

## STAGES OF CHINA'S ECONOMIC POLICY IN CENTRAL ASIA

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### *Introduction*

Close economic relations have existed between China and Central Asia (CA) for many centuries.

During the heyday of the Great Silk Road (right up until the middle of the 2nd century AD), state formations located in the region and around it (for example, today's Xinjiang) served as a link between China and Europe and were developed economic, trade, and financial centers.

For a long time, the driving force behind trade in these territories was China, which was also a vital source of scientific knowledge and advanced technology.

In the second half of the 19th century, CA belonged to the Russian Empire, and its relations with China, including Xinjiang, began to falter. Later, the Central Asian region became an integral part of the Soviet Union and its independent relations with China were essentially reduced to naught. Direct economic relations between the People's Republic of China (PRC) and CA could not develop until after the collapse of the Soviet Union.

When examining the Central Asian vector of the PRC's economic policy in the post-Soviet period, it can be provisionally divided into three main stages:

- *The first stage* covers the beginning of the 1990s. It is characterized by the PRC's extremely cautious behavior toward CA and the establishment of the first trade contacts between them.

At that time, the Central Asian vector did not occupy an important place in China's foreign strategy. This was because the PRC's long-term interests in the region had not yet taken definite shape and the opportunities (economic, political-diplomatic, and so on) for the country to gain access to CA were limited.

In addition, Beijing continued, out of habit, to regard CA as a zone of Moscow's exclusive interests and did not want to obstruct the normalization of Sino-Russian relations.

Therefore China concentrated primarily on developing diplomatic contacts with the re-

gion's countries, settling border and territorial disputes with Russia, reducing the military presence in the border regions, and resolving security problems as a whole.

At that time, the question of economic penetration into the region had not been raised; China's trade contacts with the CA countries had emerged and were largely developing spontaneously, while so-called shuttle trade accounted for the lion's share of Chinese-Central Asian commerce.

- *The second stage* covers the period from the middle to the end of the 1990s until the establishment of the Shanghai Cooperation Organization (SCO) in 2001. It is characterized by China's targeted efforts to gain economic access to the region. Its raw materials and sufficiently voluminous sales market (with a population of approximately 55 million people) prompted Beijing's growing interest in it in terms of implementing a program of accelerated development of the PRC's central and western regions, particularly the Xinjiang-Uighur Autonomous Region (XUAR).

By that time, China's main long-term interests in CA had been clearly designated. In addition to cooperation with the region's countries in border issues, military security, and combating common threats (international terrorism, separatism, Islamic radicalism, and drug trafficking), the PRC began to set its sights on gaining access to Central Asian hy-

drocarbon resources (which at that time primarily applied to Kazakh oil) and advancing Chinese goods onto the CA markets.

- *The third stage*, which provisionally began soon after the events of 11 September, 2001, continues to this day. It is characterized by the CA's more prominent place in the PRC's foreign economic and foreign political strategy and, correspondingly, by China's increased activity in the Central Asian vector.

China is trying to ensure that the situation in CA develops in a way that is advantageous to it and is particularly interested in gaining access to the region's rich raw material resources (not only oil and gas), as well as its transit opportunities. This stage can be considered the beginning of the PRC's gentle economic expansion into the Central Asian countries.

The escalating world financial and economic crisis will most likely not make any significant adjustments to Beijing's strategy aimed at economic penetration into CA. Developing hydrocarbon and other raw material fields, as well as building the corresponding transport infrastructure for ensuring the delivery of industrial raw materials will remain China's important priorities.

Today, the Chinese economy requires that these tasks be solved. Therefore Beijing is not guided by short-term opportunistic considerations, but is pursuing strategic goals.

## First Stage (1992-1995)

At the beginning of the 1990s, China did not have any clear long-term interests in CA; the collapse of the Soviet Union came as a surprise to it.

Correspondingly, Beijing was not ready to conduct any conceptually rational policy in a region that was a kind of *terra incognita* for China. Economic penetration was not a priority task for the country at that time due to the ambiguous development of the situation in CA itself and several other problems inherited from the period of Sino-Soviet relations.

As mentioned above, the Chinese leadership also continued, out of habit, to regard CA as a zone of Russia's special interests.

