooperation, in addition to stable bilateral relation, can help both China and the region as a whole achieve their shared interests.<sup>ii</sup>

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China clearly considers the region of Central Asia in the wider context of Eurasia. Central Asia is the bridge between East and West, and China is very much interested in the stability and prosperity of the region, especially as China's engagement with the European Union continues to develop. In the opinion of many Chinese analysts, the region acts as a transcontinental link, not only in a geographical sense, but also in a political and cultural sense. However, taking a lesson from the rise of the Taliban, Al Qaeda, Islamic Movement of Uzbekistan, and developments in the Middle East and Chechnya, Beijing recognizes that if Central Asia destabilizes, it will undermine the security of both the continent and China's frontier area. Thus, China also considers its relations with Central Asia in the context of the stability and development of Xinjiang. China keeps a close eye on Central Asia to make sure developments there do not upset the current situation in Xinjiang.

Although the growth of China's influence in Central Asia is evident, official Chinese sources emphasize that the basic priorities of China's policy in Central Asia is to support regional stability, obtain access to the Central Asian energy resources on a mutually beneficial basis, and further develop economic relations with region.<sup>iii</sup> China officially disavows any belief that it is seeking hegemony in the region. However, it is possible that with the growth of political, economic, and military power of China, the priorities of China in Central Asia could change.

### **Economic Influence**

The growth of economic ties with Central Asia will provide China with the necessary financial resources to spread its influence through the region, particularly in the energy sphere. As made clear by the June 2003 visit of Chinese President Hu Jintao to Kazakhstan, China aims to protect its economic and national security by guaranteeing the delivery of energy from Kazakhstan through a pipeline currently under construction.

Despite this active diplomatic effort, though, it is doubtful that China can significantly exert its influence over the Central Asian region. For China to exert any form of control over Central Asia or to succeed any potential balance-of-power games with other outside powers, China must first dominate the region economically. China can only accomplish this by satisfying all the economic needs of any nation in the region, a near impossible task for any outside nation or group of nation. While China represents a dynamic and accessible market for the export of goods free of Russian control, volume of trade between China and the region still accounts for less than 1% of China's foreign trade and only 10% of Central Asia's foreign trade – most of which is limited to the energy sector.

However, those countries that border China, Kazakhstan, Kyrgyzstan and Tajikistan, are most susceptible to gradually falling under Beijing's influence, at least in economic terms. For example, as of 1994, China was the biggest official market of export and the second largest market of import for Kyrgyzstan.<sup>iv</sup> Additionally, the Kyrgyz-Chinese Commission on trade and Economic Cooperation has developed a program for large-scale and long-term partnership that includes more than 500 projects. The recent

renaming of the Lenin Square into the Square of Deng Xiaoping in Bishkek, the capital Kyrgyzstan, indicates that Chinese influence is clearly on the rise.

The economic relations of China with Kazakhstan will also continue to expand. Kazakhstan is already the largest trading partner of China in Central Asia and the second in the CIS with a trade turnover of approximately more than \$3.3 billion.<sup>v</sup> The ethnic ties of the Kazakhs of Kazakhstan and Kazakhs in China also serve to strengthen these connections. The opening of a railway route between Almaty and Urumchi gave to Kazakhstan access to seaports in the Chinese province of Liaoning for conducting trade with the rest of the world. The investments of China in the oil projects in the west of Kazakhstan also strengthen the economic presence of China in Kazakhstan. However, two major factors still constrain Chinese economic influence to Kazakhstan, though. First, Kazakhstan continues to maintain deep ties with Russia; ties that are perpetuated by the large Russian minority still living in Kazakhstan. Secondly, Kazakhstan's energy supplies have attracted global attention, with multinational Western corporations already controlling some of the best prospect for oil and gas development. As long as the world hungers for energy, China will have to compete with others for influence in Astana.

### **Hegemon-in-Waiting?**

China's influence in Central Asia wanes as it moves further from China's borders. Uzbekistan and Turkmenistan both are geographically separated from China and have attempted to chart their own independent course of development. Uzbekistan has its own regional ambitions and has consistently bucked any attempts by Russia to impose any new forms of the control over region. Any similar attempts by China will be equally unwelcome.<sup>vi</sup> This sense of regional independence has also allowed for growing ties with Iran, Turkey, and Saudi Arabia, all of which have established minor levels of influence. More importantly, the United States, which does not share any common territory with the region, has become an influencing force on par, if not greater than Russia, due to the ongoing realities of the War on Terrorism. Thus, China represents only one of possible partners for the Central Asian states, limiting Beijing's ability to play an essential or irreplaceable role in region.

It seems rather doubtful that China will use its full political and military might to achieve its interests in Central Asia. Presently, China achieves all it needs through political and economic diplomacy; and Central Asia is still not a top priority for decision makers in Beijing. Moreover, given the limits of China's armed forces and the current focus in China on modernizing those forces needed for a Taiwan invasion before any interior ground forces modernization, it unclear if China could even exert strong military pressure in the region in the future. Additionally, Russian forces still present in the region act as a continuing deterrent to any unauthorized Chinese military advance in the region. It is not in Beijing's interest to upset China's relationship with Russia for limited gains in Central Asia.<sup>vii</sup> The U.S. military presence in Central Asia also limits China's option as well. As with Russia, it is not worth upsetting the overall Sino-American relationship by actively challenging American forces in Central Asia. Only in the direst situation would China be inclined to engage U.S. regional forces in a conflict over worldwide energy resources.

It is impossible, though, to exclude the possibility that China could use its armed forces in Central Asia in the future. The most likely scenario is that if unrest erupted in Xinjiang, China might enter Central Asia to crush any forces or governments supporting these separatist activities.

## Conclusion

Today, Central Asia represents for China both a potential market for China's growing economy and a source of strategically important raw materials. China has actively established ties with the new republics. China's strategy towards Central Asia remains to seek influence over the developing economic life of the region and to maintain political stability through mutual cooperation. The Central Asian countries are also eager to continue their cooperation with China on the principles of mutual interests. Beijing no longer sees Central Asia as a Soviet backwater, but as a player Asian and World politics in the years to come, and will pursue engagement with this vision in mind. Over the coming years, China will continue to engage Central Asia and exert an increasing, though limited, amount of influence over the region.

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<sup>i</sup> Freeman Chair in China Studies, Event Summary, *China's Emergence in Central Asia: Security, Diplomatic, and Economic Interests, Forum One: The Current State of China – Central Asia Diplomacy and Implications for US Foreign Policy*, Wednesday, February 5, 2003 available online at [http://www.csis.org/china/030205\\_ce\\_forum01.pdf](http://www.csis.org/china/030205_ce_forum01.pdf) accessed on 4 August 2004

<sup>ii</sup> S. Kim, *China-Central Asia Trading Relations*, The Scientific Notes of the Tashkent Institute of Oriental Studies, vol. VIII, p. -12, Spring 2004, Tashkent.

<sup>iii</sup> D. Pashkun, *China's Image of Central Asia*, REECAS Newsletter, University of Washington, p. -15, Spring 2001

<sup>iv</sup> Economist Intelligence Report, *Kyrgyzstan Country Report*, 4th Quarter, 1996.

<sup>v</sup> Radio Free Europe: *Kazakhstan: President Nazarbaev Signs Mutual Cooperation Agreement With China* by Antoine Blua, available online at [www.rferl.org/nca/features/2002/12/27122002160510.asp](http://www.rferl.org/nca/features/2002/12/27122002160510.asp), accessed on 1 August 2004

<sup>vi</sup> Olcott, Martha Brill, *The Central Asian States: An Overview of Five Years of Independence*, Testimony Before Senate Foreign Relations Committee, Federal News Service, July 22, 1997.

<sup>vii</sup> For a wider discussion of this point, see J.S. Peskov, *The Problems and Prospects of Cooperation of Russia and China with the countries of the Central Asia – members of the CIS*, Problems of the Far East №3, 1997; Trenin, Dmitri, *Russia's China Problem*, English Edition, Moscow Carnegie Center, Moscow, May 1999, p. 42; and S.U. Garnett. *The limited partnership: the Russian - Chinese relations in the changing Asia: A Report of Group on studying the Russian - Chinese relations*, Moscow Carnegie Center, Moscow, January 1999, p. 39.

## **CHINA AND CENTRAL ASIA'S NEW ENERGY RELATIONSHIP: KEEPING THINGS IN PERSPECTIVE BY KEVIN SHEIVES**

China's involvement in Central Asia has been fueled by a number of factors from regional stability to global geopolitics, foremost of which remains its own energy crisis. China became a net energy importer in 1993 and the trend of rising consumption has continued since then. With oil-rich Central Asia next door and a burgeoning domestic pipeline infrastructure, it seems only natural that China would heavily invest in Central Asian energy trade and infrastructure. However, there have been many domestic and regional obstacles to Chinese attempts to rely on Central Asia for more of its energy security. When assessing the importance China places on its energy relationship with the region, scholars and policymakers examining this new phenomenon should also rely on accurate measures, not mistaking the flurry of Sino-Central Asian bilateral agreements and SCO summits for a substantive, immediate change in China's overall energy security.

### **Obstacles to Sino-Central Asian Energy Trade**

One of these obstacles remains the difference in interests between the central government in Beijing and the state oil companies. In recent years, the measures for performance for the primary state oil companies that significantly invest overseas such as CNPC (China National Petroleum Corporation) and Sinopec (China National Petrochemical Corporation) have moved from production values to profit. This move towards a more capitalistic and autonomous energy sector remains somewhat subdued as the heads of these companies are still appointed by the CCP Central Committee, pointing towards a still unified and pro-Beijing policy formulation process. As shown in China's energy expansion into Central Asia, this dynamic of increasingly capitalistic motives and direct oversight by CCP leadership has created much tension between Beijing's national security wishes and the state oil companies' economic realities.

Taken as a case study, the Sino-Kazakh oil pipeline highlights this tension. In 1997, China and Kazakhstan agreed to the oil pipeline as part of a larger energy cooperation accord amid heavy competition from Asian and Western firms. CNPC secured the rights to develop the pipeline and to receive a majority shareholder's stake in two Kazakh oil fields. In 1999, the feasibility studies for the pipeline project grinded to a halt as the Kazakh foreign ministry felt the project was too expensive and would not participate in the financing. The Chinese side felt the same sentiment as CNPC became quite hesitant about the enormous initial costs of the pipeline it was to bear.<sup>1</sup> A year later, both the Chinese and Kazakh governments announced that the project would finally begin the following year. However, this announcement proved premature as the initial financial costs seemed to weigh the project down.

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The pipeline project seemed to become a sticking point between the two states as neither state oil company wanted to pay for the construction. During the signing of the 2001 Kazakhstan-China joint accord, there was no talk of the pipeline project, and only a token mention of energy cooperation in the document. Finally, in early June 2003, just after the 2003 SCO Summit in Moscow, the Kazakh position shifted as President Nazarbayev suggested to speed up its gradual construction. After years of wrestling over the costs, the project became a joint venture as the Kazakh government, the Chinese government, and CNPC agreed to jointly finance the cost, beginning construction of the pipeline on September 28, 2004. Of utmost domestic importance to China, the Sino-Kazakh oil pipeline will link with the recently completed East-West pipeline beginning in Xinjiang and continue into the eastern provinces, connecting with an extensive domestic pipeline network.

The seven-year delay in the initial construction of the Sino-Kazakh pipeline underscores two important issues: the varying interests between Beijing policymakers and Chinese state oil companies and the sometimes-limited capabilities of those companies. Although there is a seemingly unified outcome in the policy formulation stages due to Beijing's control over the companies' leadership, divergent interests can cause friction and confusion during the policy implementation stages. While policymakers look to the national security advancements a transnational oil pipeline could bring to its fledgling energy supply, those involved in *implementing* that policy – state oil companies – might not only have different, profit-driven interests, but might also possess limited capabilities that those formulating the policy had not taken into account. Erica Downs points to this tension in writing that “Chinese oil companies are unlikely to build commercially dubious pipelines for national security [purposes] without financial support from Beijing.”<sup>ii</sup> In this case, CNPC's limited financial capabilities compounded with its hesitancy to suffer high short-term losses in constructing the pipeline significantly contributed to the delay of an important issue in strengthening China's energy security, thus causing strain on Sino-Kazakh economic relations. Even though Beijing might actively pursue the partial security of its energy supply in Central Asia or elsewhere, it might find difficulty implementing its policy when it faces divergent interests and capabilities from economic actors involved.

The struggling economies of Central Asia constitute another of these obstacles. As the oil industries are governmentally owned in Uzbekistan and Kazakhstan, the energy development and export infrastructure to non-Russian destinations are consistently underdeveloped. A leftover from decades of Soviet control, Central Asian governments have not fully recovered from the collapse and the existing transportation infrastructure (pipelines, road, and rail) heavily favors Russia. The nascent governments have not yet acquired a sufficient amount of capital to develop some of the larger unproven reserves, as well as the transportation networks to other destination points such as China. The historical role of playing the great powers off of one another continues as Central Asian governments, especially Kazakhstan, Turkmenistan, and Uzbekistan, seem to waver between developing network infrastructure, such as pipelines, to favor China, Japan, India, Russia, or the new U.S. presence. The existing Sino-Central Asian energy trade infrastructure of road and a single Kazakh-Xinjiang railroad is adequate in supporting

limited trade, but cannot support a ample increase in energy trade. As evidenced by the Kazakh government's hesitancy to fund its oil pipeline with China, attempts to buttress the Sino-Central Asian energy trade infrastructure might prove ineffective or slow, especially as the transportation costs of oil and gas from Uzbekistan and Turkmenistan would be high due to their larger geographical distance from northwest China.

### **Gauging the Energy Trade**

There is no doubt that Chinese imports of Central Asian energy have reached its highest level. Using the best available statistics released by the PRC Statistical Bureau, Chinese energy imports from Central Asia have risen from a mere 5,345 tce (tons of standard coal equivalent) to over 700,000 tce in 1999 and to roughly a million since.<sup>iii</sup> While nearly all of its Central Asian imports have been from Kazakhstan and recently Uzbekistan, the trend is certainly noteworthy and merits consideration. However, what does the rise of the energy trade actually say about Sino-Central Asian relations and China's energy security? By examining the *relative* amount of energy imports from Central Asia, one finds that in the last decade, energy imports from Central Asia remained steady at only 0.7% of China's overall energy imports.<sup>iv</sup> Increased imports from Central Asia is more of a product of China's rising consumption than a fundamental shift in its current energy import strategy as imports from Central Asia have risen at roughly the same rate as has China's overall energy consumption. Most of the remaining oil, gas, and other energy products derive from the Middle East, Southeast Asia, and Russia. At best, Central Asia constitutes a secondary source of China's energy imports, and thus as a net importer, its energy security. Furthermore, its imports focus heavily on Kazakh oil with only 2% of its Central Asian imports coming from either Uzbekistan or Kyrgyzstan.

Thus, it would be presumptuous to consider Central Asia an integral part of China's overall energy security. However, China is currently making many moves to shift its long-term energy security more towards Central Asia. Veteran Chinese energy analysts Phillip Andrews-Speed and Sergei Vinogradov write that "the largest of these [exploration and production contract] commitments have been made in Central Asia."<sup>v</sup> Moreover, of the three transnational pipelines under consideration between China and neighboring governments, two come from Central Asia. One of which is the Sino-Kazakh oil pipeline and the second is a gas pipeline that would parallel the Sino-Kazakh oil pipeline under construction and originate in Uzbekistan which possesses large gas and distillate deposits. The third, originating in southeast Russia, is cause for speculation as Russian oil companies seem to prefer the terminus point favoring the Japanese market at Nakhodha rather than the Chinese market at Daqing. If China can muster the necessary domestic and foreign capital to construct the Sino-Central Asian gas pipeline, it could further facilitate a rapid increase in energy flows from the region. The large amount of transnational network infrastructure and equity oil contracts pursued by China point to a shift in China's long-term energy security as it begins to develop the necessary infrastructure to position Central Asia to play a more central role.

Although Central Asia has begun to play a more pivotal role in China's regional relations, its energy relationship has yet to catch up with other issues such as regional stability and military relations, but it certainly shows promise in doing so. Even though Central Asia doesn't significantly affect China's current energy security, it appears that it is set to play a fundamental role in the long term. This would likely bolster Sino-Central Asian relations as well as the strength of the SCO as an economic integration tool. If the trend towards exporting Central Asian energy to China and away from Russia and the West, it could also effect the geopolitics of Central Asia's great game. But for the short term, scholars and policymakers must keep the Sino-Central Asian energy relationship in perspective.

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<sup>i</sup> Quan Lan, "Transnational Oil Pipeline Shelved," *China OGP*, Vol. 7, No. 16 (15 August 1999), pp. 2-3.

<sup>ii</sup> Erica Downs, "The Chinese Energy Security Debate," *China Quarterly* 177 (March 2004), p. 37.

<sup>iii</sup> China Energy Group, *China Energy Databook v.6* (Berkeley, CA: Lawrence Berkeley National Laboratory, June 2004), Table 7B.5.

<sup>iv</sup> *China Energy Databook v.6* Table 7B.5, statistics tabulated by the author.

<sup>v</sup> Phillip Andrews-Speed and Sergei Vinogradov, "China's Involvement in Central Asian Petroleum," *Asian Survey*, 40 (Mar 2000): 389.

## **FEATURED LONG ARTICLES**

### **CHINA, RUSSIA, AND THE UNITED STATES: PROSPECTS FOR COOPERATION IN CENTRAL ASIA BY ZHAO HUASHENG**

Since the end of Cold War, Central Asia has emerged as a newly defined, separate geopolitical space. Its abundant raw materials, particularly oil and natural gas, and its unique geographic location give the region its importance. Generally speaking, though, the region had been geographically and psychologically distant to most of the nations across the world, especially the United States and Europe. The event of 9/11 catapulted the region into the world's spotlight. The region quickly became known to the world and has grown in strategic importance. Following the event of 9/11, Central Asia has turned from an unknown in the rear of the international arena to the forefront of global attention.

China, Russia, and the United States are the major players in Central Asia. Europe is also interested in Central Asia and, after 9/11 in particular, is more deeply concerned and involved in the region. Europe has demonstrated the potential to become a fourth power in Central Asia; much more than Turkey and Iran, who have particular interests and influence in the region thanks to their historical advantages, but should not be seen as major-powers in the region. Additionally, India and Japan are quietly penetrating into the region, but their influence is considerably limited.

The special statuses of China, Russia, and the United States in Central Asia are mainly attributed to their involvement and influence in the region on the one hand, and on the other, to the framework of the special relations the three powers have forged in their separate relations with one another. The U.S. military presence in Central Asia has deeply affected the strategic structure of the region, and a three-way confrontation may be on horizon. Dealing with the bilateral and trilateral relations among these powers vis-à-vis their relations with Central Asia has become a significant strategic issue for China, Russia, and the United States.

### **China's Interests in Central Asia**

China's entry into Central Asia occurred naturally as the region became an independent geopolitical space following the collapse of the Soviet Union. This development reignited a frozen relationship that stretched back before the days of the Great Silk Road. Since the outset of Central Asian independence, China has exerted considerable influence over the region. China is geographically close to Central Asia and shares common borders of over 3000 km with three of the Central Asian nations: Kazakhstan, Kyrgyzstan and Tajikistan. China is also nearby to other two Central Asian nations, Uzbekistan and Turkmenistan. Geographically, China is the country that shares common border with most of the Central Asian states and is closest to them. This proximity has allowed for a

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growth in robust trade, but also the rise of potentially serious threats to China's security and development.

