

China's Challenges in Central Asia

Fallout from the Georgian War, the Financial Crisis, and the Xinjiang Riots

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In the past year, China's Central Asia policy has weathered several external and internal shocks, which have proven to be interconnected in unexpected ways. Although some differences emerged between China and Central Asian states over Russia's support for the independence of South Ossetia and Abkhazia, the financial crisis provided an opportunity for China to deepen its economic engagement in the region, particularly in the energy sector. Economic integration has turned out to be a double-edged sword for China domestically, however. On the one hand, expanding energy ties with Central Asian neighbors has facilitated Beijing's domestic goal of developing its western provinces and turning Xinjiang into a new center for the Chinese energy industry. On the other hand, economic development has highlighted inequalities within the province and unleashed social tensions that erupted into riots in the provincial capital of Urumqi in July 2009. The interethnic violence in Xinjiang may have long-term consequences for both the stability of Central Asian states with Uighur minorities and perceptions of China in these countries.

The Georgian War and Chinese Positions on Opposing Separatism

Russia's support for the independence of South Ossetia and Abkhazia undermined a key element of China's foreign policy in Central Asia: opposition to separatism. Although Chinese media initially supported the Russian position on the Georgian War,

Moscow's subsequent recognition of the two regions' sovereignty caused the Chinese government to adopt a more cautious stance. At a meeting with Russian President Dmitri Medvedev the following day in Dushanbe, Tajikistan, Chinese President Hu Jintao would only go so far as to say that "China has noticed the latest developments in the region, expecting all sides concerned to properly settle the issue through dialogue and cooperation." Chinese Foreign Ministry spokesman Qin Gang further noted, "China has expressed concern over the latest developments of the situation in South Ossetia and Abkhazia," and he reiterated hope that the "relevant parties [will] resolve the issue properly through dialogue and consultation."

A comparison of statements by the Shanghai Cooperation Organization (SCO), comprising Russia, China, and four Central Asian states, and the Russian-led Collective Security Treaty Organization (CSTO) demonstrates that it was China's position on separatism that shaped the SCO's response. Although the SCO held its annual summit in Dushanbe just two days after Russia's recognition of South Ossetia and Abkhazia, the joint declaration failed to mention it. Instead, SCO members "express[ed] their deep concern in connection with the recent tension around the issue of South Ossetia, and call[ed] on the relevant parties to resolve existing problems in a peaceful way through dialogue [and] to make efforts for reconciliation and facilitation of negotiations." The SCO went on to praise Russian efforts to promote a resolution to the conflict, but noted the importance of "efforts aimed to preserve unity and territorial integrity of states."

By comparison, the declaration of the CSTO, which also includes Belarus and Armenia but not China, was much more supportive of Russian policy. In a September 2008 declaration, the CSTO sided with the Russian view of the conflict, expressing "deep" concern about Georgia's efforts to resolve the South Ossetian situation by force, while supporting "the active role of Russia in peace and cooperation assistance in the region." Nonetheless, even CSTO member states did not go so far as to recognize the independence of South Ossetia and Abkhazia, limiting their support to "ensuring lasting security for South Ossetia and Abkhazia."

Thus, differences between Russia and China on separatism seemed to create a political wedge between them, placing the Central Asian states in an uncomfortable position between the two great powers. Because the financial crisis developed at the same time as these political events, however, there was no lasting estrangement. To the contrary, China successfully took advantage of changing economic conditions to expand its economic relations with both Russia and the Central Asian states, particularly in the energy sector. Russia, for its part, used its chairmanship of the SCO to steer the group toward a more active role in addressing the conflict in Afghanistan and its associated problems, such as drug trafficking and terrorism, issues where members shared common interests. The riots in Xinjiang also gave greater impetus to Sino-Russian cooperation in anti-terrorism.

The Financial Crisis and New Opportunities in Central Asia

The global financial crisis hit Central Asia especially hard. The World Bank projected a 3.3 percent drop in gross domestic product for Kazakhstan, the region's strongest economy; Tajikistan, the weakest, faced declining remittances from migrant workers

and falling demand for its key exports, cotton and aluminum, as well as a plummeting currency. Russia, which had sought to limit China's economic clout in the region, saw its own growth rate decline substantially and was no longer in an economic position to counter Chinese efforts. Major Russian companies, such as Rosneft and Transneft, accepted \$25 billion in loans from China in exchange for annual deliveries of 15 million tons of oil and the construction of a long-discussed 67-kilometer spur from the East Siberian Pacific Ocean (ESPO) pipeline to the Chinese border.