In addition to everything else, in the context of the extremely complicated international situation around China itself,<sup>1</sup> Beijing was worried about spoiling relations with Moscow by creating unnecessary artificial difficulties during normalization of Sino-Russian relations.

It is also obvious that China was unable to make any active advances toward CA at that time, since its economy was still extremely weak.

Nor did the CA states themselves regard China as a prospective economic partner in those years; at the beginning of the 1990s, their main strivings to establish foreign economic relations were largely associated with Russia, the industrially developed countries of the West, and some culturally close wealthy states of the Islamic world.

Moreover, the region still reacted cautiously toward the PRC under the influence of the anti-Chinese propaganda carried out in the Soviet Union in the 1960s-1970s; at that time, China was regarded as a potential adversary.

At the beginning of the 1990s, China adhered on the whole to a wait-it-out strategy in its policy regarding the CA countries. In so doing, Beijing concentrated on resolving the primary issues on its agenda: the establishment and expansion of diplomatic contacts, the settlement (along with Russia) of territorial problems and reduction of the military presence in the border regions, and the elaboration of coordinated approaches to the problem of Uighur separatism.

China's economic presence in the region was limited exclusively to commerce, the scope of which was not large and on the whole spontaneous (so-called shuttle trade).

Between 1992 and 1995, China's trade turnover with the Central Asian countries remained within the limits of \$360-512 million per annum (see Table 1). Trade at that time was conducted mainly with Kazakhstan and Kyrgyzstan, which bordered on the XUAR, and from these countries Chinese goods were re-exported to other states, primarily to Uzbekistan and Russia.

Table 1

China's Trade with the CA Countries (1992-1995)\*

Year	Trade turnover, \$m	China's export to CA, \$m	China's import from CA, \$m
1992	422	276	146
1993	512	244	268
1994	360	235	125
1995	486	285	201

\* The data presented in this table are not precise: the trade volumes are presented without taking into account Chinese-Turkmen and Chinese-Tajik turnover because of the absence of corresponding information for the above-mentioned years. But this does not change the overall picture of Chinese-Central Asian trade, since the volumes of Chinese-Turkmen and Chinese-Tajik trade turnover in the indicated years were insignificant.

*S o u r c e:* *Key Indicators of Developing Asian and Pacific Countries*, Asian Development Bank, 2002, with references to the national statistics boards of the CA countries.

<sup>1</sup> At the turn of the 1980s-1990s, there was a noticeable cooling off in relations between China and the West, which was highly displeased about the then Chinese leadership's harsh suppression of the attempt to carry out a "democratic revolution" in the PRC in 1989 (the events on Tiananmen Square).

On the whole, at the beginning of the 1990s, developing economic relations was not a key issue in the PRC's policy regarding CA; Beijing rather saw it more as a certain additional (albeit vaguely designated) opportunity to stimulate development of the XUAR's economy than as a priority for this autonomous region, not to mention for China as a whole.

## Second Stage (1996-2001)

In the second half of the 1990s, China became noticeably more active in the Central Asian vector. In addition to global and long-term considerations,<sup>2</sup> the increase in CA's importance for the PRC was dictated by Beijing's growing concern about comprehensive security issues, as well as its interest in the accelerated economic development of its inland territories (primarily the XUAR).

It was precisely by the mid-1990s that the economic lag of these territories behind China's littoral regions had become particularly noticeable, which was one of the factors promoting a deterioration of the social situation in the PRC's periphery.

By that time, large supplies of oil and gas had been confirmed in CA; moreover, it possessed other raw materials and a growing sales market. So Beijing began increasingly regarding the region as a target for implementing its Greater North-West development strategy (as well as the XUAR as an integral part of this territory).

Taking advantage of CA's geographical proximity, Beijing counted on tapping the region's resource and raw material potential for developing industry in Xinjiang, as well as on advancing Chinese goods through the XUAR to the Central Asian markets, thus stimulating economic growth in its western regions.

So, along with intensifying its interaction with the CA states in security issues and in the institutional sphere (the Shanghai Five), economic relations were also given a significant boost. This was expressed in an increase in both the PRC's project and investment activity in CA (mainly in the oil and gas sector) and in the scope of commerce (including so-called shuttle trade).