Thus, Chinese interests in Central Asia are clear and explicit: firstly, to constrain the separatist forces of "East Turkestan"; secondly, to keep Central Asia as China's stable strategic rear area; and thirdly, to make Central Asia one of China's diversified sources of energy resources and a regional economic partner.

### ***Constraining the separatist forces of "East Turkestan"***

The term "East Turkestan" was initially used by Russians and Europeans beginning from the 18th century to designate the south part of Xinjiang in western China. The contemporary movement of "East Turkestan" in Xinjiang originated from the early 20<sup>th</sup> century. In 1933 and 1944 two "East Turkestan Republics" were established in Xinjiang, but both of them were short-lived. These events were the first round of the independence movement of "East Turkestan." "East Turkestan" separatists aim to set up an independent "East Turkestan" state and sometimes engage in terrorism and violence. The rise of international terrorism seen in the 1990's, brought with it an increase in extremist activities by "East Turkestan" forces. From 1990 to 2001 "East Turkestan" terrorists launched more than 200 terrorist attacks in Xinjiang, killing 162 and injuring 440 people.<sup>ii</sup> "East Turkestan" is a movement whose political goal is to set up an independent "East Turkestan" state to split China. To reach this goal, "East Turkestan" terrorists have never hesitated to resort to violence and other terrorist means. On December 15, 2003, China published the first list of identified "East Turkestan" terrorist organizations, namely, the East Turkestan Islamic Movement (ETIM), the East Turkestan Liberation Organization (ETLO), the World Uyghur Youth Congress, and the East Turkestan Information Center.<sup>iii</sup> These four "East Turkestan" organizations insist on creating an independent "East Turkestan" state by using violence and have been involved in a series of terrorist attacks that occurred in Xinjiang. Therefore, contemporary "East Turkestan" terrorist forces have epitomized the characteristics of political separatism, religious extremism, and terrorism. Since the Han Dynasty, combating separatism and maintaining national unity has been the persistent mission and agenda for the Chinese government in regards to China's northwest territory. Striking separatism is a traditional policy, which has a profound historical background and significance. It is, in a sense, a continuation of China's ongoing struggle to unite the all its territory as one nation.

Central Asia, as a region, is closely associated with the "East Turkestan" forces. Due to the historic, ethnic, cultural, linguistic, and religious factors, the "East Turkestan" forces have countless ties with Central Asia. Many ethnic Turkic minorities have been living in Xinjiang and Central Asia, including Kazakhs, Uyghurs, Tajiks and Kyrgyz. Ethnic Uyghurs in Central Asia are estimated at about 350 thousand, two-thirds of all Uyghurs living outside of China.<sup>iv</sup> Many Uyghurs living in Central Asia came from Xinjiang. In the background of Sino-Soviet confrontation, not without the encouragement of the Soviet Union, a number of different "East Turkestan" organizations were formed in Central Asia. Thus, Central Asia turned to be the main arena for "East Turkestan" in that time, though most of the Chinese Uyghurs in Central Asia are not separatists and

terrorists. Some of these organizations remained active even before the collapse of Soviet Union. The independence of the five Central Asian states had greatly encouraged “East Turkestan” activists. A number of them had fled China to Central Asia and made Central Asia one of their bases. In the 1990’s “East Turkestan” organizations in Central Asia grew quickly. There is no exact statistics of “East Turkestan” organizations in Central Asia. According to different materials, the total number of “East Turkestan” organizations in Central Asia varies to a large extent. According to one analysis, there are at least 11 “East Turkestan” organizations in Central Asia (in 2002). Four out the 11 organizations openly aim to create an independent “East Turkestan” state by using force.<sup>y</sup>

Central Asia lies on the periphery of regions where international terrorists and religious extremists concentrate, such as Kashmir, Pakistan, Afghanistan, Chechnya, the Arab peninsula, and the Middle East. After the collapse of the Soviet Union, international terrorism and religious extremism surged in Central Asia, mixing and prospering with Central Asia’s own homegrown terrorism and extremism. Given the dramatic geopolitical change in Central Asia and the increasing presence of terrorists and extremists in the region, Central Asia now significantly affects the security of northwest China. Many “East Turkestan” organizations conduct their activities via Central Asia. “East Turkestan” forces obtain spiritual and material support, as well as military training from international terrorist organizations including those in Central Asia, such as the Taliban, Hizb-ut-Tahrir, the Islamic Movement of Uzbekistan, and the Turkestan Islamic Party. In addition, Central Asia is a safe haven for “East Turkestan” forces fleeing China. The region is the most important conduit connecting “East Turkestan” forces and international terrorism, and serves as the major channel by which international terrorism penetrates into China. Terrorist forces beyond China’s borders smuggle arms and terrorist materials into China through Central Asia and, from Central Asia, organize and control terrorist activities in Xinjiang and China’s other areas.

China’s Central Asian policy in this area is clear and explicit: to prevent Central Asia from becoming the external bases of “East Turkestan” forces and becoming the conduit between the “East Turkestan” forces and international terrorism. Thus, China’s Central Asian policy is to require that Central Asian governments do not pursue policy that impairs China’s unity and support China’s separatism, and, instead, restrict and prohibit “East Turkestan” forces conducting activities in their territories and prevent terrorist and extremist forces from sneaking into China through their territories. Since the security of Central Asia and the security of China’s Xinjiang are closely associated and the instability of Central Asia bears on the security of the northwest China, as an extension of this policy, China is willing to join Central Asians and Russia in establishing regional security mechanisms, which can provide the regional security with collective security guard. This is in the security interest not only of Central Asian, but also of China, and has become a central function of the Shanghai Cooperation Organization (SCO).

### ***Securing Central Asia***

Securing Central Asia as China’s stable strategic rear area is part of Beijing’s overall security interests. However, it is also an important aspect of grand strategy and

geopolitics. Thus, it differs from the fore-mentioned domestic security interest that involves striking “East Turkestan” forces. Securing Central Asia as China’s stable strategic rear area involves Central Asia in China’s overall external strategy and, in doing so, defines both Central Asia’s position in China’s foreign strategy and China’s strategic interest in Central Asia. Currently, and for the foreseeable future, China’s primary strategic mission and foreign policy priority lies to its southeast. To be more specific, the most paramount and arduous mission of China’s foreign strategy in the coming decades is to prevent Taiwan from independence and to respond to the challenges that Taiwan will raise at any possible time. China’s greatest strategic pressure comes from possible U.S. support of Taiwan independence and U.S. containment of China’s rise; both of which are likely to precipitate Sino-U.S. strategic confrontation. Therefore, China concentrates its main resources on the major strategic front and keeps other fronts stable and tranquil.

This priority clearly establishes Central Asia as China’s strategic rear, though it in no way diminishes the importance of Central Asia to China’s overall national security. Central Asia can serve China’s maximum interest as long as it remains stable and part of China’s strategic rear area. For Central Asia to emerge as an area of primary strategic concern would mean a significant threat to regional stability and China’s national security.

Securing Central Asia as China’s stable strategic rear area is predicated on three conditions. First, to solve the disputed border issues between China and Central Asia and to maintain peace and security on the border areas. Both tasks have been completely fulfilled. Second, the Central Asian nations adopt good-will foreign policy towards China and China maintains fairly good bilateral relations with the Central Asian nations. Aided by a common view on governance, this will further facilitate China’s interests in the region, and guarantee that China maintains some amount of influence in the region. Third, Central Asia will not fall into the control of any major power or group of major powers that have complicated geopolitical and strategic relations with China. It comes to the inference then, as another basic principle and target of China’s Central Asian policy, that China must maintain amicable relations with Central Asian nations and prevent these nations from being controlled by any big power or group of big powers that threaten China’s interests in the region. If these three conditions are met, China should have no problem keeping its attention focused on other strategic priorities and feel secure that it can manage any contingency that arises in Central Asia.

### ***Seeking Energy Resources and Economic Cooperation***

It is a key strategic task of the Chinese government to guarantee the energy supplies demanded by China’s sustainable economic development and to diversify a stable energy supply. China's energy import has been increasing rapidly in recent years. From 1997 to 2002 China's import of oil accounts for 35.47 million tons, 27.32 million tons, 36.61 million tons, 70.26 million tons, 60.25 million tons, and 69.40 million tons per year, respectively. China's energy import has doubled in five years. In 2003 China’s energy import reached 90 million tons. In 2004, China's energy import exceeded 100 million

tones for the first time. China is bound to depend on international market heavily. About 50% of China's energy imports are from Middle East and over 22% from Africa.<sup>vi</sup>

In an effort to diversify energy supplies, China has developed energy links with Central Asia. In 1997 China and Kazakhstan signed an agreement to build a 3,000 kilometer oil pipeline from Atyrau in west Kazakhstan to Alashankou, Xinjiang. This project should be fully in operation by 2006, but it has been delayed due to insufficient guaranteed oil supply, which could make the pipeline economically unreasonable. According to Chinese experts, a minimum oil supply of 20 million tons per year is required for economic feasibility. In 2003 this project received a new infusion on life when President Hu Jintao of China, during his visit to Kazakhstan in June 2003, signed an agreement to promote building the Atasu-Alashakou pipeline. This pipeline, once built, will be connected with the Kenjiyak-Atyrau pipeline, which is already in operation. This pipeline is very likely to be built in the next few years. Meanwhile, oil production in Kazakhstan has been growing rapidly and the problem with oil supply will no longer to be a serious obstacle.<sup>vii</sup> If this project could be realized, China could import at least 10-20 million tons of oil from Kazakhstan every year. That means Kazakhstan will cover more than 10% of China's oil imports, if China's yearly oil import totals about 100-150 million tons. As Central Asia become one of China's stable energy supply bases, China will have a long-term and stable energy supply and reduce the risk of the volatile international situation to a considerable extent. However, the volume of energy China imports from Central Asia has not reached the level of strategic significance. In 2002 China imported only about 1 million tons of oil from Kazakhstan by rail. But these limited ties should rapidly increase over the next several years, paving the way for intense Chinese-Central Asian energy cooperation.

Regional economic cooperation is also significant to China's economic interests. Northwest China, particularly Xinjiang, is China's major beneficiary in the Central Asian regional economic cooperation. After Central Asian independence, Chinese goods, cheap and practical, poured into Central Asia, and became the sources of staple consumer goods to the local citizens of very low purchasing powers. Border trade gradually developed and Chinese goods had a large market share in Central Asia. This international trade is an important channel and an important representation of China's re-entry into Central Asia. As Mr. Ashimbaev, Director of the Kazakhstan Presidential Institute of Strategic Studies, puts it, "trade of commodities is the key base on which China lays its foot on Central Asia."<sup>viii</sup>

Today, among five northwest provinces of China, Xinjiang is the largest. Ten out of Sixteen land ports in Xinjiang authorized by the central government are linked to Central Asia. There are also another eleven land ports authorized by local government. The first land port to Tajikistan was opened in January 2004. Economic cooperation with Central Asia plays a very significant role in Xinjiang's economic development. Trade with Central Asian countries makes up over 60% of the volume of foreign trade of Xinjiang. In 2003 the volume of trade in Xinjiang with Central Asia reached about \$4 billion dollars. To promote the economic development of China's west, including China's northwest, the Chinese Central government has launched the "Go West" campaign. By

doing so, the Chinese government encourages close cooperation between the West and East China on the one hand, and between China's west and abroad on the other. It stimulates the economic relations between China's northwest and Central Asia. In the long run, China is interested in turning Central Asia into a Free Trade Zone in the framework of the SCO, though there is a very long way to go for this to come to fruition.

In sum, China's policy orientation to Central Asia is based on China's basic interests in Central Asia: 1) to combat terrorism, separatism and extremism; 2) to keep stability in the region; 3) to foster economic prosperity in the region and to ensure that Central Asia's energy resources are open to China; 4) to ensure that Central Asian nations are amicable to China; and 5) to ensure that Central Asian nations will not fall into control of any major power or military bloc directed at China.

### ***The Shanghai Cooperation Organization: A Vehicle for Chinese Interests in a Changing World***

In 1996, China, Russia, and three Central Asian nations (Kazakhstan, Kyrgyzstan, and Tajikistan) formed the "Shanghai Five" to settle new border disputes created by the collapse of the Soviet Union. However, with the Taliban in power in Afghanistan, Central Asian security worsened and the threats of terrorism, separatism, and extremism were growing in the region. This posed common threat, though in various forms, to China, Central Asia, and Russia. In order to continue their cooperation and deal with this common threat, the "Shanghai Five" was transformed into a mechanism to protect the security of each nation, as well as an important way by which China could participate in Central Asian security affairs. In 2001 the "Shanghai Five" was transformed into a more permanent regional cooperation organization, the Shanghai Cooperation Organization (SCO). The founding of the SCO represented China's strategic forward into Central Asia, and a breakthrough in China's Central Asian diplomacy. The SCO provides China with a security protection mechanism, an established channel for China to participate in Central Asian affairs, and a platform for China to cooperate with Central Asia comprehensively. The founding of the SCO further indicates that China and Russia have reached strategic compromises and strategic balance in Central Asia, and they recognized each other's interests in Central Asia and proceed in strategic cooperation. Overall, the SCO makes it possible for China to maintain a dynamic and evolving posture in Central Asia.

An important change occurred in the security and geopolitical scene in Central Asia, though, following the post 9/11 U.S. troop deployment and the fall of the Taliban. Russia and the United States cooperated in Central Asia beyond anticipation, Central Asian nations have leaned to the United States politically, and U.S. influence over Central Asia has grown remarkably. The change has substantially affected China's posture in Central Asia. Commentators believed that the event of 9/11 has compromised the role of the SCO in its protection of Central Asian security, and stemmed China's growing influence in Central Asia. As Eugene B. Rumer puts it, "A regional power broker prior to September 11, China now finds itself marginalized, displaced, and virtually alone, pondering the unenviable (for Beijing) option of playing second fiddle to

the United States and a host of its newfound best friends. No matter how much China gains from the U.S military campaign—and there can be little doubt that it has been a beneficiary of the campaign against Taliban and the ensuing blow to operations of its own Uyghur militants—U.S preponderance in Central Asia must be a serious setback to the government that aspires to the role of the Asian superpower<sup>ix</sup>

It is true that the geopolitical changes in Central Asia in the wake of 9/11 were a surprise to China. Notwithstanding, its impact on China and China's self-assessment of its situation are not as pessimistic as perceived by some foreign analysts. The main reason of the gap lies in the facts that these foreign analysts highlight the competition and rivalry between China and the United States, watching Sino-U.S. relations through the lens of geopolitics. Conversely, China, while aware of geopolitical factors, does not regard Sino-U.S. relations as of natural competition and confrontation, nor does China automatically regard the encounter of China with the United States in any region as Sino-U.S. confrontation. Sino-Russian relations have not changed upon the improvement of Russo-U.S. relations. China's relations with Central Asian nations have not been ostensibly undermined. In reality, the SCO sustained and developed after 9/11, and was not paralyzed as some analysts anticipated. Thus, China's strategic standing in Central Asia has not been devastatingly undermined, only challenged, by the post-9/11 geopolitical changes in Central Asia.

## **Russia's Interests in Central Asia**

Russia's standing in Central Asia is different from that of China. While China is rising in its posture in Central Asia from scratch, Russia is retrogressing continually from the days when Russians were ubiquitous in Central Asia. Since independence, Russia has lost much of its overall influence on the Central Asia. However, since 2000 and the rise of President Vladimir Putin, Russia's declining influence has begun to reverse. Putin and his team paid increasingly more attention to Russia's strategic and economic inputs in the CIS, including Central Asia. Russia had shifted to a more placatory policy towards Central Asia, with less highhandedness. Tactically, Russia took a new approach to Central Asia emphasizing bilateral approach instead of multilateral ones.

The events of 9/11 were no doubt a shock on Russia's presence in Central Asia.<sup>x</sup> The U.S. presence in Central Asia undermined the concept that Russia was the only power entitled to deploy troops and have military presence in Central Asia. This is a major encroachment into Russia's sphere of influence and is one of the tremendous changes to Russian geopolitical posture. In fact, none of the so-called Russian sphere of influence can deny U.S. troops anymore. Following the event of 9/11, Central Asian nations leaned to the United States to various degrees. Although the United States, has not made any explicit commitments to Central Asian security, its military presence in Central Asia per se offered a security alternative to the Central Asian nations, which had further eclipsed Russia's role in Central Asian security and especially the role of the Russian-led Collective Security Treaty Organization (CSTO). Notwithstanding the declining Russia's strategic presence and influence in Central Asia in the wake of Soviet disintegration, as

well as the event of 9/11, Russia is still the most deep-rooted power in Central Asia. Russia has been in Central Asia for one and half centuries and has profound and enduring political, economic, military, and cultural ties with Central Asia.

Russia's interests in Central Asia are very complicated. Russia has countless nexuses with Central Asia in terms of history, culture, humanity, and psychology. Furthermore, Russia is still in the process of adjusting its relations with Central Asia since the latter ceded from the Russian Empire and the Soviet Union. These relations are still in a state of flux. However, Russia's core interest in Central Asia is to maintain its special relations with Central Asia in regard to 1) politics and security, 2) economics and trade, and 3) culture, history, and language.

### ***Politics and Security***

The security of Russia and its periphery remains Russia's most vital interest in the post-Cold War world. Primary among Russia's broad security concerns is the threat international terrorism and religious extremism poses to both Russia and its neighbors. In this vein, Moscow is acutely sensitive to the security situation in Central Asia. Central Asia is adjacent to Russia and the five newly independent Commonwealth of Independent States (CIS) nations are neighbors or near-abroad to Russia. The regimes in Central Asia are weak, their economies are difficult, and their societies are severely fragmented, which is the soil for terrorism and extremism. Any instability in Central Asia will have immediate fall-out in Russia, which will incur undesirable political and economic.

Since independence Russia has utilizes both the CIS and CSTO, in addition to bilateral ties, to achieve many of its security goals in the region, as well as maintain a certain level of political influence over the Central Asian governments. In May 2001, the CSTO, comprising Russia, Kazakhstan, Kyrgyzstan, Tajikistan and some other CIS states, launched their new Rapid Reaction Force. In May 23, 2003 the first military airbase of CSTO, Kant airbase in Kyrgyzstan, was opened to operation. This base houses over 30 short-attack aircrafts and will be a main staging ground for the Central Asian division of the CSTO's Rapid Reaction Force.<sup>xi</sup> And just recently, Russia was granted another permanent base in Tajikistan to host its 201<sup>st</sup> Motorized Division. Additionally, Central Asians depends greatly on Russia for their security and defense. Tajikistan's border security is supported by Russian troops. Central Asian officers are trained in Russia. Central Asian armaments are provided mainly by Russia at preferential prices. All this demonstrated that Russia has made new progress in military sphere in Central Asia, though it is still unclear if this move is more about politics then practical security needs.