Countries to whom Russian aid was promised, such as Tajikistan and Kyrgyzstan, grew skeptical about the long-term prospects for such assistance and searched for more reliable partners. This provided an opening for Barack Obama's administration to renegotiate access to the Manas base in Kyrgyzstan in exchange for a new aid package. China, too, took advantage of the financial crisis to expand its economic relations with the Central Asian states and invest in the regional economic infrastructure it had long deemed necessary for deepening regional integration. At the June 2009 SCO summit, China announced a \$10 billion credit fund for fellow members.

China has focused its bilateral aid on projects to construct energy pipelines, power plants, and new transport routes. In October 2008, the China National Petroleum Corporation (CNPC) announced it would develop an oilfield in Uzbekistan, which is expected to produce 2 million tons of oil annually. The following month, CNPC lent \$5 billion to Kazakhstan's state-owned oil and gas company, KazMunayGaz, while China's Export-Import Bank lent Kazakhstan's Development Bank another \$5 billion. CNPC also bought a 49 percent stake in a subsidiary of KazMunayGaz and committed to purchasing 5 billion cubic meters (bcm) of gas annually from the company.

Turkmenistan, another key producer of natural gas but not an SCO member, has also received Chinese assistance. In June 2009, the Chinese State Development Bank extended a \$4 billion loan to Turkmenistan to support the development of its Southern Yoloten-Osman gas field. In return, Turkmenistan increased future gas exports to China from 30 to 40 bcm annually; the gas will ship via a pipeline that is scheduled to be completed in December. Turkmenistan also asked China to directly participate in the development of the Southern Yoloten-Osman field, as well as in the construction of a Kazakhstan-Turkmenistan-Iran railway line.

Finally, China is providing aid to its smaller Central Asian neighbors, Tajikistan and Kyrgyzstan. China plans to invest more than \$1 billion over the next two years to build power stations, transmissions grids, and roads in Tajikistan, including \$650 million for a hydropower plant and \$400 million for a coal-fired plant. The Chinese government is also financing some key transportation projects in Kyrgyzstan. It agreed to provide a \$7.5 million grant and a \$75 million loan to rebuild the Osh-Sary Tash-Irkeshtam road, which will connect southern Kyrgyzstan to Xinjiang. Beijing also intends to invest \$11 million to help complete the China-Kyrgyzstan-Uzbekistan railway now under construction; in return, China will receive tax privileges for its companies working on the railway project and for exploiting mineral deposits. The China Development Bank is lending another \$8 million to the Kyrgyz Settlements and Savings Bank to support these and other projects.

China's Economic Relations with Central Asia and the Xinjiang Riots

China's rapid economic growth has proceeded unevenly, favoring coastal areas over inland provinces. To redress this imbalance, Chinese leaders announced a "Go West" strategy a decade ago to develop its western areas, including Xinjiang. Growing energy and transportation ties with neighboring Central Asian states contribute to that aim, and Xinjiang is becoming a new center for China's oil and gas industry. The province has the country's largest reserves of oil, natural gas, and coal, as well as major deposits of key minerals. As in Tibet, the Chinese government has sought to create disincentives for separatism in Xinjiang by boosting the local economy and harshly repressing activities thought to promote Uighur self-determination in any way.

Although development has benefited Xinjiang's economy as a whole, urban Han populations have gained more than the largely rural Uighur population. Over the past decade, the Xinjiang Production and Construction Corps, an initiative led by China's State Council, has brought large numbers of Han migrants into the province to work on construction projects, many of them in the energy sector. As a consequence, Uighurs saw their share of the province's population of 19 million decline from 60 percent to 46 percent in the 1990s. According to the 2003 census, Uighurs now constitute 45 percent of the population, while Han account for approximately 40 percent (though some analysts claim these figures underestimate the number of Han migrants). As more educated Han Chinese come to Xinjiang for employment opportunities, Uighurs seek low-skilled work elsewhere.