On the one hand, taking into account the growing demands of its economy for raw materials and the need for diversifying access to hydrocarbons, it became extremely important for China to precisely formulate and designate its energy interests in CA and its contiguous areas (the Caspian region as a whole).

This was particularly pertinent since in the second half of the 1990s, the oil and gas companies in several countries of the world experienced a boom in their activity on the Caspian shelf. Given this situation, China launched its first major Central Asian economic project (in Kazakhstan's oil and gas industry).

In 1996, a project was drawn up for developing hydrocarbon fields in the Aktobe Region (the western part of Kazakhstan). As early as 1997, the China National Petroleum Corporation, CNPC, acquired 66.7% of the shares of Kazakhstan's OJSC Aktobemunaigaz for \$325 million with obligations to invest no less than \$4 billion over a span of 20 years.

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<sup>2</sup> By the mid-1990s, Beijing was forced to radically re-examine many principal issues of its foreign policy. This was largely prompted by the aggravation in the situation involving Taiwan in 1995-1996, which was followed by another twist in the Sino-American standoff and the financial crisis of 1997-1998 in Southeast Asia. It is presumed that these events clearly showed the Chinese leadership that, in the absence of a more active and aggressive foreign policy, China would be unable to achieve a breakthrough in its comprehensive economic development and would remain extremely vulnerable in the globalization era and in the context of forming a unipolar model of international relations under the U.S. aegis.

On the other hand, in the second half of the 1990s, the PRC's interest in the consumer markets of the CA countries rose. By this time, the Central Asian countries themselves had begun showing greater interest in raising the import volumes of Chinese goods, mainly basic consumer goods, as well as machine-building products.

This was related to the fact that the breakdown in traditional economic relations (after the collapse of the Soviet Union) had essentially led to a halt in deliveries of these products from Russia and other CIS countries to CA. There was a high demand for similar goods from China, which, correspondingly, caused an increase in production and sales volumes of products manufactured by Chinese industrial enterprises. Whereby the XUAR became an important trade territory, since it was Xinjiang that accounted at that time for approximately 60-70% of Chinese-Central Asian commerce.

It should be noted that in the second half of the 1990s, the scope of commerce between China and the region's countries significantly rose.

For example, between 1996-2000 China's trade turnover with the CA states had already reached the \$580-1,050 million level, which was approximately twice as high as the corresponding indices of the first half of the 1990s (see Table 2).

Table 2

**China's Trade with the CA Countries  
(1996-2000)**

Year	Trade turnover, \$m	China's export to CA, \$m	China's import from CA, \$m
1996	674*	357*	317*
1997	699*	365*	334*
1998	588	390	198
1999	733	350	383
2000	1041	611	430

\* The data are not precise: the trade volumes in 1996-1997 are presented without taking into account Chinese-Turkmen and Chinese-Tajik turnover because of the absence of corresponding information for the above-mentioned years. But this does not change the overall picture of Chinese-Central Asian trade, since the volumes of Chinese-Turkmen and Chinese-Tajik trade turnover in the indicated years were insignificant.

*S o u r c e:* *Key Indicators of Developing Asian and Pacific Countries*, Asian Development Bank, 2002, with references to the national statistics boards of the CA countries.

The trade structure between the region's countries and China began developing more distinctly along the lines of "raw materials in exchange for end products." Export from the CA countries to the PRC included energy resources, raw chemicals, raw textiles (cotton fiber, raw silk, rawhide), ferrous and nonferrous metals (even scrap), and so on.

In turn, export from China to CA consisted largely of basic consumer goods that mainly saturated the consumer markets of several states of the region (primarily Kazakhstan and Kyrgyzstan).

In addition, in the mid-1990s, Beijing began to advance transport-supply line projects with increasing intensity in CA, particularly with respect to forming a network of highways and building a

China-Kyrgyzstan-Uzbekistan railroad. All these projects were to play an important role in developing the economy of the XUAR and of the PRC as a whole.

As a result, the stage under review was important in the PRC's policy in CA, since in the economic respect Beijing had abandoned its wait-it-out strategy in favor of a strategy aimed at gradual penetration into the region. In so doing, in contrast to the beginning of the 1990s, Beijing had defined its priorities in CA more precisely. They consisted of establishing a stable security system along the Chinese-Central Asian border and forming favorable conditions for the economic activity of Chinese companies in the region.