On the political side of this equation, Russia's security interests in Central Asia are also meant to ensure that Central Asia remains part of Russia's "backyard" and the region is prevented it from being controlled by other major. After 9/11, Russia assented to the U.S. military deployment in Central Asia to attack Taliban and Al Qaeda forces in Afghanistan, which eliminated a security threat to Russia. However, this does not mean that Russia is happy with the U.S. presence in the region. Much of Russia's post 9/11

activity in the region, such as the establishment of the Kant airbase, has been interpreted as political balancing against U.S.<sup>xii</sup>

### ***Economics and Trade***

Russia maintains strong commercial interests in Central Asia, both for their economic and political value. In spite of the weakening economic relations between Central Asia and Russia in the last decade, Russia is still the most important trade partner to Central Asian nations. This has been made possible, in part, by the current trade infrastructure which forces most goods to be exported from Central Asia through Russia. Russia is the largest trade partner to Uzbekistan and Kazakhstan. Russian-Uzbekistan and Russian-Kazakhstan trade accounts for about 16% and 35% of the latter's foreign trade respectively (2003). Additionally, In October 2000, The Eurasian Custom Union, involving Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Belarus, has been transformed into Eurasian Economic Community (EEC), a significant advancement in economic integration between Russia and Central Asia.

Russia's main economic interest in Central Asia rests in controlling energy outlets. Central Asian nations are rich in energy, but their export routes in the past were entirely controlled by Russia. Russia takes advantage of its geographic privileges and infrastructure to control the transportation of Central Asian energy export, which not only help Russia to exert its political influence on Central Asia, but also brings enormous economic benefit to Russia. In April 2003, Russia and Turkmenistan signed a 25-year-long agreement on energy cooperation, which was a great progress in their relations, not only in economic terms, but also in political terms. Undoubtedly, Russia has resumed the momentum of its political, economic and security expansion in Central Asia

### ***Culture, History, and Language***

Central Asia is home to a great many ethnic Russians, which constitutes Russia's special interests in Central Asia. Most of the Central Asian elites were educated in the Soviet Union and in Russia in particular. Central Asians speak Russian, listen to Russian broadcast, watch Russian TV, and are familiar with Russian elites and celebrities. Many Central Asians have relatives and friends in Russia. Central Asia has close ties with Russia in social life as well. There are no obstacle in language and thinking habit between the elite of Central Asia and Russia. After the collapse of Soviet Union, the ethnic Russians accounted for about 20% of the total population in Central Asia. Now, ethnic Russians in Central Asia are estimated to about 6 million and accounts for about 12% of the total population in Central Asia.<sup>xiii</sup> Protection of Russians' rights and equality in Central Asia has been increasingly regarded as an important Russian national interests and one of Russia's main policies in Central Asia. Thus ethnic Russians, in addition to military interest represented by the CSTO and economic interest represented by the ECC and Russian energy holding, have become important levers by which Russia exerts its influence on Central Asia.

## **U.S. Interests in Central Asia**

In contrast to Russia and China, the U.S. strategic presence in Central Asia is remarkable given the natural limitation of U.S.-Central Asian relation. Central Asia nations are not sister republics to the United States as they had been to Russia, nor are they immediate neighbors and sharing a long common history as they are with China. The United States is at the end of world from Central Asia, which sits in the innermost Eurasian hinterland. There have been no historic ties between them. Following the collapse of the Soviet Union, the United States was mostly concerned with the possible proliferation of nuclear weapons in the former Soviet Union. The U.S. strategy on Central Asia in this stage was relatively vague and so were its interests in the region. Until April 4, 2000 when Secretary of State Albright visited Central Asia, no U.S. high statesmen had visited Central Asia since the former Secretary of State James Baker's trip to Central Asia in 1992.

The U.S. attention to Central Asia increased from the mid-1990s mainly due to the evolving shape of U.S.-Russian relations, the rise of the Taliban in Afghanistan, and increasing fears of Central Asian instability. In March 1997, U.S. National Security Advisor Sandy Berger noted that Central Asia was one of the United States' foreign policy priorities; the first time the U.S. had expressed its polity towards the region. The United States began to increase its political, economic, and military inputs in Central Asia, encouraged Central Asian nations to set up an economic cooperation mechanism without Russia involvement (the Central Asian Economic Community), and promoted the construction of the BTC to break Russia's control of the Central Asian energy export.

September 11, 2001, abruptly pushed Central Asia to the center of the U.S. concerns, resulting in the tremendous rise of Central Asia's position in U.S. foreign policy. The United States built military bases in Uzbekistan and Kyrgyzstan and sent its troops to Central Asia to combat the Taliban. It has greatly changed the geo-strategic scene of Central Asia with a remarkable growth of U.S. influence in the region. According to opinions of some analysts, the United States has squeezed Russia and China out of Central Asia in many ways and became "the de facto protector and guarantor of the region."<sup>xiv</sup> Although China and Russia have maintained important standing in Central Asia, the U.S. position in the region is most advantageous following the event of 9/11, and the balance of the three powers in Central Asia has shifted in favor of the United States. Today, the United States pursues three primary interests in Central Asia: counterterrorism and regional security, control of Caspian Energy resources, and strategic positioning.

### ***Counterterrorism and Regional Security***

Counter-terrorism is the primary interest of the United States in Central Asia for present. The event of 9/11 greatly changed the U.S. traditional security concept and its security strategy. The threat of international terrorism rose to be the most urgent security threat to the United States and counter-terrorism became the central U.S. strategic concern. Central Asia is a suitable geographic area of striking international terrorism. Counter-

terrorism is a long-term undertaking and Central Asia has not lost its geographical and political function in the U.S. pursuit of international counter-terrorism. Additionally, the United States views regional security in Central Asia as part and parcel with the so-called War on Terrorism. As such, the United States has taken a keen interest in making sure the various nations of the region do not devolve like Afghanistan did in the mid-1990s. This policy, though, is actually a more robust continuation of the original U.S. Central Asia engagement plan that included support for the Central Asian peacekeeping battalion (CENTRASBAT), combined training exercises, and NATO's Partnership Program (PfP) in the region.

### ***Control of Caspian Energy Resources***

Control of world energy, including Caspian energy, was a strategic goal of the United States well before the event of 9/11. American companies had taken an active part in energy exploitation in Central Asia in past decade.<sup>xv</sup> The events of 9/11 once again highlighted for the United States the strategic importance of maintaining control of world energy resources. Central Asia and the Caspian are perceived as the world's most probable candidate for future energy extraction with huge reserves of natural gas and oil. Controlling energy of Central Asia and the Caspian is part of the U.S. general strategy of controlling world energy. The eventual evolution of this desire to control world energy markets is still unclear though, particularly if thirst for Caspian resources will lead to conflict between the U.S., Russia, and China in Central Asia.

### ***Strategic Positioning***

Counter-terrorism is not the only aim of U.S. presence in Central Asia. Geopolitical intention is another significant factor. Central Asia is Russia's traditional sphere of influence and China's strategic rear area. The United States is far away from the area and has no profound historic and strategic nexus there. The abrupt U.S. military presence in Central Asia in the name of counter-terrorism is, to Russia, an intrusion into its traditional sphere of influence and, to China, an intrusion into its strategic rear. Never in history has the United States been so prominent in Central Asia. The U.S. military presence in Central Asia can serve to monitor and constrain China, preventing Russia from restoring its control of Central Asia, propping up Central Asian independence from Russia, and restricting Iran's influence in Central Asia. Although the U.S. has expressed that it harbored no intention in its presence in Central Asia that is aimed at Russia and China, and that the U.S. hopes to cooperate with Russia and China in Central Asia, the geopolitical concern should not be overlooked with regard to U.S. military presence along the borders and neighboring regions of Russia and China. As Andrew J. Bacevich put it, "the (Bush) administration has from the outset waged its war with one eye fixed on rooting out terrorists, and the other eye on gauging the prospect for advancing a variety of other U.S. interests."<sup>xvi</sup> Geopolitical interest is no doubt a crucial part of the U.S. other interests.

## **Can China, Russia, and the United States Cooperate in Central Asia?**

China, Russia, and the United States are playing prominent roles in Central Asia, are encountering each other in strategic terms, and are all going to maintain a long-term strategic presence in the region. The strategic interests of these three powers, either conflicting or converging, will have a significant impact on global and regional affairs. Three possible scenarios exist for the future interaction of these three powers in Central Asia: open confrontation, obscure strategic relations, and strategic dialogue and cooperation.

### ***Open Confrontation?***

China, Russia, and the United States will not go to open confrontation for several reasons. Generally speaking, the relations of the three powers in Central Asia depend on their general relations. In other words, if their general relations sour, their relations in Central Asia will go tense or intensify. Otherwise, if their general relations are good, their relations in Central Asia will not be hostile and openly confrontational.

Conversely, in spite of the tripartite configuration among the three powers, especially the confrontation between Russia and the United States, like two tigers gazing at each other in their military bases in Tajikistan and Kyrgyzstan, none of the three powers wants to undermine bilateral relations on the parochial issue of Central Asia. The coexistence of the three powers in Central Asia restrains their open confrontation as well. None of the three powers intends to ally with one against the other. Or, none is pleased to see a united front formed by two against one. At the same time, none wants to see Central Asia to be monopolized by one power. Therefore, the game played by three powers is good for the balance of power and not for open confrontation in any forms.

### ***Obscure Strategic Relations?***

Obscure strategic relations refer to ambiguous or fluid relations, much like the current relations of China, Russia, and the United States in Central Asia. The obscure interrelations of the three powers in Central Asia are not chosen policies, but are attributed to the uncertainty created by their lack of clear policies. Presently, none of the three powers has a clear policy over their interrelations. But, this obscure strategic relationship might well be their chosen policy or tactic in the future, and therefore could last for a considerably long time, and even become the norm of their relations in Central Asia.

Obscure strategic relations are more likely to be a transitional mode, though. China, Russia, and the United States are the most influential great powers with interests in Central Asia. Thanks to the nonexistence of open confrontation, the three powers will probably try to turn their tripartite relations into a mechanical framework or to reach an acquiescence of a kind, so as to avoid any disorder, which can be followed by uncertainty and instability to the relations of them. This kind of mechanism arrangement will be good

for all three powers. This framework formed by China, Russia, and the U.S. is not only possible, but also desirable.

### ***Strategic Dialogue and Cooperation?***

China, Russia, and the United States do not intend to go into conflict with each other in Central Asia. This might be the subjective precondition to their strategic dialogue or cooperation in Central Asia. The U.S. military presence in Central Asia is like a wedge driven into the back of China and Russia. In addition to combating terrorism, the United States' basic aim is to implement its global strategic deployment, but not to provoke China and Russia and not to confront directly with them in the region. The United States' primary goal therefore is to keep its foothold in Central Asia, consolidate and expand its influence in the region, and balance China and Russia's influence. But, at the same time, the United States has made it clear that it embraces no hostility to China and Russia, no harm to their interests, and instead, seeks cooperation of some kinds with them.

However, the long-term U.S. military presence in Central Asia is not acceptable to Russia. In Prof. Alexander Rar's words, Russia and the United States "are pursuing diametrically opposite goals. Russia seeks to get a strong foothold in political and economic terms in South Caucasus and Central Asia in order to create the possibility of resuming the integration in the space of the former Soviet Union. On the contrary, the U.S. goal is to do its utmost to prevent Russia from getting together the former Soviet Union around itself."<sup>xvii</sup> Following its military deployment in Central Asia, the United States continues to move forward to Georgia in the Caucasus and to be more aggressive in Eastern Europe and the Baltic region, which is undoubtedly a longstanding strategic challenge to Russia. It implies an overall entry in Russia's near-abroad from Ukraine and to Caucasus to Central Asia, and Russia's further loss of its influence in the most important strategic regions. However, since Russia is unable to force the United States out of Central Asia and the Caucasus, it has to accept the reality and to treat United States as an interlocutor with equal authority of military presence in Central Asia.

The long-term U.S. military presence in Central Asia is also not acceptable to China. Although the U.S. military presence in Central Asia does not pose a direct menace to China as most have worried about, it does pose a strategic posture unfavorable to China. It is a hidden threat to China when the Sino-U.S. relations are normal. But if the relations turn sour, it will render strategic containment on China and leave China with a two-front confrontation. Therefore, the U.S. military presence in Central Asia has a dual effect for China. While it plays a limited positive role for China, strategically and in the long-term, it could be unfavorable, particularly in the absence of strategic understanding between China and the United States. But, like Russia, China has to face the reality of the long-term U.S. military presence in Central Asia and cooperate in some way with the United States. This does not mean that China ought to welcome a U.S. presence in Central Asia. Instead, this merely implies China's pragmatism to the fait accompli, i.e., China makes the most of the reality and alleviates its destructive effect to the maximum. As mentioned above, there is a broad intertwined area where interests of China, Russia, and the United States converge, particularly in counter-terrorism, the maintenance of regional security

and combating religious extremism. These are the objective condition on which China, Russia, and the United States would possibly conduct dialogue and cooperation in Central Asia.

### ***Converging Interests***

Counterterrorism is their largest common interests and the area in which these nations can most easily cooperate. Counterterrorism cooperation in Central Asia serves the U.S. strategic goal of combating world terrorism, Russia's goal of eliminating terrorism in its south, and China's goal of containing the separatism of the East Turkestan. Therefore, the three powers share a solid foundation on which they cooperate on counterterrorism.

Another common goal of the three powers in Central Asia is to maintain stability and promote development in Central Asia. While each nation may have a different definition of stability, some form of stability is vital to all of their interests. Regional stability links closely to counterterrorism. Central Asia nations as a whole are fairly weak and stricken with severe political, economic, religious, ethnic and social problems. Therefore, it is difficult for them to prevent terrorism and extremism from intruding into their territories, and even they themselves will become the soil that generates terrorism and extremism. Any turmoil in Central Asia will trigger terrorism and extremism, then threaten the security interests of all the three powers. These three powers also share a common position on non-traditional threats and global issues like drug trafficking and the environment. Overall, maintaining stability and promoting security and economic development in Central Asia serves the interests of China, Russia, and the United States.

### ***Differing positions***

In terms of real strength and influence, China, Russia, and the United States have formed a tripartite configuration in Central Asia. The three powers are significantly different in the depths of their presence in Central Asia though. The United States resorts to its powerful economic, military, and political resources and strength. Russia's position is based on its political, economic, military, cultural, linguistic, and social links with Central Asia formed over one and a half century. China is blessed mostly with geographical closeness to Central Asia, its extensive communication with Central Asia owing to its long border with Kazakhstan, Kyrgyzstan and Tajikistan, and ever growing economic strength and influence. All the three powers claim long-term goals in Central Asia. None of the three powers would tolerate any monopoly of Central Asia by one of the others. But, at the same time, all of them have given up its subjective intention of precluding other powers of their presence from Central Asia. They have recognized and accepted each other's inevitable strategic presence in Central Asia, i.e., accepted the legitimacy of each other's strategic presence, different from military presence, in Central Asia, though that does not necessarily mean that they welcome the presence. This is another reason that China, Russia and the U.S. might peacefully coexist in the region.

Although Central Asia nations are different to some extent in their attitudes towards China, Russia, and the United States presence in the region, they all share an omni-

directional approach to foreign policy: developing relations with all major powers and maximizing their political, security, economic interests from the balance of power and counterbalance among the three powers. At the same time, Central Asian nations do not want to see direct conflict of major powers in Central Asia, lest their territories become the victims of the battleground. They can gain much more from balancing the great powers than from confrontation of them. Thus, they harbor no intention of agitating and intensifying major power confrontation. Therefore, the Central Asian nations do not preclude any of the three powers from presence in Central Asia.

### ***Obstacles to Cooperation***

Three main obstacles to cooperation exist between China, Russia, and the United States. First is the problem of U.S. “legitimacy” in the region. Second is the lack of any clear mechanism by which these powers can engage. And third is an absence of and any roadmap for how trilateral engagement could begin.

At the present stage, China, Russia, and the United States have not forged any forms of mechanism or mechanical framework for their relations in Central Asia. The core reason lies in the absence of the foundation on which the three powers can engage directly. As for the subjective aspect of the problem, the issue of the “legitimacy” of the U.S. long-term military presence in Central Asia has yet to be solved. Here it does not mean legitimacy in terms of international law, but recognition and acceptance of Russia and China. At the outset of the U.S. military presence in Central Asia, the United States promised that its presence would be temporary and would not endanger China or Russia’s interests. China and Russia had also explicitly demanded withdrawal of U.S. troops from Central Asia once the Afghanistan War against terrorists ended. The United States has never proclaimed that its military presence in Central Asia was a perpetual one. Nor did China and Russia declare their acceptance of a long-term U.S. military presence in Central Asia. The present state of affairs shows that the United States is surely not inclined to give up its military bases in Central Asia shortly, even if the situation in Afghanistan is stabilized. In fact, the United States troops will be deployed in Central Asia far into the future. Of course, the United States is unlikely to publicly declare its intention. Nor are China and Russia likely to be unaware of it. But China and Russia will not retreat from their original stance. This is an embarrassing situation. The United States is perpetuating its military presence in Central Asia, though undeclared. China and Russia still persist that the United States keep its promise. Therefore, the legitimacy problem of a long-term U.S. military presence is the perturbing problem to the three power relations. This “legitimacy problem” of the U.S. long-term military presence in Central Asia will hopefully be solved by the passage of time. More likely, though, the three powers will be pragmatic and delay solving this problem in order to create more favorable conditions to pursuing a strategic dialogue.

As for the technical dimension, there are no appropriate channel for dialogue, and no platforms for cooperation, among China, Russia, and the United States. Though the SCO and other mechanisms of dialogue and cooperation exist between China and Russia, there are none between China and the United States, between Russia and the United States, and

among China, Russia and the U.S. The three powers stand like a triad in Central Asia, but with no path for them to get together.

The last obstacle to the cooperation in Central Asia is how to cooperate: in what way, what form, and on what issue to cooperate. Following the fall of the Taliban, China, Russia, and the United States were at a loss for concrete targets of counter-terrorism. They do not know how to continue their cooperation on large-scale, regional counterterrorism and stability operations.<sup>xviii</sup> There is no existing platform for them to cooperate, and it is hard to find or create one. As the cooperation between China and Russia is out of question – the two countries have already set up a stable cooperation framework – the cooperation among China, Russia, and the United States is really about the cooperation between China and Russia on one part and the U.S. on the other. At present and in the foreseeable future, China and Russia have no intention to threaten each other strategically. In the above context, although the bilateral cooperation within China, Russia, and the United States (Sino-U.S. cooperation and Russo-U.S. cooperation) are necessary and natural, the evolution of the cooperation will bring about negative effect if there is no parallel trilateral cooperation. Suspicion may arise between China and Russia, creating shocks on the fledgling cooperation relations between China and Russia. Therefore, bilateral cooperation and multilateral cooperation must go hand-in-hand. What China, Russia and, the United States need ultimately in Central Asia is a multilateral cooperation framework. Mere bilateral cooperation can hardly settle the issue of multilateral relations. The multilateral cooperation among China, Russia, and the United States must be made of dialogue, communication, consultation, and collaboration.

Deep multilateral cooperation is unrealistic at the present stage, though. There is hardly a strong necessity for China, Russia and the United States to set up a trilateral cooperation framework in Central Asia separate from those already in operation. Besides, any cooperation framework that precludes Central Asian nations will be problematic. A multilateral cooperation mechanism on a larger scale is a more realistic and effective option for the dialogue and cooperation among China, Russia, and the United States. The three can turn to a multilateral mechanism to be used as a venue of their trilateral dialogue and cooperation.

There are two alternatives for the mechanism: the SCO and NATO's Partnership for Peace (PfP). As for the SCO, China and Russia are its members, and it needs only the United States to join in a limited manner, for example as an observer or country of dialogue. As for PfP, Russia and the United States are members, and it needs only China to join in.<sup>xix</sup> These options are themselves significant strategic choice, whose significance exceeds the necessity of merely providing a dialogue and cooperation platform to the three powers and will give rise to a range of more important ensuing issues. Thus, strategic assessment should be made before accepting the options.