It was the unfortunate fate of two such migrant workers that sparked the riots in Xinjiang. At the Xuri toy factory in Guangdong in June 2009, at least two Uighurs were killed and many more injured by Han co-workers after false rumors were spread that a Uighur had raped a Han woman. Dissatisfaction with the government's response to the anti-Uighur violence led to the outbreak of violence in Xinjiang. According to Chinese authorities, the riots led to 197 deaths, mostly of Han Chinese; they also prompted a new wave of repression against Uighurs. Uighur groups allege that the official numbers vastly understated Uighur casualties.

Over the last ten years, the Chinese government has periodically claimed to have disrupted plots by Islamic terrorists in Xinjiang. It has responded with police clampdowns, as well as with restrictions on Uighur religious activity and cultural rights. Acquiescing to Chinese allegations that the leader of one Uighur group, the East Turkestan Islamic Movement (ETIM), had ties to Osama Bin Laden, George W. Bush's administration and the United Nations agreed to list it as a terrorist organization in 2002.

Many Western experts on Xinjiang dispute this characterization and question the existence of a local threat from Islamic radicalism. They note that while a religious renewal has been occurring, the threat of radical Islam originates within Pakistan and Afghanistan, not in Xinjiang or its Central Asian neighbors. However, China's security strategy in Central Asia has long emphasized combating the "three evils" of separatism, extremism, and terrorism, a goal that has always been a prominent part of the SCO

agenda. By conflating separatism and terrorism in Xinjiang, the Chinese government has a pretext to pressure Central Asian governments to limit activities by Uighur groups as well as to crack down on legitimate religious activity within Xinjiang. With Chinese encouragement, Central Asian states with Uighur minorities (Kazakhstan, Kyrgyzstan, Uzbekistan, and Tajikistan) have passed anti-extremism laws which human rights activists fault for repressing religious practice.

Regional Implications

China's efforts to expand economic relations with Central Asia since the Georgian War have led to many new projects but also some unintended consequences. Now that China has signed contracts for gas with Kazakhstan and Turkmenistan, Sino-Russian negotiations on the construction of a gas pipeline to China have stalled due to pricing issues, and Gazprom has put aside plans to sell gas to China beginning in 2011. Turkmenistan's sale of gas to China will also mean that there will be less gas for sale to either Russia or the European-bound Nabucco pipeline project, still under development.