### **Third Stage (from 2001 to the Present Day)**

At the beginning of the 21st century, China began actively and resolutely steering a course aimed at penetrating CA, which was examined in the context of the entire set of measures Beijing was undertaking at the global level. Such an important turning point in the PRC's strategy was largely prompted by the change in situation in the Central Asian region and around it after 9/11, when the peripheral status of the CA transformed into one of strategic importance.

In the context of the U.S.'s more active foreign policy in the center of Eurasia and Washington's attempt to reformat the CA and its contiguous regions politically, militarily, and economically within the framework of the so-called antiterrorist operation, the PRC leadership re-examined the region's role and place in its foreign strategic priorities.

Whereas before, the economic component of Beijing's Central Asian strategy was secondary (compared with the security sphere and political-diplomatic issues), in the first decade of the new century, in the context of the national economy's gradual upswing, the PRC shifted the accent to economic penetration into CA (as a central element of its strategy).

To solve this task, China made a choice in favor of dramatically fortifying its position in the national economies of the region's countries by intensifying its project and investment activity and lending to the most important economic projects.

In particular, Beijing is actively granting the region's countries targeted loans on privileged conditions (at low interest rates and with long repayment deferment) for implementing certain projects. China's EXIM bank is mainly engaged in lending to the region's countries, while the loans themselves are being assimilated by Chinese companies (primarily).

Developing hydrocarbon resources is a key vector in the investment-project activity of Chinese companies in CA; the main targets are the oil and gas industries of Kazakhstan and Turkmenistan.

For example, since 2003, China has greatly stepped up its activity in Kazakhstan. The numerous projects include acquiring several major shares in the oil and gas industry itself, building and operating the Kazakh-Chinese Atasu-Alashankou oil pipeline with a throughput capacity of 10 million tons a year (in the future, there are plans to raise it to 20 million tons of oil a year), as well as granting loans and making investments in several other branches of the Kazakh economy.

In 2006, China became just as active in Turkmenistan. Among the many projects, the following can be singled out in particular: development of the Bagtyyarlyk gas field (on the right-hand bank of the Amu Darya river) based on a production sharing agreement and building of the Turkmenistan-China gas pipeline with a throughput capacity of 30 to 40 bcm a year, via which gas will be delivered from the above-mentioned Turkmen field to the Chinese province of Guangdong (the eastern part of the PRC).

And although the oil and gas vector is still the main one for China's economic activity in CA, diversification of economic activity is nevertheless also beginning in other branches.

In particular, in addition to the oil and gas industry, China's targets of interest in the region are atomic energy (Kazakhstan), hydropower, transportation, telecommunications, construction, nonferrous metallurgy, and the chemical and light industry.

As a result, today, China's economic presence is becoming perceptible, apart from Kazakhstan and Turkmenistan, in Tajikistan and Kyrgyzstan which do not have industrial supplies of hydrocarbons, as well as in Uzbekistan.

According to the estimates presented, the volumes of China's financial resources (including investments, loans, and purchased shares) in CA at the beginning of 2009 amounted to approximately \$16.2 million:

- **In Kazakhstan**, the volumes of Chinese investments and loans are estimated at approximately \$8.5 billion, \$8 billion of which are investments<sup>3</sup> and approximately \$550 million are loans.<sup>4</sup> In so doing, in 2009-2010, the amounts of Chinese loans could increase by another \$10 billion, including \$5 billion for the KazMunaiGaz Company; this agreement was reached during the President of Kazakhstan's visit to China in April 2009. In addition to the above, China purchased shares in Kazakhstan (primarily in the oil and gas industry) totaling at least \$6.2 billion (whereby the KazMunaiGaz Company purchased approximately \$1 billion from this amount in 2006).
- **In Kyrgyzstan**, the volumes of Chinese loans and investments amount to between \$175 and 185 million, \$116 to 118 million of which are loans<sup>5</sup> and approximately \$41-50 million are investments.<sup>6</sup> In addition, China purchased shares in Kyrgyzstan for \$10 million in the mining industry (Kuru-Tegerek field of polymetallic ores).
- **In Tajikistan**, the volumes of Chinese loans and investments are estimated at approximately \$640 million. In addition, China purchased shares totaling \$81.6 million.<sup>7</sup> Whereby the lion's share of Chinese finances in the Tajik economy consists of loans totaling \$604 million.<sup>8</sup> But China's direct investments as such in the Tajik economy are still small and amount to between \$36<sup>9</sup> and 50 million.<sup>10</sup>