The SCO is highly institutionalized and China and Russia play the most important role in it. The United States limited participation in SCO activities would raise the status and influence of the SCO and is helpful for the SCO to turn into a truly region-wide political and security organization. This option has its negative aspect though. The U.S. entry

could decentralize the SCO into an organization with multiple centers of power, and even make it irrelevant. China's participation in the PfP, on the other hand, would make China involved in a U.S. and European-led political and security mechanisms in Central Asia. This would help China remain proactive in Central Asian affairs, secure Beijing more room for maneuvering and exerting influence on Central Asia. In addition, in the long run, NATO's expansion in some way towards China's border is inevitable. China is bound to engage NATO and cooperate with it in Central Asia. Notwithstanding, the expansion of NATO in Central Asia will shock the SCO, and reduce the standing and function of SCO, which is undesirable.

### ***Prospects for Cooperation***

Common interests and cooperation is one thing, the healthiness and sustainability of the cooperation is another. Firstly, the cooperation, once occurred, will be a passive cooperation rather than a proactive one. Secondly, China, Russia, and the United States have divergent as well as convergent interests in Central Asia. In terms of traditional security threat, the U.S. military presence in Central Asia is a threat to China and Russia's security interests. U.S. military presence in Central Asia indicates the increase of U.S. influence in Central Asia and the relative decline of China and Russia's influence, though, in terms of non-traditional threat, the stability of Central Asia contributes to the improvement of security environment of China and Russia's periphery. The presumption might be dismissed as zero-sum game mentality. But, the presumption is not purely ungrounded, as it is ungrounded to presume that the players of the game have abandoned the zero-sum mentality. The American academic community is candid enough: "Russian attempts to "reintegrate" the former Soviet Union, such as they are, run counter to our diplomatic design. We can affect Russian behavior, however, not only by negotiating with them but by changing the facts with which they work. Stronger states in Central Asia will diminish Russia's interest in a revisionist foreign policy. Thus, a policy aimed primarily at preventing and deterring terrorism can work at the same time as a bulwark against lingering imperial tendencies in Russian foreign policy."<sup>xx</sup> These remark imply the scrambling for sphere of influence. Therefore, the deeper they cooperate in Central Asia, the more acute the contradiction is in their cooperation. The more their interests in one direction develop, the farther their interests in the other direction part. The root-cause of the paradox rests in the contradiction between traditional security and non-traditional security or between the new security concept and geopolitical logic. The paradox exacts the boundary, be it horizontal and vertical, of the cooperation among the three powers in Central Asia, which hampers comprehensive and in-depth cooperation. Whether the three powers can jump out of the paradox depends on whether they can manage to reach strategic understanding and change in regard of their conception and mentality.

### **Conclusion**

China, Russia, and the United States are the three major powers in Central Asia. They have entered Central Asia and expanded their influences through different paths and means since the disintegration of the Soviet Union and the independence of the Central

Asian nations in December 1991. Each of the three powers has its own vital interests and thereupon formed its own foothold and niches. In the wake of 9/11, the United States presence in Central Asia loomed particularly large as its military forces had suddenly appeared in Central Asia, which led to the immense geopolitical change favoring the United States in the region. Notwithstanding, the three powers' presence and the triangle posture have remained intact, and no one is out of the picture. Their presence in Central Asia is strategic and enduring. The question remains, though, is this presence destabilizing?

The long-term U.S. long military presence in Central Asia will pose geopolitical challenge to both Russia and China. In terms of strategic vision, Russia regards Central Asia as its own backyard and China sees it as its own strategic rear-area. Since the U.S. military deployment in Central Asia bears immediately on Russia and China's strategic visions, they could not but take the U.S. action seriously in strategic terms. The key issue of the relations among China, Russia, and the United States concerning Central Asia is to prevent them from the outcome marked by "great game" and confrontation. The higher goal is to work out an institutionalized framework of cooperation. This presumption is not only feasible, but also desirable. China, Russia or the United States do not have the intention or will to pursue confrontation. This is the fundamental pre-condition on which the three powers can be prevented from confrontation in Central Asia. Furthermore, this is not at all nineteenth century, the times have changed tremendously, while the "great game" of the great power confrontation no longer fits the spirit of our times. China, Russia and the United States share common interests in Central Asia. This fact alone should provide the basic framework for cooperation among these great powers and encourage China, Russia, and the United States to ignore their combative instincts.

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<sup>i</sup> *Editor's Note: The quotation marks around the term East Turkestan are used by the author in the customary practice of the People's Republic of China. Their use should not be interpreted as a judgment by this publication or the China-Eurasia Forum on the validity of this movement and its history, a blanket acceptance of the data provided in this article, or an approval of Chinese activities in Xinjiang.*

<sup>ii</sup> "'East Turkestan' Terrorist Forces Cannot Get Away with Impunity," *People's Daily*, January 22, 2002.

<sup>iii</sup> "China Issues List of Terrorists and Organizations," *Xinhua*, December 15, 2003.

<sup>iv</sup> The figure is varied according to different materials. According to the official census of Soviet Union in 1979 year, the total number of ethnic Uyghurs in the USSR was 211 thousand, most of them (148 thousand) lived in Kazakhstan. See. *Ethnics in USSR*, Novost Publishing House, Moscow, 1989. p75. According to a recent Chinese study, there are about 250,000 Uyghurs living in Kazakhstan, 40,500 in Uzbekistan, about 40,000 in Kyrgyzstan, about 6,000 in Turkmenistan, about 3,000 in Tajikistan. See. *Ethnics, Religion and Conflicts in Central and South Asia*. Xinjiang People's Publishing House, 2003. p302. Kazakhstan's experts mostly estimate the number of Uyghurs in Kazakhstan as many as from 200 thousand to 300 thousand.

<sup>v</sup> Ma Dazheng, *National Interests – Highest Priority*, Xinjiang People's Publishing House, 2002, p.193.

<sup>vi</sup> Tian Chunrong, "Analyses on China's Oil Import and Export in 2002 year," *International Petroleum Economics*, 2003. No.3, p. 26.

<sup>vii</sup> From 1998 to 2002 the year's oil production in Kazakhstan are: 25.9 million tons, 30.1 million tons, 35.3 million tons, 39.6 million tons, 47.2 million tons, respectively from "Kazakhstan Country Profile," The Economist Intelligence Unit, 2003, p.46.

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<sup>viii</sup> Collection of Papers on Central Asian Situation and Shanghai Cooperation Organization, Shanghai Institute for International Studies, 2003, p. 235.

<sup>ix</sup> Eugene B. Rumer, "Flashman's Revenge: Central Asia after September 11", *Strategic Forum*, No.195, December 2002. P.3.

<sup>x</sup> Some people, like Eugene B. Rumer, assume that Russia is a major beneficiary of the event of 9/11. See "Flashman's Revenge: Central Asia after September 11", *Strategic Forum*, No.195, December 2002. P.3. This is only true in terms of eliminating Taliban's threat to Russia. It is more threatening to Russia's interest in its strategic presence in Central Asia.

<sup>xi</sup> Roman Streshnev, *Shield for Central Asia*, Red Star, October 24, 2003.

<sup>xii</sup> The latest demonstration of this position was made by S.Ivanov, defense minister of Russia, in NATO defense ministers meeting in Oct.9<sup>th</sup>, 2003.

<sup>xiii</sup> From 1989 to 1999 ethnic Russians in Kazakhstan decreased from about 6 million to about 4 and half million, but it still accounts for more than 30% of total population of Kazakhstan. In Kyrgyzstan more than 150,000 ethnic Russians have left its the percentage decreased from 15% to about 10%. In 1989 ethnic Russians in Uzbekistan was 8.3% of total population in the country, now is about 5%. In Tajikistan ethnic Russians fall from 8% in 1989 to about 2%. See Country Profile Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, Economic Intelligence Unit, UK, 2003.

<sup>xiv</sup> Charles William Maynes, "America discovers Central Asia", *Foreign Affairs*, March/April 2003, p.121.

<sup>xv</sup> American companies that has joined in energy projects in Kazakhstan include Chevron, Exxon-Mobil, Occidental Petroleum, Texaco, CaesarOil, IPI, Orix\McGee, AMHK,. Martha Brill Olcott, *Kazakhstan: Unfulfilled Promise*, Carnegie Endowment for International Peace, p.299.

<sup>xvi</sup> Andrew J.Bacevich, "Steppes to Empire", *The National Interests*, Summer 2002. P.40.

<sup>xvii</sup> A. Rar, "Great Game" in Post-Soviet Territory, *Nezavisimaya Gazeta*, Sept.29, 2003.

<sup>xviii</sup> Bates Gill and Matthew Oresman suggest U.S, China and Russia can establish a range of low-level cooperation projects, including building and equipping border outposts; increasing military-to-military transparency in Central Asia; conducting de-mining operation in border areas; sharing intelligence on illegal cross-border activities; funding HIV/AIDS projects; improving social welfare infrastructure. See Bates Gill and Matthew Oresman, *China's New Journey to the West*, A Report of the CSIS Freeman Chair in China Studies, August 2003. P.42.

<sup>xix</sup> In October2003 China and NATO implemented the first official contact in their history. It's an important symbol. It demonstrates that the door to dialogue between China and NATO is opened. In this background, cooperation between China and NATO in framework of PfP in Central Asia would be a proper start.

<sup>xx</sup> Charles Fairbanks, "Being There," *The National Interest*, Summer 2002, p. 48.

# **NEW RULES TO THE OLD GREAT GAME: ASSESSMENT OF THE SHANGHAI COOPERATION ORGANIZATION'S PROPOSED FREE TRADE ZONE<sup>i</sup>**

**BY LELAND MILLER**

## **Introduction**

While the United States busies itself remaking Afghanistan in its own image, another powerful force is also at work in Central Asia, remaking the region in an altogether different way. This entity is the Shanghai Cooperation Organization (SCO), a regional body comprising the People's Republic of China (PRC), Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan.<sup>ii</sup> Dubbed everything from a “force for stabilization” to the “anti-NATO,” the SCO's potential is enormous. The region comprises over 30 million square kilometers, has a total population of almost 1.5 billion people, and has a total gross domestic product in excess of US\$1.3 trillion.<sup>iii</sup> Founded in its namesake city, the SCO relocated its governing mechanism (now called the “SCO secretariat”) to Beijing in January 2004.<sup>iv</sup>

Despite its high-profile cast, the SCO has remained an enigma throughout its short history — scholars have been at odds as to whether to characterize it as a security organization, a regional forum, an anti-terrorism coalition, or some sort of regional hybrid. After several years of incremental development, it is now probably safe to describe the SCO as the last, — an all-purpose regional security body dedicated, according to its charter, to the promotion of “regional and world peace and stability.”<sup>v</sup> In May 2002, however, SCO members announced a new wrinkle: the start of negotiations aimed at establishing an SCO free trade zone.<sup>vi</sup>

As of early 2004, the SCO free trade zone is “under construction,” and — despite a strong commitment from SCO members — may very well not materialize itself for several years. As a result, any analysis focusing on the future of this zone will be purely speculative. However, this does not mean that the history of this zone, the inter-relationship of its participants, and the motivations of its actors are not worth investigating. On the contrary, such an examination is of considerable help in answering a number of important and relevant questions: *What is the significance of the free trade zone proposal, and why are SCO countries interested in entering this arrangement? What do China and Russia offer each other by it, and what does either offer the states of Central Asia? Is this proposed free trade area just another example of an expanding global trend, or is it the product of a different dynamic altogether?*<sup>vii</sup>

In addressing these issues, this article will first provide a short review of the formal development of the SCO, followed by a background section on the global trading system, including an overview of the World Trade Organization (WTO) and a history of regional arrangements and free trade areas in general. The article will then focus on the

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interaction of the nations forming this zone, with a particular emphasis on China and Sino-Russian cooperation, and will conclude by explaining the forces that are driving this zone into fruition.<sup>viii</sup>

## **The Shanghai Cooperation Organization: A Short History**

The SCO free trade zone represents a significant maturation of the organization since its humble beginnings almost eight years ago.<sup>ix</sup> Originally known as the “Shanghai Five” — Uzbekistan did not become a member until 2001 — the SCO was set up in 1996 ostensibly to solve border disputes, with the expectation that these initial overtures would lead to a more hospitable regional climate and increased overall cooperation.<sup>x</sup> Such cooperation did indeed materialize soon thereafter: In July 1998, the first meeting of the heads of state of the Shanghai Five met in Kazakhstan and issued the so-called “Almaty Joint Statement.”<sup>xi</sup> This declaration, while putting particular emphasis on the five nations’ common interest in fighting terrorism, also proposed the basic principles for developing future economic cooperation within the SCO. Among these goals were to:

... provide each other with common international trade conditions to expand the volume of trade; encourage and support various forms of local and border region economic and trade cooperation and cooperation between large enterprises and companies in the five states; and improve the investment environment, to create conditions for increasing investment in economic projects in these states....<sup>xii</sup>

Following the September 11 attacks in the United States, the organization found it useful to play down its economic aspects and placed a renewed emphasis on its role as an anti-terror coalition.<sup>xiii</sup> Nevertheless, the subject of increasing economic and trade integration remained a major issue on the agenda.<sup>xiv</sup> At the end of 2001, Russian Foreign Minister Igor Ivanov told Russian journalists after attending an SCO foreign ministerial meeting that a consensus was reached that “it is very essential to establish as soon as possible within the SCO framework a ministerial-level consultation mechanism for specifically resolving economic and trade issues.”<sup>xv</sup> According to the Chinese representative, such a framework entailed the promotion of “investment through coordination and negotiations over market access conditions, foreign fund management, taxation, protection of investors’ interests, dispute resolution mechanisms, transparency of laws and regulations, establishment of clean and efficient administrative institutions and open and fair market systems.”<sup>xvi</sup> In short, a nearly all-encompassing economic and trade system.

At the June 2002 SCO summit, the leaders of the member countries signed several important documents (including the governing charter, the so-called “SCO Founding Declaration,”), but with the issue of terrorism so prominent in the global spotlight, the SCO ministers made only passing reference to economic and trade cooperation.<sup>xvii</sup> Nevertheless, plans for future SCO economic and trade integration were mentioned in public statements by several of the delegates. In one such statement, the Chinese Minister of Foreign Trade and Economic Cooperation (MOFTEC), SHI Guangsheng,<sup>xviii</sup>

articulated what the member countries foresaw as the next viable step: “[Our future] negotiations will first focus on the facilitation of trade and investment and then go on to discuss setting up a free-trade zone.”<sup>xxix</sup> Though it flew almost completely under the international radar, this represented the first public announcement of the SCO’s intent to create a free trade zone.

By 2003, economic and trade integration once again became a major focus of the SCO ministers. In September 2003, leaders of the six SCO countries signed a framework agreement on multilateral economic cooperation, in addition to issuing a joint communiqué.<sup>xx</sup> According to the communiqué, the countries promised to further facilitate trade and investment as well as cooperate on transport issues and disaster relief and prevention.<sup>xxi</sup> Chinese Premier WEN Jiabao also proposed improving the flow of goods within the SCO and reducing non-tariff-barriers in customs, quarantine, standards and transport services.<sup>xxii</sup> In addition, he suggested that the organization pursue some large projects promoting economic and technological cooperation, giving priority to the “transport, energy, telecommunications, agriculture, home appliance, light industry, and textile sectors.”<sup>xxiii</sup>

At the conclusion of the summit, Premier Wen summed up the Chinese position by articulating a roadmap comprised of three steps deemed necessary to set up the foundation for an SCO free trade area. Those three goals were:

- To promote the facilitation of trade and investment in a bid to realize the smooth circulation of goods within the framework of the SCO as well as to reduce and eliminate non-tariff barriers like those in customs service, quarantine, standards, and transportation;
- To set certain large projects on economic and technological cooperation and give priority to those in transportation, energy, telecommunication, agriculture, home appliances, light industry and textile;
- To set a long-term objective for regional economic cooperation and gradually set up a free trade zone within the SCO.<sup>xxiv</sup>

After the consultation, the prime ministers of the SCO countries signed six documents, including an SCO budget for 2004 (the first of its kind) and another joint communiqué.<sup>xxv</sup> Symbolic of the growing importance of the SCO to the PRC, Chinese President HU Jintao’s first official overseas trip was to the 2003 SCO summit in Moscow, where his presence was widely seen as a strong affirmation of China’s commitment to the body.<sup>xxvi</sup>

## **Background: A History of GATT/WTO and Regional Trading Arrangements**

Since January 1995, the central body in the global trading system has been the World Trade Organization (WTO). The product of years of negotiations and compromise, culminating in the Uruguay Round of 1986 to 1994, the WTO is essentially an umbrella

agreement that calls for a single institutional framework encompassing its predecessors, most notably the 1947 and 1994 General Agreements on Tariffs and Trade (GATT).<sup>xxvii</sup>

The central premise of GATT, articulated in its preamble, is the creation of “reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the *elimination of discriminatory treatment in international commerce*.”<sup>xxviii</sup> To support the creation of this “level playing field,” discrimination is targeted through two main provisions: Article I, which adopts the Most Favored Nation (MFN) principle,<sup>xxix</sup> and Article III, which adopts the principle of National Treatment.<sup>xxx</sup>

Despite its importance, the MFN principle is a general rather than blanket provision and is subject to certain exceptions. By far the most important of these is the exception that explicitly allows for the formation of regional trading arrangements (RTAs). A regional trading arrangement (or “bloc”) is loosely defined as an agreement that grants more favorable conditions to a designated set of trade partners than to other member states.<sup>xxxi</sup> As a testament to the growing importance of regional trade agreements in the world trading system (as of July 2003, only three WTO members were not party to at least one RTA),<sup>xxxii</sup> the WTO General Council in February 1996 created a Regional Trade Agreements Committee to examine regional groups and assess whether they are consistent with WTO rules. Under GATT Article XXIV, regional trading arrangements can fall under one of three general categories: 1) customs unions<sup>xxxiii</sup>; 2) free trade areas; or 3) an interim agreement leading to either.<sup>xxxiv</sup>

Regional trading blocs have already been formed in a number of different areas, including Latin America (MERCOSUR), the Caribbean (CARACOM), the Asia-Pacific region (APEC),<sup>xxxv</sup> and Southern Africa (COMESA). Proposals for a number of other regional trade arrangements are also in the works, including zones in the Middle East, the American hemisphere (the “Free Trade of the Americas”), the Pacific Rim (ASEAN + China),<sup>xxxvi</sup> Pan-Europe (Russia and the European Union), South Asia (“BIMST-EC”),<sup>xxxvii</sup> and others.

## **Analyzing The Proposed SCO Free Trade Zone**

### ***Current Trade Dynamics of the SCO***

The SCO relationship offers considerable incentives for economic cooperation amongst the six countries. But with the lack of raw data and available materials from these countries, combined with the fact that SCO trade proposals are still in a state of relative infancy, it is difficult to make many definitive conclusions about how and in what form the SCO free trade zone might actually materialize. Nevertheless, the information that is available — mostly public statements from the six countries and analysis based on trade and economic trends — does allow some reasonable conjectures to be made.