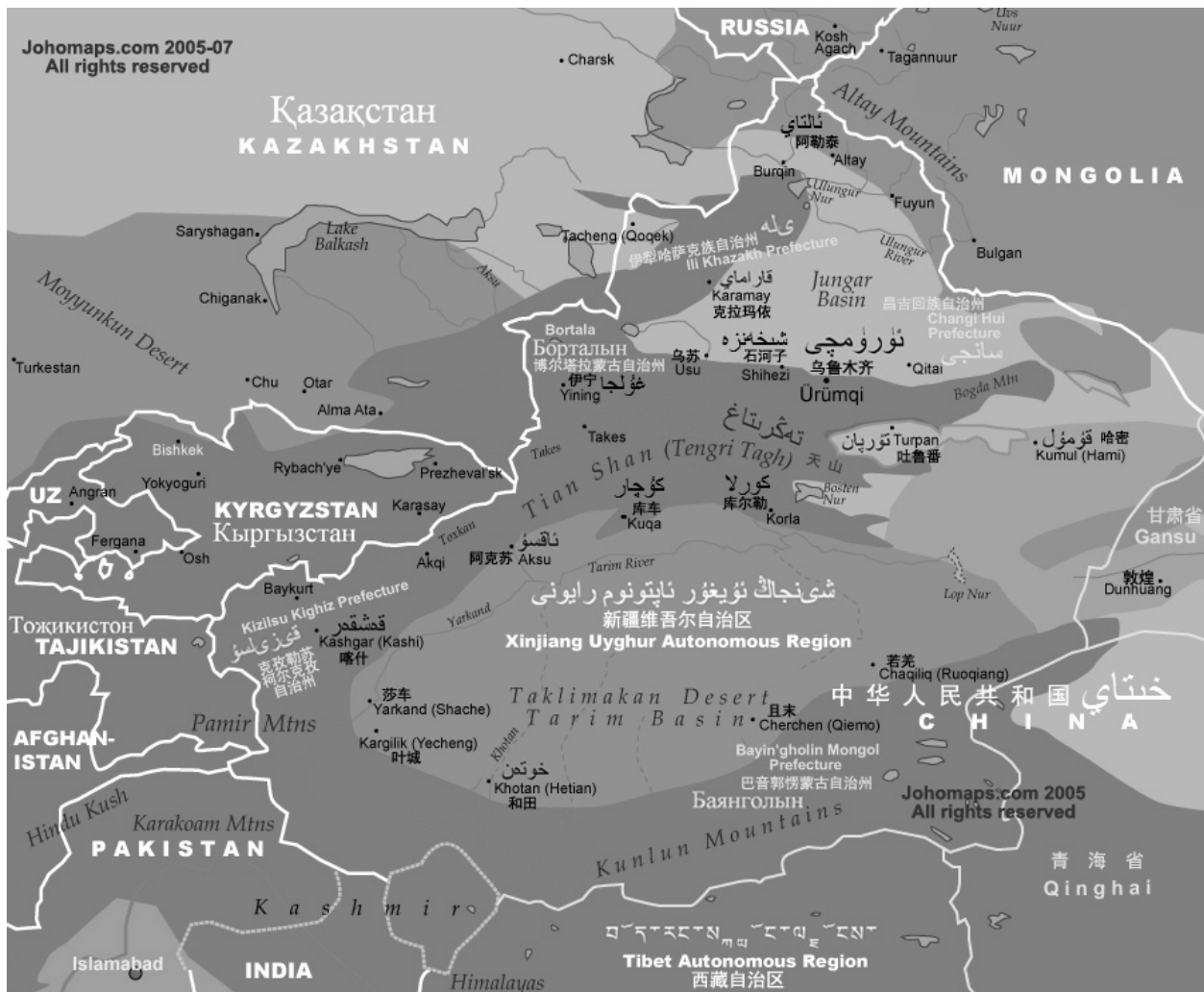
Chinese investments in energy and transportation infrastructure may facilitate regional economic integration, but political obstacles to such integration remain. In many Central Asian states, suspicions about China's intentions and the consequences of its expanding role in their economies persist. Even if infrastructure improves, political tensions among these countries will limit economic integration. Uzbekistan, for example, recently built walls and ditches along part of its border with Kyrgyzstan to prevent infiltration by militants and illegal trade originating from China.

Xinjiang poses an even greater challenge to regional integration. Unrest in Xinjiang has served as a pretext for China to seek greater cooperation within the SCO to combat the "three evils" and to resist interference from outside groups. The SCO statement issued right after the July 2009 riots did not take sides and limited itself to conveying condolences and expressing hope for the restoration of public order. Cross-border flows between China and Central Asia faced new restrictions, however. Kazakhstan and Kyrgyzstan repatriated some of their nationals, and the Kazakh government issued a travel advisory. In the short term, this meant a drop in Kazakhstan's trade with China, 70 percent of which goes through Xinjiang and depends on a flow of Kazakh traders across the border.

Unlike the 2008 protests in Tibet, which led to widespread condemnation of Chinese actions in the West, Beijing's handling of the riots in Xinjiang faced criticism in the Islamic world. Turkish Prime Minister Recep Tayyip Erdogan was most pointed in his remarks, terming Chinese policies towards Uighurs "genocide." China found itself criticized by a range of Muslim states, including Iran and Indonesia. Islamic militants threatened to target Chinese interests in Algeria and Saudi Arabia in reprisal attacks.

Although the authoritarian leaders in Central Asia have cooperated with China's repressive policies in Xinjiang, the recent Chinese crackdown has angered Central Asian Uighur populations. On July 19, 2009, some five thousand Uighurs protested in Almaty, Kazakhstan against the crackdown in Urumqi. After smaller numbers of Uighurs protested in Bishkek on August 10, 2009, demanding an independent investigation of

the Xinjiang riots, Kyrgyz authorities arrested the local organizers of the demonstrations. Kyrgyz Uighurs also wrote letters to the United Nations and several key states, including the United States and Russia, urging that China be publicly rebuked for, allegedly, driving Chinese Uighurs out of the province and using them as cheap labor elsewhere in the country. Over time, ironically, China's policies in Xinjiang may create conditions for the very instability in Central Asia that it has sought to prevent and may complicate its plans for regional economic integration.



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