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<sup>3</sup> Approximately \$2.55 billion in the development of oil fields in the Aktobe Region, \$4.3 billion in the development of the Kumkol group of oil fields, \$0.8 billion in the construction of the Atasu-Alashankou oil pipeline, \$0.12 billion in the building of a gas pipeline in the Aktobe Region, and \$0.2 billion in the development of wireless communications.

<sup>4</sup> \$293 million for building an electrolysis plant, \$200 million for a telecommunication project, and \$60 million for purchasing Chinese transportation technology.

<sup>5</sup> Including \$70 million for building the Kyzyl-Kiysk cement plant, \$22.1 million for building a cellulose-paper factory in Tokmak, \$22 million for delivering a large consignment of Chinese buses, and from \$2 to 4 million for delivering garbage-disposal technology and a small consignment of buses.

<sup>6</sup> When estimating Chinese investments in Kyrgyzstan, in addition to direct investments in specific projects, grants to the government and the purchase of shares of Kyrgyz state companies are also included. As a result, Chinese investments include \$7.5 million in rebuilding the Irkeshtam-Osh highway, from \$8-10 million in a joint enterprise for assembling tractors in Kara-Balta, from \$4-8 million in a joint coal-producing enterprise in the Osh Region, \$1.1 million in purchasing shares of JSC Batkenneftegaz, \$13.5 million in a series of grants for developing Chinese agricultural technology, modernizing Kyrgyzstan's agricultural infrastructure, and building schools and hospitals, and a grant for \$7.4 million for organizing a SCO summit in Bishkek (2007).

<sup>7</sup> Including \$55 million from Britain's Avocet Mining Plc., as well as \$26.6 million from a private company, LLC Vavilon-T.

<sup>8</sup> Including \$267 million for building the high-voltage South-North power transmission line, \$55 million for building the high-voltage Lolazor-Khalton power transmission line, and \$282 million for rebuilding the Dushanbe-Khujand-Chanak highway, including laying of the Shakhristan tunnel.

<sup>9</sup> When estimating Chinese investments, grants were also taken into account. The PRC's investments include a \$30 million government grant for building the Shar-Shar tunnel and \$6 million in investments in a gold-bearing field (in the Penjikent district).

<sup>10</sup> See: N. Kasenova, *Novyi mezhdunarodnyi donor: pomoshch Kitaia Tadzhikistanu i Kirgizstanu*, French Institute of International Relations, Russia Center/NIS, Paris, January 2009, p. 19.

- **In Turkmenistan**, the volumes of Chinese loans and investments in the national economy amount to a little more than \$1.1 billion, including approximately \$700 million in loans<sup>11</sup> and approximately \$450 million in investments.<sup>12</sup> Some of the PRC's financial resources in Turkmenistan (approximately \$200 million, which is around 1.5 billion yuan) are in China's national currency. In June 2009, Turkmen President Berdymukhammedov and PRC Vice Premier Li Kejiang signed a set of agreements, according to which Beijing will grant Ashghabad an additional targeted loan for \$3 billion for developing the largest gas field in the country, South Iolotan.
- **In Uzbekistan**, the volumes of Chinese investments and loans amount to approximately \$365 million, including approximately \$170 million in loans<sup>13</sup> and approximately \$195 million in investments.<sup>14</sup>

Such dramatic intensification of the project-investment activity of the PRC and Chinese companies in the CA countries has, in turn, had a powerful stimulating effect on the dynamics of Chinese-Central Asian trade. For example, between 2001 and 2008, the trade turnover between the PRC and CA increased by approximately 13.6-fold, amounting to around \$20.2 billion (see Table 3).

In addition to the targeted and dynamic project-investment and credit policy pursued within the framework of the trade strategy and national plan of industrial development, Beijing is also taking active steps to form new mechanisms of interstate economic (primarily trade) interaction in the multidimensional format. In recent years, China has been increasingly pushing for development of the economic (particularly economic trade) component of the SCO.