First, although regional trade agreements are globally abundant, the SCO has no obvious parallel. While the Chinese/Russian relationship with the lesser-developed Central Asian countries in the SCO may at first glance seem a reflection of the U.S./Canadian coupling with lesser-developed Mexico, the dynamics of the regional arrangements are patently dissimilar. The North American Free Trade Agreement (NAFTA) is first and foremost a trade tool, established in order to take one of the world's strongest trilateral trade relationships and make it even stronger. Even before NAFTA, the closest trade relationships of the three NAFTA countries were with each other, and the U.S.-Canada trading relationship is and was the largest between any two countries in the world.

By comparison, the bilateral trade relationships between SCO members, while substantial, are clearly not in the same league. While Russia has maintained relatively strong trade relations with its former Central Asian satellites, trade between China and Central Asia is and has always been relatively meager. Even Sino-Russian trade is surprisingly limited, amounting to only about a tenth of the US\$100+ billion in trade China does each year with the United States.<sup>xxxviii</sup> According to the Chinese Ministry of Commerce, bilateral trade volume between China and Russia hit US\$15.76 billion in 2003, a new high for the fifth consecutive year and an increase of 23.4 percent over 2002.<sup>xxxix</sup> However, even with these record increases, Russia is only China's eighth biggest trading partner, though China leapfrogged from fourth in 2002 to become Russia's second largest trade partner in 2003.<sup>xl</sup>

The SCO has laid out a (very) preliminary plan to help rectify this situation. According to Chinese Premier WEN Jiabao, the focus of the SCO's early trade negotiations will primarily be on the fields of "transportation, energy, telecommunication, agriculture, home appliances, light industry, and textile."<sup>xli</sup> Key to this, according to WEN Zaixing, a Ministry of Foreign Trade and Economic Cooperation (MOFTEC) spokesman, is the complementarity of the SCO's member economies, with Chinese textiles, household electrical appliances and telecommunications products being competitive, and other members having advantages in metallurgy, the chemical industry, machinery, energy, raw materials, farming, and astronautics.<sup>xlii</sup> However, as this article will explain, the word "energy" is far and away the most important category on that list, Wen's subtle de-emphasizing of it notwithstanding.

### ***Not Just Another Opportunity to Expand Trade***

In some ways, a free trade zone in the SCO seems a logical progression for all member countries to simply speed up trade liberalization in one of the world's most under-developed areas. This would coincide with statements such as those made by Kazakh Foreign Minister Kasymzhomart Tokayev in October 2003 that Kazakhstan's approach to economic development is "apolitical in nature."<sup>xliii</sup> He further described Kazakhstan's SCO cooperation as merely one facet of its policy to bolster ties with all of Central Asia's regional powers, including Russia, China, and the United States. Depicted in this way, an SCO free trade zone appears to be simply one of many instruments that SCO nations will use to increase trade liberalization at a more advanced pace than a massive, lumbering global body such as the WTO could manage if left to its own devices.

Considering the aggressive trade diplomacy of SCO Member States over the past several years, this view at first glance seems quite credible. The SCO is far from the only multilateral international trade pact being pursued by its various members. For instance, in late September 2003, Russia, Ukraine, Kazakhstan, and Belarus signed a memorandum of intent to form a Common Economic Space (CES), officially a quasi-customs union.<sup>xliv</sup> The CES is a multi-phased arrangement governing the coordination of customs duties and the “harmonization” of trade and customs regulations within the member territories, with the “expectation” that this will eventually become a free trade area.<sup>xlv</sup> Under this plan, “Internal customs duties will be liquidated, a common customs boundary will be formed and a supra-national regulating institution will start functioning through member countries’ voluntary assignment of functions” — many of the same mechanisms forwarded under the SCO plan.<sup>xlvi</sup>

China, too, has been active in seeking out potential free-trade relationships, in its “other” backyard — the Asia-Pacific region. For instance, at the Second China-Association of Southeast Asian Nations (China-ASEAN<sup>xlvii</sup>) Economic Ministers Meeting in September 2003, Chinese Commerce Minister LU Fuyuan spoke glowingly of “the formal launch of the establishment of the ASEAN-China Free Trade Area (ACFTA),” a nearly decade-long development regime set in motion by the China-ASEAN Framework Agreement on Comprehensive Economic Cooperation of November 2002.<sup>xlviii</sup> This pact (should it materialize) promises to have a significant global as well as regional impact<sup>xlix</sup>. According to statistics reported in the Chinese media, ASEAN has been China’s fifth largest trading partner for over ten years, and is currently the fourth largest supplier for China.<sup>1</sup> Scheduled to be completed in 2010, the ACFTA is predicted to be the “world’s largest” free trade market, with 1.7 billion consumers.<sup>li</sup>

The fact that both Russia and China have been extremely proactive in engaging in regional free trade negotiations has led many to view the proposed SCO free trade zone as simply another link in the chain — a logical progression in the advancement of economic expansion and trade liberalization by both countries (Central Asian countries are generally just seen as being “along for the ride”<sup>lii</sup>). However, this view represents a serious oversimplification of Chinese and Russian motivations — and a complete ignorance of the more pressing regional issues affecting SCO multilateral relations. As this article will show, these “larger picture” considerations demonstrate that the proposed SCO free trade zone promises to be a wholly different beast than the ACFTA, NAFTA, or other “similar” free trade arrangements.

## **What Makes The SCO Apparatus Unique**

*So what makes the SCO so unique?* The answer is not just its size, for as the examples of the CES and the ACFTA, as well as NAFTA and the EU, demonstrate, relatively similar-sized entities are being organized or have already come into being. The answer, rather, is two-fold.

First, the area of the SCO comprises exactly that which nineteenth century grand strategist Admiral Alfred Thayer Mahan once called the “cockpit of the world,” possession of which supposedly represented the pretext to world domination. The reasons have changed, but Mahan’s statement may still be prescient. Even before September 11, 2001, when the U.S. presence in the region began to grow exponentially, Central Asia was destined to become a twenty-first century geo-political battleground anyway because of the region’s tremendous value as the world’s largest untapped energy depot.<sup>liii</sup>

Secondly, the formation of an SCO free trade zone is primarily the result of a China-driven policy to increase energy cooperation with the other members of the SCO at all costs — and as a matter of national necessity. While such a zone is predicted to have a number of other beneficial consequences, this singular purpose may alone explain why SCO integration and the formation of a free trade zone has risen to become one of the organization’s most pressing priorities.

This does not mean that China has nothing to gain trade-wise from an SCO free trade arrangement. On the contrary, the SCO will presumably provide a mutually beneficial arrangement for all of the Shanghai Six. What is important to note, however, is that such trade alone — a drop in the bucket for an economic giant such as China — is not sufficient to explain why the PRC would choose to place so much emphasis on driving forward a Central Asian regional free trade agreement, *particularly since China already maintains relatively strong bilateral trade ties to each of the other five countries.*<sup>liv</sup>

It can thus be inferred that a policy calling for the establishment of the tightest economic and trade ties possible — in this case a free trade zone (with ancillary security benefits) — is what China has judged as the most effective way to secure its energy future. As the next section illustrates, the stakes for China could hardly be higher.

### ***China’s Drive for Energy Security: Hoping “Integration” Ensures “Cooperation”***

Rather than high tariffs or questionable quotas, it is China’s looming energy crisis that is the single factor most responsible for forcibly accelerating the region’s policy towards a free trade zone and further integration. This is not to say that energy issues are not of overriding importance to the other five Member States as well: According to a 2002 report submitted to the Russian government by its Ministry of Economic Development and Trade, “changes in the world oil price are the number one factor affecting Russian economic development.”<sup>lv</sup> However, the difference is that Russia and Central Asia — as net oil and gas *exporters* — are inundated with suitors and are mostly interested in issues such as achieving top dollar for oil and gas leases and acquiring cooperation in the construction of new pipelines. Thus, while the Chinese economy arguably has the least to gain from a free trade arrangement with the states of Central Asia (where imports/exports are of comparatively little value) and Russia (where bilateral ties are already considerable), China has nevertheless become the most ardent supporter of SCO trade integration.<sup>lvi</sup>

The question is not whether China's energy situation is problematic, but rather how soon it will approach crisis levels.<sup>lvii</sup> Since 1993, the year China first became a net oil-importer, oil consumption has been increasing at a near constant rate of 4.9%, representing the fastest growing rate in the world.<sup>lviii</sup> In 1996, China became the third largest oil-consuming nation (behind the U.S. and Japan), and oil import figures have continued to sky-rocket ever since, reaching nearly 70 million tons in 2002 and over 100 million tons in 2003.<sup>lix</sup> According to the U.S. Department of Energy's "International Energy Prospect," by 2025 China's oil imports will reach 7.4 million barrels per day, equivalent to the daily import of the entire continent of Europe.<sup>lx</sup> The latest estimates, announced by *Xinhua* in early 2004, predicted that China would import more than 500 million tons of oil a year by 2020.<sup>lxi</sup>

China simply does not have anywhere near the domestic energy resources needed to supply this growing demand.<sup>lxii</sup> The 2002 China Petroleum and Gas Estimate Report states that even now, China's available, land-based oil satisfies only 28% of the 202.1 billion tons needed to fuel the country, and concludes the problem will be getting increasingly worse as per capita energy consumption rises.<sup>lxiii</sup> As of 2002, China was producing only 70% of its oil needs,<sup>lxiv</sup> and official statistics from its Finance Ministry project that by 2015, the country will consume over 260 million tons of oil a year, with approximately 80 percent of that amount to be imported. By 2020, if not sooner, China will surpass Japan as the number one oil importer in the world.<sup>lxv</sup>

To tackle this problem, China has developed a new "Twenty-first Century Oil Strategy," a project jointly designed by the State Economic and Trade Commission and the State Planning Commission.<sup>lxvi</sup> "At the core of this strategy, China will resurrect its State Energy Commission, placing it directly under the State Council and will provide it with over US\$100 billion of funding over the next 20 years, with the mandate to build 'a futuristic strategic oil system in China.'"<sup>lxvii</sup> As part of this plan, China is slated to build four coastal strategic oil bases to house its reserves: one each in Huangdao and Dalian that have already been approved, as well as two others in Dayawan and Zhanjiang (both in Guangdong Province), where approval is still pending.<sup>lxviii</sup> In addition, a nationwide project, organized jointly by the Ministry of Land and Resources and the National Development and Reform Commission, has been launched to assess the capacity of China's more than 400 oil and gas sources.<sup>lxix</sup>

Largely inward-looking, the new Oil Strategy calls for "more channels for oil import, accelerated oil extraction, and limit[ed] gas export[s],"<sup>lxx</sup> as well as further cooperation in the practice known as cross-boundary "oil sharing."<sup>lxxi</sup> Yet the upshot to this strategy is obvious: For the plan to work, China must actively procure an increasing number of additional energy sources in the coming years.<sup>lxxii</sup> Unfortunately for Beijing, securing such cooperation has been much easier said than done.<sup>lxxiii</sup>

China has not always intended to wager its future on a multilateral arrangement in the heart of former Soviet Central Asia: It was originally believed that a strong relationship with Russia would be enough to weather the storm and provide the Chinese economy with all the oil and gas imports it would need.<sup>lxxiv</sup> Indeed, "on paper," Russia has the

capabilities to do just that.<sup>lxxv</sup> Unfortunately for China, Russian cooperation has not been very forthcoming. Despite grandiose expressions of brotherhood by the Russians (“[T]oday we have full understanding with China on international issues. There is not a single international issue on which our positions differ...<sup>lxxvi</sup>”), the Sino-Russian relationship has undergone a dizzying series of highs and lows over the past half-decade.<sup>lxxvii</sup> Ultimately, China has recognized that depending on a bilateral relationship with Russia to be a reliable energy partner is not a strategy worth betting the farm on, and consequently, “a major factor in China’s intense flirtation with Central Asia countries [has in fact been] its ‘deteriorating energy partnership’ with Russia.”<sup>lxxviii</sup>

The fact that the Sino-Russian bilateral energy partnership has proven so unreliable is the major reason why the SCO — and ultimately the SCO free trade zone — have become so important in Chinese strategic thinking. These setbacks have convinced China that it must do everything in its power to increase its ties with Central Asia — and to a lesser extent Russia — in order to minimize the possibility of such failures in the future.<sup>lxxix</sup> The best, and perhaps only way, for China to ensure such success is to create an all-purpose economic and trade “cocoon” around the SCO area. In the words of one Central Asia expert, “The Chinese view as far as Central Asia is concerned is the more trade integration, the more influence, and the more influence, the more able they will be to sink their hooks in when it comes to energy. The Chinese are willing to make whatever deals are necessary to cement these relationships. You simply cannot put a dollar value on what the Chinese are trying to accomplish — and they don’t.”<sup>lxxx</sup>

## Conclusion

For China, energy concerns dominate the national agenda and to a large extent, that agenda now dominates the SCO. Yet China is hardly the only SCO nation that stands to gain from a stronger regional trading arrangement.

For Russia, the advantages of further trade cooperation and integration in an SCO free trade pact are also apparent. Despite the volatility of the Sino-Russian energy relationship, Sino-Russian trade in general is an important facet of the Russian economy,<sup>lxxxi</sup> and especially crucial in specific industries such as timber,<sup>lxxxii</sup> steel,<sup>lxxxiii</sup> and weaponry.<sup>lxxxiv</sup> The latter is particularly key, with the Chinese military almost single-handedly responsible for keeping the Russian military-industrial complex afloat. Russia also places a premium on Sino-Russian technical and scientific cooperation, which — coincidentally or not — has been increasing rapidly in the years since increased SCO integration (including the free trade area) was proposed.<sup>lxxxv</sup> Also, from a geo-political standpoint, incorporating China into a regional mechanism — rather than competing against it for influence, as it did to some extent following the collapse of the Soviet Union — has many advantages, not least of which is allowing the group to form a common front against the growing U.S. presence in the region.

As to what the Central Asian states get out of increased SCO integration, the answer is clear: two mammoth export markets and other concessions virtually across the board. In

addition to providing a considerable consumer market for Central Asian goods and services<sup>lxxxvi</sup> (not to mention energy exports), SCO cooperation has encouraged Russia and China to concede on long-standing border disputes (nationalistic victories that these states would have otherwise lacked the leverage to negotiate),<sup>lxxxvii</sup> provide assistance and funding against Islamic “terrorist” insurgents in the region<sup>lxxxviii</sup> (forces that threaten the stability of the Central Asian ruling regimes), provide weapons and security guarantees,<sup>lxxxix</sup> and provide a host of other financial considerations, including short-term loans and technical assistance programs.<sup>xc</sup>

This is not to say that the formation of a free trade zone under Chinese or any other parameters is a done deal. Many U.S. government officials, in fact, remain convinced that all the free trade talk is simply for show, a rhetorical façade for the organization’s growth as a regional security body. In the words of one such official:

The Shanghai group was clearly set up for political reasons — to establish a multilateral sphere of influence in Central Asia that would exclude the U.S. — but it naturally assumed an important economic component with petroleum. The question is whether there’s enough other potential trade among those countries to justify a viable free-market community. Probably not, though I recall that the present European Union started out as a simple iron and coal arrangement between Germany and France.<sup>xcii</sup>

Even disregarding such doubts, it is inevitable that there will also be internal problems in implementing a free trade zone, for all six nations have myriad reasons — both historical and practical — to mistrust the others and to resist over-integration. Still, the naturally synergistic relationship between the gas-guzzling Chinese and the energy rich Russia and Central Asian “-Stans” suggests that increased cooperation will ultimately be forthcoming.<sup>xciii</sup> If so, further integration and a true free trade area may soon follow closely behind.

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<sup>i</sup> This article originally appeared in *Maryland Series in Contemporary Asian Studies*, Vol. 27, No. 3 (2004).

<sup>ii</sup> For the purposes of this paper, the term “Central Asia” refers only to the four Central Asian SCO Member States of Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan. The two non-participating Central Asian “-Stans,” Turkmenistan and Afghanistan, as well as Pakistan, are outside the scope of this paper.

<sup>iii</sup> “SCO Emblem Unveiled,” *Renmin Ribao*, 7 January 2004; “6-Nation Group Meets in Shanghai on Economic Cooperation,” *China Daily*, 28 May 2002.

<sup>iv</sup> *Id.*; “China and Five Central Asian Countries Hold Forum on Security, Economy,” *Dushanbe Tajik Radio 1*, 19 July 2002, FBIS translated text CEP20020719000221.

<sup>v</sup> See “‘Founding Declaration’ of the Shanghai Cooperation Organization,” *Renmin Ribao*, 15 June 2001 [hereinafter SCO Founding Declaration]. See generally “Shanghai Cooperation Organization Develops Steadily,” *Xinhua* [*New China News Agency*], 4 September 2003; “Shanghai Coop Moving Ahead,” *China Daily*, 25 September 2003 (an overview of the latest developments); “SCO Revamps to Aid Stability,” *China Daily*, 26 November 2002; SUN Lingyun, Report compiled: “The International Seminar on ‘The Post-9.11 Situation in Central Asia and the Shanghai Cooperation Organization,’” *Shanghai Guoji Zhanwang* [*World Outlook*], 15 June 2002, pp. 42-3, FBIS translated text CPP20020719000183. In January 2004, Chinese President HU Jintao forwarded his own description of the organization, stating that the SCO is entering “a new stage of all-around pragmatic cooperation.” See “President Hu Jintao Meets with Foreign Ministers of SCO Member States and Heads of SCO Organs,” *Bulletin of the Ministry of Foreign Affairs of the Peoples Republic of China*, 16 January 2004.

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<sup>vi</sup> “SCO negotiates Free Trade Zone,” *China Daily*, 29 May 2002.

<sup>vii</sup> To my knowledge, this paper is the first analysis of the SCO free trade zone — in any language — that focuses primarily on these issues.

<sup>viii</sup> Two cautionary notes are necessary: First, while attempting to provide an overview of the regional arrangement from the perspective of all six nations involved, this paper will pay particular attention to the prime mover in this alliance, China, whose increasingly desperate energy needs, I posit, are the prime impetus behind the SCO’s accelerated progress in regional integration.

Secondly, in many instances throughout this paper, rather than treating the SCO as six separate entities, Central Asian states are often lumped together into one group, with Russia and China rounding out the triumvirate. This is an obvious oversimplification, for the interests, needs, and policy goals of the four Central Asian states are often as much at odds as they are in uniformity (one needs only to contrast Kazakhstan’s enthusiasm for the organization with Uzbekistan’s perpetual recalcitrance). However, for the purpose of this paper, it is often a necessity to group these four nations together under the general heading of “Central Asia,” representing a bloc of four lesser-developed countries that maintain the shared goals of increasing foreign trade and the betterment of their tenuous national and regional security environments.

<sup>ix</sup> For an excellent background piece on the SCO, particularly in terms of its early history and bilateral relations between member countries, see generally Bates Gill & Matthew Oresman, “China’s New Journey to the West: China’s Emergence in Central Asia and Implications for U.S Interests,” *Report of the CSIS Freeman Chair in China Studies* (August 2003) [hereinafter CSIS Report].

<sup>x</sup> The first meeting culminated in the signing of the highly anticipated “Agreement on Strengthening Military Confidence in the Border Regions,” in April 1996. DENG Hao, “China’s Relations with the Central Asian States: Review of 10 Years,” *Guoji Wenti Yanjiu [International Studies]*, 13 May 2002, pp. 8-12, FBIS translated text CPP20020712000153.

<sup>xi</sup> “Joint Statement of Kazakhstan, China, Kyrgyzstan, Russia and Tajikistan on the Almaty Meeting, July 3, 1998,” available at <<http://russia.shaps.hawaii.edu/fp/russia/joint-statement980703.html>> (citing *Xinhua*, 3 July 1998).