The Business Council and Interbank Association began functioning within the Organization in 2005. The main task of these two substructures, in which China dominates, consists of efficiently coordinating the efforts of state, financial, and business circles aimed at subsequent development and introduction of projects in different spheres of the economy (mainly by means of trade stimulation).

Beijing is also continuing to put forward proposals for further stimulating economic (particularly trade) cooperation within the SCO, primarily the formation of a free trade zone and creation of a corresponding regional transportation infrastructure. Practical implementation of these proposals, as China believes, will help to increase reciprocal trade in goods and services, cut back and gradually remove non-tariff barriers, as well as implement large investment projects in the region (particularly in the raw material sectors).

Today, in the context of the global financial and economic crisis, China is continuing to exert efforts aimed at further economic penetration into CA.

Beijing also intends to take advantage of the fact that during the crisis the demand of the CA countries for external financing has increased; this will make it possible to expand the long practice of lending to the Central Asian countries.

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<sup>11</sup> Including \$132.8 million for delivering Chinese oil and gas equipment, \$300 million for rebuilding the Maryazot production association, \$68 million for building a glass combine, \$174.5 million for delivering Chinese transportation technology, \$29.4 million for delivering Chinese telecommunication equipment, and \$2.4 million for building a silk-spinning factory.

<sup>12</sup> Including \$354 million in developing the Bagtyyarlyk gas-bearing territory, \$88 million in building the Turkmen section of the Turkmenistan-China gas pipeline, \$2.2 million in the pharmaceutical industry, and a \$1.8 million grant for building a factory for producing silkworm eggs.

<sup>13</sup> Chinese loans in Uzbekistan include \$46.4 million for projects in the electricity industry, \$28 million for the telecommunications industry, \$29.2 million for building a soda plant in Karakalpakstan, \$5.5 million for modernizing a household refrigerator plant in Samarkand, and \$58.5 million for purchasing hydro-ameliorative technology in the PRC.

<sup>14</sup> Chinese investments in Uzbekistan include \$48 million in the authorized capital of JV UzCNPC Petroleum, \$83 million in prospecting of several oil and gas-condensate fields on the Ustiurt plateau and in the Bukhara-Khiva region, \$13.7 million in preparations for developing the fields of the Aral Sea, approximately \$35 million in building the Uzbek section of the Turkmenistan-China gas pipeline, and \$15 million on modernizing cement production.



Table 3

**China's Trade with the CA Countries  
(2001-2008)**

Year	Trade turnover, \$m	China's export to CA, \$m	China's import from CA, \$m
2001	1,478*	856*	622*
2002	2,798*	1,569*	1,229*
2003	3,305** (4,100)	1,911	1,394
2004	4,337 (5,848)	2,545	1,792
2005	8,297 (10,294)	4,713	3,584
2006	10,796 (13,350)	6,338	4,458
2007	16,038 (20,576)	9,571	6,467
2008	20,170 (27,845)	11,553	8,617

\* The data are presented without taking account of Chinese-Tajik trade turnover because of the absence of corresponding information. But this does not change the overall picture of Chinese-Central Asian trade, since the volumes of Chinese-Tajik trade turnover in the indicated years were insignificant.

\*\* The trade turnover figures in brackets for 2003-2008 are data of the PRC Ministry of Commerce. As can be seen from the table, the data of the PRC Ministry of Commerce regarding Chinese-Central Asian trade turnover are noticeably higher than similar data for the CA countries. This is related to the fact that the Chinese statistics boards take greater account than the statistical boards of the region's countries of the volumes of so-called shuttle trade.

*Sources:* Data for 2001—*Key Indicators of Developing Asian and Pacific Countries*, Asian Development Bank, 2002 with reference to the national statistics boards of the CA countries; data for 2002-2004—national statistics boards of the CA countries; data for 2005-2008—*Economist Intelligence Unit* with reference to the national statistics boards of the CA countries (*Kazakhstan: Country Report*, The Economist Intelligence Unit, London, June 2006, June 2007, June 2008, March 2009; *Kyrgyzstan: Country Report*, The Economist Intelligence Unit, London, June 2006, June 2007, June 2008, March 2009; *Tajikistan: Country Report*, The Economist Intelligence Unit, London, June 2006, June 2007, June 2008, March 2009; *Turkmenistan: Country Report*, The Economist Intelligence Unit, London, June 2006, June 2007, June 2008, March 2009; *Uzbekistan: Country Report*, The Economist Intelligence Unit, London, June 2006, June 2007, June 2008, March 2009).