<sup>xii</sup> See SCO Founding Declaration, *supra* note 6.

<sup>xiii</sup> PAN Guang, “Shanghai Cooperation Organization under the New Situation and Central Asia’s Anti-Terrorism Cooperation,” *Zhongguo Pinglun [China Review]*, FBIS translated text CPP20020604000068.

<sup>xiv</sup> “China, Russia and Central Asian states target free-trade area,” *Xinhua*, 30 May 2003.

<sup>xv</sup> XU Tao, “On the Shanghai Cooperation Organization under the New Situation,” *Xiandai Guoji Guanxi [Contemporary International Relations]*, 20 June 2002, pp. 6-13, FBIS translated text CPP20020709000142.

<sup>xvi</sup> “Trade Official Calls for More Investment among SCO Members,” *Xinhua*, 10 September 2002.

<sup>xvii</sup> This document included only general references to economic cooperation: “[T]he member states of this organization hope to strengthen cooperation with each other...and maintain a variety of forms of development in the economic, social, and cultural fields...” See SCO Founding Declaration, *supra* note 6. See also “Charter for Shanghai Cooperation Organization adopted at Summit in Russia,” *Renmin Ribao*, 8 June 2002.

<sup>xviii</sup> Shi was later named chairman of the first meeting of the Economic and Trade Ministers of the SCO.

<sup>xix</sup> “SCO negotiates Free Trade Zone,” *China Daily*, 29 May 2002; “China, Russia and Central Asian states target free-trade area,” *Xinhua*, 30 May 2003.

<sup>xx</sup> “Free Trade Zone Proposed,” *China Daily*, 24 September 2003.

<sup>xxi</sup> *Id.*

<sup>xxii</sup> *Id.*

<sup>xxiii</sup> *Id.*

<sup>xxiv</sup> “Chinese Premier Proposes Free Trade Zone within SCO,” *Renmin Ribao*, 23 September 2003.

<sup>xxv</sup> See *id.*; “FM Spokesman: SCO PM Meeting Significant,” *China.org Report*, 24 September 2003, available at <<http://www.china.org.cn>> (article gathering reports from *Xinhua* and *China Daily*). See also “Shanghai Group of Five Evolving into International Legal Structure,” *Pravda*, 4 June 2001 (quoting the Kyrgyz Ambassador to China Erlan Abdyldayev).

<sup>xxvi</sup> “Central Asia” China becoming driving force in SCO,” *Stratfor Daily Intelligence Brief*, 24 June 2003.

<sup>xxvii</sup> See background on the WTO at

<[http://www.wto.org/english/docs\\_e/legal\\_e/ursum\\_e.htm#Agreement](http://www.wto.org/english/docs_e/legal_e/ursum_e.htm#Agreement)>.

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<sup>xxviii</sup> MICHAEL J. TREBILCOCK & ROBERT HOWSE, *THE REGULATION OF INTERNATIONAL TRADE* 25 (2d ed. 1999) (emphasis added) [hereinafter TREBILCOCK].

<sup>xxix</sup> Under the Article I MFN principle, which has served as the foundation of international trading rules since the inception of the 1947 GATT, contracting parties are required to grant to the products of other contracting parties treatment no less favorable than that accorded to products of any other country.<sup>xxix</sup> Members of the WTO have also entered into similar commitments under the 1994 GATT for trade in goods (Article I), the GATS (Article II) in relation to treatment of service suppliers and trade in services, and the “TRIPs” Agreement in regard to the protection of intellectual property (Article 4). See GATT Article I, available at <[http://www.wto.org/english/docs\\_e/legal\\_e/gatt47\\_01\\_e.htm#articleI](http://www.wto.org/english/docs_e/legal_e/gatt47_01_e.htm#articleI)>, as well as background on the origins of most favored nation trading status on the WTO website at <[http://www.wto.org/english/thewto\\_e/whatis\\_e/eol/e/wto01/wto1\\_13.htm#note2](http://www.wto.org/english/thewto_e/whatis_e/eol/e/wto01/wto1_13.htm#note2)>.

<sup>xxx</sup> *Id.* at 26; GATT Article III. The National Treatment principle, which dictates that once border duties have been paid by foreign exporters, as provided in a country’s tariff schedule, no additional burdens may be imposed through internal taxes or other forms of regulation, is ostensibly outside the scope of this paper.

<sup>xxxi</sup> Trade economists and scholars have hotly debated the utility of these regional trading arrangements. See e.g., Paul Krugman, “Regional Blocs: The Good, The Bad, and The Ugly,” *International Economy* (1991), at 54; Jagdish Bhagwati, “Regionalism vs. Multilateralism,” *World Economy* (1992); S. Laird, “Regional Trade Agreements: Dangerous Liaisons?,” *World Economy* (1999), at 1179-1200; Horst Siebert et al., “The Transatlantic Free Trade Area: Fueling Trade Discrimination or Global Liberalization?,” 30 *J. OF WORLD TRADE* 45 (1996); Andrew Faye, “APEC and the New Regionalism,” 28 *L. & POL. IN INT’L BUS.* 175 (1996). On the one hand, regional trading blocs may be able to achieve a deeper degree of economic integration than a broad multilateral system, as “negotiations typically involve a much smaller number of ‘like-minded’ nations.” TREBILCOCK, *supra* note 29, at 131. Moreover, regional arrangements may serve to “lock in” the process of economic liberalization in developing countries, and if full trade liberalization is not immediately possible, partial forms of such liberalization on a regional basis is presumably better than nothing. MATHIS, *supra* note 34, at 124; TREBILCOCK, *supra* note 29, at 27.

On the other hand, regional trade arrangements also necessitate playing favorites — an obvious conflict with the core principle (non-discrimination) of the WTO — and risk reducing international relations to “mutually destructive factionalism.” *Id.* at 130. From an economic perspective, such regional agreements also entail some degree of trade diversion (meaning that lower-cost producers outside the regional trading blocs are discriminated against, thus “distorting” the global allocation of resources and thus reducing global welfare.) *Id.* This, according to regional bloc critics, leads to increased global economic inefficiencies and constitutes a serious impediment to the spread of trade liberalization. *Id.*

<sup>xxxii</sup> Those three exceptions are Macao China, Mongolia and Taiwan (“Chinese Taipei”). See “Regionalism: Friends of Rivals?” on WTO website, at <[http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/bey1\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/bey1_e.htm)>. As of May 2003, over 265 RTAs had been formed pursuant to the WTO rules. Approximately 140 of these have been established since the creation of the WTO in January 1995. Over 190 are currently in force and another 60 are believed to be operational although they have not yet been officially recognized by the WTO. “Judging by the number of agreements reportedly planned or already under negotiation, the total number of regional trade agreements in force might well approach 300 by 2005.” See *id.*

<sup>xxxiii</sup> See generally JAMES H. MATHIS, *REGIONAL TRADE AGREEMENTS IN THE GATT/WTO: ARTICLE XXIV AND THE INTERNAL TRADE REQUIREMENT 145* (2002) [hereinafter MATHIS]. For the classic tome on the development of customs unions, see JACOB VINER, *THE CUSTOMS UNION ISSUE* (1950).

<sup>xxxiv</sup> Just a year after the 1947 GATT was established, the first official technical definition of “free trade area” was announced at a Havana Charter subcommittee meeting in 1948: “[A] group of two or more customs territories within which tariffs... are eliminated on substantially all trade between the constituent territories or at least on substantially all the trade in products originating from such territories.” See MATHIS, *supra* note 34, at 42. The provisions for free trade areas in what is now subsumed under Article XXIV were originally part of the included in the Havana ITO Charter of 1948 as Article 44 of Part IV, replacing the earlier Geneva Charter (1947) by means of a special protocol. F.A. Haight, “Customs Unions and Free Trade Areas under GATT: A Reappraisal,” 6 *J. OF WORLD TRADE* 391, 393 (1972). This definition was later standardized in Art. XXIV(8)(b) of the GATT: A free trade agreement “shall be understood to mean a group of two or more customs territories in which the duties and other restrictive

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regulation of commerce are eliminated on substantially all the trade between the constituent territories in products originating in such territories.”

<sup>xxxv</sup> See *infra* note 50.

<sup>xxxvi</sup> See discussion *infra* notes 48-52 and accompanying text.

<sup>xxxvii</sup> See Peter Morris, “Grouping to check China’s influence,” *Asia Times*, 11 February 2004. This regional economic grouping, announced in early 2004, includes Bhutan, Nepal, India, Myanmar, Sri Lanka and Thailand, with Bangladesh a potential candidate to join later in the year. *Id.* This free-trade area would represent some 1.8 billion people and is expected to come to fruition by 2017.

<sup>xxxviii</sup> For a detailed piece on recent Sino-Russian trade relations, see “Why Sino-Russian Trade Not Up to US\$20 Billion,” *Renmin Ribao*, 9 April 2004 (translation of article from *Global Times*); also “China and Russia hope for influence,” *BBC News*, 2 December 2002, available at <<http://news.bbc.co.uk/2/hi/asia-pacific/2533937.stm>>; “Sino-U.S. trade volume tops US\$100 billion in 2003,” *Renmin Ribao*, 9 February 2004.

<sup>xxxix</sup> The 2003 figure represents an increase of almost 300 percent over the preceding five-year period. See “Treat Sino-Russian Non-governmental Trade Rationally,” *Renmin Ribao*, 20 February 2004; “China, Russia Set for Record Trade year,” *China Daily*, 22 September 2003.

<sup>xl</sup> “Treat Sino-Russian Non-governmental Trade Rationally,” *Renmin Ribao*, 20 February 2004.

<sup>xli</sup> “Free Trade Zone Proposed,” *China Daily*, 24 September 2003.

<sup>xlii</sup> “6-Nation Group Meets in Shanghai on Economic Cooperation,” *China Daily*, 28 May 2002.

<sup>xliii</sup> “Foreign Minister Confirms Kazakhstan’s Multi-Vectored Policy,” 3 October 2003, at <<http://www.eurasianet.org>> (“Our top priority is to join the WTO and to cooperate with major trade partners,” — the SCO as well as others).

<sup>xliiv</sup> Robert McFarlane, Op-Ed, “Ways to Prevent the Seduction of Kiev,” *Wall Street Journal*, 10 October 2003; “Integration of Four CIS countries in line with their peoples’ will: Putin,” *Pravda*, 19 September 2003.

<sup>xli v</sup> While members are expressly granted the right to dictate their own speed of integration, that is in many ways illusory: the agreement proclaims that the economic space must be completed in five to seven years, “a lightning pace compared to the five decades it took to form the EU.” Ariel Cohen, “U.S. Should Promote WTO as Substitute to Eurasian Common Economic Space,” *The Heritage Foundation WebMemo #349*, 16 October 2003.

<sup>xli vi</sup> See *id.* The zone would comprise countries that comprise 90% of Russia’s trade with the Commonwealth of Independent States. By allowing the free movement of goods in the area, the CES will not only encourage foreign investment — a market of 215 million consumers — but will also detract from the small and unstable markets of the south Caucasus states, putting tremendous pressure on these countries to jump aboard. *Id.* There is a significant difference between the CES and the SCO, however, in that some of the members of the CES favor much closer political integration, notably Belarus, whose president has dreams of presiding over a larger entity, and Russia, where considerable support still exists for a pan-Slavic reintegration. No such settlement can exist, of course, for Russia and China.

<sup>xli vii</sup> ASEAN was established in August 1967 in Bangkok by its five original member countries: Indonesia, Malaysia, Philippines, Singapore, and Thailand. By 1999, the organization had expanded to ten countries, with Brunei Darussalam, Vietnam, Laos, Myanmar (Burma), and Cambodia entering the fold. China is not a member but often attends meetings in an observer status. The ASEAN region has a population of about 500 million, a total area of 4.5 million square kilometers, a combined gross domestic product of \$737 billion, and a total trade of \$720 billion. See statistics on ASEAN’s website, at <<http://www.aseansec.org/64.htm>>.

<sup>xli viii</sup> “Free Trade Initiative Gathers Momentum,” *Xinhua*, 4 September 2003.

<sup>xli ix</sup> ASEAN should not be confused with APEC (Asia-Pacific Economic Cooperation), the regional forum established to promote economic growth, cooperation, and trade and investment in the Asia-Pacific region. APEC has 21 members, its so-called “Member Economies,” which account or more than 2.5 billion people, a combined GDP of \$19 trillion and approximately 47% of world trade. APEC is a trade facilitating body but not a free trade area. See APEC website at <[http://www.apecsec.org.sg/apec/about\\_apec.html](http://www.apecsec.org.sg/apec/about_apec.html)>. Russia, China, and the United States are all members of APEC.

<sup>1</sup> “Free Trade Initiative Gathers Momentum,” *Xinhua*, 4 September 2003.

<sup>li</sup> *Id.*; “Trade Area Dispels Worries,” *China Daily*, 17 May 2002.

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<sup>lii</sup> See, e.g., “Whatever Happened to the Shanghai Cooperation Organization?,” *Jamestown Foundation Russia Monitor*, Volume 7, Issue 217, 27 November 2001, available at <[http://russia.jamestown.org/pubs/view/mon\\_007\\_217\\_000.htm](http://russia.jamestown.org/pubs/view/mon_007_217_000.htm)> (“Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan had no option but to join the [SCO] initiative while trying to limit the possible damage to their interests, and hoping in some cases to use it to their interests.”)

<sup>liii</sup> See generally Leland R. Miller, *Keeping Central Asia’s Kleptocrats at Arm’s Length*, THE CONGRESSIONAL RECORD OF THE UNITED STATES, 25 April 2002, S3431-S3432.

<sup>liv</sup> See discussion *infra*. It is by no means clear, however, that increased bilateral trade relations between SCO nations should be considered divorced from the overall SCO multilateral framework. One interesting example is the proposed China-Kazakhstan free border trade zone, to be located between the Yili Kazak Autonomous Prefecture (in Xinjiang) and Alma Ata (Kazakhstan) According to the Chinese press, this zone would promote zero tariffs and the free flow of people and goods. See “China and Kazakhstan to Build a Free Border Trade Zone,” *Renmin Ribao*, 26 February 2004 (“Insiders attribute[] the construction of this free trade zone to...closer economic ties between members of the Shanghai Cooperation Organization.”).

<sup>lv</sup> *Novosti Moscow Report*, 29 May 2002, cited in XU Tao, “On the Shanghai Cooperation Organization under the New Situation,” *Xiandai Guoji Guanxi*, 20 June 2002, pp. 6-13, FBIS translated text CPP20020709000142.

<sup>lvi</sup> See, e.g., “Chinese President: China to Play Active Role in SCO Development,” *China Daily*, 30 May 2003, available at <[http://www1.chinadaily.com.cn/en/doc/2003-05/30/content\\_167157.htm](http://www1.chinadaily.com.cn/en/doc/2003-05/30/content_167157.htm)>; “China, Russia Raise Stakes,” *Asia Times*, 20 June 2001, available at <<http://www.atimes.com/c-asia/CF20Ag02.html>> (“Russia and China are set to become ‘driving forces’ of the SCO,” the Russian Interfax news agency quoted a Kremlin source as saying); “Jiang Pushes to Boost ‘Shanghai 6’,” CNN.com, 5 June 2002, available at <<http://edition.cnn.com/2002/WORLD/asiapcf/east/06/04/china.sco>>.

<sup>lvii</sup> For the Chinese perspective on the PRC’s growing energy needs, see CHEN Huai, Op-Ed, “Active Role Needed in Oil,” *China Daily*, 7 July 2002, FBIS translated text CPP20020707000018 (the author is deputy director of the Market Economy Institute of the Development and Research Centre under the State Council); also YAO Guangming, “Will China’s Oil and Gas Resources Be Depleted?,” *Keji Ribao [Science & Technology Daily]*, 11 July 2002, p.11, FBIS translated text CPP20020729000142; Du Ren, “Oil Interests and the New Round of the Great Game,” *Zhongguo Qingnian Bao [China Youth Daily]*, 26 September 2002, FBIS translated text CPP20020926000046.

<sup>lviii</sup> LI Dingxin, “China’s Energy Challenged by the Pipeline Routes Dispute,” *Jingji Cankao Bao [Economic Reference]*, 12 August 2003, reprinted on the Chinese Academy of Social Sciences website, available at <<http://www.cas.ac.cn/html/Dir/2003/08/12/8975.htm>> [hereinafter LI Dingxin].

<sup>lix</sup> “China’s Oil Imports Exceeds 100 million tons in 2003,” *Renmin Ribao*, 2 February 2004 (noting that “China imported 91.12 million tons of crude oil and 28.24 million tons of refined oil in 2003, up 31.3 percent and 38.8 percent year-on-year respectively.”). Oil imports are estimated to be at least 120 million tons in 2004. “Offshore Oil Becomes Major Source of China’s Crude Oil,” *Renmin Ribao*, 31 March 2004.

<sup>lx</sup> LI Dingxin, *supra* note 59.

<sup>lxi</sup> “China’s Oil Imports Exceeds 100 Million Tons in 2003,” *Renmin Ribao*, 2 February 2004. “Hunger for oil,” *Renmin Ribao*, 12 December 2003 (“China will see an increasing dependency on crude oil imports, with the amount of crude oil imported rising from 31 percent in 2002 to 50 percent four years later in 2007”).

<sup>lxii</sup> See, e.g., YAO Guangming, “Will China’s Oil and Gas Be Depleted?,” *Keji Ribao*, 11 July 2002, p. 11 (“One view maintains that, prior to the year 2050, China’s oil and gas resources will be dried up.”); “China Suspends Crude Oil Exports to Japan,” *Renmin Ribao*, 21 February 2004. Electricity and gas shortages are also relevant to China’s oil situation because such shortages have “forced many power users to start operating their own diesel-fired generators.” See “Oil Supply Tightens in East and South China,” *Renmin Ribao*, 25 November 2003. See also “Effort Urged to Offset Oil Import Pressure,” *Renmin Ribao*, 31 March 2004; “Power, Water Shortages Feared to Continue in China,” *Renmin Ribao*, 2 December 2003; “Energy Hungry China Braces for Power Struggle as Winter Draws Near,” *Renmin Ribao*, 9 December 2003 (“[T]he Chinese are preparing for a winter season rendered cold and dark by frequent energy shortfalls”). For a slightly more optimistic assessment, see “Power Shortage Problem to be Solved by 2006: Official,” *Renmin Ribao*, 31 March 2004; “China’s Grain and Oil Supply, Feel at Ease,” *Renmin Ribao*, 24 November 2003.

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<sup>lxiii</sup> See LI Dingxin, *supra* note 59. One consequence has been China's putting a halt to its 30-year-old oil export relationship with Japan. "China Suspends Crude Oil Exports to Japan," *Renmin Ribao*, 21 February 2004.

<sup>lxiv</sup> David Lague, "China: The Quest for Energy to Grow," *Far Eastern Economic Review*, 20 June 2002. See also Christian M. Wade, "China Seeks to Create Oil Reserve," *Washington Times*, 14 October 2002.

<sup>lxv</sup> KUNG Shuang-yin, "Invest \$100 Billion in Building Strategic Oil system," *Ta Kung Pao*, 13 November 2002, FBIS translated text CPP20021113000014.

<sup>lxvi</sup> Such a plan was first called for by Premier Zhu Rongji at the Fourth Session of the Ninth National People's Congress. *Id.* See also "China Implements Oil Reserve Project," *Renmin Ribao*, 6 March 2004.

<sup>lxvii</sup> KUNG Shuang-yin, *supra* note 66.

<sup>lxviii</sup> GAO Lanrong, "China to Establish Four Coastal Strategic Oil Reserves," *Renmin Ribao*, 4 December 2003.

<sup>lxix</sup> See "Project to Assess Energy Reserves," *Renmin Ribao*, 2 December 2003. As with similar state-mandated assessments that took place in the 1980s and 1990s, the project is being carried out by the country's four conglomerates, China National Petroleum Corporation, China Petroleum & Chemical Corporation, China National Offshore Corporation, and China United Coalbed Methane Company. *Id.* Though probably unrelated to this review, six new fields surrounding the Shengli Oilfield in East China were discovered in April 2004 that hold an estimated 280 million tons. "New Oil Finds of 280 Million Tons to Ease National Thirst," *Renmin Ribao*, 6 April 2004.

<sup>lxx</sup> "China Takes Measures to Maintain Steady Oil Supply," *Renmin Ribao*, 22 March 2003.

<sup>lxxi</sup> "China and many foreign joint projects have adopted the business model called 'oil sharing,' i.e., through China's participation in the stock sharing or direct investment in the construction of foreign oil fields and facilities, China each year gets a certain share of the oil output from the oil projects concerned." See LI Dingxin, *supra* note 59. For example, the joint project China Petroleum and Gas Group can now produce 19 million tons of oil annually, of which China's "share" is nine million tons. *Id.*

<sup>lxxii</sup> The Chinese gaze is by no means limited solely to Central Asia. In early 2004, the PRC concluded oil agreements with Algiers and Egypt, in addition to their already existing agreement with Gabon. See "Experts: China Have an Eye to African, S. American Oil," *Renmin Ribao*, 28 February 2004. The PRC has also set its sights on increased imports from Indonesia, Sudan, and Venezuela. "China Takes Measure to Maintain Steady Oil Supply," *Renmin Ribao*, 22 March 2003.

<sup>lxxiii</sup> According to the International Energy Agency (IEA), "[t]he breakneck pace of Chinese economic expansion is rapidly changing the oil demand map." See "China Changing World Oil-Demand Map," *Renmin Ribao*, 14 November 2003 (quoting a November 2003 IEA report).

<sup>lxxiv</sup> To some degree, the Chinese and Russian media still feel the need to maintain this illusion. See, e.g., Russian Foreign Minister: Current Relations Between Russia and China are the Best in the Their History," *Novosti* [Russian Information Agency], 28 January 2004 (where Russian Foreign Minister Igor Ivanov characterizes current Russian-Chinese relations "as the best in their history as a whole."); ZHENG Yu, "Sino-Russian Strategic Cooperation Remains Full of Life," *Wen Wei Po*, 7 July 2002, FBIS translated text CPP20020708000013; "Russian-Chinese Ties Important or World Stability: Russian Premier," *Renmin Ribao*, 28 April 2002; "Russian-China Trade to Hit New High: Russian PM," *Renmin Ribao*, 21 August 2002; "China-Russia Trade Grows Strongly," *Renmin Ribao*, 2 October 2002 ("Two way trade between China and Russia saw strong growth...and may possibly reach 12 billion US dollars for the whole year, an increase of 2 billion dollars over last year."); "Russia, China Strategic Partners: Kasyanov," *Renmin Ribao*, 20 August 2001 (quoting Russia's then-prime minister).

<sup>lxxv</sup> "Russia: Oil and Gas Export Pipelines," Energy Information Administration (EIA) Report, November 2002, available at <<http://www.eia.doe.gov/emeu/cabs/russpip.html>>.

<sup>lxxvi</sup> "Russian Foreign Minister Announces Further Expansion of Ties with China," *Moscow Interfax*, 2 July 2002 (quoting Russian then-Foreign Minister Igor Ivanov, 2 July 2002).

<sup>lxxvii</sup> A high point for Sino-Russian rapprochement may have been the July 2001 Treaty on Good Neighborly Friendship and Cooperation between the People's Republic of China and the Russian Federation, but relations have been anything but fluid since. CSIS report, *supra* note 10, at 11. See also "We Shouldn't Be Afraid of China," *Izvestia*, 22 March 2004; "Russia Shouldn't Be Afraid of China's Development," *Renmin Ribao*, 24 March 2004.

<sup>lxxviii</sup> Ilan Berman, "East of the Oder: The Great Game's Newest Player Speaks Chinese," (on file with author). A refusal to rely solely on a Sino-Russian energy partnership has a historical as well as strategic

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element to it: Chinese leaders no doubt remember back to the 1960s, when the sudden withdrawal of Soviet experts and technical support for the Chinese oil industry caused severe energy shortages across the PRC.

<sup>lxxxix</sup> In May 2003, in yet another setback for China, the subsidiary of British petroleum powerhouse BG officially informed China Ocean Petroleum Corporation that BG had decided to exercise the preemption right to purchase the northern Caspian oil and gas development projects in Kazakhstan out from under the nose of China. In effect, BG agreed to sell to others what it had originally agreed to sell to China: an 8.33% interest in the Kashagan oil and gas field. See LI Dingxin, *supra* note 59. See also Louisa Kim, “China and Central Asia boost ties,” *BBC China*, 23 September 2003, available at <<http://news.bbc.co.uk/go/pr/fr/-/2/hi/asia-pacific/3130852.stm>>.

<sup>lxxx</sup> Personal interview with U.S. Department of Defense expert on Central Asia (22 November 2003) (on file with author). This quote is from the second of four interviews I had with this Pentagon official in the latter months of 2003.

<sup>lxxxii</sup> “Russia is main supplier of strategic goods to China,” *Pravda*, 23 May 2003; “Trade between Russia, China Will Grow 20-30% This Year,” *Pravda*, 26 June 2003; “Sino-Russian Ties Curb U.S. Pressures: News Analysis,” *Renmin Ribao*, 10 June 2002; “China, Russia vow to expand economic and trade cooperation,” *China Daily*, 22 September 2003 (“The two sides also agreed that Russia would export 4.5 million to 5.5 million tons of oil to China from 2004 to 2006, and is later expected to export 15 million tons annually”).

<sup>lxxxiii</sup> See Masanobu Yamane & Wenming LU, “The Recent Russia-China Timber Trade – A Strategic Overview,” available at <<http://www.iges.or.jp/en/fc/phase1/ir99/4-11-yamane.pdf>>.

<sup>lxxxiv</sup> The issue of steel imports has become even more crucial following the antidumping measures China instituted on Russian steel exports in 2002. See “Russian steel deliveries to Chinese market,” *Pravda*, 5 September 2002.

<sup>lxxxv</sup> See “Russia’s Arms Sales Amount to U.S.\$4.82 billion in 2002,” *Renmin Ribao*, 25 April 2003; “Russia to Sell Sukhoi Fighters to China in \$1 Billion Deal,” *CNN.com*, 10 December 1999, available at <<http://www.freesebia.net/Articles/1999/Sukhoi.html>> (reprinting CNN article); “New Developments in Russia-China Military Relations,” *Report to the China Economic and Security Review Commission* (August 2003), available at <<http://www.uscc.gov/mair1.htm>>; “Russia, China to Mount Cooperation in Aircraft Development,” *Moscow Agentstvo Voyennykh Novostey*, 6 November 2002, FBIS transcribed text CEP20021106000268 (detailing Sino-Russian deal on TU-204 aircraft).

<sup>lxxxvi</sup> “Kasyanov Says Russian-Sino Cooperation is Currently Developing Even Quicker in All Areas,” *Xinhua*, 22 August 2002. In July 2002, Russia and China announced their intentions to cooperate in nuclear research and a month later, in space research. “Russia, China to cooperate in nuclear research,” *Moscow ITAR-TASS*, 9 July 2002; “China, Russia To Boost Science Cooperation,” *Xinhua*, 4 July 2002; Vladimir Pavlov & Vera Pavlova, “Russia Prepared to Cooperate with China in Space Research,” *Moscow ITAR-TASS*, 21 August 2002, FBIS transcribed text CEP20020821000042.

<sup>lxxxvii</sup> “SCO Member States Hope to Further Spur Regional Economic Cooperation,” *Renmin Ribao*, 29 May 2002 (According to the Kyrgyz Deputy Finance Minister, “over 50 percent of Kyrgyzstan’s annual trade volume is achieved through economic and trade cooperation with SCO members.”). In similar statements, the Kazakh Economy and Trade Minister affirmed that SCO cooperation will be of “key assistance” for Kazakhstan in further developing its overseas oil markets. *Id.*

<sup>lxxxviii</sup> For example, in June 2002, on the ten-year anniversary of diplomatic relations between the two countries, Kyrgyzstan and China signed a “Treaty of Friendship, Cooperation, and Neighborly Relations,” effectively settling a border dispute that had been hampering relations between the two countries as well as the source of widespread protests in Kyrgyzstan. “Border deal seen as landmark in Kyrgyz-China relations,” *Bishkek Kyrgyz Television 1*, 12 August 2002, FBIS translated text CEP20020813000194.

<sup>lxxxviii</sup> For example, in August 2002, Russia and Kazakhstan performed joint military action — the so-called “Sea of Peace - 2002” anti-terrorism exercises — in the Mangistau region of southwestern Kazakhstan. In October 2002, China and Kyrgyzstan participated in another SCO “anti-terrorism exercise” — the first-ever joint military exercise for the Chinese military. Most notably, in August 2003, the entire SCO launched its first large-scale joint anti-terrorism exercise — this representing the first *multilateral* military exercise ever undertaken by the Chinese military. See “Central Asia: Shanghai Cooperation Organization Makes Military Debut,” *Radio Free Liberty*, available at

<http://www.globalsecurity.org/military/library/news/2003/08/mil-030805-rfel-154708.htm>; also “Kazakhstan: Minister Sees Caspian Exercises as Landmark in Cooperation with Russia,” *Almaty Khabar*

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*Television*, 16 August 2002, FBIS translated text CEP20020817000045; “China, Kyrgyzstan Plan Large-Scale Anti-Terrorism Exercise,” *Agence France Presse*, 16 September 2002, FBIS transcribed text CPP20020916000060; Mark O’Neill, “PLA gears for first exercises with foreign army,” *South China Morning Post*, 17 September 2002, p.1. The Chinese also offered anti-terrorism training to Kyrgyz army officers. “Chinese military to Train Kyrgyz Officers to Combat Terrorism,” *Bishkek Infocentre*, 13 August 2002, FBIS translated text CEP20020813000232; “SCO Launches Joint Exercise,” *China Daily*, 7 August 2003; “SCO Joint Anti-terror Drill Concludes,” *Xinhua*, 13 August 2003.

<sup>lxxxix</sup> See e.g., “Kazakhstan Wants Navy of Its Own on Caspian; Russia Ready to Help,” *Pravda*, 12 December 2003, available at <http://newsfromrussia.com/main/2003/12/12/51785.html>; Yekaterina Tvorogova, “Russian Comrade or American Dream,” *Almaty Delovaya Nedelya*, No. 23, 21 June 2002, p.11, FBIS translated text CEP200207020000390 (In June 2002, Russia pledged to supply Kyrgyzstan with approximately \$600,000 worth of security equipment and facilities, in addition to future assistance).

<sup>xc</sup> For example, in August 2002, Uzbek and Chinese banks signed a credit agreement worth \$29 million. “Uzbekistani, Chinese Banks Sign a Credit Agreement Worth \$29 Million,” *Tashkent Uzbekistan National News Agency*, 20 August 2002. China has also promised financial assistance to Kyrgyzstan and Tajikistan.

<sup>xc1</sup> Personal interview with former U.S. Principal Deputy Assistant Secretary of Energy Barton Marcois, 16 November 2003 (on file with author). Mr. Marcois resigned his post in late 2003.

<sup>xcii</sup> Amazingly, the plan may already be bearing fruit. In March 2004, China and Kazakhstan announced plans for the construction of a US\$3 billion pipeline (beginning July 2004) that will link western Chinese refineries with the just-finished Atyrau-Kenkiyak pipeline in western Kazakhstan. “Sino-Kazakh Oil Pipeline to Begin Construction,” *Renmin Ribao*, 11 March 2004. First proposed in 1997, this pipeline will represent China’s first ever major land-based oil import route. *Id.*

## **SELECTED NEWS SUMMARIES: NOVEMBER 2004-FEBRUARY 2005**

### *Shanghai Cooperation Organization*

On **February 25**, the Foreign Ministers on the Shanghai Cooperation Organization will meet in Beijing. The group will likely discuss the SCO's cooperation with ASEAN, the CIS, Afghanistan, as well as preparations for the SCO Heads of State Summit to be held in Astana on July 6 and 7. On **February 18**, deputy Foreign Ministers of the SCO met in Bishkek to discuss possible **trade cooperation** in the group.

On **February 9**, the Kazakh Foreign Ministry responded defensively to the February 7 newspaper **interview with the Executive Director of the SCO Regional Antiterrorist Structure Vyacheslav Kasymov**, in which he stated that terrorist organizations had penetrated into Kazakhstan and Al Qaeda firms has bought property in the country. The Kazakh government flatly denied the allegation and caused many to wonder about the motives of Director Kasymov in making the statement and if he was speaking on behalf of the SCO or an agent of the Uzbek government.

On **February 2**, Kazakh Foreign Minister Kasymzhomart Tokayev hosted the second session of the **Ambassadors' Club of the SCO** member states in Astana. The Ambassadors discussed building cooperation between their different foreign ministries and further facilitating economic trade.

On **February 2**, the Russian Duma ratified the **SCO's Convention on Privileges and Immunities**. The document gives SCO officials the status of diplomatic personnel and they will be provided with corresponding immunity. They are also freed from taxation on their salaries. On **February 20**, President Putin **signed** the convention.

On **January 28**, it was announced by the Kyrgyz Central Election Commission that there would be a **Chinese representative among the SCO election observers** sent to monitor the February 27 parliamentary election.

It was reported on **December 27** in RFE/RL that the Shanghai Cooperation Organization was among the **election observers** taking part in Uzbekistan's parliamentary election. It is unclear, though, what actual role the SCO observers played.

The regular session of the **Council of National Coordinators of SCO** member-states took place at the Secretariat in Beijing from **December 14 to 16**. The coordinators received a report from Secretary General Zhang Deguang about the work of the SCO through 2004 and discussed the establishment of "Track Two" mechanisms for SCO cooperation. In addition, SCO financial experts also met to discuss the establishment of the SCO Development Fund and SCO Business council.

On **December 13**, Sergei Mironov, chairman of Russia's Federation Council, urged that a

**parliamentary associate be formed for the Shanghai Cooperation Organization** while on a visit to Kazakhstan

On **December 10**, the **heads of anti-drug agencies of Shanghai Cooperation Organization** member-states met in Dushanbe to discuss the new expansion of the SCO agenda to include anti-drug activities. Of primary concern, the agency heads discussed how to address the increased drug export from Afghanistan.

On **December 3**, the **United Nations General Assembly** proposed that the Shanghai Cooperation Organization participate in this year's session as an official observer. An SCO envoy to the UN should be appointed in the next coming months.

On **November 24**, the **Prosecutor-Generals of the CIS and SCO** held back to back meetings in Almaty to enhance cooperation in the fight against international terrorism, corruption, and drug trafficking. Additionally, the SCO member-states pledged to simplify rules for mutual assistance on criminal cases.

On **November 17**, Kazakh Foreign Minister Kassymzhomart Tokayev chaired a session of the **interdepartmental group for Kazakhstan's activities with the SCO**. The group reviewed Kazakhstan's activities with the SCO, particularly plans for SCO economic cooperation.

On **November 8**, Kazakh Foreign Minister Kassymzhomart Tokayev hosted the first **Club of SCO Ambassadors** meeting for Shanghai Cooperation Organization member-state ambassadors accredited in Kazakhstan. The ambassadors discussed ways to increase coordination between the SCO Secretariat, the Council of National Coordinators, and SCO ambassadors in Kazakhstan.

On **November 2**, **Transportation Ministers of the Shanghai Cooperation Organization** gathered in Dushanbe, Tajikistan to discuss the development of a SCO-wide transportation corridor. Top issues on the agenda included the harmonization of motor traffic legislation and the joint funding of upgrades to existing road networks, particularly those in Tajikistan's Gorno-Badakhshan autonomous region.

On **October 28**, a session of the **Board of the Regional Antiterrorist Structure of Shanghai Cooperation Organization** was held in Tashkent. At the meeting, Director of SCO RATS Executive Committee Vyacheslav Kasymov reported on the group's ongoing work and suggested how to further implement the SCO's counterterrorism agenda. A representative of the Republic of Kazakhstan was elected to serve as a Chairman of SCO RATS Board for 2005.

### ***Security Situation and Regional Cooperation***

On **February 18**, President of Kazakhstan Nursultan Nazarbayev proposed the creation of the **Union of Central Asian States**. The organization, modeled on the European

Union, would seek to more closely bind the different Central Asian states in an economic, political, and security union.

On **February 15**, the Kyrgyz Government, after consultation with its SCO and CSTO allies, stated that it would not allow the United States to base **AWACS at Bishkek's Garci** **airbase**. The United States wanted to base the planes there to support operations in Afghanistan. According to some reports, Russia and China strongly opposed the proposal, fearful that the AWACS would be used to monitor activities in their territory. However, U.S. Ambassador to Kyrgyzstan Stephen Young stated that the U.S. government had never requested to deploy AWACS at Garci, creating considerable confusion as to why the Kyrgyz government made the announcement and who was behind it.

On **February 9**, it was announced that the final draft agreement for the creation of a **Central Asian Nuclear Free Zone** was complete and awaiting final approval by individual nations.

On **February 2**, the Chinese Ministry of Foreign Affairs issued a **travel warning** to its citizens against traveling to Tajikistan and Russia due to rising concerns about kidnapping.

On **January 29**, Russian Deputy Defense Minister Colonel General Aleksandr Belousov, in discussing the upcoming **Sino-Russian military exercise**, stated that one of the main goals of the exercise would be to demonstrate the possibility of using high-precision non-nuclear weapons -- both from Tu-22M3 long-range bombers and from Tu-160 and Tu-95MS strategic bombers -- against terrorists. The use of these advanced bombers will also serve as an attempt to convince China to purchase the planes.

On **January 21**, heads of secret services, law enforcement, and border services of Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan met in Dushanbe, Tajikistan under the auspices of **Central Asian Cooperation Organization (CACO)** to discuss anti-terrorism cooperation. The first task to be address by the group is preparing "a list of terrorist, religious and extremist organizations banned in CACO member states and also a list of their leaders and members." This is similar to the database currently being created by the SCO Regional Antiterrorism Structure.

During a **January 19** meeting of the **Paris Pact's Group on Tajikistan**, First Deputy Chairman of Tajikistan's Border Protection Committee, Lieutenant General Abdurahmon Azimov told, told that group that Tajikistan would need \$100 million in funding to shore up its border. The meeting was attended by representatives of Afghanistan, Britain, China, France, Germany, Japan, Russia, and the United States.

On **January 5, 2005**, Lt. Gen. Arvind Sharma, India's newly-appointed general officer commanding in chief (GOC-in-C) of the army's Eastern Command, stated that while tensions with China have decreased, India will not reduce the number of troops deployed at the strategic Nathu La Pass on the **country's border with China**. However, preparations to reopen the Nathu La trade route are currently underway.