For example, at the SCO summit in Ekaterinburg (Russia, June 2009), China said it was willing to grant the region's countries \$10 million in additional loan support.

## *Conclusion*

On the whole, since the collapse of the Soviet Union, China has been gradually gaining economic access to the Central Asian region, which acquired special significance in the first decade of the 21st century.

Today, the PRC's economic policy regarding the CA is strictly subordinated to Beijing's general strategy designed to ensure the most favorable external conditions for achieving China's systemic breakthrough in terms of modernization, the country's further sustainable economic growth, and its subsequent return to one of the global economic power centers.

The PRC's Central Asian strategy is aimed at gradually drawing the region into the orbit of its geo-economic influence, and this is no exaggeration.

In so doing, it should be noted in particular that China is conducting this strategy cautiously and quietly, keeping an extremely low profile on its political (geopolitical) ambitions in CA.

One of the main indices of dramatic growth in the economic component of China's Central Asian policy is the enormous increase in financial resources it is sending to the region.

Whereas at the end of the 1990s, the PRC's financial resources in CA amounted to less than \$1 billion (investments went exclusively into Kazakhstan's oil and gas industry), in the first 8 years of the 21st century, their volume increased more than 17-fold.

In so doing, China's economic penetration into Central Asia is mainly aimed at developing and importing raw mineral (including energy) resources and comprehensive stimulation of the export of Chinese goods; trade relations are already developing along the lines of "end products in exchange for raw materials."

There are objective reasons for China's economic presence in CA, the main one being the absence of a single economic space (primarily industrial, as well as transportation, customs, and so on) and signs of economic integration in the region. Fragmentation of CA's economic space and the existing breakdown of the region's single industrial and transportation infrastructure into national segments are preventing, to a certain extent, Chinese companies from engaging in long-term project and investment activity (for example, in the advanced processing of raw material); this is precisely why the region is regarded as a raw material appendage of the Chinese economy.

As a result, the growing dimensions of China's economic presence in CA are giving the region's countries the status of raw material sources.

China is evidently quite happy with this state of affairs, while the Central Asian countries, in turn, are not striving to change their status. This can only be done by accelerating regional economic integration, about which much is being said, but little done.

It would seem that the format of economic relations developing is extremely undesirable from the viewpoint of China's, and particularly the CA countries', long-term interests since the orientation of China's economic activity in the region toward the production and export of industrial raw materials will promote resource depletion in the region's countries and regression of the processing branches of industry.

In that event, the PRC risks acquiring a vast destabilized space near its western borders and, at least, losing the position it has already gained in the CA countries. Development of the situation according to this scenario will, in turn, have a negative effect on the socioeconomic situation in Xinjiang, which is developing largely due to Central Asia.

In addition, the entire system of bilateral and multilateral security that Beijing has been carefully building for 18 years (since the disintegration of the Soviet Union) may collapse, and in the west of the PRC such problems as ethnic separatism and Islamic radicalism will become dramatically aggravated again. Whereby the global financial and economic crisis may also serve as a catalyst that provokes the above-mentioned problems.

It appears that another warning bell has already sounded (meaning the social unrest in Xinjiang in July 2009).

In order for China's economic penetration into CA to be mutually advantageous and equally meet the long-term interests of the PRC and the region's countries, it would be wise for Beijing to put the main emphasis on building mechanisms of multidimensional and full-fledged economic cooperation within the SCO.

For this purpose, it would be extremely desirable for the economic activity of Chinese companies in the region to take a qualitative leap by launching large projects on the advanced processing of industrial raw materials under the aegis of the SCO. This, in turn, will make it possible to step up economic reintegration in CA and in the post-Soviet expanse as a whole and pave the way to turning the SCO into a real economic bloc and regional structure designed to ensure comprehensive security and stability in the Central Asian region and around it.