On **December 28**, the Collective Security Treaty Organization announced the creation of an Inter-State Commission for Military-Economic Cooperation of the **Defense Industrial Complexes** of CSTO Member Countries. The commission will coordinate the activities and funding of the CSTO's various defense industries.

On **December 23**, Wu Bangguo, Chairman of China's National People's Congress, announced that China and Kazakhstan would set up an **inter-parliamentary commission** to help further cooperation.

On **December 15**, the Moscow-based Salyut Engineering Production Enterprise signed a \$900 million contract to **deliver 250 AL-31FN aircraft engines** to China over the next six years. The engines will likely be mounted on J-10 fighters, but could also be modified for SU-family fighters.

It was announced on **December 13** that China and Russia will hold their **first joint military exercises** on Chinese territory next year. The announcement was made after Russian Defense minister Sergei Ivanov met Chinese President Hu Jintao, Defense Minister Cao Gangchuan, and Central Military Commission Vice-Chairman Guo Buoxiong to discuss deepening Sino-Russian defense cooperation and increasing Russian arms sales to China. Among possible new arms sales, China has expressed interest in the newly modified Su-27SK heavy fighter.

On **December 8**, representatives of the financial intelligence agencies of Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and China met in Moscow for the first session of the **Eurasian Group for Counteracting Money Laundering and the Funding of Terrorism (EAG)**. The group discusses joint efforts to combat money laundering and the funding of terrorism. Additionally, the EAG has given observer status to Great Britain, Georgia, Italy, the United States, Uzbekistan, Ukraine, France, the Financial Action Task Force, the World Bank, the International Monetary Fund, the Commonwealth of Independent States, the **Shanghai Cooperation Organization**, the Collective Security Treaty Organization, the Eurasian Economic Community, Interpol, and the United Nations Drug Program.

On **November 26**, **China and Kyrgyzstan** signed an agreement for China to donate 10 off-road vehicles to the Kyrgyz Interior Ministry and 20 off-road vehicles to the Kyrgyz Frontier Service.

On **November 16**, Vladimir Bozhko, Deputy Chairman of Kazakhstan's National Security Agency announced that Kazakhstan had **extradited 14 Uyghurs to China**. Bozhko claimed that 14 individuals were members of the Eastern Turkistan Liberation Party, and had strong ties with Al-Qaeda.

On **November 10**, an official delegation of the **Kazakh Interior Ministry** began a visit to China and Hong Kong. During the visit, Kazakh police officers discussed cooperation against organized crime, terrorism, and illegal immigration with their counterparts in China's Ministry of Public Security.

On **November 8** the first sessions of the Secretariat of the **Kazakh-Chinese Committee for Cooperation's** Subcommittee on Security Cooperation was held. The meeting was attended by Kazakh Foreign Minister of Kassymzhomart Tokayev and Deputy Foreign Minister of China Li Huaya. This was the second round of ministerial consultations for the committee. On **November 20**, first session of the **Subcommittee on Cooperation Between Check Posts and Customs Bureaus** agreed to speed up formation of a data bank to monitor the movement of goods across borders and to assist in the creation of an International Center for Boundary Cooperation at the Khorgos land port.

On **November 3**, Chinese forces held and **anti-terrorism exercise in Xining**, the capital of Qinghai Province. During the exercise, Chinese forces practiced freeing hostages being held in a theater by terrorists.

On **November 2**, China delivered 8 million yuan (about \$1 million) worth of **military technical aid to Kyrgyzstan** as part of a 2003 agreement between the Chinese and Kyrgyz Ministries of Defense. The delivery included winter uniforms and shoes, household equipment (refrigerators, washing machines, and ovens), and diesel-generators.

On **November 2**, it was announced that the Chinese company contracted to work on the **Gomal Zam Dam project in Pakistan** would withdraw some personnel due to safety concerns.

It was announced on **October 25** that Tajikistan will host the **2005 CSTO exercise, Rubezh-2005**, in May 2005. The exercise will be similar to those held last year in Kyrgyzstan. It was also announced that a protocol has been signed allowing cooperation between the CSTO Secretariat and that of the Eurasian Economic Community (EurAsEC). The CSTO members include Russia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan and Armenia. EurAsEC members include Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan, with Armenia, Moldova and Ukraine as observers.

On **October 28**, China's National People's Congress ratified an **anti-terrorism treaty with Tajikistan**. The treaty allows joint criminal investigations and cooperation between the neighboring countries' security services. Similar Anti-terror agreements with Kazakhstan, Kyrgyzstan, and Uzbekistan have already been ratified.

On **October 28**, the 11<sup>th</sup> meeting of the **United Supervision Group** met in Beijing. The United Supervision Group is made up on the original Shanghai Five members (China, Kazakhstan, Kyrgyzstan, Russia, and Tajikistan) and is charged with establishing and maintaining confidence-building measures and disarmament along their common border. At this meeting, the delegates discussed new confidence-building measures and a mutual reduction of military forces in border areas.

On **October 28**, China conducted **anti-terror exercises at the Three Gorges Dam**. The exercise, which was lead by Hubei Province's People Armed Police, who have

responsibility for the Dam, focused on improving emergency management capabilities.

On **October 20**, China conducted **an anti-hijacking drill in Urumqi, Xinjiang**. The drill included more than 600 people from the departments of civil aviation, public security, foreign affairs, safety, health and fire fighting, as well as the PLA Air Force and People's Armed Police.

### *Summits and Meetings*

On **February 3**, **Foreign Minister of Azerbaijan, Elmar Mammadyarov, arrived in Beijing** for a three-day visit during which he met with Chinese Foreign Minister Li Zhaoxing and Deputy Prime Minister Huang Ju. Discussions included preparations for Azerbaijani President Ilham Aliyev's visit to China next month, exports of Azerbaijani oil to China, the participation of Chinese companies in Azerbaijan's oil sector, and the possibility of Chinese participation in the planned Akhalkalaki-Kars railway, which would enable China to export goods via Central Asia and the Caucasus within the framework of the TRACECA transport project.

**From January 13 to 15**, **Kyrgyz Prime Minister Tanayev visited Urumchi**, Kashgar, and Artush in China's Xinjiang province. The visit was meant to facilitate bilateral trade and cultural interaction. In particular, the possibility of exporting Kyrgyz electricity to Xinjiang was discussed.

On **January 12**, Russian President Vladimir Putin made his first foreign **visit of the new year** to Almaty to hold talks with Kazakh President Nursultan Nazarbayev. The two leaders discussed energy cooperation, border delimitation, and a whole range of international issues, including the Shanghai Cooperation Organization. The two met again on **January 18** in Moscow to **sign the new border treaty**, officially demarcating the Kazakh-Russian border.

**India's Chief of Army Staff General Nirmal Chandra Vij made an official visit to China** from **December 22 to 29** to meet with senior PLA officers. Vij is the first Indian Army Chief of Staff to visit in over a decade. During his trip, he visited multiple Chinese military bases and discussed future avenues of cooperation and confidence-building with his Chinese counterparts. Additionally, General Viji invited China to participate in **joint anti-terrorism exercises** to be held in 2005.

During a meeting on **December 16** with Pakistani Prime Minister Shaukat Aziz, Chinese President Hu Jintao pledged to enhance **anti-terrorism cooperation with Pakistan** and jointly fight against the "three evil forces" in the region.

On December 12, Chinese Assistant Foreign Minister **Li Hui held a regular inter-ministry consultation with Uzbek Deputy Foreign Minister Nematov Ilkhom Tuychievich**. These meetings are used to maintain Sino-Uzbek relations and push

forward issues on their common agenda.

From **December 9 to 10**, Chinese State Councilor **Tang Jiaxuan** paid a formal visit to **Kyrgyzstan** to meet with Kyrgyz President Akayev, Prime Minister Tanayev, and Foreign Minister Aitmatov. During his meetings, Tang discussed ways in which China and Kyrgyzstan can further cooperation under the long range 10-Year Cooperation Program, including potential economic, security, and energy cooperation.

On **December 9**, **Turkish Defense Minister Vecdi Gonul** completed a four-day visit to Beijing for consultations with Chinese Defense Minister Cao Gangchuan. After the meeting it was announced that China and Turkey would deepen military to military relations.

On **November 30**, **China and Iran** signed a Memorandum of Understanding for China to assist Iran in developing its space and satellite technologies. This also provides a window for China to assist Iran's medium- and long-range ballistic missile program.

On **November 29**, Chinese Foreign Minister **Li Zhaoxing** met with **Russian Foreign Minister Sergey Lavrov** to exchanged views on developments in Iraq and discussed cooperation between the two countries in the framework of the Shanghai Cooperation Organization. Li also briefed Lavrov on the new phase of cooperation between China and ASEAN.

Wang Lequan, Secretary of Xinjiang's Communist Party, met with Kyrgyz President Askar Akaev and Prime Minister Nikolai Tanaev in Bishkek on **November 15** to discuss efforts to increase the export of Kyrgyz goods to China and the construction of the **China-Kyrgyzstan-Uzbekistan railway** through the Torugart Pass.

On **November 11**, **Uzbek Vice Prime Minister Elyor Ganiyev** and **Chinese Vice Premier Chinese Wu Yi** in Beijing pledged to further trade cooperation and increase dual-track investment between the two countries, particularly in the oil and gas, chemicals, soil improvement, and infrastructure fields. Bilateral trade between China and Uzbekistan is expected to increase 80% in 2005.

On **October 23**, Chinese Foreign Minister **Li Zhaoxing** met with **Turkmen President Saparmurat Niyazov**. During the visit, Turkmenistan's Ministry of Railway Transport signed a \$128 million contract to buy railway cars and equipment from China.

The 17-member **Conference on Interaction and Confidence-Building Measures in Asia (CICA)** met in Almaty on **October 22** to discuss regional cooperation and security. At the meeting, the Foreign Ministers approved a "Catalogue of Confidence Measure," and rules of procedure for the organization. Established in 2002, CICA includes: Afghanistan, Azerbaijan, China, Egypt, India, Iran, Israel, Kazakhstan, Kyrgyzstan, Mongolia, Pakistan, Palestine, Russia, Tajikistan, Turkey, Thailand, and Uzbekistan. On the sidelines of the meeting, Chinese Foreign Minister Li Zhaoxing met with Kazak

President Nursultan Nazarbayev to discuss ongoing developments in Sino-Kazakh relations.

On **October 21**, **Russian Foreign Minister Sergei Lavrov met with his Chinese and Indian counterparts**, Li Zhaoxing and Natwar Singh, in Almaty, Kazakhstan. The three discussed multiple topics including counter terrorism, drug trafficking, and security threats. Sing proposed that the three nations host a meeting of their respective businessmen to further facilitate trade. The next meeting will be held in Vladivostok in April 2005.

From **October 18 to 22**, **NATO Secretary-General Jaap de Hoop Scheffer** made a high-level visit through Central Asia. In Kyrgyzstan, he announced that NATO would set up an alpine-rescue training center that will eventually be used to train peacekeeping forces. It was also announced that NATO would use Tajikistan, and possibly Turkmenistan, as a transfer point for NATO ISAF forces on the way to Afghanistan.

### *Economics, Trade, and Assistance*

On **February 21**, the Chinese government announced it would provide 30 million yuan (approximately \$3.8 million) to fund the **repair of the road** from Bishkek to the Manas airport outside of Bishkek, where the U.S. military maintains the Garci airbase.

On **February 10**, Russia's Promtraktor OJSC shipped 6 TG-301 pipe-layers to Kazakhstan for use in the construction in the **Sino-Kazakh Atasu-Alashankou pipeline**. This signals an increased involvement of Russian firms in this Sino-Kazakh project.

On **January 28**, Uzbektelecom announced that it plans to borrow **\$1 million from China's ExIm Bank** in 2005 to finance two investment projects to upgrade telephone switching stations and build new radio and television transmission towers.

It was revealed on **January 18** that China National Petroleum Corporation (CNPC) lent Russia's Rosneft \$6 billion pay for **Yuganskneftegaz**, Yukos's main oil production unit. At this point it is still unclear if the loan will be repaid in cash, guaranteed oil exports to China, or a Chinese stake in Yuganskneftegaz.

On **January 12**, China's General Administration of Customs announced that **China imported 120 million tons of crude oil** in 2004, and increase of 34.8% since last year. China also increased import of iron ore by 40.5%.

On **January 10**, the Kazakhstan Livestock Food Corporation **opened its new office in Beijing**. The office will facilitate the Sino-Kazakh trade of animal products, export of beef and dairy produce to China, and import of technologies and equipment to Kazakhstan.

On **January 7**, China's Ministry of Commerce announced that **antidumping duties**

would be leveled against another Russian company, this time a chemical exporter.

On **January 6**, Suvjihozga, an **Uzbek-Chinese joint venture** that produces water and gas meters, received a \$1 million, interest-free loan from the Chinese government. The company has a 70% market-share and will use these new funds to double production.

On **December 29**, it was announced that **trade between China and India** in 2004 exceeded \$12 billion.

On **December 28**, the Kyrgyz government announced that it was conducting negotiations with the **Chinese fertilizer company**, Anbang, to open a production plant in the Jalal-Abad region.

On **December 29**, Kazakh Transport Minister Kazhymurat Nagmanov announced that construction would begin this year on a \$4 billion, **3,000-kilometer rail** line linking Kazakhstan, South East Asia, Europe, Turkey, and Turkmenistan. The project will likely be completed in 15 years and will be international-gauge track, providing an alternative to the Russian lines in the region.

On **December 22**, the **Asia Development Bank** granted Kyrgyzstan a 32-year, \$32.8 million loan to rebuild the Osh-Sarytash-Erkechtam road, which connects China, Kyrgyzstan, and Uzbekistan.

On **November 23**, the **Ministers of Finance of China and Kyrgyzstan** announced a new plan of cooperation, including harmonization of trade statistics, Chinese assistance in equipping the Kyrgyz side of the Torugart and Irkeshtan border crossings, and the development of plan for Chinese relief of Kyrgyz debt. For the last three years commodity turnover of Kyrgyzstan have been increasing by 11% a year on average. There are approximately 500 joint Kyrgyz-Chinese companies and 500 businessmen from China working in Kyrgyzstan. Additionally, there are only 15 students from Kyrgyzstan studying in Chinese universities.

On **November 19**, Chief of the **Kashgar Administration Zone**, Zong Gian, announced that the area was willing to upgrade their economic ties with Pakistan and serve as a hub with China's neighbors. Kashgar shares the same religion, language, and customs with Pakistan and has five ports in the zone: Khunjrap with Pakistan, Irkistan and Turgat with Kyrgyzstan, Karasu with Tajikistan, and an international airport.

On **November 18**, it was reported that China's Eximbank opened a **\$300 million line of credit for Uzbekistan's National Bank for Foreign Economic Activity** for the purchase of Chinese technology and equipment. The equipment will be used to implement projects in the oil-and-gas and power sectors.

On **November 17**, **Lukoil began testing oil deliveries to China** by railway. Lukoil plans to deliver 100,000 tonnes of oil a month to China by the end of December.

On **November 17**, it was reported that a group of Chinese citizens from Jilin Province were looking to **rent 500 hectares of arable land in the Volgograd Oblast** of Central Russia. The delegation proposed a 49-year lease, which has yet to be accepted. Local farmers, already nervous about plans to increase the amount of new Chinese laborers in the region from 600 to 1000 a year, reacted negatively to the proposal. Similarly, on November 14, it was reported that a new Chinatown has emerged in Yekaterinburg, also in Central Russia, with approximately 25,000 residents.

On **November 8**, Kazakhstan's national atomic company, KazAtomProm, struck a long-term deal with China's nuclear agency, China National Nuclear Corporation, **to produce and process uranium** for China's nuclear power plants.

On **November 8**, it was announced that the Chinese government would open a **new land port and trade zone to Kazakhstan** this spring. The port will be located at Jeminay in northern Xinjiang and will be the second-largest land port in Xinjiang, covering an area of 105,000 square meters. The trade zone will be able to accommodate 10,000 merchants and handles 100 million yuan (about \$12 million) worth of commodities annually.

As of **November 5**, about 400 trucks with Chinese-made commodities have been held up at **the Khorgos customs post** awaiting permission to enter Kazakhstan. The trucks have been held up as a result of a tax dispute with the Kazakh government. While some trucks have trickled through the crossing, the 20,000 Kazakh vendors who sell Chinese goods have been left with little to sell. The Forum of Kazakhstan's Businessmen and the Kazakh government expressed optimism that a settlement was forthcoming.

On **November 4**, the **Asian Development Bank** announced it will provide the Central Asian states with \$4 million for various projects during the 2004-2006 period. These funds include \$1 million for a project to develop the southern automobile transport corridor that joins Kyrgyzstan and southern Uzbekistan with the western regions of China.

On **November 3**, it was announced that in the first seven months of 2004, **Kazakhstan's trade with the SCO** increased 68.7% from the January to June period of 2003 to \$2 billion. Kazakh exports to the SCO member states amounted to \$1 billion for the same period, a 83.9% increase from 2003. The main trading destinations of Kazakh exports are Russia (51.6%) and China (35.5%). The SCO accounts for 47% of Kazakhstan's imports during the same seven-month period in 2004. Similarly, The Chinese Ministry of Commerce announced that **trade volume between China and the five Central Asian nations** amounted to \$570 million from January to August 2004, a 53% increase from the same period last year. This number represents only .6% of China annual foreign trade turnover and 10% of that of the five Central Asian nations.

On **November 1**, the 3rd Ministerial Conference on **Central Asia Regional Economic Cooperation** was held in Astana to discuss future regional cooperation efforts in Central Asia. The meeting brought together Ministers from Azerbaijan, China, Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan, and Uzbekistan and senior officials from the Asian

Development Bank, European Bank for Reconstruction and Development, International Monetary Fund, Islamic Development Bank, United Nations Development Program, and World Bank.

On **October 21**, China's Sinopec signed a \$70 billion oil and natural gas agreement with Iran, **China's biggest energy deal to date with Iran**. Under the deal, Sinopec will buy 250 million tons of liquefied natural gas over 30 years from Iran and help develop the giant Yadavaran field. Iran will also export 150,000 barrels per day of crude oil to China for 25 years at market prices. This deal is in addition to the March 2004 agreement for China's Zhuhai Zhenrong Corp. to import 110 million tonnes of liquefied natural gas from Iran over 25 years at a cost of \$20 billion, starting in 2008. In 2003, 13% of China's oil imports came from Iran.

On **October 21**, Sergey Dankvert, head of the Russia's Federal Veterinary and Phytosanitary Supervision Service announced that Russia may suspend its **horticultural imports from China** from November 15 as "noxious organisms that warrant quarantines are being spotted" in such products. It is unclear how long the restrictions will last.

On **October 16**, Russia's Maritime Kray Governor Sergey Darkin announced that the region **could accept up to 500,000 Chinese workers** by 2010 to help further develop the area. This is a dramatic reversal from the days of the "yellow peril." Currently, only 15,000 Chinese workers are allowed into Maritime Cray a year.

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On **January 11**, it was announced that the city of Suifenhe in China's northernmost Heilongjiang Province, would soon begin construction of a **Sino-Russian University**. The project is supported by the local government, a Russian company, and Hong Kong investors. Included in the curriculum will be classes on languages, commerce and trade, and tourism.

During the **first week of January**, Beijing University hosted a photo exhibition of the work of Zaur Dakhte, **a famous Tajik cinematographer and photo designer**, to help commemorate the 13<sup>th</sup> Anniversary of Sino-Tajik relation.

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